

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, 2011 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 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, 2011 and its true balance of the profits, 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: **Salman Hussain**
Dated: March 29, 2012
Karachi

A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network
State Life Building No. 1-C, I.I. Chundrigar Road, P.O. Box 4716, Karachi-74000, Pakistan
Tel: +92 (21) 32426682-6/32426711-5; Fax: +92 (21) 32415007/32427938; <www.pwc.com/pk>

Lahore: 23-C, Aziz Avenue, Canal Bank, Gulberg V, P.O. Box 39, Shahr-e-Quaid-e-Azam, Lahore-54660; Tel: +92 (42) 35715964-71; Fax: +92 (42) 35715872
Islamabad: PLA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O. Box 3021, Islamabad-44000; Tel: +92 (51) 2273457-60; Fax: +92 (51) 2277924
Kabul: House No. 1916, Street No. 1, Behind Cinema Barinat, Nahar-e-Darsan, Karte-4, Kabul, Afghanistan; Tel: +93 (799) 315320, +93 (799) 315320

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, 2011

	Note	2011 (Rupees in '000)	2010 (Rupees in '000)
ASSETS			
Cash and balances with treasury banks	6	6,990,879	7,001,789
Balances with other banks	7	1,149,455	1,396,604
Lendings to financial institutions	8	1,339,057	11,410,316
Investments - net	9	60,399,022	50,236,317
Advances - net	10	18,820,403	19,244,213
Fixed assets	11	634,699	865,640
Deferred tax assets - net	12	3,614,421	3,693,968
Other assets	13	3,954,861	3,505,065
		96,902,797	97,353,912
LIABILITIES			
Bills payable	15	2,028,623	1,164,263
Borrowings from financial institutions	16	11,231,101	4,342,038
Deposits and other accounts	17	61,678,515	68,304,814
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	18	11,198,190	14,677,325
		86,136,429	88,488,440
NET ASSETS		<u>10,766,368</u>	<u>8,865,472</u>
REPRESENTED BY			
Head office capital account	19	6,812,671	6,812,671
Reserves		149,286	125,573
Unremitted profit		3,957,548	2,201,511
		<u>10,919,505</u>	<u>9,139,755</u>
Deficit on revaluation of assets - net of tax	20	(153,137)	(274,283)
		<u>10,766,368</u>	<u>8,865,472</u>
CONTINGENCIES AND COMMITMENTS	21		

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

ALIUDDIN AHMED
Acting Citi Country Officer

ANJUM HAI
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, 2011

	Note	2011 (Rupees in '000)	2010
Mark-up / return / interest earned	23	10,279,671	9,373,975
Mark-up / return / interest expensed	24	4,580,040	4,241,090
Net mark-up / return / interest income		<u>5,699,631</u>	<u>5,132,885</u>
Provision against loans and advances - net	10.3	1,137,865	1,868,012
Provision for diminution in the value of investments		-	-
Bad debts written off directly	10.4	33,986	74,335
		<u>1,171,851</u>	<u>1,942,347</u>
Net mark-up / interest income after provisions		<u>4,527,780</u>	<u>3,190,538</u>
NON MARK-UP / INTEREST INCOME			
Fee, commission and brokerage income		700,094	703,022
Dividend income		-	728
Income from dealing in foreign currencies	25	3,002,073	2,465,105
Gain on sale of securities	26	661,512	330,613
Unrealised loss on revaluation of investments classified as held for trading		(222,771)	(6,451)
Other income / cost	27	(2,091,704)	(1,439,319)
Total non mark-up / interest income - net		<u>2,049,204</u>	<u>2,053,698</u>
		<u>6,576,984</u>	<u>5,244,236</u>
NON MARK-UP / INTEREST EXPENSE			
Administrative expenses	28	4,002,884	3,879,891
Provision for diminution in the value of non-banking assets - net	13.2	(2,181)	(2,463)
Operating fixed assets written off		1,300	4,195
Other charges	29	51,145	165,610
Total non mark-up / interest expenses - net		<u>4,053,148</u>	<u>4,047,233</u>
PROFIT BEFORE TAXATION		<u>2,523,836</u>	<u>1,197,003</u>
Taxation	30		
- Current		1,419,218	1,156,019
- Prior years		(585,349)	(405,021)
- Deferred		(66,070)	23,067
		<u>767,799</u>	<u>774,065</u>
PROFIT AFTER TAXATION		<u>1,756,037</u>	<u>422,938</u>
Unremitted profit brought forward		2,201,511	1,778,573
Unremitted profit carried forward		<u><u>3,957,548</u></u>	<u><u>2,201,511</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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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, 2011

	2011	2010
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	2,523,836	1,197,003
Less: Dividend income	-	(728)
	<u>2,523,836</u>	<u>1,196,275</u>
Adjustments for non cash and other items:		
Depreciation	345,117	372,147
Amortisation	48,546	51,180
Provision against loans and advances	1,137,865	1,868,012
Unrealised loss on revaluation of investments classified as held for trading	222,771	6,451
Bad debts written off directly	33,986	74,335
Gain on disposal of operating fixed assets	(13,937)	(66,739)
Charge for defined benefit plan	66,183	43,246
Provision for diminution in the value of non-banking assets	(2,181)	(2,463)
Operating fixed assets written off	1,300	4,195
	<u>1,839,650</u>	<u>2,350,364</u>
	4,363,486	3,546,639
(Increase) / decrease in operating assets		
Lendings to financial institutions	10,071,259	(1,254,655)
Held for trading securities	(8,903,389)	(14,114,628)
Advances	(748,041)	7,058,469
Other assets	(447,615)	(590,730)
	(27,786)	(8,901,544)
Increase / (decrease) in operating liabilities		
Bills payable	864,360	(490,496)
Borrowings from financial institutions	6,830,097	(1,177,755)
Deposits and other accounts	(6,626,299)	10,157,610
Other liabilities (excluding current taxation and payable to defined benefit plan)	(2,801,986)	(348,352)
	<u>(1,733,828)</u>	<u>8,141,007</u>
	2,601,872	2,786,102
Contribution to gratuity fund	(38,263)	(33,035)
Income tax paid	(1,242,701)	(1,190,363)
Net cash generated from operating activities	<u>1,320,908</u>	<u>1,562,704</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investments in available for sale securities	(1,295,709)	(3,232,942)
Dividend income received	-	728
Investment in operating fixed assets	(189,533)	(73,901)
Proceeds realised on disposal of operating fixed assets	39,448	113,934
Net cash used in investing activities	<u>(1,445,794)</u>	<u>(3,192,181)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Remittances made during the year on account of head office expenses	(192,139)	(404,322)
Net cash used in financing activities	<u>(192,139)</u>	<u>(404,322)</u>
Effects of exchange rate changes on cash and cash equivalents	-	31,823
Decrease in cash and cash equivalents	<u>(317,025)</u>	<u>(2,001,976)</u>
Cash and cash equivalents at the beginning of the year	8,398,393	10,400,369
Cash and cash equivalents at the end of the year	<u>31</u> <u>8,081,368</u>	<u>8,398,393</u>

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

ALIUDDIN AHMED
Acting Citi Country Officer

ANJUM HAI
Chief Financial Officer

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, 2011

	2011	2010
	(Rupees in '000)	
Profit after taxation	1,756,037	422,938
Components of other comprehensive income not reflected in equity		
Surplus/ (deficit) on revaluation of available for sale securities - net of tax	121,146	(147,562)
Total comprehensive income for the year	<u><u>1,877,183</u></u>	<u><u>275,376</u></u>

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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, 2011

	Head office capital account	Unremitted profit	Share based payment contribution reserve by the ultimate holding company	Total
	------(Rupees in '000)-----			
Balance as at January 1, 2010	6,780,848	1,778,573	92,715	8,652,136
Profit after tax for the year ended December 31, 2010	-	422,938	-	422,938
Transactions with owners				
Contribution by the ultimate holding company in respect of share based payments	-	-	44,928	44,928
Recharged balance payable to the ultimate holding company for share based payments	-	-	(44,928)	(44,928)
Effect of re-measurement of cost under share based payment - net of tax	-	-	32,858	32,858
	-	-	32,858	32,858
Exchange adjustments on revaluation of capital	31,823	-	-	31,823
Balance as at December 31, 2010	6,812,671	2,201,511	125,573	9,139,755
Profit after tax for the year ended December 31, 2011	-	1,756,037	-	1,756,037
Transactions with owners				
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

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

ALIUDDIN AHMED
Acting Citi Country Officer

ANJUM HAI
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, 2011

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 senior debt	Short-term debt
Citigroup Inc.	A3	P-2
Citibank, N.A.	A1	P-1

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. During the year the Bank operated through 16 branches (December 31, 2010: 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 (IFRS) 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, or the directives issued by the SECP and the State Bank of Pakistan (SBP). Wherever the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the directives issued by the SECP and SBP differ with the requirements of IFRS, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or the requirements of the said directives issued by the SECP and SBP shall 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. Further, 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 the 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 Changes in accounting policies and disclosures - Standards, interpretations and amendments to published approved accounting standards 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, 2011.

- (a) IAS 1, 'Presentation of financial statements' (effective January 1, 2011). The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

The Bank has adopted the above amendment with effect from January 1, 2011. The Bank's current policy and disclosures are in line with the requirements prescribed by SBP as described in note 3.4 and accordingly, the above amendment does not have any impact on the Bank's financial statements.

- (b) IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The revised standard does not have any effect on the Bank's financial statements.

- (c) IFRIC 14 (amendment), 'Prepayments of a minimum funding requirement'. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning on or after January 1, 2011. The amendments does not have any impact on the Bank's financial statements.

There are other new and amended standards and interpretations that are mandatory for the accounting periods beginning on or after January 1, 2011, 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.

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

The following amendment to existing standards has been published and is mandatory for the Bank's accounting period beginning on or after January 1, 2012.

- (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. Because of the circumstances described in note 3.4 above, this amendment will not 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 presentation currency

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

4.3 Critical accounting estimates and judgements

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and income and expenses. It also requires management to exercise judgement 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 judgements 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 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 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 purchase price is amortised over the remaining life of the investment using effective yield method, in order to determine 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 against advances. 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 income 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 reporting date. Depreciation on additions is charged for the whole month if the assets are purchased before fifteenth 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 income as and when incurred. Subsequent costs are included in the asset's 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 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 reporting date. Intangible assets having an indefinite useful life are stated at acquisition cost, less impairment loss, if any.

Amortisation is charged to income 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 reporting 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.

An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. Such reversals are only made to the extent that the asset's carrying amount does not exceed the amount that would have been determined if no impairment loss had been recognised.

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 reporting 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 reporting 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 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 the 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 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 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 reporting 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 requirement 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

Foreign currency transactions are recorded at the exchange rates prevailing on the transaction date. All monetary assets and liabilities in foreign currencies are revalued daily into rupees using spot exchange rates published by the State Bank of Pakistan. The forward foreign exchange contracts and swaps are valued using forward rates applicable to their respective remaining maturities.

Exchange gains and losses are included in income currently, except for gain or loss arising on revaluation of capital account which is taken to equity.

Commitments for outstanding forward foreign exchange contracts are disclosed in the financial statements at contracted rates. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange ruling on 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 realize 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	2011 (Rupees in '000)	2010
6 CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		570,233	579,556
Foreign currencies		1,060,846	734,175
With State Bank of Pakistan in			
Local currency current accounts	6.1	2,864,950	3,236,953
Foreign currency current accounts		83,300	22,117
Foreign currency deposit accounts			
- Cash reserve account	6.2	602,636	599,457
- Special cash reserve account	6.3	1,798,914	1,798,371
With National Bank of Pakistan in			
Local currency current account		10,000	31,160
		<u>6,990,879</u>	<u>7,001,789</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 the SBP on a monthly basis. During the year this deposit was not remunerated (2010: Nil).

	Note	2011 (Rupees in '000)	2010
7 BALANCES WITH OTHER BANKS			
In Pakistan			
In current accounts		75,003	79,540
Outside Pakistan			
In current accounts	7.1	1,074,452	973,755
In deposit account		-	343,309
		<u>1,149,455</u>	<u>1,396,604</u>

7.1 This includes balance of Rs.1,070.518 million (2010: Rs. 969.191 million) held with branches of Citibank, N.A. outside Pakistan.

8	LENDINGS TO FINANCIAL INSTITUTIONS	Note	2011 (Rupees in '000)	2010 (Rupees in '000)
	Call money lending		-	100,000
	Repurchase agreement lendings (Reverse Repo)	8.1 & 8.3	1,339,057	11,310,316
			<u>1,339,057</u>	<u>11,410,316</u>

8.1 These represent short term lendings to financial institutions against government securities. These carry mark-up at rates ranging from 11.65% to 11.90% (2010: 12.75% to 13.5%) per annum and have a maturity period of upto January 2012 (2010: January 2011).

8.2	Particulars of lendings to financial institutions	2011 (Rupees in '000)	2010 (Rupees in '000)
	In local currency	1,339,057	11,410,316
	In foreign currencies	-	-
		<u>1,339,057</u>	<u>11,410,316</u>

8.3 Securities held as collateral against lendings to financial institutions

	Note	2011			2010		
		Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
------(Rupees in '000)-----							
Market Treasury Bills		1,339,057	-	1,339,057	11,210,316	-	11,210,316
Pakistan Investment Bonds		-	-	-	55,150	44,850	100,000
		<u>1,339,057</u>	<u>-</u>	<u>1,339,057</u>	<u>11,265,466</u>	<u>44,850</u>	<u>11,310,316</u>

9 INVESTMENTS

9.1 Investments by types

		2011			2010		
		Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
------(Rupees in '000)-----							
Held-for-trading securities							
Market Treasury Bills	9.4	12,179,967	6,372,738	18,552,705	15,304,570	-	15,304,570
Pakistan Investment Bonds	9.5	7,193,494	-	7,193,494	1,538,240	-	1,538,240
		19,373,461	6,372,738	25,746,199	16,842,810	-	16,842,810
Available-for-sale securities							
Market Treasury Bills	9.4	20,024,548	-	20,024,548	23,733,562	2,787,299	26,520,861
Pakistan Investment Bonds	9.5	15,091,354	-	15,091,354	5,093,332	-	5,093,332
Fully Paid-up Ordinary Shares	9.6	52,000	-	52,000	52,000	-	52,000
Unlisted Term Finance Certificates	9.7	-	-	-	2,206,000	-	2,206,000
		35,167,902	-	35,167,902	31,084,894	2,787,299	33,872,193
Investments at cost		<u>54,541,363</u>	<u>6,372,738</u>	<u>60,914,101</u>	<u>47,927,704</u>	<u>2,787,299</u>	<u>50,715,003</u>
Less: Provision for diminution in the value of investments	9.8	52,000	-	52,000	52,000	-	52,000
Investments (net of provisions)		<u>54,489,363</u>	<u>6,372,738</u>	<u>60,862,101</u>	<u>47,875,704</u>	<u>2,787,299</u>	<u>50,663,003</u>
Deficit on revaluation of held-for-trading securities - net	9.10	(211,508)	(15,975)	(227,483)	(4,712)	-	(4,712)
Deficit on revaluation of available-for-sale securities - net	20	(235,596)	-	(235,596)	(421,820)	(154)	(421,974)
Total investments at market value		<u>54,042,259</u>	<u>6,356,763</u>	<u>60,399,022</u>	<u>47,449,172</u>	<u>2,787,145</u>	<u>50,236,317</u>

9.2 Investments by segments:	Note	2011 (Rupees in '000)	2010 (Rupees in '000)
Federal Government Securities			
Market Treasury Bills	9.3 & 9.4	38,577,253	41,825,431
Pakistan Investment Bonds	9.3 & 9.5	22,284,848	6,631,572
		<u>60,862,101</u>	<u>48,457,003</u>
Fully Paid up Ordinary Shares			
Unlisted shares	9.6	52,000	52,000
Term Finance Certificates			
Unlisted	9.7	-	2,206,000
		<u>60,914,101</u>	<u>50,715,003</u>
Investments at cost		<u>60,914,101</u>	<u>50,715,003</u>
Less: Provision for diminution in value of investments	9.8	52,000	52,000
		<u>60,862,101</u>	<u>50,663,003</u>
Investments (net of provisions)			
Deficit on revaluation of held-for-trading securities	9.10	(227,483)	(4,712)
Deficit on revaluation of available-for-sale securities	20	(235,596)	(421,974)
		<u>60,862,101</u>	<u>50,663,003</u>
Total investments at market value		<u><u>60,399,022</u></u>	<u><u>50,236,317</u></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 six months and one year. The effective rates of profit on Market Treasury Bills range from 11.76% to 13.88% (2010: 12.31% to 13.40%) per annum with maturities upto November 2012 (2010: August 2011). In addition Market Treasury Bills having face value of Rs. 5,090 million (2010: Rs. 4,600 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 on these PIBs range from 9.2% to 14.55% (2010: 8.78% to 15.30%) per annum with maturities from June 2012 to June 2024 (2010: May 2011 to June 2024). PIBs having face value of Rs 25 million (2010: Rs 25 million) have been deposited with the State Bank of Pakistan against telegraph transfer / discounting facility granted by them. PIBs having face value of Rs 2,600 million (2010: 3,090 million) have been deposited with the State Bank of Pakistan as pledged capital.

9.6 Particulars of Fully Paid-up Ordinary Shares - Unlisted companies	Note	2011 (Rupees in '000)	2010 (Rupees in '000)
Khushhali Bank Limited			
5,000,000 (2010: 5,000,000) fully paid-up ordinary shares of Rs.10 (2010: Rs. 10) each.	9.6.1	50,000	50,000
President - Mr. Ghalib Nishtar			
Arabian Sea Country Club			
200,000 (2010: 200,000) fully paid-up ordinary shares of Rs.10 (2010 : Rs. 10) each.		2,000	2,000
Chief Executive Officer - Mr. Arif Ali Khan Abbasi			
		<u>52,000</u>	<u>52,000</u>

9.6.1 Subsequent to the year end, the Bank (as part of seller's consortium) has accepted a bid of Rs 20.44 per share in relation to proposed sale of shares of Khushhali Bank Limited. The sale of shares is conditional upon regulatory consents, approvals and execution of Share Purchase Agreement.

9.7 Particulars of Term Finance Certificates - unquoted secured	2011 (Rupees in '000)	2010 (Rupees in '000)
Power Holding Private Limited (liability assumed from National Transmission and Despatch Company Limited) - note 9.7.1		
Nil (2010: 124,200) certificates of Rs 5,000 each	-	621,000
Mark-up: Average six months KIBOR + 1.75 percent per annum		
Redemption: In six equal semi annual installments, after completion of grace period. First principal payment due at the end of 30th month from the first disbursement.		
Maturity: March 2014		
Chief Executive: Mr. Fazeel Asif		

		2011	2010
		(Rupees in '000)	
Power Holding Private Limited - note 9.7.1			
Nil (2010: 317,000) certificates of Rs 5,000 each		-	1,585,000
Mark-up:	Average six months KIBOR + 2.00 percent per annum		
Redemption:	In six equal semi annual installments, after completion of grace period. First principal payment due at the end of 30th month from the first disbursement.		
Maturity:	September 2014		
Chief Executive:	Mr. Fazeel Asif		
		<u>-</u>	<u>2,206,000</u>
9.7.1	These represented bank loan liabilities of power companies (which include term finance certificates issued by NTDC) that had been transferred to Power Holding (Private) Limited to bring all circular debts of power sector to a single point of responsibility. During the current year, the Federal Government decided to settle the circular debt issue, including all accrued mark-up and asked the banks to subscribe to an equal amount of Treasury Bills and PIBs against their outstanding exposure in the ratio of 50:50. Accordingly all the outstanding dues of the Bank were cleared by the Federal Government on November 4, 2011 by crediting Bank's SBP account. Following the settlement of term finance certificates the Bank purchased an equivalent amount of 12 months Treasury bills and 5 year PIBs on the same date.		
9.8	Particulars of provision for diminution in the value of investments	2011	2010
		(Rupees in '000)	
	Opening balance	52,000	52,000
	Charge for the year	-	-
	Reversals	-	-
	Closing balance	<u>52,000</u>	<u>52,000</u>
9.8.1	Particulars of provision for diminution in the value of investments by type and segment		
	Unlisted shares - available-for-sale investments	<u>52,000</u>	<u>52,000</u>
9.9	Quality of Available for Sale Securities		
		2011	2010
		Amount	Amount
		(Rupees'000)	(Rupees'000)
		Rating	Rating
		(where available)	(where available)
Federal Government Securities (at market value)			
	Market Treasury Bills	20,062,756	N/A
	Pakistan Investment Bonds	14,817,550	N/A
		<u>34,880,306</u>	<u>31,192,219</u>
Ordinary shares - unlisted (at cost)			
	Khushhali Bank Limited	50,000	A-(L), A-2(S)
	Arabian Sea Country Club	2,000	Unrated
		<u>52,000</u>	<u>52,000</u>
Term Finance Certificates - unlisted (at cost)			
	Power Holding Private Limited (liability assumed from National Transmission and Despatch Company Limited)	-	N/A
	Power Holding Private Limited	-	N/A
		<u>-</u>	<u>621,000</u>
		<u>-</u>	<u>1,585,000</u>
		<u>-</u>	<u>2,206,000</u>
	Total	<u>34,932,306</u>	<u>33,450,219</u>
	L - represents long term rating		
	S - represents short term rating		
9.10	Unrealised loss on revaluation of investments classified as held for trading	2011	2010
		(Rupees in '000)	
	Market Treasury Bills	(34,161)	(1,536)
	Pakistan Investments Bonds	(193,322)	(3,176)
		<u>(227,483)</u>	<u>(4,712)</u>

10 ADVANCES	Note	2011	2010
		(Rupees in '000)	
Loans, cash credits, running finances, etc. In Pakistan		23,085,918	22,115,762
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		662,607	1,076,895
Payable outside Pakistan		529,562	538,547
		<u>1,192,169</u>	<u>1,615,442</u>
Advances - gross		<u>24,278,087</u>	<u>23,731,204</u>
Provision against advances			
Specific - provision against non-performing advances	10.2	(5,338,814)	(4,309,629)
General - provision against advances	10.3.1	(118,870)	(177,362)
7	10.3	<u>(5,457,684)</u>	<u>(4,486,991)</u>
Advances - net of provision		<u><u>18,820,403</u></u>	<u><u>19,244,213</u></u>

10.1 Particulars of advances (gross)

10.1.1 In local currency	23,493,559	21,655,065
In foreign currencies	784,528	2,076,139
	<u>24,278,087</u>	<u>23,731,204</u>
10.1.2 Short term (for upto one year)	10,714,611	16,638,569
Long term (for over one year)	13,563,476	7,092,635
	<u>24,278,087</u>	<u>23,731,204</u>

10.1.3 Based on classification defined in SBP Prudential Regulations, advances amounting to Rs 18,893.208 million (2010: Rs 16,863.034 million) fall under the definition of Corporate advances while advances amounting to Rs 5,384.879 million (2010: Rs 6,868.170 million) fall under the categories of Consumer and SME classification as at December 31, 2011.

10.2 Advances include Rs. 5,506.335 million (2010: Rs.4,988.867 million) which have been placed under non-performing status as detailed below:

	2011			2010		
	Classified advances (Domestic)	Provision required	Provision held	Classified advances (Domestic)	Provision required	Provision held
	------(Rupees in '000)-----					
Category of classification						
Substandard	132,235	33,663	33,663	246,201	62,376	62,376
Doubtful	51,495	25,748	25,748	916,302	452,521	452,521
Loss	5,322,605	5,279,403	5,279,403	3,826,364	3,794,732	3,794,732
	<u>5,506,335</u>	<u>5,338,814</u>	<u>5,338,814</u>	<u>4,988,867</u>	<u>4,309,629</u>	<u>4,309,629</u>

10.3 Particulars of provision against advances

	Note	2011			2010		
		Specific	General	Total	Specific	General	Total
		------(Rupees in '000)-----					
Opening balance		4,309,629	177,362	4,486,991	2,486,006	473,818	2,959,824
Charge for the year		1,556,833	-	1,556,833	2,649,139	-	2,649,139
Reversals		(360,476)	(58,492)	(418,968)	(484,671)	(296,456)	(781,127)
		1,196,357	(58,492)	1,137,865	2,164,468	(296,456)	1,868,012
Amounts written off	10.4.1	(167,172)	-	(167,172)	(220,644)	-	(220,644)
Reversal on sale of mortgage portfolio		-	-	-	(120,201)	-	(120,201)
Closing balance		<u>5,338,814</u>	<u>118,870</u>	<u>5,457,684</u>	<u>4,309,629</u>	<u>177,362</u>	<u>4,486,991</u>

10.3.1 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.

10.3.2 Particulars of provision against advances

	2011			2010		
	Specific	General	Total	Specific	General	Total
	------(Rupees in '000)-----					
In local currency	<u>5,338,814</u>	<u>118,870</u>	<u>5,457,684</u>	<u>4,309,629</u>	<u>177,362</u>	<u>4,486,991</u>

10.3.3 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 credit cards and personal loans. These securities comprise of charge against various tangible assets of the borrower including land, building and machinery, stock in trade etc.

	Note	2011 (Rupees in '000)	2010 (Rupees in '000)
10.4 Particulars of write-offs			
10.4.1 Against provisions	10.3	167,172	220,644
Directly charged to profit and loss account		<u>33,986</u>	<u>74,335</u>
		<u>201,158</u>	<u>294,979</u>
10.4.2 Write offs of Rs. 500,000 and above	10.5	55,248	96,540
Write offs of below Rs. 500,000		<u>145,910</u>	<u>198,439</u>
		<u>201,158</u>	<u>294,979</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, 2011 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.

	2011 (Rupees in '000)	2010 (Rupees in '000)
10.6 Particulars of loans and advances to directors, executives associated companies, etc.		
Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons *		
Balance at beginning of the year	964,264	1,155,671
Loans granted during the year	215,945	208,702
Repayments	<u>(280,919)</u>	<u>(400,109)</u>
Balance at end of the year	<u>899,290</u>	<u>964,264</u>

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

	Note	2011 (Rupees in '000)	2010 (Rupees in '000)
11 FIXED ASSETS			
Capital work-in-progress	11.1	8,923	4,650
Property and equipment	11.2	511,275	729,551
Intangible assets	11.3	<u>114,501</u>	<u>131,439</u>
		<u>634,699</u>	<u>865,640</u>

11.1 Capital work-in-progress

Equipment	-	2,159
Advances to suppliers and contractors	7,190	115
Others	<u>1,733</u>	<u>2,376</u>
	<u>8,923</u>	<u>4,650</u>

11.2 Property and equipment

	2011							Rate of depreciation
	COST			ACCUMULATED DEPRECIATION			BOOK VALUE	
	As at January 01, 2011	Additions/ (Deletions)	As at December 31, 2011	As at January 01, 2011	Charge for the year / (on deletions)	As at December 31, 2011	As at December 31, 2011	
	(Rupees in '000)							
Leasehold land and buildings	6,295	-	6,295	2,089	244	2,333	3,962	5
Furniture and fixtures	701,223	12,543 (95,019)	618,747	423,483	119,470 (92,293)	450,660	168,087	10 - 50
Electrical, office and computer equipment	1,248,011	19,000 (21,141)	1,245,870	936,711	167,017 (20,034)	1,083,694	162,176	14.3-33.33
Vehicles	279,840	120,809 (75,701)	324,948	143,535	58,386 (54,023)	147,898	177,050	20
	2,235,369	152,352 (191,861)	2,195,860	1,505,818	345,117 (166,350)	1,684,585	511,275	

	2010							Rate of depreciation
	COST			ACCUMULATED DEPRECIATION			BOOK VALUE	
	As at January 01, 2010	Additions/ (Deletions)	As at December 31, 2010	As at January 01, 2010	Charge for the year / (on deletions)	As at December 31, 2010	As at December 31, 2010	
	(Rupees in '000)							
Leasehold land and buildings	6,751	- (456)	6,295	2,301	244 (456)	2,089	4,206	5
Furniture and fixtures	777,546	17,778 (94,101)	701,223	406,899	100,528 (83,944)	423,483	277,740	10 - 50
Electrical, office and computer equipment	1,291,665	2,503 (46,157)	1,248,011	764,425	212,585 (40,299)	936,711	311,300	14.3-33.33
Vehicles	285,565	64,662 (70,387)	279,840	119,757	58,790 (35,012)	143,535	136,305	20
	2,361,527	84,943 (211,101)	2,235,369	1,293,382	372,147 (159,711)	1,505,818	729,551	

11.2.1 The cost of fully depreciated assets still in use amounts to Rs. 961.151 million (2010: Rs. 704.289 million).

11.2.2 During the year the Bank decided to vacate certain premises. Pursuant to this decision the management has recognised an accelerated depreciation of Rs. 58.39 million (2010: Rs. 40.96 million) on certain fixed assets located at these premises.

11.3 Intangible assets

	2011							Rate of amortisation
	COST			ACCUMULATED AMORTISATION			BOOK VALUE	
	As at January 01, 2011	Additions / (deletions)	As at December 31, 2011	As at January 01, 2011	Amortisation for the year / (amortisation on deletions)	As at December 31, 2011	As at December 31, 2011	
	(Rupees in '000)							%
Computer software	258,524	31,608	290,132	127,085	48,546	175,631	114,501	20 - 33.33

	2010							Rate of amortisation
	COST			ACCUMULATED AMORTISATION			BOOK VALUE	
	As at January 01, 2010	Additions / (deletions)	As at December 31, 2010	As at January 01, 2010	Amortisation for the year / (amortisation on deletions)	As at December 31, 2010	As at December 31, 2010	
	(Rupees in '000)							%
Computer software	258,524	-	258,524	75,905	51,180	127,085	131,439	20 - 33.33

11.3.1 The cost of fully amortised assets still in use amounts to Rs. 68.147 million (2010: Rs 41.653 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	2011	2010
		(Rupees in '000)	
12 DEFERRED TAX ASSETS - net			
Deferred tax assets - net	12.1	<u>3,614,421</u>	<u>3,693,968</u>
12.1 Deferred debits arising due to:			
- deficit on revaluation of available for sale investments	20	82,459	147,691
- provision against off balance sheet items and corporate and consumer financing	12.2	3,385,487	3,367,809
- accelerated tax depreciation		44,809	22,210
- other deductible temporary differences		182,051	156,258
Deferred credit arising due to:			
- effect of re-measurement of cost under share based payment		(80,385)	-
		<u>3,614,421</u>	<u>3,693,968</u>
12.2			
During the current year, the Bank has recognised a deferred tax asset of Rs. 245.157 million on provisions amounting to Rs. 700.449 million made in 2010 which were in excess of 5% of gross advances pertaining to Consumer and SMEs. Previously, the management had not recognised this amount, as Finance Act, 2010 appeared to restrict carry forward of provisions for advances and off balance sheet items in excess of 5% for Consumer and SME advances. However, during the current year, Finance Act, 2011 has clarified that provisions for advances and off balance sheet items in excess of 5% of Consumer and SME advances are also allowed to be carried forward.			
Management has carried out an exercise at year end to evaluate realisation of deferred tax asset, and concluded that full benefit will be allowed in succeeding years.			
13 OTHER ASSETS	Note	2011	2010
		(Rupees in '000)	
Income / mark-up accrued in local currency		1,359,553	799,664
Income / mark-up accrued in foreign currencies		13,989	13,534
Advances, deposits, prepayments and other receivables		368,383	374,299
Non-banking assets acquired in satisfaction of claims	13.1	18,158	21,562
Unrealised gain on forward foreign exchange contracts, foreign currency options and derivative contracts		2,164,818	2,241,437
Receivable from the State Bank of Pakistan - customer encashed USD Bonds / SSCs and DSCs		1,805	26,459
Others		<u>45,748</u>	<u>47,884</u>
		3,972,454	3,524,839
Less: Provision held against non-banking assets acquired in satisfaction of claims	13.2	<u>17,593</u>	<u>19,774</u>
Other assets - net of provision		<u>3,954,861</u>	<u>3,505,065</u>
13.1			
Market value of non-banking assets acquired in satisfaction of claims		<u>22,848</u>	<u>27,073</u>
13.2 Provision against other assets			
Opening balance		19,774	22,237
Charge for the year		(2,181)	(2,463)
Closing balance		<u>17,593</u>	<u>19,774</u>
14 CONTINGENT ASSETS			
There were no contingent assets of the Bank as at December 31, 2011 (2010: Nil).			
15 BILLS PAYABLE			
In Pakistan		<u>2,028,623</u>	<u>1,164,263</u>
16 BORROWINGS FROM FINANCIAL INSTITUTIONS			
In Pakistan		7,633,273	4,342,038
Outside Pakistan		3,597,828	-
		<u>11,231,101</u>	<u>4,342,038</u>

16.1 Particulars of borrowings with respect to currencies	Note	2011 (Rupees in '000)	2010 (Rupees in '000)
In local currency		7,633,273	4,342,038
In foreign currencies		3,597,828	-
		<u>11,231,101</u>	<u>4,342,038</u>
16.2 Details of borrowings Secured / Unsecured			
Secured			
Borrowings from State Bank of Pakistan			
Under export refinance scheme	16.2.1	1,080,060	1,361,561
Under Long Term Financing-Export Oriented Projects scheme (LTF-EOP)	16.2.2	35,345	93,178
Repurchase agreement borrowings	16.2.3	6,358,902	2,787,299
		7,474,307	4,242,038
Unsecured			
Call borrowings	16.2.4	3,697,828	100,000
Overdrawn accounts		58,966	-
		<u>3,756,794</u>	<u>100,000</u>
		<u>11,231,101</u>	<u>4,342,038</u>

16.2.1 The Bank has entered into an agreement for financing with the State Bank of Pakistan (SBP) for extending export finance to customers. As per the agreement, 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. These borrowings carry mark-up at rate of 10% (2010: 8.5% to 9%) per annum payable on a quarterly basis.

16.2.2 These borrowings have been made from 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% (2010: 5%) per annum payable on a quarterly basis.

16.2.3 These represent repurchase agreement borrowings from other banks and carry mark up at rate of 11.60% (2010: 13% to 13.25%) per annum and having maturities up to January 2012 (2010: January 2011).

16.2.4 This includes unsecured borrowings from Citibank UK amounting to USD 40 million (Rs 3.598 billion) [2010: USD Nil (Rs: Nil)] carrying mark-up rate of 0.25% (2010: Nil) per annum and are due to mature in January 2012 (2010: Nil). The remaining unsecured borrowing carries mark-up rate of 13.1% (2010: 12.75%) per annum and is due to mature in March 2012 (2010: January 2011).

17 DEPOSITS AND OTHER ACCOUNTS	2011 (Rupees in '000)	2010 (Rupees in '000)
Customers		
Fixed deposits	24,451,398	34,557,683
Savings deposits	24,529,126	20,375,001
Current accounts - non-remunerative	10,736,109	10,098,438
Other deposits	60,524	247,829
	59,777,157	65,278,951
Financial institutions		
Remunerative deposits	841,377	2,016,499
Non-remunerative deposits	1,059,981	1,009,364
	1,901,358	3,025,863
	<u>61,678,515</u>	<u>68,304,814</u>
17.1 Particulars of deposits		
In local currency	48,070,500	57,021,986
In foreign currencies	13,608,015	11,282,828
	<u>61,678,515</u>	<u>68,304,814</u>

17.2 Includes deposits of Citigroup companies amounting to Rs. 611.279 million (2010: Rs. 618.795 million).

	Note	2011	2010
		(Rupees in '000)	
18 OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		634,408	615,684
Mark-up / return / interest payable in foreign currencies		329	3,209
Unearned commission and income on bills discounted		63,530	77,551
Accrued expenses	18.1	789,967	759,575
Current taxation (provision less payments)		323,843	800,291
Unrealised loss on forward foreign exchange contracts, foreign currency options and derivative contracts		7,719,976	11,058,699
Unremitted head office expenses		773,734	544,193
Payable to regional offices for support services		123,548	62,165
Payable to defined benefit plan	33.4	99,244	71,324
Provision against off-balance sheet obligations	18.2	16,000	23,185
Advances from customers		19,380	20,507
Short sell - Pakistan Investment Bonds		-	44,850
Others		634,231	596,092
		<u>11,198,190</u>	<u>14,677,325</u>

18.1 This includes the Bank's obligation to the ultimate holding company under the stock award and stock option programmes. As of December 31, 2011 recognised liability for share based incentive plans was Rs. 93.937 million (2010: Rs. 73.566 million).

	Note	2011	2010
		(Rupees in '000)	
18.2 Provision against off-balance sheet obligations			
Opening balance		23,185	23,185
Reversal during the year		(7,185)	-
Closing balance		<u>16,000</u>	<u>23,185</u>

19 HEAD OFFICE CAPITAL ACCOUNT

Capital held as:

Deposit of un-encumbered approved securities	19.1	<u>6,812,671</u>	<u>6,812,671</u>
		<u>6,812,671</u>	<u>6,812,671</u>

19.1 This represents Market Treasury Bills having face value of Rs. 5,090 million (2010: Rs. 4,600 million) and Pakistan Investment Bonds having face value of Rs. 2,600 million (2010: Rs. 3,090 million). The market value of Market Treasury Bills and Pakistan Investment Bonds as at December 31, 2011 amounts to Rs. 4,520.700 million and Rs. 2,551.734 million (2010: Rs. 4,437.882 million and Rs. 3,086.372 million) and these have maturities of up to September 2012 and June 2024 respectively (2010: June 2011 and June 2024).

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

	Note	2011	2010
		(Rupees in '000)	
20 SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS - net			
Federal Government Securities			
- Market Treasury Bills		38,208	(11,795)
- Pakistan Investment Bonds		(273,804)	(410,179)
		(235,596)	(421,974)
Less: Related deferred tax asset	12.1	82,459	147,691
		<u>(153,137)</u>	<u>(274,283)</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.

	2011	2010
	(Rupees in '000)	
(i) Government	90,662	21,148
(ii) Banking companies and other financial institutions	-	68,874
(iii) Others	92,839	7,010,606
	<u>183,501</u>	<u>7,100,628</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.

	2011	2010
	(Rupees in '000)	
(i) Government	895,793	1,078,396
(ii) Banking companies and other financial institutions	103,165	120,152
(iii) Others	1,790,825	1,717,533
	<u>2,789,783</u>	<u>2,916,081</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	2011	2010
		(Rupees in '000)	
Letters of credit / acceptances		<u>20,907,945</u>	<u>13,235,235</u>

21.4 Other contingencies

Indemnity issued		15,484	15,484
Claims not acknowledged as debt		282,818	276,363
	21.4.1	<u>298,302</u>	<u>291,847</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 bank received communication from the State Bank of Pakistan (SBP) dated March 25, 2011 wherein the Bank was asked to take measures to fully comply with the requirements specified by the SBP's guidelines relating to the 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 returns on these deposits are in accordance with the Bank's General Terms and Conditions. The possible financial impact, if any, has not been determined as it involves data relating to past several years. The Bank has taken up the matter with the SBP and discussions with the SBP are in progress. The management is confident that this matter will be resolved in its favour.

21.5 Commitments in respect of forward transactions

	2011	2010
	(Rupees in '000)	
Forward repurchase agreement lendings (reverse repos)	<u>1,340,776</u>	<u>11,372,857</u>
Forward repurchase agreement borrowings (repos)	<u>6,369,027</u>	<u>2,790,284</u>
Forward agreement to purchase (reverse repos)	<u>-</u>	<u>-</u>
Forward sale contracts of government securities	<u>-</u>	<u>838,267</u>
Uncancellable commitments to extend credit	<u>5,700,444</u>	<u>378,430</u>

21.6 Commitments in respect of forward exchange contracts	2011	2010
	(Rupees in '000)	
Purchase	<u>124,445,528</u>	<u>128,072,394</u>
Sale	<u>76,128,440</u>	<u>71,842,177</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.

21.7 Other commitments	Note	2011	2010
		(Rupees in '000)	
Cross currency and interest rate derivative contracts (notional amount)	22.1	<u>50,262,515</u>	<u>66,308,305</u>
Foreign currency options	22.1	<u>6,433,560</u>	<u>2,062,762</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	2011			
	Interest Rate and Cross Currency Swaps		FX Options	
	Number of Contracts	Notional Principal (Rupees in '000)	Number of Contracts	Notional Principal (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
	<u>75</u>	<u>50,262,515</u>	<u>6</u>	<u>6,433,560</u>

Counterparties	2010			
	Interest Rate and Cross Currency Swaps		FX Options	
	Number of Contracts	Notional Principal (Rupees in '000)	Number of Contracts	Notional Principal (Rupees in '000)
With Banks for				
Hedging	2	13,639,591	8	1,031,381
Market Making	3	245,506	1	73,696
With FIs other than banks				
Hedging	-	-	-	-
Market Making	4	2,549,209	-	-
With other entities for				
Hedging	-	-	-	-
Market Making	82	49,873,999	7	957,685
Total				
Hedging	2	13,639,591	8	1,031,381
Market Making	89	52,668,714	8	1,031,381
	91	66,308,305	16	2,062,762

22.2 Maturity analysis

Interest rate and cross currency swaps

Remaining maturity

	Number of Contracts	Notional Principal	2011		
			Mark to Market		Net
			Negative	Positive	
			(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	-	-	-	-	-
	75	50,262,515	(38,679,661)	32,269,792	(6,409,869)

Remaining maturity

	Number of Contracts	Notional Principal	2010		
			Mark to Market		Net
			Negative	Positive	
			(Rupees in '000)		
Upto 1 month	-	-	-	-	-
1 to 3 months	2	627,464	(740,527)	654,288	(86,239)
3 to 6 months	1	65,962	(104,325)	66,977	(37,348)
6 months to 1 Year	13	1,141,821	(1,602,326)	1,177,588	(424,738)
1 to 2 Years	17	1,875,725	(2,219,911)	1,845,845	(374,066)
2 to 3 Years	40	20,333,221	(25,764,229)	20,622,742	(5,141,487)
3 to 5 Years	14	30,575,356	(7,307,138)	6,546,543	(760,595)
5 to 10 years	4	11,688,756	(12,928,945)	12,365,409	(563,536)
Above 10 Years	-	-	-	-	-
	91	66,308,305	(50,667,401)	43,279,392	(7,388,009)

22.3 As at December 31, 2011 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.

		2011	2010
		(Rupees in '000)	
23	MARK-UP/ RETURN/ INTEREST EARNED		
	a) On loans and advances to		
	Customers	2,529,096	3,120,868
	Financial Institutions	-	-
	b) On investments in		
	Held for trading securities	1,772,089	1,106,373
	Available for sale securities	3,865,283	3,367,930
	c) On deposits with financial institutions	9,907	10,618
	d) On securities purchased under resale agreements (reverse repo)	2,103,296	1,768,186
		<u>10,279,671</u>	<u>9,373,975</u>
24	MARK-UP / RETURN / INTEREST EXPENSED		
	Deposits	4,058,015	3,864,783
	Securities sold under repurchase agreements (repo)	349,976	201,424
	Borrowings (including LTF - EOP)	172,049	174,883
		<u>4,580,040</u>	<u>4,241,090</u>
25	INCOME FROM DEALING IN FOREIGN CURRENCIES		
	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.		
		Note	
26	GAIN / (LOSS) ON SALE OF SECURITIES		2011
			2010
			(Rupees in '000)
	Federal Government Securities		
	Market Treasury Bills	237,018	8,297
	Pakistan Investment Bonds	424,494	(26,721)
	Shares - listed	-	349,037
		<u>661,512</u>	<u>330,613</u>
27	OTHER INCOME		
	Credit losses recovered	162,886	174,907
	Net profit on sale of property and equipment	13,937	66,739
	Income from derivative contracts	27.1 (2,322,053)	(1,692,231)
	Others	53,526	11,266
		<u>(2,091,704)</u>	<u>(1,439,319)</u>
27.1	This includes funding cost of FX swaps amounting to Rs. 1.6 billion (2010: Rs. 1.9 billion).		
		Note	
28	ADMINISTRATIVE EXPENSES		2011
			2010
			(Rupees in '000)
	Salaries, allowances, etc.		1,049,667
	Charge for defined benefit plan	33.8	66,183
	Contribution to defined contribution plan	34	49,182
	Head office / Regional office expenses		421,680
	Rent, taxes, insurance, electricity, etc.		449,737
	Contract services		536,859
	Legal and professional charges		30,059
	Communications		162,555
	Repairs and maintenance		120,989
	Travelling and conveyance		106,376
	Stationery and printing		54,146
	Advertisement and publicity		24,902
	Support services from regional offices		293,961
	Donations	28.1	-
	Auditors' remuneration	28.2	2,733
	Depreciation	11.2	345,117
	Amortization	11.3	48,546
	Restructuring expense		52,794
	Others		187,398
			<u>4,002,884</u>
			<u>3,879,891</u>

28.1 The Bank or any of its directors or their spouses had no interest in the donees. Details of donations are as follows:

	2011 (Rupees in '000)	2010 (Rupees in '000)
Edhi Foundation	-	3,500
HOPE Foundation	-	783
	<u>-</u>	<u>4,283</u>
28.2 Auditors' remuneration		
Audit fee	1,450	1,450
Fee for the half yearly review	450	450
Special certifications and sundry advisory services	400	1,700
Out-of-pocket expenses	433	200
	<u>2,733</u>	<u>3,800</u>
29 OTHER CHARGES		
Penalties imposed by State Bank of Pakistan	3,130	832
Worker's Welfare Fund	48,015	54,297
Loss on sale of mortgage portfolio	-	110,481
	<u>51,145</u>	<u>165,610</u>
30 TAXATION		
For the year		
Current	1,419,218	1,156,019
Deferred	(378,625)	(330,828)
	<u>1,040,593</u>	<u>825,191</u>
For prior years		
Current	(585,349)	(405,021)
Deferred	312,555	353,895
	<u>(272,794)</u>	<u>(51,126)</u>
	<u>767,799</u>	<u>774,065</u>

The income tax assessments of the Bank have been finalised upto and including tax year 2011. 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 addition of mark-up in suspense to income, 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.

	2011 (Rupees in '000)	2010 (Rupees in '000)
30.1 Relationship between tax expense and accounting profit		
Profit before taxation	<u>2,523,836</u>	<u>1,197,003</u>
Taxation at the applicable tax rate of 35% (2010: 35%)	883,343	418,951
Prior year reversal	(272,794)	(51,126)
Taxation effect of expenses that are not deductible in determining taxable income	147,829	100,903
Taxation effect of income chargeable to tax at reduced rates	-	(7,990)
Taxation effect of provision against consumer and SME advances in excess of 5% of such advances	-	245,157
Others	9,421	68,170
	<u>767,799</u>	<u>774,065</u>
31 CASH AND CASH EQUIVALENTS		
Cash and balance with treasury banks	6 6,990,879	7,001,789
Balance with other banks	7 1,149,455	1,396,604
Overdrawn accounts	16.2 (58,966)	-
	<u>8,081,368</u>	<u>8,398,393</u>

		2011	2010
32 STAFF STRENGTH		(Number of employees)	
Permanent		543	621
Contractual basis		-	-
Bank's own staff strength at the end of the year		<u>543</u>	<u>621</u>
Outsourced		<u>473</u>	<u>732</u>
Total staff strength at the end of the year		<u><u>1,016</u></u>	<u><u>1,353</u></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, 2011 using the Projected Unit Credit Method. The main assumptions used for the actuarial valuation were as follows:			
		2011	2010
Discount rate		12%	14%
Estimated return on plan assets of the fund - per annum		12%	13%
Estimated salary increase - per annum		11%	11%
Estimated service length of the employees		9 years	9 years
33.3 Reconciliation of payable to defined benefit plan	Note	2011	2010
		(Rupees in '000)	
Present value of defined benefit obligations	33.5	314,062	221,720
Fair value of plan assets	33.6	(97,375)	(96,350)
Net actuarial losses not recognised		<u>(117,443)</u>	<u>(54,046)</u>
		<u><u>99,244</u></u>	<u><u>71,324</u></u>
33.4 Movement in payable to defined benefit plan			
Opening balance		71,324	61,113
Charge for the year	33.8	66,183	43,246
Banks contribution to fund made during the year		<u>(38,263)</u>	<u>(33,035)</u>
Closing balance		<u><u>99,244</u></u>	<u><u>71,324</u></u>
33.5 Movement in defined benefit obligation			
Obligations at the beginning of the year		221,720	185,911
Current service cost		26,430	21,781
Interest cost		29,654	23,518
Benefits paid by the fund		(52,957)	(52,914)
Actuarial gains on obligation		89,215	43,424
Obligations at the end of the year		<u><u>314,062</u></u>	<u><u>221,720</u></u>
33.6 Movement in fair value of plan asset			
Opening balance		96,350	108,250
Expected return on plan assets		13,320	14,951
Contribution by the Bank		38,263	33,035
Benefits paid by the fund		(52,957)	(52,914)
Actuarial gain / (loss) on plan assets		2,399	(6,972)
Fair value at the end of the year		<u><u>97,375</u></u>	<u><u>96,350</u></u>
33.7 Plan assets consists of the following			
Pakistan Investment Bonds		53,769	91,408
Market Treasury Bills		35,348	-
Cash and bank		<u>8,258</u>	<u>4,942</u>
		<u><u>97,375</u></u>	<u><u>96,350</u></u>

	2011	2010
	(Rupees in '000)	
33.8 Charge for defined benefit plan		
Current service cost	26,430	21,781
Interest cost	29,654	23,518
Expected return on plan assets	(13,320)	(14,951)
Net actuarial (gains) / losses recognised	3,541	12,898
Curtailment gain	19,878	-
	<u>66,183</u>	<u>43,246</u>
33.9 Actual return on plan assets	<u>12,038</u>	<u>17,980</u>

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

	2011	2010	2009	2008	2007
	(Rupees '000)				
Present value of defined benefit obligation	(314,062)	(221,720)	(185,911)	(185,670)	(299,510)
Fair value of plan assets	97,375	96,350	108,250	104,211	150,289
Deficit	<u>(216,687)</u>	<u>(125,370)</u>	<u>(77,661)</u>	<u>(81,459)</u>	<u>(149,221)</u>
Experience adjustments on plan liabilities [loss / (gain)]	89,215	43,424	(1,535)	(97,925)	61,131
Experience adjustments on plan assets [loss / (gain)]	2,399	6,972	(5,317)	12,166	(3,371)

33.11 The expected contribution to the gratuity fund for the next year commencing January 1, 2012 is Rs. 72.628 million (2010: Rs. 46.306 million for the year commencing January 1, 2011).

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 10 percent of basic salary.

During the year, the Bank contributed Rs 49.182 million (2010: Rs 49.885 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. During the 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 year ended December 31, 2011 and December 31, 2010 have been 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:

	2011		2010	
	Options (Number of shares)	Weighted average share price USD	Options (Number of shares)	Weighted average share price USD
Outstanding at the beginning of the year	4,912	52.00	7,419	101.40
Granted	-	-	-	-
Forfeited	(4)	40.80	(113)	40.80
Exercised	-	-	-	-
Transfers	(9)	40.80	(1,551)	53.10
Expired	(54)	495.48	(843)	486.10
Outstanding at the end of the year	<u>4,845</u>	<u>47.12</u>	<u>4,912</u>	<u>52.00</u>
Exercisable at the end of year	<u>3,269</u>	<u>50.17</u>	<u>1,750</u>	<u>72.20</u>

No share options were exercised during the year (2010: No option exercised).

- 35.2 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
< \$300.00	4,764	3.83	40.80	3,188	40.80
\$300.00 - \$399.99	-	-	-	-	-
\$400.00 - \$499.99	81	0.12	421.10	81	421.10
\$500.00 and above	-	-	-	-	-
	<u>4,845</u>	<u>3.77</u>	<u>47.12</u>	<u>3,269</u>	<u>50.17</u>

The following table summarises the information about stock options outstanding under the programme at December 31, 2010:

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
< \$300.00	4,778	4.83	40.80	1,616	40.80
\$300.00 - \$399.99	-	-	-	-	-
\$400.00 - \$499.99	134	0.69	450.80	134	450.80
\$500.00 and above	-	-	-	-	-
	<u>4,912</u>	<u>4.72</u>	<u>52.00</u>	<u>1,750</u>	<u>72.20</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:

	2011		2010	
	Shares	Weighted average share price USD	Shares	Weighted average share price USD
Unvested at the beginning of the year	9,028	84.40	5,411	192.70
Awards	3,621	50.20	5,470	35.20
Cancellations	-	-	-	-
Deletions	-	-	-	-
Vestings	(3,052)	155.34	(1,853)	255.10
Unvested at the end of the year	<u>9,597</u>	<u>54.95</u>	<u>9,028</u>	<u>84.40</u>

- 35.4 Net reversal of Rs. 23.713 million (2010: Rs. 32.858 million) was recognised in equity arising mainly due to fair value adjustment as required by IFRS 2 - Share Based Payment. As of December 31, 2011 recognised liability for outstanding share based incentive plans was Rs. 93.937 million (2010: Rs. 73.566 million). Fair value of shares has been determined on the basis of market value of shares of Citigroup Inc. as at December 31, 2011. i.e. USD 26.31 (2010: USD 47.3 - adjusted for reserve stock split) per share.

36 COMPENSATION OF CHIEF EXECUTIVE AND EXECUTIVES

	Ex - Chief Executive Officer		Executives	
	2011	2010	2011	2010
(Rupees in '000)				
Managerial remuneration	34,003	33,793	452,800	485,104
Charge for defined benefit plan	1,333	1,067	32,201	31,844
Contribution to defined contribution plan	1,667	1,333	38,656	38,228
Rent and house maintenance	6,667	5,333	154,625	159,965
Utilities	2,733	1,874	88,294	80,400
Medical	34	93	7,262	7,587
Others	1,694	1,459	29,988	17,025
	<u>48,131</u>	<u>44,952</u>	<u>803,826</u>	<u>820,153</u>
Number of persons	<u>1</u>	<u>1</u>	<u>296</u>	<u>313</u>

The Bank also provides free use of furnished accommodation to the Chief Executive and bank maintained cars to the Chief Executive 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:

	2011			
	Trading & Sales	Retail Banking	Corporate Banking	Total
	------(Rupees in '000)-----			
Total Income	4,855,680	2,817,753	4,655,442	12,328,875
Total Expenses	2,239,833	3,725,536	4,607,469	10,572,838
Net Income	2,615,847	(907,783)	47,973	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 *	-	2,123,487	3,403,790	5,527,277
Segment Liabilities	18,143,801	29,753,945	38,238,683	86,136,429
Segment Return on net Assets (ROA) (%)**	3.7%	-10.5%	0.3%	1.8%
Segment Cost of funds (%)***	9.9%	4.7%	7.0%	6.3%

	2010			
	Trading & Sales	Retail Banking	Corporate Banking	Total
	------(Rupees '000)-----			
Total Income	4,365,685	3,278,835	3,783,153	11,427,673
Total Expenses	2,051,520	5,055,612	3,897,603	11,004,735
Net Income	2,314,165	(1,776,777)	(114,450)	422,938
Segment Assets (Gross)	69,389,896	13,220,950	19,301,831	101,912,677
Segment Non Performing Loans	-	1,845,071	3,143,796	4,988,867
Segment Provision Required *	-	1,997,335	2,561,430	4,558,765
Segment Liabilities	14,421,510	30,351,885	43,715,045	88,488,440
Segment Return on net Assets (ROA) (%)**	3.3%	-15.8%	-0.7%	0.4%
Segment Cost of funds (%)***	9.1%	5.2%	6.8%	6.1%

* 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 December 31, 2010	Net placements / disbursements / deposits / transfers	Net settlements / repayments / withdrawals / transfers	Balance as at December 31, 2011
------(Rupees in '000)-----				
Loans and Advances				
Key management personnel	382	1,681	(1,803)	260
Deposits				
Associated undertakings	618,795	1,154,380	(1,161,896)	611,279
Key management personnel	7,306	85,761	(80,909)	12,158
Staff retirement benefit funds	13,657	1,835,927	(1,833,104)	16,480
			2011	2010
			------(Rupees '000)-----	
Nostro balances / placements with Citibank Branches outside Pakistan			1,070,518	1,312,499
Call Borrowing			3,597,828	-
Unremitted head office expenses			773,734	544,193
Payable for expenses and share based payment			217,485	119,088
Payable to defined benefit plan			99,244	71,324
Commitments in respect of forward exchange contracts				
Purchase			18,755,714	22,103,602
Sale			18,502,714	22,103,602
Interest rate swap - Notional principal			10,405,082	13,639,591
Foreign currency options - Notional principal			3,216,780	1,031,381
Contribution to staff retirement benefit funds			87,445	82,920
Income / expense for the year				
Mark-up / return / interest earned			3,295	10,162
Mark-up / return / interest expensed			1,008	1,961
Other income			4,746	7,545
Regional expenses for support services			293,961	287,463
Head office expenses			421,680	219,697
Remuneration paid to key management personnel			62,030	59,273
Sale of fixed assets			92	1,008

40 CAPITAL-ASSESSMENT AND ADEQUACY

40.1 Capital Management

The Bank manages its capital under the Basel II Standardised approach. The Bank has adopted Standardized 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, 2011 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, 2011 was 22.61% 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:

Regulatory capital base	2011	2010
	------(Rupees in '000)-----	
Tier I Capital		
Head office capital account	6,812,671	6,812,671
Reserves	149,286	125,573
Unremitted profit	3,957,548	2,201,511
	<u>10,919,505</u>	<u>9,139,755</u>
Less: Deductions		
- Book value of intangibles	(114,501)	(131,439)
- Deficit on account of revaluation of investments held in AFS category	(235,596)	(421,974)
	<u>(350,097)</u>	<u>(553,413)</u>
Total Tier I Capital	<u>10,569,408</u>	<u>8,586,342</u>
Tier II Capital		
General Provisions for loan losses subject to 1.25% of total risk weighted assets		
Total Tier II Capital	118,870	177,362
Eligible Tier III Capital	-	-
Total Regulatory Capital Base (I+II+III)	<u>10,688,278</u>	<u>8,763,704</u>

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) recognized as eligible by SBP for capital adequacy purposes. 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 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 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	
	2011	2010	2011	2010
	------(Rupees in '000)-----			
Credit Risk				
Portfolios subject to standardised approach				
On Balance Sheet Items:				
Cash	-	-	-	-
Claims on Government of Pakistan, Sovereign and State Bank of Pakistan	8,330	2,212	83,300	22,117
Claims on Public sector entities in Pakistan	9,756	125,140	97,563	1,251,402
Claims on Banks	25,468	36,650	254,679	366,501
Claims on Corporate	1,202,335	1,201,050	12,023,347	12,010,500
Claims categorised as retail portfolio	206,248	329,222	2,062,480	3,292,221
Claims fully secured by residential property	26,612	28,246	266,121	282,456
Past due loans	15,658	65,352	156,580	653,519
Operating fixed assets	52,020	73,420	520,199	734,201
All Other assets	394,666	399,670	3,946,657	3,996,697
	<u>1,941,093</u>	<u>2,260,962</u>	<u>19,410,926</u>	<u>22,609,614</u>
Off Balance Sheet items:				
Direct credit substitutes and other commitments	376,014	899,274	3,760,138	8,992,735
Performance related contingencies	329,310	76,303	3,293,102	763,030
Trade related contingencies and shipping guarantees	132,259	74,735	1,322,594	747,348
Other commitments that can be unconditionally cancelled	-	-	-	-
Outstanding foreign exchange contracts	78,143	75,168	781,432	751,684
Outstanding derivatives contracts	185,242	267,738	1,852,418	2,677,376
	<u>1,100,968</u>	<u>1,393,218</u>	<u>11,009,684</u>	<u>13,932,173</u>
Credit risk-weighted exposures	<u>3,042,061</u>	<u>3,654,180</u>	<u>30,420,610</u>	<u>36,541,787</u>
Market Risk				
Capital Requirement for portfolios subject to Standardized Approach				
Interest rate risk	236,373	309,699	2,363,728	3,096,988
Foreign exchange risk	102,781	162,081	1,027,813	1,620,812
Equity position risk etc.	-	-	-	-
Market risk-weighted exposures	<u>339,154</u>	<u>471,780</u>	<u>3,391,541</u>	<u>4,717,800</u>
Operational Risk				
Capital Requirement for operational risks subject to Basic Indicator Approach				
	<u>1,346,555</u>	<u>1,471,351</u>	<u>13,465,546</u>	<u>14,713,506</u>
Total	<u><u>4,727,770</u></u>	<u><u>5,597,311</u></u>	<u><u>47,277,697</u></u>	<u><u>55,973,093</u></u>

Capital Adequacy Ratio	2011	2010
	----- (Rupees in '000) -----	
Total eligible regulatory capital held (a)	<u>10,688,278</u>	<u>8,763,704</u>
Total risk weighted assets (b)	<u>47,277,697</u>	<u>55,973,093</u>
Capital Adequacy Ratio [(a)/(b)x100]	22.61%	15.66%

41 RISK MANAGEMENT

The Head office capital account of the Bank for the year ended December 31, 2011 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, 2011 was 22.61% 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 minimize 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 standardized approach the capital requirement is based on the credit rating assigned to the counterparties by the External Credit Assessment Institutions (ECAIs) duly recognized by SBP for capital adequacy purposes. In this connection, Bank utilizes the credit ratings assigned by ECAIs and has recognized 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 recognized 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 is 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	
2	AA-	Aa3	AA-	AA-	AA-	
	A+	A1	A+	A+	A+	2
	A	A2	A	A	A	
3	A-	A3	A-	A-	A-	
	BBB+	Baa1	BBB+	BBB+	BBB+	3
	BBB	Baa2	BBB	BBB	BBB	
4	BBB-	Baa3	BBB-	BBB-	BBB-	
	BB+	Ba1	BB+	BB+	BB+	4
	BB	Ba2	BB	BB	BB	
5	BB-	Ba3	BB-	BB-	BB-	
	B+	B1	B+	B+	B+	5
	B	B2	B	B	B	6
6	B-	B3	B-	B-	B-	
	CCC+ and below	Caa1 and below	CCC+ and below	CCC CC C	CCC CC C	7
					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 standardized approach, amount of bank's outstanding (rated & unrated) in each risk bucket as well as those that are deducted are as follows:

Exposures	2011			2010			
	Rating Category	Amount Outstanding	Deduction CRM	Net amount	Amount Outstanding	Deduction CRM	Net amount
------(Rupees '000)-----							
Corporate	1	7,544,732	-	7,544,732	2,790,625	(28,314)	2,762,311
	2	4,890,581	-	4,890,581	4,693,636	-	4,693,636
	3,4	-	-	-	138,634	-	138,634
	Unrated	67,733,907	(30,605)	67,703,302	49,772,011	(40,038)	49,731,973
Banks	1	10,367,721	(8,986,215)	1,381,506	25,919,001	(25,097,517)	821,484
	2	46,219	-	46,219	10,545,666	-	10,545,666
	3	-	-	-	-	-	-
	5	-	-	-	-	-	-
	Unrated	339,602	-	339,602	667,224	-	667,224
Sovereigns etc		41,069,660	-	41,069,660	37,869,390	-	37,869,390
	4,5	83,300	-	83,300	22,117	-	22,117
Public sector entities	1	19,917,018	-	19,917,018	11,420,457	-	11,420,457
	2,3	-	-	-	-	-	-
	Unrated	15,545	(30)	15,515	2,312,758	(30)	2,312,728
Retail	Unrated	760,345	-	760,345	10,753,582	(140,981)	10,612,601

CRM= Credit Risk Mitigation

41.1.6 Credit Risk: Disclosures with respect to Credit Risk Mitigation for Standardized 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 realizable value of eligible collaterals to the extent of outstanding exposure.

Counterparty ratings are obtained through the two local SBP authorized 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 collateralized 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.

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

	-----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
	<u>24,278,087</u>	<u>100.00</u>	<u>61,678,515</u>	<u>100.00</u>	<u>23,881,229</u>	<u>100.00</u>

	-----2010-----					
	Advances (Gross)		Deposits		Contingent liabilities*	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Food manufacturing	981,309	4.14	1,043,373	1.53	328,343	1.41
Textile	5,567,308	23.46	59,348	0.09	120,130	0.52
Chemical and pharmaceuticals	1,260,768	5.31	7,968,945	11.67	3,946,712	16.97
Cement	1,868,063	7.87	3,543	0.01	-	-
Footwear and Leather garments	147,262	0.62	87,206	0.13	-	-
Automobile and transportation equipment	643,082	2.71	34,384	0.05	154,481	0.66
Electronics and electrical appliances	58,497	0.25	1,805,033	2.64	206,296	0.89
Tobacco	97,918	0.41	20,977	0.03	135,908	0.58
Power (electricity), Gas, Water, Sanitary	1,501,865	6.33	-	-	95,274	0.41
Wholesale and Retail Trade	100,675	0.42	274,014	0.40	349	-
Transport, Storage and Communication	573,458	2.42	14,100,482	20.64	3,381,817	14.54
Financial	647,033	2.73	3,025,863	4.43	4,035,192	17.36
Individuals	7,013,806	29.56	28,766,875	42.12	-	-
Others	3,270,160	13.77	11,114,771	16.26	10,847,442	46.66
	<u>23,731,204</u>	<u>100.00</u>	<u>68,304,814</u>	<u>100.00</u>	<u>23,251,944</u>	<u>100.00</u>

41.1.8.2 Segment by sector

	-----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
	<u>24,278,087</u>	<u>100.0</u>	<u>61,678,515</u>	<u>100.0</u>	<u>23,881,229</u>	<u>100.0</u>

	-----2010-----					
	Advances (Gross)		Deposits		Contingent liabilities*	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / Government	474,087	1.4	83,470	0.2	1,099,544	6.7
Private	23,257,117	98.6	68,221,344	99.8	22,152,400	93.3
	<u>23,731,204</u>	<u>100.0</u>	<u>68,304,814</u>	<u>100.0</u>	<u>23,251,944</u>	<u>100.0</u>

* 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

	-----2011-----		-----2010-----	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	----- (Rupees in '000) -----			
Textile	1,525,245	1,525,294	1,492,721	1,079,396
Chemicals and pharmaceuticals	80,545	80,545	80,545	80,545
Individuals	1,998,567	1,985,023	1,840,920	1,798,199
Others	1,901,978	1,747,952	1,574,681	1,351,489
	<u>5,506,335</u>	<u>5,338,814</u>	<u>4,988,867</u>	<u>4,309,629</u>

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

Public / Government	-	-	-	-
Private	5,506,335	5,338,814	4,988,867	4,309,629
	<u>5,506,335</u>	<u>5,338,814</u>	<u>4,988,867</u>	<u>4,309,629</u>

41.1.8.5 Geographical segment analysis

	-----2011-----			
	Profit before taxation	Total assets employed	Net assets employed	Contingent liabilities*
	----- (Rupees in '000) -----			
Pakistan	2,523,836	96,902,797	10,766,368	23,881,229
	<u>2,523,836</u>	<u>96,902,797</u>	<u>10,766,368</u>	<u>23,881,229</u>
	-----2010-----			
	Profit before taxation	Total assets employed	Net assets employed	Contingent liabilities*
	----- (Rupees in '000) -----			
Pakistan	1,197,003	97,353,912	8,865,472	23,251,944
	<u>1,197,003</u>	<u>97,353,912</u>	<u>8,865,472</u>	<u>23,251,944</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.1,070.518 million (2010: Rs.1,312.499 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 defines approved risk profiles and is 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 conducts, 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.

	-----2011-----			
	Assets	Liabilities *	Off-balance sheet items	Net foreign currency 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
	<u>96,902,797</u>	<u>96,902,797</u>	<u>-</u>	<u>-</u>
	-----2010-----			
	Assets	Liabilities *	Off-balance sheet items	Net foreign currency exposure
	------(Rupees in '000)-----			
United States dollar	36,996,164	41,292,865	5,881,981	1,585,280
Great Britain pound	979,220	977,637	3,544	5,127
Japanese yen	80,006	90,465	10,461	2
Euro	7,179,619	7,368,978	(395,458)	(584,817)
Swiss francs	7,587	-	(184,150)	(176,563)
Other currencies	88,951	341,113	(357,483)	(609,645)
Foreign currency exposure	45,331,547	50,071,058	4,958,895	219,384
Pakistan rupee	52,022,365	47,282,854	(4,958,895)	(219,384)
Total currency exposure	<u>97,353,912</u>	<u>97,353,912</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.

2011 2010
------(Rupees in '000)-----

41.2.4 Reconciliation of assets and liabilities exposed to Yield / Interest

Rate risk with total assets and liabilities

Total financial assets as per note 41.2.3	92,356,979	92,398,443
Add: Non financial assets		
Operating fixed assets	634,699	865,640
Deferred tax asset	3,614,421	3,693,968
Other assets	296,698	395,861
Total assets as per balance sheet	<u>96,902,797</u>	<u>97,353,912</u>
Total liabilities as per note 41.2.3	85,733,056	87,664,964
Add: Non financial liabilities		
Other liabilities	403,373	823,476
Total liabilities as per balance sheet	<u>86,136,429</u>	<u>88,488,440</u>

41.3 Liquidity Risk

Liquidity risk is the potential for loss to the Bank arising from either its inability to meet its obligations or to fund increases in assets as they fall due without incurring any unacceptable losses.

A uniform liquidity risk management policy exists for the Bank, under which there is a single set of standards for the measurement of liquidity risk. Management of liquidity is performed on a daily basis by the Treasurer and is monitored by independent risk management with oversight by Country Asset and Liability Committee (ALCO). The objective of ALCO is to monitor and review the overall liquidity and balance sheet positions of the bank.

An annual funding and liquidity plan is approved by ALCO and independent risk management team. The plan includes analysis of the balance sheet, as well as the economic and business conditions impacting the liquidity of the Bank. As part of the plan, liquidity limits, ratios and triggers are established and approved.

41.3.1 Maturities of Assets and Liabilities

	2011									
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
------(Rupees in '000)-----										
Assets										
Cash and balances with treasury banks *	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
Liabilities										
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	-
Net assets	10,766,368	(26,394,382)	21,208,244	2,149,634	14,402,620	1,206,817	4,838,282	(6,617,420)	(704,908)	677,481
Represented by:										
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>									

* During the year the bank has changed its assumptions vide BSD Circular Letter No. 03 of 2011, issued by SBP, which states that assets and liabilities with stated maturities should be reported as per their remaining maturities, whereas, assets and liabilities which do not have any contractual maturities should be reported as per their "expected maturities" calculated on the basis of an objective and systematic behavioral study approved by ALCO committee.

		2010									
		Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
------(Rupees in '000)-----											
Assets											
Cash and balances with treasury banks	7,001,789	7,001,789	-	-	-	-	-	-	-	-	-
Balances with other banks	1,396,604	1,396,604	-	-	-	-	-	-	-	-	-
Lendings to financial institutions	11,410,316	11,310,316	100,000	-	-	-	-	-	-	-	-
Investments	50,236,317	12,825,095	25,939,350	2,630,806	1,265,928	958,581	1,962,247	600,377	3,829,573	224,360	
Advances	19,244,213	7,578,500	2,294,079	1,779,121	499,878	842,980	1,204,187	978,941	52,835	4,013,692	
Other assets	3,505,065	2,728,927	370,526	162,674	201,557	1,846	20,623	6,547	12,365	-	
Operating fixed assets	865,640	17,289	34,577	51,865	103,730	202,810	202,854	110,490	139,922	2,103	
Deferred tax assets	3,693,968	-	147,690	-	-	-	-	3,546,278	-	-	
	97,353,912	42,858,520	28,886,222	4,624,466	2,071,093	2,006,217	3,389,911	5,242,633	4,034,695	4,240,155	
Liabilities											
Bills payable	1,164,263	1,164,263	-	-	-	-	-	-	-	-	
Borrowings from financial institutions	4,342,038	2,787,299	100,000	1,398,893	10,402	-	-	45,444	-	-	
Deposits and other accounts *	68,304,814	50,248,613	9,961,358	2,080,131	5,362,260	283,173	79,140	288,139	2,000	-	
Other liabilities	14,677,325	11,068,163	1,569,603	724,707	1,215,169	47,300	27,131	12,288	12,964	-	
	88,488,440	65,268,338	11,630,961	4,203,731	6,587,831	330,473	106,271	345,871	14,964	-	
Net assets	8,865,472	(22,409,818)	17,255,261	420,735	(4,516,738)	1,675,744	3,283,640	4,896,762	4,019,731	4,240,155	
Represented by:											
Head office capital account	6,812,671										
Reserves	125,573										
Unremitted profit	2,201,511										
Deficit on revaluation of securities - net	(274,283)										
	<u>8,865,472</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.

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 continues 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 Bank has closed two of its branches. Further, consistent with its global strategy, Bank will continue to examine businesses and or portfolios to achieve a more efficient utilisation of capital in a manner that's economically rational.

43 DATE OF AUTHORISATION

These financial statements were authorised for issue on _____ 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.

ALIUDDIN AHMED
Acting Citi Country Officer

ANJUM HAI
Chief Financial Officer

CITIBANK, N.A. - PAKISTAN BRANCHES

ANNEXURE I

(INCORPORATED IN THE U.S.A. THE LIABILITY OF MEMBERS BEING LIMITED)

STATEMENT SHOWING WRITTEN OFF LOANS OR ANY OTHER

FINANCIAL RELIEF OF FIVE HUNDRED THOUSAND RUPEES

OR ABOVE PROVIDED DURING THE YEAR ENDED DECEMBER 31, 2011

S. No.	Name and address of the borrower	Name of individuals/ partners/ directors (with NIC No.)	Father's / Husband's name	Outstanding Liabilities at beginning of year				Principal written-off	Interest/ Mark-up written-off	Other financial relief provided	Total
				Principal	Interest/ Mark-up	Others	Total				
1	2	3	4	5	6	7	8	9	10	11	
1	TARIQ MEHMOOD STREET# 21,MUSLIM PA RK, BAGHBAN PURA HOUSE# 8, LAHORE	TARIQ MEHMOOD 267-72-003469 35201-4698183-9	CHUADHRY GUFTAAR AHMED	587	-	-	587	618	-	-	618
2	ALI MURTAZA MIRZA TAMOUR 22/31 LIAQUAT ROAD, KARACHI	ALI MURTAZA MIRZA TAMOUR 42201-0677109-5	ALI IBRAHIM MIRZA JAHANGIR	1,898	217	-	2,115	698	239	-	937
3	MOHAMMAD ALI ANWER JAFFERY D-15,BLOCK D, HYDERI POINT, KARACHI	MOHAMMAD ALI ANWER JAFFERY 36302-5157997-7	SYED ANWAR MEHDI JAFFERY	5,858	264	-	6,122	858	559	-	1,417
4	D.S. TEXTILE MILLS LTD. 20-K GULBERG II LAHORE	MRS. REHANA PERVAIZ AHMAD 35202-5904987-0 HASSAN IBRAHIM AHMED 35202-0104136-7 JAVID AHMAD 35202-4978777-1 PERVEZ AHMAD 35202-5637832-7 HUMA JAVED AHMED 35202-0122258-6	W/O MR. PERVEZ AHMAD PERVEZ AHMED (LATE) S.K. AHMED (LATE) S.K.AHMED JAVED AHMED	75,110	48,190	-	123,300	45,114	-	-	45,114
5	UNION INDUSTRIES (PVT) LTD B-46M ESTATE AVENUE SITE KARACHI	MIRZA KAMRAN ALI KHAN 42301-1791682-5 M. JAVED HABIB 42301-1176752-3	ZULFIQAR ALI KHAN ABDUL HABIB AHMED	7,960	4,350	-	12,310	7,960	-	-	7,960

91,413	53,021	-	144,434	55,248	798	-	56,046
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CITIBANK, N.A. - PAKISTAN BRANCHES
(INCORPORATED IN THE U.S.A. THE LIABILITY OF MEMBERS BEING LIMITED)
DISPOSAL OF FIXED ASSETS DURING THE YEAR ENDED DECEMBER 31, 2011

ANNEXURE II

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
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(Rupees in '000)

Furniture and fixtures

3,113	-	256
1,813	38	972
1,057	22	563
1,080	13	94
1,608	240	172
9,917	5	733
7,261	-	25
9,135	1,084	15
4,724	-	24
39,708	1,402	2,854

Open Bid	Summit Bank Limited
Open Bid	Amena Arif
Open Bid	Pak Carpet Industries
Open Bid	Pak International SF Trading
Open Bid	Pak International SF Trading
Open Bid	Arif Dewan
Open Bid	Pak International SF Trading
Open Bid	Muhammad Irshad
Open Bid	Rais Ahmed

Electrical, office and computer equipment

3,902	317	396
1,182	25	265
9,410	-	172
1,456	728	728
1,382	23	106
17,332	1,093	1,667

Open Bid	Mohammad Iqbal and Co. Limited
Open Bid	Summit Bank Limited
Open Bid	Arif Dewan
Open Bid	Pak Security
Open Bid	Pak Intl SF Trading

Vehicles

1,336	245	245
1,526	610	1,080
1,643	986	986
1,719	1,031	1,031
1,643	1,041	1,041
1,719	1,031	1,060
2,750	367	1,565
1,407	258	281
1,336	111	111
1,336	245	245
1,336	223	245
1,336	223	245
1,336	245	245
1,506	251	846
1,506	251	909
1,356	520	542
1,643	958	986
1,643	958	986
1,349	562	585
1,643	958	986
1,506	100	100
1,491	199	877
2,750	321	1,426
1,828	914	944
1,828	944	1,283
2,750	413	1,546
1,336	200	223
1,828	1,005	1,346
1,843	1,321	1,594
2,750	183	1,256
1,500	175	200
1,314	219	219
1,331	222	777
1,330	222	244
1,331	199	200
1,506	201	201
1,641	821	821
1,619	1,187	1,187
2,750	92	92
1,491	199	762
2,750	413	1,406
1,313	175	175
1,479	222	221
1,519	481	950
73,853	21,502	32,270

Term of Employment	Zeeshan Hashmi - Executive
Term of Employment	Minaz Bhuiya - Ex-Employee
Term of Employment	Kamran Masood - Executive
Term of Employment	Uzzam Sohail - Executive
Term of Employment	Rekha Ahuja - Ex-Employee
Term of Employment	Iqbal Azeem - Ex-Employee
Term of Employment	Saqib Ayub - Ex-Employee
Term of Employment	Noreen Imran - Executive
Term of Employment	Ali Amir Baxamoosa - Ex-Employee
Term of Employment	Hormazd Muncherjee - Executive
Term of Employment	Amin Ismail - Executive
Term of Employment	Mansoor Ahmed - Executive
Term of Employment	Ahmed Ali - Executive
Term of Employment	Khalid Anvery - Executive
Term of Employment	Zermesh Gati - Executive
Term of Employment	Tariq Ali Korejo - Executive
Term of Employment	Suleman Jafrani - Executive
Term of Employment	Salman M Zaman - Ex-Employee
Term of Employment	Hamid Tufail Khan - Executive
Term of Employment	Danial Merchant - Executive
Term of Employment	Akram Khan - Ex-Employee
Term of Employment	Imran Dhedhi - Executive
Term of Employment	Asif Meenai - Executive
Term of Employment	Mehnaz Ikram - Executive
Term of Employment	Abdul Jabbar - Ex-Employee
Term of Employment	Zarir D Doctor - Executive
Term of Employment	Afsheen Khan - Executive
Term of Employment	Khalid Hakim - Ex-Employee
Term of Employment	Faisal Masood - Ex-Employee
Term of Employment	Salman Hussain - Executive
Term of Employment	Amir Mehdi - Executive
Term of Employment	Salman Ali Haider Gardezi - Executive
Term of Employment	Nadeem Ahmed - Executive
Term of Employment	Shahid Ahmed Siddiqui - Executive
Term of Employment	Hassan Raza - Executive
Term of Employment	Huma Gailani - Executive
Term of Employment	Wajahat Ahmed Khan - Ex-Employee
Term of Employment	Nabil Ejaz - Ex-Employee
Term of Employment	Arif Usmani - Executive
Term of Employment	Anil Charakla - Executive
Term of Employment	Anjum Hai - Executive
Term of Employment	Shahzad Malik - Executive
Term of Employment	Shahzad Saeed - Executive
Term of Employment	Yousaf Ahmed - Executive

Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000

4,037	216	1,359
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134,930	24,213	38,150
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