The Bank of Tokyo, Mitsubishi UFJ Limited

Financial Statements
For the year ended December 31, 2016

Deloitte.

Deloitte Yousuf Adil
Chartered Accountants
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AUDITORS' REPORT TO THE DIRECTORS OF THE BANK OF TOKYO MITSUBISHI UFJ, LIMITED

We have audited the annexed statement of financial position of the Karachi Branch of **The Bank of Tokyo, Mitsubishi UFJ, Limited (incorporated in Japan with limited liability)** ("the Branch") as at December 31, 2016 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 '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 Branch's Management to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with approved accounting standards and the requirements of the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984). Our responsibility is to express an opinion on these statements based on our audit.

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

(a) in our opinion, proper books of accounts have been kept by the Branch 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 Branch's business; and

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

(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

Deloitte.

Deloitte Yousuf Adil
Chartered Accountants

Branch's affairs as at December 31, 2016, and its true balance of profit, its comprehensive income, its cash flows and changes in equity for the year then ended; and

(d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Branch and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Deloitte Yousuf Adil

Chartered Accountants

Engagement Partner:
Mushtaq Ali Hirani

Date: 24 MAR 2017
Karachi.

Member of
Deloitte Touche Tohmatsu Limited

The Bank of Tokyo - Mitsubishi UFJ, Limited - Karachi Branch

(Incorporated in Japan with limited liability)

Statement of Financial Position

As at 31 December 2016

	Note	2016	2015
		(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	7	3,526,232	4,233,157
Balances with other banks	8	59,615	127,674
Lendings to financial institutions	9	4,010,103	3,741,212
Investments	10	791,562	-
Advances	11	1,851,745	2,589,396
Operating fixed assets	12	47,719	61,442
Deferred tax assets - net		-	-
Other assets	13	71,677	70,485
		10,358,653	10,823,366
LIABILITIES			
Bills payable	15	113,122	6,211
Borrowings	16	829,231	1,409,814
Deposits and other accounts	17	5,144,438	5,223,318
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities - net	18	1,696	4,451
Other liabilities	19	241,845	161,719
		6,330,332	6,805,513
NET ASSETS		4,028,321	4,017,853
REPRESENTED BY			
Head Office capital account	20	3,856,160	3,856,160
Unremitted profit		172,478	161,693
		4,028,638	4,017,853
Deficit on revaluation of assets	21	(317)	-
		4,028,321	4,017,853
CONTINGENCIES AND COMMITMENTS	22		

The annexed notes from 1 to 42 form an integral part of these financial statements.

RYA

KAZUTO OHASHI
General Manager

General Manager

HASEEB SAIED
Deputy General Manager

Deputy General Manager

The Bank of Tokyo - Mitsubishi UFJ, Limited - Karachi Branch

(Incorporated in Japan with limited liability)

Profit and Loss Account

For the year ended 31 December 2016

	Note	2016	2015
		(Rupees in '000)	
Mark-up / return / interest earned	23	435,908	418,598
Mark-up / return / interest expensed	24	(349,864)	(337,824)
Net mark-up / interest income		86,044	80,774
Provision against non-performing loans and advances - net		-	-
Provision for diminution in the value of investments		-	-
Bad debts written off directly		-	-
		-	-
Net mark-up / interest income after provisions		86,044	80,774
NON MARK-UP / INTEREST INCOME			
Fee, commission and brokerage income		30,611	36,975
Dividend income		-	-
Income from dealing in foreign currencies		131,855	143,942
Gain / (loss) on sale of securities		-	-
Unrealized gain / (loss) on revaluation of investments classified as held for trading		-	-
Other income	25	1,445	4,315
Total non mark-up / interest income		163,911	185,232
		249,955	266,006
NON MARK-UP / INTEREST EXPENSES			
Administrative expenses	26	(220,577)	(201,907)
Other provisions / assets written-off		-	-
Other charges	27	(757)	(1,334)
Total non mark-up / interest expenses		(221,334)	(203,241)
Extra ordinary / unusual items		-	-
PROFIT BEFORE TAXATION		28,621	62,765
Taxation - Current		(12,789)	(22,932)
- Prior years		(7,494)	3,577
- Deferred		2,537	1,883
	28	(17,746)	(17,472)
PROFIT AFTER TAXATION		10,875	45,293

The annexed notes from 1 to 42 form an integral part of these financial statements.

KAZUTO OHASHI
General Manager

General Manager

HASEEB SAIED
Deputy General Manager

Deputy General Manager

The Bank of Tokyo - Mitsubishi UFJ, Limited - Karachi Branch

(Incorporated in Japan with limited liability)

Statement of Comprehensive Income

For the year ended 31 December 2016

	2016	2015
	(Rupees '000)	
Profit after taxation for the year	**10,875**	45,293
Other comprehensive income		
Item that will not be reclassified to profit or loss account in subsequent periods		
Exchange adjustment on account of revaluation of Head Office capital	-	140,088
Actuarial gain / (loss) on defined benefit plan (note 29.8.2)	(138)	1,126
Deficit on revaluation of available-for-sale securities	(487)	-
Related deferred tax	218	(394)
	(407)	732
Total comprehensive income for the year	**10,468**	186,113

The annexed notes from 1 to 42 form an integral part of these financial statements.

PHA

KAZUTO OHASHI
General Manager
General Manager

HASEEB SAIED
Deputy General Manager
Deputy General Manager

The Bank of Tokyo - Mitsubishi UFJ, Limited - Karachi Branch

(Incorporated in Japan with limited liability)

Statement of Changes in Equity

For the year ended 31 December 2016

	Head Office capital account	Unremitted profits	Total
	(Rupees in '000)		
Balance at 1 January 2015	3,716,072	115,668	3,831,740
Total comprehensive income for the year			
Profit after tax for the year ended 31 December 2015	-	45,293	45,293
Other comprehensive income			
Exchange adjustment on account of revaluation of Head Office capital	140,088	-	140,088
Actuarial gain on defined benefit plan	-	732	732
Total comprehensive income for the year	140,088	46,025	186,113
Balance at 31 December 2015	3,856,160	161,693	4,017,853
Total comprehensive income for the year			
Profit after tax for the year ended 31 December 2016	-	10,875	10,875
Other comprehensive income			
Actuarial loss on defined benefit plan	-	(90)	(90)
Total comprehensive income for the year	-	10,785	10,785
Balance at 31 December 2016	**3,856,160**	**172,478**	**4,028,638**

The annexed notes from 1 to 42 form an integral part of these financial statements.

KAZUTO OHASHI
General Manager

General Manager

HASEEB SAIED
Deputy General Manager

Deputy General Manager

The Bank of Tokyo - Mitsubishi UFJ, Limited - Karachi Branch

(Incorporated in Japan with limited liability)

Cash Flow Statement

For the year ended 31 December 2016

	Note	2016	2015
		(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		28,621	62,765
Dividend income		-	-
		28,621	62,765
Adjustments for			
Depreciation		15,267	15,750
Amortization		3,901	3,896
Provision for defined benefit plan		1,835	1,895
Net gain on disposal of operating fixed assets		(1,445)	(4,315)
		19,558	17,226
		48,179	79,991
Decrease / (increase) in operating assets			
Lendings to financial institutions		(268,891)	(2,332,798)
Advances		737,651	(332,295)
Others assets (excluding advance taxation)		7,538	12,719
		476,298	(2,652,374)
(Decrease) / increase in operating liabilities			
Bills payable		106,911	1,650
Borrowings		(580,583)	809,915
Deposits and other accounts		(78,880)	1,952,119
Other liabilities		92,892	19,313
		(459,660)	2,779,997
Contribution made to defined benefit plan		(1,882)	-
Income tax paid		(41,871)	(6,435)
Net cash generated from operating activities		21,064	201,179
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in operating fixed assets		(5,444)	(10,604)
Net investment in Available-for-sale securities		(792,049)	-
Proceeds from sale of operating fixed assets		1,445	4,503
Net cash used in investing activities		(796,048)	(6,101)
CASH FLOW FROM FINANCING ACTIVITIES			
Remittance received form Head Office		-	-
Net cash used in financing activities		-	-
Effects of exchange adjustment on revaluation of Head Office capital		-	140,088
Decrease in cash and cash equivalents		(774,984)	335,166
Cash and cash equivalents at beginning of the year		4,360,831	4,025,665
Cash and cash equivalents at end of the year	29	3,585,847	4,360,831

The annexed notes from 1 to 42 form an integral part of these financial statements.

KAZUTO OHASHI
General Manager General Manager

HASEEB SAIED
Deputy General Manager
Deputy General Manager

1. STATUS AND NATURE OF BUSINESS

The Bank of Tokyo - Mitsubishi UFJ, Limited is incorporated in Japan with limited liability. Its operations in Pakistan are carried out through a branch ("the Branch") located at Shaheen Complex, Karachi in the province of Sindh. It is engaged in commercial banking business as described in the Banking Companies Ordinance, 1962.

The credit rating done by Standard & Poor's in February 2016 for The Bank of Tokyo-Mitsubishi UFJ, Limited is A+ for the long term and A-1 for the short term; Rating done by Moody's in February 2016 is A1 for the long term and P-1 for the short term (representing deposit rating only) and rating done by Fitch in February 2016 is A for the long term and F1 for the short term.

2. BASIS OF PRESENTATION

2.1 In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan has issued various circulars from time to time. Permissible forms of trade-related modes of financing includes purchase of goods by banks from their customers and immediate resale to them at appropriate profit in price on deferred payment basis. The purchase and resale 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 profit thereon.

2.2 These financial statements have been presented in Pakistani Rupees which is the Branch's functional and presentation currency.

3. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention, except invesments and commitments in respect of forward foreign exchange contracts that have been marked to market and are carried at fair value and certain staff retirement benefits are stated at present value.

4. STATEMENT OF COMPLIANCE

4.1 These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962, or directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP). Wherever, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962, or directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan differ with the requirements of IFRS, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962, or the requirements of the said directives prevail.

4.2 The SBP vide BSD Circular No. 10, dated 26 August 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement (IAS 39) and International Accounting Standard 40, Investment Property (IAS 40) for Banking companies till further instructions. Further, according to the notification of the Securities and Exchange Commission of Pakistan (SECP) dated 28 April 2008, the IFRS - 7 "Financial Instruments: Disclosures" has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements of various circulars issued by the SBP.

IFRS 8, 'Operating Segments' is effective for the Branch's accounting period beginning on or after 01 January 2009. All banking companies / foreign branches operating in Pakistan are required to prepare their financial statements in line with the format prescribed under BSD Circular No. 4 dated 17 February 2006, 'Revised Forms of Annual Financial Statements', effective from the accounting year ended 31 December 2006. The management of the Branch believes that as the SBP has defined the segment categorization in the above mentioned circular, the SBP requirements prevail over the requirements specified in the IFRS 8. Accordingly, segment information disclosed in these financial statements is based on the requirements laid down by the SBP.

4.3 Standards and amendments to published approved accounting standards that are effective for the year ended 31 December 2016

The following standards, amendments and interpretations are effective for the year ended 31 December 2016. These standards, interpretations and the amendments are either not relevant to the Branch's operations or are not expected to have significant impact on the Branch's financial statements other than certain additional disclosures.

- Amendments to IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations': Clarification regarding changes in the method of disposal of an asset.

- Amendments to IFRS 10 - Consolidated Financial Statements, IFRS 12 - Disclosure of Interests in Other Entities and IAS 28 (Revised 2011) - Investments in Associates and Joint Ventures: Application of consolidation exception

- Amendments to IFRS 11 - Joint Arrangements: Accounting for acquisitions of an interest in a joint operation

- Amendments to IAS 1 - Presentation of Financial Statements: Amendments resulting from the disclosure initiative

- Amendments to IAS 16 - Property, Plant and Equipment and IAS 41 - Agriculture: Bringing bearer plants in scope of IAS 16.

- Amendments to IAS 16 - Property, Plant and Equipment and IAS 38 - Intangible Assets: Clarification on acceptable methods of depreciation and amortisation.

- Amendments to IAS 19 'Employee Benefits': Clarification that the same currency bonds be used to determine the discount rate in which benefits are to be paid.

- Amendments to IAS 27 (Revised 2011) 'Separate Financial Statements': Use of equity method to account for investments in subsidiaries, joint ventures and associates in separate financial statements.

- Amendments to IAS 34 'Interim Financial Reporting': Clarification related to certain disclosures, i.e., if they are not included in the notes to interim financial statements and disclosed elsewhere should be cross referred.

4.4 New accounting standards / amendments and IFRS interpretations that are not yet effective

The following standards, amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them. These standards, interpretations and the amendments are either not relevant to the Branch's operations or are not expected to have significant impact on the Branch's financial statements other than certain additional disclosures.

Standards / amendments	**Effective from accounting period beginning on or after**
- Amendments to IFRS 2 'Share-based Payment': Clarification of the classification and measurement of share-based payment transactions	January 01, 2018
- Amendments to IAS 7 'Statement of Cash Flows': Amendments as result of the disclosure initiative	January 01, 2017

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Standards / amendments	Effective from accounting period beginning on or after
- Amendments to IAS 12 'Income Taxes': Recognition of deferred tax assets for unrealised losses	January 01, 2017
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration': Provides guidance on transactions where consideration against non-monetary prepaid asset / deferred income is denominated in foreign currency.	January 01, 2018

Other than the aforesaid standards and amendments, the International Accounting Standards Board (IASB) has also issued the following standards which have not been adopted locally by the Securities and Exchange Commission of Pakistan:

- IFRS 1 – First Time Adoption of International Financial Reporting Standards
- IFRS 9 – Financial Instruments
- IFRS 14 – Regulatory Deferral Accounts
- IFRS 15 – Revenue from Contracts with Customers
- IFRS 16 – Leases

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. It also requires management to exercise judgment in application of its accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. 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.

The areas where various assumptions and estimates are significant to the Branch's financial statements or where judgment was exercised in application of accounting policies are as follows:

Provision against non-performing loans and advances

The Branch reviews its loan portfolio to assess the amount of non-performing loans and advances and provision required there against on a quarterly basis. While assessing this requirement various factors including the delinquency in the account, financial position of the borrower, the forced sale 'value of the securities and the requirement of the Prudential Regulations are considered.

Operating fixed assets, depreciation and amortization

The Branch carries its properties and equipment / intangibles at cost less accumulated depreciation / amortization and accumulated impairment losses, if any. In making estimates of the depreciation / amortization, management uses the method which reflects the pattern in which economic benefits are expected to be consumed by the Branch. The residual values and the method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method would be changed to reflect the change in pattern. Such change is accounted for as change in accounting estimates in accordance with International Accounting Standard - 8, "Accounting Policies, Changes in Accounting Estimates and Errors".

Income taxes

In making the estimate for income tax currently payable by the Branch, management considers the current income tax laws and the decisions of appellate authorities on certain issues in the past. In making the provision for deferred tax, estimate of the Branch's future taxable profit and expected reversal of deductible temporary differences are taken into account.

The Seventh Schedule of Income Tax Ordinance, 2001 governs taxation of banks in Pakistan. Head office administrative expenses are allowed on the basis that these expenses are determined as per Seventh Schedule of the Income Tax Ordinance, 2001 and charged in books of accounts of the Branch and a certificate from external auditors has been received to the effect that the claim of such expenses has been made in accordance with the provision of Rule 4 of Seventh Schedule of Income Tax Ordinance, 2001 and is reasonable in relation to operations of the Branch.

Defined benefit plan

Liability is determined on the basis of actuarial advice using the Projected Unit Credit Method. The actuarial assumptions used to determine the liability and related expense are disclosed in note 31. Actuarial assumptions are entity's best estimates of the variables that will determine the ultimate cost of providing post employment benefits. Changes in these assumptions in future years may effect the liability / asset under these plans in those years.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements are the same as those applied in the preparation of the financial statements of the Branch for the year ended 31 December 2015.

6.1 Sale and repurchase agreements

The Branch enters into purchase / (sale) of securities under agreements to resell / (repurchase) securities at a certain date in the future at a fixed price. 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. Securities purchased under agreements 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 to financial institutions. The receivables are shown as collateralized by the underlying security.

The difference between the purchase / (sale) and resale / (repurchase) consideration is recognized on a time proportion basis over the period of the transaction and is included in mark-up / return / interest earned or expensed.

6.2 Investments

The Branch classifies its investment portfolio into the following categories:

Held for trading

These investments are either acquired for generating a profit from short-term fluctuations in prices or are part of a portfolio for which there is an evidence of a recent actual pattern of short-term profit taking.

These are measured at subsequent reporting dates at fair value. Net gain or loss on remeasurement is included in the profit and loss account for the year.

Held to maturity

These are investments with fixed or determinable payments and fixed maturities that the Branch has the positive intent and ability to hold upto maturities.

These are measured at amortized cost using effective interest method, less impairment losses, if any to reflect recoverable amount.

Available for sale

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

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Quoted securities classified as available for sale investments are measured at subsequent reporting dates at fair value. Any surplus / deficit arising thereon is taken directly to 'surplus/deficit on revaluation of securities' in the Statement of Financial Position below equity. The surplus / deficit arising on these securities is taken to the profit and loss account for the year when actually realized upon disposal.

Unquoted equity securities are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements. Investments in other unquoted securities are valued at cost less impairment losses, if any.

Gain or loss on sale of investments is included in profit and loss account for the year.

Investments are recognized on trade-date basis and are initially measured at fair value plus directly attributable transaction cost except for investments classified as held for trading. In case of held for trading investments, transaction costs are expensed in the profit and loss account for the year.

6.3 Advances

Advances are stated net of provision for non-performing loans and advances. The provision for non-performing loans and advances is made in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan. Advances are written-off when they are considered irrecoverable.

6.4 Operating fixed assets

Properties and equipment

Properties and equipment other than capital work in progress are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Capital work in progress is stated at cost.

Depreciation is charged to profit and loss account applying the straight-line method over the estimated useful lives while taking into account any residual values, at the rates given in Note 12.1 to the financial statements. In respect of additions and deletions to properties and equipment, full month's depreciation is charged on additions and no depreciation is charged in month of disposal.

Residual values, useful lives and depreciation methods are reviewed and adjusted, if required, at each reporting period.

Normal maintenance and repairs are charged to profit and loss account as and when incurred. Major repairs and improvements are capitalized.

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

Intangible assets

Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses, if any. Amortization is charged on straight-line method, by taking into consideration the estimated useful lives of intangible assets, at the rates given in note 12.3 to the financial statements. These are amortized on prorata basis i.e. full month's amortization is charged on additions and no amortization is charged in the month of disposal.

6.5 Impairment

At each balance sheet date, the Branch reviews the carrying amounts of its assets to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the relevant asset is estimated. Recoverable amount is the higher of fair value less costs to sell and value in use. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account for the year.

Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of the amount which would have been determined had there been no impairment. Reversal of impairment loss is recognized as income.

6.6 Taxation

Income tax comprises of current and deferred tax. Income tax is recognized in the profit and loss account, except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current

Provision for current taxation is based on taxable income for the year determined in accordance with the prevailing laws of taxation on income earned. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profits for the year at enacted rates. The charge for the current year also includes adjustments, where considered necessary relating to prior years, arising from assessments finalized during the year for such years.

Deferred

Deferred tax is recognized using the balance sheet liability method on all material temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. Deferred tax is recognized based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities using the tax rates enacted at the reporting date, expected to be applicable at the time of realization or settlement.

Deferred tax asset is recognized only to the extent that it is probable that future taxable profits would be available against which the asset is utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized.

6.7 Staff retirement benefits

Defined benefit plan

The Branch operates an approved funded gratuity scheme, administered by the board of trustees for all its permanent employees who have completed 5 years of service . Provision is made in accordance with the actuarial recommendations. Actuarial valuation is carried out periodically using "Projected Unit Credit Method".

The above benefits are payable to staff at the time of separation / retirement from the Branch's services subject to the completion of qualifying period of service.

Actuarial gains and losses

All actuarial gains and losses are recognized immediately through other comprehensive income in order for the net gratuity asset or liability recognized in the statement of financial position to reflect the full value of plan deficit or surplus.

Past service cost

All past service costs are recognized in profit or loss immediately as they occur.

Defined contribution plan

The Branch also operates a recognized provident fund scheme, administered by the board of trustees, for all its permanent employees to which equal monthly contributions are made by both the Branch and the employees at the rate of 12.5% of the basic salary.

Employees' compensated absences

Employees' entitlement to annual leaves is recognized when they accrue to employees. A provision is made for estimated liability for annual leaves as a result of service rendered by the employee against un-availed leaves upto the reporting date.

6.8 Provisions

Provisions are recognized when the Branch has a legal or constructive obligation as a result of past events and 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.

6.9 Revenue recognition

Mark-up / return on advances and investments is recognized on time proportion basis using effective interest method except mark-up / interest on non-performing advances which is recognized on receipt basis, in accordance with Prudential Regulations issued by the State Bank of Pakistan.

Fee, commission on letters of credit and guarantees and brokerage income is recognized on accrual basis and / or when the services are rendered, as the case may be.

Dividend income is recorded when the right to receive dividend is established.

6.10 Foreign currencies

Foreign currency transactions are translated into Pak Rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Pak Rupees at the exchange rates prevailing at the reporting date.

Forward foreign exchange contracts, other than those relating to foreign currency deposits, are valued at the rates applicable to their respective maturities. Exchange gain or loss is included in profit and loss account for the year.

6.11 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise of:

- Cash and balances with treasury banks
- Balances with other banks

6.12 Off setting

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

6.13 Financial instruments

All financial assets and liabilities are recognized at the time when the Branch becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the contractual right to the cash flow from the financial assets expires or is transferred. Financial liabilities are derecognized when they are extinguished i.e. when the obligation specified in the contract is discharged, cancelled or expired. Any loss on derecognition of the financial assets and financial liabilities is taken to profit and loss account directly. Financial assets carried on the Statement of Financial Position include cash and bank balances, lendings to financial institutions, advances and certain receivables; and financial liabilities include bills payable, borrowings, deposits and other payables. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with these assets and liabilities.

Derivative financial instruments are recognized at their fair value on the date at which a derivative contract is entered into. These instruments are marked to market and changes in fair values are taken to the profit and loss account for the year.

6.14 Acceptances and other contingent liabilities

Acceptances comprise undertakings by the Branch to pay bills of exchange drawn on customers. The Branch expects most acceptances to be simultaneously settled with the reimbursement from customers. Acceptances are accounted for as off-balance sheet transactions and are disclosed as contingent liabilities and commitments. Other contingencies are recognized and disclosed unless the probability of an outflow of resources embodying benefits are remote.

6.15 Borrowings / deposits and their cost

a) Borrowings / deposits are recorded at the proceeds received.
b) Borrowings / deposits cost are recognized as expense in the period in which these are incurred.

6.16 Head Office administrative expenses

The administrative expenses allocated by the Head Office are charged to the profit and loss account.

6.17 Segment reporting

An operating segment is a component of an entity that engages in business activities, from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker to makes decision about resources to be allocated to the segment and assesses its performance and for which discrete financial information is available. Segment information is presented as per the guidance of SBP.

Business segments

Trading and sales

It includes fixed income, foreign exchange transactions, fundings, own position securities, lendings and borrowings.

Retail banking

It includes deposits and banking services.

Commercial banking

Commercial banking includes export finance, trade finance, short term and long term lendings, bills discounting, letters of credit, acceptances and guarantees.

Payments and settlements

It includes payments and collections, funds transfer, clearings and settlements.

Geographical segment

These financial statements represent operations of Karachi Branch only and all assets and liabilities represent transactions entered by the Karachi Branch.

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7. CASH AND BALANCES WITH TREASURY BANKS

	Note	2016	2015
		(Rupees in '000)	
In hand			
Local currency		9,663	4,556
Foreign currencies		10,000	6,276
With State Bank of Pakistan in			
Local currency current account	*7.1*	368,644	301,973
Foreign currency current account	*7.2*	12,378	14,664
Foreign currency deposit accounts	*7.3*	58,575	49,528
Head Office capital account	*20*	3,066,972	3,856,160
		3,526,232	4,233,157

7.1 This represents current account maintained with the State Bank of Pakistan (SBP) under the requirements of section 22 (Cash Reserve Requirement - CRR) of the Banking Companies Ordinance, 1962.

7.2 As per BSD Circular No. 14 dated 21 June 2008, cash reserve of 5% in USD is required to be maintained with the SBP on deposits held under the New Foreign Currency Accounts Scheme (FE-25 deposits).

7.3 This represents Special Cash Reserve of 15% maintained with SBP in US dollars under the requirement of BSD Circular No. 14 dated 21 June 2008 and US Dollar settlement account maintained with SBP to facilitate USD clearing. Profit rates on these deposits are fixed by SBP on a monthly basis. The SBP has not remunerated these deposit accounts during the year.

8. BALANCES WITH OTHER BANKS

	Note	2016	2015
		(Rupees in '000)	
Outside Pakistan			
In deposit accounts	*8.1*	59,615	127,674

8.1 These represent balances with branches of the Bank of Tokyo-Mitsubishi UFJ, Limited outside Pakistan. These carry markup at the rate of 0.16% to 1.25% (2015: 0.08% to 1.25%) per annum.

9. LENDINGS TO FINANCIAL INSTITUTIONS

	Note	2016	2015
		(Rupees in '000)	
Call money lending	*9.1*	500,000	700,000
Repurchase agreement lendings	*9.2 & 9.4*	3,510,103	3,041,212
		4,010,103	3,741,212

9.1 These carry mark-up rates ranging from 5.65% to 5.70% (2015: 6% to 6.5%) per annum having maturity latest by June 5, 2017.

9.2 These carry mark-up at rates ranging from 5.45% to 5.75% (2015: 5.5% to 6.5%) per annum having maturity period of upto six months (2015: six months).

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	2016	2015
	(Rupees in '000)	

9.3 Particulars of lendings

	2016	2015
In local currency	4,010,103	3,741,212
In foreign currencies	-	-
	4,010,103	3,741,212

9.4 Securities held as collateral against lendings to financial institutions

	2016			2015		
	Held by Branch	Further given as collateral	Total	Held by Branch	Further given as collateral	Total
	(Rupees in '000)					
Market Treasury Bills	3,586,000	-	3,586,000	3,041,212	-	3,041,212

9.4.1 Market value of securities held as collateral against lendings to financial institutions amounted to Rs. 3,521.69 million (2015: Rs. 3,054.75 million).

10. INVESTMENTS

10.1 Investments by types:

	Note	2016 Held by Bank	2016 Given as collateral	2016 Total	2015 Held by Bank	2015 Given as collateral	2015 Total
		(Rupees in '000)					
Available-for-sale securities							
Market treasury bills	*10.2*	792,049	-	792,049	-	-	-
		792,049	-	792,049	-	-	-
Investments at cost		792,049	-	792,049	-	-	-
Deficit on revaluation of available-for-sale securities	*10.4*	(487)	-	(487)	-	-	-
Total investments at Market Value		791,562	-	791,562	-	-	-

10.2 Investments by segments:

	Note	2016	2015
		(Rupees in '000)	
Federal Government Securities:			
- Market Treasury Bills	*10.2.1*	792,049	-
Total investments at cost		792,049	-
Deficit on revaluation of available-for-sale securities		(487)	-
Total investments at Market Value		791,562	-

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10.2.1 Market Treasury Bills are held with SBP and are eligible for rediscounting. Market Treasury Bills carry effective yield ranging from 5.94% to 5.99% per annum (2015: nil) and will mature within 3 months.

10.3 Quality of available-for-sale securities

	Note	Ratings		Market value / Carrying value of investments	
		December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Market Treasury Bills	*10.3.1*	**Unrated**	-	791,562	-

10.3.1 These are guaranteed by Government of Pakistan guaranteed securities.

	December 31, 2016	December 31, 2015
10.4 Unrealized loss on revaluation of available-for-sale securities		
Federal Government Securities		
Market Treasury Bills	(487)	-

11. ADVANCES

	Note	2016	2015
		(Rupees in '000)	
Loans, cash credits, running finances, etc.			
In Pakistan		1,851,745	2,589,396
Outside Pakistan		-	-
		1,851,745	2,589,396
Net investment in finance lease			
In Pakistan		-	-
Outside Pakistan		-	-
		-	-
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		-	-
Payable outside Pakistan		-	-
		-	-
Advances - gross		1,851,745	2,589,396
Provision for non-performing advances	*11.2*	-	-
Advances - net of provision		1,851,745	2,589,396

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		2016	2015
		(Rupees in '000)	

11.1 Particulars of advances (Gross)

11.1.1	In local currency	1,851,745	2,589,396
	In foreign currencies	-	-
		1,851,745	2,589,396

11.1.2	Short term (for upto one year)	1,552,633	2,310,836
	Long term (for over one year)	299,112	278,560
		1,851,745	2,589,396

11.2 Since there is no non-performing loan., no provision is required.

11.3 Particulars of loans and advances to General Manager, executives or officers, etc.

Debts due from General Manager, executives or officers of the Branch or anyone of them either severally or jointly with any other person as per the terms of their employment.

	Note	2016	2015
		(Rupees in '000)	
Balance at 01 January		16,339	8,397
Loans granted during the year		5,136	12,535
Repayments during the year		(4,166)	(4,593)
Balance at 31 December		17,309	16,339

12. OPERATING FIXED ASSETS

	Note	2016	2015
Properties and equipment	*12.1*	40,086	49,908
Intangible assets	*12.3*	7,633	11,534
		47,719	61,442

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12.1 Properties and equipment

	2016							
	Cost			Accumulated depreciation			Carrying value as at 31 December 2016	Rate of depreciation
	As at 1 January 2016	Additions / (disposals)	As at 31 December 2016	As at 1 January 2016	Charge for the year / (on disposal)	As at 31 December 2016		
	(Rupees in '000)							%
Alterations in leasehold premises	45,832	-	45,832	37,230	1,458	38,688	7,144	10
Building on leasehold premises	819	-	819	819	-	819	-	5
Furniture and fixtures	11,334	- (667)	10,667	6,284	689 (667)	6,306 -	4,361	10
Computer equipment	34,941	3,759	38,700	28,726	2,620	31,346	7,354	20
Electrical equipment	31,448	1,685 (1,715)	31,418	20,272	3,622 (1,715)	- 22,179 -	9,239	20
Vehicles	37,788	(1,354)	36,434	18,923	6,877 (1,354)	24,446 -	11,988	20
	162,162	5,444 (3,736)	163,870	112,254	15,266 (3,736)	123,784	40,086	

	2015									
	Cost				Accumulated depreciation				Carrying value as at 31 December 2015	Rate of depreciation
	As at 1 January 2015	Additions / (disposals)	Adjustments*	As at 31 December 2015	As at 1 January 2015	Charge for the year / (on disposal)	Adjustments*	As at 31 December 2015		%
	(Rupees in '000)									
Alterations in leasehold premises	48,662	305	(3,135)	45,832	35,763	1,483	(16)	37,230	8,602	10
Building on leasehold premises	819	-	-	819	819	-	-	819	-	5
Furniture and fixtures	11,015	-	319	11,334	5,493	700	91	6,284	5,050	10
Computer equipment	38,884	2180 (1,704)	(4,419)	34,941	28,460	3,001 (1,703)	(1,032)	28,726	6,215	20
Electrical equipment	24,146	2623 (2,829)	7,508	31,448	18,680	3,482 (2,642)	752	20,272	11,176	20
Vehicles	38,321	5195 (5,656)	(72)	37,788	17,223	7,084 (5,656)	272	18,923	18,865	20
	161,847	10,303 (10,189)	201	162,162	106,438	15,750 (10,001)	67	112,254	49,908	

* These amounts represent adjustments made to reconcile fixed assets register with the general ledger of the Branch.

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12.2 Disposals of fixed assets during the year

	Cost	Accumulated depreciation	Carrying value	Sale proceeds	Mode of disposal	Particulars of Buyers
Electrical equipment						
Generator	1,142	1,142	-	270	Quotations	M/s. Adnan disposal centre
Vehicle	1,354	1,354	-	1,108	Quotations	Nomari Abrar
Miscellaneous items *Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000*	1,240	1,240	-	67	Quotations	M/s. Adnan disposal centre
Total	3,736	3,736	-	1,445		

12.3 Intangible assets

		Cost			Amortization			Carrying value as at 31 December	Rate of amortization
		As at 1 January	Additions	As at 31 December	As at 1 January	Charge for the year	As at 31 December		
		(Rupees in '000)							%
Computer softwares	**2016**	**25,289**	**-**	**25,289**	**13,755**	**3,901**	**17,656**	**7,633**	**20**
Computer softwares	2015	24,988	301	25,289	9,859	3,896	13,755	11,534	20

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12.4 The fair values of building and equipment as per the management estimate are not materially different from the carrying amounts except for the building on leasehold premises in PECHS whose value as per management's estimate is Rs. 90 million as at 31 December 2016 (2015: Rs. 100 million).

	2,016	2015
	(Rupees in '000)	
12.5 The costs of fully depreciated and amortized assets that are still in use are as follows:		
Alteration in leasehold premises	31,249	31,249
Building on leasehold premises	819	819
Furniture and fixture	3,781	4,444
Computer equipment	22,754	22,303
Electrical equipment	12,869	13,714
Vehicles	4,845	3,148
Intangible assets - computer softwares	8,173	5,783
	84,490	81,460

13. OTHER ASSETS

Income / mark-up accrued in local currency	47,199	52,893
Income / mark-up accrued in foreign currency	-	-
Advance taxation (payments less provision)	8,730	-
Advances, deposits and prepayments	13,753	15,282
Unrealized gain on forward foreign exchange contracts	-	184
Stationery and stamps in hand	1,772	462
Others	223	1,664
	71,677	70,485

14. CONTINGENT ASSETS

There were no contingent assets of the Branch as at 31 December 2016 and 31 December 2015.

15. BILLS PAYABLE

In Pakistan	113,122	6,211

16. BORROWINGS

In Pakistan	-	-
Outside Pakistan	829,231	1,409,814
	829,231	1,409,814

16.1 Particulars of borrowings with respect to currencies

In local currency	-	-
In foreign currency	829,231	1,409,814
	829,231	1,409,814

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	Note	2016	2015
		(Rupees in '000)	

16.2 Details of borrowings secured / unsecured

	Note	2016	2015
Secured			
Repurchase agreement borrowings		-	-
Export refinance scheme		-	-
		-	-
Unsecured			
Call borrowings		-	-
Overdrawn nostro account		67,022	-
Inter office borrowings	*16.2.1*	762,209	1,409,814
		829,231	1,409,814
		829,231	1,409,814

16.2.1 These borrowings are subject to mark-up at the rates ranging from 1.04% to 1.34% per annum having maturity upto six months (2015: 0.47% to 0.81% per annum having maturity upto six months).

17. DEPOSITS AND OTHER ACCOUNTS

	2,016	2015
	(Rupees in '000)	
Customers		
Fixed deposits	3,921,100	4,388,800
Savings deposits	212,616	243,360
Current accounts - remunerative	573,839	193,303
Current accounts - non-remunerative	431,981	384,596
	5,139,536	5,210,059
Financial Institutions		
Remunerative deposits	-	-
Non-remunerative deposits	4,902	13,259
	4,902	13,259
	5,144,438	5,223,318

17.1 Particulars of deposits

	2016	2015
In local currency	4,976,776	5,028,796
In foreign currencies	167,662	194,522
	5,144,438	5,223,318

18. DEFERRED TAX LIABILITIES - NET

	2016	2015
Taxable temporary differences on		
Accelerated tax depreciation	2,883	5,420
Deficit on revaluation of Available - for - sale investments	(170)	-
Deductible temporary differences on		
Actuarial loss on defined benefit plan	(1,017)	(969)
	1,696	4,451
Reconciliation of deferred tax assets / (liabilities)		
Opening balance	4,451	5,940
Recognised in profit and loss account	(2,537)	(1,883)
Recognised on Other Comprehensive Income	(218)	394
Closing balance	1,696	4,451

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	Note	2016	2015
		(Rupees in '000)	

19. OTHER LIABILITIES

	Note	2016	2015
Mark-up / return / interest payable in local currency		36,301	29,164
Mark-up / return / interest payable in foreign currency		1,911	1,115
Unearned commission on guarantees		9,897	8,490
Accrued expenses		9,568	8,247
Unremitted head office expenses		112,662	85,462
Current taxation (provision less payments)		-	12,856
Payable to defined benefit plan	31.4	2,211	2,120
Unrealized loss on forward foreign exchange contracts		8,406	-
Provision against collateral		3,632	3,632
Provision for employees' compensated absences		4,440	3,920
Provision for Workers' Welfare Fund		3,285	4,136
Others	19.1	49,533	2,577
		241,845	161,719

19.1 This includes advance of Rs.49.5 million received against diposal of a property.

20. HEAD OFFICE CAPITAL ACCOUNT

Capital held as:

Interest free deposit in approved local currency with the State Bank of Pakistan

	Note	2016	2015
Remitted from Head Office (Japanese Yen 4,419,160,968)		3,066,972	1,704,515
Revaluation surplus allowed by the State Bank of Pakistan - cumulative		-	2,151,645
Deposit of un-encumbered approved securities	20.2	789,188	-
		3,856,160	3,856,160

20.1 In prior year, the branch on instruction of SBP, converted the capital amount of JPY 4419.16 million into PKR 3,856.16 million and deposited the same in Minimum Capital Requirement (MCR) Account maintained with SBP in accordance with Section 13 of the Banking Companies Ordinance , 1962

20.2 This represents Market Treasury Bills having face value of Rs. 800 million (2015: Nil). The market value of Market Treasury

Bills as at December 31 , 2016 amounts to Rs. 791.56 million and these have maturities of up to March 2017 (2015: Nil)

21 DEFICIT ON REVALUATION OF ASSETS

21.1 Deficit on revaluation of available-for-sale securities

	2016	2015
	(Rupees in '000)	
Market Treasury Bills	(487)	-
Related deferred tax liability	170	
	(317)	-

22. CONTINGENCIES AND COMMITMENTS

22.1 Transaction - related contingent liabilities

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

	2016	2015
	(Rupees in '000)	
Government	4,539,593	1,647,409
Others	261,970	129,495
	4,801,563	1,776,904

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		2016	2015
		(Rupees in '000)	
22.2	**Trade-related contingent liabilities**		
	Letters of credit	124,814	168,404
	Acceptances	324,377	235,429

22.3 Other contingencies

	Claims against the Branch not acknowledged as debt	9,172	9,366

22.4 Commitments to extend credit

The Branch makes commitments to extend credit in the normal course of its business but these are revocable commitments and do not attract any significant penalty or expense if the facility is unilaterally withdrawn.

		2016	2015
		(Rupees in '000)	
22.5	**Commitments in respect of forward exchange contracts**		
	Purchase	945,821	1,433,296
	Sale	71,574	-

The Branch utilizes foreign exchange instruments as a part of its assets and liabilities management activity to hedge its own exposure in currency risk. The maturities of above contracts are spread over a period up to six months (2015: six months).

22.6 Tax related contingencies

22.6.1 Income tax assessments of the Branch (except for the tax years mentioned in paragraphs below) have been finalized up to and including the tax year 2008, while the returns for the tax years 2010 to 2015 have been filed which are deemed to have been assessed under Section 120 of the Income Tax Ordinance, 2001 (unless selected for audit).

22.6.2 In respect of tax years 2004 and 2009, orders for amendment of return were received disallowing of Rs. 2.62 million against which appeals had been filed by the Branch before the Commissioner - Appeals who have deleted certain disallowances against which the tax department has filed appeal with Appellate Tribunal Inland Revenue (ATIR) whereas certain disallowances were upheld against which the Branch has filed appeal with ATIR. Based on the opinion of tax advisors of the Branch, the management is confident that the decision in above stated appeals would be in favour of the Branch and as such no provision is required to be made in these financial statements.

22.6.3 The Branch has filed Reference Application for the assessment year 2002-2003 against additions under Section 24(1) of the Income Tax Ordinance, 2001 (the Ordinance) in the Sindh High Court (SHC). The Income tax Appellate Tribunal has also referred the References for the assessment years 2010-01 and 2001-02 on addition under section 24(1) of the Ordinance and Departmental References for the assessment years 1992-93 and 1998-99 respectively on account of certain disallowances to the SHC. These involve tax demand of Rs 6.13 million. The management believes that the matters will ultimately be decided in favour of the Branch. Accordingly, no provision is required to be made in these financial statements.

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		Note	2016	2015
			(Rupees in '000)	
23.	**MARK-UP / RETURN / INTEREST EARNED**			
	On loans and advances to			
	- Customers		163,090	190,174
	- Financial institution		8,779	1,397
	On deposits with treasury banks and financial institutions		430	146
	On securities purchased under resale agreements		220,978	192,385
	On call money lendings		39,769	34,496
	On Investment in Available - for -sale securities		2,861	
			435,908	418,598
24.	**MARK-UP / RETURN / INTEREST EXPENSED**			
	Deposits		280,753	287,263
	Exchange cost on funding arrangements		56,822	46,249
	Call borrowings		-	6
	Inter office borrowings		12,289	4,201
	Securities sold under repurchase agreements		-	105
			349,864	337,824
25.	**OTHER INCOME**			
	Net profit on disposal of operating fixed assets		1,445	4,315
			1,445	4,315
26.	**ADMINISTRATIVE EXPENSES**			
	Salaries, allowances, etc.		79,523	84,424
	Charge for defined benefit plan	*31.8.1*	1,835	1,895
	Contribution to defined contribution plan		2,192	2,538
	Contribution to Employee Old Age Benefit Scheme		196	202
	Provision for employees' compensated absences		549	922
	Head office expenses	*26.1*	53,662	37,250
	Rent, taxes, insurance, electricity, etc.		37,459	30,136
	Legal and professional		594	495
	Communications		2,402	2,585
	Repairs and maintenance		5,258	5,889
	Stationery and printing		2,071	1,533
	Advertisement and publicity		355	329
	Donations	*26.2*	538	397
	Auditors' remuneration	*26.3*	1,795	1,730
	Depreciation	*12.1*	15,267	15,750
	Amortization of intangible assets	*12.3*	3,901	3,896
	Travelling and entertainment		5,759	5,458
	Brokerage and commission		2,104	1,541
	Entertainment		410	125
	Others		4,707	4,812
			220,577	201,907

26.1 This include Rs. 10.66 million in respect of financial year 2015.

26.2 None of the executives and their spouses had any interest in donation made during the year. Donations have been made to the following donees:

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		Note	2016	2015
			(Rupees in '000)	
	Donations individually equal to or exceeding Rs. 0.1 million			
	Dar ul Sukun		450	-
	SOS Children's Village		88	-
	Karachi Japanese School		-	100
			538	100
	Donations individually less than Rs. 0.1 million		-	297
			538	397
26.3	**Auditors' remuneration**			
	Audit fee		625	575
	Fee for interim review and other certifications		1,070	1,060
	Out-of-pocket expenses		100	95
			1,795	1,730
27.	**OTHER CHARGES**			
	Penalties imposed by the State Bank of Pakistan		-	-
	Workers' Welfare Fund		757	1,334
			757	1,334
28.	**TAXATION**			
	For the year			
	Current		12,789	22,932
	Deferred		(2,537)	(1,883)
			10,252	21,049
	For prior year			
	Current		7,494	(3,577)
	Deferred		-	-
			7,494	(3,577)
			17,746	17,472
28.1	**Relationship between tax expense and accounting profit**			
	Profit before taxation		28,621	62,765
	Tax at the applicable tax rate of 35 percent		10,017	21,968
	Tax effect of expenses that are not deductible in determining taxable income		235	(919)
	Tax effect of prior year adjustments		7,494	(3,577)
	Tax charge for the year		17,746	17,472
29.	**CASH AND CASH EQUIVALENTS**			
	Cash and balances with treasury banks	7	3,526,232	4,233,157
	Balances with other banks	8	59,615	127,674
			3,585,847	4,360,831

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30. STAFF STRENGTH

	Note	2016	2015
		(Number)	
Permanent		36	41
On contractual basis		5	2
Branch's own staff strength at end of the year		41	43
Outsourced	*30.1*	11	12
Total staff strength		52	55

30.1 Outsourced represents employees hired by an outside contractor / agency and posted in the Branch to perform various tasks / activities of the Branch.

31. DEFINED BENEFIT PLAN

31.1 General description

The Branch operates an approved gratuity fund scheme for all its permanent employees, which is administered by the Trustees. The Branch's costs and contributions are determined based on actuarial valuation carried out at each year end by using Projected Unit Credit Method. The benefits are payable to employees on cessation of employment on the following grounds:

- retirement upon attainment of the normal retirement age (58 years).
- his / her death in service of the Employer.
- on voluntary retirement before normal retirement age.
- termination of his / her service by the Employer other than for misconduct, negligence, or incompetence.

31.2 Number of Employees under the schemes

	2016	2015
	Numbers	
Total staff strength	41	41

31.3 Principal actuarial assumptions

The actuarial valuation is carried out periodically. The latest actuarial valuation was carried out on 31 December 2016 based on the Projected Unit Credit Method, using the following significant assumptions:

		2016	2015
Discount rate	per annum	8.00%	9.00%
Expected return on plan assets	per annum	8.00%	9.00%
Future salary increase rate	per annum	8.00%	8.50%

31.4 The amount recognized in the statement of financial position

	2016	2015
	(Rupees in '000)	
Present value of defined benefit obligation	18,101	15,613
Fair value of plan assets	(15,890)	(13,493)
Net liability	2,211	2,120

31.5 Movement in net liability recognized in the statement of financial position

	2016	2015
At January 01	2,120	1,351
Charge for the year	1,835	1,895
Contribution to the fund made during the year	(1,882)	-
Actuarial (gain) / loss recognized in other comprehensive income	138	(1,126)
At December 31	2,211	2,120

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	2016	2015
	(Rupees in '000)	

31.6 Reconciliation of the present value of the defined benefit obligation

	2016	2015
Present value of obligation at 01 January	15,613	13,442
Current service cost	1,644	1,753
Interest cost	1,405	1,341
Benefits paid	-	(1,343)
Actuarial (gain) / loss	(561)	420
Present value of obligation at 31 December	18,101	15,613

31.7 Reconciliation of fair values of plan assets

	2016	2015
Fair value of plan assets at 01 January	13,493	12,091
Expected return on plan assets	1,214	1,199
Contribution received during the year	1,882	-
Benefits paid	-	(1,343)
Actuarial (loss) / gain	(699)	1,546
Fair value of plan assets at 31 December	15,890	13,493

31.8 Defined benefit cost for the year

31.8.1 Cost recognized in profit and loss account

	2016	2015
Current service cost	1,644	1,753
Net interest cost	191	142
	1,835	1,895

31.8.2 Actuarial loss recognized in Other Comprehensive Income

	2016	2015
Actuarial (gain) / loss on obligation	(561)	420
Actuarial loss / (gain) on plan assets	699	(1,546)
	138	(1,126)

	2016	2015
31.9 Actual return on plan assets	515	2,745

31.10 Composition of fair value of plan assets

	2016	2015
Bank balance	15,890	13,493

31.11 Sensitivity analysis on significant actuarial assumptions

	2016 Present value of obligation (Rupees in '000)
Discount rate: +1%	16,751
Discount rate: -1%	19,653
Salary increase rate: +1%	19,638
Salary increase rate: -1%	16,739
Withdrawal rates: +10%	18,101
Withdrawal rates: -10%	18,101
1 year mortality age set back	18,101
1 year mortality age set forward	18,101

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		2016 Present value of obligation (Rupees in '000)
31.12	**Maturity profile of the defined benefit obligation**	
	Year 1	874
	Year 2	3,360
	Year 3	737
	Year 4	3,465
	Year 5	655
	Year 6 to year 10	8,923
	Year 11 and above	23,204

31.13 The estimated charge for the year ending 31 December 2017 is Rs. 1.96 million (2015: Rs. 1.84 million).

32. DEFINED CONTRIBUTION PLAN

The Branch has maintained an employee provident fund and investments out of provident fund have been made in accordance with the provisions of section 227 of the Companies Ordinance 1984, and the rules formulated for this purpose. The salient information of the fund is as follows:

	2016	2015
	(Rupees in '000)	
32.1 Employees' Provident Fund		
Size of the fund	42,661	34,732
Cost / carrying value of investments made	42,661	34,732
Percentage of investments made	100%	100%
Breakup of investment		
Bank balance	42,661	34,732

33. COMPENSATION OF GENERAL MANAGER AND EXECUTIVES

	General Manager		Executives	
	2016	2015	2016	2015
	(Rupees in '000)			
Managerial remuneration	-	-	21,943	21,999
Tax borne by the Branch	11,150	12,000	6,350	9,600
Contribution to defined contribution plan	-	-	2,192	1,624
Rent, utilities, house maintenance and other allowances	6,147	4,063	5,018	3,470
Others	89	89	357	375
	17,386	16,152	35,860	37,068
	(Numbers)			
Number of persons	1	1	18	18

The General Manager and some executives have been provided with free use of the Branch maintained cars and household equipment in accordance with their terms of employment. The General Manager and Deputy General Manager has been provided Branch maintained furnished accomodation.

Executives mean employees, other then the General Manager, whose basic salary exceed five hundred thousand rupees in a financial year.

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34. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of fixed term loans, other assets, other liabilities, fixed term deposits and borrowings cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments.

The maturity and repricing profile and effective rates are stated in notes 39.2.3 and 39.3 respectively.

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values

35. FAIR VALUE HIERARCHY

IFRS-13 unifies the definition of fair values as the prices 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.

The Branch 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).

All assets and liability for which fair value is measured as disclosed in the financial statements are categorised within the fair value hierarchy based on the lowest level input and is significant to the fair value measurement as a whole;

	2016			
	Level 1	**Level 2**	**Level 3**	**Total**
	....................(Rupees in '000)................			
Financial assets measured at fair value				
Investments in available-for-sale securities				
- Market treasury bills	-	**791,562**	-	**791,562**
Off balance sheet financial instruments				
Foreign exchange contracts - purchase	-	**945,925**	-	**945,925**
Foreign exchange contracts - sale	-	**71,574**	-	**71,574**

	2015			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value	....................(Rupees in '000)................			
Investments				
- Market treasury bills	-	-	-	-
Off balance sheet financial instruments				
Foreign exchange contracts - purchase	-	1,433,296	-	1,433,296
Foreign exchange contracts - sale	-	-	-	-

The valuation techniques used for off balance sheet financial instruments are same as disclosed in note 6.10 to these financial statements. The Branch's policy is to recognize transfers into and out of the different fair value hierarchy levels at the date the event or change in circumstances that caused the transfer occurred. There were no transfers between levels 1 and 2 during the year.

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(a) Financial instruments in level 1

Currently, no financial instruments are classified in level 1.

(b) Financial instruments in level 2

Financial instruments included in level 2 comprise of forward exchange contracts.

(c) Financial instruments in level 3

Currently, no financial instruments are classified in level 3.

36. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

The segment analysis with respect to business activity is as follows:

	2016					
	Trading and sales	Retail banking	Commercial banking	Payment and settlement	Others	Total
	(Rupees in '000)					
Total income	395,894	30,611	171,869	-	1,445	599,819
Total expenses	(406,424)	(19,491)	(161,022)	-	(2,007)	(588,944)
Net income / (loss)	(10,530)	11,121	10,846	-	(562)	10,875
Segment assets (gross)	5,292,421	2,435	1,865,418	59,615	71,793	7,291,681
Segment non performing loans	-	-	-	-	-	-
Segment provision required	-	-	-	-	-	-
Segment liabilities	3,396,567	262,628	2,303,773	113,122	254,242	6,330,332
Segment return on assets (ROA) (%)	7.48%	-	9.21%	-	-	-
Segment cost of funds (%)	4.68%	7.35%	3.86%	-	-	-

	2015					
	Trading and sales	Retail banking	Commercial banking	Payment and settlement	Others	Total
	(Rupees in '000)					
Total income	370,969	36,975	191,571	-	4,315	603,830
Total expenses	(318,137)	(29,188)	(208,310)	-	(2,902)	(558,537)
Net income / (loss)	52,832	7,787	(16,739)	-	1,413	45,293
Segment assets (gross)	4,144,610	10,930	2,666,241	127,674	17,751	6,967,206
Segment non-performing loans	-	-	-	-	-	-
Segment provision required	-	-	-	-	-	-
Segment liabilities	4,684,326	296,605	1,690,970	6,211	127,401	6,805,513
Segment return on assets (ROA) (%)	6.83%	-	8.51%	-	-	-
Segment cost of funds (%)	4.14%	4.79%	5.73%	-	-	-

37. TRUST ACTIVITIES

The Branch is not engaged in any trust activity.

38. RELATED PARTY TRANSACTIONS

The Branch has related party transactions with its Head Office, other branches, employees' benefit plans and its executive officers. Details of transactions with related parties other than those disclosed elsewhere in these financial statements are as follows:

38.1 Balances

	Head Office and Branches		Key Management personnel		Retirement Benefits	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	(Rupees in '000)					
Deposits						
Balance at beginning of the year	13,258	4,832	637	477	48,224	43,051
Placement/deposits during the year	2,623,705	1,536,214	187	2,671	11,429	11,627
Withdrawals during the year	(2,632,041)	(1,527,788)	(78)	(2,511)	(1,102)	(6,454)
Balance at end of the year	4,922	13,258	746	637	58,551	48,224
Mark-up payable in local currency	-	-	11	11	2,457	1,285

Transactions during the year

	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Mark-up / return / interest expensed	-	-	11	26	3,998	2,352

Deposits carry mark-up rate ranging from 3.75% to 10.5% per annum (31 December 2015: 4% to 10.5% per annum).

38.2 Other transactions and balances (including profit and loss related transactions)

	Head Office and Branches		Key management personnel		Retirement Benefits	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	(Rupees in '000)					
Balances with other banks	59,615	127,674	-	-	-	-
Interoffice borrowings	829,232	1,409,814	-	-	-	-
Mark-up payable in foreign currency	1,911	1,115	-	-	-	-
Net payable to defined benefit plan	-	-		-	2,211	2,120
Guarantees issued on behalf of related party	4,565,363	1,616,888	-	-	-	-

Transactions during the year	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Interest income on balances with other banks	19	19	-	-	-	-
Interest income on inter office lendings	412	114	-	-	-	-
Interest expense on interoffice borrowings	12,289	4,201	-	-	-	-
Interest expense on interoffice deposits	28	28	-	-	-	-
Contribution to retirement benefits						
Approved gratuity fund	-	-	-	-	1,835	-
Contributory provident fund	-	-	-	-	2,192	2,538
	-	-	-	-	4,027	2,538
Remuneration of key management personnel	-	-	53,246	53,220	-	-

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39. CAPITAL ASSESSMENT AND ADEQUACY

39.1 Scope of Applications

The Basel-III Framework is applicable to the Branch and the Branch has adopted the Standardized approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk while using the simple approach for Credit Risk Mitigation as per SBP guidelines.

39.2 Capital management

Objective of capital management:

The objectives and goals of managing capital of the Branch are as follows:

- to be an appropriately capitalized institution, as defined by regulatory authorities
- to maintain strong ratings and protect the Branch against unexpected events
- to ensure the availability of adequate capital so as to enable the Branch to finance its operations

Statutory minimum capital requirement and management of capital

The State Bank of Pakistan (SBP) through its BSD Circular No.07 dated April 15, 2009 requires the minimum paid up capital (free of losses) for banks / development financial institutions (DFIs) to be raised to Rs. 10 billion till the year ended December 31, 2013. However, branches of foreign banks operating in Pakistan are also required to comply with the above minimum capital requirement prescribed for the locally incorporated banks / DFIs. However, those branches of foreign banks whose head offices hold a minimum paid up capital of atleast US $ 300 million (free of losses) and have a capital adequacy ratio (CAR) of atleast 8% or minimum prescribed by their home regulator whichever is higher and have prescribed number of branches, are allowed to maintain lower amount with prior approval of SBP. In this regard, the Branch has obtained SBP's approval to maintain minimum required capital of Rs. 3 billion (free of losses) effective December 31, 2010.

The head office capital account (free of losses) of the Branch for the year ended December 31, 2016 stood at Rs. 3,856.16 million and is in compliance with the said SBP requirement. In addition, the banks / branches are also required to maintain a minimum capital adequacy ratio (CAR) of 10% of the risk weighted exposures of the banks / branches. The Branch's CAR as at December 31, 2016 was 88.76% of its risk weighted exposures.

Capital Adequacy Ratio

The capital adequacy ratio of the Branch 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 15 August 2013. These Instructions are effective from 31 December 2013 in a phased manner with full implementation intended by 31 December 2019. Under Basel III guidelines banks / branches of foreign banks are required to maintain the following ratios on an ongoing basis.

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

Ratio	Year						As on 31 December
	2013	2014	2015	2016	2017	2018	2019
CET I	5.00%	5.50%	6.00%	6.00%	6.00%	6.00%	6.00%
ADT I	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Tier 1	6.50%	7.00%	7.50%	7.50%	7.50%	7.50%	7.50%
Total Capital	**10.00%**	**10.00%**	**10.00%**	**10.00%**	**10.00%**	**10.00%**	**10.00%**
*CCB	0.00%	0.00%	0.25%	0.65%	1.275%	1.90%	2.50%
Total Capital plus CCB	**10.00%**	**10.00%**	**10.25%**	**10.65%**	**11.275%**	**11.90%**	**12.50%**

*(Consisting of CET1 only)

Branch's regulatory capital is analyzed into following tiers.

- Common Equity Tier 1 capital (CET1), which includes capital deposited with the State Bank of Pakistan (SBP) and unremitted profits.

- Additional Tier 1 capital and Tier 2 capital are also prescribed by SBP but the Branch has no such eligible capital.

The required capital adequacy ratio (10% of the risk weighted assets) is achieved by the Branch through improvement in the assets quality at the existing volume level, ensuring better recovery management and maintaining composition of assets with low risk. The total risk-weighted exposures comprise the credit risk, market risk and operational risk. The Branch has complied with all externally imposed capital requirements throughout the year. Further, there has been no material change in the Branch's management of capital during the year.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and operational risks associated with each asset and counterparty, taking into account any eligible collateral or guarantee. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of potential future exposure.

The Branch will continue to maintain the required regulatory capital either through its risk management strategies or by increasing the capital requirements in line with the business and capital needs.

The Branch calculates capital requirement for credit, market and operational risks using the methodology prescribed by SBP. Banking operations are categorized as either trading book or banking book and risk weighted assets are determined according to specific 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 Branch calculates capital requirement as per Basel III regulatory framework, using the following approaches:

Credit risk :	Standardized approach
Market risk :	Standardized approach
Operational risk :	Basic indicator approach

The Branch uses the ratings issued by the Pakistan Credit Rating Agency Limited (PACRA) and JCR-VIS Credit Rating 'Company Limited (JCR-VIS) for its local currency exposures and ratings issued by Moody's, S&P, and Fitch for its foreign 'currency exposures. These External Credit Assessments Institutions (ECAIs) have been approved by the State Bank of Pakistan.

Types of exposures and ECAIs Used – 2016

Types of exposures	**JCR-VIS (Local Currency)**	**PACRA (Local Currency)**	**Moody's, S&P, and Fitch (Foreign Currency)**
Corporate	-	x	-
Banks	x	x	x

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

The alignment of the Alphanumerical scale of each agency used with risk buckets is as per the instructions laid down by SBP under Basel III requirements.

39.2.1 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 separate capital standard on December 31, 2018. Banks are required to disclose the leverageratio from December 31, 2015.

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

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

As at December 31, 2016, Bank's Leverage ratio stood at 19.72% which is well above the minimum requirement of 3.0%

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39.3 Capital Adequacy Ratio (CAR)

		31 December 2016	31 December 2015
		(Rupees in '000)	
	Common Equity Tier 1 capital (CET1): Instruments and reserves		
1	Fully Paid-up Capital/ Capital deposited with SBP	3,856,160	3,856,160
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)	172,478	161,693
8	Minority Interests arising from CET1 capital instruments issued to third parties by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	-	-
9	**CET 1 before Regulatory Adjustments**	4,028,638	4,017,853
10	Total regulatory adjustments applied to CET1 (Note 39.3.1)	7,950	11,534
11	**Common Equity Tier 1**	4,020,688	4,006,319
	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 39.3.2)	-	-
19	Additional Tier 1 capital after regulatory adjustments	-	-
20	**Additional Tier 1 capital recognized for capital adequacy**	-	-
21	**Tier 1 Capital (CET1 + admissible AT1) (11+20)**	4,020,688	4,006,319
	Tier 2 Capital		
22	Qualifying Tier 2 capital instruments under Basel III plus any related share premium	-	-
23	Tier 2 capital instruments subject to phaseout arrangement issued under pre-Basel 3 rules	-	-
24	Tier 2 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group tier 2)		
25	of which: instruments issued by subsidiaries subject to phase out	-	-
26	General provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	-	-
27	Revaluation Reserves (net of taxes)		
28	of which: Revaluation reserves on fixed assets	-	-
29	of which: Unrealized gains/losses on AFS	-	-
30	Foreign Exchange Translation Reserves	-	-
31	Undisclosed/Other Reserves (if any)	-	-
32	**T2 before regulatory adjustments**	-	-
33	Total regulatory adjustment applied to T2 capital (Note 39.3.3)	-	-
34	Tier 2 capital (T2) after regulatory adjustments	-	-
35	Tier 2 capital recognized for capital adequacy	-	-
36	Portion of Additional Tier 1 capital recognized in Tier 2 capital	-	-
37	**Total Tier 2 capital admissible for capital adequacy**	-	-
38	**TOTAL CAPITAL (T1 + admissible T2) (21+37)**	4,020,688	4,006,319
39	**Total Risk Weighted Assets (RWA) (Note 39.6)**	4,529,794	4,786,420
	Capital Ratios and buffers (in percentage of risk weighted assets)		
40	**CET1 to total RWA**	88.76%	83.70%
41	**Tier-1 capital to total RWA**	88.76%	83.70%
42	**Total capital to total RWA**	88.76%	83.70%
43	Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)	-	-
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)	-	-
	National minimum capital requirements prescribed by SBP		
48	**CET1 minimum ratio**	6.00%	6.00%
49	**Tier 1 minimum ratio**	7.50%	7.50%
50	**Total capital minimum ratio**	10.65%	10.25%

Regulatory Adjustments and Additional Information		31 Decemeber 2016 Amount	31 Decemeber 2016 Amounts subject to Pre-Basel III treatment	31 Decemeber 2015 Amount	31 Decemeber 2015 Amounts subject to Pre- Basel III treatment
		----------(Rupees in '000)----------			
39.3.1	**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)	7,633	-	11,534	-
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	317	-	-	-
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**	7,950	-	11,534	-
39.3.2	**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**	-	-	-	-

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Regulatory Adjustments and Additional Information	31 Decemeber 2016 Amount	31 Decemeber 2016 Amounts subject to Pre-Basel III treatment	31 Decemeber 2015 Amount	31 Decemeber 2015 Amounts subject to Pre- Basel III treatment
	Rupees in '000			
39.3.3 Tier 2 Capital: regulatory adjustments				
31 Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital	-	-	-	-
32 Reciprocal cross holdings in Tier 2 instruments of banking, financial and insurance entities	-	-	-	-
33 Investment in own Tier 2 capital instrument	-	-	-	-
34 Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-	-	-
35 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-	-	-
36 **Total regulatory adjustment applied to T2 capital**	-	-	-	-

	31 December 2016	31 December 2015
	Rupees in '000	
39.3.4 Additional Information		
Risk Weighted Assets subject to pre-Basel III treatment		
37 Risk weighted assets in respect of deduction items (which during the transitional period will be risk weighted subject to Pre-Basel III Treatment)	-	-
(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	-	-

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39.4 Capital Structure Reconciliation

Table: 39.4.1 (Step 1)	Balance sheet of the published financial statements	Under regulatory scope of consolidation
	31 December 2016	31 December 2016
	------- (Rupees in '000) -------	
Assets		
Cash and balances with treasury banks	3,526,232	3,526,232
Balanced with other banks	59,615	59,615
Lending to financial institutions	4,010,103	4,010,103
Investments	791,562	791,562
Advances	1,851,745	1,851,745
Operating fixed assets	47,719	47,719
Deferred tax assets	-	-
Other assets	71,677	71,677
Total assets	10,358,653	10,358,653
Liabilities & Equity		
Bills payable	113,122	113,122
Borrowings	829,231	829,231
Deposits and other accounts	5,144,438	5,144,438
Sub-ordinated loans	-	-
Liabilities against assets subject to finance lease	-	-
Deferred tax liabilities	1,696	1,696
Other liabilities	241,845	241,845
Total liabilities	6,330,332	6,330,332
Share capital/ Head office capital account	3,856,160	3,856,160
Reserves	-	-
Unappropriated/ Unremitted profit/ (losses)	172,478	172,478
Minority Interest	-	-
Surplus on revaluation of assets	(317)	(317)
	4,028,321	4,028,321
Total liabilities & equity	10,358,653	10,358,653

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39.4 Capital Structure Reconciliation

Table: 39.4.2 (Step 2)	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Ref
	As at 31 December 2016	As at 31 December 2016	
Assets			
Cash and balances with treasury banks	3,526,232	3,526,232	
Balanced with other banks	59,615	59,615	
Lending to financial institutions	4,010,103	4,010,103	
Investments	791,562	791,562	
of which: Non-significant capital investments in capital of other financial institutions exceeding 10% threshold	-	-	a
of which: significant capital investments in financial sector entities exceeding regulatory threshold	-	-	b
of which: Mutual Funds exceeding regulatory threshold	-	-	c
of which: reciprocal crossholding of capital instrument	-	-	d
of which: others (CAP 2 deductions under Basel II (50% from Tier-1 and 50% from Tier-2))	-	-	e
Advances	1,851,745	1,851,745	
shortfall in provisions/ excess of total EL amount over eligible provisions under IRB	-	-	f
general provisions reflected in Tier 2 capital	-	-	g
Fixed Assets	47,719	47,719	
of which: Goodwill	-	-	j
of which: Intangibles	*7,633*	*7,633*	k
Deferred Tax Assets	-	-	
of which: DTAs excluding those arising from temporary differences	-	-	h
of which: DTAs arising from temporary differences exceeding regulatory threshold	-	-	i
Other assets	71,677	71,677	
of which: Goodwill	-	-	j
of which: Intangibles	-		k
of which: Defined-benefit pension fund net assets	-	-	l
Total assets	10,358,653	10,358,653	
Liabilities & Equity			
Bills payable	113,122	113,122	
Borrowings	829,231	829,231	
Deposits and other accounts	5,144,438	5,144,438	
Sub-ordinated loans	-		
of which: eligible for inclusion in AT1			m
of which: eligible for inclusion in Tier 2			n
Liabilities against assets subject to finance lease	-		
Deferred tax liabilities	1,696	1,696	
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	(1,017)	*(1,017)*	q
of which: other deferred tax liabilities	2,713	*2,713*	r
Other liabilities	241,845	241,845	
Total liabilities	6,330,332	6,332,028	

	As at 31 December 2016	As at 31 December 2016	
Share capital	**3,856,160**	**3,856,160**	
of which: amount eligible for CET1	*3,856,160*	*3,856,160*	s
of which: amount eligible for AT1			t
Discount on issue of right shares			
Reserves	-		
of which: portion eligible for inclusion in CET1:Statutory Reserves		-	u
of which: portion eligible for inclusion in Tier 2	-	-	v
Convertible preference shares	-	-	
Accumulated Profits / (losses)	**172,478**	**172,478**	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 (deficit) on revaluation of assets	**(317)**	**(317)**	
of which: Revaluation reserves on Property	-	-	
of which: Unrealized Gains/Losses on AFS	*(317)*	*(317)*	aa
In case of Deficit on revaluation (deduction from CET1)	-	-	ab
Total liabilities & Equity	**4,028,321**	**4,028,321**	

	Table: 39.4.3	**Component of regulatory capital reported by bank (amount in thousand PKR)**	**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	3,856,160	
2	Balance in Share Premium Account	-	(s)
3	Reserve for issue of Bonus Shares	-	
4	General/ Statutory Reserves	-	
5	Gain/(Losses) on derivatives held as Cash Flow Hedge	-	(u)
6	Unappropriated/unremitted profits/(losses)	172,478	(w)
7	Minority Interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	-	(x)
8	**CET 1 before Regulatory Adjustments**	**4,028,638**	
	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)	7,633	(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} * 60%
13	Defined-benefit pension fund net assets	-	{(l) - (q)} * 60%
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 property/ AFS	317	(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)

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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	Investment in TFCs of other banks exceeding the prescribed limit	-	
28	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 25)	7,950	
	Common Equity Tier 1	**4,020,688**	

Additional Tier 1 (AT 1) Capital

31	Qualifying Additional Tier-1 instruments plus any related share premium	-	
32	of which: Classified as equity	-	(t)
33	of which: Classified as liabilities	-	(m)
34	Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1)	-	(y)
35	of which: instrument issued by subsidiaries subject to phase out	-	
36	**AT1 before regulatory adjustments**	-	

Table: 39.4.4	**Component of regulatory capital reported by bank (amount in thousand PKR)**	**Source based on reference number from Step 2**

Additional Tier 1 Capital: regulatory adjustments

37	Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)	-	
38	Investment in own AT1 capital instruments	-	
39	Reciprocal cross holdings in Additional Tier 1 capital instruments	-	
40	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)
41	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	(ad)
42	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	-	
43	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
44	Total of Regulatory Adjustment applied to AT1 capital	-	
45	Additional Tier 1 capital	-	
46	**Additional Tier 1 capital recognized for capital adequacy**	-	
	Tier 1 Capital (CET1 + admissible AT1)	**4,020,688**	

Table: 39.4.5		Component of regulatory capital reported by bank (amount in thousand PKR)	Source based on reference number from Step 2
	Tier 2 Capital		
47	Qualifying Tier 2 capital instruments under Basel III	-	
48	Capital instruments subject to phase out arrangement from tier 2 (Pre-Basel III instruments)	-	(n)
49	Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2)	-	(z)
50	of which: instruments issued by subsidiaries subject to phase out	-	
51	General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	-	(g)
52	Revaluation Reserves eligible for Tier 2		
53	of which: portion pertaining to Property	-	portion of (aa)
54	of which: portion pertaining to AFS securities	-	
55	Foreign Exchange Translation Reserves	-	(v)
56	Undisclosed/Other Reserves (if any)	-	
57	**T2 before regulatory adjustments**	-	
	Tier 2 Capital: regulatory adjustments		
58	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	-	
59	Reciprocal cross holdings in Tier 2 instruments	-	
60	Investment in own Tier 2 capital instrument	-	
61	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)
62	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	(af)
63	Amount of Regulatory Adjustment applied to T2 capital	-	
64	Tier 2 capital (T2)	-	
65	Tier 2 capital recognized for capital adequacy	-	
66	Excess Additional Tier 1 capital recognized in Tier 2 capital	-	
67	Total Tier 2 capital admissible for capital adequacy	-	
	TOTAL CAPITAL (T1 + admissible T2)	**4,020,688**	

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39.5 Main Features Regulatory Capital Instrument

	Main Features	Common Equity
1	Issuer	The Bank of Tokyo - Mitsubishi UFJ
2	Unique identifier (eg KSE Symbol or Bloomberg identifier etc.)	-
3	Governing law(s) of the instrument	State Bank of Pakistan
	Regulatory treatment	
4	Transitional Basel III rules	Common Equity Tier I
5	Post-transitional Basel III rules	Common Equity Tier I
6	Eligible at solo/ group/ group&solo	Solo
7	Instrument type	-
8	Amount recognized in regulatory capital (Currency in PKR thousands, as of reporting date)	Head office capital Rs. (Thousand) 3,856,160
9	Par value of instrument	-
10	Accounting classification	-
11	Original date of issuance	-
12	Perpetual or dated	-
13	Original maturity date	-
14	Issuer call subject to prior supervisory approval	-
15	Optional call date, contingent call dates and redemption amount	-
16	Subsequent call dates, if applicable	-
	Coupons / dividends	-
17	Fixed or floating dividend/ coupon	-
18	coupon rate and any related index/ benchmark	-
19	Existence of a dividend stopper	-
20	Fully discretionary, partially discretionary or mandatory	-
21	Existence of step up or other incentive to redeem	-
22	Noncumulative or cumulative	-
23	Convertible or non-convertible	-
24	If convertible, conversion trigger (s)	-
25	If convertible, fully or partially	-
26	If convertible, conversion rate	-
27	If convertible, mandatory or optional conversion	-
28	If convertible, specify instrument type convertible into	-
29	If convertible, specify issuer of instrument it converts into	-
30	Write-down feature	-
31	If write-down, write-down trigger(s)	-
32	If write-down, full or partial	-
33	If write-down, permanent or temporary	-
34	If temporary write-down, description of write-up mechanism	-
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument	-
36	Non-compliant transitioned features	-
37	If yes, specify non-compliant features	-

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39.6 Risk Weighted Assets

The risk weighted assets to capital ratio, calculated in accordance with the State Bank of Pakistan's guidelines on capital adequacy was as follows:

	Capital Requirements		Risk Weighted Assets	
	2016	2015	2016	2015
	(Rupees in '000)			
Credit Risk				
Portfolios subject to standardized approach				
On-Balance sheet				
Cash and Cash Equivalents	-	-	-	-
Claims on Government of Pakistan (Federal or Provincial Governments) and SBP, denominated in PKR	-	-	-	-
Foreign Currency claims on SBP arising out of statutory obligations of banks in Pakistan	-	-	-	-
Claims on other sovereigns and on Government of Pakistan or provincial governments or SBP denominated in currencies other than PKR	-	-	-	-
Claims on Bank for International Settlements, International Monetary Fund, European Central Bank, and European Community	-	-	-	-
Claims on Multilateral Development Banks	-	-	-	-
Claims on Public Sector Entities in Pakistan	-	-	-	-
Claims on Banks	9,753	12,755	91,582	127,549
Claims, denominated in foreign currency, on banks with original maturity of 3 months or less	1,270	2,554	11,923	25,535
Claims on banks with original maturity of 3 months or less denominated in PKR and funded in PKR	75,983	62,310	713,459	623,096
Claims on Corporates (excluding equity exposures)	186,952	251,299	1,755,414	2,512,988
Claims categorized as retail portfolio	788	247	7,395	2,470
Claims fully secured by residential property (Residential Mortgage Finance as defined in Section 2.1)	278	297	2,607	2,973
Past Due loans:	-	-		
Listed Equity investments and regulatory capital instruments issued by other banks (other than those deducted from capital) held in the banking book.	-	-		-
Unlisted equity investments (other than that deducted from capital) held in banking book	-	-		-
Significant investment and DTAs above 15% threshold	-	-		-
Fixed assets	4,269	4,991	40,086	49,908
Claims on all fixed assets under operating lease	-	-	-	-
All other assets (excluding markup receivables)	1,804	1,761	16,937	17,606
	281,097	336,213	2,639,403	3,362,125
Off-Balance sheet				
Non-market related	143,698	94,823	1,349,279	948,227
Market related	164	352	1,539	3,523
	143,862	95,175	1,350,818	951,750
	424,959	431,388	3,990,221	4,313,875
Equity Exposure Risk in the Banking Book				
Market Risk				
Capital Requirement for portfolios subject to Standardized Approach				
Interest rate risk	5,087	2,417	47,761	24,169
Equity position risk	-	-	-	-
Foreign Exchange risk	1,129	274	10,600	2,738
	6,216	2,691	58,361	26,907
Operational Risk	51,249	44,564	481,212	445,638
	482,423	478,642	4,529,794	4,786,420

Capital Adequacy Ratios	2016		2015	
	Required	Actual	Required	Actual
CET1 to total RWA	6.00%	88.76%	6.00%	83.70%
Tier-1 capital to total RWA	7.50%	88.76%	7.50%	83.70%
Total capital to total RWA	10.65%	88.76%	10.25%	83.70%

40 RISK MANAGEMENT

The Branch is primarily subject to credit risk, market risk, liquidity risk and operational risk. The General Manager of the Branch has the overall responsibility for the management of those risks. The policies and procedures for managing these risks are outlined below. The basic premise of risk control and management is to comprehensively control and manage the risks of the Branch using a uniform standard approach as much as possible. The objective of comprehensive risk control and management is to provide the basis for the achievement of stable profit balanced with risk, achievement of an appropriate capital structure, appropriate allocation of resources, and other goals, by identifying / recognizing, evaluating / calculating, controlling and monitoring / reporting all risks.

40.1 Credit risk

Credit risk is the risk of sustaining a loss due to reduction or termination of the value of assets (including off-balance sheet assets), caused by an obligor's deteriorated credit standing or default of agreement.

The Branch's credit evaluation system comprises of well designed credit appraisal, sanctioning and constant review procedures for the purpose of emphasizing prudence in its lending activities and ensuring quality of assets portfolio. The objectives of credit evaluation system are to keep credit risk exposures within permissible level relevant to the Branch's risk capital, to maintain the soundness of assets and to ensure returns commensurate with risk. Special attention is paid to the management of non-performing loans if any, which would be closely monitored both at the Branch's level as well as its Head Office level. A "Close Watch" mechanism is in function which identifies early warning signals of loans and advances becoming non-performing.

The Branch has implemented its own internal risk rating system for the credit portfolio, as per guidelines of the State Bank of Pakistan, which are further approved by the Head Office. Credit ratings by external rating agencies, if available, are also considered.

The Branch constantly examines its total credit exposures and considers analytical and systematic approaches to its credit structure categorized by group and industry.

40.1.1 Concentration of credit and deposit

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk is monitored, reviewed and analyzed by Asset Liability Management Committee (ALM), which has established credit lines and credit limits to control exposure to counter parties.

Out of the total financial assets of Rs. 10,286.46 million (2015: Rs. 10,746.18 million), the financial assets which were subject to credit risk amounted to Rs. 5,968.66 million (2015: Rs. 6,513.02 million). To manage credit risk the Branch applies credit limits to its customers and obtains adequate collateral.

40.1.2 Segmental information

Segmental information is presented in respect of the class of business and geographical distribution of advances, deposits, contingencies and commitments.

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40.1.2.1 Segments by class of business

	2016					
	Advances (gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)
Automobiles and Transportation equipment	611,225	33.01	231,085	4.49	652,599	10.64
Chemical and Pharmaceuticals	743,864	40.17	3,004,974	58.41	32,792	0.53
Construction	-	-	9,383	0.18	-	-
Electronics and electrical appliances	-	-	148	0.00	-	-
Financial	135,097	7.30	4,902	0.10	5,439,610	88.68
Individuals	17,309	0.93	303,573	5.90	-	-
Paper and Board	-	-	-	0.00	-	-
Wholesale and Retail Trade	-	-	471	0.01	-	-
Food and Beverage	-	-	936,344	18.20		-
Power, oil, gas & water	-	-	213	0.00		-
Trust	-	-	98,164	1.91		-
Others	344,250	18.59	555,181	10.79	9,172	0.15
	1,851,745	100	5,144,438	100	6,134,173	100

	2015					
	Advances (gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)
Automobiles and Transportation equipment	624,606	24.12	457,901	8.77	538,107	14.85
Chemical and Pharmaceuticals	1,577,472	60.91	3,503,336	67.07	25,742	0.71
Construction	-	-	14,354	0.27	-	-
Electronics and electrical appliances	-	-	474	0.01	-	-
Financial	130,586	5.04	-	-	3,050,184	84.18
Individuals	16,339	0.63	286,454	5.48	-	-
Paper and Board	393	0.02				
Wholesale and Retail Trade	-	-	96,511	1.85	-	-
Others	240,000	9.27	864,288	16.55	9,366	0.26
	2,589,396	100	5,223,318	100.00	3,623,399	100

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40.1.2.2 Segment by sector

	2016					
	Advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)
Public / government	-	-	195	0.01	4,539,593	74.00
Private	1,851,745	100	5,144,243	99.99	1,594,580	26.00
	1,851,745	100	5,144,438	100	6,134,173	100

	2015					
	Advances (gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)
Public / government	-	-	195	0.01	-	-
Private	2,589,396	100	5,223,123	99.99	3,623,399	100
	2,589,396	100	5,223,318	100	3,623,399	100

40.1.2.3 Geographical segment analysis

	2016			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	(Rupees in '000)			
Pakistan	28,621	10,358,653	4,028,321	6,134,173
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	28,621	10,358,653	4,028,321	6,134,173

	2015			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	(Rupees in '000)			
Pakistan	62,765	10,823,366	4,017,853	3,623,399
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	62,765	10,823,366	4,017,853	3,623,399

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40.2 Market risk

Market risk is the risk of sustaining a loss due to a change in the price of assets or liabilities held (including off-balance sheet assets and liabilities) resulting from changes of risk factors like interest rates, exchange rates, equity prices, commodity prices and others. Market liquidity risk is that of sustaining a loss due to inability to trade required quantities at a reasonable level, due to market turmoil or a lack of trade volume in the market.

With the full understanding that market risk is unavoidable in the Branch's business activities and that rapid handling of it is required, the Branch has a very effective system to manage and control market risks. In managing and controlling market liquidity risks, each product's market scale and market liquidity has always been sufficiently considered, to prevent any inability to cancel or reduce positions when necessary.

The Branch uses the Standardized Approach to calculate capital charge for market risk as per Basel III regulatory framework. Details of capital charge for market risk are given in note 39.6.

40.2.1 Foreign exchange risk

Foreign exchange risk represents exposures to changes in the values of current holdings and future cash flows denominated in foreign currencies. The potential for loss arises from the process of revaluing foreign currency positions in rupee terms. The Branch's foreign exchange risk is limited to future cash flows in foreign currencies arising from foreign exchange transactions and translation of net open position in foreign currencies. Forward contracts are used to mitigate foreign exchange risks, the Branch however remains exposed to such risk to the extent of net open position.

	2016			
	Assets	Liabilities and Head Office capital	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan rupee	10,218,084	9,359,848	(874,248)	(17,966)
United States dollar	138,997	928,462	802,574	15,063
Great Britain pound	1,037	-	-	1,037
Singapore dollar	195	-	-	195
Japanese yen	225	70,343	71,674	1,556
Euro	42	-	-	42
Other currency	73	-	-	73
	10,358,653	10,358,653	-	-

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	2015			
	Assets	Liabilities and Head Office capital	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan rupee	10,625,164	9,217,915	(1,433,296)	(26,047)
United States dollar	192,233	1,602,216	1,433,296	23,313
Great Britain pound	1,428	-	-	1,428
Singapore dollar	197	-	-	197
Japanese yen	4,255	3,235	-	1,020
Euro	85	-	-	85
Other currencies	4	-	-	4
	10,823,366	10,823,366	-	-

40.2.2 Yield / interest rate risk

Interest rate risk is the risk of loss from adverse movements in interest rates. The Asset Liability Management Committee (ALM) monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the profitability of the Branch arising from fluctuation in the market interest rates and mismatching or gaps in the amount of financial assets and financial liabilities in different maturity time bands.

The Branch's interest rate exposure is calculated by categorizing its interest sensitive assets and liabilities into various time bands based on the earlier of their contractual repricing or maturity dates.

Yield / interest rate risk in the Banking Book

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

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

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

40.2.3 Mismatch of interest rate sensitive assets and liabilities

	Effective yield / interest rate	Total	Upto 1 month	Over 1 to 3 months	Over 3 months 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	Not exposed to yield / interest rate
		2016										
			Exposed to yield / interest risk									
		(Rupees in '000)										
Financial instruments												
Assets												
Cash and balances with treasury banks	0.00%	3,526,232	-	-	-	-	-	-	-	-	-	3,526,232
Balances with other banks	0.16% - 1.25%	59,615	59,615	-	-	-	-	-	-	-	-	-
Lendings to financial institutions	5.45% - 5.75%	4,010,103	3,204,812	348,394	306,897	150,000	-	-	-	-	-	-
Investment	5.94% - 5.99%	791,562	-	791,562	-	-	-	-	-	-	-	
Advances	3.00% - 10.50%	1,851,745	1,127,295	290,000	135,030	308	-	-	286,245	4,140	8,727	-
Other assets		47,199	-	-	-	-	-	-	-	-	-	47,199
		10,286,456	4,391,722	1,429,956	441,927	150,308	-	-	286,245	4,140	8,727	3,573,431
Liabilities												
Bills payable		113,122	-	-	-	-	-	-	-	-	-	113,122
Borrowings	1.04% - 1.34%	829,231	171,621	209,197	448,413	-	-	-	-	-	-	-
Deposits and other accounts	3.75% - 10.50%	5,144,438	3,786,455	261,100	660,000	-		-	-	-	-	436,883
Other liabilities		163,720	-	-	-	-	-	-	-	-	-	163,720
		6,250,511	3,958,076	470,297	1,108,413	-	-	-	-	-	-	713,725
On-balance sheet gap		4,035,946	433,646	959,659	(666,486)	150,308	-	-	286,245	4,140	8,727	2,859,706
Off-balance sheet financial instruments												
Commitments in respect of forward exchange contracts - purchase		945,821	-	-	-	-	-	-	-	-	-	945,821
Commitments in respect of forward exchange contracts - sale		71,574	-	-	-	-	-	-	-	-	-	71,574
Off-balance sheet gap		874,247	-	-	-	-	-	-	-	-	-	874,247
Total yield / interest risk sensitivity gap			433,646	959,659	(666,486)	150,308	-	-	286,245	4,140	8,727	
Cumulative yield / interest risk sensitivity gap			433,646	1,393,305	726,820	877,128	877,128	877,128	1,163,373	1,167,512	1,176,240	

	Effective yield / interest rate	Total	Upto 1 month	Over 1 to 3 months	Over 3 months 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	Not exposed to yield / interest rate
			2015									
			Exposed to yield / interest risk									
			(Rupees in '000)									
Financial instruments												
Assets												
Cash and balances with treasury banks		4,233,157	49,528	-	-	-	-	-	-	-	-	4,183,629
Balances with other banks	0.08% - 1.25%	127,674	127,674	-	-	-	-	-	-	-	-	-
Lending to financial institutions	5.5% - 6.5%	3,741,212	3,111,986	289,554	339,672	-	-	-	-	-	-	-
Advances	3% - 11.07%	2,589,396	1,444,892	650,337	130,503	85,104	119,556	61,725	95,728	1,185	366	-
Other assets		54,741	-	-	-	-	-	-	-	-	-	54,741
		10,746,180	4,734,080	939,891	470,175	85,104	119,556	61,725	95,728	1,185	366	4,238,370
Liabilities												
Bills payable		6,211	-	-	-	-	-	-	-	-	-	6,211
Borrowings	0.47% - 0.81%	1,409,814	104,741	209,482	1,095,591	-	-	-	-	-	-	-
Deposits and other accounts	4% - 10.5%	5,223,318	4,744,663	75,100	700	-	5,000	-	-	-	-	397,855
Other liabilities		136,237	-	-	-	-	-	-	-	-	-	136,237
		6,775,580	4,849,404	284,582	1,096,291	-	5,000	-	-	-	-	540,303
On-balance sheet gap		3,970,600	(115,324)	655,309	(626,116)	85,104	114,556	61,725	95,728	1,185	366	3,698,067
Off-balance sheet financial instruments												
Commitments in respect of forward exchange contracts - purchase		1,433,296	-	-	-	-	-	-	-	-	-	1,433,296
Commitments in respect of forward exchange contracts - sale		-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		1,433,296	-	-	-	-	-	-	-	-	-	1,433,296
Total yield / interest risk sensitivity gap			(115,324)	655,309	(626,116)	85,104	114,556	61,725	95,728	1,185	366	
Cumulative yield / interest risk sensitivity gap			(115,324)	539,985	(86,131)	(1,027)	113,529	175,254	270,982	272,167	272,533	

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

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates.

	2016	2015
	(Rupees in '000)	
Reconciliation to total assets		
Balance as per balance sheet	10,358,653	10,823,366
Less: Non-financial assets		
Operating fixed assets	47,719	61,442
Other assets	24,478	15,744
	72,197	77,186
Total financial assets	10,286,456	10,746,180

	2016	2015
	(Rupees in '000)	
Reconciliation to total liabilities		
Balance as per balance sheet	6,330,332	6,805,513
Less: Non-financial liabilities		
Other liabilities	78,126	25,482
Deferred tax liabilities	1,696	4,451
	79,822	29,933
Total financial liabilities	6,250,511	6,775,580

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40.3 Liquidity risk

Liquidity risk is the risk caused, among others by the inability of the Branch to settle liabilities at due date. The liquidity risk policy is formulated keeping in view State Bank's guidelines on risk management and best market practice. In case of any conflict between any provision of this policy and any regulation for the time being in force, the regulation in force will prevail.

Objectives of our liquidity management is to ensure that the Branch is able to honour all its financial commitments on an ongoing basis without (i) effecting the cost of funds (ii) adversely effecting ability to raise funds and (iii) resorting to sale of assets.

40.3.1 Maturities of assets and liabilities - based on contractual maturity

	2016									
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
	(Rupees in '000)									
Assets										
Cash and balances with treasury banks	3,526,232	459,260	-	-	-	-	-	-	-	3,066,972
Balances with other banks	59,615	59,615	-	-	-	-	-	-	-	-
Lending to financial institutions	4,010,103	3,204,812	348,394	306,897	150,000	-	-	-	-	-
Investments	791,562	-	791,562	-	-	-	-	-	-	-
Advances	1,851,745	1,127,295	290,000	135,030	308	-	-	286,245	4,140	8,727
Operating fixed assets	47,719	0	43	80	44	12,823	12,323	13,083	9,323	-
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Other assets	71,677	19,661	15,505	7,318	15,169	-	-	8,984	1,039	4,001
	10,358,653	4,870,643	1,445,504	449,325	165,521	12,823	12,323	308,312	14,501	3,079,700
Liabilities										
Bills payable	113,122	113,122	-	-	-	-	-	-	-	-
Borrowings	829,231	171,621	209,197	448,413	-	-	-	-	-	-
Deposits and other accounts	5,144,438	4,223,338	261,100	660,000			-	-	-	-
Deferred tax liabilities	1,696	149	299	448	800	-	-	-	-	-
Other liabilities	241,845	21,280	86,263	6,625	117,977	5,720	3,980	-	-	-
	6,330,332	4,529,510	556,859	1,115,486	118,777	5,720	3,980	-	-	-
Net assets	4,028,321	341,134	888,645	(666,161)	46,744	7,103	8,343	308,312	14,501	3,079,700
Head Office capital account	3,856,160									
Unremitted profit	172,478									
Deficit on revaluation of assets	(317)									
	4,028,321									

	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
	2015									
	(Rupees in '000)									
Assets										
Cash and balances with treasury banks	4,233,157	376,997	-	-	-	-	-	-	-	3,856,160
Balances with other banks	127,674	127,674	-	-	-	-	-	-	-	-
Lending to financial institutions	3,741,212	3,111,986	289,554	339,672	-	-	-	-	-	-
Advances	2,589,396	1,444,892	650,337	130,503	85,104	119,556	61,725	95,728	1,185	366
Operating fixed assets	61,442	1,715	3,160	4,740	9,480	13,799	11,126	11,928	5,494	-
Other assets	70,485	48,152	12,094	4,616	1,146	79	79	158	158	4,003
	10,823,366	5,111,416	955,145	479,531	95,730	133,434	72,930	107,814	6,837	3,860,529
Liabilities										
Bills payable	6,211	6,211	-	-	-	-	-	-	-	-
Borrowings	1,409,814	104,741	209,482	1,095,591	-	-	-	-	-	-
Deposits and other accounts	5,223,318	5,142,518	75,100	700	-	5,000	-	-	-	-
Deferred tax liability	4,451	58	117	177	354	1,220	984	1,055	486	-
Other liabilities	161,719	50,634	1,130	2,285	103,564	3,979	127	-	-	-
	6,805,513	5,304,162	285,829	1,098,753	103,918	10,199	1,111	1,055	486	-
Net assets	4,017,853	(192,746)	669,316	(619,222)	(8,188)	123,235	71,819	106,759	6,351	3,860,529
Head Office capital account	3,856,160									
Unremitted profit	161,693									
	4,017,853									

40.3.2 Maturities of assets and liabilities - based on expected maturity

	2016									
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
	(Rupees in '000)									
Assets										
Cash and balances with treasury banks	3,526,232	459,260	-	-	-	-	-	-	-	3,066,972
Balances with other banks	59,615	59,615	-	-	-	-	-	-	-	-
Lending to financial institutions	4,010,103	3,204,812	348,394	306,897	150,000	-	-	-	-	-
Investments	791,562	-	791,562	-	-	-	-	-	-	-
Advances	1,851,745	1,127,295	290,000	135,030	308			286,245	4,140	8,727
Operating fixed assets	47,719	0	43	80	44	12,823	12,323	13,083	9,323	-
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Other assets	71,677	19,661	15,505	7,318	15,169	-	-	8,984	1,039	4,001
	10,358,653	4,870,643	1,445,504	449,325	165,521	12,823	12,323	308,312	14,501	3,079,700
Liabilities										
Bills payable	113,122	113,122	-	-	-	-	-	-	-	-
Borrowings	829,231	171,621	209,197	448,413	-	-	-	-	-	-
Deposits and other accounts	5,144,438	4,223,338	261,100	660,000	-	-	-	-	-	-
Deferred tax liabilities	1,696	149	299	448	800	-	-	-	-	-
Other liabilities	241,845	21,280	86,263	6,625	117,977	5,720	3,980	-	-	-
	6,330,332	4,529,510	556,859	1,115,486	118,777	5,720	3,980	-	-	-
Net assets	4,028,321	341,134	888,645	(666,161)	46,744	7,103	8,343	308,312	14,501	3,079,700
Head Office capital account	3,856,160									
Unremitted profit	172,478									
Deficit on revaluation of assets	(317)									
	4,028,321									

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	2015									
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
	(Rupees in '000)									
Assets										
Cash and balances with treasury banks	4,233,157	376,997	-	-	-	-	-	-	-	3,856,160
Balances with other banks	127,674	127,674	-	-	-	-	-	-	-	-
Lending to financial institutions	3,741,212	3,111,986	289,554	339,672	-	-	-	-	-	-
Advances	2,589,396	880,257	791,600	438,255	200,724	119,556	61,725	95,728	1,185	366
Operating fixed assets	61,442	1,715	3,160	4,740	9,480	13,799	11,126	11,928	5,494	-
Other assets	70,485	48,152	12,094	4,616	1,146	79	79	158	158	4,003
	10,823,366	4,546,781	1,096,408	787,283	211,350	133,434	72,930	107,814	6,837	3,860,529
Liabilities										
Bills payable	6,211	6,211	-	-	-	-	-	-	-	-
Borrowings	1,409,814	104,741	209,482	1,095,591	-	-	-	-	-	-
Deposits and other accounts	5,223,318	4,742,243	147,878	109,866	218,331	5,000	-	-	-	-
Deferred tax liability	4,451	58	117	177	354	1,220	984	1,055	486	-
Other liabilities	161,719	50,634	1,130	2,285	103,564	3,979	127	-	-	-
	6,805,513	4,903,887	358,607	1,207,919	322,249	10,199	1,111	1,055	486	-
Net assets	4,017,853	(357,106)	737,801	(420,636)	(110,899)	123,235	71,819	106,759	6,351	3,860,529
Head Office capital account	3,856,160									
Unremitted profit	161,693									
	4,017,853									

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40.4 Operational risk

Operational risk is the risk of direct or indirect loss that may arise due to an event or action resulting from the failure of technology, processes, infrastructure, personnel and other risks having an operational risk impact. The Branch ensures that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

The key objectives of operational risk measurement and management include:

- Ensuring continued solvency of the Branch through capital adequacy and enhanced understanding and management of significant operational risk exposures.

- Ensuring customer impact is minimized through protective and focused risk management practices.

- Ensuring senior management attention on significant operational risk exposure areas and mitigating risks is prioritized, focused and adequate.

- Ensuring staff is sufficiently incentivized to perform their risk management roles and responsibilities diligently.

The management of the Branch has the responsibility to supervise and direct the management of operational risks and exposures. Management is also responsible for ensuring that adequate and appropriate policies and procedures are in place for the identification, assessment, monitoring, control and reporting of operational risks.

Line management needs information to enable it to analyze operational risks, implement mitigating measures and determine the effectiveness of these mitigating measures. The Branch has implemented various tools to support the line management.

- Compliance and Regulatory Risk Management (Control Self-Assessment (CSA) Framework)

- Risk Assets Management System BRAMPS - OP Framework Approach. All operations incidences are reported to Head Office through web-based reporting system.

A structured approach has been adopted which helps the line management to identify and assess the risk of non-compliance with regulatory requirements as well as internal policies. The Branch has implemented a comprehensive Compliance Risk Management Framework whereby self-assessment is undertaken by each business / support unit to mitigate the operational risk.

41. DATE OF AUTHORISATION

These financial statements were authorized for issue on 24 MAR 2017 by the management of the Branch.

42. GENERAL

These financial statements have been prepared in accordance with format for the financial statements of banks issued by the State Bank of Pakistan through BSD Circulars No. 4 and 7 dated 17 February 2006 and 20 April 2010 respectively and related clarifications / modifications.

Figures have been rounded off to the nearest thousand Rupees, unless otherwise stated.

KAZUTO OHASHI
General Manager

General Manager

HASEEB SAIED
Deputy General Manager