



**AUDITORS' REPORT TO THE DIRECTORS**

We have audited the annexed statement of financial position of the Pakistan Branches of Citibank, N.A., incorporated in the U.S.A with limited liability (the Bank), as at December 31, 2012 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) in our opinion, proper books of accounts have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984);
- (b) in our opinion:
  - (i) the statement of financial position and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984) and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
  - (ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
  - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at December 31, 2012 and its true balance of profit, its comprehensive income, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

**Emphasis of matter paragraph**

We draw attention to note 21.4.2 of the financial statements which explains the matter raised by the State Bank of Pakistan with respect to return on certain foreign currency deposit accounts. Our opinion is not qualified in respect of this matter.

  
Chartered Accountants  
Engagement Partner: **Rashid. A. Jafer**  
Dated: March 18, 2013  
Karachi

**CITIBANK, N.A. - PAKISTAN BRANCHES**  
**(INCORPORATED IN THE U.S.A. THE LIABILITY OF MEMBERS BEING LIMITED)**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2012**

|  | Note | 2012             | 2011              |
|--|------|------------------|-------------------|
|  |      | (Rupees in '000) |                   |
| <b>ASSETS</b>  |      |                  |                   |
| Cash and balances with treasury banks  | 6    | 6,770,561        | 6,990,879         |
| Balances with other banks  | 7    | 6,035,738        | 1,149,455         |
| Lendings to financial institutions   | 8    | 14,913,193       | 1,339,057         |
| Investments - net  | 9    | 31,339,172       | 60,399,022        |
| Advances - net (including assets held for sale amounting to Rs. 1,904.53 million)                                  | 10   | 18,255,682       | 18,820,403        |
| Fixed assets   | 11   | 366,664          | 634,699           |
| Deferred tax assets - net  | 12   | 3,194,412        | 3,614,421         |
| Other assets (Including mark-up receivable on account of assets held for sale amounting to Rs. 37.40 million)      | 13   | 4,296,388        | 3,954,861         |
|  |      | 85,171,810       | 96,902,797        |
| <b>LIABILITIES</b>   |      |                  |                   |
| Bills payable  | 15   | 2,185,724        | 2,028,623         |
| Borrowings from financial institutions   | 16   | 141,666          | 11,231,101        |
| Deposits and other accounts  | 17   | 64,293,565       | 61,678,515        |
| Sub-ordinated loans  |      | -                | -                 |
| Liabilities against assets subject to finance lease  |      | -                | -                 |
| Deferred tax liabilities   |      | -                | -                 |
| Other liabilities (Including other liabilities on account of assets held for sale amounting to Rs. 143.77 million) | 18   | 9,513,942        | 11,198,190        |
|  |      | 76,134,897       | 86,136,429        |
| <b>NET ASSETS</b>  |      | <b>9,036,913</b> | <b>10,766,368</b> |
| <b>REPRESENTED BY</b>  |      |                  |                   |
| Head office capital account  | 19   | 6,812,671        | 6,812,671         |
| Reserves   |      | 154,932          | 149,286           |
| Unremitted profit  |      | 2,052,798        | 3,957,548         |
|  |      | 9,020,401        | 10,919,505        |
| Surplus / (Deficit) on revaluation of assets - net of tax  | 20   | 16,512           | (153,137)         |
|  |      | 9,036,913        | 10,766,368        |
| <b>CONTINGENCIES AND COMMITMENTS</b>   | 21   |                  |                   |

The annexed notes 1 to 44 and Annexures I and II form an integral part of these financial statements.

**NADEEM LODHI**  
**Managing Director and Citi Country Officer**

**ADAMJEE YAKOOB**  
**Chief Financial Officer**

**CITIBANK, N.A. - PAKISTAN BRANCHES**  
**(INCORPORATED IN THE U.S.A. THE LIABILITY OF MEMBERS BEING LIMITED)**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

|   | Note | 2012                    | 2011                    |
|---|------|-------------------------|-------------------------|
|   |      | (Rupees in '000)        |                         |
| Mark-up / return / interest earned  | 23   | 8,262,997               | 10,279,671              |
| Mark-up / return / interest expensed  | 24   | <u>3,030,151</u>        | <u>4,580,040</u>        |
| Net mark-up / return / interest income  |      | 5,232,846               | 5,699,631               |
| Provision against loans and advances - net  | 10.3 | <u>819,270</u>          | <u>1,137,865</u>        |
| Bad debts written off directly  | 10.4 | 15,503                  | 33,986                  |
| Reversal of provision against off-balance sheet obligations - net                     | 18.2 | <u>(12,679)</u>         | <u>(1,472)</u>          |
|   |      | <u>822,094</u>          | <u>1,170,379</u>        |
| Net mark-up / interest income after provisions  |      | 4,410,752               | 4,529,252               |
| <b>NON MARK-UP / INTEREST INCOME</b>  |      |                         |                         |
| Fee, commission and brokerage income  |      | <u>583,246</u>          | <u>700,094</u>          |
| Dividend income   |      | -                       | -                       |
| Income from dealing in foreign currencies   | 25   | 1,724,461               | 3,002,073               |
| Gain on sale of securities  | 26   | 1,069,805               | 661,512                 |
| Unrealised gain / (loss) on revaluation of investments classified as held for trading |      | 236,831                 | (222,771)               |
| Other cost  | 27   | <u>(1,158,346)</u>      | <u>(2,098,889)</u>      |
| Total non mark-up / interest income - net   |      | 2,455,997               | 2,042,019               |
|   |      | <u>6,866,749</u>        | <u>6,571,271</u>        |
| <b>NON MARK-UP / INTEREST EXPENSE</b>   |      |                         |                         |
| Administrative expenses   | 28   | <u>4,479,324</u>        | <u>3,997,171</u>        |
| Reversal of provision against diminution in the value of non-banking assets - net     | 13.2 | (6,935)                 | (2,181)                 |
| Operating fixed assets written off  |      | 340                     | 1,300                   |
| Other charges   | 29   | <u>73,515</u>           | <u>51,145</u>           |
| Total non mark-up / interest expenses - net   |      | 4,546,244               | 4,047,435               |
|   |      | <u>2,320,505</u>        | <u>2,523,836</u>        |
| <b>PROFIT BEFORE TAXATION</b>   |      |                         |                         |
| Taxation  | 30   |                         |                         |
| - Current   |      | <u>1,128,971</u>        | <u>1,419,218</u>        |
| - Prior years   |      | (557,327)               | (585,349)               |
| - Deferred  |      | <u>325,620</u>          | <u>(66,070)</u>         |
|   |      | 897,264                 | 767,799                 |
| <b>PROFIT AFTER TAXATION</b>  |      | <u><u>1,423,241</u></u> | <u><u>1,756,037</u></u> |

The annexed notes 1 to 44 and Annexures I and II form an integral part of these financial statements.

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**NADEEM LODHI**  
Managing Director and Citi Country Officer

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**ADAMJEE YAKOOB**  
Chief Financial Officer

**CITIBANK, N.A. - PAKISTAN BRANCHES**  
**(INCORPORATED IN THE U.S.A. THE LIABILITY OF MEMBERS BEING LIMITED)**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

|  | Note | 2012                     | 2011                    |
|--|------|--------------------------|-------------------------|
|  |      | (Rupees in '000)         |                         |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |      |                          |                         |
| Profit before taxation   |      | 2,320,505                | 2,523,836               |
| <b>Adjustments for non cash and other items:</b>   |      |                          |                         |
| Depreciation   |      | 293,526                  | 345,117                 |
| Amortisation   |      | 48,843                   | 48,546                  |
| Provision against loans and advances   |      | 819,270                  | 1,137,865               |
| Unrealised (gain) / loss on revaluation of investments classified as held for trading                    |      | (236,831)                | 222,771                 |
| Bad debts written off directly   |      | 15,503                   | 33,986                  |
| Gain on disposal of operating fixed assets   |      | (38,203)                 | (13,937)                |
| Charge for defined benefit plan  |      | 192,871                  | 66,183                  |
| Reversal of provision against diminution in the value of non-banking assets                              |      | (6,935)                  | (2,181)                 |
| Reversal of provision against off-balance sheet obligations  |      | (12,679)                 | (1,472)                 |
| Operating fixed assets written off   |      | 340                      | 1,300                   |
|  |      | <u>1,075,705</u>         | <u>1,838,178</u>        |
|  |      | 3,396,210                | 4,362,014               |
| <b>(Increase) / decrease in operating assets</b>   |      |                          |                         |
| Lendings to financial institutions   |      | (13,574,136)             | 10,071,259              |
| Investments - Held for trading securities  |      | 22,048,859               | (8,903,389)             |
| Advances   |      | (270,052)                | (748,041)               |
| Other assets   |      | (321,913)                | (446,143)               |
|  |      | 7,882,758                | (26,314)                |
| <b>Increase / (decrease) in operating liabilities</b>  |      |                          |                         |
| Bills payable  |      | 157,101                  | 864,360                 |
| Borrowings from financial institutions   |      | (11,046,890)             | 6,830,097               |
| Deposits and other accounts  |      | 2,615,050                | (6,626,299)             |
| Other liabilities (excluding current taxation, Head Office Expenses and payable to defined benefit plan) |      | 817,031                  | (2,801,986)             |
|  |      | <u>(7,457,708)</u>       | <u>(1,733,828)</u>      |
|  |      | 3,821,260                | 2,601,872               |
| Contribution to gratuity fund  |      | (47,925)                 | (38,263)                |
| Income tax paid  |      | (2,912,781)              | (1,242,701)             |
| <b>Net cash generated from operating activities</b>  |      | <u>860,554</u>           | <u>1,320,908</u>        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |      |                          |                         |
| Net investments in available for sale securities   |      | 7,508,821                | (1,295,709)             |
| Investments in operating fixed assets  |      | (114,124)                | (189,533)               |
| Sale proceeds from disposal of property and equipment  |      | 77,653                   | 39,448                  |
| <b>Net cash generated from / (used in) investing activities</b>  |      | <u>7,472,350</u>         | <u>(1,445,794)</u>      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |      |                          |                         |
| Profit repatriated to head office during the year  |      | (3,327,991)              | -                       |
| Remittances made during the year on account of head office expenses                                      |      | (296,403)                | (192,139)               |
| <b>Net cash used in financing activities</b>   |      | <u>(3,624,394)</u>       | <u>(192,139)</u>        |
| <b>Increase / (decrease) in cash and cash equivalents</b>  |      | 4,708,510                | (317,025)               |
| Cash and cash equivalents at the beginning of the year   |      | 8,081,368                | 8,398,393               |
| <b>Cash and cash equivalents at the end of the year</b>  | 31   | <u><u>12,789,878</u></u> | <u><u>8,081,368</u></u> |

The annexed notes 1 to 44 and Annexures I and II form an integral part of these financial statements.

**CITIBANK, N.A. - PAKISTAN BRANCHES**  
**(INCORPORATED IN THE U.S.A. THE LIABILITY OF MEMBERS BEING LIMITED)**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

|   | <b>2012</b>             | <b>2011</b>             |
|---|-------------------------|-------------------------|
|   | <b>(Rupees in '000)</b> |                         |
| Profit after taxation   | 1,423,241               | 1,756,037               |
| <b>Components of other comprehensive income not reflected in equity</b> |                         |                         |
| Surplus on revaluation of available for sale securities - net of tax    | 169,649                 | 121,146                 |
| <b>Total comprehensive income for the year</b>                          | <u><u>1,592,890</u></u> | <u><u>1,877,183</u></u> |

The annexed notes 1 to 44 and Annexures I and II form an integral part of these financial statements.

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**NADEEM LODHI**  
Managing Director and Citi Country Officer

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**ADAMJEE YAKOOB**  
Chief Financial Officer

**CITIBANK, N.A. - PAKISTAN BRANCHES**  
**(INCORPORATED IN THE U.S.A. THE LIABILITY OF MEMBERS BEING LIMITED)**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

|  | Head office<br>capital account | Unremitted<br>profit | Share based<br>payment<br>contribution<br>reserve by the<br>ultimate holding<br>company | Total            |
|--|--------------------------------|----------------------|---|------------------|
|  | ------(Rupees in '000)-----    |                      |   |                  |
| Balance as at January 1, 2011  | 6,812,671                      | 2,201,511            | 125,573   | 9,139,755        |
| Profit for the year ended December 31, 2011  | -                              | 1,756,037            | -   | 1,756,037        |
| <b>Transactions with owners</b>  |                                |                      |   |                  |
| Contribution by the ultimate holding company in respect of share based payments    | -                              | -                    | 61,305  | 61,305           |
| Recharged balance payable to the ultimate holding company for share based payments | -                              | -                    | (61,305)  | (61,305)         |
| Effect of re-measurement of cost under share based payment - net of tax            | -                              | -                    | 23,713  | 23,713           |
|  |                                |                      | 23,713  | 23,713           |
| Balance as at December 31, 2011  | 6,812,671                      | 3,957,548            | 149,286   | 10,919,505       |
| Profit for the year ended December 31, 2012  | -                              | 1,423,241            | -   | 1,423,241        |
| <b>Transactions with owners</b>  |                                |                      |   |                  |
| Contribution by the ultimate holding company in respect of share based payments    | -                              | -                    | 30,879  | 30,879           |
| Recharged balance payable to the ultimate holding company for share based payments | -                              | -                    | (30,879)  | (30,879)         |
| Effect of re-measurement of cost under share based payment - net of tax            | -                              | -                    | 5,646   | 5,646            |
|  |                                |                      | 5,646   | 5,646            |
| Profit remittance made to head office  | -                              | (3,327,991)          | -   | (3,327,991)      |
| <b>Balance as at December 31, 2012</b>   | <u>6,812,671</u>               | <u>2,052,798</u>     | <u>154,932</u>  | <u>9,020,401</u> |

The annexed notes 1 to 44 and Annexures I and II form an integral part of these financial statements.

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**NADEEM LODHI**  
**Managing Director and Citi Country Officer**

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**ADAMJEE YAKOOB**  
**Chief Financial Officer**

**CITIBANK, N.A. - PAKISTAN BRANCHES**  
**(INCORPORATED IN THE U.S.A. THE LIABILITY OF MEMBERS BEING LIMITED)**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

**1 STATUS AND NATURE OF BUSINESS**

Citibank, N.A. - Pakistan Branches (the Bank) operates as a branch of Citibank, N.A. which is a foreign banking company incorporated and domiciled in the U.S.A. with limited liability and is a member of Citigroup Inc., which is the ultimate holding company.

Credit ratings assigned to Citigroup Inc. and Citibank, N.A., by Moody's Investor Services are as follows:

|                | Long-term<br>senior debt | Short-term<br>debt |
|----------------|--------------------------|--------------------|
| Citigroup Inc. | Baa2                     | P-2                |
| Citibank, N.A. | A3                       | P-2                |

The Bank is engaged in banking activities permissible under the Banking Companies Ordinance, 1962. Its principal office is at AWT Plaza, I. I. Chundrigar Road, Karachi. At December 31, 2012, the Bank operated through 7 branches (December 31, 2011: 16 branches) in Pakistan.

**2 BASIS OF PRESENTATION**

In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan (SBP) has issued various circulars from time to time. Permissible forms of trade related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereon.

**3 STATEMENT OF COMPLIANCE**

- 3.1** These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and the directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP). Wherever the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or the directives issued by the SECP and SBP differ with the requirements of IFRSs, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and the requirements of the said directives prevail.
- 3.2** The SBP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for Banking Companies through BSD Circular No. 10 dated August 26, 2002 till further instructions. In addition the SECP has also deferred the applicability of International Financial Reporting Standard 7, Financial Instruments: Disclosures (IFRS 7) on banking companies vide SRO 411(I) / 2008 till further orders. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.
- 3.3** IFRS 8, 'Operating Segments' is effective for the Bank's accounting periods beginning on or after January 1, 2009. All banking companies in Pakistan are required to prepare their annual financial statements in line with the format prescribed under BSD Circular No. 4 dated February 17, 2006, 'Revised Forms of Annual Financial Statements', effective from the accounting year ended December 31, 2006. The management of the Bank believes that as the SBP has defined the segment categorisation in the above mentioned circular, the SBP requirements prevail over the requirements specified in IFRS 8. Accordingly, segment information disclosed in these financial statements is based on the requirements laid down by SBP.
- 3.4** SBP vide its BSD Circular No. 07 dated April 20, 2010 has clarified that for the purpose of preparation of financial statements in accordance with International Accounting Standard - 1 (Revised), 'Presentation of Financial Statements', two statement approach shall be adopted i.e. separate 'Profit and Loss Account' and 'Statement of Comprehensive Income' shall be presented, and Balance Sheet shall be renamed as 'Statement of Financial Position'. Furthermore, the Surplus / (Deficit) on Revaluation of Available for sale (AFS) Securities only, may be included in the 'Statement of Comprehensive Income'. Accordingly, the above requirements have been adopted in the preparation of these financial statements.

### 3.5 New and amended standards and interpretations that are effective in the current year:

The following revised standards and amendments to existing standards and interpretations have been published and are mandatory for the Bank's accounting period beginning on or after January 1, 2012:

IAS 12, 'Income taxes' (effective January 1, 2012), currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes - recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. IAS 40 has been deferred as mentioned in note 3.2. Accordingly, the amendment will not have any impact on the Bank's financial statements.

There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2012 but are considered not to be relevant or to have any significant effect on the Bank's operations and are therefore not disclosed in these financial statements.

### 3.6 New and amended standards and interpretations that are not yet effective and have not been early adopted

The following standards and amendments to existing standards and interpretations have been published and are mandatory for accounting periods beginning on or after January 1, 2013 and have not been early adopted by the Bank:

- (a) IAS 1, 'Presentation of financial statements' (effective July 1, 2012). The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. This amendment is not expected to have any impact on the Bank's financial statements.
- (b) IAS 19, 'Employee benefits' was amended in June 2011 and is applicable for periods beginning on or after January 1, 2013. The impact on the Bank will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in other comprehensive income as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined liability / asset. The management is currently assessing the full impact of the amendments.

There are other new and amended standards and interpretations that are mandatory for the Bank's accounting periods beginning on or after January 1, 2012 but are considered not to be relevant or do not have any significant effect on the Bank's operations and are therefore not detailed in these financial statements.

## 4 BASIS OF MEASUREMENT

### 4.1 Accounting convention

These financial statements have been prepared under the historical cost convention, except that held for trading and available for sale investments and derivative financial instruments have been marked to market and are carried at fair value. In addition, obligation in respect of staff retirement benefit is carried at present value.

### 4.2 Functional and presentational currency

These financial statements are presented in Pakistani Rupees, which is the Bank's functional and presentational currency. The amounts are rounded to the nearest thousand.

### 4.3 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and income and expenses. It also requires management to exercise judgment in application of its accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.



Significant accounting estimates and areas where judgments were made by the management in the application of accounting policies are as follows:

- i) classification and provisioning against investments (notes 5.3 and 9)
- ii) classification and provisioning against advances (notes 5.4 and 10)
- iii) income taxes (notes 5.8, 12 and 30)
- iv) accounting for defined benefit plan (notes 5.9 and 33)
- v) depreciation / amortisation of fixed assets (notes 5.5 and 11)
- vi) fair value of derivative financial instruments (note 5.15 (b) and 22)

## **5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise specified.

### **5.1 Cash and cash equivalents**

Cash and cash equivalents for the purpose of cash flow statement represent cash and balances with treasury banks, balances with other banks and overdrawn nostro accounts.

### **5.2 Lendings to / borrowings from financial institutions**

The Bank enters into inter-bank transactions at contracted rates for a specified period of time. These are recorded as under:

#### **(a) Sale of securities under repurchase agreements**

Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the financial statements as investments and the counterparty liability for amounts received under these agreements is included in borrowings from financial institutions. The difference between sale and repurchase price is recognised over the period of transaction as an expense.

#### **(b) Purchase of securities under resale agreements**

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised as investments in the statement of financial position. Amounts paid under these agreements are included in lendings to financial institutions. The difference between purchase and resale price is recognised over the period of transaction as income.

#### **(c) Other lendings**

These are recorded at the proceeds paid. Mark-up received is charged to the profit and loss account over the period on an accrual basis.

### **5.3 Investments**

The bank classifies its investments as follows:

#### **(a) Held for trading**

These are securities, which are either acquired for generating a profit from short-term fluctuations in market prices, interest rate movements, dealer's margin or are securities included in a portfolio in which a pattern of short-term profit making exists.

#### **(b) Held to maturity**

These are securities with fixed or determinable payments and fixed maturity in respect of which the Bank has the positive intent and ability to hold them till maturity.

#### **(c) Available for sale**

These are investments that do not fall under the 'held for trading' or 'held to maturity' categories.

Investments are initially recognised at fair value. All purchases and sales of investments that require delivery within the time frame established by regulation or market convention are recognised at trade date, which is the date on which the Bank commits to purchase or sell the investments.

In accordance with the requirements of the State Bank of Pakistan, quoted securities other than those classified as 'held to maturity' are subsequently remeasured to market value. Surplus / (deficit) arising on revaluation of securities classified as 'available for sale' is taken to a separate account shown in the statement of financial position below equity. Surplus / (deficit) arising on revaluation of securities classified as 'held for trading' is taken to the profit and loss account. In accordance with the requirements specified by the State Bank of Pakistan, investments classified as 'held to maturity' are carried at amortised cost.

Investment in unquoted equity securities are stated at cost less impairment.

Impairment loss in respect of investments classified as available for sale (except term finance certificates) and held to maturity is recognised based on management's assessment of objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of the investments. Provision for diminution in the value of term finance certificates is made as per the requirements set out in the Prudential Regulations issued by the State Bank of Pakistan. In case of impairment of available for sale securities, the cumulative loss that has been recognised directly in surplus on revaluation of securities on the statement of financial position below equity is removed therefrom and recognised in the profit and loss account. For investments classified as held to maturity, the impairment loss is recognised in profit and loss account.

The difference between the face value and the purchase price is amortised over the remaining life of the investment using effective yield method, in order to determine the amortised cost.

Gains and losses on disposal of investments during the year is taken to the profit and loss account.

#### **5.4 Advances**

Advances are stated net of provisions. Specific and general provisions are made in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan from time to time. The net provision made / reversed during the year is charged to the profit and loss account and accumulated provision is netted-off against advances. Advances are written off when there is no realistic prospect of recovery.

#### **5.5 Fixed assets**

##### **Capital work in progress**

Capital work in progress is stated at cost less impairment losses, if any.

##### **Tangible**

Fixed assets are carried at historical cost less accumulated depreciation and accumulated impairment losses, if any, except for lease hold land which is stated as cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is charged to the profit and loss account applying the straight-line method using the rates specified in note 11.2 to these financial statements. The depreciation charge for the year is calculated after taking into account residual value, if any. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date. Depreciation on additions is charged for the whole month if the assets are purchased before 15th day of the month while no depreciation is charged in the month in which assets are disposed off.

Maintenance and normal repairs are charged to profit and loss account as and when incurred. Subsequent costs are included in the assets' carrying amount or are recognised 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.

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

##### **Intangible**

Intangible assets having a finite useful life are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Such intangible assets are amortised using the straight-line method over their estimated useful lives. The useful lives and amortisation method are reviewed and adjusted, if appropriate at each balance sheet date. Intangible assets having an indefinite useful life are stated at acquisition cost, less impairment loss, if any.

Amortisation is charged to the profit and loss account applying the straight-line method using the rates specified in note 11.3 to these financial statements.

#### **5.6 Non-current assets held for sale**

The Bank classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

A non-current asset (or disposal group) held for sale is carried at the lower of its carrying amount and the fair value less costs to sell. Impairment losses are recognised through the profit and loss account for any initial or subsequent write down of the non-current asset (or disposal group) to fair value less costs to sell. Subsequent gains in fair value less costs to sell are recognised to the extent they do not exceed the cumulative impairment losses previously recorded. A non-current asset is not depreciated while classified as held for sale or while part of a disposal group classified as held for sale.

## **5.7 Impairment**

The carrying amount of assets are reviewed at each balance sheet date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amount. The resulting impairment loss is taken to the profit and loss account.

## **5.8 Taxation**

Income tax expense comprises of current and deferred tax. Income tax expense is recognised in the profit and loss account except to the extent that it relates to items which are directly recognised in equity or below equity / other comprehensive income, in such cases, the relating income tax is also directly recognised in equity or below equity / other comprehensive income.

### **Current**

Provision for current taxation is based on taxable income for the year determined in accordance with the prevailing laws for taxation on income earned. The charge for current tax also includes adjustments, where considered necessary relating to prior years, which arises from assessments / developments made during the year.

### **Deferred**

Deferred tax is recognised using balance sheet liability method on all temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. Deferred tax is calculated at the rates that are expected to apply to the period when the differences are expected to reverse, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised.

The Bank also recognises a deferred tax asset / liability on the deficit / surplus on revaluation of securities, which is adjusted against the related surplus / deficit in accordance with the requirements of the International Accounting Standard 12 - Income Taxes.

## **5.9 Staff retirement benefits**

### **Defined benefit plan**

The Bank operates an approved funded gratuity scheme for all its permanent employees whose period of service with the Bank is five years or more. Expenses relating to the scheme are recognised and contributions to the fund are made based on actuarial recommendations.

A portion of actuarial gains and losses is recognised over the expected average remaining working lives of employees if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceed the "corridor" defined as greater of:

- (a) 10% of the present value of the defined benefit obligation at that date (before deducting plan assets), and
- (b) 10% of the fair value of plan assets at that date.

Gratuity is payable to staff on completion of the prescribed qualifying period of service under the plan.

### **Defined contribution plan**

The Bank operates a recognised provident fund scheme for all its permanent employees to which equal monthly contributions are made both by the Bank and employees at the rate of 10 percent of basic salary. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

## 5.10 Share based payments

The Bank offers two types of share based incentive plans which are Stock Award and Stock Option programmes. Under these plans, the share option of the holding company are granted by the holding company to high performing employees of the Bank. Pursuant to a separate agreement the Bank makes a cash settlement to Citigroup Inc. for the value of the share-based incentive awards delivered to the Bank's employees under these plans.

The Bank applies equity-settled accounting for its share based incentive plans, with separate accounting for its associated obligations to make payments to Citigroup Inc.

Fair value of the shares awarded under the stock award programme, on the grant date and on each measurement date, is determined with reference to the price quoted on the New York Stock Exchange.

## 5.11 Borrowings / deposits and their cost

- a) Borrowings / deposits are recorded at the proceeds received.
- b) Borrowing / deposit costs are recognised as an expense in the period in which these are incurred using the effective mark-up / interest rate method to the extent that they are not directly attributable to the acquisition of or construction of qualifying assets. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) are capitalised as part of the cost of that asset.

## 5.12 Provisions

Provision for guarantee claims and other off balance sheet obligations is recognised when intimated and reasonable certainty exists for the Bank to settle the obligation. Expected recoveries are recognised by debiting the customer's account. Charge to the profit and loss account is stated net-of expected recoveries.

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

## 5.13 Revenue recognition

- Mark-up / return / interest on advances and investments is recognised on a time proportion basis, except in case of non-performing advances where income is recognised on receipt basis in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan.
- Where debt securities are purchased at a premium or discount, those premiums / discounts are amortised through the profit and loss account over the remaining maturity, using the effective yield method.
- Fee and commission are recognised as and when services are performed.
- Gains and losses on sale of investments and operating fixed assets are recognised in the profit and loss account when the risks and rewards of ownership are transferred.
- Dividend income is recognised when the Bank's right to receive the dividend has been established.

## 5.14 Foreign currencies

### (a) Functional and presentational currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates. The financial statements are presented in Pakistani Rupees, which is the Bank's functional and presentational currency.

### (b) Foreign currency transactions

Foreign currency transactions are translated into Pakistani Rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pakistani Rupees at exchange rates prevailing at the reporting date. Foreign bills purchased and forward foreign exchange contracts are valued at the rates applicable to their respective maturities.

### (c) Translation gains and losses

Translation gains and losses are included in the profit and loss account.

### (d) Contingencies and commitments

Commitments for outstanding forward foreign exchange contracts are disclosed at contracted rates. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in Pakistani rupees terms at the exchange rate prevailing at the reporting date.

## 5.15 Financial instruments

### (a) Financial assets and financial liabilities

The Bank initially recognises financial assets and liabilities on the date at which they originate except for investments which are recognised on the trade date.

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire or are transferred. The Bank also enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or part of the risks and rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position.

Financial liabilities are derecognised when the contractual obligations expire, or are discharged or cancelled.

### (b) Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value using appropriate valuation techniques. All derivative financial instruments having positive fair value are carried as assets and instruments having negative fair value are carried as liabilities. Any change in the fair value of derivative financial instruments is taken to profit and loss account.

### (c) Offsetting

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

## 5.16 Assets acquired in satisfaction of claims

The Bank occasionally acquires vehicles and other assets in settlement of certain advances. These are stated at the lower of related advances and the current fair value of such assets. Gains or losses on disposal and unrealised losses on revaluation are recognised in income currently. In case certain repossessed assets cannot be disposed of within pre-determined number of days, impairment loss is recognised by the Bank against such assets.

## 5.17 Acceptances

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

## 5.18 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing product or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risk and rewards that are different from those of the other segments. The operations of the Bank are based in Pakistan, therefore geographical segment is not relevant.

### 5.18.1 Business segments

#### Trading and sales

It includes fixed income, foreign exchange, funding, own position securities, lending, borrowing and derivatives.

#### Retail banking

It includes retail lending, deposits, banking services and credit card business.

#### Corporate banking

Corporate banking includes syndicated financing and services provided in connection with merger and acquisitions, project finance, export finance, trade finance, short-term and long-term lending, bill discounting and negotiation, letter of credit, acceptances, guarantees and deposits.

|  | Note | 2012<br>(Rupees in '000) | 2011             |
|--|------|--------------------------|------------------|
| <b>6 CASH AND BALANCES WITH TREASURY BANKS</b> |      |                          |                  |
| <b>In hand</b>                                 |      |                          |                  |
| Local currency                                 |      | 620,164                  | 570,233          |
| Foreign currencies                             |      | 818,552                  | 1,060,846        |
| <b>With State Bank of Pakistan in</b>          |      |                          |                  |
| Local currency current account                 | 6.1  | 2,918,773                | 2,864,950        |
| Foreign currency current account               |      | 71,479                   | 83,300           |
| Foreign currency deposit accounts              |      |                          |                  |
| - Cash reserve account                         | 6.2  | 582,898                  | 602,636          |
| - Special cash reserve account                 | 6.3  | 1,748,695                | 1,798,914        |
| <b>With National Bank of Pakistan in</b>       |      |                          |                  |
| Local currency current account                 |      | 10,000                   | 10,000           |
|  |      | <u>6,770,561</u>         | <u>6,990,879</u> |

- 6.1** The local currency current account is maintained with the State Bank of Pakistan (SBP) as per the requirements of Section 36 of the State Bank of Pakistan Act, 1956. This section requires banking companies to maintain a local currency cash reserve in the current account opened with the SBP at a sum not less than such percentage of its time and demand liabilities in Pakistan as may be prescribed by the SBP.
- 6.2** This represents cash reserve of 5% which is required to be maintained with the SBP on deposits held under the New Foreign Currency Accounts Scheme (FE-25 deposits).
- 6.3** This represents special cash reserve of 15% which is required to be maintained with the SBP on FE-25 deposits. Profit rates on these deposits are fixed by SBP on a monthly basis. During the year this deposit was not remunerated (2011: Nil).

|                                    | Note | 2012<br>(Rupees in '000) | 2011             |
|------------------------------------|------|--------------------------|------------------|
| <b>7 BALANCES WITH OTHER BANKS</b> |      |                          |                  |
| <b>In Pakistan</b>                 |      |                          |                  |
| In current account                 |      | 35,189                   | 75,003           |
| <b>Outside Pakistan</b>            |      |                          |                  |
| In current account                 | 7.1  | 6,000,549                | 1,074,452        |
| In deposit account                 |      | -                        | -                |
|                                    |      | <u>6,035,738</u>         | <u>1,149,455</u> |

- 7.1** This includes balance of Rs.5,997.220 million (2011: Rs.1,070.518 million) held with branches of Citibank, N.A. outside Pakistan.

|  | Note           | 2012<br>(Rupees in '000) | 2011             |
|--|----------------|--------------------------|------------------|
| <b>8 LENDINGS TO FINANCIAL INSTITUTIONS</b>  |                |                          |                  |
| Repurchase agreement lendings (Reverse Repo) | 8.1, 8.2 & 8.3 | <u>14,913,193</u>        | <u>1,339,057</u> |
|  |                | <u>14,913,193</u>        | <u>1,339,057</u> |

- 8.1** These represent short term lendings to financial institutions against government securities. These carry mark-up at rates ranging from 9.19% to 9.34% (2011: 11.65% to 11.90%) per annum and have a maturity period of upto January 2013 (2011: January 2012).

|  | 2012<br>(Rupees in '000) | 2011             |
|--|--------------------------|------------------|
| <b>8.2 Particulars of lendings to financial institutions</b> |                          |                  |
| In local currency  | <u>14,913,193</u>        | <u>1,339,057</u> |
|  | <u>14,913,193</u>        | <u>1,339,057</u> |

### 8.3 Securities held as collateral against lendings to financial institutions

|                             | Note | 2012              |                             |                   | 2011             |                             |                  |
|-----------------------------|------|-------------------|-----------------------------|-------------------|------------------|-----------------------------|------------------|
|                             |      | Held by Bank      | Further given as collateral | Total             | Held by Bank     | Further given as collateral | Total            |
| ------(Rupees in '000)----- |      |                   |                             |                   |                  |                             |                  |
| Market Treasury Bills       |      | 14,913,193        | -                           | 14,913,193        | 1,339,057        | -                           | 1,339,057        |
|                             |      | <u>14,913,193</u> | <u>-</u>                    | <u>14,913,193</u> | <u>1,339,057</u> | <u>-</u>                    | <u>1,339,057</u> |

## 9 INVESTMENTS

### 9.1 Investments by types:

|   | Note | 2012              |                     |                   | 2011              |                     |                   |
|---|------|-------------------|---------------------|-------------------|-------------------|---------------------|-------------------|
|   |      | Held by Bank      | Given as collateral | Total             | Held by Bank      | Given as collateral | Total             |
| ------(Rupees in '000)-----   |      |                   |                     |                   |                   |                     |                   |
| <b>Held-for-trading securities</b>  |      |                   |                     |                   |                   |                     |                   |
| Market Treasury Bills   | 9.4  | 788,342           | -                   | 788,342           | 12,179,967        | 6,372,738           | 18,552,705        |
| Pakistan Investment Bonds   | 9.5  | 2,908,998         | -                   | 2,908,998         | 7,193,494         | -                   | 7,193,494         |
|   |      | <u>3,697,340</u>  | <u>-</u>            | <u>3,697,340</u>  | <u>19,373,461</u> | <u>6,372,738</u>    | <u>25,746,199</u> |
| <b>Available-for-sale securities</b>                                      |      |                   |                     |                   |                   |                     |                   |
| Market Treasury Bills   | 9.4  | 18,550,975        | -                   | 18,550,975        | 20,024,548        | -                   | 20,024,548        |
| Pakistan Investment Bonds   | 9.5  | 9,056,106         | -                   | 9,056,106         | 15,091,354        | -                   | 15,091,354        |
| Fully Paid-up Ordinary Shares   | 9.6  | 2,000             | -                   | 2,000             | 52,000            | -                   | 52,000            |
| Unlisted Term Finance Certificates  | 9.7  | -                 | -                   | -                 | -                 | -                   | -                 |
|   |      | <u>27,609,081</u> | <u>-</u>            | <u>27,609,081</u> | <u>35,167,902</u> | <u>-</u>            | <u>35,167,902</u> |
| <b>Investments at cost</b>  |      | <u>31,306,421</u> | <u>-</u>            | <u>31,306,421</u> | <u>54,541,363</u> | <u>6,372,738</u>    | <u>60,914,101</u> |
| <b>Less: Provision for diminution in the value of Investments</b>         | 9.8  | 2,000             | -                   | 2,000             | 52,000            | -                   | 52,000            |
| <b>Investments (net of provisions)</b>                                    |      | <u>31,304,421</u> | <u>-</u>            | <u>31,304,421</u> | <u>54,489,363</u> | <u>6,372,738</u>    | <u>60,862,101</u> |
| Surplus / (deficit) on revaluation of held-for-trading securities - net   | 9.10 | 9,348             | -                   | 9,348             | (211,508)         | (15,975)            | (227,483)         |
| Surplus / (deficit) on revaluation of available-for-sale securities - net | 20   | 25,403            | -                   | 25,403            | (235,596)         | -                   | (235,596)         |
| <b>Total investments at market value</b>                                  |      | <u>31,339,172</u> | <u>-</u>            | <u>31,339,172</u> | <u>54,042,259</u> | <u>6,356,763</u>    | <u>60,399,022</u> |

|   | Note      | 2012<br>(Rupees in '000) | 2011<br>(Rupees in '000) |
|---|-----------|--------------------------|--------------------------|
| <b>9.2 Investments by segments:</b>                                 |           |                          |                          |
| <b>Federal Government Securities:</b>                               |           |                          |                          |
| Market Treasury Bills   | 9.3 & 9.4 | 19,339,317               | 38,577,253               |
| Pakistan Investment Bonds   | 9.3 & 9.5 | 11,965,104               | 22,284,848               |
|   |           | <u>31,304,421</u>        | <u>60,862,101</u>        |
| <b>Fully Paid up Ordinary Shares</b>                                |           |                          |                          |
| Unlisted shares   | 9.6       | 2,000                    | 52,000                   |
| <b>Investments at cost</b>  |           | <u>31,306,421</u>        | <u>60,914,101</u>        |
| Less: Provision for diminution in value of investments              | 9.8       | 2,000                    | 52,000                   |
| <b>Investments (net of provisions)</b>                              |           | <u>31,304,421</u>        | <u>60,862,101</u>        |
| Surplus / (deficit) on revaluation of held-for-trading securities   | 9.10      | 9,348                    | (227,483)                |
| Surplus / (deficit) on revaluation of available-for-sale securities | 20        | 25,403                   | (235,596)                |
| <b>Total investments at market value</b>                            |           | <u>31,339,172</u>        | <u>60,399,022</u>        |

9.3 Investments include certain approved / government securities which are held by the Bank to comply with the Statutory Liquidity Requirement determined on the basis of the Bank's demand and time liabilities as set out under section 29 of the Banking Companies Ordinance, 1962.

9.4 Market Treasury Bills are for a period of three months, six months and one year. The effective rates of profit on Market Treasury Bills range from 9.01% to 10.25% (2011: 11.76% to 13.88%) per annum with maturities upto November 2013 (2011: November 2012). In addition Market Treasury Bills having face value of Rs. 5,175 million (2011: Rs. 5,090 million) have been deposited with the State Bank of Pakistan as pledged capital.

- 9.5 Pakistan Investment Bonds (PIBs) are for periods of three, five, ten, fifteen and twenty years. The yield range from 8.00% to 12.00% (2011: 9.2% to 14.55%) per annum with maturities from June 2013 to June 2024. Pakistan Investment Bonds having face value of Rs 25 million (2011: Rs 25 million) have been deposited with the State Bank of Pakistan against telegraph transfer / discounting facility for Pakistan Investment Bonds having face value of Rs 2,540 million (2011: 2,600 million) have been deposited with the State Bank of Pakistan as pledged capital.

|  | Note  | 2012<br>(Rupees) |
|--|-------|------------------|
| <b>9.6 Particulars of Fully Paid-up Ordinary Shares - Unlisted companies</b>     |       |                  |
| <b>Khushhali Bank Limited</b>  |       |                  |
| Nil (2011: 5,000,000) fully paid-up ordinary shares of Rs.10 (2011: Rs 10) each. | 9.6.1 | -                |
| President - Mr. Ghalib Nishtar   |       |                  |
| <b>Arabian Sea Country Club</b>  |       |                  |
| 200,000 (2011: 200,000) fully paid-up ordinary shares of Rs.10/- each            |       | 2,000            |
| Chairman - Mr. Arif Khan Abbasi  |       |                  |
|  |       | <u>2,000</u>     |

- 9.6.1 During the year, the Bank (as part of seller's consortium) accepted a bid of Rs 20.44 per share in relation to shares of Khushhali Bank Limited.

- 9.7 Unlisted Term Finance Certificates includes TFCs, received from a non performing customer, booked against the settlement of its over due suspended mark up amounting to Rs. 248.09 million.

|  | Note  | 2012<br>(Rupees) |
|--|-------|------------------|
| <b>9.8 Particulars of provision for diminution in the value of investments</b>                       |       |                  |
| Opening balance  |       | 52,000           |
| Reversals due to gain on disposal  | 9.6.1 | <u>(50,000)</u>  |
| Closing balance  |       | <u>2,000</u>     |
| <b>9.8.1 Particulars of provision for diminution in the value of investments by type and segment</b> |       |                  |
| Unlisted shares - available-for-sale investments   |       | <u>2,000</u>     |

|  | 2012                   |                             | 2011                   |
|--|------------------------|-----------------------------|------------------------|
|  | Amount<br>(Rupees'000) | Rating<br>(where available) | Amount<br>(Rupees'000) |
| <b>9.9 Quality of Available for Sale Securities</b>    |                        |                             |                        |
| <b>Federal Government Securities (at market value)</b> |                        |                             |                        |
| Market Treasury Bills                                  | 18,578,998             | N/A                         | 20,062,756             |
| Pakistan Investment Bonds                              | 9,053,486              | N/A                         | 14,817,550             |
|  | <u>27,632,484</u>      |                             | <u>34,880,306</u>      |
| <b>Ordinary shares - unlisted (at cost)</b>            |                        |                             |                        |
| Khushhali Bank Limited                                 | -                      | N/A                         | 50,000                 |
| Arabian Sea Country Club                               | 2,000                  | Unrated                     | 2,000                  |
|  | <u>2,000</u>           |                             | <u>52,000</u>          |
| <b>Term Finance Certificates - unlisted (at cost)</b>  |                        |                             |                        |
| Azgard Nine Limited                                    | -                      | Unrated                     | -                      |
|  | <u>-</u>               |                             | <u>-</u>               |
| <b>Total</b>   | <u>27,634,484</u>      |                             | <u>34,932,306</u>      |

L - represents long term rating  
S - represents short term rating

|   | 2012<br>(Rupees) |
|---|------------------|
| <b>9.10 Unrealised gain / (loss) on revaluation of investments classified as held for trading</b> |                  |
| Market Treasury Bills   | 162              |
| Pakistan Investments Bonds  | 9,186            |
|   | <u>9,348</u>     |



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re 2024 (2011:  
5 million) have  
nted by them.  
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**2011  
in '000)**

50,000

2,000

52,000

ation to sale of

d at NIL value

**2011  
in '000)**

52,000

-

52,000

52,000

**1**

**Rating  
(where available)**

N/A  
N/A

A-(L), A-2(S)  
Unrated

N/A

**2011  
in '000)**

(34,161)

(193,322)

(227,483)

| 10 ADVANCES  | Note   | 2012<br>(Rupees in '000) | 2011        |
|--|--------|--------------------------|-------------|
| Loans, cash credits, running finances, etc.<br>In Pakistan                         |        | 23,032,953               | 23,085,918  |
| Bills discounted and purchased (excluding treasury bills)<br>Payable in Pakistan   |        | 901,664                  | 662,607     |
| Payable outside Pakistan   |        | 507,063                  | 529,562     |
|  |        | 1,408,727                | 1,192,169   |
| Advances - gross   | 10.1.3 | 24,441,680               | 24,278,087  |
| Provision against advances<br>Specific - provision against non-performing advances | 10.2   | (6,091,487)              | (5,338,814) |
| General - provision against advances   | 10.3.2 | (94,511)                 | (118,870)   |
|  | 10.3   | (6,185,998)              | (5,457,684) |
| Advances - net of provision  |        | 18,255,682               | 18,820,403  |

### 10.1 Particulars of advances (gross)

|                                       |            |            |
|---------------------------------------|------------|------------|
| 10.1.1 In local currency              | 23,872,601 | 23,493,559 |
| In foreign currencies                 | 569,079    | 784,528    |
|                                       | 24,441,680 | 24,278,087 |
| 10.1.2 Short term (for upto one year) | 14,035,720 | 10,714,611 |
| Long term (for over one year)         | 10,405,960 | 13,563,476 |
|                                       | 24,441,680 | 24,278,087 |

10.1.3 Based on classification defined in SBP Prudential Regulations, Rs 19,944.935 million (2011: Rs 18,893.208 million) advances fall under Corporate and Rs 4,496.745 million (2011: Rs 5,384.879 million) fall under Consumer and SME classification as at December 31, 2012.

10.2 Advances include Rs. 6,207.490 million (2011: Rs.5,506.335 million) which have been placed under non-performing status as detailed below:

|                                   | 2012                                 |                       |                   | 2011                                 |                       |                   |
|-----------------------------------|--------------------------------------|-----------------------|-------------------|--------------------------------------|-----------------------|-------------------|
|                                   | Classified<br>advances<br>(Domestic) | Provision<br>required | Provision<br>held | Classified<br>advances<br>(Domestic) | Provision<br>required | Provision<br>held |
|                                   | ----- (Rupees in '000) -----         |                       |                   |                                      |                       |                   |
| <b>Category of classification</b> |                                      |                       |                   |                                      |                       |                   |
| Substandard                       | 4,927                                | 1,359                 | 1,359             | 132,235                              | 33,663                | 33,663            |
| Doubtful                          | 138,504                              | 69,252                | 69,252            | 51,495                               | 25,748                | 25,748            |
| Loss                              | 6,064,059                            | 6,020,876             | 6,020,876         | 5,322,605                            | 5,279,403             | 5,279,403         |
|                                   | 6,207,490                            | 6,091,487             | 6,091,487         | 5,506,335                            | 5,338,814             | 5,338,814         |

10.2.1 The classified advances includes Rs. 1,814.507 million pertaining to the assets held for sale.

### 10.3 Particulars of provision against advances

|                     | Note   | 2012                         |          |           | 2011      |          |           |
|---------------------|--------|------------------------------|----------|-----------|-----------|----------|-----------|
|                     |        | Specific                     | General  | Total     | Specific  | General  | Total     |
|                     |        | ----- (Rupees in '000) ----- |          |           |           |          |           |
| Opening balance     |        | 5,338,814                    | 118,870  | 5,457,684 | 4,309,629 | 177,362  | 4,486,991 |
| Charge for the year |        | 1,255,687                    | -        | 1,255,687 | 1,556,833 | -        | 1,556,833 |
| Reversals           |        | (412,058)                    | (24,359) | (436,417) | (360,476) | (58,492) | (418,968) |
|                     |        | 843,629                      | (24,359) | 819,270   | 1,196,357 | (58,492) | 1,137,865 |
| Amounts written off | 10.4.1 | (90,956)                     | -        | (90,956)  | (167,172) | -        | (167,172) |
| Closing balance     |        | 6,091,487                    | 94,511   | 6,185,998 | 5,338,814 | 118,870  | 5,457,684 |

10.3.1 Specific provision includes Rs. 1,803.591 million pertaining to the assets held for sale.

**10.3.2** General provision against consumer loans represents provision maintained at an amount equal to 1.5% of the fully secured performing portfolio and 5% of the unsecured performing portfolio as required by the Prudential Regulations issued by the State Bank of Pakistan.

**10.3.3 Particulars of provision against advances**

|                   | 2012                        |         |           | 2011      |         |           |
|-------------------|-----------------------------|---------|-----------|-----------|---------|-----------|
|                   | Specific                    | General | Total     | Specific  | General | Total     |
|                   | ------(Rupees in '000)----- |         |           |           |         |           |
| In local currency | 6,091,487                   | 94,511  | 6,185,998 | 5,338,814 | 118,870 | 5,457,684 |

**10.3.4** Although the Bank has made provision against its non-performing portfolio as per the category of classification of the loan, the Bank holds enforceable collateral in the event of recovery through litigation for financing other than personal loans. These securities comprise of charge against various tangible assets of the borrower including land, building and machinery, stock in trade etc.

**10.3.5** The Bank has classified its consumer asset portfolio comprising of Auto Loans, Personal Loans and Credit Cards as assets held for sale amounting to Rs 1,904.53 million (net of specific provision). As of 31st December 2012, an asset purchase agreement for the above mentioned portfolio had been signed with HBL, requisite NOCs from the Competition Commission of Pakistan had been received and the parties were awaiting State Bank of Pakistan (SBP) approval. SBP granted its approval in February 2013 following which the portfolio was transferred to HBL.

|                                       | Note | 2012<br>(Rupees in '000) | 2011<br>(Rupees in '000) |
|---------------------------------------|------|--------------------------|--------------------------|
| <b>10.4 Particulars of write-offs</b> |      |                          |                          |
| Write offs of Rs. 500,000 and above   | 10.5 | 752                      | 55,248                   |
| Write offs of below Rs. 500,000       |      | 105,109                  | 145,910                  |
|                                       |      | <u>105,861</u>           | <u>201,158</u>           |

**10.5 Details of loan write off of Rs. 500,000 and above**

In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962 the Statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to person(s) during the year ended December 31, 2012 is given in Annexure-I. These loans are written off as a book entry without prejudice to the Bank's right of recovery against the customers.

|  | 2012<br>(Rupees in '000) | 2011<br>(Rupees in '000) |
|--|--------------------------|--------------------------|
| <b>10.6 Particulars of loans and advances to directors, executives associated companies, etc.</b>                              |                          |                          |
| Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons * |                          |                          |
| Balance at beginning of the year   | 899,290                  | 964,264                  |
| Loans granted during the year  | 23,640                   | 215,945                  |
| Repayments   | (274,134)                | (280,919)                |
| Balance at end of the year   | <u>648,796</u>           | <u>899,290</u>           |

\* Represents loans given by the Bank to their executives and other employees as per the terms of their employment.

|                          | Note | 2012<br>(Rupees in '000) | 2011<br>(Rupees in '000) |
|--------------------------|------|--------------------------|--------------------------|
| <b>11 FIXED ASSETS</b>   |      |                          |                          |
| Capital work-in-progress | 11.1 | 12,383                   | 8,923                    |
| Property and equipment   | 11.2 | 287,443                  | 511,275                  |
| Intangible assets        | 11.3 | 66,838                   | 114,501                  |
|                          |      | <u>366,664</u>           | <u>634,699</u>           |

**2012**  
**(Rupees)**

**11.1 Capital work-in-progress**

|                                       |        |
|---------------------------------------|--------|
| Advances to suppliers and contractors | 12,383 |
| Others                                | -      |
|                                       | 12,383 |

**11.2 Property and equipment**

|   | 2012                         |                           |                               |                              |  |                               |                               |
|---|------------------------------|---------------------------|-------------------------------|------------------------------|--|-------------------------------|-------------------------------|
|   | COST                         |                           |                               | ACCUMULATED DEPRECIATION     |  |                               | BOOK VALUE                    |
|   | As at<br>January 01,<br>2012 | Additions/<br>(Deletions) | As at<br>December<br>31, 2012 | As at<br>January 01,<br>2012 | Charge for<br>the year / (on<br>deletions) | As at<br>December<br>31, 2012 | As at<br>December 31,<br>2012 |
|   | (Rupees in '000)             |                           |                               |                              |  |                               |                               |
| Leasehold land and buildings              | 6,295                        | -                         | 6,295                         | 2,333                        | 244  | 2,577                         | 3,718                         |
| Furniture and fixtures                    | 618,747                      | 46,510<br>(235,296)       | 429,961                       | 450,660                      | 129,566<br>(230,350)                       | 349,876                       | 80,085                        |
| Electrical, office and computer equipment | 1,245,870                    | 51,545<br>(129,613)       | 1,167,802                     | 1,083,694                    | 116,011<br>(125,442)                       | 1,074,263                     | 93,539                        |
| Vehicles                                  | 324,948                      | 11,429<br>(69,565)        | 266,812                       | 147,898                      | 47,705<br>(38,892)                         | 156,711                       | 110,101                       |
|   | 2,195,860                    | 109,484<br>(434,474)      | 1,870,870                     | 1,684,585                    | 293,526<br>(394,684)                       | 1,583,427                     | 287,443                       |
|   | 2011                         |                           |                               |                              |  |                               |                               |
|   | COST                         |                           |                               | ACCUMULATED DEPRECIATION     |  |                               | BOOK VALUE                    |
|   | As at<br>January 01,<br>2011 | Additions/<br>(Deletions) | As at<br>December<br>31, 2011 | As at<br>January 01,<br>2011 | Charge for<br>the year / (on<br>deletions) | As at<br>December<br>31, 2011 | As at<br>December 31,<br>2011 |
|   | (Rupees in '000)             |                           |                               |                              |  |                               |                               |
| Leasehold land and buildings              | 6,295                        | -                         | 6,295                         | 2,089                        | 244  | 2,333                         | 3,962                         |
| Furniture and fixtures                    | 701,223                      | 12,543<br>(95,019)        | 618,747                       | 423,483                      | 119,470<br>(92,293)                        | 450,660                       | 168,087                       |
| Electrical, office and computer equipment | 1,248,011                    | 19,000<br>(21,141)        | 1,245,870                     | 936,711                      | 167,017<br>(20,034)                        | 1,083,694                     | 162,176                       |
| Vehicles                                  | 279,840                      | 120,809<br>(75,701)       | 324,948                       | 143,535                      | 58,386<br>(54,023)                         | 147,898                       | 177,050                       |
|   | 2,235,369                    | 152,352<br>(191,861)      | 2,195,860                     | 1,505,818                    | 345,117<br>(166,350)                       | 1,684,585                     | 511,275                       |

**11.2.1** The cost of fully depreciated assets still in use amounts to Rs. 1,083.839 million (2011: Rs. 961.151 million)

**11.2.2** During the year the Bank decided to close down nine of its branches and vacate certain premises. Pursuant to the decision the management has recognised an accelerated depreciation of Rs. 112.879 million (2011: Rs. 112.879 million) on certain fixed assets located at these branches.

**2011**  
**in '000)**

7,190  
1,733  

---

8,923  

---

---

**Rate of  
depreciation**

%

5

10 - 50

14.3-33.33

20

---

**Rate of  
depreciation**

%

5

10 - 50

14.3-33.33

20

n).

suant to this  
: Rs. 58.39

### 11.3 Intangible assets

|                              | As at<br>January 01,<br>2012 | Additions /<br>(deletions) | As at<br>December<br>31, 2012 | As at<br>January 01,<br>2012 | Amortisation for<br>the year /<br>(amortisation on<br>deletions) | As at<br>December<br>31, 2012 | As at<br>December 31,<br>2012 |                         |
|------------------------------|------------------------------|----------------------------|-------------------------------|------------------------------|--|-------------------------------|-------------------------------|-------------------------|
| ----- (Rupees in '000) ----- |                              |                            |                               |                              |  |                               |                               | %                       |
| Computer software            | 290,132                      | 1,180                      | 291,312                       | 175,631                      | 48,843   | 224,474                       | 66,838                        | 20 - 33.33              |
| <b>2011</b>                  |                              |                            |                               |                              |  |                               |                               |                         |
|                              | COST                         |                            |                               | ACCUMULATED AMORTISATION     |  | BOOK VALUE                    |                               |                         |
|                              | As at<br>January 01,<br>2011 | Additions /<br>(deletions) | As at<br>December<br>31, 2011 | As at<br>January 01,<br>2011 | Amortisation for<br>the year /<br>(amortisation on<br>deletions) | As at<br>December<br>31, 2011 | As at<br>December 31,<br>2011 | Rate of<br>amortisation |
| ----- (Rupees in '000) ----- |                              |                            |                               |                              |  |                               |                               | %                       |
| Computer software            | 258,524                      | 31,608                     | 290,132                       | 127,085                      | 48,546   | 175,631                       | 114,501                       | 20 - 33.33              |

11.3.1 The cost of fully amortised assets still in use amounts to Rs. 68.147 million (2011: Rs 68.147 million).

### 11.4 Disposals of fixed assets during the year

Details of disposals of fixed assets having cost of more than Rs. 1,000,000 or net book value of Rs. 250,000 or more are given in Annexure-II and is an integral part of these financial statements.

|  | Note | 2012<br>----- (Rupees in '000) ----- | 2011             |
|--|------|--------------------------------------|------------------|
| <b>12 DEFERRED TAX ASSETS - net</b>  |      |                                      |                  |
| Deferred tax assets - net  | 12.1 | <u>3,194,412</u>                     | <u>3,614,421</u> |
| <b>12.1</b> Deferred debits arising due to:  |      |                                      |                  |
| - deficit on revaluation of available for sale investments   |      | -                                    | 82,459           |
| - provision against off balance sheet items and corporate and consumer financing                         |      | 3,074,670                            | 3,385,487        |
| - accelerated tax depreciation   |      | 42,905                               | 44,809           |
| - other deductible temporary differences   |      | 169,153                              | 182,051          |
| Deferred credit arising due to:  |      |                                      |                  |
| - effect of re-measurement of cost under share based payment   |      | (83,425)                             | (80,385)         |
| - surplus on revaluation of available for sale investments   | 20   | (8,891)                              | -                |
|  |      | <u>3,194,412</u>                     | <u>3,614,421</u> |
| <b>13 OTHER ASSETS</b>   |      |                                      |                  |
| Income / Mark-up accrued in local currency   |      | 799,235                              | 1,359,553        |
| Income / Mark-up accrued in foreign currency   |      | 11,401                               | 13,989           |
| Advances, deposits, prepayments and other receivables  |      | 387,416                              | 368,383          |
| Advance taxation (payments less provisions)  |      | 2,017,293                            | -                |
| Non-banking assets acquired in satisfaction of claims  | 13.1 | 10,857                               | 18,158           |
| Unrealised gain on forward foreign exchange contracts, foreign currency options and derivative contracts |      | 1,028,542                            | 2,164,818        |
| Receivable from the State Bank of Pakistan - customer encashed   |      |                                      |                  |
| USD Bonds / SSCs & DSCs  |      | 34,188                               | 1,805            |
| Others   |      | <u>18,114</u>                        | <u>45,748</u>    |
|  |      | 4,307,046                            | 3,972,454        |
| Less: Provision held against non-banking assets acquired in satisfaction of claims                       | 13.2 | <u>10,658</u>                        | <u>17,593</u>    |
| Other assets - net of provision  |      | <u>4,296,388</u>                     | <u>3,954,861</u> |

13.1 The management has made provision against the amount of non-banking assets acquired in satisfaction of claims taking a conservative view. Therefore, the management has not disclosed the market value of these assets.

|  | 2012             | 2011          |
|--|------------------|---------------|
|  | (Rupees in '000) |               |
| <b>13.2 Provision against other assets</b> |                  |               |
| Opening balance                            | 17,593           | 19,774        |
| Reversal during the year                   | (6,935)          | (2,181)       |
| Closing balance                            | <u>10,658</u>    | <u>17,593</u> |

#### 14 CONTINGENT ASSETS

There were no contingent assets of the Bank as at December 31, 2012 (2011: Nil).

|                         | Note | 2012             | 2011             |
|-------------------------|------|------------------|------------------|
|                         |      | (Rupees in '000) |                  |
| <b>15 BILLS PAYABLE</b> |      |                  |                  |
| In Pakistan             |      | <u>2,185,724</u> | <u>2,028,623</u> |

#### 16 BORROWINGS FROM FINANCIAL INSTITUTIONS

|                  |                |                   |
|------------------|----------------|-------------------|
| In Pakistan      | 141,666        | 7,633,273         |
| Outside Pakistan | -              | 3,597,828         |
|                  | <u>141,666</u> | <u>11,231,101</u> |

##### 16.1 Particulars of borrowings with respect to currencies

|                       |                |                   |
|-----------------------|----------------|-------------------|
| In local currency     | 141,666        | 7,633,273         |
| In foreign currencies | -              | 3,597,828         |
|                       | <u>141,666</u> | <u>11,231,101</u> |

##### 16.2 Details of borrowings Secured / Unsecured

###### Secured

Borrowings from the State Bank of Pakistan

Under export refinance scheme

Under Long Term Financing-Export Oriented Projects  
scheme (LTF-EOP)

Repurchase agreement borrowings

|        |        |           |
|--------|--------|-----------|
|        | -      | 1,080,060 |
| 16.2.1 | 25,245 | 35,345    |
|        | -      | 6,358,902 |
|        | 25,245 | 7,474,307 |

###### Unsecured

Call borrowings

Overdrawn accounts

|        |                |                   |
|--------|----------------|-------------------|
| 16.2.2 | 100,000        | 3,697,828         |
|        | 16,421         | 58,966            |
|        | <u>116,421</u> | <u>3,756,794</u>  |
|        | <u>141,666</u> | <u>11,231,101</u> |

**16.2.1** These borrowings have been made from the State Bank of Pakistan (SBP) under the scheme for providing long term finance to customers for export oriented projects. As per the agreements with SBP, the Bank has granted SBP the right to recover the outstanding amount from the Bank at the date of maturity of the finance by directly debiting the current account maintained by the Bank with SBP. This facility is secured against demand promissory note executed in favour of SBP. The mark up rate of this facility is 5% (2011: 5%) per annum payable on a quarterly basis.

**16.2.2** This represents unsecured borrowing that carries mark-up at the rate of 9.75% (2011: 0.25% to 13.1%) per annum and are due to mature in April 2013 (2011: March 2012).

| 17          | <b>DEPOSITS AND OTHER ACCOUNTS</b>  | <b>2012</b>             | <b>2011</b>             |
|-------------|---|-------------------------|-------------------------|
|             |   | <b>(Rupees in '000)</b> |                         |
|             | <b>Customers</b>  |                         |                         |
|             | Fixed deposits  | 16,089,264              | 24,451,398              |
|             | Savings deposits  | 21,680,362              | 24,529,126              |
|             | Current accounts - non-remunerative   | 24,564,881              | 10,736,109              |
|             | Other deposits  | 73,541                  | 60,524                  |
|             |   | <u>62,408,048</u>       | <u>59,777,157</u>       |
|             | <b>Financial institutions</b>   |                         |                         |
|             | Remunerative deposits   | 260,930                 | 841,377                 |
|             | Non-remunerative deposits   | 1,624,587               | 1,059,981               |
|             |   | <u>1,885,517</u>        | <u>1,901,358</u>        |
|             |   | <u>64,293,565</u>       | <u>61,678,515</u>       |
| <b>17.1</b> | <b>Particulars of deposits</b>  |                         |                         |
|             | In local currency   | 55,474,777              | 48,070,500              |
|             | In foreign currencies   | 8,818,788               | 13,608,015              |
|             |   | <u>64,293,565</u>       | <u>61,678,515</u>       |
| <b>17.2</b> | The above includes deposits of Citigroup companies amounting to Rs. 662.044 million (2011: Rs. 611.279 million).  |                         |                         |
|             |   | <b>Note</b>             | <b>2012</b>             |
|             |   |                         | <b>2011</b>             |
|             |   |                         | <b>(Rupees in '000)</b> |
| <b>18</b>   | <b>OTHER LIABILITIES</b>  |                         |                         |
|             | Mark-up / return / interest payable in local currency   |                         | 370,227                 |
|             | Mark-up / return / interest payable in foreign currencies   |                         | 385                     |
|             | Unearned commission and income on bills discounted  |                         | 60,032                  |
|             | Accrued expenses  | 18.1                    | 1,196,613               |
|             | Current taxation (provision less payments)  |                         | -                       |
|             | Unrealised loss on forward foreign exchange contracts, foreign currency options and derivative contracts  |                         | 5,398,490               |
|             | Unremitted head office expenses   |                         | 798,012                 |
|             | Payable to regional offices for support services  |                         | 113,630                 |
|             | Payable to defined benefit plan   | 33.4                    | 244,190                 |
|             | Provision against off-balance sheet obligations   | 18.2                    | 9,034                   |
|             | Advances from customers   |                         | 20,471                  |
|             | Others  |                         | 1,302,858               |
|             |   |                         | <u>9,513,942</u>        |
|             |   |                         | <u>11,198,190</u>       |
| <b>18.1</b> | This includes the Bank's obligation to the ultimate holding company under the stock award and stock option programmes. As of December 31, 2012 recognised liability for share based incentive plans was Rs. 116.130 million (2011: Rs. 93.937 million). |                         |                         |
|             |   | <b>Note</b>             | <b>2012</b>             |
|             |   |                         | <b>2011</b>             |
|             |   |                         | <b>(Rupees in '000)</b> |
| <b>18.2</b> | <b>Provision against off-balance sheet obligations</b>  |                         |                         |
|             | Opening balance   |                         | 21,713                  |
|             | Charge for the year   |                         | 3,321                   |
|             | Reversal during the year  |                         | (16,000)                |
|             | Closing balance   |                         | <u>9,034</u>            |
|             |   |                         | <u>21,713</u>           |
| <b>19</b>   | <b>HEAD OFFICE CAPITAL ACCOUNT</b>  |                         |                         |
|             | <b>Capital held as:</b>   |                         |                         |
|             | Deposit of un-encumbered approved securities  | 19.1                    | 6,812,671               |
|             |   |                         | <u>6,812,671</u>        |
|             |   |                         | <u>6,812,671</u>        |



**19.1** This represents Market Treasury Bills having face value of Rs. 5,175 million (2011: Rs. 5,090 million) and Pakistan Investment Bonds having face value of Rs. 2,540 million (2011: Rs. 2,600 million). The market value of Market Treasury Bills and Pakistan Investment Bonds as at December 31, 2012 amounts to Rs. 5,062.974 million and Rs. 2,445.878 million (2011: Rs. 4,520.700 million and Rs. 2,551.734 million) and these have maturities of up to October 2013 and June 2024 respectively (2011: September 2012 and June 2024).

**19.2** Capital has been deposited with the State Bank of Pakistan in compliance with section 13 of the Banking Companies Ordinance, 1962.

|  | Note | 2012<br>(Rupees in '000) | 2011<br>(Rupees in '000) |
|--|------|--------------------------|--------------------------|
| <b>20 SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS - net</b> |      |                          |                          |
| Federal and Provincial Government Securities                 |      |                          |                          |
| - Market Treasury Bills                                      |      | 28,023                   | 38,208                   |
| - Pakistan Investment Bonds                                  |      | (2,620)                  | (273,804)                |
|  |      | 25,403                   | (235,596)                |
| Less: Related deferred tax asset                             | 12.1 | (8,891)                  | 82,459                   |
|  |      | <u>16,512</u>            | <u>(153,137)</u>         |

**21 CONTINGENCIES AND COMMITMENTS**

**21.1 Direct credit substitutes**

Includes general guarantees of indebtedness, bank acceptance guarantees and standby letters of credit serving as financial guarantees for loans and securities.

|                            | 2012<br>(Rupees in '000) | 2011<br>(Rupees in '000) |
|----------------------------|--------------------------|--------------------------|
| (i) Government of Pakistan | 69,173                   | 90,662                   |
| (iii) Others               | 72,821                   | 92,839                   |
|                            | <u>141,994</u>           | <u>183,501</u>           |

**21.2 Transaction-related contingent liabilities**

Includes performance bonds, bid bonds, warranties, advance payment guarantees, shipping guarantees and standby letters of credit related to particular transactions.

|   | 2012<br>(Rupees in '000) | 2011<br>(Rupees in '000) |
|---|--------------------------|--------------------------|
| (i) Government of Pakistan                              | 820,758                  | 895,793                  |
| (ii) Banking companies and other financial institutions | 67,670                   | 103,165                  |
| (iii) Others  | 5,727,832                | 1,790,825                |
|   | <u>6,616,260</u>         | <u>2,789,783</u>         |

**21.3 Trade-related contingent liabilities**

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

|                                 | Note | 2012<br>(Rupees in '000) | 2011<br>(Rupees in '000) |
|---------------------------------|------|--------------------------|--------------------------|
| Letters of credit / acceptances |      | <u>10,187,301</u>        | <u>20,907,945</u>        |

**21.4 Other contingencies**

|                                 |        |                |                |
|---------------------------------|--------|----------------|----------------|
| Indemnity issued                |        | 15,484         | 15,484         |
| Claims not acknowledged as debt |        | 136,321        | 282,818        |
|                                 | 21.4.1 | <u>151,805</u> | <u>298,302</u> |

**21.4.1** These are not recognised as debt as the probability of these crystallising against the Bank is considered remote.

**21.4.2** The State Bank of Pakistan (SBP) by its letter dated March 25, 2011 asked the Bank to take measures to fully comply with the SBP's guidelines relating to returns on a specific portfolio of its foreign currency deposits. Based on legal advice, the Bank maintains that it has fully complied with such requirements and has also taken up the matter with the SBP. Management is confident that this matter will be resolved in the Bank's favour. The possible financial impact, if any, has not been determined as it involves data relating to past several years.

|  | <b>2012</b>             | <b>2011</b>      |
|--|-------------------------|------------------|
|  | <b>(Rupees in '000)</b> |                  |
| <b>21.5 Commitments in respect of forward transactions</b> |                         |                  |
| Forward repurchase agreement lendings (reverse repos)      | <u>14,927,891</u>       | <u>1,340,776</u> |
| Forward repurchase agreement borrowings (repos)            | <u>-</u>                | <u>6,369,027</u> |
| Uncancellable commitments to extend credit                 | <u>1,716,579</u>        | <u>5,700,444</u> |

**21.6 Commitments in respect of forward exchange contracts**

|          |                   |                    |
|----------|-------------------|--------------------|
| Purchase | <u>58,284,081</u> | <u>124,445,528</u> |
| Sale     | <u>36,487,833</u> | <u>76,128,440</u>  |

The Bank utilises foreign exchange instruments to meet the needs of its customers and as part of its asset and liability management activity to hedge its own exposure to currency risk.

|   | <b>Note</b> | <b>2012</b>             | <b>2011</b>       |
|---|-------------|-------------------------|-------------------|
|   |             | <b>(Rupees in '000)</b> |                   |
| <b>21.7 Other commitments</b>   |             |                         |                   |
| Cross currency and interest rate derivative contracts (notional amount) | 22.1        | <u>31,228,364</u>       | <u>50,262,515</u> |
| Foreign currency options  | 22.1        | <u>7,223,828</u>        | <u>6,433,560</u>  |

**22 DERIVATIVE INSTRUMENTS**

A derivative financial instrument is a contract the value of which is determined by reference to one or more underlying financial instruments, reference rates or indices. Forward contracts, options and swaps are the most common types of derivatives. Also included in derivatives are structured financial products that have one or more characteristics of forwards, futures, swaps and options.

The Bank enters into derivatives contracts for market making and for creating effective hedges to enable customers and the Bank to transfer, modify or reduce their interest rate and foreign exchange risks. The Bank as an Authorised Derivative Dealer (ADD) is an active participant in the derivative market of Pakistan.

Overall responsibility for derivatives trading activity lies with the treasury. Existence of an independent market risk function together with the Asset Liability Committee (ALCO) assists in the identification and quantification of risks on derivatives. This involves:

- co-ordinating approvals of market risk limits;
- formulation of policies and procedures with respect to market risk; and
- monitoring of market risk and credit risk exposure.

Treasury operations records transactions in the books, while product control reports the price and liquidity information independently.

The risk embedded in derivatives transactions are discussed in note 41.

## 22.1 Product analysis

### Counterparties

|                           | 2012                                      |   |                        |   |
|---------------------------|---|---|------------------------|---|
|                           | Interest Rate and Cross<br>Currency Swaps |   | FX Options             |   |
|                           | Number of<br>Contracts                    | Notional<br>Principal<br>(Rupees in '000) | Number of<br>Contracts | Notional<br>Principal<br>(Rupees in '000) |
| With Banks for            |   |   |                        |   |
| Hedging                   | 2   | 7,295,059                                 | 11                     | 3,611,914                                 |
| Market Making             | -   | -   | -                      | -   |
| With FIs other than banks |   |   |                        |   |
| Hedging                   | -   | -   | -                      | -   |
| Market Making             | 2   | 1,300,459                                 | -                      | -   |
| With other entities for   |   |   |                        |   |
| Hedging                   | -   | -   | -                      | -   |
| Market Making             | 54  | 22,632,846                                | 11                     | 3,611,914                                 |
| Total                     |   |   |                        |   |
| Hedging                   | 2   | 7,295,059                                 | 11                     | 3,611,914                                 |
| Market Making             | 56  | 23,933,305                                | 11                     | 3,611,914                                 |
|                           | 58  | 31,228,364                                | 22                     | 7,223,828                                 |

### Counterparties

|                           | 2011                                      |   |                        |   |
|---------------------------|---|---|------------------------|---|
|                           | Interest Rate and Cross<br>Currency Swaps |   | FX Options             |   |
|                           | Number of<br>Contracts                    | Notional<br>Principal<br>(Rupees in '000) | Number of<br>Contracts | Notional<br>Principal<br>(Rupees in '000) |
| With Banks for            |   |   |                        |   |
| Hedging                   | 2   | 10,405,082                                | 3                      | 3,216,780                                 |
| Market Making             | 1   | 56,314                                    | -                      | -   |
| With FIs other than banks |   |   |                        |   |
| Hedging                   | -   | -   | -                      | -   |
| Market Making             | 4   | 2,124,243                                 | -                      | -   |
| With other entities for   |   |   |                        |   |
| Hedging                   | -   | -   | -                      | -   |
| Market Making             | 68  | 37,676,876                                | 3                      | 3,216,780                                 |
| Total                     |   |   |                        |   |
| Hedging                   | 2   | 10,405,082                                | 3                      | 3,216,780                                 |
| Market Making             | 73  | 39,857,433                                | 3                      | 3,216,780                                 |
|                           | 75  | 50,262,515                                | 6                      | 6,433,560                                 |

## 22.2 Maturity analysis

### Interest rate and cross currency swaps

#### Remaining maturity

|                    | Number of<br>Contracts | Notional<br>Principal | 2012                         |            |             |
|--------------------|------------------------|-----------------------|------------------------------|------------|-------------|
|                    |                        |                       | Mark to Market               |            | Net         |
|                    |                        |                       | Negative                     | Positive   |             |
|                    |                        |                       | ----- (Rupees in '000) ----- |            |             |
| Upto 1 month       | -                      | -                     | -                            | -          | -           |
| 1 to 3 months      | 6                      | 4,055,625             | (6,090,811)                  | 4,197,493  | (1,893,318) |
| 3 to 6 months      | 14                     | 106,115               | (123,880)                    | 107,355    | (16,525)    |
| 6 months to 1 Year | 20                     | 1,229,010             | (1,360,770)                  | 972,055    | (388,715)   |
| 1 to 2 Years       | 14                     | 16,574,364            | (3,502,110)                  | 2,981,136  | (520,974)   |
| 2 to 3 Years       | -                      | -                     | -                            | -          | -           |
| 3 to 5 Years       | 4                      | 9,263,250             | (11,500,687)                 | 9,666,964  | (1,833,723) |
| 5 to 10 Years      | -                      | -                     | -                            | -          | -           |
| Above 10 Years     | -                      | -                     | -                            | -          | -           |
|                    | 58                     | 31,228,364            | (22,578,258)                 | 17,925,003 | (4,653,255) |

| Remaining maturity           | 2011                |                    |                     |                   |                    |
|------------------------------|---------------------|--------------------|---------------------|-------------------|--------------------|
|                              | Number of Contracts | Notional Principal | Mark to Market      |                   |                    |
|                              |                     |                    | Negative            | Positive          | Net                |
| ----- (Rupees in '000) ----- |                     |                    |                     |                   |                    |
| Upto 1 month                 | 3                   | 136,639            | (133,932)           | 96,711            | (37,221)           |
| 1 to 3 months                | 3                   | 608,778            | (738,198)           | 638,217           | (99,981)           |
| 3 to 6 months                | 2                   | 59,674             | (87,448)            | 60,348            | (27,100)           |
| 6 months to 1 Year           | 9                   | 138,107            | (162,680)           | 140,388           | (22,292)           |
| 1 to 2 Years                 | 40                  | 14,898,643         | (19,775,878)        | 15,053,063        | (4,722,815)        |
| 2 to 3 Years                 | 14                  | 23,672,256         | (5,380,794)         | 4,998,335         | (382,459)          |
| 3 to 5 Years                 | -                   | -                  | -                   | -                 | -                  |
| 5 to 10 Years                | 4                   | 10,748,418         | (12,400,731)        | 11,282,730        | (1,118,001)        |
| Above 10 Years               | -                   | -                  | -                   | -                 | -                  |
|                              | <u>75</u>           | <u>50,262,515</u>  | <u>(38,679,661)</u> | <u>32,269,792</u> | <u>(6,409,869)</u> |

**22.3** The fair value of derivative financial instruments has been determined using valuation techniques with significant inputs such as forecasted market interest rates and foreign exchange rates. The determination of the fair value of these instruments is most sensitive to these key assumptions. Any significant change in these key assumptions may have an effect on the fair value of these derivative financial instruments.

|           |  | 2012             | 2011              |
|-----------|--|------------------|-------------------|
|           |  | (Rupees in '000) |                   |
| <b>23</b> | <b>MARK-UP/ RETURN/ INTEREST EARNED</b>  |                  |                   |
| a)        | On loans and advances to   |                  |                   |
|           | Customers  | 2,489,312        | 2,529,096         |
|           | Financial Institutions   | -                | -                 |
| b)        | On investments in  |                  |                   |
|           | Held for trading securities  | 1,309,067        | 1,772,089         |
|           | Available for sale securities  | 3,446,508        | 3,865,283         |
| c)        | On deposits with financial institutions  | 53,334           | 9,907             |
| d)        | On securities purchased under resale agreements (reverse repo)   | 964,776          | 2,103,296         |
|           |  | <u>8,262,997</u> | <u>10,279,671</u> |
| <b>24</b> | <b>MARK-UP / RETURN / INTEREST EXPENSED</b>  |                  |                   |
|           | Deposits   | 2,833,951        | 4,058,015         |
|           | Securities sold under repurchase agreements (repo)   | 125,380          | 349,976           |
|           | Borrowings (including LTF - EOP)   | 70,820           | 172,049           |
|           |  | <u>3,030,151</u> | <u>4,580,040</u>  |
| <b>25</b> | <b>INCOME FROM DEALING IN FOREIGN CURRENCIES</b>   |                  |                   |
|           | It includes income from foreign exchange dealings, forward settled interbank deals, revaluation of on balance sheet exposure and foreign exchange impact with respect to derivative contracts. |                  |                   |
|           |  | <b>Note</b>      | <b>2012</b>       |
|           |  |                  | <b>2011</b>       |
|           |  |                  | (Rupees in '000)  |
| <b>26</b> | <b>GAIN / (LOSS) ON SALE OF SECURITIES</b>   |                  |                   |
|           | Federal Government Securities  |                  |                   |
|           | Market Treasury Bills  |                  | 92,080            |
|           | Pakistan Investment Bonds  |                  | 875,477           |
|           | Shares - unlisted  | 26.1             | 102,248           |
|           |  |                  | <u>1,069,805</u>  |
|           |  |                  | <u>661,512</u>    |

**26.1** This represents income in respect of 5 million (2011: Nil) shares of Khushali Bank Limited sold during the year.

| <b>27 OTHER INCOME</b>                              | <b>Note</b>  | <b>2012</b>             | <b>2011</b>        |
|---|--|-------------------------|--------------------|
|   |  | <b>(Rupees in '000)</b> |                    |
| Credit losses recovered                             |  | 98,882                  | 162,886            |
| Net profit on sale of property and equipment        |  | 38,203                  | 13,937             |
| Income from derivative contracts                    | 27.1   | (1,340,193)             | (2,322,053)        |
| Others  | 27.2   | 44,762                  | 46,341             |
|   |  | <u>(1,158,346)</u>      | <u>(2,098,889)</u> |
| <b>27.1</b>   | This includes funding cost of FX swaps amounting to Rs. 1.2 billion (2011: Rs. 1.6 billion). |                         |                    |
| <b>27.2 Others</b>                                  | <b>Note</b>  | <b>2012</b>             | <b>2011</b>        |
|   |  | <b>(Rupees in '000)</b> |                    |
| Interchange income                                  |  | 36,463                  | 17,478             |
| Compensation on delayed tax refund                  |  | -                       | 24,098             |
| Miscellaneous earnings                              |  | 8,299                   | 4,765              |
|   |  | <u>44,762</u>           | <u>46,341</u>      |
| <b>28 ADMINISTRATIVE EXPENSES</b>                   |  |                         |                    |
| Salaries, allowances, etc.                          |  | 943,725                 | 1,049,667          |
| Charge for defined benefit plan                     | 33.8   | 192,871                 | 66,183             |
| Contribution to defined contribution plan           | 34   | 42,545                  | 49,182             |
| Head office / Regional office expenses              |  | 320,681                 | 421,680            |
| Rent, taxes, insurance, electricity, etc.           |  | 384,654                 | 449,737            |
| Contract services                                   |  | 422,611                 | 536,859            |
| Legal and professional charges                      |  | 35,776                  | 30,059             |
| Communications                                      |  | 132,113                 | 162,555            |
| Repairs and maintenance                             |  | 133,422                 | 120,989            |
| Travelling and conveyance                           |  | 94,388                  | 106,376            |
| Stationery and printing                             |  | 49,795                  | 54,146             |
| Advertisement and publicity                         |  | 20,562                  | 24,902             |
| Support services from regional offices              |  | 402,665                 | 293,961            |
| Donations   | 28.1   | 970                     | -                  |
| Auditors' remuneration                              | 28.2   | 4,161                   | 2,733              |
| Depreciation  | 11.2   | 293,526                 | 345,117            |
| Amortisation  | 11.3   | 48,843                  | 48,546             |
| Restructuring expense                               |  | 763,252                 | 52,794             |
| Others  |  | 192,764                 | 181,685            |
|   |  | <u>4,479,324</u>        | <u>3,997,171</u>   |
| <b>28.1 Donations</b>                               |  |                         |                    |
| Patients Aid Foundation                             |  | 100                     | -                  |
| Karwan-e-Hayat                                      |  | 100                     | -                  |
| The Citizens Foundation                             |  | 120                     | -                  |
| Marie Adelaide Leprosy Centre                       |  | 150                     | -                  |
| The Kidney Centre                                   |  | 500                     | -                  |
|   |  | <u>970</u>              | <u>-</u>           |
| <b>28.2 Auditors' remuneration</b>                  |  |                         |                    |
| Audit fee   |  | 1,624                   | 1,450              |
| Fee for the half yearly review                      |  | 504                     | 450                |
| Special certifications and sundry advisory services |  | 1,740                   | 400                |
| Out-of-pocket expenses                              |  | 293                     | 433                |
|   |  | <u>4,161</u>            | <u>2,733</u>       |
| <b>29 OTHER CHARGES</b>                             |  |                         |                    |
| Penalties imposed by State Bank of Pakistan         |  | 7,557                   | 3,130              |
| Worker's Welfare Fund                               |  | 65,958                  | 48,015             |
|   |  | <u>73,515</u>           | <u>51,145</u>      |

|                        | 2012             | 2011             |
|------------------------|------------------|------------------|
|                        | (Rupees in '000) |                  |
| <b>30 TAXATION</b>     |                  |                  |
| <b>For the year</b>    |                  |                  |
| Current                | 1,128,971        | 1,419,218        |
| Deferred               | (217,817)        | (378,625)        |
|                        | <u>911,154</u>   | <u>1,040,593</u> |
| <b>For prior years</b> |                  |                  |
| Current                | (557,327)        | (585,349)        |
| Deferred               | 543,437          | 312,555          |
|                        | <u>(13,890)</u>  | <u>(272,794)</u> |
|                        | <u>897,264</u>   | <u>767,799</u>   |

The income tax assessments of the Bank have been finalised upto and including tax year 2012. Matters of disagreement exist between the Bank and the tax authorities for various assessments / tax years and are pending with the Commissioner of Income Tax (Appeals) and the Income Tax Appellate Tribunal (ITAT).

The issues mainly relate to bad debts written off and disallowances relating to various profit and loss expenses and payments for support services from regional office. However, adequate provision has been made in these financial statements in respect of these matters.

|   | Note | 2012             | 2011             |
|---|------|------------------|------------------|
|   |      | (Rupees in '000) |                  |
| <b>30.1 Relationship between tax expense and accounting profit</b>                |      |                  |                  |
| Profit before taxation  |      | <u>2,320,505</u> | <u>2,523,836</u> |
| Taxation at the applicable tax rate of 35% (2011: 35%)                            |      | 812,177          | 883,343          |
| Prior year reversal   |      | (13,890)         | (272,794)        |
| Taxation effect of expenses that are not deductible in determining taxable income |      | 122,267          | 147,829          |
| Others  |      | (23,290)         | 9,421            |
|   |      | <u>897,264</u>   | <u>767,799</u>   |

### 31 CASH AND CASH EQUIVALENTS

|                                      |      |                   |                  |
|--------------------------------------|------|-------------------|------------------|
| Cash and balance with treasury banks | 6    | 6,770,561         | 6,990,879        |
| Balance with other banks             | 7    | 6,035,738         | 1,149,455        |
| Overdrawn accounts                   | 16.2 | (16,421)          | (58,966)         |
|                                      |      | <u>12,789,878</u> | <u>8,081,368</u> |

|  |  | 2012                  | 2011         |
|--|--|-----------------------|--------------|
|  |  | (Number of employees) |              |
| <b>32 STAFF STRENGTH</b>                         |  |                       |              |
| Permanent  |  | 410                   | 543          |
| Contractual basis                                |  | -                     | -            |
| Bank's own staff strength at the end of the year |  | <u>410</u>            | <u>543</u>   |
| Outsourced                                       |  | 267                   | 473          |
| Total staff strength at the end of the year      |  | <u>677</u>            | <u>1,016</u> |

### 33 DEFINED BENEFIT PLAN

#### 33.1 General description

All permanent employees with a minimum service period of five years or more with the Bank are entitled to end of service benefits calculated at 130 percent of basic salary for each year of service with the Bank. The assets of the funded plan are held independently in a separate trustee administered fund.

### 33.2 Principal actuarial assumptions

The latest actuarial valuation was carried out as at December 31, 2012 using the Projected Unit Credit Method. The main assumptions used for the actuarial valuation were as follows:

|   |             | 2012                    | 2011           |
|---|-------------|-------------------------|----------------|
| Discount rate   |             | 11.50%                  | 12.00%         |
| Estimated return on plan assets of the fund - per annum       |             | 11.50%                  | 12.00%         |
| Estimated salary increase - per annum                         |             | 10.50%                  | 11.00%         |
| Estimated service length of the employees                     |             | 9 years                 | 9 years        |
|   | <b>Note</b> | <b>2012</b>             | <b>2011</b>    |
| <b>33.3 Reconciliation of payable to defined benefit plan</b> |             | <b>(Rupees in '000)</b> |                |
| Present value of defined benefit obligations                  | 33.5        | 392,985                 | 314,062        |
| Fair value of plan assets                                     | 33.6        | (79,061)                | (97,375)       |
| Net actuarial losses not recognised                           |             | (69,734)                | (117,443)      |
|   |             | <u>244,190</u>          | <u>99,244</u>  |
| <b>33.4 Movement in payable to defined benefit plan</b>       |             |                         |                |
| Opening balance   |             | 99,244                  | 71,324         |
| Charge for the year   | 33.8        | 192,871                 | 66,183         |
| Bank's contribution to the fund made during the year          |             | (47,925)                | (38,263)       |
| Closing balance   | 18          | <u>244,190</u>          | <u>99,244</u>  |
| <b>33.5 Movement in defined benefit obligation</b>            |             |                         |                |
| Obligations at the beginning of the year                      |             | 314,062                 | 221,720        |
| Current service cost  |             | 34,341                  | 26,430         |
| Interest cost   |             | 35,551                  | 29,654         |
| Benefits paid by the fund                                     |             | (71,470)                | (52,957)       |
| Curtailment loss  |             | 49,039                  | -              |
| Actuarial (gains) / losses on obligation                      |             | 31,462                  | 89,215         |
| Obligations at the end of the year                            |             | <u>392,985</u>          | <u>314,062</u> |
| <b>33.6 Movement in fair value of plan assets</b>             |             |                         |                |
| Opening balance   |             | 97,375                  | 96,350         |
| Expected return on plan assets                                |             | 8,985                   | 13,320         |
| Contribution by the Bank                                      |             | 47,925                  | 38,263         |
| Benefits paid by the fund                                     |             | (71,470)                | (52,957)       |
| Actuarial gain / (loss) on plan assets                        |             | (3,754)                 | 2,399          |
| Fair value at the end of the year                             |             | <u>79,061</u>           | <u>97,375</u>  |
| <b>33.7 Plan assets consists of the following</b>             |             |                         |                |
| Pakistan Investment Bonds                                     |             | 54,533                  | 53,769         |
| Treasury Bills  |             | -                       | 35,348         |
| Cash and bank   |             | 24,528                  | 8,258          |
|   |             | <u>79,061</u>           | <u>97,375</u>  |
| <b>33.8 Charge for defined benefit plan</b>                   |             |                         |                |
| Current service cost  |             | 34,341                  | 26,430         |
| Interest cost   |             | 35,551                  | 29,654         |
| Expected return on plan assets                                |             | (8,985)                 | (13,320)       |
| Actuarial (gain) / loss recognised - due to curtailment       |             | 73,365                  | -              |
| Net actuarial (gains) / losses recognised                     |             | 9,560                   | 3,541          |
| Curtailment loss  |             | 49,039                  | 19,878         |
|   |             | <u>192,871</u>          | <u>66,183</u>  |
| <b>33.9 Actual return on plan assets</b>                      |             | <u>5,231</u>            | <u>12,038</u>  |

**33.10 Five year data on deficit of the plan and experience adjustments**

|  | 2012             | 2011             | 2010             | 2009            | 2008            |
|--|------------------|------------------|------------------|-----------------|-----------------|
|  | (Rupees '000)    |                  |                  |                 |                 |
| Present value of defined benefit obligation                | (392,985)        | (314,062)        | (221,720)        | (185,911)       | (185,670)       |
| Fair value of plan assets                                  | 79,061           | 97,375           | 96,350           | 108,250         | 104,211         |
| Deficit  | <u>(313,924)</u> | <u>(216,687)</u> | <u>(125,370)</u> | <u>(77,661)</u> | <u>(81,459)</u> |
| Experience adjustments on plan liabilities [loss / (gain)] | 31,462           | 89,215           | 43,424           | (1,535)         | (97,925)        |
| Experience adjustments on plan assets / [loss / (gain)]    | 3,754            | 2,399            | 6,972            | (5,317)         | 12,166          |

**33.11** The expected contribution to the gratuity fund for the next year commencing January 1, 2013 is Rs. 74.25 million (2011: Rs. 72.628 million for the year commencing January 1, 2012).

**34 DEFINED CONTRIBUTION PLAN**

All permanent employees of the Bank are entitled to end of service benefits through a recognised provident fund, whereby the Bank and all permanent employees are required to make monthly contributions to the scheme at ten percent of basic salary.

During the year, the Bank contributed Rs 42.545 million (2011: Rs 49.182 million) in respect of the defined contribution plan.

**35 SHARE-BASED INCENTIVE PLANS**

The Bank offers a number of share based incentive plans to attract, retain and motivate employees, to compensate them for their contributions to the Bank, and to encourage employee stock ownership. Last year, the Citigroup Inc. announced a 1-for-10 reverse stock split of Citigroup common stock. Accordingly, the outstanding shares and amount per share for the year ended December 31, 2011 were adjusted to reflect the Citigroup's 1-for-10 reverse stock split, which was effective from May 6, 2011.

**35.1 Stock option programme**

Information with respect to stock option activity under the stock option programme is as follows:

|   | 2012                       |                                     | 2011                       |                                     |
|---|----------------------------|-------------------------------------|----------------------------|-------------------------------------|
|   | Options (Number of shares) | Weighted average share price \$ USD | Options (Number of shares) | Weighted average share price \$ USD |
| <b>Outstanding at the beginning of the year</b> | 4,844                      | 47.1                                | 4,912                      | 52.00                               |
| Granted   | -                          | -                                   | -                          | -                                   |
| Forfeited                                       | (726)                      | 40.8                                | (4)                        | 40.80                               |
| Exercised                                       | -                          | -                                   | -                          | -                                   |
| Transfers                                       | (59)                       | 40.8                                | (9)                        | 40.80                               |
| Expired   | (81)                       | 421.1                               | (54)                       | 495.48                              |
| <b>Outstanding at the end of the year</b>       | <u>3,978</u>               | <u>40.8</u>                         | <u>4,845</u>               | <u>47.12</u>                        |
| <b>Exercisable at the end of year</b>           | <u>3,978</u>               | <u>40.8</u>                         | <u>3,269</u>               | <u>50.17</u>                        |

No share options were exercised during the year (2011: No option exercised).

**35.2** The following table summarises the information about stock options outstanding under the programme at December 31, 2012:

| Range of exercise prices | Options outstanding |   |  | Options exercisable |  |
|--------------------------|---------------------|---|--|---------------------|--|
|                          | Shares Outstanding  | Weighted average contractual life remaining | Weighted average exercise price \$ USD | Number Exercisable  | Weighted average exercise price \$ USD |
| < \$50.00                | 3,978               | 2.83  | 40.8                                   | 3,978               | 40.8                                   |
| \$50.00 - \$399.99       | -                   | -   | -                                      | -                   | -                                      |
| \$400.00 - \$499.99      | -                   | -   | -                                      | -                   | -                                      |
| \$450.00 and above       | -                   | -   | -                                      | -                   | -                                      |
|                          | <u>3,978</u>        | <u>2.83</u>                                 | <u>40.8</u>                            | <u>3,978</u>        | <u>40.8</u>                            |



The following table summarises the information about stock options outstanding under the programme at December 31, 2011:

| Range of exercise prices | Options outstanding |   |  | Options exercisable |  |
|--------------------------|---------------------|---|--|---------------------|--|
|                          | Shares Outstanding  | Weighted average contractual life remaining | Weighted average exercise price \$ USD | Number Exercisable  | Weighted average exercise price \$ USD |
| < \$50.00                | 4,764               | 3.83  | 40.8                                   | 3,188               | 40.8                                   |
| \$50.00 - \$399.99       | -                   | -   | -                                      | -                   | -                                      |
| \$400.00 - \$499.99      | 81                  | 0.12  | 421.1                                  | 80.5                | 421.1                                  |
| \$450.00 and above       | -                   | -   | -                                      | -                   | -                                      |
|                          | <u>4,845</u>        | <u>3.77</u>                                 | <u>47.1</u>                            | <u>3,269</u>        | <u>50.17</u>                           |

### 35.3 Stock award programme

The Bank offers a stock award programme, under which shares are awarded in the form of restricted or deferred stock to certain employees. During the applicable vesting period, the shares awarded cannot be sold or transferred by the employees, and the award is subject to cancellation if the employment is terminated. Stock awards granted generally vest over a four year period.

Information with respect to unvested stock awards is as follows:

|  | 2012         |                                     | 2011         |                                     |
|--|--------------|-------------------------------------|--------------|-------------------------------------|
|  | Shares       | Weighted average share price \$ USD | Shares       | Weighted average share price \$ USD |
| <b>Unvested at the beginning of the year</b> | 9,597        | 55.0                                | 9,028        | 84.4                                |
| Awards                                       | 1,419        | 30.5                                | 3,621        | 50.2                                |
| Cancellations                                | -            | -                                   | -            | -                                   |
| Deletions                                    | -            | -                                   | -            | -                                   |
| Vestings                                     | (3,472)      | 72.9                                | (3,052)      | 155.3                               |
| <b>Unvested at the end of the year</b>       | <u>7,544</u> | <u>40.70</u>                        | <u>9,597</u> | <u>55.0</u>                         |

**35.4** Net reversal of Rs. 5.646 million (2011: Rs. 23.713 million) was recognised in equity arising mainly due to fair value adjustment as required by IFRS 2 - Share Based Payment. As of December 31, 2012 recognised liability for outstanding share based incentive plans was Rs. 116.130 million (2011: Rs. 93.937 million). Fair value of shares has been determined on the basis of market value of shares of Citigroup Inc. as at December 31, 2012. i.e. \$ USD 39.56 (2011: \$ USD 26.31) per share.

### 36 COMPENSATION OF CHIEF EXECUTIVE AND EXECUTIVES

|   | Citi Country Officer |               | Executives     |                |
|---|----------------------|---------------|----------------|----------------|
|   | 2012                 | 2011          | 2012           | 2011           |
| ----- (Rupees in '000) -----              |                      |               |                |                |
| Managerial remuneration                   | 43,337               | 34,003        | 446,048        | 452,800        |
| Charge for defined benefit plan           | 1,665                | 1,333         | 170,404        | 32,201         |
| Contribution to defined contribution plan | 1,387                | 1,667         | 36,232         | 38,656         |
| Rent and house maintenance                | 6,658                | 6,667         | 144,930        | 154,625        |
| Utilities                                 | 2,907                | 2,733         | 90,067         | 88,294         |
| Medical                                   | 66                   | 34            | 6,930          | 7,262          |
| Others                                    | 8,399                | 1,694         | 27,583         | 29,988         |
|   | <u>64,419</u>        | <u>48,131</u> | <u>922,194</u> | <u>803,826</u> |
| Number of persons                         | <u>2</u>             | <u>1</u>      | <u>257</u>     | <u>296</u>     |

The Bank also provides free use of furnished accommodation to the Citi Country Officer (CCO) and bank maintained cars to the CCO and certain Executives.

### 37 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

The fair value of traded investments other than those classified as held to maturity is based on quoted market price. Fair value of unquoted equity investments is determined on the basis of break-up value of these investments as per the latest available audited financial statements.

Fair value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the Bank's accounting policy as stated in note 5.4 to these financial statements.

The repricing profile, effective rates and maturity are stated in note 41 to these financial statements.

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short term in nature or in the case of customer loans and deposits are frequently repriced.

### 38 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

The Chief Operating Decision Maker (CODM) is the Managing Director and Citi Country Officer of the Bank. The segment analysis with respect to business activity presented to the CODM is as follows:

|  | 2012                         |                |                   |            |
|--|------------------------------|----------------|-------------------|------------|
|  | Trading & Sales              | Retail Banking | Corporate Banking | Total      |
|  | ----- (Rupees in '000) ----- |                |                   |            |
| Total Income                             | 3,979,381                    | 2,641,334      | 4,098,279         | 10,718,994 |
| Total Expenses                           | 1,879,348                    | 3,658,016      | 3,758,389         | 9,295,753  |
| Net Income                               | 2,100,033                    | (1,016,682)    | 339,890           | 1,423,241  |
| Segment Assets (Gross)                   | 58,918,030                   | 9,070,320      | 23,382,116        | 91,370,466 |
| Segment Non Performing Loans             | -                            | 1,983,464      | 4,224,026         | 6,207,490  |
| Segment Provision Required *             | -                            | 2,083,881      | 4,114,775         | 6,198,656  |
| Segment Liabilities                      | 5,955,058                    | 18,752,113     | 51,427,726        | 76,134,897 |
| Segment Return on net Assets (ROA) (%)** | 3.6%                         | -14.6%         | 1.8%              | 1.7%       |
| Segment Cost of funds (%)***             | 7.7%                         | 3.4%           | 5.3%              | 4.6%       |

  

|  | 2011                      |                |                   |             |
|--|---------------------------|----------------|-------------------|-------------|
|  | Trading & Sales           | Retail Banking | Corporate Banking | Total       |
|  | ----- (Rupees '000) ----- |                |                   |             |
| Total Income                             | 4,364,569                 | 3,300,933      | 4,656,188         | 12,321,690  |
| Total Expenses                           | 2,090,984                 | 3,725,536      | 4,749,133         | 10,565,653  |
| Net Income                               | 2,273,586                 | (424,603)      | (92,946)          | 1,756,037   |
| Segment Assets (Gross)                   | 70,768,132                | 10,794,159     | 20,867,783        | 102,430,074 |
| Segment Non Performing Loans             | -                         | 1,998,567      | 3,507,768         | 5,506,335   |
| Segment Provision Required *             | -                         | 2,123,486      | 3,403,791         | 5,527,277   |
| Segment Liabilities                      | 18,143,801                | 29,753,945     | 38,238,683        | 86,136,429  |
| Segment Return on net Assets (ROA) (%)** | 3.2%                      | -4.9%          | -0.5%             | 1.8%        |
| Segment Cost of funds (%)***             | 9.9%                      | 4.7%           | 7.0%              | 6.3%        |

\* The provision against each segment represents provision held against advances, investments and other assets.

\*\* Segment ROA = Net income / (Segment Assets - Segment Provisions)

\*\*\* Segment cost of funds have been computed based on the average balances.

### 39 RELATED PARTY TRANSACTIONS

Transactions with related parties comprise of transactions in the normal course of business with other branches of Citibank, N.A. outside Pakistan, other direct and indirect subsidiaries of Citigroup, retirement benefit plans and key management personnel of the Bank.

Banking transactions with the related parties are executed substantially on the same terms, including mark-up rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than a normal risk.

Contributions to and accruals in respect of staff retirements and other benefit plans are made in accordance with the actuarial valuations / terms of the contribution plan. Remuneration to executives is determined in accordance with the terms of their appointment.

39.1 Details of significant transactions with related parties and balances with them as at year end are as follows:

|   | Balance as at<br>December 31,<br>2011 | Net placements /<br>disbursements /<br>deposits /<br>transfers | Net settlements /<br>repayments /<br>withdrawals /<br>transfers | Balance as at<br>December 31,<br>2012 |
|---|---------------------------------------|--|---|---------------------------------------|
| ------(Rupees in '000)-----   |                                       |  |   |                                       |
| <b>Loans and Advances</b>   |                                       |  |   |                                       |
| Key management personnel  | 260                                   | 1,327  | (1,473)   | 114                                   |
| <b>Deposits</b>   |                                       |  |   |                                       |
| Associated undertakings   | 611,279                               | 1,156,845  | (1,106,080)   | 662,044                               |
| Key management personnel  | 12,158                                | 82,519   | (79,825)  | 14,852                                |
| Staff retirement benefit funds  | 16,480                                | 360,938  | (313,821)   | 63,597                                |
|   |                                       |  | <b>2012</b>   | <b>2011</b>                           |
|   |                                       |  | ------(Rupees '000)-----  |                                       |
| Nostro balances / placements with Citibank Branches<br>outside Pakistan |                                       |  | 5,997,220   | 1,070,518                             |
| Call Borrowing  |                                       |  | -   | 3,597,828                             |
| Unremitted head office expenses   |                                       |  | 798,012   | 773,734                               |
| Interest / Fee receivable from associated undertakings                  |                                       |  | 2,001   | 1,126                                 |
| Payable for expenses and share based payment                            |                                       |  | 229,760   | 217,485                               |
| Payable to defined benefit plan   |                                       |  | 244,190   | 99,244                                |
| Commitments in respect of forward exchange contracts                    |                                       |  |   |                                       |
| Purchase  |                                       |  | 3,276,381   | 18,755,714                            |
| Sale  |                                       |  | 3,268,381   | 18,502,714                            |
| Interest rate swap - Notional principal                                 |                                       |  | 7,295,059   | 10,405,082                            |
| Foreign currency options - Notional principal                           |                                       |  | 3,611,914   | 3,216,780                             |
| Contribution to staff retirement benefit funds                          |                                       |  | 90,471  | 87,445                                |
| <b>Income / expense for the year</b>                                    |                                       |  |   |                                       |
| Mark-up / return / interest earned                                      |                                       |  | 10,164  | 3,295                                 |
| Mark-up / return / interest expensed                                    |                                       |  | 3,016   | 1,008                                 |
| Other income  |                                       |  | 9,594   | 4,746                                 |
| Regional expenses for support services                                  |                                       |  | 402,665   | 293,961                               |
| Head office expenses  |                                       |  | 320,681   | 421,680                               |
| Remuneration paid to key management personnel                           |                                       |  | 79,919  | 62,030                                |
| Sale of fixed assets  |                                       |  | 275   | 92                                    |

#### 40 CAPITAL-ASSESSMENT AND ADEQUACY

##### 40.1 Capital Management

The Bank manages its capital under the Basel II Standardised approach. The Bank has adopted Standardised Approach for credit and market risk whereas Basic Indicator Approach has been adopted for the operational risk under the Basel II accord.

The objective of managing capital is to safeguard the Bank's ability to continue as a going concern, so that it could continue to provide adequate returns to investors by pricing products and services commensurately with the level of risk. It is the policy of the Bank to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

### Statutory minimum capital requirement and management of capital

The State Bank of Pakistan through its BSD Circular No. 07 dated April 15, 2009 has prescribed the minimum paid-up capital (net of losses) for Banks / Development Finance Institutions to be raised to Rs.10 billion by the year ending December 31, 2013. The raise is to be achieved in a phased manner requiring Rs. 10 billion capital (net of losses) by the end of the financial year 2013. However, branches of foreign banks operating in Pakistan whose head office holds paid-up capital (free of losses) of atleast US\$ 300 million, have a CAR of 8% or minimum prescribed by the home regulator and have prescribed number of branches, are allowed to maintain lower amount with prior approval of SBP. In this regard the Bank has obtained SBP's approval to maintain minimum required capital of Rs. 6 billion (net of losses) effective December 31, 2009.

The Head office capital account of the Bank for the year ended December 31, 2012 stands at Rs 6.813 billion and is in compliance with the SBP requirement for the said year. In addition the banks are also required to maintain a minimum Capital Adequacy Ratio (CAR) of 10% of the risk weighted exposures of the Bank. The Bank's CAR as at December 31, 2012 was 19.85% of its risk weighted exposure.

#### 40.2 Capital Structure

The Bank's regulatory capital is analysed into three tiers:

- Tier I capital, which includes head office capital under sub-section 2 of section 13 of the Banking Companies Ordinance, 1962, other reserves and retained profit. Goodwill, book value of intangibles and revaluation deficit on securities are deducted from Tier I capital.
- Tier II capital includes general provisions or general reserves for loan losses (up to a maximum of 1.25% of risk weighted assets) and revaluation reserve on equity investments after deduction of deficit on available for sale securities (up to a maximum of 45% of balance).
- Tier III capital - the Bank has no eligible Tier III capital.

The total of Tier II and Tier III capital has to be limited to Tier I capital.

The Bank has complied with all externally imposed capital requirements throughout the year.

The Capital of the Bank can be analysed as follows:

| <b>Regulatory capital base</b>   | <b>2012</b>                 | <b>2011</b>       |
|--|-----------------------------|-------------------|
|  | ------(Rupees in '000)----- |                   |
| <b>Tier I Capital</b>  |                             |                   |
| Head office capital account  | 6,812,671                   | 6,812,671         |
| Reserves   | 154,932                     | 149,286           |
| Unappropriated / unremitted profits (net of losses)                                  | 2,052,798                   | 3,957,548         |
|  | 9,020,401                   | 10,919,505        |
| Less: Deductions   |                             |                   |
| - Book value of intangibles  | (66,838)                    | (114,501)         |
| - Deficit on account of revaluation of investments held in AFS category              | -                           | (235,596)         |
|  | (66,838)                    | (350,097)         |
| <b>Total Tier I Capital</b>  | <b>8,953,563</b>            | <b>10,569,408</b> |
| <b>Tier II Capital</b>   |                             |                   |
| General Provisions for loan losses subject to<br>1.25% of total risk weighted assets | 94,511                      | 118,870           |
| Revaluation Reserves up to 45%   | 11,431                      | -                 |
| <b>Total Tier II Capital</b>   | <b>105,942</b>              | <b>118,870</b>    |
| <b>Eligible Tier III Capital</b>   | -                           | -                 |
| <b>Total Regulatory Capital Base (I+II+III)</b>                                      | <b>9,059,505</b>            | <b>10,688,278</b> |

#### 40.3 Capital Adequacy

Capital is generally generated via earnings from operating businesses. This is augmented through investment from the head office. Any excess capital is remitted back. The Capital Management process is governed by the Bank's Asset & Liability Committee (ALCO). ALCO is responsible for managing the Bank's capital position vis-à-vis internal as well as regulatory requirements.

Capital is used primarily to support asset growth in the Bank's businesses and is sufficient to absorb unexpected market, credit or operational losses.

For credit risk, the capital requirement is based on the risk assessment (hereinafter called credit rating) made by External Credit Assessment Institutions (ECAIs) recognised as eligible by SBP for capital adequacy purposes. The Bank then assigns a risk weight individually to all its on-balance sheet and off-balance sheet exposures. Risk weights are based on external rating grade or a fixed weight that is broadly aligned with the likelihood of counterparty default.

For market risk, capital is allocated in respect of the exposure to risks deriving from changes in interest rates, in the Banks' trading book, and in respect of exposure to risks deriving from changes in foreign exchange rates in the overall banking activity.

On balance sheet assets held in the trading book are subject to only market risk capital requirements and are not subject to credit risk capital requirement. On balance sheet assets held outside the trading book and funded by another currency and unhedged for foreign exchange risk are subject to both credit and market risk capital requirement. Derivatives, unless they are contracted to hedge positions in the banking book are considered part of the trading book and are subject to both credit and market risk capital requirement.

Under the Basic Indicator Approach, the capital charge for operational risk is a fixed percentage (12.5%) of average positive annual gross income of the Bank over the past three years. Figures for any year in which annual gross income is negative or zero, is excluded from both the numerator and denominator when calculating the average.

The capital requirements for the banking group under the major risk categories is indicated below:

|  | Capital Requirements        |                  | Risk Weighted Assets |                   |
|--|-----------------------------|------------------|----------------------|-------------------|
|  | 2012                        | 2011             | 2012                 | 2011              |
|  | ------(Rupees in '000)----- |                  |                      |                   |
| <b>Credit Risk</b>   |                             |                  |                      |                   |
| <b>Portfolios subject to standardised approach</b>                                   |                             |                  |                      |                   |
| On Balance Sheet Items:  |                             |                  |                      |                   |
| Cash   | -                           | -                | -                    | -                 |
| Claims on Government of Pakistan, Sovereign and State Bank of Pakistan               | 7,148                       | 8,330            | 71,479               | 83,300            |
| Claims on Public sector entities in Pakistan   | 10,858                      | 9,756            | 108,577              | 97,563            |
| Claims on Banks  | 122,458                     | 25,468           | 1,224,584            | 254,679           |
| Claims on Corporate  | 1,138,338                   | 1,202,335        | 11,383,382           | 12,023,347        |
| Claims categorised as retail portfolio   | 150,983                     | 206,248          | 1,509,829            | 2,062,480         |
| Claims fully secured by residential property   | 20,115                      | 26,612           | 201,147              | 266,121           |
| Past due loans   | 9,299                       | 15,658           | 92,989               | 156,580           |
| Operating fixed assets   | 29,983                      | 52,020           | 299,826              | 520,199           |
| All Other assets   | 565,562                     | 394,666          | 5,655,624            | 3,946,657         |
|  | <u>2,054,744</u>            | <u>1,941,093</u> | <u>20,547,437</u>    | <u>19,410,926</u> |
| Off Balance Sheet items:   |                             |                  |                      |                   |
| Direct credit substitutes and other commitments                                      | 408,983                     | 376,014          | 4,089,827            | 3,760,138         |
| Performance related contingencies  | 345,888                     | 329,310          | 3,458,877            | 3,293,102         |
| Trade related contingencies and shipping guarantees                                  | 64,130                      | 132,259          | 641,300              | 1,322,594         |
| Other commitments that can be unconditionally cancelled                              | -                           | -                | -                    | -                 |
| Outstanding foreign exchange contracts   | 37,927                      | 78,143           | 379,268              | 781,432           |
| Outstanding derivatives contracts  | 84,915                      | 185,242          | 849,154              | 1,852,418         |
|  | <u>941,843</u>              | <u>1,100,968</u> | <u>9,418,426</u>     | <u>11,009,684</u> |
| Credit risk-weighted exposures   | <u>2,996,587</u>            | <u>3,042,061</u> | <u>29,965,863</u>    | <u>30,420,610</u> |
| <b>Market Risk</b>   |                             |                  |                      |                   |
| <b>Capital Requirement for portfolios subject to Standardised Approach</b>           |                             |                  |                      |                   |
| Interest Risk  | 107,030                     | 236,373          | 1,070,301            | 2,363,728         |
| Foreign exchange risk  | 155,723                     | 102,781          | 1,557,228            | 1,027,813         |
| Equity position risk etc.  | -                           | -                | -                    | -                 |
| Market risk-weighted exposures   | <u>262,753</u>              | <u>339,154</u>   | <u>2,627,529</u>     | <u>3,391,541</u>  |
| <b>Operational Risk</b>  |                             |                  |                      |                   |
| <b>Capital Requirement for operational risks subject to Basic Indicator Approach</b> |                             |                  |                      |                   |
|  | <u>1,302,280</u>            | <u>1,346,555</u> | <u>13,022,801</u>    | <u>13,465,546</u> |
| <b>Total</b>   | <u>4,561,620</u>            | <u>4,727,770</u> | <u>45,616,193</u>    | <u>47,277,697</u> |

| <b>Capital Adequacy Ratio</b>              | <b>2012</b>   | <b>2011</b>       |   |        |
|--|---|-------------------|---|--------|
|  | ----- <b>(Rupees in '000)</b> -----   |                   |   |        |
| Total eligible regulatory capital held (a) | <u>9,059,505</u>  | <u>10,688,278</u> |   |        |
| Total risk weighted assets (b)             | <u>45,616,193</u>   | <u>47,277,697</u> |   |        |
| Capital Adequacy Ratio [(a)/(b)x100]       | <table border="1" style="display: inline-table;"><tr><td style="text-align: center;">19.86%</td></tr></table> | 19.86%            | <table border="1" style="display: inline-table;"><tr><td style="text-align: center;">22.61%</td></tr></table> | 22.61% |
| 19.86%                                     |   |                   |   |        |
| 22.61%                                     |   |                   |   |        |

#### **41 RISK MANAGEMENT**

The Head office capital account of the Bank for the year ended December 31, 2012 stands at Rs 6.813 billion and is in compliance with the SBP requirement for the said year. In addition the banks are also required to maintain a minimum Capital Adequacy Ratio (CAR) of 10% of the risk weighted exposures of the Bank. The Bank's CAR as at December 31, 2012 was 19.85% of its risk weighted exposure.

- These standards are governed by specific policies which are defined and documented.
- Risks are measured using defined methodologies.
- Limits for credit, market and liquidity risks are approved by Risk Management, which is independent of the business areas.
- Dedicated risk management and control functions are in place for credit (Corporate and Consumer), market, liquidity and operational risks.

Additionally, Risk Management maintains oversight of the regulatory, economic, reputational and legal risks associated with the above-mentioned risk areas.

##### **41.1 Credit risk**

This represents the potential for financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations arising out of activities which include lending, sales and trading, derivatives, securities transaction and settlement.

##### **41.1.1 Corporate credit risk**

This risk is managed through the following:

- Single centre of control for each credit relationship that coordinates credit activities with the borrower.
- Documented target market and portfolio concentration limits that establish the credit appetite and minimum acceptable standards (both borrower and industry specific), provide portfolio diversification and maintain risk / capital alignment.
- Consistent standards for credit origination, documentation and remedial management.
- Maintenance of accurate and consistent borrower risk ratings through use of statistical models (periodically validated) or approved scoring methodologies after taking into consideration the available credit risk mitigants.
- Periodic stress testing of the credit portfolio based on emerging or expected risk events.

##### **41.1.2 Consumer credit risk**

Independent credit risk management is responsible for establishing the Consumer credit policy, approving specific policies and procedures, providing ongoing assessment of Consumer portfolio risk and approving new products. The Consumer Credit Cycle management entails the following:

- Product approval.
- Consistent and prudent underwriting standards.
- Robust account management policies to manage the portfolio.
- Efficient collection and recovery unit to ensure acceptable loss norms.
- Reliable and accurate Management Information System to support informed decision making.
- Effective anti-fraud controls to minimise fraud losses.

##### **41.1.3 Credit Risk - General Disclosures Basel II Specific**

The Bank has adopted standardised approach of Basel II for calculation of capital charge against credit risk in line with SBP requirement.

#### 41.1.4 Credit Risk: Disclosures for portfolio subject to the Standardised Approach

Under standardised approach the capital requirement is based on the credit rating assigned to the counterparties by the External Credit Assessment Institutions (ECAIs) duly recognised by SBP for capital adequacy purposes. In this connection, the Bank utilises the credit ratings assigned by ECAIs and has recognised agencies such as PACRA (Pakistan Credit Rating Agency), JCR-VIS (Japan Credit Rating Company - Vital Information System), Moody's and Standard & Poors which are also recognised by the SBP.

##### Types of exposures and ECAI's used:

| Exposures                     | JCR-VIS | PACRA | Standard & Poors | Moody's |
|-------------------------------|---------|-------|------------------|---------|
| Corporate                     | ✓       | ✓     | N/A              | N/A     |
| Banks                         | ✓       | ✓     | ✓                | ✓       |
| SME's                         | ✓       | ✓     | N/A              | N/A     |
| Public Sector Entities (PSEs) | ✓       | ✓     | N/A              | N/A     |

##### Use of ECAI Ratings

The Bank prefers solicited ratings over unsolicited ratings at all times, owing to the greater degree of accuracy (in general) associated with solicited ratings as compared to unsolicited ratings. Unsolicited ratings may only be used in cases where a solicited rating is not available.

##### Mapping to SBP Rating Grades

The selected final ratings (after application of the principles stated above) for all exposures need to be translated to the standard rating grades given by the SBP. In this regard, the mapping tables to be used for converting ECAI ratings to SBP rating grades are given below:

##### Long – Term Rating Grades Mapping

| SBP Rating grade | Fitch          | Moody's        | S & P          | PACRA | JCR-VIS | ECA Scores |
|------------------|----------------|----------------|----------------|-------|---------|------------|
| 1                | AAA            | Aaa            | AAA            | AAA   | AAA     | 0          |
|                  | AA+            | Aa1            | AA+            | AA+   | AA+     | 1          |
|                  | AA             | Aa2            | AA             | AA    | AA      |            |
|                  | AA-            | Aa3            | AA-            | AA-   | AA-     |            |
| 2                | A+             | A1             | A+             | A+    | A+      | 2          |
|                  | A              | A2             | A              | A     | A       |            |
|                  | A-             | A3             | A-             | A-    | A-      |            |
| 3                | BBB+           | Baa1           | BBB+           | BBB+  | BBB+    | 3          |
|                  | BBB            | Baa2           | BBB            | BBB   | BBB     |            |
|                  | BBB-           | Baa3           | BBB-           | BBB-  | BBB-    |            |
| 4                | BB+            | Ba1            | BB+            | BB+   | BB+     | 4          |
|                  | BB             | Ba2            | BB             | BB    | BB      |            |
|                  | BB-            | Ba3            | BB-            | BB-   | BB-     |            |
| 5                | B+             | B1             | B+             | B+    | B+      | 5          |
|                  | B              | B2             | B              | B     | B       | 6          |
|                  | B-             | B3             | B-             | B-    | B-      |            |
| 6                | CCC+ and below | Caa1 and below | CCC+ and below | CCC   | CCC     | 7          |
|                  |                |                |                | CC    | CC      |            |
|                  |                |                |                | C     | C       |            |
|                  |                |                |                |       | D       |            |

##### Short – Term Rating Grades Mapping

| SBP Rating Grade | Fitch  | Moody's | S & P  | PACRA  | JCR-VIS |
|------------------|--------|---------|--------|--------|---------|
| S1               | F1     | P-1     | A-1+   | A-1+   | A-1+    |
|                  |        |         | A-1    | A-1    | A-1     |
| S2               | F2     | P-2     | A-2    | A-2    | A-2     |
| S3               | F3     | P-3     | A-3    | A-3    | A-3     |
| S4               | Others | Others  | Others | Others | Others  |

#### 41.1.5 Credit Exposures subject to Standardised approach

For exposure amounts after risk mitigation subject to the standardised approach, amount of bank's/DFI's outstanding (rated & unrated ) in each risk bucket as well as those that are deducted are as follows:

| Exposures                | Rating Category | 2012               |               |            | 2011               |               |            |
|--------------------------|-----------------|--------------------|---------------|------------|--------------------|---------------|------------|
|                          |                 | Amount Outstanding | Deduction CRM | Net amount | Amount Outstanding | Deduction CRM | Net amount |
| ------(Rupees '000)----- |                 |                    |               |            |                    |               |            |
| Corporate                | 1               | 10,615,663         | -             | 10,615,663 | 7,544,732          | -             | 7,544,732  |
|                          | 2               | 4,567,271          | -             | 4,567,271  | 4,890,581          | -             | 4,890,581  |
|                          | 3,4             | -                  | -             | -          | -                  | -             | -          |
|                          | Unrated         | 58,241,220         | (28,990)      | 58,212,230 | 67,733,907         | (30,605)      | 67,703,302 |
| Banks                    | 1               | 35,884,649         | (29,677,968)  | 6,206,681  | 10,367,721         | (8,986,215)   | 1,381,506  |
|                          | 2               | -                  | -             | -          | 46,219             | -             | 46,219     |
|                          | 3               | -                  | -             | -          | -                  | -             | -          |
|                          | 5               | -                  | -             | -          | -                  | -             | -          |
|                          | Unrated         | 287,324            | -             | 287,324    | 339,602            | -             | 339,602    |
| Sovereigns etc           |                 | 33,330,604         | -             | 33,330,604 | 41,069,660         | -             | 41,069,660 |
|                          | 4,5             | 71,479             | -             | 71,479     | 83,300             | -             | 83,300     |
| Public sector entities   | 1               | 23,390,077         | -             | 23,390,077 | 19,917,018         | -             | 19,917,018 |
|                          | 2,3             | -                  | -             | -          | -                  | -             | -          |
|                          | Unrated         | 153,740            | (30)          | 153,710    | 15,545             | (30)          | 15,515     |
| Retail                   | Unrated         | 6,757,438          | (16,686)      | 6,740,752  | 7,737,225          | (84,043)      | 7,653,182  |
| Mortgage                 | Unrated         | 574,707            | -             | 574,707    | 760,345            | -             | 760,345    |

CRM= Credit Risk Mitigation

#### 41.1.6 Credit Risk: Disclosures with respect to Credit Risk Mitigation for Standardised Approach

The Bank has adopted the Comprehensive Approach of Credit Risk Mitigation for the Banking Book. In instances where the Bank's exposure on an obligor is secured by collateral that conforms to the eligibility criteria under the Comprehensive Approach of CRM, then the Bank reduces its exposure under that particular transaction by taking into account the risk mitigating effect of the collateral for the calculation of capital requirement i.e. risk weight of the collateral instrument securing the exposure is substituted for the risk weight of the counter party.

The Bank accepts cash, lien on deposits, government securities under the Comprehensive Approach of Credit Risk Mitigation. The Bank has in place detailed guidelines with respect to valuation and management of various collateral types. In order to obtain the credit risk mitigation benefit, the Bank uses realisable value of eligible collaterals to the extent of outstanding exposure.

Counterparty ratings are obtained through the two local SBP authorised External Credit Rating Agencies; JCR VIS and PACRA and other international sources such as Standard and Poor's and Moody's. Credit risk assessment and the continuous monitoring of counterparty and portfolio credit exposures is carried out by the Credit Risk Management function.

The wholesale portfolio, which includes corporate and commercial are ideally collateralised by cash equivalents, fixed and current assets including property plant and equipment and land. Loans to individuals are typically secured by autos for car loans and private or income producing real estate is secured by a mortgage over the relevant property.

#### 41.1.7 Credit concentration risk

Credit concentration risk arises mainly due to concentration of exposures under various categories viz. industry, geography, and single/group borrower exposures. Within credit portfolio, as a prudential measure aimed at better risk management and avoidance of concentration of risks, the SBP has prescribed regulatory limits on banks' maximum exposure to single borrowers and group borrowers.



### 41.1.8 Segmental information

#### 41.1.8.1 Segments by class of business

|   | 2012              |               |                   |               |                         |               |
|---|-------------------|---------------|-------------------|---------------|-------------------------|---------------|
|   | Advances (Gross)  |               | Deposits          |               | Contingent liabilities* |               |
|   | (Rupees in '000)  | Percent       | (Rupees in '000)  | Percent       | (Rupees in '000)        | Percent       |
| Food manufacturing                        | 2,550,877         | 10.44%        | 2,333,164         | 3.63%         | 324,176                 | 2.00%         |
| Textile                                   | 4,052,630         | 16.58%        | 76,640            | 0.12%         | 130,299                 | 1.00%         |
| Chemical and pharmaceuticals              | 3,573,525         | 14.62%        | 17,637,361        | 27.43%        | 2,912,965               | 17.00%        |
| Cement                                    | -                 | 0.00%         | 1,948             | 0.00%         | -                       | 0.00%         |
| Footwear and leather garments             | 88,179            | 0.36%         | 609               | 0.00%         | -                       | 0.00%         |
| Automobile and transportation equipment   | 1,417,735         | 5.80%         | 10,392            | 0.02%         | 489,655                 | 3.00%         |
| Electronics and electrical appliances     | -                 | 0.00%         | 4,523,469         | 7.04%         | 19,720                  | 0.00%         |
| Tobacco                                   | 107               | 0.00%         | 3,007             | 0.00%         | 33,295                  | 0.00%         |
| Power (electricity), Gas, Water, Sanitary | 1,249,790         | 5.11%         | -                 | 0.00%         | -                       | 0.00%         |
| Wholesale and Retail Trade                | 35,598            | 0.15%         | 156,590           | 0.24%         | -                       | 0.00%         |
| Transport, storage and communication      | 2,327,195         | 9.52%         | 9,345,653         | 14.54%        | 2,314,391               | 14.00%        |
| Financial                                 | -                 | 0.00%         | 1,588,573         | 2.47%         | -                       | 0.00%         |
| Individuals                               | 4,571,905         | 18.71%        | 16,527,401        | 25.71%        | -                       | 0.00%         |
| Others                                    | 4,574,139         | 18.71%        | 12,088,758        | 18.80%        | 10,721,054              | 63.00%        |
|   | <b>24,441,680</b> | <b>100.0%</b> | <b>64,293,565</b> | <b>100.0%</b> | <b>16,945,555</b>       | <b>100.0%</b> |

|   | 2011              |               |                   |               |                         |               |
|---|-------------------|---------------|-------------------|---------------|-------------------------|---------------|
|   | Advances (Gross)  |               | Deposits          |               | Contingent liabilities* |               |
|   | (Rupees in '000)  | Percent       | (Rupees in '000)  | Percent       | (Rupees in '000)        | Percent       |
| Food manufacturing                        | 2,298,595         | 9.47          | 2,075,607         | 3.37          | 47,109                  | 0.20          |
| Textile                                   | 5,161,481         | 21.26         | 34,633            | 0.06          | 217,338                 | 0.91          |
| Chemical and pharmaceuticals              | 3,813,769         | 15.71         | 4,022,592         | 6.52          | 3,971,829               | 16.63         |
| Cement                                    | 516,660           | 2.13          | 1,753             | -             | -                       | -             |
| Footwear and leather garments             | 108,178           | 0.45          | 276               | -             | -                       | -             |
| Automobile and transportation equipment   | 1,500,876         | 6.18          | 15,840            | 0.03          | 644,244                 | 2.70          |
| Electronics and electrical appliances     | -                 | -             | 2,648,868         | 4.29          | 18,833                  | 0.08          |
| Tobacco                                   | -                 | -             | 36,487            | 0.06          | 158,391                 | 0.66          |
| Power (electricity), Gas, Water, Sanitary | 1,378,430         | 5.68          | -                 | -             | 19,317                  | 0.08          |
| Wholesale and Retail Trade                | 86,080            | 0.35          | 111,699           | 0.18          | -                       | -             |
| Transport, storage and communication      | 379,599           | 1.56          | 11,863,656        | 19.23         | 357,869                 | 1.50          |
| Financial                                 | 116,595           | 0.48          | 1,901,358         | 3.08          | -                       | -             |
| Individuals                               | 5,541,896         | 22.83         | 27,934,033        | 45.29         | -                       | -             |
| Others                                    | 3,375,928         | 13.90         | 11,031,713        | 17.89         | 18,446,299              | 77.24         |
|   | <b>24,278,087</b> | <b>100.00</b> | <b>61,678,515</b> | <b>100.00</b> | <b>23,881,229</b>       | <b>100.00</b> |

#### 41.1.8.2 Segment by sector

|                     | 2012              |               |                   |               |                         |               |
|---------------------|-------------------|---------------|-------------------|---------------|-------------------------|---------------|
|                     | Advances (Gross)  |               | Deposits          |               | Contingent liabilities* |               |
|                     | (Rupees in '000)  | Percent       | (Rupees in '000)  | Percent       | (Rupees in '000)        | Percent       |
| Public / Government | 311,901           | 1.3%          | 139,546           | 0.2%          | 4,485,531               | 26.5%         |
| Private             | 24,129,779        | 98.7%         | 64,154,019        | 99.8%         | 12,460,024              | 73.5%         |
|                     | <b>24,441,680</b> | <b>100.0%</b> | <b>64,293,565</b> | <b>100.0%</b> | <b>16,945,555</b>       | <b>100.0%</b> |

  

|                     | 2011              |              |                   |              |                         |              |
|---------------------|-------------------|--------------|-------------------|--------------|-------------------------|--------------|
|                     | Advances (Gross)  |              | Deposits          |              | Contingent liabilities* |              |
|                     | (Rupees in '000)  | Percent      | (Rupees in '000)  | Percent      | (Rupees in '000)        | Percent      |
| Public / Government | 475,095           | 2.0          | 79,646            | 0.1          | 12,288,404              | 51.0         |
| Private             | 23,802,992        | 98.0         | 61,598,869        | 99.9         | 11,592,825              | 49.0         |
|                     | <b>24,278,087</b> | <b>100.0</b> | <b>61,678,515</b> | <b>100.0</b> | <b>23,881,229</b>       | <b>100.0</b> |

\* Contingent liabilities for the purpose of this note includes direct credit substitutes, transaction related contingent liabilities and trade related contingent liabilities.

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

|                               | 2012                         |                          | 2011                |                          |
|-------------------------------|------------------------------|--------------------------|---------------------|--------------------------|
|                               | Classified Advances          | Specific Provisions Held | Classified Advances | Specific Provisions Held |
|                               | ----- (Rupees in '000) ----- |                          |                     |                          |
| Textile                       | 1,635,413                    | 1,387,271                | 1,525,245           | 1,525,294                |
| Chemicals and pharmaceuticals | 92,262                       | 390,944                  | 80,545              | 80,545                   |
| Individuals                   | 1,983,464                    | 1,976,712                | 1,998,567           | 1,985,023                |
| Others                        | 2,496,351                    | 2,336,560                | 1,901,978           | 1,747,952                |
|                               | <u>6,207,490</u>             | <u>6,091,487</u>         | <u>5,506,335</u>    | <u>5,338,814</u>         |

**41.1.8.4 Details of non-performing advances and specific provisions by sector**

|                     |                  |                  |                  |                  |
|---------------------|------------------|------------------|------------------|------------------|
| Public / Government | -                | -                | -                | -                |
| Private             | 6,207,490        | 6,091,487        | 5,506,335        | 5,338,814        |
|                     | <u>6,207,490</u> | <u>6,091,487</u> | <u>5,506,335</u> | <u>5,338,814</u> |

**41.1.8.5 Geographical segment analysis**

|          | 2012                         |                       |                     |                         |
|----------|------------------------------|-----------------------|---------------------|-------------------------|
|          | Profit before taxation       | Total assets employed | Net assets employed | Contingent liabilities* |
|          | ----- (Rupees in '000) ----- |                       |                     |                         |
| Pakistan | <u>2,320,505</u>             | <u>85,171,810</u>     | <u>9,036,913</u>    | <u>16,945,555</u>       |
|          | 2011                         |                       |                     |                         |
|          | Profit before taxation       | Total assets employed | Net assets employed | Contingent liabilities* |
|          | ----- (Rupees in '000) ----- |                       |                     |                         |
| Pakistan | <u>2,523,836</u>             | <u>96,902,797</u>     | <u>10,766,368</u>   | <u>23,881,229</u>       |

\*Contingent liabilities for the purpose of this note includes direct credit substitutes, transaction related contingent liabilities and trade related contingent liabilities.

Total assets employed include intra group items of Rs.5,997.220 million (2011: Rs.1,070.518 million).

**41.2 Market risk**

Market risk is the risk of losses arising from fluctuation in the market value of trading and non-trading portfolios. The primary sources of market risk are fluctuation in interest rates and foreign exchange rates.

Market risk is measured in accordance with the Bank's established standards, under which the business is required to establish, with approval from independent market risk management, a market risk limit framework, including risk measures, limits and controls, that clearly define approved risk profiles and are within the parameters of the Bank's overall risk appetite. In all cases, businesses are ultimately responsible for the market risk they take and for remaining within their defined limits.

The Bank's principal measure of risk to earnings from non-trading portfolios due to interest rate changes is Interest Rate Exposure (IRE). This measures the change in expected Net Interest Revenue from changes in market rates of interest. Market risk in trading portfolios is measured through a complementary set of tools, including factor sensitivities, value-at-risk and stress testing.

The Bank uses the Standardised Approach to calculate capital charge for market risk as per the current regulatory framework under Basel II. This approach covers the Bank's trading portfolios, comprising off-balance sheet transactions including derivatives and securities classified under the trading portfolio.

### 41.2.1 Foreign exchange risk

Foreign Exchange Risk is the risk of loss resulting from adverse movement in exchange rates. The Bank's principal exchange rate related contracts are forward foreign exchange contracts, cross currency swaps and options. Non traded foreign exchange risk arises through the provision of banking products and services in foreign currency. The objectives of foreign exchange risk management function is to minimise the adverse impact of foreign exchange assets and liabilities mismatch and maximise the earnings observing the limits set by the Bank. Exchange position arising from trading activities are monitored through foreign exchange limits on aggregate and individual basis. Hedging strategies and mark to market valuations are used to mitigate exchange risk resulting from open positions. Overall exchange position risk is maintained in accordance with the regulatory requirements prescribed by the State Bank of Pakistan.

The analysis below represents the concentration of the Bank's foreign currency risk for on and off balance sheet financial instruments.

| ----- 2012 -----             |                   |                   |                            |                                     |
|------------------------------|-------------------|-------------------|----------------------------|-------------------------------------|
|                              | Assets            | Liabilities *     | Off-balance<br>sheet items | Net foreign<br>currency<br>exposure |
| ----- (Rupees in '000) ----- |                   |                   |                            |                                     |
| United States dollar         | 7,629,128         | 11,763,054        | 5,024,204                  | 890,278                             |
| Great Britain pound          | 851,056           | 781,994           | (155)                      | 68,907                              |
| Japanese yen                 | 54,420            | 5,671             | (49)                       | 48,700                              |
| Euro                         | 1,450,538         | 728,237           | (725,033)                  | (2,732)                             |
| Swiss Francs                 | 7,125             | -                 | (15)                       | 7,110                               |
| Other currencies             | 156,761           | 307,846           | (31,324)                   | (182,409)                           |
| Foreign currency exposure    | 10,149,028        | 13,586,802        | 4,267,628                  | 829,854                             |
| Pakistan rupee               | 75,022,782        | 71,585,008        | (4,267,628)                | (829,854)                           |
| Total currency exposure      | <u>85,171,810</u> | <u>85,171,810</u> | <u>-</u>                   | <u>-</u>                            |
| ----- 2011 -----             |                   |                   |                            |                                     |
|                              | Assets            | Liabilities *     | Off-balance<br>sheet items | Net foreign<br>currency<br>exposure |
| ----- (Rupees in '000) ----- |                   |                   |                            |                                     |
| United States dollar         | 45,504,006        | 56,516,131        | 10,206,403                 | (805,722)                           |
| Great Britain pound          | 478,339           | 892,686           | 415,859                    | 1,512                               |
| Japanese yen                 | 269,934           | 204,932           | (69,535)                   | (4,533)                             |
| Euro                         | 3,523,955         | 3,894,473         | 398,956                    | 28,438                              |
| Swiss francs                 | 3,180             | -                 | -                          | 3,180                               |
| Other currencies             | 126,353           | 193,951           | (79,590)                   | (147,188)                           |
| Foreign currency exposure    | 49,905,767        | 61,702,173        | 10,872,093                 | (924,313)                           |
| Pakistan rupee               | 46,997,030        | 35,200,624        | (10,872,093)               | 924,313                             |
| Total currency exposure      | <u>96,902,797</u> | <u>96,902,797</u> | <u>-</u>                   | <u>-</u>                            |

\* Includes head office capital account, unremitted profit and deficit on revaluation of assets in Pakistan Rupees.

### 41.2.2 Equity position risk

The risk arising from taking long or short positions, in the trading book, in the equities and all instruments that exhibit market behaviour similar to equities. The Bank does not maintain equity trading portfolio.

### 41.2.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.

Interest rate risk is the risk that value of the financial instrument will fluctuate due to changes in the market interest rates. Sensitivity to the interest rate risk arises from mismatches of financial assets and liabilities and off-balance sheet financial instruments that mature or reprice in a given period. The Bank manages these mismatches through risk management strategies where significant changes in gap positions can be adjusted.

The position for on-balance sheet financial instruments is based on the earlier of contractual repricing or maturity date. The position for off-balance sheet financial instruments is based on settlement dates.

|   |              | 2012                             |                    |                    |                         |                   |                   |                   |                    |                |              |  |
|---|--------------|----------------------------------|--------------------|--------------------|-------------------------|-------------------|-------------------|-------------------|--------------------|----------------|--------------|--|
|   |              | Exposed to Yield / Interest risk |                    |                    |                         |                   |                   |                   |                    |                |              | Non-interest bearing financial instruments |
| Effective Yield / Interest rate %                       | 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)  |              |                                  |                    |                    |                         |                   |                   |                   |                    |                |              |  |
| <b>On-balance sheet financial instruments</b>           |              |                                  |                    |                    |                         |                   |                   |                   |                    |                |              |  |
| <b>Assets</b>   |              |                                  |                    |                    |                         |                   |                   |                   |                    |                |              |  |
| -   | 6,770,561    | 1,748,695                        | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | 5,021,866    |  |
| 1.73  | 6,035,738    | 4,318,952                        | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | 1,716,786    |  |
| 8.70  | 14,913,193   | 14,913,193                       | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -            |  |
| 11.33   | 31,339,172   | 6,219,812                        | 7,461,777          | 571,082            | 8,715,799               | 3,658,168         | 2,038,866         | 2,397,496         | 102,554            | 173,618        | -            |  |
| 12.76   | 18,255,682   | 1,389,342                        | 11,361,916         | 3,969,750          | 901,695                 | 47,358            | 42,496            | 73,472            | 269,048            | 179,113        | 21,492       |  |
| -   | 1,891,480    | -                                | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | 1,891,480    |  |
|   | 79,205,826   | 28,589,994                       | 18,823,693         | 4,540,832          | 9,617,494               | 3,705,526         | 2,081,362         | 2,470,968         | 371,602            | 352,731        | 8,651,624    |  |
| <b>Liabilities</b>                                      |              |                                  |                    |                    |                         |                   |                   |                   |                    |                |              |  |
| -   | 2,185,724    | -                                | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | 2,185,724    |  |
| 9.20  | 141,666      | 16,421                           | 2,525              | 102,525            | 5,050                   | 10,100            | 5,045             | -                 | -                  | -              | -            |  |
| 5.80  | 64,293,565   | 18,520,096                       | 7,428,680          | 11,314,660         | 561,644                 | 189,376           | -                 | 16,100            | -                  | -              | 26,263,009   |  |
| -   | 9,424,405    | -                                | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | 9,424,405    |  |
|   | 76,045,360   | 18,536,517                       | 7,431,205          | 11,417,185         | 566,694                 | 199,476           | 5,045             | 16,100            | -                  | -              | 37,873,138   |  |
| <b>On-balance sheet gap</b>                             | 3,160,466    | 10,053,477                       | 11,392,488         | (6,876,353)        | 9,050,800               | 3,506,050         | 2,076,317         | 2,454,868         | 371,602            | 352,731        | (29,221,514) |  |
| <b>Off-balance sheet financial instruments</b>          |              |                                  |                    |                    |                         |                   |                   |                   |                    |                |              |  |
|   | 58,284,081   | 26,914,972                       | 28,615,800         | 2,753,309          | -                       | -                 | -                 | -                 | -                  | -              | -            |  |
|   | (36,487,833) | (13,944,149)                     | (4,678,653)        | (16,828,031)       | (1,037,000)             | -                 | -                 | -                 | -                  | -              | -            |  |
|   | 31,228,364   | 186,459                          | 23,292,411         | 454,435            | 300,281                 | 6,994,778         | -                 | -                 | -                  | -              | -            |  |
|   | (31,228,364) | (486,740)                        | (23,292,411)       | (454,435)          | -                       | (6,994,778)       | -                 | -                 | -                  | -              | -            |  |
|   | 3,611,914    | 171,502                          | 3,295,990          | 144,422            | -                       | -                 | -                 | -                 | -                  | -              | -            |  |
|   | (3,611,914)  | (171,502)                        | (3,295,990)        | (144,422)          | -                       | -                 | -                 | -                 | -                  | -              | -            |  |
| <b>Off-balance sheet gap</b>                            | 21,796,248   | 12,670,542                       | 23,937,147         | (14,074,722)       | (736,719)               | -                 | -                 | -                 | -                  | -              | -            |  |
| <b>Total Yield / Interest Risk Sensitivity Gap</b>      | 24,956,714   | 22,724,019                       | 35,329,635         | (20,951,075)       | 8,314,081               | 3,506,050         | 2,076,317         | 2,454,868         | 371,602            | 352,731        | (29,221,514) |  |
| <b>Cumulative Yield / Interest Risk Sensitivity Gap</b> |              | 22,724,019                       | 58,053,654         | 37,102,579         | 45,416,660              | 48,922,710        | 50,999,027        | 53,453,895        | 53,825,497         | 54,178,228     | 24,956,714   |  |

|   |              | 2011                             |                    |                    |                         |                   |                   |                   |                    |                |              |  |
|---|--------------|----------------------------------|--------------------|--------------------|-------------------------|-------------------|-------------------|-------------------|--------------------|----------------|--------------|--|
|   |              | Exposed to Yield / Interest risk |                    |                    |                         |                   |                   |                   |                    |                |              | Non-interest bearing financial instruments |
| Effective Yield / Interest rate %                       | 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)  |              |                                  |                    |                    |                         |                   |                   |                   |                    |                |              |  |
| <b>On-balance sheet financial instruments</b>           |              |                                  |                    |                    |                         |                   |                   |                   |                    |                |              |  |
| <b>Assets</b>   |              |                                  |                    |                    |                         |                   |                   |                   |                    |                |              |  |
| -   | 6,990,879    | 1,798,914                        | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | 5,191,965    |  |
| 0.15  | 1,149,455    | 1,070,518                        | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | 78,937       |  |
| 11.75   | 1,339,057    | 1,339,057                        | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -            |  |
| 12.64   | 60,399,022   | 361,219                          | 25,512,979         | 3,352,503          | 17,515,967              | 5,406,470         | 4,637,183         | 3,317,920         | 137,553            | 157,228        | -            |  |
| 13.65   | 18,820,403   | 6,620,126                        | 7,244,950          | 659,593            | 969,726                 | 1,056,470         | 629,768           | 966,001           | 245,645            | 380,414        | 47,710       |  |
| -   | 3,658,163    | 584,345                          | 700,900            | 316,082            | 89,481                  | 7,825             | 449,718           | -                 | 16,467             | -              | 1,493,345    |  |
|   | 92,356,979   | 11,774,179                       | 33,458,829         | 4,328,178          | 18,575,174              | 6,470,765         | 5,716,669         | 4,283,921         | 399,665            | 537,642        | 6,811,957    |  |
| <b>Liabilities</b>                                      |              |                                  |                    |                    |                         |                   |                   |                   |                    |                |              |  |
| 0   | 2,028,623    | -                                | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | 2,028,623    |  |
| 8.05  | 11,231,101   | 9,966,730                        | 1,180,060          | -                  | -                       | -                 | -                 | 35,345            | -                  | -              | 48,966       |  |
| 6.48  | 61,678,515   | 33,359,874                       | 6,434,649          | 6,450,334          | 3,048,305               | 181,022           | 209,012           | 138,705           | -                  | -              | 11,856,614   |  |
| 0   | 10,794,817   | 408,128                          | 323,000            | 202,449            | 89,115                  | 4,730,640         | 832,175           | -                 | 1,134,469          | -              | 3,074,841    |  |
|   | 85,733,056   | 43,734,732                       | 7,937,709          | 6,652,783          | 3,137,420               | 4,911,662         | 1,041,187         | 174,050           | 1,134,469          | -              | 17,009,044   |  |
| <b>On-balance sheet gap</b>                             | 6,623,923    | (31,960,553)                     | 25,521,120         | (2,324,605)        | 15,437,754              | 1,559,103         | 4,675,482         | 4,109,871         | (734,804)          | 537,642        | (10,197,087) |  |
| <b>Off-balance sheet financial instruments</b>          |              |                                  |                    |                    |                         |                   |                   |                   |                    |                |              |  |
|   | 124,445,528  | 48,859,248                       | 52,333,932         | 20,947,889         | 2,304,459               | -                 | -                 | -                 | -                  | -              | -            |  |
|   | (76,128,440) | (36,750,813)                     | (18,559,318)       | (18,498,319)       | (2,319,990)             | -                 | -                 | -                 | -                  | -              | -            |  |
|   | 50,262,515   | 509,557                          | 36,801,391         | 2,546,485          | -                       | 556,028           | 9,849,054         | -                 | -                  | -              | -            |  |
|   | (50,262,515) | (1,065,585)                      | (36,801,391)       | (2,546,485)        | -                       | -                 | (9,849,054)       | -                 | -                  | -              | -            |  |
|   | 3,216,780    | -                                | 1,709,820          | 1,506,960          | -                       | -                 | -                 | -                 | -                  | -              | -            |  |
|   | (3,216,780)  | -                                | (1,709,820)        | (1,506,960)        | -                       | -                 | -                 | -                 | -                  | -              | -            |  |
| <b>Off-balance sheet gap</b>                            | 48,317,088   | 11,552,407                       | 33,774,614         | 2,449,570          | (15,531)                | 556,028           | -                 | -                 | -                  | -              | -            |  |
| <b>Total Yield / Interest Risk Sensitivity Gap</b>      | 54,941,011   | (20,408,146)                     | 59,295,734         | 124,965            | 15,422,223              | 2,115,131         | 4,675,482         | 4,109,871         | (734,804)          | 537,642        | (10,197,087) |  |
| <b>Cumulative Yield / Interest Risk Sensitivity Gap</b> |              | (20,408,146)                     | 38,887,588         | 39,012,553         | 54,434,776              | 56,549,907        | 61,225,389        | 65,335,260        | 64,600,456         | 65,138,098     | 54,941,011   |  |



| 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)-----                |                   |                     |                    |                         |                   |                   |                   |                    |                  |                |
| <b>Assets</b>                              |                   |                     |                    |                         |                   |                   |                   |                    |                  |                |
| Cash and balances with treasury banks      | 6,990,879         | 6,990,879           | -                  | -                       | -                 | -                 | -                 | -                  | -                |                |
| Balances with other banks                  | 1,149,455         | 1,149,455           | -                  | -                       | -                 | -                 | -                 | -                  | -                |                |
| Lendings to financial institutions         | 1,339,057         | 1,339,057           | -                  | -                       | -                 | -                 | -                 | -                  | -                |                |
| Investments                                | 60,399,022        | 361,219             | -                  | 3,606,966               | 35,824,203        | 5,800,719         | 5,937,948         | 4,974,406          | 3,736,332        |                |
| Advances                                   | 18,820,403        | 9,265,961           | 2,647,304          | 1,001,984               | 1,648,796         | 1,949,997         | 629,805           | 966,076            | 245,834          |                |
| Other assets                               | 3,954,861         | 621,227             | 2,143,463          | 419,615                 | 296,547           | 7,825             | 449,717           | -                  | 16,467           |                |
| Operating fixed assets                     | 634,699           | 5,574               | 4,671              | 5,401                   | 14,752            | 92,243            | 160,552           | 162,330            | 57,494           |                |
| Deferred tax assets                        | 3,614,421         | (114)               | -                  | 215                     | (11,264)          | (2,999)           | 22,099            | 3,593,389          | 4,939            |                |
|  | 96,902,797        | 19,733,258          | 4,795,438          | 5,034,181               | 37,773,034        | 7,847,785         | 7,200,121         | 9,696,201          | 4,061,066        |                |
| <b>Liabilities</b>                         |                   |                     |                    |                         |                   |                   |                   |                    |                  |                |
| Bills payable                              | 2,028,623         | 2,028,623           | -                  | -                       | -                 | -                 | -                 | -                  | -                |                |
| Borrowings from financial institutions     | 11,231,101        | 10,015,696          | 1,180,060          | -                       | -                 | -                 | -                 | 35,345             | -                |                |
| Deposits and other accounts *              | 61,678,515        | 50,028,395          | 6,434,649          | 1,638,427               | 3,048,305         | 181,022           | 209,012           | 106,168            | 32,537           |                |
| Other liabilities                          | 11,198,190        | 760,145             | 1,255,615          | 649,266                 | 1,334,803         | 5,172,169         | 852,025           | 39,698             | 1,134,469        |                |
|  | 86,136,429        | 62,832,859          | 8,870,324          | 2,287,693               | 4,383,108         | 5,353,191         | 1,061,037         | 181,211            | 1,167,006        |                |
| <b>Net assets</b>                          | <b>10,766,368</b> | <b>(43,099,601)</b> | <b>(4,074,886)</b> | <b>2,746,488</b>        | <b>33,389,926</b> | <b>2,494,594</b>  | <b>6,139,084</b>  | <b>9,514,990</b>   | <b>2,894,060</b> | <b>761,713</b> |
| <b>Represented by:</b>                     |                   |                     |                    |                         |                   |                   |                   |                    |                  |                |
| Head office capital account                | 6,812,671         |                     |                    |                         |                   |                   |                   |                    |                  |                |
| Reserves                                   | 149,286           |                     |                    |                         |                   |                   |                   |                    |                  |                |
| Unremitted profit                          | 3,957,548         |                     |                    |                         |                   |                   |                   |                    |                  |                |
| Deficit on revaluation of securities - net | (153,137)         |                     |                    |                         |                   |                   |                   |                    |                  |                |
|  | <u>10,766,368</u> |                     |                    |                         |                   |                   |                   |                    |                  |                |

#### 41.3.2 Maturities of Assets and Liabilities - Based on expected maturity of the assets and liabilities of the Bank

| 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)-----                |                  |                    |                    |                         |                   |                   |                   |                    |                  |                |
| <b>Assets</b>                              |                  |                    |                    |                         |                   |                   |                   |                    |                  |                |
| Cash and balances with treasury banks      | 6,770,561        | 1,520,195          | -                  | -                       | -                 | -                 | 5,250,366         | -                  | -                |                |
| Balances with other banks                  | 6,035,738        | 6,035,738          | -                  | -                       | -                 | -                 | -                 | -                  | -                |                |
| Lendings to financial institutions         | 14,913,193       | 14,913,193         | -                  | -                       | -                 | -                 | -                 | -                  | -                |                |
| Investments                                | 31,339,172       | 6,219,813          | 7,461,777          | 571,082                 | 8,715,799         | 3,658,168         | 2,038,866         | 2,397,496          | 102,554          |                |
| Advances                                   | 18,255,682       | 6,392,985          | 2,538,594          | 364,448                 | 482,858           | 928,673           | 784,446           | 5,689,179          | 1,026,661        |                |
| Other assets                               | 4,296,388        | 342,240            | 1,095,033          | 598,820                 | 1,000,296         | 1,259,999         | -                 | -                  | -                |                |
| Operating fixed assets                     | 366,664          | 126,418            | 11,920             | 17,880                  | 35,761            | 71,521            | 55,965            | 44,597             | 930              |                |
| Deferred tax assets                        | 3,194,412        | -                  | 8,891              | -                       | -                 | -                 | -                 | 3,185,521          | -                |                |
|  | 85,171,810       | 35,550,582         | 11,116,215         | 1,552,230               | 10,234,714        | 5,918,361         | 2,879,277         | 16,567,159         | 1,130,145        |                |
| <b>Liabilities</b>                         |                  |                    |                    |                         |                   |                   |                   |                    |                  |                |
| Bills payable                              | 2,185,724        | 138,728            | 166,247            | -                       | -                 | -                 | -                 | 1,880,749          | -                |                |
| Borrowings from financial institutions     | 141,666          | 16,421             | 2,525              | 102,525                 | 5,050             | 10,100            | 5,045             | -                  | -                |                |
| Deposits and other accounts *              | 64,293,565       | 32,567,865         | 8,910,374          | 545,766                 | 561,448           | 189,376           | 116,511           | 21,402,225         | -                |                |
| Other liabilities                          | 9,513,942        | 1,758,186          | 2,940,541          | 705,540                 | 1,729,196         | 727,103           | -                 | 1,653,376          | -                |                |
|  | 76,134,897       | 34,481,200         | 12,019,687         | 1,353,831               | 2,295,694         | 926,579           | 121,556           | 24,936,350         | -                |                |
| <b>Net assets</b>                          | <b>9,036,913</b> | <b>1,069,382</b>   | <b>(903,472)</b>   | <b>198,399</b>          | <b>7,939,020</b>  | <b>4,991,782</b>  | <b>2,757,721</b>  | <b>(8,369,191)</b> | <b>1,130,145</b> | <b>223,127</b> |
| <b>Represented by:</b>                     |                  |                    |                    |                         |                   |                   |                   |                    |                  |                |
| Head office capital account                | 6,812,671        |                    |                    |                         |                   |                   |                   |                    |                  |                |
| Reserves                                   | 154,932          |                    |                    |                         |                   |                   |                   |                    |                  |                |
| Unremitted profit                          | 2,052,798        |                    |                    |                         |                   |                   |                   |                    |                  |                |
| Deficit on revaluation of securities - net | 16,512           |                    |                    |                         |                   |                   |                   |                    |                  |                |
|  | <u>9,036,913</u> |                    |                    |                         |                   |                   |                   |                    |                  |                |

Includes saving deposits which have been classified as maturing up to one month. However they are not expected to fall materially below their current level.

|  |                   | 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)-----                |                   |                     |                    |                         |                   |                   |                   |                    |                  |                |
| <b>Assets</b>                              |                   |                     |                    |                         |                   |                   |                   |                    |                  |                |
| Cash and balances with treasury banks      | 6,990,879         | 1,724,379           | -                  | -                       | -                 | -                 | -                 | 5,266,500          | -                | -              |
| Balances with other banks                  | 1,149,455         | 1,149,455           | -                  | -                       | -                 | -                 | -                 | -                  | -                | -              |
| Lendings to financial institutions         | 1,339,057         | 1,339,057           | -                  | -                       | -                 | -                 | -                 | -                  | -                | -              |
| Investments                                | 60,399,022        | 361,219             | 25,512,979         | 3,352,503               | 17,515,966        | 5,406,470         | 4,637,183         | 3,317,920          | 137,553          | 157,229        |
| Advances                                   | 18,820,403        | 6,667,837           | 2,417,455          | 659,593                 | 969,725           | 1,056,470         | 629,768           | 5,793,496          | 245,645          | 380,414        |
| Other assets                               | 3,954,861         | 621,226             | 2,143,463          | 419,615                 | 296,548           | 7,825             | 449,717           | -                  | 16,467           | -              |
| Operating fixed assets                     | 634,699           | 5,574               | 4,671              | 5,401                   | 14,752            | 92,243            | 160,552           | 162,330            | 57,494           | 131,682        |
| Deferred tax assets                        | 3,614,421         | (114)               | -                  | 215                     | (11,264)          | (2,999)           | 22,099            | 3,593,389          | 4,939            | 8,156          |
|  | 96,902,797        | 11,868,633          | 30,078,568         | 4,437,327               | 18,785,727        | 6,560,009         | 5,899,319         | 18,133,635         | 462,098          | 677,481        |
| <b>Liabilities</b>                         |                   |                     |                    |                         |                   |                   |                   |                    |                  |                |
| Bills payable                              | 2,028,623         | -                   | -                  | -                       | -                 | -                 | -                 | 2,028,623          | -                | -              |
| Borrowings from financial institutions     | 11,231,101        | 10,015,696          | 1,180,060          | -                       | -                 | -                 | -                 | 35,345             | -                | -              |
| Deposits and other accounts *              | 61,678,515        | 27,487,174          | 6,434,649          | 1,638,427               | 3,048,304         | 181,023           | 209,012           | 22,647,389         | 32,537           | -              |
| Other liabilities                          | 11,198,190        | 760,145             | 1,255,615          | 649,266                 | 1,334,803         | 5,172,169         | 852,025           | 39,698             | 1,134,469        | -              |
|  | 86,136,429        | 38,263,015          | 8,870,324          | 2,287,693               | 4,383,107         | 5,353,192         | 1,061,037         | 24,751,055         | 1,167,006        | -              |
| <b>Net assets</b>                          | <b>10,766,368</b> | <b>(26,394,382)</b> | <b>21,208,244</b>  | <b>2,149,634</b>        | <b>14,402,620</b> | <b>1,206,817</b>  | <b>4,838,282</b>  | <b>(6,617,420)</b> | <b>(704,908)</b> | <b>677,481</b> |
| <b>Represented by:</b>                     |                   |                     |                    |                         |                   |                   |                   |                    |                  |                |
| Head office capital account                | 6,812,671         |                     |                    |                         |                   |                   |                   |                    |                  |                |
| Reserves                                   | 149,286           |                     |                    |                         |                   |                   |                   |                    |                  |                |
| Unremitted profit                          | 3,957,548         |                     |                    |                         |                   |                   |                   |                    |                  |                |
| Deficit on revaluation of securities - net | (153,137)         |                     |                    |                         |                   |                   |                   |                    |                  |                |
|  | <u>10,766,368</u> |                     |                    |                         |                   |                   |                   |                    |                  |                |

**41.3.3** The Bank has assets and liabilities that have contractual and non-contractual maturities. The Bank conducts statistical studies to assess the expected maturity of assets and liabilities with non-contractual maturities. The Bank uses this methodology on such assets and liabilities to determine the core portion which is stable and constantly appears on the balance sheet and the non-core portion that is relatively volatile. The behavioral maturities of demand deposits, bills payable and running finance is determined on such basis based on the past three years data. Consumer assets categorised as held for sale has been classified in short term buckets. The maturity buckets have been adjusted accordingly where the non-contractual assets and liabilities are highly probable to deviate from its maturities worked out based on statistical models.

#### 41.4 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Operational risk is inherent in the Bank's activities and as with other risk types is managed through an overall framework with checks and balances that include recognised ownership of the risk by the businesses, independent risk management oversight and independent review by corporate audit. The operational risk policy codifies the core governing principles for operational risk management and provides a framework for operational risk. In accordance with the policy, each business area is responsible to identify its key operational risks as well as the controls established to mitigate those risks and to ensure compliance with laws, regulations, regulatory administrative actions and the Bank's policies.

The operational risk policy and its requirements facilitate the effective communication of operational risks both within and across businesses. Information about the businesses' operational risk, historical losses and the control environment is reported by each major business segment and functional area and summarised for senior management.

The Bank has created a strategic framework for information security technology initiatives and has implemented enhancements to various Information Security programs across its business covering Risk Management, Security Incident Response and Electronic Transportable Media. The Bank also implemented tools to increase the effectiveness of its data protection and entitlement management programs.

The business continuity program provides risk analysis and robust support for business resiliency. The office of Business Continuity, with the support of the senior management continued to coordinate preparedness and mitigate business continuity risks by reviewing and testing recovery procedures.

**42 NON - ADJUSTING EVENT AFTER THE BALANCE SHEET DATE**

Subsequent to year end the Bank has closed four of its branches. Further, consistent with its global strategy, the Bank will continue to develop business strategies for more efficient utilisation of its capital.

**43 DATE OF AUTHORISATION**

These financial statements were authorised for issue on March 18, 2013 by the management of the Bank.

**44 GENERAL**

**44.1** Figures have been rounded off to the nearest thousand rupees.

**44.2** Corresponding figures have been re-classified, re-arranged or additionally incorporated in these financial statements, wherever necessary to facilitate comparison and to conform with changes in presentation in the current year. There were no significant reclassifications during the year.

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**NADEEM LODHI**  
Managing Director and Citi Country Officer

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**ADAMJEE YAKOOB**  
Chief Financial Officer



**CITIBANK, N.A. - PAKISTAN BRANCHES  
STATEMENT SHOWING WRITTEN OFF LOANS OR ANY OTHER  
FINANCIAL RELIEF OF FIVE HUNDRED THOUSAND RUPEES  
OR ABOVE PROVIDED DURING THE YEAR 2012**

**ANNEXURE I**

| S. No. | Name and address of the borrower |   | Name of individuals/<br>partners/ directors<br>(with NIC No.) | Father's<br>/ Husband's name | Outstanding Liabilities at beginning of year |                      |        |       | Principal<br>written-off | Interest/<br>Mark-up<br>written-off | Other<br>financial<br>relief<br>provided | Total |
|--------|----------------------------------|---|---|------------------------------|--|----------------------|--------|-------|--------------------------|-------------------------------------|--|-------|
|        |                                  |   |   |                              | Principal                                    | Interest/<br>Mark-up | Others | Total |                          |                                     |  |       |
| 1      | 2                                |   | 3   | 4                            | 5  | 6                    | 7      | 8     | 9                        | 10                                  | 11                                       |       |
| 1      | NAVEED AHMED                     | PLOT# R-718 BLOCK18 KDA SCHEME 16<br>F.B. AREA KARACHI. | NAVEED AHMED<br>41304-7333341-1                               | MATLOOB AHMED                | 2,251  | 144                  | -      | 2,394 | 752                      | 328                                 | -  | 1,080 |
|        |                                  |   |   |                              | 2,251  | 144                  | -      | 2,394 | 752                      | 328                                 | -  | 1,080 |

Details of disposal of fixed assets having cost of more than Rs. 1,000,000 or net book value of Rs. 250,000 or above

| Description   | Cost           | Book value    | Sale proceeds | Mode of disposal   | Particulars of purchasers   |
|---|----------------|---------------|---------------|--------------------|-----------------------------|
| (Rupees in '000)  |                |               |               |                    |                             |
| <b>Furniture and fixture</b>  |                |               |               |                    |                             |
|   | 2,007          | 633           | 266           | Open Bid           | Trade lock establishment    |
|   | 2,097          | 1,167         | 845           | Open Bid           | Hirani Pharma               |
|   | 13,536         | -             | 1,852         | Open Bid           | Hirani Pharma               |
|   | 60,022         | 0             | 6,855         | Open Bid           | Laeeq A Sattar              |
|   | 9,619          | 2,474         | 2,232         | Open Bid           | Burj Bank                   |
|   | 2,175          | 541           | 593           | Open Bid           | Burj Bank                   |
|   | 2,288          | -             | 20            | Open Bid           | World Cool Electronics      |
|   | 1,630          | -             | 2             | Open Bid           | Malik Sajid                 |
|   | <b>93,374</b>  | <b>4,815</b>  | <b>12,665</b> |                    |                             |
| <b>Electrical, office and computer equipment</b>                                      |                |               |               |                    |                             |
|   | 1,037          | -             | 64            | Open Bid           | Asher Impex                 |
|   | 1,669          | 389           | 183           | Open Bid           | Abdul Hameed & Co           |
|   | 49,682         | 3,393         | 13,150        | Open Bid           | Hirani Pharma               |
|   | 13,314         | -             | 291           | Open Bid           | M/S Adnan Ali               |
|   | 10,461         | -             | 232           | Open Bid           | M/S Karim Technology        |
|   | 9,187          | -             | 1,668         | Open Bid           | Hirani Pharma               |
|   | 1,296          | 64            | 138           | Open Bid           | A.Q Enterprises             |
|   | 2,075          | 3             | 140           | Open Bid           | A.Q Enterprises             |
|   | 3,785          | -             | 520           | Open Bid           | Nasir International         |
|   | 11,937         | -             | 231           | Open Bid           | Adnan Ali                   |
|   | 5,826          | -             | 1,063         | Open Bid           | Naseer Ahmed / Waheed Ahmed |
|   | 1,881          | -             | 248           | Open Bid           | Abdullah Traders            |
|   | 2,621          | -             | 551           | Open Bid           | World Cool Electro          |
|   | 1,333          | -             | 79            | Open Bid           | World Cool Electro          |
|   | 1,690          | -             | 870           | Open Bid           | Burj Bank                   |
|   | <b>117,794</b> | <b>3,849</b>  | <b>19,428</b> |                    |                             |
| <b>Vehicles</b>   |                |               |               |                    |                             |
|   | 1,619          | 1,106         | 1,133         | Term of Employment | Asmar Tariq                 |
|   | 2,750          | 229           | 275           | Term of Employment | Aliuddin Ahmed              |
|   | 1,649          | 1,347         | 1,429         | Term of Employment | Junaid Ahmed Qureshi        |
|   | 1,649          | 1,347         | 1,700         | Insurance Claim    | New Hampshire Insurance     |
|   | 1,640          | 1,339         | 1,339         | Term of Employment | Taimur Masood Khan          |
|   | 1,365          | 341           | 364           | Term of Employment | Husnain Zaigham             |
|   | 1,178          | -             | 940           | Open Bid           | Honda Quaideen              |
|   | 2,750          | 504           | 1,583         | Term of Employment | Saad ur Rehman              |
|   | 1,649          | 1,319         | 1,347         | Term of Employment | Syed Usama Bin Saeed        |
|   | 1,623          | 947           | 947           | Term of Employment | Atif Mehmood                |
|   | 1,899          | 1,488         | 1,676         | Term of Employment | Kamran Masood               |
|   | 1,450          | 1,088         | 1,200         | Term of Employment | Saad Khan                   |
|   | 1,899          | 1,456         | 1,614         | Term of Employment | Saad Khan                   |
|   | 1,506          | -             | 1,500         | Insurance Claim    | New Hampshire Insurance     |
|   | 1,389          | 162           | 208           | Term of Employment | Syed Mehdi Ishtiaq          |
|   | 1,641          | 629           | 656           | Term of Employment | Ali Hamid                   |
|   | 1,810          | 905           | 905           | Term of Employment | Khurram Mumtaz              |
|   | 2,750          | 413           | 1,429         | Term of Employment | Shoaib Ghaffar              |
|   | 1,908          | 1,304         | 1,336         | Term of Employment | Shafiq Mustafa              |
|   | 1,718          | 1,403         | 1,555         | Term of Employment | Hassan Raza Zaidi           |
|   | 1,619          | 917           | 917           | Term of Employment | Ahsan Tahir Mirza           |
|   | 1,506          | -             | 1,130         | Open Bid           | Deinfa Motors               |
|   | 1,673          | 1,227         | 1,302         | Term of Employment | Mansoor Ahmed               |
|   | 1,767          | 1,620         | 1,708         | Term of Employment | Aijaz Ul Haq                |
|   | 1,356          | 113           | 136           | Term of Employment | Umer Iqbal                  |
|   | 1,643          | 466           | 520           | Term of Employment | Amir Nayab Khan             |
|   | 1,641          | 520           | 547           | Term of Employment | Shirin Amin                 |
|   | 1,619          | 863           | 890           | Term of Employment | Asad Ali Khan               |
|   | 1,619          | 863           | 890           | Term of Employment | Noman Saeed                 |
|   | 1,899          | 570           | 1,017         | Term of Employment | Muddasir Khan               |
|   | 1,623          | 785           | 812           | Term of Employment | Shadab Ahmed                |
|   | 1,649          | 1,127         | 1,292         | Insurance Claim    | New Hampshire Insurance     |
|   | 1,706          | 1,365         | 1,499         | Term of Employment | Shahzad Malik               |
|   | 1,623          | 758           | 785           | Term of Employment | Muhammad Haroon Saeed       |
|   | 1,643          | 438           | 466           | Term of Employment | Naveed Ahmed Khan           |
|   | 1,356          | 68            | 68            | Term of Employment | Salman Hyder                |
|   | 1,899          | 475           | 875           | Term of Employment | Tahir Ahmed Khan            |
|   | 1,526          | 102           | 779           | Term of Employment | Faisal Amin                 |
|   | 1,649          | 1,072         | 1,127         | Term of Employment | Saba Karim                  |
|   | <b>66,858</b>  | <b>30,675</b> | <b>39,895</b> |                    |                             |
| Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000 * | 156,448        | 451           | 5,665         |                    |                             |
|   | <b>434,474</b> | <b>39,790</b> | <b>77,653</b> |                    |                             |