March 27, 2015

Ms. Lubna Farooq Malik
Director
Banking Surveillance Department
State Bank of Pakistan
II Chundrigar Road
Karachi

Dear Madam,

FINANCIAL STATEMENT OF INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED– PAKISTAN OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2014

We are writing with reference to Section 34 and 36 of the Banking Companies Ordinance, 1962 requiring all banks to submit their approved annual audited financial statements to the State Bank of Pakistan within 3 months of the year end.

In view of the above, kindly find enclosed three copies of our audited annual report, statement on Internal Control and Risk Management Framework. We appreciated your understanding in this matter and thank you for the continued support extended to us.

Kindly let us know if any additional information is required.

Sincerely,

He Shenghu
Deputy CEO

Lynn Ye Ning
Head of Finance

8TH FLOOR, PARSA TOWER, 31-1-A, SHAHRA-E-FAISAL, KARACHI - 75400
Tel: 021-3520-8988 / 3520-8900 Fax: 021-3520-8930 Website: www.icbc.com.pk

KPMG Taseer Hadi & Co.
Chartered Accountants

Industrial and Commercial Bank of China- Pakistan branches

Financial Statements

For the year ended
31 December 2014

KPMG

KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2
Beaumont Road
Karachi, 75530 Pakistan

Telephone + 92 (21) 3568 5847
Fax + 92 (21) 3568 5095
Internet www.kpmg.com.pk

Auditors' Report to the Directors

We have audited the annexed statement of financial position of **Industrial and Commercial Bank of China - Pakistan Branches** ("the branches") as at 31 December 2014 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 branches' management to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with 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 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 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 the case of loans and advances covered more than sixty percent of the total loans and advances of the branches, we report that:

a) in our opinion, proper books of account have been kept by the branches 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 branches' business; and

   iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the branches and the transactions of the branches which have come to our notice have been within the powers of the branches;

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 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 branches' affairs as at 31 December 2014 and its true balance of profit, 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 branches and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

KPMG Taseer Hadi & Co.

Date: 26 March 2015

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Amyn Malik

Industrial and Commercial Bank of China Limited - Pakistan Branches
Statement of Financial Position
As at December 31, 2014

	Note	2014	2013
		(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	6	**4,329,697**	4,462,227
Balances with other banks	7	**295,142**	163,630
Lendings to financial institutions	8	**1,129,730**	3,490,017
Investments - net	9	**63,074,604**	47,547,395
Advances	10	**6,087,050**	3,894,413
Operating fixed assets	11	**183,341**	243,293
Deferred tax assets	16	**-**	54,325
Other assets	12	**850,823**	2,189,505
		75,950,387	62,044,805
LIABILITIES			
Bills payable	13	**4,667**	104,562
Borrowings	14	**56,592,615**	40,028,520
Deposits and other accounts	15	**9,500,726**	14,986,537
Sub-ordinated loans		**-**	-
Liabilities against assets subject to finance lease		**-**	-
Deferred tax liabilities	16	**21,132**	-
Other liabilities	17	**5,323,681**	3,229,839
		71,442,821	58,349,458
NET ASSETS		**4,507,566**	3,695,347
REPRESENTED BY			
Head office capital account	18	**3,627,239**	3,802,007
Reserves		**-**	-
Unremitted profit / Accumulated (losses)		**844,926**	(70,240)
		4,472,165	3,731,767
Surplus / (deficit) on revaluation of investments - net of tax	19	**35,401**	(36,420)
		4,507,566	3,695,347
CONTINGENCIES AND COMMITMENTS	20		

The annexed notes 1 to 37 form an integral part of these financial statements.

KPMGTH

Xu Keen
Chief Executive Officer

叶宁

Ye Ning
Head of Finance

Industrial and Commercial Bank of China Limited - Pakistan Branches

Profit and Loss Account

For the year ended December 31, 2014

	Note	2014	2013
		(Rupees in '000)	
Mark-up / Return / Interest Earned	21	4,607,826	3,700,571
Mark-up / Return / Interest Expensed	22	(1,078,251)	(738,992)
Net mark-up / Interest Income		3,529,575	2,961,579
Provision against non-performing loans and advances		-	-
Provision for diminution in the value of investments		-	-
Bad debts written off directly		-	-
		-	-
Net Mark-up / Interest Income after provisions		3,529,575	2,961,579
NON MARK-UP / INTEREST INCOME			
Fee, Commission and Brokerage Income		276,129	141,895
Dividend Income		-	-
Loss from dealing in foreign currencies	23	(1,485,746)	(2,182,599)
Gain / (Loss) on sale of securities		-	-
Unrealized Gain / (Loss) on revaluation of investments classified as held for trading		-	-
Other Income		290	349
Total non-mark-up / interest income		(1,209,327)	(2,040,355)
		2,320,248	921,224
NON MARK-UP / INTEREST EXPENSES			
Administrative expenses	24	(915,410)	(661,533)
Other provisions / write-offs		-	-
Other charges		-	-
Total non-mark-up / interest expenses		(915,410)	(661,533)
		1,404,838	259,691
Extra ordinary / unusual items		-	-
PROFIT BEFORE TAXATION		1,404,838	259,691
Taxation - Current	25	452,888	-
- Prior years		-	-
- Deferred		36,784	(34,714)
		489,672	(34,714)
PROFIT AFTER TAXATION		915,166	294,405

The annexed notes 1 to 37 form an integral part of these financial statements.

KPMGTH

Xu Keen
Chief Executive Officer

Ye Ning
Head of Finance

Industrial and Commercial Bank of China Limited - Pakistan Branches

Statement of Comprehensive Income

For the year ended December 31, 2014

	Note	2014	2013
		(Rupees in '000)	
Profit after taxation for the year		**915,166**	294,405
Other comprehensive income			
Items that will not be reclassified to profit and loss account			
Exchange adjustments on revaluation of capital	*18*	**(174,768)**	295,097
Comprehensive income - transferred to statement of changes in equity		**740,398**	589,502
Components of comprehensive income not reflected in Head Office account			
Surplus / (deficit) on revaluation of available for sale securities - net of tax		**71,821**	(42,856)
Total comprehensive income		**812,219**	546,646

The annexed notes 1 to 37 form an integral part of these financial statements.

KPMG TH

Xu Keen
Chief Executive Officer

叶宁
Ye Ning
Head of Finance

Industrial and Commercial Bank of China Limited - Pakistan Branches

Cash Flow Statement

For the year ended December 31, 2014

	Note	2014	2013
		(Rupees in '000)	
CASH FLOW FROM OPEARTING ACTIVITIES			
Profit before taxation		1,404,838	259,691
Adjustments:			
Depreciation	*11.1*	79,822	82,376
		1,484,660	342,067
Decrease / (Increase) in operating assets			
Lendings to financial institutions		1,232,653	(455,455)
Advances		(2,192,637)	(3,837,817)
Others assets		1,393,007	(1,065,548)
		433,023	(5,358,820)
Increase / (Decrease) in operating liabilities			
Bills payable		(99,895)	171,571
Borrowings from financial institutions		18,256,861	35,555,400
Deposits		(5,485,811)	10,818,893
Other liabilities		2,100,302	652,940
		14,771,457	47,198,804
		16,689,140	42,182,051
Income tax paid		(475,000)	-
Net cash flow from operating activities		16,214,140	42,182,051
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in operating fixed assets	*11.1*	(19,870)	(9,006)
Net investments in available for sale securities		(15,455,388)	(34,013,770)
Net cash flow from investing activities		(15,475,258)	(34,022,776)
CASH FLOW FROM FINANCING ACTIVITES			
Remittance received from head office		-	-
Net cash flow from financing activities		-	-
Exchange adjustments on revaluation of capital	*18*	(174,768)	295,097
Increase in cash and cash equivalents		564,114	8,454,372
Cash and cash equivalents at beginning of the year		2,979,827	(5,474,545)
Cash and cash equivalents at end of the year	*26*	3,543,941	2,979,827

The annexed notes 1 to 37 form an integral part of these financial statements.

KPMG TH

Xu Keen
Chief Executive Officer

叶宁

Ye Ning
Head of Finance

Industrial and Commercial Bank of China Limited - Pakistan Branches
Statement of Changes in Equity
For the year ended December 31, 2014

	Note	Head office capital account	Unremitted profit / Accumulated (losses)	Total
		----------	(Rupees in '000)	----------
Balance as at January 01, 2013		3,506,910	(364,645)	3,142,265
Total comprehensive income for the year ended December 31, 2013				
Profit after taxation		-	294,405	294,405
Exchange adjustments on revaluation of capital	*18*	295,097	-	295,097
Balance as at December 31, 2013		3,802,007	(70,240)	3,731,767
Total comprehensive income for the year ended December 31, 2014				
Profit after taxation		-	915,166	915,166
Exchange adjustments on revaluation of capital	*18*	(174,768)	-	(174,768)
		(174,768)	915,166	740,398
Balance as at December 31, 2014		3,627,239	844,926	4,472,165

The annexed notes 1 to 37 form an integral part of these financial statements.

Xu Keen
Chief Executive Officer

叶宁

Ye Ning
Head of Finance

1. STATUS AND NATURE OF BUSINESS

The Pakistan branches of Industrial and Commercial Bank of China Limited ("the branches") have commenced their operations in Pakistan with effect from August 18, 2011. Industrial and Commercial Bank of China Limited is incorporated in the People's Republic of China.

The Bank presently operates through three branches (December 31, 2013: two branches and one service center) in Pakistan and is engaged in banking activities permissible under the Banking Companies Ordinance, 1962. The registered office of the Bank is located at Parsa Tower, P.E.C.H.S, Main Shahrah -e-Faisal, Karachi. The credit rating of the Bank is disclosed in note 27 to these financial statements.

2 BASIS OF PRESENTATION

In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the SBP has issued various circulars from time to time. Permissible form of trade-related modes of financing includes 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 utilized 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 International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) as are notified under the Companies Ordinance, 1984, provisions of and directives issued under Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and regulations/ directives issued by the Securities and Exchange Commission of Pakistan (SECP) and SBP. Wherever the requirements of Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or regulations / directives issued by the SECP and the SBP differ with the requirements of IFRS, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the requirements of the said regulations/ directives shall prevail.

3.2 The State Bank of Pakistan 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 Letter No. 10 dated August 26, 2002 till further instructions. Further, the Securities and Exchange Commission of Pakistan has deferred the applicability of International Financial Reporting Standard (IFRS) 7, 'Financial Instruments: Disclosures' on banks through its notification S.R.O 411(I)/2008 dated April 28, 2008. 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 State Bank of Pakistan through various circulars.

KPMGTH

3.3 Application of new and revised approved accounting standards not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after January 01, 2014:

- IFRIC 21- Levies 'an Interpretation on the accounting for levies imposed by governments' (effective for annual periods beginning on or after January 01, 2014). IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The amendment is not likely to have an impact on the financial statements of the Bank.

- Amendment to IAS 36 "Impairment of Assets" Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after January 01, 2014). These narrow-scope amendments to IAS 36 Impairment of Assets address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendment is not likely to have an impact on the financial statements of the Bank.

- Amendments to IAS 19 "Employee Benefits" Employee contributions – a practical approach (effective for annual periods beginning on or after July 01, 2014). The practical expedient addresses an issue that arose when amendments were made in 2011 to the previous pension accounting requirements. The amendments introduce a relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. The amendment is not likely to have an impact on the financial statements of the Bank.

- Annual Improvements 2010-2012 and 2011-2013 cycles (most amendments will apply prospectively for annual period beginning on or after July 01, 2014). The new cycle of improvements contain amendments to the following standards:

  - IFRS 2 'Share-based Payment'. IFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'. The amendment also clarifies both: how to distinguish between a market condition and a non-market performance condition and the basis on which a performance condition can be differentiated from a vesting condition.

  - IFRS 3 'Business Combinations'. These amendments clarify the classification and measurement of contingent consideration in a business combination. Further, IFRS 3 has also been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements including joint operations in the financial statements of the joint arrangement themselves.

  - IFRS 8 'Operating Segments' has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. In addition, this amendment clarifies that a reconciliation of the total of the reportable segment's assets to the entity assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities.

KPMGTH

- Amendments to IAS 16'Property, plant and equipment' and IAS 38 'Intangible Assets'. The amendments clarify the requirements of the revaluation model in IAS 16 and IAS 38, recognizing that the restatement of accumulated depreciation (amortization) is not always proportionate to the change in the gross carrying amount of the asset.

- IAS 24 'Related Party Disclosure'. The definition of related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity.

The above amendments are not likely to have an impact on the financial statements of the Bank other than additional disclosures.

4 BASIS OF MEASUREMENT

4.1 Accounting convention

These financial statements have been prepared under the historical cost convention except that available for sale investments, derivative financial instruments and Forward Foreign Exchange Contracts are measured at fair value.

4.2 Functional and Presentation Currency

These financial statements are presented in Pakistani Rupees, which is the branches' functional and presentation currency. The amounts are rounded off to the nearest thousand rupees except as stated otherwise.

4.3 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

- classification of investments (note 5.3)
- income taxes (note 5.7)
- depreciation of operating fixed assets (note 5.5)
- Fair value of derivatives (note 5.14)
- defined benefit plan (note 5.8)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

KPMGTH·

5.1 Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand, balances with treasury banks, balances with other banks in current and deposit accounts and lendings and borrowings having original maturity of three months or less.

5.2 Lendings to / borrowings from financial institutions

The Bank enters into transactions of repos and reverse repos at contracted rates for a specified period of time. These are recorded as under:

Sale of securities under repurchase agreements

Securities sold subject to a repurchase agreement (repo) are retained in the financial statements as investments and the counter party liability is included in borrowings. The difference between the sale and contracted repurchase price is accrued on a time proportion basis over the period of the contract and recorded as an expense.

Purchase of securities under resale agreements

Securities purchased under agreement to resell (reverse repo) are not recognized in the financial statements as investments and the amount extended to the counter party is included in lendings. The difference between the purchase and contracted resale price is accrued on a time proportion basis over the period of the contract and recorded as income.

5.3 Investments

5.3.1 Classification

The Bank classifies its investments as follows:

Held for trading

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

Available for sale

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

Held to maturity

These are investments with fixed or determinable payments and fixed maturities and the Bank has the positive intent and ability to hold them till maturity.

5.3.2 Regular way contracts

All purchases and sales of investments that require delivery within the time frame established by regulation or market convention are recognized at settlement date, which is the date at which the Bank agrees to settle the purchase or sale of investments.

KAMGTH

5.3.3 Initial recognition and measurement

Investments other than those categorized as 'held for trading' are initially recognized at fair value. Transaction costs associated with the investment are included in cost of investments. Investments classified as 'held for trading' are initially recognized at fair value and transaction costs are expensed in the profit and loss account.

5.3.4 Subsequent measurement

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 'held for trading' is taken to profit and loss account and for securities classified as 'Available for sale' is taken to a separate account shown in the statement of financial position below equity. Investments classified as 'Held to maturity' are carried at amortized cost.

5.3.5 Impairment

Provision for diminution in the values of securities is made after considering impairment, if any, in the value. Provision for impairment against debt securities is made as per the aging criteria prescribed by the Prudential Regulations of SBP.

5.4 Loans and advances

Loans and advances are stated net off provisions against non-performing 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 profit and loss account and accumulated provision is netted-off against advances. Advances are written off when there are no realistic prospects of recovery.

5.5 Operating fixed assets

Operating fixed assets except capital work-in-progress are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Depreciation is charged to income by applying the straight-line method using the rates specified in note 11.1 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 from the date on which the assets are available for use and ceases on the date on which they 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 recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

5.6 Capital work-in-progress

Capital work-in-progress is stated at cost less accumulated impairment losses, if any. All expenditure connected with specific assets incurred during installation and construction period are carried under this head. These are transferred to specific assets as and when assets become available for use.

KPMGTH

5.7 **Taxation**

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the profit and loss account except to the extent that it relates to items recognized directly in other comprehensive income or surplus on revaluation of investments in which case it is recognized in other comprehensive income or surplus on revaluation of investments.

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into consideration available tax credit and rebates, if any. The charge for current tax also includes adjustments, where considered necessary relating to prior years, which arise from assessments / developments made during the year.

Deferred

Deferred tax is recognized using the balance sheet liability method on all temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities using the tax rates enacted or substantially enacted at the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available and the credits can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

5.8 **Employee benefits**

a) Defined benefit plan

The branches operate an approved funded gratuity scheme covering eligible employees whose period of employment with branches is five years or more. Gratuity is payable to staff on completion of the prescribed qualifying period of service under the scheme.

b) Defined contribution plan

The branches operate an approved provident fund for all of its local permanent employees in respect of which contributions are made to discharge liability under the respective rules of the schemes.

5.9 **Borrowings / deposits and their cost**

a) Borrowings / deposits are recorded at the proceeds received.

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

5.10 **Provisions**

Provisions are recognized when the branches have a present, 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.

KPMGTH

5.11 Acceptances

Acceptances comprise undertakings by the branches to pay bills of exchange drawn on customers. The branches expect 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.

5.12 Revenue recognition

Advances and investments

Mark-up income on loans and advances and debt securities is recognized on a time proportion basis. Where debt securities are purchased at a premium or discount, those premiums / discounts are amortized through the profit and loss account over the remaining maturity, using the effective yield method.

Fee, commission and brokerage

Fee, commission and brokerage income except income from guarantees are accounted for on receipt basis. Commission on guarantees is recognized on time proportion basis.

Other income is recognized on accrual basis.

5.13 Foreign currency translation

Transactions in foreign currencies are translated into Pakistani rupees at the exchange rates prevailing on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into Pakistan Rupees at the exchange rates prevailing at the reporting date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account.

Forward contracts are valued at forward rates applicable to the respective maturities of the relevant foreign exchange contract.

Exchange gains and losses are included in income.

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

5.14 Derivative financial instruments

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

5.15 Off-setting

Financial assets and financial liabilities are off-set and the net amount is reported in the financial statements only when there is a legally enforceable right to set-off the recognized amount and the

KPMGTH

branches intend either to settle on a net basis, or to realize the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also off-set and the net amount is reported in the financial statements.

5.16 **Segment reporting**

A segment is a distinguishable component of the branches 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 risks and rewards that are different from those of other segments. The branches' primary format of reporting is based on business segments.

Business segments

Trading and sales

It includes fixed income, equity, foreign exchanges, commodities, credit, funding, own position securities, lending and repos, brokerage debt and prime brokerage.

Corporate finance

This represents provision of banking services including treasury and international trade activities to large corporate customers, multinational companies, government and semi government departments and institutions and SMEs treated as corporate under Prudential Regulations.

6 CASH AND BALANCES WITH TREASURY BANKS

	Note	2014	2013
		(Rupees in '000)	
In hand			
Local currency		**4,871**	24,164
Foreign currencies		**40,250**	24,964
		45,121	49,128
With State Bank of Pakistan in			
Local currency current accounts	*6.1*	**420,939**	408,086
Foreign currency current accounts	*6.2*	**70,602**	34,486
Foreign currency deposit accounts	*6.3*	**3,793,035**	3,970,527
		4,329,697	4,462,227

6.1 This includes statutory liquidity reserve maintained with the SBP under Section 22 of the Banking Companies Ordinance, 1962.

6.2 As per BSD Circular No. 9 dated December 3, 2007, cash reserve of 5% is required to be maintained with the State Bank of Pakistan on deposits held under the New Foreign Currency Accounts Scheme (FE-25 deposits).

6.3 This includes special cash reserve of 15% required to be maintained with the State Bank of Pakistan on FE-25 deposits as specified in BSD Circular No. 14 dated June 21, 2008. Profit rates on these deposits are fixed by SBP on a monthly basis. The State Bank of Pakistan has not remunerated these deposit accounts during the year. It also includes capital maintained with SBP in accordance with the requirements of Section 13 of Banking Companies Ordinance 1962 amounting to USD 36.098 million (December 31, 2013: USD 36.098 million).

KARACHI·

7 **BALANCES WITH OTHER BANKS**

	Note	2014	2013
		(Rupees in '000)	
In Pakistan			
On current accounts		379	382
Outside Pakistan			
On deposit accounts	7.1	294,763	163,248
		295,142	163,630

7.1 This includes placements of foreign currency funds with other ICBC branches, at interest rates ranging from 0% to 1.3% per annum (2013: 0% to 0.47% per annum).

8 **LENDINGS TO FINANCIAL INSTITUTIONS**

	Note	2014	2013
Call money lendings	8.1	1,129,730	2,500,932
Repurchase agreement lendings (Reverse repo)		-	989,085
		1,129,730	3,490,017

8.1 These represent call lendings to financial institutions and other branches of ICBC at mark-up rates ranging from 4.0% to 4.1% per annum (December 31, 2013: 0.1% to 10.3% per annum) with maturities up to March 2015 (December 31, 2013: April 2014).

8.2 **Particulars of lending**

	2014	2013
In local currency	-	1,889,085
In foreign currencies	1,129,730	1,600,932
	1,129,730	3,490,017

8.3 **Securities held as collateral against lending to financial institutions**

	2014			2013		
	Held by bank	Further given as collateral	Total	Held by bank	Further given as collateral	Total
	(Rupees in '000)					
Market Treasury Bills	-	-	-	909,288	79,797	989,085
	-	-	-	909,288	79,797	989,085

8.4 The market value of securities held as collateral against lendings to financial institutions as at December 31, 2014 amounts Nil (2013: Rs. 994 million).

9 **INVESTMENTS - NET**

9.1 **Investments by types**

	Note	2014			2013		
		Held by Bank	Given as Collateral	Total	Held by Bank	Given as Collateral	Total
		(Rupees in '000)					
Available-for-sale securities							
Market Treasury Bills	9.1.1	61,908,464	1,111,677	63,020,141	47,523,629	79,797	47,603,426
Investments at cost		61,908,464	1,111,677	63,020,141	47,523,629	79,797	47,603,426
Surplus / (Deficit) on revaluation of available for sale securities	19	53,463	1,000	54,463	(55,937)	(94)	(56,031)
Total investments at market value		61,961,927	1,112,677	63,074,604	47,467,692	79,703	47,547,395

9.1.1 These Market Treasury Bills will mature upto May 2015 (December 31, 2013: upto May 2014) and carry interest at 9.39% to 10.02% per annum (December 31, 2013: from 8.93% to 10.30%).

9.2 **Investments by segments:**

	Note	2014	2013
		(Rupees in '000)	
Federal Government Securities			
Market treasury bills		63,020,141	47,603,426
Total investments at cost		63,020,141	47,603,426
Surplus / (Deficit) on revaluation of available for sale securities	19	54,463	(56,031)
Total investments at market value		63,074,604	47,547,395

9.3 **Quality of Available for Sale Securities**

	Market value		Cost		
	2014	2013	2014	2013	
	(Rupees in '000)				
Market Treasury Bills	63,074,604	47,547,395	63,020,141	47,603,426	(Unrated-Government Securities)

KPMGTH.

10	ADVANCES	Note	2014	2013
			(Rupees in '000)	
	Loans, cash credits, running finances, etc.			
	In Pakistan		3,948,633	830,000
	Bills discounted and purchased (excluding treasury bills)			
	Payable in Pakistan		2,138,417	3,064,413
			6,087,050	3,894,413

10.1 Particulars of advances

		2014	2013
10.1.1	In local currency	5,747,633	980,000
	In foreign currencies	339,417	2,914,413
		6,087,050	3,894,413
10.1.2	Short-term (for upto one year)	5,888,427	3,894,413
	Long-term (for over one year)	198,623	-
		6,087,050	3,894,413

10.2 No advances have been placed under non-performing status (December 31, 2013: Nil).

11 OPERATING FIXED ASSETS

	Note	2014	2013
Property and equipment	11.1	183,341	243,293
		183,341	243,293

11.1 Property and equipment

	2014							
	Cost			Depreciation			Book value	
	As at January 01, 2014	Additions	As at December 31, 2014	As at January 01, 2014	Charge for the year	As at December 31, 2014	As at December 31, 2014	Rate of Depreciation
	(Rupees in '000)							%
Leasehold improvements	282,190	-	282,190	67,161	58,247	125,408	156,782	20%
Furniture and fixture	16,380	5,553	21,933	6,975	3,308	10,283	11,650	20%
Vehicles	-	5,005	5,005	-	783	783	4,222	16.7%
Electrical, office and computer equipment	72,223	9,312	81,535	53,364	17,484	70,848	10,687	33%
	370,793	19,870	390,663	127,500	79,822	207,322	183,341	

	2013							
	Cost			Depreciation			Book value	
	As at January 01, 2013	Additions	As at December 31, 2013	As at January 01, 2013	Charge for the year	As at December 31, 2013	As at December 31, 2013	Rate of Depreciation
	(Rupees in '000)							%
Leasehold improvements	277,664	4,526	282,190	11,243	55,918	67,161	215,029	20%
Furniture and fixture	14,575	1,805	16,380	3,918	3,057	6,975	9,405	20%
Electrical, office and computer equipment	69,548	2,675	72,223	29,963	23,401	53,364	18,859	33%
	361,787	9,006	370,793	45,124	82,376	127,500	243,293	

KPMGTH

12	OTHER ASSETS	Note	2014	2013
			(Rupees in '000)	
	Income / Mark-up accrued in local currency		57,559	20,484
	Income / Mark-up accrued in foreign currencies		2,323	17,497
	Advances, deposits, advance rent and other prepayments		489,385	37,672
	Unrealized gain on forward foreign exchange contracts		299,487	2,076,914
	Receivable from employee benefit plan		262	-
	Others		1,807	36,938
			850,823	2,189,505

13	BILLS PAYABLE		
	In Pakistan	4,667	104,562
		4,667	104,562

14	BORROWINGS		
	In Pakistan	1,111,677	79,797
	Outside Pakistan	55,480,938	39,948,723
		56,592,615	40,028,520

14.1	Particulars of borrowings with respect to currencies		
	In local currency	1,111,677	79,797
	In foreign currencies	55,480,938	39,948,723
		56,592,615	40,028,520

14.2	Details of borrowings Secured / Unsecured			
	Secured			
	Repurchase agreement borrowings (Repo)	*14.3*	1,111,677	79,797
	Unsecured			
	Call borrowings	*14.4*	55,480,938	39,948,723
			56,592,615	40,028,520

14.3 This represents repurchase agreement borrowings from other banks at the rate of 9.5% per annum (2013: 10% per annum) maturing by January 2015 (2013: January 2014).

14.4 This represents borrowings from financial institutions and other ICBC branches at mark-up rates ranging from 0.08% to 1.9% per annum (2013: 0.55% to 1.1%) maturing by May 2015 (2013: May 2014).

15	DEPOSITS AND OTHER ACCOUNTS	2014	2013
		(Rupees in '000)	
	Customers		
	Fixed deposits	3,873,418	11,260,149
	Savings deposits	3,196,248	1,090,885
	Current accounts - Non-remunerative	2,374,083	2,625,997
		9,443,749	14,977,031
	Financial institutions		
	Remunerative deposits	36,000	-
	Non-remunerative deposits	20,977	9,506
		9,500,726	14,986,537

KPMGTH

15.1 Particulars of deposits

	2014	2013
	(Rupees in '000)	
In local currency	5,814,084	8,469,614
In foreign currencies	3,686,642	6,516,923
	9,500,726	14,986,537

16 DEFERRED TAX (LIABILITIES) / ASSETS - NET

	2014	2013
Deferred debits arising in respect of		
- Unabsorbed tax losses	-	57,740
- Investments - available for sale	(19,062)	19,611
	(19,062)	77,351
Deferred credits arising due to		
- Accelerated tax depreciation	(2,070)	(23,026)
	(21,132)	54,325

16.1 Movement in deferred tax balances

	As at January 01, 2014	Recognized in profit or loss	Recognized in revaluation surplus	As at December 31, 2014
	(Rupees in '000)			
Accelerated tax depreciation	(23,026)	20,956	-	(2,070)
Investments - available for sale	19,611	-	(38,673)	(19,062)
Unabsorbed tax losses	57,740	(57,740)	-	-
	54,325	(36,784)	(38,673)	(21,132)

	As at January 01, 2013	Recognized in profit or loss	Recognized in revaluation surplus	As at December 31, 2013
	(Rupees in '000)			
Accelerated tax depreciation	-	(23,026)	-	(23,026)
Investments - available for sale	-	-	19,611	19,611
Unabsorbed tax losses	-	57,740	-	57,740
	-	34,714	19,611	54,325

17 OTHER LIABILITIES

	Note	2014	2013
		(Rupees in '000)	
Mark-up / Return / Interest payable in local currency		126,856	152,624
Mark-up / Return / Interest payable in foreign currencies		162,472	98,014
Staff performance bonus payable		285,662	95,849
Payable to head office	17.1	1,396,916	1,464,223
Unrealized loss on forward foreign exchange contracts		2,530,292	985,076
Commission received in advance against unfunded exposure		338,733	305,754
Payable to employee benefit plans		-	907
Workers' Welfare Fund		5,675	5,300
Advance received from customers in respect of forward contracts	17.2	329,834	-
ATM and other settlements	17.2	124,450	67,747
Others		22,791	54,345
		5,323,681	3,229,839

17.1 This represents interest free advance of USD 13.9 million (December 31, 2013: USD 13.9 million) provided by the head office for the purpose of initial set up of branches' operations. The terms of repayment have not yet been agreed.

KPMGTH

17.2 These amounts have been reclassified from bills payable for comparative purposes.

18 HEAD OFFICE CAPITAL ACCOUNT

	Note	2014	2013
		(Rupees in '000)	
Capital held as interest free deposit in approved foreign exchange			
USD 36.098 million (2013: USD 36.098 million)			
- Balance at the beginning of the year		3,802,007	3,506,910
- Revaluation (deficit) / surplus allowed by the State Bank of Pakistan during the year		(174,768)	295,097
		3,627,239	3,802,007

19 SURPLUS / (DEFICIT) ON REVALUATION OF INVESTMENTS - AVAILABLE FOR SALE

	Note	2014	2013
Surplus / (Deficit) on revaluation of Government securities		54,463	(56,031)
Related deferred tax (liability) / asset	*16.1*	(19,062)	19,611
		35,401	(36,420)

20 CONTINGENCIES AND COMMITMENTS

20.1 Transaction-related Contingent Liabilities

	2014	2013
Government	22,622,127	20,514,530
Others	39,552,156	20,313,722
	62,174,283	40,828,252

20.2 Trade-related Contingent Liabilities

	2014	2013
Letters of credit	315,081	162,078
Acceptances	2,275,517	2,000,000

20.3 Commitments in respect of forward exchange contracts

	2014	2013
Purchase	150,138,785	128,520,658
Sale	153,051,919	127,786,139

20.4 Commitments in respect of repo transactions

	2014	2013
Repurchase	1,111,677	79,797
Resale	-	989,085

	2014	2013
20.5 Commitments to extend credit - syndicated loan	319,444	500,000

21 MARK-UP/ RETURN/ INTEREST EARNED

	2014	2013
On loans and advances	422,113	113,777
On investments in available for sale securities	4,057,222	3,360,473
On deposits with financial institutions	55,353	8,481
On securities purchased under resale agreements	17,389	102,988
On call money lendings	55,749	114,852
	4,607,826	3,700,571

KPMGTH·

22 MARK-UP/ RETURN/ INTEREST EXPENSED

	Note	2014	2013
		(Rupees in '000)	
Deposits		**526,912**	492,541
Securities sold under repurchase agreements		**-**	24,209
Other short term borrowings		**551,339**	222,242
		1,078,251	738,992

23 LOSS FROM DEALING IN FOREIGN CURRENCIES

Revaluation (loss) / gain on forwards / swaps deals		**(3,322,643)**	950,797
Exchange gain / (loss) on forwards / swaps deals		**1,598,000**	(3,218,772)
Exchange gain on foreign exchange spot deals		**199,348**	152,016
Others		**39,549**	(66,640)
		(1,485,746)	(2,182,599)

24 ADMINISTRATIVE EXPENSES

Salaries, allowances, etc.		**611,333**	397,156
Charge for defined benefit plan	*29.1*	**486**	459
Contribution to defined contribution plan	*29*	**1,435**	440
Charge for Workers' Welfare Fund		**28,670**	5,300
Rent, taxes, insurance, electricity, etc.		**105,423**	82,751
Legal and professional charges		**6,127**	3,488
Communications		**19,294**	16,874
Stationery and printing		**3,935**	3,020
Advertisement and publicity		**3,517**	3,439
Donations	*24.1*	**200**	100
Depreciation	*11.1*	**79,822**	82,376
Travelling and entertainment		**26,845**	47,987
Auditors' remuneration	*24.2*	**2,359**	952
Others		**25,964**	17,191
		915,410	661,533

24.1 Donations

Dar-ul-Sukun		**100**	-
Army Public School		**100**	-
Prime Minister's Balochistan Earthquake Relief Fund		**-**	100
		200	100

24.2 Auditors' remuneration

Audit fee		**732**	732
Half yearly review		**252**	220
Special certifications and sundry advisory services		**1,375**	-
		2,359	952

25 TAXATION

For the year			
Current		**452,888**	-
Deferred	*16.1*	**36,784**	(34,714)
		489,672	(34,714)

KPMGTH.

25.1 Relationship between tax expense and accounting profit

	Note	2014	2013
		(Rupees in '000)	
Profit before taxation		1,404,838	259,691
Tax at the applicable rate of 35% (2013: 35%)		491,693	90,892
Effect of:			
- Recognition of previously unrecognized deferred tax assets		-	(125,372)
- Others		(2,021)	(234)
Tax expense for the year		489,672	(34,714)

26 CASH AND CASH EQUIVALENTS

	Note	2014	2013
Cash and balances with treasury banks	*6*	4,329,697	4,462,227
Balance with other banks	*7*	295,142	163,630
Short term lending		1,129,730	2,257,364
Short term borrowings		(2,210,628)	(3,903,394)
		3,543,941	2,979,827

27 CREDIT RATING

Moody's Investor Services Inc. has assigned a long term credit rating of A1 and a short term credit rating of P-1 to the head office of the Bank as at 30 April 2014 (2013: A1 for long term and P-1 for short term).

28 STAFF STRENGTH

	2014	2013
	(Number of employees)	
Permanent	72	47
Temporary / on contractual basis	6	6
Bank's own staff strength at the end of the year	78	53
Outsourced	4	2
Total Staff Strength	82	55

29 EMPLOYEE BENEFITS

Defined Contribution Plan

The Bank contributed an amount of Rs. 1,435,117 (2013: Rs. 440,044) against a recognized Provident Fund and EOBI during the year.

29.1 Defined benefit plan

The branches operate an approved gratuity fund registered in October 2013 w.e.f July 2013 for all its local permanent employees who have completed the qualifying period as defined in the scheme. In the prior year, the branches calculated the obligation on the basis of full liability. In the current year, the branches have carried out an actuarial valuation on 31 December 2014 using Projected Unit Credit Method and recorded the obligation accordingly.

KPMGTH

29.1.1 **Principal actuarial assumptions**

The projected unit credit method, as required by the International Accounting Standard 19 - 'Employee Benefits', was used for actuarial valuation based on the following significant assumptions:

	2014	2013
discount rate	**10.50%**	12.75%
salary increase	**10.00%**	12.25%

The disclosures made in notes 29.1 to 29.1.12 are based on the information included in the actuarial valuation report of the Bank as of December 31, 2014.

29.1.2 **Reconciliation of (receivable from) / payable to defined benefit plan**

	Note	2014 (Rupees in '000)
Present value of defined benefit obligations	*29.1.6*	1,419
Fair value of plan assets	*29.1.7*	(1,681)
		(262)

29.1.3 **Movement in (receivable from) / payable to defined benefit plan**

Opening balance		450
Charge for the year - in profit and loss account	*29.1.4*	486
Bank's contribution to fund made during the year		(1,198)
Closing balance		(262)

29.1.4 **Charge for defined benefit plan**

Recognized in profit and loss account	
Current service cost	547
Net interest	(61)
Total	486

29.1.5 **Actual return on plan assets** 135

29.1.6 **Reconciliation of present value of obligation**

Present value of obligation as at January 1, 2014	907
Current service cost	771
Past service cost	(223)
Interest cost	73
Remeasurement loss	(109)
Present value of obligation as at December 31, 2014	1,419

KPMGTH

		2014 (Rupees in '000)
29.1.7	**Changes in the fair value of plan assets are as follows:**	
	Opening fair value of plan assets	456
	Interest Income	135
	Contributions by the Bank	1,198
	Benefits paid	-
	Investment Return	(108)
	Fair value at end of the year	1,681

29.1.8 Plan assets consist of bank deposits.The gratuity fund was invested within the limits specified by regulations governing investment of approved gratuity funds in Pakistan. There is no investment in the shares or securities of the Bank.

29.1.9 Expected gratuity expense for the next year

Expected gratuity expense for the year ending December 31, 2015, works out to Rs. 789,745.

29.1.10 Sensitivity Analysis

Particulars	Present Value of Defined Benefit Obligation (Rs. in 000')	Percentage Change
Current Liability	1,419	
+1% Discount Rate	1,343	-5.36%
-1% Discount Rate	1,502	5.85%
+1% Salary Increase Rate	1,502	5.85%
-1% Salary Increase Rate	1,342	-5.43%

29.1.11 Maturity Profile

Particulars	Undiscounted Payments (Rs. in 000')
Year 1	-
Year 2	288
Year 3	353
Year 4	760
Year 5	1,117
Year 6 to Year 10	5,592

KPMGTH

29.1.12 Risks Associated with Defined Benefit Plans

a) **Investment Risks**

The risk arises when the actual performance of the investments is lower than expectation and thus creating a shortfall in the funding objectives.

b) **Longevity Risks**

The risk arises when the actual lifetime of retirees is longer than expectation. This risk is measured at the plan level over the entire retiree population.

c) **Salary Increase Risk**

The most common type of retirement benefit is one where the benefit is linked with final salary. The risk arises when the actual increases are higher than expectation and impacts the liability accordingly.

d) **Withdrawal Risk**

The risk of actual withdrawals varying with the actuarial assumptions can impose a risk to the benefit obligation. The movement of the liability can go either way.

30 COMPENSATION OF CHIEF EXECUTIVE AND EXECUTIVES

	Chief Executive		Executives	
	2014	2013	2014	2013*
	(Rupees in '000)		(Rupees in '000)	
Managerial remuneration	58,299	39,384	526,057	360,060
Charge for defined benefit plan	-	-	805	414
Contribution to defined contribution plan	-	-	1,003	729
Rent and house maintenance	-	-	4,361	3,581
Utilities	-	-	1,081	1,192
Medical	-	-	967	819
Conveyance	-	-	984	1,195
Others	-	-	3,172	2,345
	58,299	39,384	538,430	370,335
Number of persons	1	1	56	43

* Figures have been revised in accordance with the criteria of executives.

30.1 The chief executive and certain executives are also provided with drivers, security arrangements and payment of travel bills in accordance with their terms of employment.

30.2 Payment of performance bonus to the Chief Executive Officer for years 2014 made during the year amounts to Rs. 12.9 million (2013: Rs. 11.8 million).

31 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 government securities is based on market prices available from Reuters and is disclosed in the relevant note 9.

The re-pricing profile, effective rates and maturity are stated in note 35 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 are frequently re-priced.

VPMGTH·

32 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

	2014			
	Corporate Finance	Trading & Sales	Others	Total
	(Rupees in '000)			
Total income	422,113	2,976,386	-	3,398,499
Total expenses	(138,432)	(1,775,407)	(79,822)	(1,993,661)
Net income	283,681	1,200,979	(79,822)	1,404,838
Segment assets	6,087,050	68,829,173	1,034,164	75,950,387
Segment liabilities	5,370,178	60,723,163	5,349,480	71,442,821
Segment return on assets (ROA) (%)	8.46%	4.78%	0.00%	
Segment cost of funds (%)	3.09%	3.17%	1.84%	

	2013 *			
	Corporate Finance	Trading & Sales	Others	Total
	(Rupees in '000)			
Total income	113,777	1,546,439	-	1,660,216
Total expenses	(61,932)	(1,256,217)	(82,376)	(1,400,525)
Net income	51,845	290,222	(82,376)	259,691
Segment assets	3,894,413	55,663,269	2,487,123	62,044,805
Segment liabilities	3,597,376	51,417,681	3,334,401	58,349,458
Segment return on assets (ROA) (%)	5.76%	4.06%	0.00%	
Segment cost of funds (%)	3.40%	3.71%	2.82%	

* Figures have rearranged for comparison.

33 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions and includes head office, other branches of the Bank and Key Management personnel and staff retirement benefit funds. The transactions with related parties are conducted under normal course of business substantially on the same terms as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than a normal risk. Pakistan branches of the Bank also provide advances to employees in accordance with their terms of employment.

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

	2014				
	Staff retirement Benefits	Key Management Personnel	Other ICBC branches	Head Office	Total
	(Rupees in '000)				
Balance Sheet					
Balances with other banks	-	-	48,415	246,347	294,762
Lendings to financial institutions	-	-	1,129,730	-	1,129,730
Borrowings	-	-	25,120,775	30,360,163	55,480,938
Other liabilities	-	4,128		1,396,916	1,401,044
Profit and Loss					
Interest / other income	-	-	75,523	370	75,893
Interest / other expense	2,633	513,922	237,358	261,827	1,015,740

	2013				
	Staff retirement Benefits	Key Management Personnel	Other ICBC branches	Head Office	Total
	(Rupees in '000)				
Balance Sheet					
Balances with other banks	-	-	797	162,451	163,248
Lendings to financial institutions	-	-	1,600,932	-	1,600,932
Borrowings	-	-	5,930,089	34,018,634	39,948,723
Other liabilities	899	373	-	1,464,223	1,465,495
Profit and Loss					
Interest / other income	-	-	52,021	2,099	54,120
Interest / other expense	899	350,498	16,567	204,682	572,646

33.1 Key Management Personnel

	2014	2013
	(Rupees in '000)	
Managerial remuneration (including allowances)	513,227	349,918
Contribution to provident and benevolent fund	451	340
Medical	244	240
	513,922	350,498
Number of persons	28	24

KPMGTH

34 CAPITAL ASSESSMENT AND ADEQUACY

34.1 Scope of Applications

Amounts subject to Pre - Basel III treatment

The Basel-III Framework is applicable to the branches. Standardized Approach is used for calculating the Capital Adequacy for Credit and Market risks, whereas, Basic Indicator Approach (BIA) is used for Operational Risk Capital Adequacy purpose.

34.2 Capital Management

34.2.1 Objectives and goals of managing capital

The branches manages its capital to attain following objectives and goals:

- an appropriately capitalized status, as defined by banking regulations;
- acquire strong credit ratings that enable an optimized funding mix and liquidity sources at lesser costs;
- cover all risks underlying business activities and
- retain flexibility to harness future investment opportunities, build and expand even in stressed times.

34.2.2 Statutory Minimum Capital Requirement and Capital Adequacy Ratio

The State Bank of Pakistan through its BSD Circular No.07 of 2009 dated April 15, 2009 requires the assigned capital (net off losses) for branches of foreign banks operating in Pakistan to be raised to Rs. 3 billion by the financial year December 2010. The Head Office capital account of the branches for the year ended December 31, 2014 stands at Rs. 3.6 billion and is in compliance with the SBP requirement for the said year.

The capital adequacy ratio of the Bank is subject to the Basel III capital adequacy guidelines stipulated by the State Bank of Pakistan through its BPRD Circular No. 06 of 2013 dated August 15, 2013. These instructions are effective from December 31, 2013 in a phased manner with full implementation intended by December 31, 2019. Under Basel III guidelines banks are required to maintain the following ratios on an ongoing basis:

Phase-in arrangement and full implementation of the minimum capital requirements:

Sr. No	Ratio	2013	2014	2015	2016	2017	2018	31-Dec-19
1	CET 1	5.0%	5.5%	6.0%	6.0%	6.0%	6.0%	6.0%
2	ADT 1	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
3	Tier 1	6.5%	7.0%	7.5%	7.5%	7.5%	7.5%	7.5%
4	Total Capital	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
5	*CCB	0.0%	0.00%	0.25%	0.65%	1.28%	1.90%	2.50%
6	Total Capital Plus CCB	10%	10.00%	10.25%	10.65%	11.28%	11.90%	12.50%

* *Capital conservative buffer*

34.2.3 Branches' regulatory capital is analyzed into three tiers

Common Equity Tier 1 capital (CET1), which includes fully paid up capital (including the bonus shares), balance in share premium account, general reserves, statutory reserves as per the financial statements and net unappropriated profits after all regulatory adjustments applicable on CET1 (refer note 34.4).

Additional Tier 1 Capital (AT1), which includes perpetual non-cumulative preference shares and share premium resulting from the issuance of preference shares balance in share premium account after all regulatory adjustments applicable on AT1 (refer to note 34.4).

KPMGTH

Tier 2 capital, which includes Subordinated debt/ Instruments, share premium on issuance of Subordinated debt/ Instruments, general provisions for loan losses (up to a maximum of 1.25% of credit risk weighted assets), gross reserves on revaluation of fixed assets and equity investments and foreign exchange translation reserves after all regulatory adjustments applicable on Tier-2 (refer to note 34.4).

The required capital adequacy ratio (10% of the risk-weighted assets) is achieved by the branches through improvement in the capital base, asset quality at the existing volume level, ensuring better recovery management and composition of asset mix with low risk. Banking operations are categorized as either trading book or banking book and risk-weighted assets are determined according to specified requirements of the State Bank of Pakistan that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The total risk-weighted exposures comprise of the credit risk, market risk and operational risk.

Basel-III Framework enables a more risk-sensitive regulatory capital calculation to promote long term viability of the branches. It is critical that it is able to continuously monitor the exposure across entire organization and aggregate the risks so as to take an integrated approach/view. Maximization of the return on risk-adjusted capital is the principal basis to be used in determining how capital is allocated within the branches to particular operations. The branches remained compliant with all externally imposed capital requirements through out the year. Further, there has been no material change in the branches' management of capital during the year.

34.3 Capital Adequacy

The main objective of the capital management is to improve the financial position of the branches to support the growth in business.

The branches' capital management approach is driven by its desire to maintain a strong capital base to support the development of its business, to meet regulatory capital requirements at all times and at the same time maintaining creditor and market confidence.

In implementing current capital requirements the State Bank of Pakistan requires banks to maintain minimum Capital Adequacy Ratio (CAR) of 10% as of December 31, 2014 whereas CAR stood at 14.65% at the year ended December 31, 2014.

The Bank calculates capital adequacy ratio for credit risk, market risk and operational risk based upon requirements under Basel Accord as per guidelines issued by the State Bank of Pakistan from time to time in this regard.

Major credit risk in respect of on and off-balance sheet exposures are mainly claims on banks and corporates.

Market risk exposures are mainly foreign exchange positions. For market risk in its portfolio, based on the methodology provided by SBP which takes account of specific and general market risk capital charge for interest rate risk using the maturity method.

For calculation of operational risk capital charge using the Basic Indicator Approach as prescribed by SBP vide their Circular No. 08 dated 27 June 2006.

The Bank's potential risk exposures shall remain in these exposure types.

Sensitivity and stress testing of the Branch under different risk factors depicts that the capital adequacy ratio is above the regulatory requirements.

KPMG T.H.

34.4 **Capital Adequacy Ratio as at December 31, 2014**

			2014	2013
			----------(Rupees in '000)----------	
	Common Equity Tier 1 capital (CET1): Instruments and reserves			
1	Fully Paid-up Capital/ Capital deposited with SBP		3,627,239	3,802,007
2	Balance in Share Premium Account		-	-
3	Reserve for issue of Bonus Shares		-	-
4	Discount on Issue of shares		-	-
5	General/ Statutory Reserves		-	-
6	Gain/(Losses) on derivatives held as Cash Flow Hedge		-	-
7	Unappropriated/unremitted profits/ (losses)		844,926	(70,240)
8	Minority Interests arising from CET1 capital instruments issued to third parties by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)		-	-
9	**CET 1 before Regulatory Adjustments**		4,472,165	3,731,767
10	Total regulatory adjustments applied to CET1 (Note 34.4.1)		-	36,420
11	**Common Equity Tier 1**		4,472,165	3,695,347
	Additional Tier 1 (AT 1) Capital			
12	Qualifying Additional Tier-1 capital instruments plus any related share premium		-	-
13	of which: Classified as equity		-	-
14	of which: Classified as liabilities		-	-
15	Additional Tier-1 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group AT 1)		-	-
16	of which: instrument issued by subsidiaries subject to phase out		-	-
17	**AT1 before regulatory adjustments**		-	-
18	Total regulatory adjustment applied to AT1 capital (Note 34.4.2)		-	-
19	Additional Tier 1 capital after regulatory adjustments		-	-
20	**Additional Tier 1 capital recognized for capital adequacy**		-	-
21	**Tier 1 Capital (CET1 + admissible AT1) (11+20)**		4,472,165	3,695,347
	Tier 2 Capital			
22	Qualifying Tier 2 capital instruments under Basel III plus any related share premium		-	-
23	Tier 2 capital instruments subject to phaseout arrangement issued under pre-Basel 3 rules		-	-
24	Tier 2 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group tier 2)		-	-
25	of which: instruments issued by subsidiaries subject to phase out		-	-
26	General provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets		-	-
27	Revaluation Reserves (net of taxes)	c=a+b	35,401	-
28	of which: Revaluation reserves on fixed assets	a		
29	of which: Unrealized gains/losses on AFS	b	35,401	-
30	Foreign Exchange Translation Reserves		-	-
31	Undisclosed/Other Reserves (if any)		-	-
32	**T2 before regulatory adjustments**		35,401	-
33	Total regulatory adjustment applied to T2 capital (Note 34.4.3)		-	
34	Tier 2 capital (T2) after regulatory adjustments		35,401	-
35	Tier 2 capital recognized for capital adequacy		35,401	-
36	Portion of Additional Tier 1 capital recognized in Tier 2 capital		-	-
37	**Total Tier 2 capital admissible for capital adequacy**		35,401	-
38	**TOTAL CAPITAL (T1 + admissible T2) (21+37)**		4,507,566	3,695,347
39	**Total Risk Weighted Assets (RWA) {for details refer Note 34.7}**		30,774,097	16,874,132
	Capital Ratios and buffers (in percentage of risk weighted assets)			
40	**CET1 to total RWA**		14.53%	21.90%
41	**Tier-1 capital to total RWA**		14.53%	21.90%
42	**Total capital to total RWA**		14.65%	21.90%
43	Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)		5.50%	5.00%
44	of which: capital conservation buffer requirement		-	-
45	of which: countercyclical buffer requirement		-	-
46	of which: D-SIB or G-SIB buffer requirement		-	-
47	CET1 available to meet buffers (as a percentage of risk weighted assets)		9.03%	16.90%
	National minimum capital requirements prescribed by SBP			
48	**CET1 minimum ratio**		5.50%	5.00%
49	**Tier 1 minimum ratio**		7.00%	6.50%
50	**Total capital minimum ratio**		10.00%	10.00%

KPMGTH·

Regulatory Adjustments and Additional Information		2014 Amount	2014 Amounts subject to Pre-Basel III treatment	2013 Amount	2013 Amounts subject to Pre-Basel III treatment
		------------------ (Rupees in '000) ------------------			
34.4.1	**Common Equity Tier 1 capital: Regulatory adjustments**				
1	Goodwill (net of related deferred tax liability)	-		-	
2	All other intangibles (net of any associated deferred tax liability)	-		-	
3	Shortfall in provisions against classified assets	-		-	
4	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-		-	
5	Defined-benefit pension fund net assets	-		-	
6	Reciprocal cross holdings in CET1 capital instruments of banking, financial and insurance entities	-		-	
7	Cash flow hedge reserve	-		-	
8	Investment in own shares/ CET1 instruments	-		-	
9	Securitization gain on sale	-		-	
10	Capital shortfall of regulated subsidiaries	-		-	
11	Deficit on account of revaluation from bank's holdings of fixed assets/ AFS	-		36,420	
12	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-		-	
13	Significant investments in the common stocks of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-		-	
14	Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-		-	
15	Amount exceeding 15% threshold	-		-	
16	of which: significant investments in the common stocks of financial entities	-		-	
17	of which: deferred tax assets arising from temporary differences	-		-	
18	National specific regulatory adjustments applied to CET1 capital	-		-	
19	Investments in TFCs of other banks exceeding the prescribed limit	-		-	
20	Any other deduction specified by SBP (mention details)	-		-	
21	Adjustment to CET1 due to insufficient AT1 and Tier 2 to cover deductions	-		-	
22	**Total regulatory adjustments applied to CET1 (sum of 1 to 21)**	-		36,420	
34.4.2	**Additional Tier-1 & Tier-1 Capital: regulatory adjustments**				
23	Investment in mutual funds exceeding the prescribed limit [SBP specific adjustment]	-		-	
24	Investment in own AT1 capital instruments	-		-	
25	Reciprocal cross holdings in Additional Tier 1 capital instruments of banking, financial and insurance entities	-		-	
26	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-		-	
27	Significant investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-		-	
28	Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from additional tier-1 capital	-		-	
29	Adjustments to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-		-	
30	**Total regulatory adjustment applied to AT1 capital (sum of 23 to 29)**	-		-	
34.4.3	**Tier 2 Capital: regulatory adjustments**				
31	Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital	-		-	
32	Reciprocal cross holdings in Tier 2 instruments of banking, financial and insurance entities	-		-	
33	Investment in own Tier 2 capital instrument	-		-	
34	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-		-	
35	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-		-	
36	**Total regulatory adjustment applied to T2 capital (sum of 31 to 35)**	-		-	

KPMGTH

		2014	2013
		(Rupees in '000)	
34.4.4	**Additional Information**		
	Risk Weighted Assets subject to pre-Basel III treatment		
37	Risk weighted assets in respect of deduction items (which during the transitional period will be risk weighted subject to Pre-Basel III Treatment)	**23,028,519**	14,041,906
(i)	of which: deferred tax assets	-	-
(ii)	of which: Defined-benefit pension fund net assets	-	-
(iii)	of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is less than 10% of the issued common share capital of the entity	-	-
(iv)	of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is more than 10% of the issued common share capital of the entity	-	-
	Amounts below the thresholds for deduction (before risk weighting)		
38	Non-significant investments in the capital of other financial entities	-	-
39	Significant investments in the common stock of financial entities	-	-
40	Deferred tax assets arising from temporary differences (net of related tax liability)	-	-
	Applicable caps on the inclusion of provisions in Tier 2		
41	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	-	-
42	Cap on inclusion of provisions in Tier 2 under standardized approach	-	-
43	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-
44	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	-

34.5 Capital Structure Reconciliation

Table: 34.5.1	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	2014	
	(Rupees in '000)	
Assets		
Cash and balances with treasury banks	4,329,697	4,329,697
Balanced with other banks	295,142	295,142
Lending to financial institutions	1,129,730	1,129,730
Investments	63,074,604	63,074,604
Advances	6,087,050	6,087,050
Operating fixed assets	183,341	183,341
Deferred tax assets	-	-
Other assets	850,823	850,823
Total assets	75,950,387	75,950,387
Liabilities & Equity		
Bills payable	4,667	4,667
Borrowings	56,592,615	56,592,615
Deposits and other accounts	9,500,726	9,500,726
Sub-ordinated loans	-	-
Liabilities against assets subject to finance lease	-	-
Deferred tax liabilities	21,132	21,132
Other liabilities	5,323,681	5,323,681
Total liabilities	71,442,821	71,442,821
Share capital/ Head office capital account	3,627,239	3,627,239
Reserves	-	-
Unremitted profit / Accumulated (losses)	844,926	844,926
Minority Interest	-	-
Surplus on revaluation of investments- net off tax	35,401	35,401
Total equity	4,507,566	4,507,566
Total liabilities & equity	75,950,387	75,950,387

KPMGTH

Table: 34.5.2

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	2014		
	(Rupees in '000)		
Assets			
Cash and balances with treasury banks	4,329,697	4,329,697	
Balanced with other banks	295,142	295,142	
Lending to financial institutions	1,129,730	1,129,730	
Investments	63,074,604	63,074,604	
of which: Non-significant investments in the capital instruments of banking, financial and insurance entities exceeding 10% threshold	-	-	a
of which: significant investments in the capital instruments issued by banking, financial and insurance entities exceeding regulatory threshold	-	-	b
of which: Mutual Funds exceeding regulatory threshold	-	-	c
of which: reciprocal crossholding of capital instrument (separate for CET1, AT1, T2)	-	-	d
of which: others (mention details)	63,074,604	-	e
Advances	6,087,050	6,087,050	
shortfall in provisions/ excess of total EL amount over eligible provisions under IRB	-	-	f
general provisions reflected in Tier 2 capital	-	-	g
Fixed Assets	183,341	183,341	
Deferred Tax Assets	-	-	
of which: DTAs that rely on future profitability excluding those arising from temporary differences	-	-	h
of which: DTAs arising from temporary differences exceeding regulatory threshold	-	-	i
Other assets	850,823	850,823	
of which: Goodwill	-	-	j
of which: Intangibles	-	-	k
of which: Defined-benefit pension fund net assets	-	-	l
Total assets	75,950,387	75,950,387	
Liabilities & Equity			
Bills payable	4,667	4,667	
Borrowings	56,592,615	56,592,615	
Deposits and other accounts	9,500,726	9,500,726	
Sub-ordinated loans	-	-	
of which: eligible for inclusion in AT1	-	-	m
of which: eligible for inclusion in Tier 2	-	-	n
Liabilities against assets subject to finance lease	-	-	
Deferred tax liabilities	21,132	20,499	
of which: DTLs related to goodwill	-	-	o
of which: DTLs related to intangible assets	-	-	p
of which: DTLs related to defined pension fund net assets	-	-	q
of which: other deferred tax liabilities	21,132	20,499	r
Other liabilities	5,323,681	5,323,681	
Total liabilities	71,442,821	71,442,188	
Share capital	3,627,239	3,627,239	
of which: amount eligible for CET1	3,627,239	3,627,239	s
of which: amount eligible for AT1	-	-	t
Reserves	-	-	
of which: portion eligible for inclusion in CET1(provide breakup)	-	-	u
of which: portion eligible for inclusion in Tier 2	-	-	v
Unremitted profit / Accumulated (losses)	844,926	844,926	w
Minority Interest	-	-	
of which: portion eligible for inclusion in CET1	-	-	x
of which: portion eligible for inclusion in AT1	-	-	y
of which: portion eligible for inclusion in Tier 2	-	-	z
Surplus on revaluation of assets	35,401	35,401	
of which: Revaluation reserves on Fixed Assets	-	-	aa
of which: Unrealized Gains/Losses on AFS	35,401	35,401	
In case of Deficit on revaluation (deduction from CET1)	-	-	ab
Total equity	4,507,566	4,507,566	
Total liabilities & Equity	75,950,387	75,949,754	

KPMGTH·

Table: 34.5.3		Component of regulatory capital reported by branches 2014 (Rupees in '000)	Source based on reference number from step 2
	Common Equity Tier 1 capital (CET1): Instruments and reserves		
1	Fully Paid-up Capital/ Capital deposited with SBP	3,627,239	
2	Balance in Share Premium Account	-	(s)
3	Reserve for issue of Bonus Shares	-	
4	General/ Statutory Reserves	-	(u)
5	Gain/(Losses) on derivatives held as Cash Flow Hedge	-	
6	Unappropriated/unremitted profits/ (losses)	844,926	(w)
7	Minority Interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	-	(x)
8	**CET 1 before Regulatory Adjustments**	4,472,165	
	Common Equity Tier 1 capital: Regulatory adjustments		
9	Goodwill (net of related deferred tax liability)	-	(j) - (o)
10	All other intangibles (net of any associated deferred tax liability)	-	(k) - (p)
11	Shortfall of provisions against classified assets	-	(f)
12	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	{(h) - (r} * 20%
13	Defined-benefit pension fund net assets	-	{(l) - (q)} * 20%
14	Reciprocal cross holdings in CET1 capital instruments	-	(d)
15	Cash flow hedge reserve	-	
16	Investment in own shares/ CET1 instruments	-	
17	Securitization gain on sale	-	
18	Capital shortfall of regulated subsidiaries	-	
19	Deficit on account of revaluation from bank's holdings of fixed assets/ AFS	-	(ab)
20	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(a) - (ac) - (ae)
21	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	(b) - (ad) - (af)
22	Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	(i)
23	Amount exceeding 15% threshold	-	
24	of which: significant investments in the common stocks of financial entities	-	
25	of which: deferred tax assets arising from temporary differences	-	
26	National specific regulatory adjustments applied to CET1 capital	-	
27	of which: Investment in TFCs of other banks exceeding the prescribed limit	-	
28	of which: Any other deduction specified by SBP (mention details)	-	
29	Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions	-	
30	**Total regulatory adjustments applied to CET1 (sum of 9 to 29)**	-	
31	**Common Equity Tier 1**	4,472,165	
	Additional Tier 1 (AT 1) Capital		
32	Qualifying Additional Tier-1 instruments plus any related share premium	-	
33	of which: Classified as equity	-	(t)
34	of which: Classified as liabilities	-	(m)
35	Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1)	-	(y)
36	of which: instrument issued by subsidiaries subject to phase out	-	
37	**AT1 before regulatory adjustments**	-	
	Additional Tier 1 Capital: regulatory adjustments		
38	Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)	-	
39	Investment in own AT1 capital instruments	-	
40	Reciprocal cross holdings in Additional Tier 1 capital instruments	-	
41	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(ac)
42	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	(ad)
43	Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-1 capital	-	
44	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
45	**Total of Regulatory Adjustment applied to AT1 capital (sum of 38 to 44)**	-	
46	**Additional Tier 1 capital**	-	
47	**Additional Tier 1 capital recognized for capital adequacy**	-	
48	**Tier 1 Capital (CET1 + admissible AT1) (31+47)**	4,472,165	

KPMGTH

Table: 34.5.3		Component of regulatory capital reported by branches 2014 (Rupees in '000)	Source based on reference number from step 2
	Tier 2 Capital		
49	Qualifying Tier 2 capital instruments under Basel III plus any related share premium	-	
50	Capital instruments subject to phase out arrangement from tier 2 (Pre-Basel III instruments)	-	(n)
51	Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2)	-	(z)
52	of which: instruments issued by subsidiaries subject to phase out	-	
53	General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	-	(g)
54	Revaluation Reserves	35,401	
55	of which: Revaluation reserves on fixed assets	-	portion of (aa)
56	of which: Unrealized Gains/Losses on AFS	35,401	
57	Foreign Exchange Translation Reserves	-	(v)
58	Undisclosed/Other Reserves (if any)	-	
59	**T2 before regulatory adjustments**	35,401	
	Tier 2 Capital: regulatory adjustments		
60	Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital	-	
61	Reciprocal cross holdings in Tier 2 instruments	-	
62	Investment in own Tier 2 capital instrument	-	
63	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(ae)
64	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	(af)
65	**Amount of Regulatory Adjustment applied to T2 capital (sum of 60 to 64)**	-	
66	Tier 2 capital (T2)	35,401	
67	Tier 2 capital recognized for capital adequacy	-	
68	Excess Additional Tier 1 capital recognized in Tier 2 capital	-	
69	**Total Tier 2 capital admissible for capital adequacy**	35,401	
70	TOTAL CAPITAL (T1 + admissible T2) (48+69)	4,507,566	

KPMG TH

34.6 **Main Features Template of Regulatory Capital Instruments**

Disclosure template for main features of regulatory capital instruments				
S. No.	Main Features	Common Shares	Instrument - 2	Instrument - 3
1	Issuer	NA	NA	NA
2	Unique identifier (eg KSE Symbol or Bloomberg identifier etc.)	NA	NA	NA
3	Governing law(s) of the instrument	NA	NA	NA
	Regulatory treatment	NA	NA	NA
4	Transitional Basel III rules	NA	NA	NA
5	Post-transitional Basel III rules	NA	NA	NA
6	Eligible at solo/ group/ group & solo	NA	NA	NA
7	Instrument type	NA	NA	NA
8	Amount recognized in regulatory capital (Currency in PKR thousands, as of reporting date)	NA	NA	NA
9	Par value of instrument	NA	NA	NA
10	Accounting classification	NA	NA	NA
11	Original date of issuance	NA	NA	NA
12	Perpetual or dated	NA	NA	NA
13	Original maturity date	NA	NA	NA
14	Issuer call subject to prior supervisory approval	NA	NA	NA
15	Optional call date, contingent call dates and redemption amount	NA	NA	NA
16	Subsequent call dates, if applicable	NA	NA	NA
	Coupons / dividends	NA	NA	NA
17	Fixed or floating dividend/ coupon	NA	NA	NA
18	coupon rate and any related index/ benchmark	NA	NA	NA
19	Existence of a dividend stopper	NA	NA	NA
20	Fully discretionary, partially discretionary or mandatory	NA	NA	NA
21	Existence of step up or other incentive to redeem	NA	NA	NA
22	Noncumulative or cumulative	NA	NA	NA
23	Convertible or non-convertible	NA	NA	NA
24	If convertible, conversion trigger (s)	NA	NA	NA
25	If convertible, fully or partially	NA	NA	NA
26	If convertible, conversion rate	NA	NA	NA
27	If convertible, mandatory or optional conversion	NA	NA	NA
28	If convertible, specify instrument type convertible into	NA	NA	NA
29	If convertible, specify issuer of instrument it converts into	NA	NA	NA
30	Write-down feature	NA	NA	NA
31	If write-down, write-down trigger(s)	NA	NA	NA
32	If write-down, full or partial	NA	NA	NA
33	If write-down, permanent or temporary	NA	NA	NA
34	If temporary write-down, description of write-up mechanism	NA	NA	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument	NA	NA	NA
36	Non-compliant transitioned features	NA	NA	NA
37	If yes, specify non-compliant features	NA	NA	NA

KPMGTH

34.7 Risk Weighted Assets

The capital requirements for the banking group as per the major risk categories should be indicated in the manner given below:-

	Capital Requirements		Risk Weighted Assets	
	2014	2013	2014	2013
	(Rupees in '000)			
Credit Risk				
On-Balance sheet				
Portfolios subject to standardized approach (Simple or Comprehensive)				
Cash & cash equivalents	-	-	-	-
Sovereign	35,459	5,172	354,598	51,729
Public Sector entities	35,980	-	359,800	-
Banks	37,340	90,359	373,403	903,595
Corporate	393,268	198,859	3,932,682	1,988,596
Retail	356	-	3,560	-
Residential Mortgages	466	-	4,662	-
Past Due loans	-	-	-	-
Operating Fixed Assets	18,334	24,329	183,341	243,293
Other assets	85,082	12,893	850,823	128,936
	606,285	331,612	6,062,869	3,316,149
Portfolios subject to Internal Rating Based (IRB) Approach				
e.g. Corporate, Sovereign, Corporate, Retail, Securitization etc.	-	-	-	-
Off-Balance sheet				
Non-market related				
Financial guarantees	-	-	-	-
Acceptances	53,940	-	539,408	-
Performance Related Contingencies	1,576,035	926,924	15,760,350	9,269,244
Trade Related Contingencies	5,665	2,145	56,658	21,450
	1,635,640	929,069	16,356,416	9,290,694
Market related				
Foreign Exchange contracts	60,923	143,506	609,234	1,435,063
Derivatives	-	-	-	-
	60,923	143,506	609,234	1,435,063
Equity Exposure Risk in the Banking Book				
Under simple risk weight method				
Listed Equity Investment	-	-	-	-
Unlisted Equity Investment	-	-	-	-
	-	-	-	-
Under Internal Model approach	-	-	-	-
	2,302,848	1,404,187	23,028,519	14,041,906
Market Risk				
Capital Requirement for portfolios subject to Standardized Approach				
Interest rate risk	521,663	210,584	5,216,638	2,105,848
Equity position risk	-	-	-	-
Foreign Exchange risk	35,896	-	358,963	-
	557,559	210,584	5,575,601	2,105,848
Operational Risk				
Capital Requirement for operational risks	216,997	72,638	2,169,977	726,378
Total Risk Weighted Exposures	3,077,404	1,687,409	30,774,097	16,874,132

Capital Adequacy Ratios	2014		2013	
	Required	Actual	Required	Actual
CET1 to total RWA	5.50%	14.53%	5.00%	21.90%
Tier-1 capital to total RWA	7.00%	14.53%	6.50%	21.90%
Total capital to total RWA	10.00%	14.65%	10.00%	21.90%

KPMGTH

35 RISK MANAGEMENT

The primary objective of the Risk Management System is to safeguard the branches capital, its financial resources and profitability from various risks. The branches risk management policies are designed to identify and analyze all risks, to set appropriate risk limits and controls, to measure and monitor the same through reliable Management Information System.

This section presents information about the branches exposure to, and its management and control of, risks, in particular the primary risks associated with its use of financial instruments. Most of the functions specified below have been performed at head office level.

35.1 Credit risk

Credit Risk Management processes encompass identification, assessment, measurement, monitoring and control of the credit exposures. In the Bank's experience, a key to effective credit risk management is a well thought out business strategy. The branches focus over the coming years will be to further enhance risk models, processes and systems infrastructure, in line with its ambition to bring maximum sophistication to the risk management function.

The branches, as per State Bank of Pakistan Guidelines, calculated its Capital Adequacy Ratio (CAR) based on the SBP Guidelines on Basel III. Processes have been set for fine-tuning the systems & procedures, information technology capabilities and risk governance structure to meet the requirements of the advanced approaches as well.

The Head Office has delegated responsibility for the management of credit risk to the credit committee which is responsible for the oversight of the branches' credit risk in respect of:
- Formulating credit policies
- Establishing the authorization structure
- Reviewing and assessing credit risk
- Limiting concentration of exposure to counterparties
- Developing and maintaining the Bank's risk grading
- Reviewing compliance of business units
- Providing advice, guidance and specialist skills to promote best practice in the management of credit risk.

The branches have built-up and maintained a sound loan portfolio in terms of well-defined Credit Policy. Its credit evaluation system comprises of well-designed credit apprais sanctioning and review procedures for the purpose of emphasizing prudence in lending activities and ensuring the high quality of asset portfolio. As part of prudent practices, the management conducts pre-fact validation of major cases from integrated risk point of view. The Bank manages its portfolio of loan assets with a view to limit concentrations in terms of risk quality, geography, industry, maturity and large exposure.

35.1.1 Credit Risk - General Disclosures Basel II Specific

The branches are using The Standardized Approach (TSA) of SBP Basel II accord for the purpose of estimating Credit Risk Weighted Assets. Under TSA, banks are allowed to take into consideration external rating(s) of counter-party(s) for the purpose of calculating Risk Weighted Assets.

35.1.2 Disclosures for portfolio subject to the Standardized Approach & Supervisory risk weights in the IRB Approach-Basel II specific

35.1.2.1 External ratings

SBP Basel II guidelines require banks to use ratings assigned by specified External Credit Assessment Agencies (ECAIs) namely PACRA, JCR-VIS, Moodys, Fitch and Standard & Poors.

The branches use external ratings for the purposes of computing the risk weights as per the Basel II framework. For exposures with a contractual maturity of less than or equal to one year, short-term rating given by approved Rating Agencies is used, whereas for long-term exposure with maturity of greater than one year, long-term rating is used.

Where there are two ratings available, the lower rating is considered and where there are three or more ratings the second - lowest rating is considered.

35.1.3 Disclosures with respect to Credit Risk Mitigation for Standardized and IRB approaches-Basel II specific

35.1.3.1 Credit risk mitigation policy

The branches define collateral as the assets or rights provided to the Bank by the borrower or a third party in order to secure a credit facility. The branches would have the rights of secured creditor in respect of the assets / contracts offered as security for the obligations of the borrower / obligor.

35.1.3.2 Collateral valuation and management

As stipulated in the SBP Basel II guidelines, the branches use the comprehensive approach for collateral valuation. Under this approach, the Bank reduces its credit exposure to a counterparty when calculating its capital requirements to the extent of risk mitigation provided by the eligible financial collateral as specified in the Basel II guidelines. In line with Basel II guidelines, the branches make adjustments in eligible collaterals received for possible future fluctuations in the value of the collateral in line with the requirements specified by SBP guidelines. These adjustments, also referred to as 'haircuts', to produce volatility-adjusted amounts for collateral, are reduced from the exposure to compute the capital charge based on the applicable risk weights.

35.1.3.3 Types of collateral taken by the branches

The branches determine the appropriate collateral for each facility based on the type of product and counterparty. In case of corporate and small and medium enterprises financing, fixed assets are generally taken as security for long tenor loans and current assets for working capital finance usually backed by mortgage or hypothecation. For project finance, security of the assets of the borrower and assignment of the underlying project contracts is generally obtained. Additional security such as pledge of shares, cash collateral, TDRs, SSC/DSCs, charge on receivables may also be taken. Moreover, in order to cover the entire exposure Personal Guarantees of Directors / Borrowers are also obtained by the Bank.

The decision on the type and quantum of collateral for each transaction is taken by the credit approving authority as per the approved credit approval authorization. For facilities provided as per approved product policies, collateral is taken in line with the policy.

35.1.3.4 Types of eligible financial collateral

For credit risk mitigation purposes, the branches consider all types of financial collaterals that are eligible under SBP Basel II accord. This includes Cash / TDRs, Gold, securities issued by Government of Pakistan such as T-Bills and PIBs, National Savings Certificates, certain debt securities rated by a recognized credit rating agency, mutual fund units where daily Net Asset Value (NAV) is available in public domain and guarantees from certain specified entities. In general, for Capital calculation purposes, in line with the SBP Basel II requirements, the Bank recognizes only eligible collaterals as mentioned in the SBP Basel II accord.

35.1.3.5 Credit concentration risk

Credit concentration risk arises mainly due to concentration of exposures under various categories viz. industry, geography, and single/group borrower. 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 borrower and group borrowers.

KPMGTH

35.2 **Segmental information**

35.2.1 **Segments by class of business**

	2014					
	Advances		**Deposits**		***Contingencies and Commitments**	
	(Rupees in '000)	**Percent**	**(Rupees in '000)**	**Percent**	**(Rupees in '000)**	**Percent**
Mining and Quarrying	-	-	66,095	0.70	17,585	0.03
Textile	-	-	633	0.01	-	-
Electronics and electrical appliances	1,364,653	22.42	1,662	0.02	10,153,633	15.68
Construction	-	-	1,902,335	20.02	22,310,351	34.45
Communication	-	-	3,505,452	36.90	12,223,548	18.87
Power (electricity), Gas, Water, Sanitary	2,799,000	45.98	3,095,230	32.58	1,832,253	2.83
Wholesale and Retail Trade	804,775	13.22	297,806	3.13	18,191,334	28.09
Exports/Imports	-	-	-	-	-	-
Transport, Storage and Communication	-	-	10,008	0.11	36,177	0.06
Financial	-	-	56,977	0.60	-	-
Chemical and Pharmaceuticals	920,000	15.11	-	-	-	-
Individuals	18,067	0.30	211,847	2.23	-	-
Others	180,555	2.97	352,681	3.71	-	-
	6,087,050	100	9,500,726	100	64,764,881	100

	2013					
	Advances		Deposits		*Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Mining and Quarrying	-	-	69,313	0.46	-	-
Textile	387,716	9.96	24,751	0.17	-	-
Electronics and electrical appliances	923,191	23.70	113,071	0.75	10,127,525	24.71
Construction	-	-	1,450,915	9.68	10,946,649	26.71
Communication	-	-	3,851,194	25.70	2,653,025	6.47
Power (electricity), Gas, Water, Sanitary	2,000,000	51.36	6,839,806	45.64	-	-
Wholesale and Retail Trade	539,171	13.84	156,145	1.04	-	-
Exports/Imports	-	-	-	-	10,485,948	25.58
Transport, Storage and Communication	-	-	100,690	0.67	-	-
Financial	-	-	-	-	5,266	0.01
Individuals	-	-	179,608	1.20	-	-
Others	44,335	1.14	2,201,044	14.69	6,771,917	16.52
	3,894,413	100	14,986,537	100	40,990,330	100

35.2.2 **Segment by sector**

	2014					
	Advances		**Deposits**		***Contingencies and Commitments**	
	(Rupees in '000)	**Percent**	**(Rupees in '000)**	**Percent**	**(Rupees in '000)**	**Percent**
Public/ Government	1,799,000	0.30	-	-	-	-
Private	4,288,050	0.70	9,500,726	100	64,764,881	100
	6,087,050	100	9,500,726	100	64,764,881	100

	2013					
	Advances		Deposits		*Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public/ Government	2,000,000	51.4	-	-	-	-
Private	1,894,413	48.6	14,986,537	100	40,990,330	100
	3,894,413	100	14,986,537	100	40,990,330	100

35.2.3 **GEOGRAPHICAL SEGMENT ANALYSIS**

	2014			
	Profit before taxation	**Total assets employed**	**Net assets employed**	***Contingencies and commitments**
	(Rupees in '000)			
Pakistan	1,404,838	75,950,387	4,507,566	64,764,881

	2013			
	Profit before taxation	Total assets employed	Net assets employed	*Contingencies and commitments
	(Rupees in '000)			
Pakistan	259,691	62,044,805	3,695,347	42,990,330

* Contingent liabilities for the purpose of this note are presented at cost and include transaction and trade related contingent liabilities.

KPMGTH·

35.3 Market risk

Market risk is the risk of loss arising from movement in market variables including observable variables such as interest rates, exchange rates and equity indices, and others which may be only indirectly observable such as volatilities and correlations. The branches' policy is that all market risk taking activity is undertaken within approved market risk limits, and that the branches' standards/ guiding principles are upheld at all times.

Market Risk Management is an independent control function with clear segregation of duty and reporting line with the business-line. Its main responsibility is to ensure that the risk-taking units manage the Bank's market risk exposure within a robust market risk framework and within the Bank's risk appetite. The Bank's standard systems are used to furnish senior trading and Market Risk staff with risk exposures. All trading activities and any business proposal that commit or may commit the Bank (legally or morally) to deliver risk sensitive products require approval by independent authorized risk professionals or committees, prior to commitment.

35.3.1 Foreign exchange risk

Foreign exchange risk arises from the fluctuation in the value of financial instruments consequent to the changes in foreign exchange rates. The Bank manages this risk by setting and monitoring dealer, currency and counter-party limits for on and off-balance sheet financial instruments.

FX risk is mainly managed through matched positions. Unmatched positions are covered substantially through derivative instruments such as Forwards and Swaps.

The currency risk is regulated and monitored against the regulatory/statutory limits enforced by the State Bank of Pakistan. The foreign exchange exposure limits in respective currencies are managed against the prescribed limits.

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

	2014			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan Rupee	11,234,524	10,354,196	(44,545,669)	(43,665,341)
United States Dollar	47,254,866	43,627,628	11,127,305	14,754,543
Great Britain Pound	-	-	-	-
Japanese Yen	-	-	-	-
Euro	17,121,639	17,121,639	34,018,634	34,018,634
Chinese Yuan	339,358	339,358	(600,270)	(600,270)
Total foreign currency exposure	64,715,863	61,088,625	44,545,669	48,172,907
Total currency exposure	75,950,387	71,442,821	-	4,507,566

	2013			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan Rupee	55,309,947	6,464,450	(44,545,669)	4,299,828
United States Dollar	5,323,231	17,299,162	11,127,305	(848,626)
Great Britain Pound	68	-	-	68
Japanese Yen	17	-	-	17
Euro	2,707	34,108,630	34,018,634	(87,289)
Chinese Yuan	1,408,835	477,216	(600,270)	331,349
Total foreign currency exposure	6,734,858	51,885,008	44,545,669	(604,481)
Total currency exposure	62,044,805	58,349,458	-	3,695,347

35.4 Interest rate risk

The interest rate risk arises from the fluctuation in the value of financial instruments consequent to changes in market interest rates. The branches are exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or are re-priced in a given period. In order to ensure that this risk is managed within acceptable limits, branches' Asset and Liability Management Committee (ALCO) monitors various gap limits and re-pricing of the assets and liabilities on a regular basis.

KPMG TH

35.4.1 Mismatch of interest rate sensitive financial assets and financial liabilities

	Effective Yield / Interest rate	Total	2014 Exposed to yield Interest Risk									
			Up to 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	Non-interest bearing financial instruments
On-balance sheet financial instruments	%											
Assets												
Cash and balances with treasury banks	-	4,329,697	-	-	-	-	-	-	-	-	-	4,329,697
Balances with other banks	0-1.3	295,142	294,763	-	-	-	-	-	-	-	-	379
Lendings to financial institutions	4.0-4.1	1,129,730	484,170	645,560	-	-	-	-	-	-	-	-
Investments - net	9.39-10.02	63,074,604	-	22,146,508	40,928,096	-	-	-	-	-	-	-
Advances - net	2.73-12.17	6,087,050	1,374,969	1,730,215	533,291	2,249,955	105	1,059	3,582	185,151	8,723	-
Other assets	-	831,827	-	-	-	-	-	-	-	-	-	831,827
		75,748,050	2,153,902	24,522,283	41,461,387	2,249,955	105	1,059	3,582	185,151	8,723	5,161,903
Liabilities												
Bills payable	-	4,667	-	-	-	-	-	-	-	-	-	4,667
Borrowings	0.08-9.5	56,592,615	3,322,305	20,096,620	33,173,690	-	-	-	-	-	-	-
Deposits and other accounts	0-9.70	9,500,726	4,027,651	2,908,575	165,720	3,720	-	-	-	-	-	2,395,060
Other liabilities	-	4,531,036	-	-	-	-	-	-	-	-	-	4,531,036
		70,629,044	7,349,956	23,005,195	33,339,410	3,720	-	-	-	-	-	6,930,763
On-balance sheet gap		5,119,006	(5,196,054)	1,517,088	8,121,977	2,246,235	105	1,059	3,582	185,151	8,723	(1,768,860)
Off-balance sheet financial instruments												
Forward exchange contracts - purchase		150,138,785	13,182,649	51,024,193	65,960,110	19,971,833	-	-	-	-	-	-
Forward exchange contracts - sale		153,051,919	13,177,723	51,855,511	68,056,146	19,962,539	-	-	-	-	-	-
Off-balance sheet gap		(2,913,134)	4,926	(831,318)	(2,096,036)	9,294	-	-	-	-	-	-
Total Yield / Interest Risk Sensitivity Gap			(5,191,128)	685,770	6,025,941	2,255,529	105	1,059	3,582	185,151	8,723	
Cumulative Yield / Interest Risk Sensitivity gap			(5,191,128)	(4,505,358)	1,520,583	3,776,112	3,776,217	3,777,276	3,780,858	3,966,009	3,974,732	

KPMGTH

	Effective Yield / Interest rate	Total	Exposed to yield Interest Risk									Non-interest bearing financial instruments
			Up to 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	
	%											
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	-	4,462,227	-	-	-	-	-	-	-	-	-	4,462,227
Balances with other banks	0-0.47	163,630	163,630	-	-	-	-	-	-	-	-	
Lendings to financial institutions	0.1-10.3	3,490,017	2,559,241	687,209	243,567	-	-	-	-	-	-	-
Investments - net	8.93-10.3	47,547,395	25,101,430	5,382,069	17,063,896	-	-	-	-	-	-	-
Advances - net	1.74-12.08	3,894,413	156,430	2,674,111	233,872	830,000	-	-	-	-	-	-
Other assets	-	2,114,895	-	-	-	-	-	-	-	-	-	2,114,895
		61,672,577	27,980,731	8,743,389	17,541,335	830,000	-	-	-	-	-	6,577,122
Liabilities												
Bills payable	-	104,562	-	-	-	-	-	-	-	-	-	104,562
Borrowings	0.55-10	40,028,520	23,128,004	-	16,900,516	-	-	-	-	-	-	-
Deposits and other accounts	0-9.45	14,986,537	8,374,566	3,865,974	120,000	-	-	-	-	-	-	2,625,997
Other liabilities	-	3,101,540	2,608,058	172,889	148,929	171,664	-	-	-	-	-	-
		58,221,159	34,110,628	4,038,863	17,169,445	171,664	-	-	-	-	-	2,730,559
On-balance sheet gap		3,451,418	(6,129,897)	4,704,526	371,890	658,336	-	-	-	-	-	3,846,563
Off-balance sheet financial instruments												
Forward exchange contracts - purchase		128,520,658	62,526,741	33,680,954	2,420,705	29,892,258	-	-	-	-	-	-
Forward exchange contracts - sale		127,786,139	61,800,509	33,678,953	2,419,952	29,886,725	-	-	-	-	-	-
Off-balance sheet gap		734,519	726,232	2,001	753	5,533	-	-	-	-	-	-
Total Yield / Interest Risk Sensitivity Gap			(5,403,665)	4,706,527	372,643	663,869	-	-	-	-	-	
Cumulative Yield / Interest Risk Sensitivity gap			(5,403,665)	(697,138)	(324,495)	339,374	339,374	339,374	339,374	339,374	339,374	

2013

35.4.2 Reconciliation of Assets and Liabilities exposed to yield / interest rate risk with Total Assets and Liabilities

	2014	2013
	(Rupees '000)	
Total financial assets as per note 35.4.1	75,748,050	61,672,577
Add: Non financial assets		
Operating fixed assets	183,341	243,293
Deferred tax assets	-	54,325
Other Assets	18,996	74,610
Total assets as per statement of financial position	75,950,387	62,044,805
Total liabilities as per note 35.4.1	70,629,044	58,221,159
Add: Non financial liabilities		
Deferred tax liabilities	21,132	-
Other liabilities	792,645	128,299
Total liabilities as per statement of financial position	71,442,821	58,349,458

KPMGTH

35.5 Liquidity risk

Liquidity risk is the risk that the branches will be unable to meet their net funding requirements. Liquidity risk can be caused by market destruction of credit downgrades, which may cause certain sources of funding to become unavailable. To guard against this risk the branches' assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents and readily marketable securities. The maturity profile is monitored to ensure adequate liquidity is maintained.

The table below summarizes the maturity profile of the branches assets and liabilities. The contractual maturities of assets and liabilities at the year end have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the branches deposit retention history and the availability of liquid funds. Assets and liabilities not having a contractual maturity are assumed to mature on th expected date on which the assets /liabilities will be realized / settled.

35.5.1 Maturities of assets and liabilities - based on contractual maturity of the branches

	2014									
	Total	Up to 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
Assets	(Rupees in '000)									
Cash and balances with treasury banks	4,329,697	702,458	-	-	-	-	-	-	-	3,627,239
Balances with other banks	295,142	295,142	-	-	-	-	-	-	-	-
Lendings to financial institutions	1,129,730	484,170	645,560	-	-	-	-	-	-	-
Investments - net	63,074,604	-	22,146,508	40,928,096	-	-	-	-	-	-
Advances	6,087,050	1,374,969	1,730,215	533,291	2,249,955	105	1,059	3,582	185,151	8,723
Operating fixed assets	183,341	-	-	-	968	8,305	161,612	12,456	-	-
Other assets	850,823	772,491	59,599	-	18,733	-	-	-	-	-
	75,950,387	3,629,230	24,581,882	41,461,387	2,269,656	8,410	162,671	16,038	185,151	3,635,962
Liabilities										
Bills payable	4,667	4,667	-	-	-	-	-	-	-	-
Borrowings	56,592,615	3,322,305	20,096,620	33,173,690	-	-	-	-	-	-
Deposits and other accounts	9,500,726	6,422,711	2,908,575	165,720	3,720	-	-	-	-	-
Deferred tax liabilities	21,132	-	-	-	21,132	-	-	-	-	-
Other liabilities	5,323,681	3,583,792	73,527	33,931	56,755	70,860	56,785	48,877	1,399,154	-
	71,442,821	13,333,475	23,078,722	33,373,341	81,607	70,860	56,785	48,877	1,399,154	-
Net assets	4,507,566	(9,704,245)	1,503,160	8,088,046	2,188,049	(62,450)	105,886	(32,839)	(1,214,003)	3,635,962
Head Office-capital account	3,627,239									
Unremitted profit / Accumulated (losses)	844,926									
Surplus on revaluation of invstments - net of tax	35,401									
	4,507,566									

KPMG TH

	Total	Up to 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
	2013									
Assets	(Rupees in '000)									
Cash and balances with treasury banks	4,462,227	49,128	-	-	-	-	-	-	-	4,413,099
Balances with other banks	163,630	163,630	-	-	-	-	-	-	-	-
Lending to financial institutions	3,490,017	2,559,241	687,209	243,567	-	-	-	-	-	-
Investments - net	47,547,395	25,101,430	5,382,069	17,063,896	-	-	-	-	-	-
Advances	3,894,413	156,430	2,674,111	233,872	830,000	-	-	-	-	-
Operating fixed assets	243,293	-	-	-	-	-	243,293	-	-	-
Deferred tax assets	54,325	-	-	-	54,325	-	-	-	-	-
Other assets	2,189,505	1,879,058	5,402	22,203	282,842	-	-	-	-	-
	62,044,805	29,908,917	8,748,791	17,563,538	1,167,167	-	243,293	-	-	4,413,099
Liabilities										
Bills payable	104,562	104,562	-	-	-	-	-	-	-	-
Borrowings	40,028,520	23,128,004	-	16,900,516	-	-	-	-	-	-
Deposits and other accounts	14,986,537	11,000,563	3,865,974	120,000	-	-	-	-	-	-
Other liabilities	3,229,839	398,849	172,889	148,929	2,509,172	-	-	-	-	-
	58,349,458	34,631,978	4,038,863	17,169,445	2,509,172	-	-	-	-	-
Net assets	3,695,347	(4,723,061)	4,709,928	394,093	(1,342,005)	-	243,293	-	-	4,413,099
Head Office-capital account	3,802,007									
Unremitted profit / Accumulated (losses)	(70,240)									
Surplus on revaluation of investments - net of tax	(36,420)									
	3,695,347									

KPMGTH

35.6 Operational risk

The branches' operational risk is related to possible losses which may be incurred as a result of failures occurring in the branches' day to day operations, such as breakdown in electronic and telecommunication, routines or other systems. Additional factors being insufficient levels of professional skills or human errors. In order to keep the branches' operational risks to a minimum level, various suites of risk tools are used to manage operational risk using a common categorization of risk.

Branches' approach to operational risk is not designed to eliminate risk, rather, to contain it within the acceptable levels, as determined by senior management, and to ensure that the branches have used sufficient information to make informed decisions about additional controls, adjustments to controls, or other risk responses.

35.6.1 Operational risk disclosures - Basel II Specific

The branches use Basic Indicator Approach to calculate capital charge for operational risk as per Basel II regulatory framework. This approach is considered to be most suitable in view of the business model of the branches.

36 DATE OF AUTHORIZATION FOR ISSUE

The financial statements were authorized for issue on 26 MAR 2015 by the Chief Executive Officer and Manager Finance of the branches.

37 GENERAL

37.1 Figures have been rounded off to nearest thousand.

37.2 Comparative information has been re-classified, re-arranged or additionally incorporated in these financial statements, wherever necessary to facilitate comparison.

Xu Keen	**Ye Ning**
Chief Executive Officer	**Head of Finance**

STATEMENT ON INTERNAL CONTROL

It is the responsibility of the management of ICBC Pakistan Operations to establish, improve and effectively implement internal controls and to evaluate the effectiveness of the internal controls of the Branch. The objective for the internal control system of the Bank is to reasonably assure that the Bank's operations and management are in compliance with relevant laws, safety of Bank assets, as well as the timeliness, authenticity and completeness of its business record, financial information and other management information, to enhance operation efficiency and results, and to facilitate the Bank in achieving its development strategy and operating target.

The Bank has adopted internationally accepted COSO Internal Control - Integrated Framework covering all sets of Internal Controls and ensuring compliance with SBP Guidelines. SBP's Guidelines on ICFR have been implemented and the same is updated as and when required and subject to annual review by External Auditors.

The Internal Audit Department of the Bank reviews the adequacy and effectiveness of bank wide internal controls and believed that during the reporting period, internal control system of the Bank was sound and effectively implemented. Keeping in view the risk exposure, internal controls are regularly reviewed and reported on their soundness.

For the year under review, it has been endeavored to follow the Guidelines on Internal Controls and that it is an ongoing process for the identification, evaluation and management of significant risks faced by the bank. The system is designed to manage, rather than eliminate the risk of failure in order to achieve the business objectives, and can only provide reasonable assurance against material misstatement or loss.

Xu Keen CEO	Kashif Abdur Rahman Head of Compliance	Zhou Kun Head of Internal Audit

ICBC 中国工商银行股份有限公司 卡拉奇分行
INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED KARACHI BRANCH

Risk Management Framework

ICBC Pakistan Operations ("Bank") has risk management guidelines to manage Credit Risk, Market Risk, and Operational Risk.

ICBC Head Office has setup parameters under which the Bank is responsible for formulating high-level policies which includes independent review of the large credit exposure and the portfolio management of risk concentration. It also reviews the efficiency of credit approval process, a key element of which is the Bank's universal facility grading system. ICBC has dedicated standards, policies and procedures in place to control and monitor all such risks. ICBC has a well-established credit risk management process, which involves control and monitoring of exposure.

The management of market risk is controlled through risk limits. The Bank launched Global Market Risk Management system (GMRM) to establish an integrated and unified data and risk measurement management platform. The Bank also implemented the measurement and monitoring of interest rate risk, exchange rate risk.

In order to guarantee the bank liquidity, ICBC has adopted the following measures:

a. Strengthen the forecast of the asset and liabilities of the Bank and properly arrange adequate capital
b. Enhance communication with other financial institutions to further strengthen our access to liquidity
c. Flexible pricing based on marketing research to attract more customer deposit

ICBC established formal policies and manuals to ensure that the control environment is formal and documented. Each policy and manual has its owner and is approved and documented. ICBC promotes compliance culture, advises management and line staff on regulations, assists in designing internal controls, monitors compliances with laws and regulations, communicates with the regulator and consultants, and provides training to staff, all of which helps raise staff awareness and enhance compliance controls.

Xu Keen
Chief Executive Officer

Zhang Rongxiang
Head of Risk

8TH FLOOR ,PARSA TOWER ,31-1-A ,SHAHRA-E-FAISAL, KARACHI-75400
Tel:021-3520-8988/3520-8900 Fax:021-3520-8930 Website:www.icbc.com.pk