March 25, 2016

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, 2015

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
Chief Executive Officer

Lynn Ye Ning
Head of Finance

KPMG Taseer Hadi & Co.
Chartered Accountants

Industrial and Commercial Bank of China Limited - Pakistan branches

Financial Statements

For the year ended
31 December 2015

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 Limited - Pakistan Branches** ("the branches") as at 31 December 2015 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 2015 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: 25 MAR 2016

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, 2015

	Note	2015	2014
		(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	6	**5,413,124**	4,329,697
Balances with other banks	7	**246,427**	295,142
Lendings to financial institutions	8	**669,547**	1,129,730
Investments	9	**124,771,022**	63,074,604
Advances	10	**6,999,406**	6,087,050
Operating fixed assets	11	**662,763**	183,341
Deferred tax assets	16	**41,078**	-
Other assets	12	**1,450,928**	850,823
		140,254,295	75,950,387
LIABILITIES			
Bills payable	13	**266,947**	4,667
Borrowings	14	**100,081,926**	56,592,615
Deposits and other accounts	15	**26,948,982**	9,500,726
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities	16	-	21,132
Other liabilities	17	**6,557,466**	5,323,681
		133,855,321	71,442,821
NET ASSETS		6,398,974	4,507,566
REPRESENTED BY			
Head office capital account	18	**3,780,941**	3,627,239
Unremitted profit		**2,620,351**	844,926
		6,401,292	4,472,165
(Deficit) / surplus on revaluation of investments - net of tax	19	**(2,318)**	35,401
		6,398,974	4,507,566
CONTINGENCIES AND COMMITMENTS	20		

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

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He Shenghu
Chief Executive Officer

Ye Ning
Head of Finance

Industrial and Commercial Bank of China Limited - Pakistan Branches
Profit and Loss Account
For the year ended December 31, 2015

	Note	2015	2014
		(Rupees in '000)	
Mark-up / Return / Interest Earned	21	7,244,606	4,607,826
Mark-up / Return / Interest Expensed	22	(1,288,821)	(1,078,251)
Net mark-up / Interest Income		5,955,785	3,529,575
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		5,955,785	3,529,575
NON MARK-UP / INTEREST INCOME			
Fee, commission and brokerage income		518,557	276,129
Dividend income		-	-
Loss from dealing in foreign currencies	23	(2,229,627)	(1,485,746)
Gain / (Loss) on sale of securities		-	-
Unrealized Gain / (Loss) on revaluation of investments classified as held for trading		-	-
Other income		101	290
Total non-mark-up / interest income		(1,710,969)	(1,209,327)
		4,244,816	2,320,248
NON MARK-UP / INTEREST EXPENSES			
Administrative expenses	24	(1,423,955)	(915,410)
Other provisions / write-offs		-	-
Other charges		-	-
Total non-mark-up / interest expense		(1,423,955)	(915,410)
		2,820,861	1,404,838
Extra ordinary / unusual items		-	-
PROFIT BEFORE TAXATION		2,820,861	1,404,838
Taxation - Current	25	1,029,256	452,888
- Prior year		58,228	-
- Deferred		(41,952)	36,784
		1,045,532	489,672
PROFIT AFTER TAXATION		1,775,329	915,166

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

He Shenghu
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, 2015

	Note	**2015**	2014
		(Rupees in '000)	
Profit after taxation for the year		**1,775,329**	915,166
Other comprehensive income			
Items that will never be reclassified to profit and loss account			
Exchange adjustments on revaluation of capital	*18*	**153,702**	(174,768)
Remeasurment of defined benefit plan - net of tax	*29.1.4*	**96**	-
Comprehensive income - transferred to statement of changes in equity		**1,929,127**	740,398
Components of comprehensive income not reflected in Head Office account			
(Deficit) / surplus on revaluation of available for sale securities - net of tax		**(37,719)**	71,821
Total comprehensive income		**1,891,408**	812,219

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

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He Shenghu
Chief Executive Officer

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, 2015

	Note	Head office capital account	Unremitted profit / Accumulated (losses)	Total
		(Rupees in '000)		
Balance as at January 01, 2014		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
Other comprehensive income				
Exchange adjustments on revaluation of capital	*18*	(174,768)	-	(174,768)
Balance as at December 31, 2014		3,627,239	844,926	4,472,165
Total comprehensive income for the year ended December 31, 2015				
Profit after taxation		-	1,775,329	1,775,329
Other comprehensive income				
Exchange adjustments on revaluation of capital	*18*	153,702	-	153,702
Remeasurment of defined benefit plan - net of tax		-	96	96
		153,702	1,775,425	1,929,127
Balance as at December 31, 2015		**3,780,941**	**2,620,351**	**6,401,292**

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

He Shenghu
Chief Executive Officer

Ye Ning
Head of Finance

Industrial and Commercial Bank of China Limited - Pakistan Branches
Cash Flow Statement
For the year ended December 31, 2015

	Note	2015	2014
		(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		**2,820,861**	1,404,838
Adjustments:			
Depreciation	*11.2*	**165,947**	79,822
Amortisation	*11.4*	**20**	-
		2,986,828	1,484,660
(Increase) / Decrease in operating assets			
Lendings to financial institutions		**-**	1,232,653
Advances		**(912,356)**	(2,192,637)
Others assets		**(641,183)**	1,393,007
		(1,553,539)	433,023
Increase / (Decrease) in operating liabilities			
Bills payable		**262,280**	(99,895)
Borrowings from financial institutions		**44,880,975**	18,256,861
Deposits		**17,448,256**	(5,485,811)
Other liabilities		**1,103,315**	2,100,302
		63,694,826	14,771,457
		65,128,115	16,689,140
Income tax paid		**(936,098)**	(475,000)
Net cash flow from operating activities		**64,192,017**	16,214,140
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in operating fixed assets	*11*	**(645,389)**	(19,870)
Net investments in available for sale securities		**(61,734,137)**	(15,455,388)
Net cash flow from investing activities		**(62,379,526)**	(15,475,258)
Exchange adjustments on revaluation of capital	*18*	**153,702**	(174,768)
Increase in cash and cash equivalents		**1,966,193**	564,114
Cash and cash equivalents at beginning of the year		**3,543,941**	2,979,827
Cash and cash equivalents at end of the year	*26*	**5,510,134**	3,543,941

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

KARACHI

He Shenghu
Chief Executive Officer

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 operate through three branches (December 31, 2014: three branches) in Pakistan and is engaged in banking activities permissible under the Banking Companies Ordinance, 1962. The registered office of the Branches is located at 16th Floor, Ocean Tower, Block 9, Clifton, Karachi previously located at Parsa Tower, PECHS, Main Sharah-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 State Bank of Pakistan (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 on 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.

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3.3 **Standards, interpretations and amendments to published approved accounting standards that are not yet effective:**

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after January 01, 2016:

Amendments to IAS 38 Intangible Assets and IAS 16 Property, Plant and Equipment (effective for annual periods beginning on or after January 1, 2016) introduce severe restrictions on the use of revenue-based amortization for intangible assets and explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments are not likely to have an impact on Branches' financial statements.

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 – Consolidated Financial Statements and IAS 28 – Investments in Associates and Joint Ventures) (effective for annual periods beginning on or after January 1, 2016) clarifies (a) which subsidiaries of an investment entity are consolidated; (b) exemption to present consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity; and (c) how an entity that is not an investment entity should apply the equity method of accounting for its investment in an associate or joint venture that is an investment entity. The amendments are not likely to have an impact on Branches' financial statements.

Amendments to IFRS 11 'Joint Arrangements' (effective for annual periods beginning on or after January 1, 2016) clarify the accounting for the acquisition of an interest in a joint operation where the activities of the operation constitute a business. The amendments are not likely to have an impact on Branches' financial statements.

Amendment to IAS 27 'Separate Financial Statements' (effective for annual periods beginning on or after January 1, 2016) allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendment is not likely to have an impact on Branches' financial statements.

Agriculture: Bearer Plants [Amendment to IAS 16 and IAS 41] (effective for annual periods beginning on or after January 1, 2016). Bearer plants are now in the scope of IAS 16 Property, Plant and Equipment for measurement and disclosure purposes. Therefore, a company can elect to measure bearer plants at cost. However, the produce growing on bearer plants will continue to be measured at fair value less costs to sell under IAS 41 Agriculture. A bearer plant is a plant that is used in the supply of agricultural produce; is expected to bear produce for more than one period; and has a remote likelihood of being sold as agricultural produce; is expected to bear produce for more than one period; and has a remote likelihood of being sold as agricultural produce. Before maturity, bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment during construction. The amendments are not likely to have an impact on Branches' financial statements.

Annual Improvements 2012-2014 cycle (amendments are effective for annual periods beginning on or after January 1, 2016). The new cycle of improvements contain amendments to the following standards:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. IFRS 5 is amended to clarify that if an entity changes the method of disposal of an asset (or disposal group) i.e. reclassifies an asset from held for distribution to owners to held for sale or vice versa without any time lag, then such change in classification is considered as continuation of the original plan of disposal and if an entity determines that an asset (or disposal group) no longer meets the criteria to be classified as held for distribution, then it ceases held for distribution accounting in the same way as it would cease held for sale accounting.

- IAS 19 'Employee Benefits'. IAS 19 is amended to clarify that high quality corporate bonds or government bonds used in determining the discount rate should be issued in the same currency in which the benefits are to be paid.

- IAS 34 'Interim Financial Reporting'. IAS 34 is amended to clarify that certain disclosures, if they are not included in the notes to interim financial statements and disclosed elsewhere should be cross referred.

- IAS 24 'Related Party Disclosures'. 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 Branches' financial statements.

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 and defined benefit obligation carried at at present 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 judgements

The preparation of financial statements in conformity with approved accounting standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These 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 judgements 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 judgements were made by the management in the application of accounting policies are as follows:

- classification of investments (note 5.4.1)
- income taxes (note 5.8 and 25)
- depreciation of operating fixed assets (note 5.6)
- fair value of derivatives (note 5.15)
- defined benefit plan (note 5.9)
- impairment of assets (note 5.4.5, 5.6 and 11)
- contingencies (note 20)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and the methods of computation adopted in the preparation of these financial statements are the same as those applied in the preparation of the financial statements as at and for the year ended 31 December 2014, except for the change in note 5.1. Moreover, during the current period IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IFRS 12 "Disclosure of Interest in Other Entities" and IFRS 13 "Fair Value Measurement" became effective for financial periods beginning on or after 1 January 2015. IFRS 10, IFRS 11 and IFRS 12 did not have any impact on the Branches' financial statements. The effect of IFRS 13 "Fair Value Measurement" are disclosed in notes 5.1 and 31 to these financial statements.

5.1 Change in accounting policy - fair value measurement

IFRS 13 Fair Value Measurement establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 Financial Instruments: Disclosures. As a result, the Branches have included additional disclosures in this regard in note 31 to these financial statements. In accordance with the transitional provisions of IFRS 13, the Branches have applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impacts on the measurements of the Branches' assets and liabilities.

5.2 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.

5.3 Lendings to / borrowings from financial institutions

The Branches enter 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.

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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.

5.4 Investments

5.4.1 Classification

The Branches 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 Branches has the positive intent and ability to hold them till maturity.

Loans and receivables

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

5.4.2 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 Branches agrees to settle the purchase or sale of investments.

5.4.3 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.

5.4.4 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.

5.4.5 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.

5.5 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 adjusted against advances. Advances are written off when there are no realistic prospects of recovery.

5.6 Operating fixed assets

Tangible 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 assets' 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 Branches and the cost of the item can be measured reliably.

Intangible assets

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

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Impairment

The carrying amount of assets is reviewed at each reporting date to determine whether there is any indication of impairment of any asset or group of assets. If any such indication exists, the recoverable amount of such assets is estimated and impairment losses are recognised immediately in the financial statements. The resulting impairment loss is taken to the profit and loss account except for impairment loss on revalued assets, which is adjusted against related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

5.7 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.

5.8 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 in which case it is recognized in other comprehensive income.

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.

5.9 Employee benefits

a) Defined benefit plan

The Branches operate an approved funded gratuity scheme covering eligible employees whose period of employment with the Branches is five years or more. Contributions to the fund are made on the basis of actuarial recommendations. Projected Unit Credit Method is used for the actuarial valuation. Actuarial gains and losses are recognised immediately in other comprehensive income. Gratuity is payable to staff on completion of the prescribed qualifying period of service under the scheme.

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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. Equal monthly contributions are made both by the Bank and its employees to the fund at the rate of 10% of the basic salary in accordance with the terms of the scheme.

5.10 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.

5.11 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.

5.12 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.

5.13 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.

5.14 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.

5.15 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.

5.16 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 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.

5.17 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.

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Corporate finance

This represents the 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	2015	2014
		(Rupees in '000)	
In hand			
Local currency		16,331	4,871
Foreign currencies		88,668	40,250
		104,999	45,121
With State Bank of Pakistan in:			
Local currency current accounts	6.1	1,111,524	420,939
Foreign currency current accounts	6.2	94,267	70,602
Foreign currency deposit accounts	6.3	4,102,334	3,793,035
		5,413,124	4,329,697

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, 2014: USD 36.098 million).

7 BALANCES WITH OTHER BANKS

	Note	2015	2014
		(Rupees in '000)	
In Pakistan			
On current accounts		381	379
Outside Pakistan			
On deposit accounts	7.1	246,046	294,763
		246,427	295,142

7.1 This includes placement of foreign currency funds with other ICBC branches, at interest rates ranging from 0% to 1.4% per annum (2014: 0% to 1.3% per annum).

8 LENDINGS TO FINANCIAL INSTITUTIONS

	Note	2015	2014
		(Rupees in '000)	
Call money lendings	8.1	669,547	1,129,730
Repurchase agreement lendings (Reverse repo)		-	-
		669,547	1,129,730

8.1 These represent call lendings to other branch of ICBC at a mark-up rate of 1.3% per annum (December 31, 2014: ranging from 4.0% to 4.1% per annum) with maturity in January 2016 (December 31, 2014: upto March 2015).

8.2 Particulars of lending

	Note	2015	2014
		(Rupees in '000)	
In local currency		-	-
In foreign currencies		669,547	1,129,730
		669,547	1,129,730

9 INVESTMENTS

9.1 Investments by type

	Note	2015 Held by Bank	2015 Given as Collateral	2015 Total	2014 Held by Bank	2014 Given as Collateral	2014 Total
		(Rupees in '000)					
Available-for-sale securities							
Market Treasury Bills	9.1.1	124,774,588	-	124,774,588	61,908,464	1,111,677	63,020,141
Investments at cost		124,774,588	-	124,774,588	61,908,464	1,111,677	63,020,141
(Deficit) / surplus on revaluation of available for sale securities	19	(3,566)	-	(3,566)	53,463	1,000	54,463
Total investments at market value		124,771,022	-	124,771,022	61,961,927	1,112,677	63,074,604

9.1.1 These Market Treasury Bills will mature upto August 2016 (December 31, 2014: upto May 2015) and carry interest rates ranging from 6.29% to 6.94% (December 31, 2014: from 9.39% to 10.02%) per annum.

9.2 Investments by segments:

	Note	2015	2014
		(Rupees in '000)	
Federal Government Securities			
Market treasury bills		124,774,588	63,020,141
Total investments at cost		124,774,588	63,020,141
(Deficit) / surplus on revaluation of available for sale securities	19	(3,566)	54,463
Total investments at market value		124,771,022	63,074,604

9.3 Quality of Available for Sale Securities

	Market value 2015	Market value 2014	Cost 2015	Cost 2014
	(Rupees in '000)			
Market Treasury Bills (unrated)	124,771,022	63,074,604	124,774,588	63,020,141

10 ADVANCES

	2015	2014
	(Rupees in '000)	
Loans, cash credits, running finances, etc.		
In Pakistan	4,448,341	3,948,633
Bills discounted and purchased (excluding treasury bills)		
Payable in Pakistan	2,551,065	2,138,417
	6,999,406	6,087,050

10.1 Particulars of advances

		2015	2014
10.1.1	In local currency	6,908,341	5,747,633
	In foreign currencies	91,065	339,417
		6,999,406	6,087,050
10.1.2	Short-term (for upto one year)	6,717,666	5,888,427
	Long-term (for over one year)	281,740	198,623
		6,999,406	6,087,050

10.2 No advances have been placed under non-performing status (December 31, 2014: Nil).

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11 OPERATING FIXED ASSETS

	Note	2015	2014
		(Rupees in '000)	
Capital work-in-progress	*11.1*	542,330	-
Property and equipment	*11.2*	120,310	183,341
Intangible assets	*11.4*	123	-
		662,763	183,341

11.1 Capital Work-in-progress

Building	447,950	-
Civil works	94,380	-
	542,330	-

This represent cost of two floors of the new head office building located at Ocean Tower Karachi. At 31 December 2015, the floors were not available for use, i.e. these were not in the condition of being used in the manner intended by the management.

11.2 Property and equipment

2015

	Cost			Depreciation			Book value	
	As at January 01, 2015	Additions	As at December 31, 2015	As at January 01, 2015	Charge for the year	As at December 31, 2015	As at December 31, 2015	Rate of Depreciation
	(Rupees in '000)							%
Leasehold improvements	282,190	50,370	332,560	125,408	149,867	275,275	57,285	20% to 33%
Furniture and fixtures	21,933	25,161	47,094	10,283	7,158	17,441	29,653	20%
Vehicles	5,005	16,149	21,154	783	1,750	2,533	18,621	16.7%
Electrical, office and computer equipments	81,535	11,236	92,771	70,848	7,172	78,020	14,751	33%
	390,663	102,916	493,579	207,322	165,947	373,269	120,310	

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 fixtures	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 equipments	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	

11.3 This includes additional depreciation charge on account of improvement of previous head office building, as the Bank shifted its Karachi office from Parsa Towers, P.E.C.H.S, Main Shahra-e-Faisal to 15th and 16th floor, Ocean Tower, Block 9, Clifton on 1 January 2016.

11.4 Intangible assets

2015

	Cost			Amortization			Book value	
	As at January 01, 2015	Additions	As at December 31, 2015	As at January 01, 2015	Charge for the year	As at December 31, 2015	As at December 31, 2015	Rate of Amortization
	(Rupees in '000)							%
Computer software	-	143	143	-	20	20	123	50%

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12 OTHER ASSETS

	Note	2015	2014
		(Rupees in '000)	
Income / Mark-up accrued in local currency		30,022	57,559
Income / Mark-up accrued in foreign currencies		540	2,323
Advances, deposits, advance rent and other prepayments		228,851	489,385
Unrealized gain on forward foreign exchange contracts		1,118,034	299,487
Receivable from employee benefit plan	*29.1.3*	1,482	262
Local clearing account		71,931	1,807
Others		68	-
		1,450,928	850,823

13 BILLS PAYABLE

In Pakistan	266,947	4,667

14 BORROWINGS

In Pakistan	400,000	1,111,677
Outside Pakistan	99,681,926	55,480,938
	100,081,926	56,592,615

14.1 Particulars of borrowings with respect to currencies

In local currency	400,000	1,111,677
In foreign currencies	99,681,926	55,480,938
	100,081,926	56,592,615

14.2 Details of borrowings Secured / Unsecured

Secured			
Repurchase agreement borrowings (Repo)		-	1,111,677
Unsecured			
Call borrowings	*14.3*	100,081,926	55,480,938
		100,081,926	56,592,615

14.3 This represents borrowings from financial institutions and other ICBC branches at mark-up rates ranging from 0.25% to 6.5% per annum (2014: 0.08% to 1.9%) maturing by June 2016 (2014: May 2015).

15 DEPOSITS AND OTHER ACCOUNTS

	2015	2014
	(Rupees in '000)	
Customers		
Fixed deposits	4,136,999	3,873,418
Savings deposits	12,448,182	3,196,248
Current accounts - Non-remunerative	10,343,373	2,374,083
	26,928,554	9,443,749
Financial Institutions		
Remunerative deposits	-	36,000
Non-remunerative deposits	20,428	20,977
	26,948,982	9,500,726

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15.1 Particulars of deposits

	2015	2014
	(Rupees in '000)	
In local currency	16,415,524	5,814,084
In foreign currencies	10,533,458	3,686,642
	26,948,982	9,500,726

16 DEFERRED TAX ASSETS/ (LIABILITIES) - NET

	2015	2014
Deferred debits arising in respect of		
- Investments - available for sale	1,248	(19,062)
- Accelerated tax depreciation	39,882	(2,070)
	41,130	(21,132)
Deferred credits arising due to		
- Remeasurement of defined benefit liability	52	-
	41,078	(21,132)

16.1 Movement in deferred tax balances

	As at January 01, 2015	Recognized in profit or loss	Recognized in other comprehensive income	As at December 31, 2015
	(Rupees in '000)			
Accelerated tax depreciation	(2,070)	41,952	-	39,882
Investments - available for sale	(19,062)	-	20,310	1,248
Remeasurement of defined benefit liability	-	-	(52)	(52)
	(21,132)	41,952	20,258	41,078

	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)

17 OTHER LIABILITIES

	Note	2015	2014
		(Rupees in '000)	
Mark-up / Return / Interest payable in local currency		187,486	126,856
Mark-up / Return / Interest payable in foreign currencies		181,909	162,472
Staff salaries and performance bonus payable	*17.1*	681,458	285,662
Payable to head office	*17.2*	1,456,109	1,396,916
Unrealized loss on forward foreign exchange contracts		3,463,136	2,530,292
Commission received in advance against unfunded exposure		327,132	338,733
Workers' Welfare Fund		58,816	5,675
Advance received from customers in respect of forward contracts		-	329,834
Income tax payable		128,169	-
Withholding tax payable		35,029	21,876
ATM and other settlements		31,467	124,450
Others		6,755	915
		6,557,466	5,323,681

17.1 This includes staff performance bonus amounting to Rs. 565.25 million and Rs. 111.12 million for the financial years ended 31 December 2015 and 31 December 2014, respectively.

17.2 This represents interest free advance of USD 13.9 million (December 31, 2014: 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.

18	HEAD OFFICE CAPITAL ACCOUNT	Note	2015	2014
			(Rupees in '000)	
	Capital held as interest free deposit in approved foreign exchange			
	USD 36.098 million (2014: USD 36.098 million)			
	- Balance at the beginning of the year		3,627,239	3,802,007
	- Revaluation surplus / (deficit) allowed by the State Bank of Pakistan during the year		153,702	(174,768)
			3,780,941	3,627,239

19	(DEFICIT) / SURPLUS ON REVALUATION OF INVESTMENTS - AVAILABLE FOR SALE	Note	2015	2014
	(Deficit) / surplus on revaluation of Government securities		(3,566)	54,463
	Related deferred tax asset / (liability)	16.1	1,248	(19,062)
			(2,318)	35,401

20 CONTINGENCIES AND COMMITMENTS

		2015	2014
20.1	**Transaction-related Contingent Liabilities**		
	Government	44,650,292	22,622,127
	Others	61,481,863	39,552,156
		106,132,155	62,174,283
20.2	**Trade-related Contingent Liabilities**		
	Letters of credit	793,946	315,081
	Acceptances	3,264,603	2,275,517
20.3	**Commitments in respect of forward exchange contracts**		
	Purchase	217,070,802	150,138,785
	Sale	220,615,085	153,051,919
20.4	**Commitments in respect of repo transactions**		
	Repurchase	-	1,111,677
	Resale	-	-
20.5	**Commitments to extend credit - syndicated loan**	236,111	319,444

21 MARK-UP/ RETURN/ INTEREST EARNED

	2015	2014
On loans and advances to customers	472,716	422,113
On investments in available for sale securities	6,623,914	4,057,222
On deposits with financial institutions	36,017	55,353
On securities purchased under resale agreements	5,027	17,389
On call money lendings	106,932	55,749
	7,244,606	4,607,826

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22 MARK-UP/ RETURN/ INTEREST EXPENSED

	Note	2015	2014
		(Rupees in '000)	
Deposits		**531,386**	526,912
Securities sold under repurchase agreements		**76,608**	-
Other short term borrowings		**680,827**	551,339
		1,288,821	1,078,251

23 LOSS FROM DEALING IN FOREIGN CURRENCIES

Revaluation loss on forwards / swaps deals		(114,297)	(3,322,643)
Exchange (loss) / gain on forwards / swaps deals		(3,264,773)	1,598,000
Exchange gain on foreign exchange spot deals		**1,183,588**	199,348
Others		(34,145)	39,549
		(2,229,627)	(1,485,746)

24 ADMINISTRATIVE EXPENSES

Salaries and allowances		**894,169**	611,333
Charge for defined benefit plan	*29.1.4*	**726**	486
Contribution to defined contribution plan and EOBI		**2,047**	1,435
Charge for Workers' Welfare Fund		**58,816**	28,670
Rent, taxes, insurance, electricity, etc.		**162,884**	105,423
Legal and professional charges		**12,900**	6,127
Communications		**23,074**	19,294
Stationery and printing		**15,858**	3,935
Advertisement and publicity		**12,520**	3,517
Donations	*24.1*	**50**	200
Depreciation and amortization	*11.2 & 11.4*	**165,967**	79,822
Travelling and entertainment		**32,132**	26,845
Auditors' remuneration	*24.2*	**2,312**	2,359
Others		**40,500**	25,964
		1,423,955	915,410

24.1 Donations

Chief minister fund for flood relief		50	-
Dar-ul-Sukun		-	100
Army Public School		-	100
		50	200

24.2 Auditors' remuneration

Audit fee		**920**	650
Provident and Gratuity Fund Audit		**79**	-
Half yearly review		**217**	217
Special certifications and sundry advisory services		**1,096**	1,492
		2,312	2,359

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25 TAXATION

	Note	2015	2014
		(Rupees in '000)	
For the year			
Current		**1,029,256**	452,888
Deferred	*16.1*	**(41,952)**	36,784
Prior	*25.2*	**58,228**	-
		1,045,532	489,672

25.1 Relationship between tax expense and accounting profit

	Note	2015	2014
Profit before taxation		**2,820,861**	1,404,838
Tax at the applicable rate of 35% (2014: 35%)		**987,301**	491,693
Effect of:			
- Prior year charge	*25.2*	**58,228**	-
- Others		**3**	(2,021)
Tax expense for the year		**1,045,532**	489,672

25.2 The Finance Act, 2015 has introduced certain amendments relating to taxation of banking companies. As per these amendments, one-time super tax at the rate of 4 percent of the taxable income has also been levied. These amendments apply retrospectively for the tax year 2015, (i.e. year ended December 31, 2014). The effects of above amendments have been incorporated as a prior year tax charge in these financial statements.

26 CASH AND CASH EQUIVALENTS

	Note	2015	2014
Cash and balances with treasury banks	*6*	**5,413,124**	4,329,697
Balance with other banks	*7*	**246,427**	295,142
Short term lending		**669,547**	1,129,730
Short term borrowings		**(818,964)**	(2,210,628)
		5,510,134	3,543,941

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 02 March 2016 (2014: A1 for long term and P-1 for short term).

28 STAFF STRENGTH

	2015	2014
	(Number of employees)	
Permanent	77	72
Temporary / on contractual basis	6	6
Bank's own staff strength at the end of the year	83	78
Outsourced	8	4
Total Staff Strength	91	82

29 EMPLOYEE BENEFITS

Defined Contribution Plan

The Bank contributed an amount of Rs. 1,889,818 (2014: Rs. 1,435,117) against a recognized Provident Fund during the year.

Karachi

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 current year, the branches have carried out an actuarial valuation on 31 December 2015 using Projected Unit Credit Method and recorded the obligation accordingly.

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:

	2015	2014
Discount rate	9.00%	10.50%
Salary increase	8.50%	10.00%

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, 2015.

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

	Note	2015	2014
		(Rupees in '000)	
Present value of defined benefit obligations	*29.1.6*	2,161	1,419
Fair value of plan assets	*29.1.7*	(3,643)	(1,681)
		(1,482)	(262)

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

		2015	2014
Opening balance		(262)	450
Charge for the year - in profit and loss account	*29.1.4*	578	486
Bank's contribution to fund made during the year		(1,798)	(1,198)
Closing balance	*12*	(1,482)	(262)

29.1.4 Charge for defined benefit plan

	2015	2014
Recognized in profit and loss account		
Current service cost	848	547
Net interest	(122)	(61)
	726	486
Recognized in other comprehensive income *		
Return on plan assets exculding interest income	107	-
Actuarial gain on obligations	(255)	-
	(148)	-
Total	578	486

* net of tax is Rs. 96 thousand.

29.1.5 Actual return on plan assets

	2015	2014
Actual return on plan assets	271	135

29.1.6 Reconciliation of present value of obligation

	2015	2014
Present value of obligation as at January 1, 2015	1,419	907
Current service cost	848	771
Past service cost	-	(223)
Interest cost	149	73
Remeasurement loss due to experience adjustment	(255)	(109)
Present value of obligation as at December 31, 2015	2,161	1,419

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29.1.7 Changes in the fair value of plan assets are as follows:	2015	2014
	(Rupees in '000)	
Opening fair value of plan assets	1,681	456
Interest income	271	135
Contributions by the Bank	1,798	1,198
Benefits paid	-	-
Return on plan assets exculding interest income	(107)	(108)
Fair value at end of the year	3,643	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, 2016, works out to Rs. 1,039,662.

29.1.10 Sensitivity Analysis

Impact on obligation of change in assumptions is as follows:

Particulars	1% increase (Rs. in 000')	1% decrease (Rs. in 000')
Discount rate	(113)	124
Salary increases	123	(114)

29.1.11 Maturity Profile

Particulars	Undiscounted Payments (Rs. in 000')
Year 1	150
Year 2	225
Year 3	657
Year 4	1,039
Year 5	1,477
Year 6 to Year 10	7,065

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	
	2015	2014	2015	2014
	(Rupees in '000)		(Rupees in '000)	
Managerial remuneration & bonus	67,942	71,199	418,864	526,057
Charge for defined benefit plan	-	-	1,264	805
Contribution to defined contribution plan	-	-	1,389	1,003
Rent and house maintenance	-	-	6,340	4,361
Utilities	-	-	1,408	1,081
Medical	-	-	1,408	967
Conveyance	-	-	1,042	984
Others	-	-	-	3,172
	67,942	71,199	431,715	538,430
Number of persons	1	1	53	56

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.

31 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of quoted securities other than those classified as held to maturity, is based on quoted market price. Quoted securities classified as held to maturity are carried at cost. The fair value of unquoted equity securities, other than investment in associates and subsidiaries, is determined on the basis of the break-up value of these investments as per their latest available audited financial statements.

The fair value of unquoted debt securities, fixed term loans, other assets, other liabilities, fixed term deposits and borrowings cannot be calculated with sufficient reliability due to the absence of a current and active market for these assets and liabilities and reliable data regarding market rates for similar instruments.

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 these are either short-term in nature or, in the case of customer loans and deposits, are frequently repriced.

31.1 The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value measurements using input for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

The table below analyses financial instruments measured at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised:

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	Note	Carrying Amount				Fair value			
2015		Held for trading	Available for sale	Loans and Receivables	Total	Level 1	Level 2	Level 3	Total
On balance sheet financial instruments		------------(Rupees in '000)------------							
Financial assets measured at fair value									
Other assets - forward foreign exchange contracts	12	1,118,034	-	-	1,118,034	-	1,118,034	-	1,118,034
- Investments	9	-	124,771,022	-	124,771,022	-	124,771,022	-	124,771,022
Financial assets not measured at fair value									
- Cash and bank balances with treasury bank	6	-	-	5,413,124	5,413,124				
- Balances with other banks	7	-	-	246,427	246,427				
- Lending to financial institutions	8	-	-	669,547	669,547				
- Advances	10	-	-	6,999,406	6,999,406				
- Other assets		-	-	273,579	273,579				
		1,118,034	124,771,022	13,602,083	139,491,139				
Financial liabilities measured at fair value									
Other liabilities - forward foreign exchange contracts	17	3,463,136	-	-	3,463,136	-	3,463,136	-	3,463,136
Financial liabilities not measured at fair value									
- Bills payable	13	-	-	266,947	266,947				
- Borrowings	14	-	-	100,081,926	100,081,926				
- Deposits and other accounts	15	-	-	26,948,982	26,948,982				
- Other liabilities		-	-	2,545,184	2,545,184				
		3,463,136	-	129,843,039	133,306,175				
Off balance sheet financial instruments									
- Forward purchase of foreign exchange contracts	20.3	217,070,802	-	-	217,070,802	-	217,070,802	-	217,070,802
- Forward sale of foreign exchange contracts	20.3	220,615,085	-	-	220,615,085	-	220,615,085	-	220,615,085

	Note	Carrying Amount				Fair value			
2014		Held for trading	Available for sale	Loans and Receivables	Total	Level 1	Level 2	Level 3	Total
On balance sheet financial instruments		------------(Rupees in '000)------------							
Other assets - forward foreign exchange contracts	12	299,487	-	-	299,487	-	299,487	-	299,487
- Investments	9	-	63,074,604	-	63,074,604	-	63,074,604	-	63,074,604
Financial assets not measured at fair value									
- Cash and bank balances with treasury bank	6	-	-	4,329,697	4,329,697				
- Balances with other banks	7	-	-	295,142	295,142				
- Lending to financial institutions	8	-	-	1,129,730	1,129,730				
- Advances	10	-	-	6,087,050	6,087,050				
- Other assets		-	-	451,712	451,712				
		299,487	63,074,604	12,293,331	75,667,422				
Financial liabilities measured at fair value									
Other liabilities - forward foreign exchange contracts	17	2,530,292	-	-	2,530,292	-	2,530,292	-	2,530,292
Financial liabilities not measured at fair value									
- Bills payable	13	-	-	4,667	4,667				
- Borrowings	14	-	-	56,592,615	56,592,615				
- Deposits and other accounts	15	-	-	9,500,726	9,500,726				
- Other liabilities		-	-	2,427,105	2,427,105				
		2,530,292	-	68,525,113	71,055,405				
Off balance sheet financial instruments									
- Forward purchase of foreign exchange contracts	20.3	150,138,785	-	-	150,138,785	-	150,138,785	-	150,138,785
- Forward sale of foreign exchange contracts	20.3	153,051,919	-	-	153,051,919	-	153,051,919	-	153,051,919

31.2 The Branches has not disclosed the fair values for financial instruments such as short-term trade receivables and payables, because their carrying amounts are reasonable approximation of fair values.

32 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

	2015			
	Corporate Finance	Trading & Sales	Others	Total
	(Rupees in '000)			
Total income	472,716	5,060,921	-	5,533,637
Total expenses	(154,154)	(2,392,675)	(165,947)	(2,712,776)
Net income	318,562	2,668,246	(165,947)	2,820,861
Segment assets	6,999,406	131,100,119	2,154,770	140,254,295
Segment liabilities	6,438,407	120,592,502	6,824,412	133,855,321
Segment return on assets (ROA) (%)	7.22%	5.06%	0.00%	
Segment cost of funds (%)	2.61%	2.64%	2.73%	

	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%	

* Figures have been 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:

	2015				
	Staff retirement benefits	Key Management Personnel	Other ICBC branches	Head Office	Total
	(Rupees in '000)				
Balance Sheet					
Balances with other banks	-	-	5,312	240,734	246,046
Lendings to financial institutions	-	-	669,547	-	669,547
Borrowings	-	-	16,130,114	83,551,812	99,681,926
Other liabilities	-	-	-	-	-
Profit and Loss					
Interest / other income	-	-	74,096	363	74,459
Interest / other expense	3,816	491,679	336,506	339,172	1,171,173

	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

33.1 Key Management Personnel

	2015	2014
	(Rupees in '000)	
Managerial remuneration & bonus	495,596	513,227
Charge for contribution and defined benefit plan	2,653	451
Medical	1,408	244
	499,657	513,922
Number of persons	54	28

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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 manage 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, 2015 stands at Rs. 3.8 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 head office capital account and un-remitted profit after all regulatory adjustments applicable on CET1 (refer note 34.4).

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). As at 31 December 2015, the Branches' Tier 2 capital is zero.

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, 2015 whereas CAR stood at 13.12% at the year ended December 31, 2015.

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.

34.4 Capital Adequacy Ratio as at December 31, 2015

			2015	2014
			-----------(Rupees in '000)-----------	
	Common Equity Tier 1 capital (CET1): Instruments and reserves			
1	Fully Paid-up Capital/ Capital deposited with SBP		3,780,941	3,627,239
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)		2,620,351	844,926
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**		6,401,292	4,472,165
10	Total regulatory adjustments applied to CET1 (Note 34.4.1)		2,318	-
11	**Common Equity Tier 1**		6,398,974	4,472,165
	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)**		6,398,974	4,472,165
	Tier 2 Capital			
22	Qualifying Tier 2 capital instruments under Basel III plus any related share premium		-	-
23	Tier 2 capital instruments subject to phase out 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)**		6,398,974	4,507,566
39	Total Risk Weighted Assets (RWA) {for details refer Note 34.7}		48,765,437	30,774,097
	Capital Ratios and buffers (in percentage of risk weighted assets)			
40	**CET1 to total RWA**		13.12%	14.53%
41	**Tier-1 capital to total RWA**		13.12%	14.53%
42	**Total capital to total RWA**		13.12%	14.65%
43	Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)		6.00%	5.50%
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)		7.12%	9.03%
	National minimum capital requirements prescribed by SBP			
48	**CET1 minimum ratio**		6.00%	5.50%
49	**Tier 1 minimum ratio**		7.50%	7.00%
50	**Total capital minimum ratio**		10.25%	10.00%

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	Regulatory Adjustments and Additional Information	2015 Amount	2015 Amounts subject to Pre-Basel III treatment	2014 Amount	2014 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	2,318		-	
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)**	2,318		-	
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 consolidatinn, 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)**	-		-	

		2015	2014
		(Rupees in '000)	

34.4.4 Additional Information

Risk Weighted Assets subject to pre-Basel III treatment

		2015	2014
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
(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
	2015	
	(Rupees in '000)	
Assets		
Cash and balances with treasury banks	5,413,124	5,413,124
Balanced with other banks	246,427	246,427
Lending to financial institutions	669,547	669,547
Investments	124,771,022	124,771,022
Advances	6,999,406	6,999,406
Operating fixed assets	662,763	662,763
Deferred tax assets	41,078	41,078
Other assets	1,450,928	1,450,928
Total assets	**140,254,295**	**140,254,295**
Liabilities & Equity		
Bills payable	266,947	266,947
Borrowings	100,081,926	100,081,926
Deposits and other accounts	26,948,982	26,948,982
Sub-ordinated loans	-	-
Liabilities against assets subject to finance lease	-	-
Deferred tax liabilities	-	-
Other liabilities	6,557,466	6,557,466
Total liabilities	**133,855,321**	**133,855,321**
Share capital/ Head office capital account	3,780,941	3,780,941
Reserves	-	-
Unremitted profit / Accumulated (losses)	2,620,351	2,620,351
Minority Interest	-	-
Surplus on revaluation of investments- net of tax	(2,318)	(2,318)
Total equity	6,398,974	6,398,974
Total liabilities & equity	140,254,295	140,254,295

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Table: 34.5.2

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	
	2015		Reference
	(Rupees in '000)		
Assets			
Cash and balances with treasury banks	5,413,124	5,413,124	
Balanced with other banks	246,427	246,427	
Lending to financial institutions	669,547	669,547	
Investments	124,771,022	124,771,022	
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
af which: athers (mention details)			e
Advances	6,999,406	6,999,406	
shortfall in provisions/ excess of total EL amount over eligible provisions under IRB			f
general provisions reflected in Tier 2 capital			g
Fixed Assets	662,763	662,763	
Deferred Tax Assets	41,078	41,078	
of which: DTAs that rely an future profitability excluding thase arising from temporary differences			h
of which: DTAs arising fram temporary differences exceeding regulatory threshold			i
Other assets	1,450,928	1,450,928	
of which: Goadwill			j
of which: Intangibles			k
of which: Defined-benefit pension fund net assets			l
Total assets	140,254,295	140,254,295	
Liabilities & Equity			
Bills payable	266,947	266,947	
Borrowings	100,081,926	100,081,926	
Deposits and other accounts	26,948,982	26,948,982	
Sub-ordinated loans	-	-	
of which: eligible far inclusion in AT1			m
of which: eligible for inclusion in Tier 2			n
Liabilities against assets subject to finance lease	-	-	
Deferred tax liabilities	-	-	
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			r
Other liabilities	6,557,466	6,557,466	
Total liabilities	133,855,321	133,855,321	
Share capital	3,780,941	3,780,941	
of which: amount eligible for CET1	3,780,941	3,780,941	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)	2,620,351	2,620,351	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	(2,318)	(2,318)	
of which: Revaluation reserves on Fixed Assets			aa
of which: Unrealized Gains/Lasses on AFS	(2,318)	(2,318)	
In case of Deficit on revaluation (deduction from CET1)			ab
Total equity	6,398,974	6,398,974	
Total liabilities & Equity	140,254,295	140,254,295	

Table: 34.5.3

		Component of regulatory capital reported by branches 2015 (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	3,780,941	(s)
2	Balance in Share Premium Account	-	
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)	2,620,351	(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**	**6,401,292**	
	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	2,318	(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)**	**2,318**	
31	**Common Equity Tier 1**	**6,398,974**	
	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)**	6,398,974	

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Table: 34.5.3		Component of regulatory capital reported by branches 2015 (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	-	(n)
50	Capital instruments subject to phase out arrangement from tier 2 (Pre-Basel III instruments)	-	
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	-	
55	of which: Revaluation reserves on fixed assets	-	portion of (aa)
56	of which: Unrealized Gains/Losses on AFS	-	
57	Foreign Exchange Translation Reserves	-	(v)
58	Undisclosed/Other Reserves (if any)	-	
59	**T2 before regulatory adjustments**	-	
	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)	-	
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**	-	
70	TOTAL CAPITAL (T1 + admissible T2) (48+69)	6,398,974	

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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

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	
	2015	2014	2015	2014
	(Rupees in '000)			
Credit Risk				
On-Balance sheet				
Portfolios subject to standardized approach (Simple or Comprehensive)				
Cash & cash equivalents	-	-	-	-
Sovereign	41,566	35,459	415,660	354,598
Public Sector entities	-	35,980	-	359,800
Banks	25,701	37,340	257,008	373,403
Corporate	521,047	393,268	5,210,472	3,932,682
Retail	-	356	-	3,560
Residential Mortgages	331	466	3,308	4,662
Past Due loans	-	-	-	-
Operating Fixed Assets	66,276	18,334	662,763	183,341
Deffered tax asset	10,270	-	102,695	-
Other assets	145,093	85,082	1,450,928	850,823
	810,284	606,285	8,102,834	6,062,869
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	123,789	53,940	1,237,887	539,408
Performance Related Contingencies	2,504,373	1,576,035	25,043,732	15,760,350
Trade Related Contingencies	6,459	5,665	64,591	56,658
	2,634,621	1,635,640	26,346,210	16,356,416
Market related				
Foreign Exchange contracts	53,759	60,923	537,587	609,234
Derivatives	-	-	-	-
	53,759	60,923	537,587	609,234
Equity Exposure Risk in the Banking Book				
Under simple risk weight method				
Listed Equity Investment	-	-	-	-
Unlisted Equity Investment	-	-	-	-
	-	-	-	-
Under Internal Model approach	-	-	-	-
	3,498,664	2,302,848	34,986,631	23,028,519
Market Risk				
Capital Requirement for portfolios subject to Standardized Approach				
Interest rate risk	713,883	521,663	8,923,538	5,216,638
Equity position risk	-	-	-	-
Foreign Exchange risk	14,107	35,896	176,338	358,963
	727,990	557,559	9,099,876	5,575,601
Operational Risk				
Capital Requirement for operational risks	374,314	216,997	4,678,930	2,169,977
Total Risk Weighted Exposures	4,600,968	3,077,404	48,765,437	30,774,097

Capital Adequacy Ratios	2015		2014	
	Required	Actual	Required	Actual
CET1 to total RWA	6.00%	13.12%	5.50%	14.53%
Tier-1 capital to total RWA	7.50%	13.12%	7.00%	14.53%
Total capital to total RWA	10.00%	13.12%	10.00%	14.65%
Total capital plus CCB to RWA	10.25%	13.12%	N/A	N/A

34.8 Leverage Ratio

The State Bank of Pakistan (SBP) through its BPRD Circular No. 06 of 2013 has issued instructions regarding implementation of parallel run of leverage ratio reporting and its components from December 31, 2013 to December 31, 2017.During this period the final calibration, and any further adjustments to the definition, will be completed, with a view to set the leverage ratio as a seperate capital standard on December 31, 2018. Banks are required to disclose the leverage ratio from December 31, 2015.

The Basel III leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator), with this ratio expressed as a percentage:

$$\textbf{Leverage Ratio} = \frac{\textbf{Tier 1 capital (after related deductions)}}{\textbf{Total Exposure}}$$

As at December 31, 2015 the Bank's Leverage ratio stood at 3.90% which is well above the minimum requirement of 3.0%.

	2015	2014
	(Rupees in '000)	
On-Balance Sheet Assets		
Cash and balances with treasury banks	5,413,124	4,329,698
Balances with other banks	246,427	295,142
Lendings to financial institutions	669,547	1,129,730
Investments	36,967,662	63,074,604
Advances	6,999,406	6,087,050
Operating fixed assets	662,763	183,340
Deferred tax assets	41,078	-
Financial Derivatives (A.1)	1,118,034	299,487
Other assets	332,894	551,336
Total Assets (A)	52,450,935	75,950,387
Derivatives (On-Balance Sheet)		
Interest Rate	-	-
Equity	-	-
Foreign Exchange & gold	1,118,034	299,487
Precious Metals (except gold)	-	-
Commodities	-	-
Credit Derivatives (protection brought & sold)	-	-
Any other derivatives	-	-
Total Derivatives (A.1)	1,118,034	299,487
Off-Balance Sheet Items excluding derivatives		
Direct Credit Substitutes (i.e. Acceptances, general guarantees for indebtness etc.)	3,264,603	2,275,517
Performance-related Contingent Liabilities (i.e. Guarantees)	106,132,155	62,174,283
Trade-related Contingent Liabilities (i.e. Letter of Credits)	793,946	315,081
Lending of securities or posting of securties as collaterals	-	-
Undrawn committed facilities (which are not cancellable)	236,111	319,444
Unconditionally cancellable commitments	-	-
Commitments in respect of operating leases	-	-
Commitments for the acquisition of operating fixed assets	-	-
Other commitments	-	-
Total Off-Balance Sheet Items excluding Derivatives (B)	110,426,815	65,084,325
Commitments in respect of Derivatives - Off Balance Sheet Items (Derivatives having negative fair value are also included)		
Interest Rate	-	-
Equity	-	-
Foreign Exchange & gold	1,091,875	947,975
Precious Metals (except gold)	-	-
Commodities	-	-
Credit Derivatives (protection sold and bought)*	-	-
Other derivatives	-	-
Total Derivatives (C)	1,091,875	947,975
Tier-1 Capital	6,398,974	4,507,566
Total Exposures (sum of A,B and C)	163,969,625	141,982,687
Leverage Ratio	3.90%	3.17%

* Exposure from investments is reduced, as the SBP vide their letter ref no. BPRD/BA&CP/661/006094/5 dated 12 March 2015 has given a special approval for reductinn in the risk weight from 100% to 20% on those Government Securities which are direct result of currency swap agreements with the SBP.

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35 **RISK MANAGEMENT**

The primary objective of the Risk Management System is to safeguard the Branches' capital, their 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 Branches 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 Branches' 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 appraisal, 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.

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35.2 **Segmental information**

35.2.1 **Segments by class of business**

	2015					
	Advances		Deposits		*Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Mining and Quarrying	-	0.0%	300,532	1.2%	362,928	0.3%
Textile	300,000	4.3%	2,354	0.0%	-	0.0%
Electronics and electrical appliances	1,121,065	16.0%	4,963,846	18.5%	198,316	0.2%
Construction	-	0.0%	1,733,169	6.4%	611,523	0.6%
Communication	-	0.0%	-	0.0%	-	0.0%
Power (electricity), Gas, Water, Sanitary	2,146,600	30.7%	15,337,450	56.9%	1,045,181	0.9%
Wholesale and Retail Trade	-	0.0%	155,842	0.6%	1,888,519	1.7%
Exports/Imports	-	0.0%	118	0.0%	-	0.0%
Transport, Storage and Communication	-	0.0%	3,030,788	11.2%	-	0.0%
Financial	-	0.0%	29,444	0.1%	102,219,458	92.8%
Chemical and Pharmaceuticals	1,180,001	16.9%	457	0.0%	-	0.0%
Individuals	17,851	0.3%	333,415	1.2%	-	0.0%
Others	2,233,889	31.8%	1,061,567	3.9%	3,864,779	3.5%
	6,999,406	100%	26,948,982	100%	110,190,704	100%

	2014					
	Advances		Deposits		*Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Mining and Quarrying	-	0.0%	66,095	0.7%	17,585	0.0%
Textile	-	0.0%	633	0.0%	-	0.0%
Electronics and electrical appliances	1,364,653	22.4%	1,662	0.0%	10,153,633	15.7%
Construction	-	0.0%	1,902,335	20.1%	22,310,351	34.4%
Communication	-	0.0%	3,505,452	36.9%	12,223,548	18.9%
Power (electricity), Gas, Water, Sanitary	2,799,000	46.0%	3,095,230	32.6%	1,832,253	2.8%
Wholesale and Retail Trade	804,775	13.2%	297,806	3.1%	18,191,334	28.1%
Exports/Imports	-	0.0%	-	0.0%	-	0.0%
Transport, Storage and Communication	-	0.0%	10,008	0.1%	36,177	0.1%
Financial	-	0.0%	56,977	0.6%	-	0.0%
Chemical and Pharmaceuticals	920,000	15.1%	-	0.0%	-	0.0%
Individuals	18,067	0.3%	211,847	2.2%	-	0.0%
Others	180,555	3.0%	352,681	3.7%	-	0.0%
	6,087,050	100%	9,500,726	100%	64,764,881	100%

35.2.2 **Segment by sector**

	2015					
	Advances		Deposits		*Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public/ Government	-	0%	-	0%	-	0%
Private	6,999,406	100%	26,948,982	100%	110,190,704	100%
	6,999,406	100%	26,948,982	100%	110,190,704	100%

	2014					
	Advances		Deposits		*Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public/ Government	1,799,000	30%	-	0%	-	0%
Private	4,288,050	70%	9,500,726	100%	64,764,881	100%
	6,087,050	100%	9,500,726	100%	64,764,881	100%

35.2.3 **GEOGRAPHICAL SEGMENT ANALYSIS**

	2015			
	Profit before taxation	Total assets employed	Net assets employed	*Contingencies and commitments
	(Rupees in '000)			
Pakistan	2,820,861	140,254,295	6,398,974	110,190,704

	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

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

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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:

	2015			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan Rupee	134,799,892	21,992,383	106,407,176	6,400,333
United States Dollar	4,756,703	70,071,765	(65,487,924)	172,862
Great Britain Pound	16	-	(4)	20
Japanese Yen	35	-	-	35
Euro	21,193	38,582,795	(38,468,206)	(93,344)
Chinese Yuan	674,357	3,208,378	(2,451,025)	(82,996)
HKD	2,099	-	(17)	2,116
Total foreign currency exposure	5,454,403	111,862,938	(106,407,176)	(1,307)
Total currency exposure	140,254,295	133,855,321	-	6,399,026

	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

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.

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35.4.1 Mismatch of interest rate sensitive financial assets and financial liabilities

2015

	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	-	5,413,124	-	-	-	-	-	-	-	-	-	5,413,124
Balances with other banks	0-1.4	246,427	246,046	-	-	-	-	-	-	-	-	381
Lendings to financial institutions	1.3-1.3	669,547	669,547	-	-	-	-	-	-	-	-	-
Investments - net	6.29-6.94	124,771,021	-	5,899,473	105,591,317	13,280,231	-	-	-	-	-	-
Advances - net	2.82-10.13	6,999,406	2,986,600	651,163	2,349,903	730,000	152	4,213	267,924	-	9,451	-
Other assets	-	125,044,601	-	-	-	-	-	-	-	-	-	125,044,601
		263,144,126	3,902,193	6,550,636	107,941,220	14,010,231	152	4,213	267,924	-	9,451	130,458,106
Liabilities												
Bills payable	-	266,947	-	-	-	-	-	-	-	-	-	266,947
Borrowings	0.25-6.5	100,081,926	818,964	-	99,262,962	-	-	-	-	-	-	-
Deposits and other accounts	0.3-6.42	26,948,982	13,319,171	-	1,625,770	1,340,314	299,924	-	-	-	-	10,363,803
Other liabilities	-	6,008,320	-	-	-	-	-	-	-	-	-	6,008,320
		133,306,175	14,138,135	-	100,888,732	1,340,314	299,924	-	-	-	-	16,639,070
On-balance sheet gap		129,837,951	(10,235,942)	6,550,636	7,052,488	12,669,917	(299,772)	4,213	267,924	-	9,451	113,819,036
Off-balance sheet financial instruments												
Forward exchange contracts - purchase		217,070,802	33,508	15,181,182	157,987,080	43,869,032						
Forward exchange contracts - sale		220,615,085	33,239	15,290,356	161,425,747	43,865,743						
Off-balance sheet gap		(3,544,283)	269	(109,174)	(3,438,667)	3,289	-	-	-	-	-	-
Total Yield / Interest Risk Sensitivity Gap			(10,235,673)	6,441,462	3,613,821	12,673,206	(299,772)	4,213	267,924	-	9,451	
Cumulative Yield / Interest Risk Sensitivity gap			(10,235,673)	(3,794,211)	(180,390)	12,492,816	12,193,044	12,197,257	12,465,181	12,465,181	12,474,632	

2014

	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	-	4,329,697	-	-	-	-	-	-	-	-	-	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	-	751,199	-	-	-	-	-	-	-	-	-	751,199
		75,667,422	2,153,902	24,522,283	41,461,387	2,249,955	105	1,059	3,582	185,151	8,723	5,081,275
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	-	4,957,397	-	-	-	-	-	-	-	-	-	4,957,397
		71,055,405	7,349,956	23,005,195	33,339,410	3,720	-	-	-	-	-	7,357,124
On-balance sheet gap		4,612,017	(5,196,054)	1,517,088	8,121,977	2,246,235	105	1,059	3,582	185,151	8,723	(2,275,849)

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			2014									
			Exposed to yield Interest Risk									
	Effective Yield / Interest rate	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	Non-interest bearing financial instruments
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	

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

	2015	2014
	(Rupees '000)	
Total financial assets as per note 35.4.1	263,144,126	75,667,422
Add: Non financial assets		
Operating fixed assets	662,763	183,341
Deferred tax assets	41,078	-
Other Assets	(123,593,672)	99,624
Total assets as per statement of financial position	140,254,295	75,950,387
Total liabilities as per note 35.4.1	133,306,175	71,055,405
Add: Non financial liabilities		
Deferred tax liabilities	-	21,132
Other liabilities	549,146	366,284
Total liabilities as per statement of financial position	133,855,321	71,442,821

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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 the 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

	2015									
	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	5,413,124	1,632,183	-	-	-	-	-	-	-	3,780,941
Balances with other banks	246,427	246,427	-	-	-	-	-	-	-	-
Lendings to financial institutions	669,547	669,547	-	-	-	-	-	-	-	-
Investments - net	124,771,022	-	5,899,474	105,591,317	13,280,231	-	-	-	-	-
Advances	6,999,406	2,986,600	651,163	2,349,903	730,000	152	4,213	267,924	-	9,451
Operating fixed assets	662,763	-	-	20	2,285	6,401	7,055	627,824	19,178	-
Deferred tax asset	41,078	41,078	-	-	-	-	-	-	-	-
Other assets	1,450,928	1,405,458	35,665	9,805	-	-	-	-	-	-
	140,254,295	6,981,293	6,586,302	107,951,045	14,012,516	6,553	11,268	895,748	19,178	3,790,392
Liabilities										
Bills payable	266,947	266,947	-	-	-	-	-	-	-	-
Borrowings	100,081,926	818,964	-	99,262,962	-	-	-	-	-	-
Deposits and other accounts	26,948,982	23,682,974	-	1,625,770	1,340,314	299,924	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	6,557,466	4,019,063	815,742	35,649	57,258	79,616	51,175	42,854	1,456,109	-
	133,855,321	28,787,948	815,742	100,924,381	1,397,572	379,540	51,175	42,854	1,456,109	-
Net assets	6,398,974	(21,806,655)	5,770,560	7,026,664	12,614,944	(372,987)	(39,907)	852,894	(1,436,931)	3,790,392
Head Office-capital account	3,780,941									
Unremitted profit / Accumulated (losses)	2,620,351									
Deficit on revaluation of investments - net of tax	(2,318)									
	6,398,974									

	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
	(Rupees in '000)									
Assets										
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 investments - net of tax	35,401									
	4,507,566									

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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 25 MAR 2016 by the Chief Executive Officer and Head of Finance of the branches.

37 GENERAL

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

He Shenghu
Chief Executive Officer

Ye Ning
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 effectivenessof 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.

He Shenghu CEO	Muhammad Imran Khalid Head of Compliance	Zhou Kun Head of Internal Audit

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 and exchange rate risk.

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

a. Strengthen the forecast of the assets 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 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.

He Shengju
Chief Executive Officer

Zhang Rongxiang
Head of Risk