ERNST & YOUNG

Ernst & Young Ford Rhodes Sidat Hyder

AUDITORS' REPORT TO THE DIRECTORS

We have audited the annexed statement of financial position of Industrial and Commercial Bank of China - Pakistan Branches (the Bank) as at 31 December 2011 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity, together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the period then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

(a) in our opinion proper books of account have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984);

(b) in our opinion:

 (i) the statement of financial position and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies as stated in note 5 to the accompanying financial statements;

 (ii) the expenditure incurred during the period was for the purpose of the Bank's business; and

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

EYFRSH

(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 Bank's affairs as at 31 December 2011 and its true balance of the loss, its comprehensive loss, its cash flows and changes in equity for the period then ended; and

(d) in our opinion no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Ernst & Young Ford Rhodes Sidat Hyder

Chartered Accountants

Audit Engagement Partner: Arslan Khalid

Date: 30 March 2012

Karachi

INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED - PAKISTAN BRANCHES
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2011

	Note	2011 (Rupees in '000)
ASSETS		
Cash and balances with treasury banks	8	3,279,813
Balances with other banks	9	64,398
Lendings to financial institutions	10	782,528
Investments	11	1,484,124
Advances	12	26,423
Operating fixed assets	13	294,316
Deferred tax assets		-
Other assets	14	20,762
		5,952,364
LIABILITIES		
Bills payable	15	22,397
Borrowings		-
Deposits and other accounts	16	1,524,071
Sub-ordinated loans		-
Liabilities against assets subject to finance lease		-
Deferred tax liabilities		-
Other liabilities	17	1,395,584
		2,942,052
NET ASSETS		3,010,312
REPRESENTED BY:		
Head Office - capital account	18	3,192,892
Reserves		-
Accumulated loss		(184,338)
		3,008,554
Surplus on revaluation of assets		1,758
		3,010,312
CONTINGENCIES AND COMMITMENTS	19	

The annexed notes from 1 to 34 form an integral part of these financial statements.

Chief Executive Officer

Manager Finance

INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED - PAKISTAN BRANCHES
PROFIT AND LOSS ACCOUNT
FOR THE PERIOD FROM AUGUST 18, 2011 TO DECEMBER 31, 2011

	Note	For the period from August 18, 2011 to December 31, 2011 (Rupees in '000)
Mark-up / return / interest earned	20	56,241
Mark-up / return / interest expensed	21	(46,347)
Net mark-up / interest expense		9,894
Provision against non-performing loans and advances		-
Provision for diminution in the value of investments		-
Bad debts written off directly		-
		-
Net Mark-up / return / income after provisions		9,894
NON MARK-UP / INTEREST INCOME		
Fee, commission and brokerage income		3,023
Dividend income		-
Loss from dealing in foreign currencies		(2,429)
Gain / (loss) on sale of securities		-
Unrealised gain / (loss) on revaluation of investments classified as held-for-trading		-
Other income		-
Total non-mark-up / interest income		594
		10,488
NON MARK-UP / INTEREST EXPENSES		
Administrative expenses	22	(194,826)
Other provisions / write-offs		-
Other charges		-
Total non-mark-up / interest expenses		(194,826)
		(184,338)
Extra ordinary / unusual items		-
LOSS BEFORE TAXATION		(184,338)
Taxation - Current		-
- Prior years		-
- Deferred		-
		-
LOSS AFTER TAXATION		(184,338)
Loss per share - basic and diluted	24	-

The annexed notes from 1 to 34 form an integral part of these financial statements.

Chief Executive Officer	Manager Finance

INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED - PAKISTAN BRANCHES
STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD FROM AUGUST 18, 2011 TO DECEMBER 31, 2011

	For the period from August 18, 2011 to December 31, 2011 (Rupees in '000)
Loss after taxation for the period	(184,338)
Other comprehensive income	-
Total comprehensive loss for the period	**(184,338)**

The annexed notes from 1 to 34 form an integral part of these financial statements.

Chief Executive Officer

Manager Finance

INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED - PAKISTAN BRANCHES
CASH FLOW STATEMENT
FOR THE PERIOD FROM AUGUST 18, 2011 TO DECEMBER 31, 2011

	Note	For the period from August 18, 2011 to December 31, 2011 (Rupees in '000)
Cash flows from operating activities		
Loss before taxation		(184,338)
Adjustments for non - cash items:		
Depreciation	13	8,253
Amortisation		-
(Gain) / loss on sale of operating fixed assets		-
Provision against non-performing loans and advances		-
Provision against other assets - net		-
		8,253
		(176,085)
Increase in operating assets		
Advances		(26,423)
Others assets		(20,762)
		(47,185)
Increase in operating liabilities		
Bills payable		22,397
Borrowings		-
Deposits and other accounts		1,524,071
Other liabilities		1,395,584
		2,942,052
		2,718,782
Income tax paid		-
Net cash from operating activities		2,718,782
Cash flows from investing activities		
Net investment in operating fixed assets		(302,569)
Net investment in available for sale securities		(1,482,366)
Net cash used in investing activities		(1,784,935)
Cash flows from financing activities		
Remittance received from head office		3,192,892
Net cash generated from financing activities		3,192,892
Increase in cash and cash equivalents		4,126,739
Cash and cash equivalents at beginning of the period		-
Cash and cash equivalents at end of the period	25	4,126,739

The annexed notes from 1 to 34 form an integral part of these financial statements.

Chief Executive Officer

Manager Finance

INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED - PAKISTAN BRANCHES
STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD FROM AUGUST 18, 2011 TO DECEMBER 31, 2011

	Head Office Account		
	Capital account	Accumulated loss	Total
	(Rupees in '000)		
Received from head office during the period	2,986,166	-	2,986,166
Exchange adjustment on revaluation of capital	206,726	-	206,726
Total comprehensive income for the period	-	(184,338)	(184,338)
Balance as at December 31, 2011	**3,192,892**	**(184,338)**	**3,008,554**

The annexed notes from 1 to 34 form an integral part of these financial statements.

Chief Executive Officer

Manager Finance

INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED - PAKISTAN BRANCHES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM AUGUST 18, 2011 TO DECEMBER 31, 2011

1. STATUS AND NATURE OF BUSINESS

Industrial and Commercial Bank of China Limited - Pakistan Branches (the Bank) has been established and commenced operations in Pakistan with effect from August 18, 2011. The Bank is a branch of Industrial and Commercial Bank of China Limited (Head Office) which is incorporated in the People's Republic of China. The Bank presently operates through two branches 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.

2. BASIS OF PRESENTATION

These financial statements have been prepared in conformity with the format of financial statements prescribed by the SBP vide BSD Circular No. 04, dated 17 February 2006.

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 International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the 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 the Companies Ordinance, 1984, the 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, the Banking Companies Ordinance, 1962 or the requirements of the said regulations / directives shall prevail.

3.2 SBP vide BSD Circular No. 10, dated 26 August 2002 has deferred the applicability of International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement" and IAS 40, "Investment Property" for banking companies till further instructions. Further, according to the notification of SECP dated 28 April 2008, IFRS - 7 "Financial Instruments: Disclosures" has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements.

4. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention except for certain investments which are revalued as referred to in note 5.3 below.

5. SIGNIFICANT ACCOUNTING POLICIES

5.1 Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash and balances with treasury banks, balances with other banks and lendings to financial institutions having maturity of less than three months, less overdrawn nostros accounts (if any).

5.2 Repurchase / resale agreements

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 under repurchase obligation

Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the statement of financial position and are measured in accordance with accounting policies for investments. Amounts received under these agreements are recorded as repurchase agreement borrowings. The difference between sale and repurchase price is amortised as expense over the term of the repo agreement.

Purchase under resale obligation

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

5.3 Investments

Investments are classified as follows:

Held for trading

These are investments acquired principally for the purpose of generating profits from short-term fluctuations in price or dealer 's margin or are securities included in a portfolio in which a pattern of short-term trading exists.

Held to maturity

These are investments with fixed or determinable payments and fixed maturities which the Bank has the intention and ability to hold till maturity.

Available for sale

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

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

Investments (other than held for trading) are initially measured at fair value plus transaction cost associated with the investment. Investments classified as held for trading are initially measured at fair value, and transaction costs are expensed in the profit and loss account.

After initial recognition, quoted securities, other than those classified as held to maturity, are carried at market value. Unquoted securities are valued at cost less impairment in value, if any. Held to maturity securities are carried at amortised cost.

Surplus / (deficit) arising on revaluation of quoted securities which are classified as available for sale investments is taken to a separate account which is shown in the statement of financial position below equity. The surplus / (deficit) arising on these securities is taken to the profit and loss account when actually realised upon disposal or in case of impairment of securities. The unrealised surplus / (deficit) arising on revaluation of quoted securities which are classified as held for trading is taken to the profit and loss account.

Provision for diminution in the values of securities is made after considering impairment, if any, in their value and charged to profit and loss account. Impairment is recognized when there is an objective evidence of significant and prolong decline in the value of such securities. Provision for impairment against debt securities is made as per the aging criteria prescribed by the Prudential Regulations of the SBP and in case of unquoted equity securities on the basis of book value of investee's net assets.

Premium or discount on debt securities classified as available for sale and held to maturity is amortised using effective interest method and taken to the profit and loss account.

5.4 Advances

These are stated net of provisions for non-performing advances. Provision for non-performing advances is determined in accordance with the requirements of the Prudential Regulations and is charged to the profit and loss account. The Bank also maintains general provision in addition to the requirements of the Prudential Regulations on the basis of the management's risk assessment. Advances are written off when there are no realistic prospects of recovery.

5.5 Operating fixed assets - Tangible (owned)

Operating fixed assets are stated at cost less accumulated depreciation and impairment, if any. Depreciation is charged to profit and loss account on straight line basis so as to charge the assets over their expected useful lives at the rates specified in note 13.2. The depreciation charge is calculated after taking into account residual value, if any. The residual values, useful lives and depreciation method are reviewed annually and adjusted, if appropriate. Depreciation is charged on prorata basis, i.e., full month charge in the month of purchase and no charge in the month of disposal.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gains and losses on disposal of fixed assets are included in income currently.

Capital work in progress

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

Impairment

The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the fixed assets are written down to their recoverable amounts. The resulting impairment loss is taken to profit and loss account.

5.6 Provisions against liabilities

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

5.7 Provisions against off-balance sheet obligations

The Bank, in the ordinary course of business, issues letters of credit, acceptances, guarantees, bid bonds, performance bonds etc. The commission against such contracts is recognised in the profit and loss account under "fees, commission and brokerage income" over the period of contracts. The Bank's liability under such contracts is measured at the higher of the amount representing unearned commission income at the reporting date and the best estimate of the amount expected to settle any financial obligation arising under such contracts.

5.8 Revenue recognition

Mark-up / interest / return on advances and investments is recognised on accrual basis, except in case of advances classified under the Prudential Regulations on which mark-up is recognised on receipt basis. Markup / interest / return on rescheduled / restructured loans and advances and investments is recognised as permitted by the regulations of SBP.

Gain or loss on sale of investments are recognised in profit and loss account in the year in which they arise.

Fee, commission and brokerage income are recognised as services are performed.

5.9 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit and loss account except to the extent that it relates to the items recognised directly in equity or surplus on revaluation of assets, in which case it is recognised in equity or surplus on revaluation of assets.

Current

Provision for current tax is based on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date and any adjustments to the tax payable in respect of previous years. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities.

Deferred

Deferred income tax is provided on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilised.

Deferred tax liabilities are recognised for all taxable temporary differences, except. In respect of taxable temporary differences associated with investment in in foreign operations, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets are reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit or taxable temporary differences will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

5.10 Currency translation

Functional and presentation currency

These financial statements are presented in Pak Rupees which is the Bank's functional currency and presentation currency.

Transactions and balances in foreign currencies

Foreign currency transactions are translated into Pak Rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the exchange rates prevailing at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using exchange rates at the date when the fair value was determined. Exchange gains or losses are included in income currently.

Commitments

Commitments for outstanding forward foreign exchange contracts are translated at forward rates applicable to their respective maturities.

5.11 Financial instruments

Financial assets and financial liabilities are recognised at the time when the Bank becomes a party to the contractual provision of the instrument. Financial assets are de-recognised when the contractual right to future cash flows from the asset expires or is transferred along with the risk and reward of ownership of the asset. Financial liabilities are de-recognised when obligation is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liability is recognised in the profit and loss account of the current period.

5.12 Derivative financial instruments

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

5.13 Off-setting

Financial assets and financial liabilities are only off-set and the net amount is reported in the financial statements when there is a legally enforceable right to set-off the recognised amount and the Bank intends either to settle on a net basis, or to realise 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.

5.14 Dividends and appropriations to reserves

Dividends and appropriations to reserves are recognized in the year in which these are approved, except appropriations required by the law which are recorded in the period to which they pertain.

5.15 Segment reporting

A segment is a distinguishable component of the Bank that is engaged in providing products and services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risk and rewards that are different from those of other segments. The segment reporting format has been determined and prepared in conformity with the format of financial statements and guidelines, prescribed by SBP vide BSD Circular No.04,dated, 17 February 2006. The Bank's primary format of reporting is based on business segments.

5.15.1 Business segments

Retail banking

It consists of retail lending, deposits and banking services to private individuals and small businesses. The retail banking activities include provision of banking and other financial services, such as current and savings accounts, credit cards, consumer banking products etc to individual customers, small merchants and Small and Medium Size Entities (SEMs).

Commercial banking

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

5.15.2 Geographical segments

The Bank operates in Pakistan only

6. ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect 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 result of which forms the basis of making judgment 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. Revision to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in period of revision and future periods if the revision affects both current and future periods. The estimates and judgments that have a significant effect on the financial statements are in respect of the following:

	Note
Classification of investments and provision for diminution in the value of investments	5.3 & 11
Provision against non-performing advances	5.4 & 12
Useful lives of assets and methods of depreciation	5.5 & 13

7. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE

The following revised standards, amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

Standard, Interpretation or amendment	Effective date (accounting periods beginning on or after)
IAS 1 - Presentation of financial Statements – Presentation of items of comprehensive income	01 July 2012
IAS 12 – Income Taxes (Amendment) - Recovery of Underlying Assets	01 January 2012
IAS 19 – Employee Benefits –(Amendment)	01 January 2013

The Bank expects that the adoption of the above revisions and amendments of the standards will not materially affect the Bank's financial statements in the period of initial application.

In addition to the above, the following new standards have been issued by IASB which are yet to be notified by SECP for the purpose of applicability in Pakistan.

	IASB Effective date (annual periods beginning on or after)
IFRS 10 – Consolidated Financial Statements	01 January 2013
IFRS 11 – Joint Arrangements	01 January 2013
IFRS 12 – Disclosure of Interests in Other Entities	01 January 2013
IFRS 13 – Fair Value Measurement	01 January 2013

		Note	2011 (Rupees in '000)
8.	**CASH AND BALANCES WITH TREASURY BANKS**		
	In hand:		
	Local currency		253
	Foreign currency		333
			586
	With State Bank of Pakistan in:		
	Local currency current account	8.1	86,132
	Local US Dollar collection account		51
	Foreign currency deposit account:		
	Cash reserve account		152
	Capital account	8.2	3,192,892
			3,279,227
			3,279,813

8.1 This represents statutory cash reserve maintained under Section 36 of the State Bank of Pakistan Act, 1956.

8.2 This represents capital maintained with SBP in accordance with the requirements of Section 13 of the Banking Companies Ordinance, 1962.

		Note	2011 (Rupees in '000)
9.	**BALANCES WITH OTHER BANKS**		
	In Pakistan		
	Current accounts		2,507
	Outside Pakistan		
	Current accounts	8.1	61,891
			64,398

9.1 This represents US Dollar amount held with the Head Office and carries interest at a rate of 0.14% per annum.

		Note	2011 (Rupees in '000)
10.	**LENDINGS TO FINANCIAL INSTITUTIONS**		
	In local currency - call money lendings	10.1	782,528

10.1 This represents unsecured lendings to financial institutions carrying mark-up rate ranging from 1.25 % to 2.5 % per annum and having maturity ranging from January 10, 2012 to February 10, 2012. This includes lendings to related parties amounting to Rs. 629.619 million.

11. INVESTMENTS

		Note	2011 (Rupees in '000)
11.1	**Investments by type - Available-for-sale securities**		
	Market treasury bills - at cost		1,482,366
	Surplus on revaluation of available for sale investments		1,758
	Investments after revaluation of available for sale investments		1,484,124
11.2	**Investments by segments**		
	Federal Government Securities		
	Market treasury bills - at cost	11.3	1,482,366
	Surplus on revaluation of available for sale investments		1,758
	Investments after revaluation of available for sale investments		1,484,124

11.3 These Market treasury bills will mature on 26 January 2012 and March 22, 2012 and carries yield of 11.9% and 12.71% per annum.

		Note	2011 (Rupees in '000)
12.	**ADVANCES**		
	Loans, cash credits, running finances, etc.		
	In Pakistan		-
	Outside Pakistan		-
			-
	Bills discounted and purchased (excluding treasury bills)		
	Payable in Pakistan		26,423
	Payable outside Pakistan		-
			26,423
	Advances - gross		26,423
	Provision for non-performing advances		
	Specific		-
	General		-
			-
	Advances - net of provision		26,423
12.1	**Particulars of advances (gross)**		
12.1.1	In local currency		-
	In foreign currencies		26,432
			26,432
12.1.2	Short-term (for up to one year)		26,432
	Long-term (for over one year)		-
			26,432
13.	**OPERATING FIXED ASSETS**		
	Capital work-in-progress	13.1	222,706
	Property and equipment	13.2	71,610
			294,316
13.1	**Capital work-in-progress**		
	Civil works		222,706

13.2 Property and equipment

	2011							
	Cost			Accumulated Depreciation			Book value	
	As at August 18, 2011	Additions / (deletions)	As at December 31, 2011	As at August 18, 2011	Charge for the year	As at December 31, 2011	As at December 31,	Rate of Depreciation
	(Rupees in '000)							%
Furniture and fixture	-	13,739	13,739	-	1,014	1,014	12,725	20
Electrical, office and computer equipment	-	66,124	66,124	-	7,239	7,239	58,885	20% - 33%
	-	79,863	79,863	-	8,253	8,253	71,610	

		Note	2011 (Rupees in '000)
14.	**OTHER ASSETS**		
	Income / mark-up accrued in foreign currency	14.1	2,301
	Advances, deposits and prepayments		18,461
			20,762

14.1 This includes accrued interest on lendings to related parties amounting to Rs. 2.198 million.

15.	**BILLS PAYABLE**		
	In Pakistan		1,389
	Outside Pakistan		21,008
			22,397

		Note	2011 (Rupees in '000)
16.	**DEPOSITS AND OTHER ACCOUNTS**		
	Customers		
	Fixed deposits		1,502,274
	Savings deposits		18,472
	Current accounts - non-remunerative		3,325
			1,524,071
16.1	**Particulars of deposits**		
	In local currency		1,523,948
	In foreign currencies		123
			1,524,071
17.	**OTHER LIABILITIES**		
	Mark-up / return / interest payable in local currency		39,993
	Staff performance bonus		32,647
	Advance tax		18,001
	Payable to Head Office	17.1	1,304,393
	Others		550
			1,395,584

17.1 This represents interest free advance equivalent to US Dollars 14.5 million provided by the Head Office for the purposes of initial set up of Bank's operations in Pakistan. The terms and conditions related to this advance are being finalised.

		Note	2011 (Rupees in '000)
18.	**HEAD OFFICE CAPITAL ACCOUNT**		
	Capital deposited with SBP	8.2	3,192,892
19.	**CONTINGENCIES AND COMMITMENTS**		
19.1	**Direct credit substitutes**		
	Government		251,156
	Others		830,789
			1,081,945

		Note	For the period from August 18, 2011 to December 31, 2011 (Rupees in '000)
20.	**MARK-UP / RETURN / INTEREST EARNED**		
	On loans and advances to customers		43
	On investments in available for sale securities		41,823
	On call money lendings	20.1	14,375
			56,241

20.1 This includes interest on lendings to related parties amounting to Rs. 2.474 million.

	Note	For the period from August 18, 2011 to December 31, 2011 (Rupees in '000)
21. MARK-UP / RETURN / INTEREST EXPENSED		
Deposits		46,347
22. ADMINISTRATIVE EXPENSES		
Salaries, allowances, etc.		129,864
Rent, taxes, insurance, electricity, etc.		28,435
Legal and professional charges		3,113
Communications		10,641
Stationery and printing		3,135
Advertisement and publicity		184
Depreciation	13.2	8,253
Travelling and entertainment		5,529
Others		5,672
		194,826

23. TAXATION

As the Bank has a tax loss for the period ended December 31, 2011, therefore, no provision for taxation has been made in these financial statements.

24. EARNING / LOSS PER SHARE

The Bank operates as a branch of a foreign entity and does not have a share capital. Hence, no figures of basic and diluted earning loss per share have been reported in these financial statements.

		2011 (Rupees in '000)
25. CASH AND CASH EQUIVALENTS		
Cash and balances with treasury banks	8	3,279,813
Balances with other banks	9	64,398
Lendings to financial institutions	10	782,528
		4,126,739

	(Number)
26. STAFF STRENGTH	
Permanent	28

27. COMPENSATION OF CHIEF EXECUTIVE AND EXECUTIVES

	Chief Executive	Executives
	For the period from August 18, 2011 to December 31, 2011	
	------- (Rupees in '000) -------	
Managerial remuneration	15,001	83,692
	---------- (Number) ----------	
Number of persons	1	18

27.1 The chief executive and certain executives have been provided with free use of Bank's rented and maintained cars in accordance with the terms of their employment and are also entitled to Bank's rented and maintained accommodation and medical benefits. In addition, 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.

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

On-balance sheet financial instruments

	2011 Book value	2011 Fair value
	(Rupees in '000)	
Assets		
Cash and balances with treasury banks	3,279,813	3,279,813
Balances with other banks	64,398	64,398
Lendings to financial institutions	782,528	782,528
Investments	1,484,124	1,484,124
Advances	26,423	26,423
Other assets	10,013	10,013
	5,647,299	5,647,299
Liabilities		
Bills payable	22,397	22,397
Deposits and other accounts	1,524,071	1,524,071
Other liabilities	1,377,583	1,377,583
	2,924,051	2,924,051

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. Fair value of investments (Federal Government Securities) is based on PKRV rates (Reuters page).

The fair values of the financial assets and financial liabilities are not significantly different from their carrying values since assets and liabilities are either short term in nature or in the case of customer financing and deposits are frequently repriced.

29. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

	Trading and sales	Commercial banking	Total
	(Rupees in '000)		
For the period from August 18, 2011 to December 31, 2011			
Total income	56,198	637	56,835
Total expenses	-	(241,173)	(241,173)
Net loss	56,198	(240,536)	(184,338)
December 31, 2011			
Segment assets (gross)	2,266,652	3,685,712	5,952,364
Segment liabilities	-	2,942,052	2,942,052
Segment return on net assets (ROA) (%)	2.48%	0.02%	
Segment cost of funds (%)	0.00%	-14.72%	

30. RELATED PARTY TRANSACTIONS

Transactions with related parties comprise of transactions in the normal course of the business with the Head Office, other related parties and key management personnel. Balances with Head Office and other related parties are disclosed in note 9.1, 10.1, 14.1 and 17.1 to the financial statements. The transactions with employees of the Bank are carried out in accordance with the terms of their employment are disclosed in note 28 to the financial statements. Interest income from related parties on call money lendings is disclosed in note 20.1 to the financial statements.

31. CAPITAL ASSESSMENT AND ADEQUACY - BASEL II SPECIFIC

31.1 Scope of application

The Bank operate as branches of a foreign entity in Pakistan to which BASEL II capital adequacy framework applies.

31.2 Capital adequacy

According to BSD Circular No. 7 dated April 15, 2009 of SBP, the branches of foreign banks operating with 1 to 5 branches are required to raise their assigned capital (free of losses) to Rs.3 billion latest by December 31, 2010 subject to the condition that their head offices have paid-up capital (free of losses) amounting to at least USD 300 million and have a Capital Adequacy Ratio (CAR) of at least 8% or minimum prescribed by their home regulators, whichever is higher. Further, the SBP requires that banks in Pakistan should maintain regulatory capital for credit, market, and operational risks, the amount of which should at least be equal to 10% of their risk weighted assets.

The Bank calculates capital requirement as per Basel II regulatory framework, using the following approaches:

Credit risk	Standardised Approach
Market risk	Standardised Approach
Operational risk	Basic Indicator Approach

Total regulatory capital should be at least 10 % of risk-weighted assets and the Bank's capital adequacy ratio is 434.80% .

31.3 Capital structure

The Bank's Tier I capital comprises assigned capital by Head Office which is deposited with SBP and accumulated loss.

The Bank's Tier II capital includes revaluation reserve only. The Bank does not use any Tier III capital at present, which may include short-term subordinated debt solely for the purpose of meeting a portion of capital requirement for market risk.

	2011 **(Rupees in '000)**
Tier I Capital	
Head Office - capital account	**3,192,892**
Accumulated loss	**(184,338)**
Total Tier I Capital	**3,008,554**
Tier II Capital	
Revaluation reserve (upto 45%)	**1,758**
Total Tier II Capital	**1,758**
Eligible Tier III Capital	**-**
Total Eligible Regulatory Capital	**3,010,312**

The risk weighted assets to capital ratio, calculated in accordance with the SBP's guidelines on capital adequacy is as follows:

	Capital requirements	Risk weighted assets
	2011	2011
	-------(Rupees in '000) --------	
Credit risk		
Banks	16,229	162,292
Other assets	37,697	376,969
Off balance sheet - non-market related exposure	4,328	43,278
	58,254	582,539
Market risk		
Interest rate risk	2,968	37,103
Operational risk	5,817	72,709
Total	67,039	692,351

Capital adequacy ratio	
Total eligible regulatory capital held (a)	3,010,312
Total risk weighted assets (b)	692,351
Capital adequacy ratio [(a) / (b) x 100]	434.80%

32. RISK MANAGEMENT

The primary objective of the Risk Management System is to safeguard the Bank's capital, its financial resources and profitability from various risks. The Bank's 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 Bank's 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.

32.1 Credit risk

Credit Risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loan and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). The Head Office has delegated responsibility for the management of credit risk to the credit committee which is responsible for the oversight of the Bank's credit risk in respect of:

- Formulating credit policies
- Establishing the authorisation 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.

Credit exposures subject to simple approach

Given below are the Bank's outstanding (rated and unrated) in each risk bucket, deductions on account of credit risk mitigation, and net amount thereafter.

Risk buckets	Amount outstanding / credit equivalent (rated and unrated)	CRM deduction	Net amount
	---------------- (Rupees in '000) ----------------		
20%	808,951	-	808,951

CRM: Credit Risk Mitigation

32.2 Segments by class of business

	2011					
	Advances (gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Agriculture / agri business	-	-	-	-	197,880	18.29
Individuals	-	-	3,325	0.22	-	-
Mining and Quarrying	22,795	86.27	20,746	1.35	-	-
Oil refinery / marketing	-	-	-	-	54,619	5.05
Power	-	-	-	-	14,393	1.33
Real estate / construction	-	-	-	-	3,064	0.28
Services (Port activities)	-	-		-	60,108	5.56
Telecommunication	-	-	1,500,000	98.42	751,881	69.49
Others	3,628	13.73	-	-	-	-
	26,423	100.00	1,524,071	100.00	1,081,945	100.00

32.3 Segment by sector

	2011					
	Advances (gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / government	-	-	-	-	443,341	40.98
Private	26,423	100.00	1,524,071	100.00	638,604	59.02
	26,423	100.00	1,524,071	100.00	1,081,945	100.00

32.4 Geographical segment analysis

	2011			
	Loss before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	(Rupees in '000)			
Pakistan	(184,338)	5,952,364	3,010,312	1,081,945

32.5 Market risk

Market risk is the risk of loss arising from movements 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 Bank's policy is that all market risk taking activity is undertaken within approved market risk limits, and that the Bank's 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. It means 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 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 authorised risk professionals or committees, prior to commitment.

The Bank uses the Standardised Approach to calculate capital charge for market risk as per Basel II regulatory framework. Details of capital charge for market risk are given in note 31.3.

32.5.1 Interest rate / yield risk

Interest rate risk is the risk of loss from adverse movements in interest rates. Assets and Liabilities Committee (ALCO) monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the profitability of the Bank arising from fluctuation in the market interest rates and mismatching or gaps in the amount of financial assets and financial liabilities in different maturity time bands. The Bank's interest rate exposure is calculated by categorizing its interest sensitive assets and liabilities into various time bands based on the earlier of their contractual repricing or maturity dates. Interest rate risk exposures of the Bank are controlled through dealer limits, counter-party exposure limits and (when necessary) type-of-instrument limits.

Interest rate / yield risk in the banking book – Basel II Specific

The Bank holds financial assets and financial liabilities with different maturities or repricing dates and linked to different benchmark rates, thus creating exposure to unexpected changes in the level of interest rates. Interest rate risk in the banking book refers to the risk associated with interest-bearing financial instruments that are not held in the trading book of the Bank.

Repricing gap analysis presents the Bank's interest sensitive assets (ISA) and interest sensitive liabilities (ISL), categorized into various time bands based on the earlier of their contractual repricing or maturity dates (or settlement dates for off-balance sheet instruments). Deposits with no fixed maturity dates (for example, saving deposits and treasurer's call deposits) are included in the lowest, one-month time band, but these are not expected to be payable within a one-month period. The difference between ISA and ISL for each time band signifies the gap in that time band, and provides a workable framework for determining the impact on net interest income.

The Bank reviews the repricing gap analysis periodically to monitor and manage interest rate risk in the banking book.

32.5.2 Mismatch of interest rate sensitive assets and liabilities

			2011									
	Effective		Exposed to Yield / Interest risk									Non-interest
On-balance sheet financial instruments	Yield / Interest rate %	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years	bearing financial instruments
			(Rupees in '000)									
Assets												
Cash and balances with treasury banks	5	3,279,813	86,921	-	-	-	-	-	-	-	-	3,192,892
Balances with other banks	0.14	64,398	64,398	-	-	-	-	-	-	-	-	-
Lendings to financial institutions	1.25 - 2.5	782,528	152,909	629,619	-	-	-	-	-	-	-	-
Investments	11.9 - 12.71	1,484,124	208,237	1,275,887	-	-	-	-	-	-	-	-
Advances	6.5 - 7	26,423	3,627	-	22,796	-	-	-	-	-	-	-
Other assets	-	10,013	-	-	-	-	-	-	-	-	-	10,013
		5,647,299	516,092	1,905,506	22,796	-	-	-	-	-	-	3,202,905
Liabilities												
Bills payable	-	22,397	22,397	-	-	-	-	-	-	-	-	-
Deposits and other accounts	5 - 12	1,524,071	21,797	1,502,274	-	-	-	-	-	-	-	-
Other liabilities	-	1,377,583	-	-	-	-	-	-	-	-	-	1,377,583
		2,924,051	44,194	1,502,274	-	-	-	-	-	-	-	1,377,583
On-balance sheet gap		2,723,247	471,898	403,232	22,796	-	-	-	-	-	-	1,825,322
Total Yield / Interest Risk Sensitivity Gap			471,898	403,232	22,796	-	-	-	-	-	-	
Cumulative Yield / Interest Risk Sensitivity Gap			471,898	875,130	897,925	897,925	897,925	897,925	897,925	897,925	-	

32.5.3 Foreign Exchange Risk

The Bank has a system for the measurement and management of foreign exchange risk. Part of this risk management process involves managing the Bank's exposure to fluctuations in foreign exchange rates in order to minimize its exposure to currency and risk to acceptable levels as determined by management. The management sets limits on the level of exposure by currency and in total for overnight positions. Positions are monitored on regular basis.

	2011			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan rupee	1,597,716	1,568,039	-	29,677
United States dollar	4,354,648	1,374,013	-	2,980,635
	5,952,364	2,942,052	-	3,010,312

32.5.4 Equity Position Risk

As of the balance sheet date, the Bank is not exposed to equity position risk.

32.5.5 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can be caused by market destruction of credit downgrades, which may cause certain sources of fundings to become unavailable. To guard against this risk the Bank's 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 summarises the maturity profile of the Bank's 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 Bank's deposit retention history and the availability of liquid funds. Assets and liabilities not have a contractual maturity are assumed to mature on the expected date on which the assets / liabilities will be realised / settled.

	2011									
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years
	(Rupees in '000)									
Assets										
Cash and balances with treasury banks	3,279,813	3,279,813	-	-	-	-	-	-	-	
Balances with other banks	64,398	64,398	-	-	-	-	-	-	-	-
Lending to financial institutions	782,528	152,909	629,619	-	-	-	-	-	-	-
Investments	1,484,124	208,237	1,275,887	-	-	-	-	-	-	-
Advances	26,423	3,627	-	22,796	-	-	-	-	-	-
Operating fixed assets	294,316	-	-	-	-	-	-	-	-	294,316
Other assets	20,762	17,818	-	-	-	-	2,944	-	-	-
	5,952,364	3,726,802	1,905,506	22,796	-	-	2,944	-	-	294,316
Liabilities										
Bills payable	22,397	22,397	-	-	-	-	-	-	-	-
Deposits and other accounts	1,524,071	21,797	1,502,274	-	-	-	-	-	-	-
Other liabilities	1,395,584	91,191	-	-	-	-	-	-	-	1,304,393
	2,942,052	135,385	1,502,274	-	-	-	-	-	-	1,304,393
Net assets	3,010,311	3,591,417	403,232	22,796	-	-	2,944	-	-	(1,010,077)
Head Office - capital account	3,192,892									
Accumulated loss	(184,338)									
Surplus on revaluation of assets	1,758									
	3,010,312									

32.5.6 Operational risk

The Bank's operational risk is related to possible losses which may be incurred as a result of failures occurring in the Bank' s 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 Bank's operational risks to a minimum level, various suites of risk tools are used to manage operational risk using a common categorization of risk.

Bank's 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 bank has sufficient information to make informed decisions about additional controls, adjustments to controls, or other risk responses.

Operational risk disclosures – Basel II Specific

The Bank uses 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 Bank.

33. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on ____________________ by the Chief Executive Officer Manager Finance of the Bank.

34. GENERAL

34.1 Captions, as prescribed by BSD Circular No. 04 of 2006 dated February 17, 2006 issued by the State Bank of Pakistan, in respect of which there are no amounts, have not been reproduced in these financial statements, except for the captions in the statement of financial position and profit and loss account.

34.2 The Bank has commenced operations with effect from August 18, 2011 and hence there are no corresponding figures to report.

34.3 Figures have been rounded off to the nearest thousand rupees.

Chief Executive Officer | **Manager Finance**

32.5.6 Operational risk

The Bank's operational risk is related to possible losses which may be incurred as a result of failures occurring in the Bank's 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 Bank's operational risks to a minimum level, various suites of risk tools are used to manage operational risk using a common categorization of risk.

Bank's 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 bank has sufficient information to make informed decisions about additional controls, adjustments to controls, or other risk responses.

Operational risk disclosures – Basel II Specific

The Bank uses 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 Bank.

33. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 30th, March, 2012 by the Chief Executive Officer Manager Finance of the Bank.

34. GENERAL

34.1 Captions, as prescribed by BSD Circular No. 04 of 2006 dated February 17, 2006 issued by the State Bank of Pakistan, in respect of which there are no amounts, have not been reproduced in these financial statements, except for the captions in the statement of financial position and profit and loss account.

34.2 The Bank has commenced operations with effect from August 18, 2011 and hence there are no corresponding figures to report.

34.3 Figures have been rounded off to the nearest thousand rupees.

Chief Executive Officer	Manager Finance