

Oman International Bank S.A.O.G - Pakistan Branches
Statement of Financial Position
As at 31 December 2010

	Note	2010 (Rupees in '000)	2009
ASSETS			
Cash and balances with treasury banks	7	3,363,076	3,328,022
Balances with other banks	8	62,870	52,781
Lendings to financial institutions	9	110,000	150,000
Investments		-	-
Advances	10	477,612	387,223
Operating fixed assets	11	22,983	10,461
Deferred tax assets	12	-	-
Other assets	13	164,490	16,964
		4,201,031	3,945,451
LIABILITIES			
Bills payable	14	5,493	7,577
Borrowings	15	321,910	382,008
Deposits and other accounts	16	847,792	690,196
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities - net		-	-
Other liabilities	17	25,056	18,094
		1,200,251	1,097,875
NET ASSETS		3,000,780	2,847,576
REPRESENTED BY:			
Head office capital account	18	3,393,743	3,203,140
Reserves		-	-
Accumulated losses		(392,963)	(355,564)
		3,000,780	2,847,576
Surplus / (deficit) on revaluation of assets		-	-
		3,000,780	2,847,576

CONTINGENCIES AND COMMITMENTS 19

The annexed notes 1 to 44 form an integral part of these financial statements.

Acting Country Manager

Manager Finance

Oman International Bank S.A.O.G - Pakistan Branches

Profit and Loss Account

For the year ended 31 December 2010

	2010	2009
	(Rupees in '000)	
Mark-up / return / interest earned	21 65,106	56,707
Mark-up / return / interest expensed	22 (78,041)	(75,569)
Net mark-up / interest expense	(12,935)	(18,862)
Reversal / (provision) against non-performing loans and advances - net	10.4	
- Specific	18,578	1,611
- General	3,591	(783)
Provision for diminution in the value of investments	-	-
Bad debts written off directly	-	-
	22,169	828
Net Mark-up / interest income / (expense) after provisions	9,234	(18,034)
NON MARK-UP / INTEREST INCOME		
Fee, commission and brokerage income	7,001	8,859
Dividend income	-	-
Income from dealing in foreign currencies	1,784	5,191
Gain / (loss) on sale of securities	-	-
Unrealized gain / (loss) on revaluation of investments classified as held for trading	-	-
Other income	23 3,797	3,547
Total non-mark-up / interest income	12,582	17,597
	21,816	(437)
NON MARK-UP / INTEREST EXPENSES		
Administrative expenses	24 (59,134)	(55,148)
Other reversals / (provisions) / (write offs)	-	-
Other charges	25 (81)	(3,121)
Total non-mark-up / interest expenses	(59,215)	(58,269)
	(37,399)	(58,706)
Extra ordinary / unusual items	-	-
LOSS BEFORE TAXATION	(37,399)	(58,706)
Taxation - Current	-	-
- Prior years	-	-
- Deferred	-	-
	26 -	-
LOSS AFTER TAXATION	(37,399)	(58,706)
Earnings / (loss) per share - Basic and diluted	27 -	-

The annexed notes 1 to 44 form an integral part of these financial statements.

Acting Country Manager

Manager Finance

Oman International Bank S.A.O.G - Pakistan Branches
Statement of Comprehensive Income
For the year ended 31 December 2010

	2010	2009
	(Rupees in '000)	
Loss after taxation for the year	(37,399)	(58,706)
Other comprehensive income		
Exchange adjustments on revaluation of Head office capital account	52,888	194,141
Total comprehensive income for the year	<u>15,489</u>	<u>135,435</u>

The annexed notes 1 to 44 form an integral part of these financial statements.

Acting Country Manager

Manager Finance

Oman International Bank S.A.O.G - Pakistan Branches

Cash Flow Statement

For the year ended 31 December 2010

	Note	2010 (Rupees in '000)	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		(37,399)	(58,706)
Adjustments:			
Depreciation	24	1,940	1,631
Amortisation	24	4,516	3,437
Gain on sale of operating fixed assets		(485)	-
Reversal against non-performing advances - net	10.4	(22,169)	(828)
Provision against other assets - net	13.1	1,286	113
		<u>(14,912)</u>	<u>4,353</u>
		(52,311)	(54,353)
(Increase) / decrease in operating assets			
Advances		(68,220)	(109,306)
Lendings to financial institution		40,000	(150,000)
Others assets (excluding advance taxation)		(4,782)	4,971
		<u>(33,002)</u>	<u>(254,335)</u>
Increase / (decrease) in operating liabilities			
Bills payable		(2,084)	3,541
Borrowings		(60,098)	195,602
Deposits		157,596	168,622
Other liabilities		6,962	304
		<u>102,376</u>	<u>368,069</u>
		17,063	59,381
Income tax paid		(46)	(12)
Net cash flow from operating activities		<u>17,017</u>	<u>59,369</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investment in operating fixed assets		(18,978)	(458)
Proceeds from sale of operating fixed asset		485	-
Net cash used in investing activities		<u>(18,493)</u>	<u>(458)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital utilised during the year		(6,269)	-
Net cash used in financing activities		<u>(6,269)</u>	<u>-</u>
Effects of exchange adjustment on revaluation of capital		52,888	194,141
Increase in cash and cash equivalents		<u>45,143</u>	<u>253,052</u>
Cash and cash equivalents at beginning of the year		3,380,803	3,127,751
Cash and cash equivalents at end of the year	28	<u>3,425,946</u>	<u>3,380,803</u>

The annexed notes 1 to 44 form an integral part of these financial statements.

Acting Country Manager

Manager Finance

Oman International Bank S.A.O.G - Pakistan Branches

Statement of Changes in Equity

For the year ended 31 December 2010

	Head office capital account	Accumulated losses (a)	Total
	----- (Rupees in '000) -----		
Balance as at 01 January 2009	3,008,999	(296,858)	2,712,141
<i>Changes in equity during 2009</i>			
Total comprehensive income for the year:			
Loss after taxation for the year ended 31 December 2009	-	(58,706)	(58,706)
<i>Other comprehensive income for the year</i>			
Exchange adjustments on revaluation of capital	194,141	-	194,141
	194,141	(58,706)	135,435
Transaction with owners, recorded directly in equity:			
Remittances from head office	-	-	-
Balance as at 31 December 2009	3,203,140	(355,564)	2,847,576
<i>Changes in equity during 2010</i>			
Total comprehensive income for the year:			
Loss after taxation for the year ended 31 December 2010	-	(37,399)	(37,399)
<i>Other comprehensive income for the year</i>			
Exchange adjustments on revaluation of capital	52,888	-	52,888
	52,888	(37,399)	15,489
Transaction with owners, recorded directly in equity:			
Capital utilised during the year	(6,269)	-	(6,269)
Remittances from head office (refer Note No. 18.1)	143,984	-	143,984
Balance as at 31 December 2010	3,393,743	(392,963)	3,000,780

(a) As more fully explained in note 10.3.1 of these financial statements the amount of Rs. 13.162 million as at 31 December 2010 represents profit arising from availing forced sale value benefit for determining provisioning requirement is not available for the purpose of remittance.

The annexed notes 1 to 44 form an integral part of these financial statements.

Acting Country Manager

Manager Finance

Oman International Bank S.A.O.G - Pakistan Branches

Notes to the Financial Statements

For the year ended 31 December 2010

1. STATUS AND NATURE OF BUSINESS

- 1.1** Oman International Bank S.A.O.G. is an Omani Joint Stock Company incorporated and domiciled in the Sultanate of Oman. The Oman International Bank S.A.O.G. presently operates through three branches in Pakistan i.e. at Karachi, Lahore and Gawadar. The Pakistan branches (the Bank) operate as branches of a foreign entity in Pakistan and are engaged in banking activities permissible under the Banking Companies Ordinance, 1962. The registered office of the Bank is located at Nadir House, I.I. Chundrigar Road, Karachi.
- 1.2** The Bank obtained a rating of BBB for its medium to long-term debt and A2 for short-term debt, from JCR-VIS Credit Rating Agency.

2. BASIS OF PRESENTATION

- 2.1** In accordance with the directives of the Federal Government regarding shifting of the banking system to the Islamic modes, the State Bank of Pakistan has issued various circulars from time to time. Permissible form of trade related mode of financing includes purchase of goods by the bank from its customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereon.
- 2.2** Consistent with prior years, expenses of the head office allocable to the Pakistan branches are not incorporated in the books of account.

3. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board, as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and the directives issued by the State Bank of Pakistan (SBP). In case the requirements of provisions and directives issued under the Companies Ordinance, 1984, and the Banking Companies Ordinance, 1962, and the directives issued by SBP differ, the provisions of and the directives issued under the Companies Ordinance, 1984, and the Banking Companies Ordinance, 1962, and the directives issued by the SBP shall prevail.

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 a notification of Securities and Exchange Commission of Pakistan dated 28 April 2008, International Financial Reporting Standard (IFRS) 7 "Financial Instruments Disclosure" has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements.

4. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention except for derivative financial instruments which are stated at fair values.

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

4.1 Use of estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Bank's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Bank's financial statements or where judgment was exercised in application of accounting policies are explained in note 42 to these financial statements.

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

The following standards, amendments and interpretations of approved accounting standards are effective for accounting periods beginning on or after 01 January 2011:

- Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 01 February 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. This interpretation has no impact on the Bank's financial statements.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 01 July 2010). This interpretation provides guidance on the accounting for debt for equity swaps. This interpretation has no impact on Bank's financial statements.
- IAS 24 Related Party Disclosures (revised 2009) – effective for annual periods beginning on or after 01 January 2011. The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment would result in certain changes in disclosures.
- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 01 January 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment is not likely to have any impact on Bank's financial statements.

- Improvements to IFRSs 2010 – In May 2010, the IASB issued improvements to IFRSs 2010, which comprise of 11 amendments to 7 standards. Effective dates, early application and transitional requirements are addressed on a standard by standard basis. The majority of amendments are effective for annual periods beginning on or after 01 January 2011. The amendments include list of events or transactions that require disclosure in the interim financial statements and fair value of award credits under the customer loyalty programmes to take into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. Certain of these amendments will result in increased disclosures in the financial statements.
- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after 01 January 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The amendment has no impact on financial statements of the Bank.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

6.1 Cash and cash equivalents

Cash and cash equivalents, for the purpose of cash flow statement, represent cash and balances with treasury banks, balances with other banks in current, deposit and savings accounts.

6.2 Lendings / borrowings to financial institutions

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

6.3 Purchase under resale obligation

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

6.4 Sale under repurchase obligation

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

6.5 Other lendings/ borrowings

These are recorded at the time of receipt / payment. Mark-up received / paid on such lending / borrowings is charged to the profit and loss account over the period of lending / borrowings.

6.6 Advances

Advances are stated at cost less any amount written off and specific and general provisions made, if any. Specific provision is made for non-performing advances in accordance with the requirements of the Prudential Regulations issued by the SBP and according to the Bank's own criteria.

Non-performing advances are written off only when all possible courses of action to achieve recovery have proved unsuccessful. The Bank determines write-offs in accordance with the criteria prescribed by SBP vide BPRD Circular No. 06 of 2007 dated 05 June 2007.

6.7 Operating fixed assets and depreciation

Tangible

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is charged to income applying the straight line method whereby the cost of an asset is written off over its estimated useful life. The rates used are specified in note 11.2 to the financial statements.

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

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

The assets' residual values and their useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

Intangible

These are stated at cost less accumulated amortisation and impairment losses, if any. The cost of the intangible assets represents their purchase cost, together with any incidental costs. Amortisation is charged to income applying the straight line method whereby the cost of an asset is written off over the estimated useful life at the rates specified in note 11.3 to the financial statements.

6.8 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the profit and loss account except to the extent that it relates to items recognized directly in equity.

Current

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date and any adjustments to the tax payable in respect of previous years.

Deferred

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

6.9 Staff retirement benefits

Defined benefit plan - Employees' Gratuity Fund

The Bank operates an approved funded gratuity scheme. Annual contribution to the scheme are made on the basis of actuarial valuation using Projected Unit Credit Method. Actuarial gains and losses are recognised as income or expense when the cumulative unrecognised actuarial gains or losses exceed 10% of the higher of defined benefit obligation and the fair value of plan assets. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plan.

Defined contribution plan - Employees' Provident Fund

The Bank operates an approved contributory provident fund for all its permanent employees. Contributions are made monthly in accordance with the fund rules.

6.10 Provisions

Provision for guarantee claims and other off balance sheet obligations is recognised when intimated and reasonable certainty exists for the Bank to settle the obligation. Expected recoveries are recognised by debiting the customer's account. Charge to profit and loss account is stated net-of expected recoveries.

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

6.11 Contingent assets and liabilities

Contingent assets are not recognised, and are also not disclosed unless an inflow of economic benefits is probable and contingent liabilities are not recognised, and are disclosed unless the probability of an outflow of resources embodying economic benefits are remote.

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are accounted for as off-balance sheet transactions and are disclosed as contingent liabilities and commitments.

6.12 Revenue recognition

Mark-up income and expenses are recognized on a time proportion basis taking into account effective yield on the instrument, except in case of advances classified under the Prudential Regulations issued by the State Bank of Pakistan on which mark-up is recognized on receipt basis.

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

Gains and losses on sale of investments and operating fixed assets are recognised in the profit and loss account, when the risks and rewards of ownership are transferred.

All exchange differences are recognised in income.

6.13 Foreign currencies

Foreign currency transactions are translated into rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into rupees at the exchange rates prevailing at the balance sheet date. Outstanding forward foreign exchange contracts and foreign bills purchased are valued at the market rates applicable to the respective maturities. Exchange gains and losses are included in income currently.

6.14 Off Setting of financial assets and financial liabilities

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

6.15 Impairment of non-financial assets

The carrying amount of the Bank's assets (other than deferred tax asset) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the relevant asset is estimated. 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. An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

6.16 Derivatives

Derivative financial instruments are recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value using appropriate valuation techniques. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the balance sheet. The resultant gains and losses are taken to income currently.

6.17 Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Bank in these financial statements.

6.18 Segment reporting

Segment reporting is based on operating (business) segments of the Bank. An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components. An operating segment's operating results are reviewed regularly by the country manager, which have been presented according to the functional basis and the guidance of SBP, to make decisions about resources to be allocated to the segment and assess its performance, and for which financial information is available. These have been presented as per the Bank's functional structure and guidance of SBP. The segments of the bank are as follows:

Business segments

Retail banking

It consists of retail lending, deposits and banking services to private individuals and small businesses. The retail banking activities includes provision of banking and other financial services, such as current and savings accounts, etc to individual customers, small merchants and SMEs.

Commercial banking

The commercial banking represents provision of banking services including International Trade related activities to large corporate customers, multinational companies, government and semi government departments and institutions and SMEs treated as corporate under the Prudential Regulations issued by the State Bank of Pakistan.

Trading & sales

Trading business represents lending and borrowing from money markets and other treasury operations.

Geographical segments

The Bank operates in Pakistan only.

7. CASH AND BALANCES WITH TREASURY BANKS		2010	2009
		(Rupees in '000)	
In hand:			
Local currency		24,929	8,807
Foreign currency		3,873	11,332
		28,802	20,139
With State Bank of Pakistan in:			
Local currency current account	7.1	68,556	88,989
Local US Dollar collection account	7.2	1,259	1,294
Foreign currency deposit account:			
Capital deposit with the SBP		3,249,759	3,203,140
Cash reserve	7.3	3,854	3,791
Special cash reserve	7.4	10,846	10,669
		3,334,274	3,307,883
		3,363,076	3,328,022

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

7.2 This represents US Dollar settlement account opened with the SBP in accordance with FE Circular No. 2 and is non remunerated.

7.3 This represents statutory cash reserve (at nil return) in the current account maintained with the SBP under the requirements of the SBP.

7.4 This represents statutory cash reserve maintained against foreign currency deposits mobilised under FE 25 Circular issued by the SBP is non remunerated.

8. BALANCES WITH OTHER BANKS		2010	2009
		(Rupees in '000)	
In Pakistan			
On current accounts		1,850	221
Outside Pakistan			
On current accounts - remunerative	8.1	61,020	52,560
		62,870	52,781

8.1 This includes Rs. 22.070 million (2009: Rs. 9.258 million) held with the Bank's Head Office Oman International Bank S.A.O.G., Muscat, Sultanate of Oman.

9. LENDINGS TO FINANCIAL INSTITUTIONS

2010 2009
(Rupees in '000)

Call money lendings	9.2	110,000	150,000
---------------------	-----	----------------	---------

9.1 Particulars of lending

In local currency		110,000	150,000
In foreign currencies		-	-
		110,000	150,000

9.2 This represents lending to a commercial bank carrying mark up rate of 12% (2009: 12.35%) and having maturity on 03 January 2011 (2009: 02 January 2010).

10. ADVANCES

Loans, cash credits, running finances, etc.

- In Pakistan	10.1	493,328	420,101
- Outside Pakistan		-	-
		493,328	420,101

Bills discounted and purchased (excluding treasury bills)

- Payable in Pakistan		-	-
- Payable outside Pakistan		-	5,007
		-	5,007

Advances - gross

		493,328	425,108
--	--	----------------	---------

Provision for non-performing advances

- specific	10.4	(15,716)	(34,294)
- general	10.4	-	(3,591)
		(15,716)	(37,885)

Advances - net of provision

		477,612	387,223
--	--	----------------	---------

10.1 This includes a House loan to the Acting Country Manager - Pakistan of Rs.3.471 million (2009: 0.210) carried a mark-up rate of 2% per annum.

10.2 Particulars of advances (Gross)

10.2.1 In local currency		493,328	420,101
In foreign currencies		-	5,007
		493,328	425,108

10.2.2 Short term (for up to one year)		475,471	425,108
Long term (for over one year)		17,857	-
		493,328	425,108

10.3 Advances include Rs.48,503 million (2009: Rs. 83,218 million) which have been placed under non-performing status as detailed below:

Category of Classification	2010								
	Classified Advances			Specific Provision Required			Specific Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	----- (Rupees in '000) -----								
Substandard	20,833	-	20,833	-	-	-	-	-	-
Doubtful	8,000	-	8,000	-	-	-	-	-	-
Loss	19,670	-	19,670	15,716	-	15,716	15,716	-	15,716
	48,503	-	48,503	15,716	-	15,716	15,716	-	15,716

Category of Classification	2009								
	Classified Advances			Specific Provision Required			Specific Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	----- (Rupees in '000) -----								
Substandard	57,101	-	57,101	12,389	-	12,389	12,389	-	12,389
Doubtful	3,951	-	3,951	-	-	-	-	-	-
Loss	22,166	-	22,166	21,905	-	21,905	21,905	-	21,905
	83,218	-	83,218	34,294	-	34,294	34,294	-	34,294

10.3.1 In accordance with BSD Circular No. 2 dated January 27, 2009 issued by the State Bank of Pakistan, the Bank has availed the benefit of FSV against the non-performing advances (excluding consumer housing finance portfolio). Had this benefit of FSV not been taken by the Bank, the specific provision against non-performing advances would have been higher by Rs. 13.162 million and loss before taxation for the year ended 31 December 2010 would have been higher by approximately Rs. 13.162 million. Decrease in loss would not be available for the remittance to Head Office.

10.4 Particulars of provision against non-performing advances

	2010			2009		
	Specific	General	Total	Specific	General	Total
	----- (Rupees in '000) -----					
Opening balance	34,294	3,591	37,885	35,905	2,808	38,713
Charge for the year	435	-	435	12,389	1,604	13,993
Amounts written off	-	-	-	-	-	-
Recoveries	(6,624)	-	(6,624)	(14,000)	-	(14,000)
Reversals	(12,389)	(3,591)	(15,980)	-	(821)	(821)
Closing balance	15,716	-	15,716	34,294	3,591	37,885

10.4.1 Particulars of provisions against non-performing advances

	2010			2009		
	Specific	General	Total	Specific	General	Total
	----- (Rupees in '000) -----					
In local currency	15,716	-	15,716	34,294	3,591	37,885
In foreign currencies	-	-	-	-	-	-
	15,716	-	15,716	34,294	3,591	37,885

10.4.2 The financial statements of the previous year maintained an additional general provision of Rs. 3.59 million against corporate loans which has been reversed in the current year as the same is not required under the State Bank of Pakistan's Prudential Regulations.

10.5 Particulars of write offs

In terms of sub-section 3 of section 33A of the Banking Companies Ordinance, 1962, there were no written off loans or any other financial relief allowed to a person(s) during the year ended 31 December 2010.

10.6 PARTICULARS OF LOANS AND ADVANCES TO ACTING COUNTRY MANAGER, ASSOCIATED COMPANIES, ETC.

	2010	2009
	(Rupees in '000)	
Debts due by country manager, executives or officers of the Bank or any of them either severally or jointly with any other persons		
Balance at beginning of year	210	-
Transferred during the year	3,761	234
Repayments	(500)	(24)
Balance at end of year	3,471	210

11. OPERATING FIXED ASSETS	2010		2009
	(Rupees in '000)		
Capital Work-in-progress	11.1	11,477	-
Property and equipment - tangible	11.2	5,725	4,738
Intangible assets	11.3	5,781	5,723
		<u>22,983</u>	<u>10,461</u>

11.1 Capital work-in-progress			
Office equipment		4,883	-
Computer software		325	-
Advance to contractor		6,269	-
		<u>11,477</u>	<u>-</u>

11.2 Property and equipment - tangible

	2010							
	COST			ACCUMULATED DEPRECIATION			Book Value	Rate of Depreciation %
	As at 01 January 2010	Additions/ (Deletions)	As at 31 December 2010	As at 01 January 2010	Charge for the year / (Deletions)	As at 31 December 2010	as at 31 December 2010	
(Rupees in '000)								
Leasehold improvements	11,059	111	11,170	10,687	94	10,781	389	10
Furniture and fixture	5,461	93	5,554	5,098	54	5,152	402	10
Electrical, office and computer equipments	14,155	2,723 (1,287)	16,878 (1,287)	11,645 -	1,047 (1,287)	12,692 (1,287)	4,186 -	20
Vehicles	6,338	-	6,338	4,845	745	5,590	748	20
	<u>37,013</u>	<u>2,927 (1,287)</u>	<u>38,653</u>	<u>32,275</u>	<u>1,940 (1,287)</u>	<u>32,928</u>	<u>5,725</u>	

	2009							
	COST			ACCUMULATED DEPRECIATION			Book Value	Rate of Depreciation %
	As at 01 January 2009	Additions/ (Deletions)	As at 31 December 2009	As at 01 January 2009	Charge for the year / (Deletions)	As at 31 December 2009	as at 31 December 2009	
(Rupees in '000)								
Leasehold improvements	11,059	-	11,059	10,602	85	10,687	372	10
Furniture and fixture	5,461	-	5,461	5,023	75	5,098	363	10
Electrical, office and computer equipments	13,697	458	14,155	10,920	725	11,645	2,510	20
Vehicles	6,338	-	6,338	4,099	746	4,845	1,493	20
	<u>36,555</u>	<u>458</u>	<u>37,013</u>	<u>30,644</u>	<u>1,631</u>	<u>32,275</u>	<u>4,738</u>	

11.2.1 The gross carrying value of fully depreciated items in use amounts to Rs. 26.109 million (2009: Rs. 27.964 million).

11.3 Intangible assets

	2010							
	COST			ACCUMULATED AMORTISATION			Book Value	Rate of Amortisation %
	As at 01 January 2010	Additions/ (Deletions)	As at 31 December 2010	As at 01 January 2010	Charge for the year / (Deletions)	As at 31 December 2010	as at 31 December 2010	
(Rupees in '000)								
Computer software	10,899	4,574	15,473	5,176	4,516	9,692	5,781	33.33
	<u>10,899</u>	<u>4,574</u>	<u>15,473</u>	<u>5,176</u>	<u>4,516</u>	<u>9,692</u>	<u>5,781</u>	

	2009							
	COST			ACCUMULATED AMORTISATION			Book Value	Rate of Amortisation %
	As at 01 January 2009	Additions/ (Deletions)	As at 31 December 2009	As at 01 January 2009	Charge for the year / (Deletions)	As at 31 December 2009	as at 31 December 2009	
(Rupees in '000)								
Computer software	10,899	-	10,899	1,739	3,437	5,176	5,723	33.33
	<u>10,899</u>	<u>-</u>	<u>10,899</u>	<u>1,739</u>	<u>3,437</u>	<u>5,176</u>	<u>5,723</u>	

11.3.1 The gross carrying value of fully amortized intangible assets in use amounts to Rs. 1.297 million (2009: Rs. 0.632 million).

12. DEFERRED TAX ASSETS

At year end net deductible temporary differences amounted to Rs. 20.421 million (2009: Rs. 36.525 million) which result in a net deferred tax asset of Rs. 7.147 million (2009: Rs. 12.789 million). Furthermore, as at year-end unused tax losses amounted to Rs.260.546 million (2009: Rs. 223.400 million), which results in a deferred tax asset of Rs. 91.191 million (2009: Rs. 78.190 million). However, the net deferred tax asset has not been recognised for, as per the accounting policy of the Bank, as it is not probable that taxable profits will be available in the future against which the deductible temporary differences and tax losses can be utilised.

13. OTHER ASSETS	2010	2009
	(Rupees in '000)	
Income / mark-up accrued in local currency	17,832	13,912
Advances, deposits, advance rent and other prepayments	4,249	3,209
Advance taxation (payments less provisions)	226	180
Stationery and stamps in hand	260	278
Receivable in respect of head office capital	143,984	-
Others	139	299
	166,690	17,878
Provision held against other assets	(2,200)	(914)
Other assets (net of provisions)	164,490	16,964

13.1 This amount was received by the SBP on 03 January 2011 (refer Note 18.1).

13.2 Provision against other assets

Opening balance	914	801
Charge for the year	1,409	151
Reversals	(123)	(38)
	1,286	113
Closing balance	2,200	914

14. BILLS PAYABLE

In Pakistan	5,493	7,577
Outside Pakistan	-	-
	5,493	7,577

15. BORROWINGS

In Pakistan	321,910	382,008
Outside Pakistan	-	-
	321,910	382,008

15.1 Particulars of borrowings with respect to currencies

In local currency	65,000	382,008
In foreign currencies	256,910	-
	321,910	382,008

15.2 Details of borrowings

Secured

Borrowings from the State Bank of Pakistan under export refinance scheme	65,000	32,008
--	---------------	--------

Unsecured

Call borrowings	-	350,000
Borrowing from Head Office	256,910	-
	321,910	382,008

15.2.1 These represents borrowings from SBP under export refinance scheme (both P-I & P-II) at the rate of 8.5% -10% on P-I and 9% on P-II respectively (2009: 7% & 6.5% respectively)

15.2.2 These represents borrowing amounting to USD 1.0 million @ 1% with maturity on 31 January 2011 and USD 2.0 million @0.70% with maturity on 06 January 2011.

16. DEPOSITS AND OTHER ACCOUNTS	2010	2009
	(Rupees in '000)	
Customers		
Fixed deposits	275,964	240,229
Savings deposits	104,294	100,077
Current accounts - Remunerative	51,366	100,916
Current accounts - Non-remunerative	207,290	152,351
Margin deposits	102,491	93,519
	<u>741,405</u>	<u>687,092</u>
Financial Institutions		
Remunerative deposits	91,921	1,030
Non-remunerative deposits	14,466	2,074
	<u>106,387</u>	<u>3,104</u>
	<u>847,792</u>	<u>690,196</u>

16.1 Particulars of deposits

In local currency	794,074	625,370
In foreign currencies	53,718	64,826
	<u>847,792</u>	<u>690,196</u>

16.2 This includes deposit of Rs. 8.483 million (2009: Rs.0.395 million) held by the Branch's Head Office Oman International Bank, S.A.O.G, Muscat, Oman.

17. OTHER LIABILITIES

Mark-up / return / interest payable in local currency		7,775	7,379
Accrued expenses		1,625	1,519
Due to Head Office	17.1	15,173	8,904
Payable to defined benefit plan	30.1.3	199	-
Others		284	292
		<u>25,056</u>	<u>18,094</u>

17.1 Theses represent expenses incurred by the Head Office at the time of establishment of branches in Pakistan amounting to Rs. 8.904 million and Rs. 6.269 million represents the payment made through Capital to East Nets for SWIFT Implementation.

18. HEAD OFFICE CAPITAL ACCOUNT

Capital held with the State Bank of Pakistan as interest free deposit in approved foreign exchange:

Balance at 01 January		3,203,140	3,008,999
Remittance from Head Office	18.1	143,984	-
Utilised during the year		(6,269)	-
Revaluation surplus allowed by the State Bank		52,888	194,141
Balance at 31 December		<u>3,393,743</u>	<u>3,203,140</u>
[2010: US Dollar 39.629 million (2009: US Dollar 38.022 million)]			

18.1 This represent US Dollar 1.68 million remitted by the Head Office to branch on 31 December 2010, to meet the Regulatory Capital requirement. This amount was received and confirmed by SBP on 03 January 2011 and credited the capital account on 04 January 2011 .The SBP vide their letter No. BSD/BAI-3/608/423/2011 dated 12 January 2011, has considered the Oman International Bank (Pakistan) operations as compliant with regulatory capital requirement as at 31 December 2010.

19. CONTINGENCIES AND COMMITMENTS	2010	2009
	(Rupees in '000)	
19.1 Direct credit substitutes		
Includes general guarantees of indebtedness, bank acceptances guarantees, serving as financial guarantees for loans and securities issued in favour of:		
Government	19,534	23,119
Others	20,441	25,842
	<u>39,975</u>	<u>48,961</u>
19.2 Transaction-related contingent liabilities		
Including performance bonds, bid bonds issued in favour of:		
Government	17,707	14,464
Others	9,989	989
	<u>27,696</u>	<u>15,453</u>
19.3 Trade-related contingent liabilities		
Short-term self-liquidating trade-related arising from the movement of goods, such as documentary credits where the underlying shipment is used as security.		
Letter of credit - others	<u>506,146</u>	<u>297,852</u>
19.4 Other contingencies		
Claims against the Bank not acknowledged as debts	<u>-</u>	<u>10,000</u>
19.5 Commitments in respect of forward exchange contracts		
Purchase	<u>256,910</u>	<u>-</u>
Sale	<u>-</u>	<u>-</u>
19.6 Commitments in respect of forward lending		
Commitments to extend credit	<u>166,070</u>	<u>78,155</u>
19.7 Commitments for the acquisition of operating fixed assets	<u>16,800</u>	<u>-</u>
20. DERIVATIVE INSTRUMENTS		
The Bank carried out derivative transactions in respect of forward foreign exchange contracts and foreign exchange swaps.		
Accounting policies in respect of derivative financial instruments are prescribed in note 6.16.		

21. MARK-UP / RETURN / INTEREST EARNED	2010	2009
	(Rupees in '000)	
On loans and advances to:		
Customers	53,922	42,467
Financial institutions	5,286	9,232
On deposits with financial institutions	<u>5,898</u>	<u>5,008</u>
	<u>65,106</u>	<u>56,707</u>
 22. MARK-UP / RETURN / INTEREST EXPENSED		
Deposits	40,132	33,522
Other short term borrowings	<u>37,909</u>	<u>42,047</u>
	<u>78,041</u>	<u>75,569</u>
 23. OTHER INCOME		
Service charges	2,054	1,838
Others	23.1 <u>1,743</u>	<u>1,709</u>
	<u>3,797</u>	<u>3,547</u>
 23.1	Includes income from various general banking services such as cheque book charges, cheque return charges, cheque handling charges, recovery of telex, courier and postage charges.	
 24. ADMINISTRATIVE EXPENSES		
Salaries, allowances, etc.		19,770
Charge for defined benefit plan	30.1.6	390
Contribution to defined contribution plan		712
Rent, taxes, insurance, electricity, etc.		8,796
Legal and professional charges		1,881
Communications		5,647
Repairs and maintenance		4,641
Stationery and printing		587
Advertisement and publicity		466
Auditors' remuneration	24.1	939
Depreciation	11.2	1,940
Amortization	11.3	4,516
Brokerage and commission		271
Fees and subscription		1,693
Travelling & entertainment		1,025
Vehicle running expenses		324
Security charges		1,121
Training		60
Bank charges		2,149
Others		2,206
		<u>59,134</u>
 24.1 Auditors' remuneration		
Audit fee - statutory		300
Special certifications, reviews and other services		500
Out-of-pocket expenses		139
		<u>939</u>
 25. OTHER CHARGES		
Penalties imposed by the State Bank of Pakistan		<u>81</u>
		<u>3,121</u>

26. TAXATION

As the Bank has accumulated tax losses amounting to Rs. 260.546 million (2009 : Rs. 222.800) as on 31 December 2010, no provision for taxation is required. Assessments for the assessment years 1996-1997 to 2005 have been finalised. Appeals had been filed against the orders of Taxation Officer (TO) to Commissioner Income-Tax (Appeals) [CIT-A]. Subsequent to the orders of CIT-A for assessment years 1996-1997 to 2005 appeals have been filed by the tax department and the Bank to the Income Tax Appellate Tribunal (ITAT) against orders of CIT-A. These appeals have been decided by the ITAT partly in favour and partly against the Bank. The Bank has now filed a reference to the High Court through the ITAT for the assessment years 1996-1997, 1997-1998, 1998-1999 and 1999-2000 in respect of matters decided against the Bank.

The orders have been finalised by the ITAT for the assessment year 2000-2001, 2001-2002 and 2002-2003 and approval of the final order is pending. The returns for the tax years 2006, 2007, 2008, 2009 and 2010 have been filed and the same is deemed as assessed, as per Section 120 of the Income Tax Ordinance, 2001. However, the cases of the tax years 2003, 2004 and 2005 has been re-opened under section 122 of the Income Tax Ordinance, 2001 of which appeals are pending.

27. EARNINGS / (LOSS) PER SHARE

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

28. CASH AND CASH EQUIVALENTS

		2010	2009
		(Rupees in '000)	
Cash and balance with treasury banks	7	3,363,076	3,328,022
Balance with other banks	8	<u>62,870</u>	<u>52,781</u>
		<u>3,425,946</u>	<u>3,380,803</u>

29. STAFF STRENGTH

	2010	2009
	(Number)	
Permanent	26	29
Temporary / on contractual basis	1	3
Total Staff Strength	<u>27</u>	<u>32</u>

30. DEFINED BENEFIT AND CONTRIBUTION PLAN

30.1 Defined benefit plan

30.1.1 General description

The scheme provides for terminal benefits for all its permanent employees, equivalent to thirty days of last drawn basic salary for each year of service or part thereof for employees who have completed the qualifying period of three years.

Annual contribution is based on actuarial valuation carried out on 31 December 2010, using the Projected Unit Credit Method. An actuarial valuation is conducted once every two years.

30.1.2 Principal actuarial assumptions

Following are significant actuarial assumptions used in the valuation:

	2010	2009
Discount rate - percent (per annum)	14.5	15
Estimated rate of increase in salaries of the employees - percent (per annum)	13.5	14
Estimated rate of return on plan assets - percent (per annum)	14.5	15
Normal retirement age - years	58	58

30.1.3 Reconciliation of payable to defined benefit plan	2010	2009			
	(Rupees in '000)				
Present value of defined benefit obligations	2,310	1,130			
Fair value of plan assets	(2,733)	(2,892)			
Net actuarial gain not recognised	622	1,762			
Payable to defined benefit plan	199	-			
30.1.4 Movement in defined benefit obligation					
Opening balance	1,130	932			
Current service cost	606	507			
Interest cost	230	177			
Benefits paid	(415)	(486)			
Actuarial gain	760	-			
Closing balance	2,311	1,130			
30.1.5 Movement in fair value of plan assets					
Opening balance	2,892	2,733			
Expected return	322	420			
Contribution made by bank	190	309			
Benefits paid	(415)	(486)			
Actuarial loss	(256)	(84)			
Closing balance	2,733	2,892			
30.1.6 Charge for defined benefit plan					
Current service cost	606	507			
Interest cost	230	177			
Expected return on plan assets	(322)	(420)			
Actuarial (gain) / loss recognized	(124)	(121)			
	24	143			
30.1.7 Actual return on plan assets	66	336			
30.1.8 Five year data on surplus / (deficit) of the plans and experience adjustments					
	2010	2009	2008	2007	2006
	----- (Rupees in '000) -----				
Defined benefit obligation	2,311	1,130	932	1,484	1,553
Fair value of plan assets	(2,733)	(2,892)	(2,733)	(3,189)	(3,506)
(Surplus) / deficit	(422)	(1,762)	(1,801)	(1,705)	(1,953)
Experience adjustments (loss) / gain - net	29	121	99	114	56
30.2 Defined contribution plan					

The Bank operates a contributory provident fund for all its permanent employees. Equal contributions are made monthly by the Bank and the employees at the rate of 10% of basic salary.

31. COMPENSATION OF COUNTRY MANAGER AND EXECUTIVES

	Acting Country Manager		Executives	
	2010 (Rupees in '000)	2009	2010 (Rupees in '000)	2009
Fees	-	-	-	-
Managerial remuneration	908	936	1,706	1,853
Charge for defined benefit plan	82	-	100	154
Contribution to defined contribution plan	5	-	120	185
Rent and house maintenance	363	375	682	741
Utilities	91	94	170	185
Medical	60	73	249	179
Bonus	111	78	145	154
	1,620	1,556	3,172	3,451
	(Number)		(Number)	
Number of persons	2	1	3	3

31.1 The Country Manager and certain executives have been provided with free use of Bank maintained cars in accordance with their terms of employment.

31.2 Executives means employees, other than Acting Country Manager, whose basic salary exceeds five hundred thousand rupees in a financial year.

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

32.1 Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

The table below as set out carrying value and estimated fair value of on-balance sheet and off-balance sheet financial instruments.

On-balance sheet financial instruments

	2010		2009	
	Book value	Fair value	Book value	Fair value
------(Rupees in '000)-----				
Assets				
Cash balances with treasury banks	3,363,076	3,363,076	3,328,022	3,328,022
Balances with other banks	62,870	62,870	52,781	52,781
Lending to financial institutions	110,000	110,000	150,000	150,000
Investments	-	-	-	-
Advances	477,612	477,612	387,223	387,223
Other assets	159,842	159,842	14,211	14,211
	4,173,400	4,173,400	3,932,237	3,932,237
Liabilities				
Bills payable	5,493	5,493	7,577	7,577
Borrowings	321,910	321,910	382,008	382,008
Deposits and other accounts	847,792	847,792	690,196	690,196
Sub-ordinated loans	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-
Other liabilities	25,056	25,056	16,575	16,575
	1,200,251	1,200,251	1,096,356	1,096,356
Off-balance sheet financial instruments				
Forward purchase of foreign exchange	256,910	256,910	-	-
Forward sale of foreign exchange	-	-	-	-

Fair value of fixed term financing, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for assets and liabilities and reliable data regarding market rates for similar instruments. The provision for non-performing advances has been calculated in accordance with the Bank's accounting policy as stated in note 6.6 of these financial statements.

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

33. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

	Trading & Sales	Retail Banking	Commercial Banking	Total
31 December 2010				
----- (Rupees in '000) -----				
Total income	7,682	1,090	68,916	77,688
Total expenses	37,909	12,124	65,054	115,087
Net loss	(30,227)	(11,034)	3,862	(37,399)
Segment assets (gross)	3,679,966	22,909	516,072	4,218,947
Segment non performing loans	-	15,281	33,222	48,503
Segment provision required	-	15,281	435	15,716
Segment liabilities	256,910	246,112	697,229	1,200,251
Segment return on net assets (ROA) (%)	0.22	-0.46	-37.95	
Segment cost of funds (%)	14.76	4.93	9.33	
31 December 2009				
Total income	10,199	2,307	61,798	74,304
Total expenses	41,455	10,391	81,164	133,010
Net profit / (loss)	(31,256)	(8,084)	(19,366)	(58,706)
Segment assets (gross)	3,530,854	42,236	411,160	3,984,250
Segment non performing loans	-	16,166	67,052	83,218
Segment provision required	-	15,905	18,389	34,294
Segment liabilities	351,734	238,465	507,676	1,097,875
Segment return on net assets (ROA) (%)	0.32	-1.09	-53.78	
Segment cost of funds (%)	11.79	4.36	15.99	

34. RELATED PARTY TRANSACTIONS

Transactions with related parties comprise of transactions in the normal course of the business with the Bank's head office Oman International Bank S.A.O.G, Muscat, Sultanate of Oman and key management personnel. Transactions with related parties are carried at agreed rates except for compensation to key management personnel which are on employment terms.

The details of transactions with related parties are as follows:

	2010			2009		
	Key management personnel	Oman International Bank S.A.O.G - Muscat	Total	Key management personnel	Oman International Bank S.A.O.G - Muscat	Total
----- (Rupees in '000) -----						
Bank balances						
At 01 January	-	9,258	9,258	-	9,719	9,719
Deposited during the year	-	1,390,435	1,390,435	-	696,179	696,179
Withdrawn during the year	-	(1,377,776)	(1,377,776)	-	(697,267)	(697,267)
Exchange adjustment	-	153	153	-	627	627
At 31 December	-	22,070	22,070	-	9,258	9,258
Advances						
At 01 January	4,998	-	4,998	144	-	144
Disbursed during the year	-	-	-	5,234	-	5,234
Repaid during the year	(1,527)	-	(1,527)	(380)	-	(380)
At 31 December	3,471	-	3,471	4,998	-	4,998
Deposits						
At January 01	70	394	464	116	925	1,041
Received during the year	6,950	62,092	69,042	9,800	57,119	66,919
Withdrawn during the year	(6,985)	(54,003)	(60,988)	(9,846)	(57,650)	(67,496)
At December 31	35	8,483	8,518	70	394	464
Borrowings						
At January 01	-	-	-	-	158,276	158,276
Borrowed during the year	-	3,656,687	3,656,687	-	4,953,406	4,953,406
Paid during the year	-	(3,399,777)	(3,399,777)	-	(5,121,889)	(5,121,889)
Exchange adjustment	-	-	-	-	10,207	10,207
At December 31	-	256,910	256,910	-	-	-
Mark-up / return / interest earned	116	12	128	88	7	95
Mark-up / return / interest expensed	-	1,685	1,685	-	1,233	1,233
Remuneration paid	4,485	-	4,485	5,007	-	5,007
Staff provident fund	105	-	712	-	-	726
Staff gratuity fund	125	-	390	-	-	143

35. CAPITAL ASSESSMENT AND ADEQUACY - BASEL II SPECIFIC

35.1 Scope of application

The Oman International Bank S.A.O.G. - Pakistan Branches operate as branches of a foreign entity in Pakistan to which BASEL II capital adequacy framework applies.

35.2 Capital structure

The Bank's Tier I capital comprises paid-up capital/assigned capital by Head office at Muscat, deposited with State Bank of Pakistan and unappropriated profit.

		2010	2009
		(Rupees in '000)	
<i>Tier I Capital</i>			
Capital	18.1	3,393,743	3,203,140
Reserves		-	-
Unappropriated profits		(392,963)	(355,564)
Less: Adjustment for intangible assets		(5,781)	(5,723)
Total Tier I Capital		2,994,999	2,841,853
<i>Tier II Capital</i>			
Subordinated debt (upto 50% of total Tier I Capital)		-	-
General provisions subject to 1.25% of total risk weighted assets		-	3,591
Foreign exchange translation reserve		-	-
Revaluation reserve (upto 45%)		-	-
Total Tier II Capital		-	3,591
<i>Eligible Tier III Capital</i>		-	-
Total Regulatory Capital		2,994,999	2,845,444

35.3 Capital adequacy

State Bank of Pakistan requires that banks doing business in Pakistan should maintain regulatory capital for credit, market, and operational risks, the amount of which should at least be equal to 10% of their risk weighted assets.

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

Credit risk	Standardized Approach
Market risk	Standardized Approach
Operational risk	Basic Indicator Approach

As per BSD Circular No. 07 of 2009, the branches of foreign banks operating with 1 to 5 branches are required to raise their assigned capital (free of losses) to Rs. 3 billion latest by 31 December 2010 subject to the condition that their Head Offices hold paid up capital (free of losses) at least US\$ 300 million and have a CAR at least 8% or minimum prescribed by their home regulators whichever is higher. In case, the branches of foreign banks do not meet aforementioned conditions they are required to raise capital (free of losses) at par with locally incorporated banks.

Since the paid up capital (free of losses) of Head Office of Oman International Bank is under US\$ 300 million the bank is required to raise paid-up capital at par with locally incorporated banks. The State Bank of Pakistan through its letter no. BSD/BAI-3/608/7323/2010 dated 4 October 2010 has granted Oman International Bank Pakistan operations to continue its operations with paid up capital (free of losses) of Rs 3 billion as of 31 December 2010 and thereby relaxed the condition of Head Office paid up capital at least US\$ 300 million for two years.

Continuous financial support from Head Office will be available to meet the minimum capital requirements.

The capital requirements for the Bank as per major risk categories are given below:

	Capital Requirements		Risk Weighted Assets	
	2010	2009	2010	2009
	----- (Rupees in '000) -----			
<i>Credit Risk</i>				
Corporates	52,236	41,428	522,364	414,281
Banks	9,119	4,434	91,187	44,335
Retail	272	358	2,720	3,581
Residential mortgages	101	155	1,009	1,547
Equity exposures	-	-	-	-
Other assets	3,771	2,742	37,708	27,425
	65,499	49,117	654,988	491,169
<i>Market Risk</i>				
Interest rate risk	-	-	-	-
Foreign exchange risk	2,179	1,684	27,241	21,050
	2,179	1,684	27,241	21,050
<i>Operational Risk</i>				
	1,986	1,581	24,831	19,761
Total :	69,664	52,382	707,060	531,980
<i>Capital Adequacy Ratio</i>				
Total eligible regulatory capital held (Note: 35.2) (a)	2,994,999	2,845,444		
Total risk weighted assets (b)	707,060	531,980		
Capital Adequacy Ratio [(a) / (b) x 100]	423.58%	534.88%		

36. RISK MANAGEMENT

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

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

36.1 Credit risk

Credit Risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loan and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of credit risk

The Board of Directors at head office has delegated responsibility for the management of credit risk to the Board Credit Committee (BCC) which is responsible for the oversight of the Bank's credit risk.

- Formulating Credit policies
- Establishing the authorization structure
- Reviewing and assessing credit risk
- Limiting concentration of exposure to counterparties
- Developing and maintaining the Bank's risk grading
- Reviewing compliance of business units
- Providing advice, guidance and specialist skills to promote best practice in the management of credit risk.

Credit Approval Process

The Credit process requires all credit applications from Corporate & Commercial Banking unit (Pakistan) to be vetted by Risk Management Department (Head Office) which recommends the application for approval or decline to the appropriate Credit Committee in terms of delegated authority levels. The Risk Credit Committee (RCC) of the Management approves applications within its delegated limits and recommends applications above its delegated limit to the Board Credit Committee. All declines are also forwarded to the Board Credit Committee for information / confirmation of the decision.

All Retail applications in excess of the Branch Manager's authority or outside pre-defined product norms are approved by the Credit Sanctioning Unit at Head Office.

Collateral and Credit Enhancements

It is the policy of the Bank to obtain collaterals for all corporate credits, unless the business case warrants clean lending. Collaterals stipulated are usually mortgages, charge over business, stock and debtors, financial instruments and cash. Security is however recognized only as a fall back option and repayment of facilities are primarily sought from the cash flow of the borrower's business. However collateral may be an important mitigate of risk.

Large exposures and Concentration

Exposure to a person, company or group (i.e. the Single Borrower Lending Limit - SBLL) is restricted to maximum 15 % of the Bank's net worth. Further, the per party exposure limit and group exposure limit as prescribed by the State Bank of Pakistan is also adhered to. Exposure to various segments of the industry is also taken into consideration to avoid concentration risks and exposure to industries subject to high volatility is limited.

Credit quality of Loans and Advances

There is an established system for continuous monitoring of credit exposures and follow-up of any past due loans with the respective business units. All past due loans, including trade bills, are reviewed on regular basis and pursued for recovery. Specific provisions on credit portfolio are determined in accordance with Prudential Regulations of the State Bank of Pakistan. Particulars of provisions against advances are given in note 10.4.

Credit Administration

Credit Administration Department ensures that security documentation of loans and advances are perfected to protect the Bank's interest. The department is responsible for maintaining all limits and disbursements. This segregation ensures that the credit marketing function and credit operations are independent and control is effectively exercised.

Its main focus is on compliance with terms of sanction of credit facilities, compliance with Prudential Regulations and the Bank's internal policies and procedures, scrutiny of documentation, monitoring of collateral, and maintenance of borrowers' limits, mark-up rates, and security details.

36.1.1 Credit Risk: General Disclosures - Basel II Specific

All credit risk exposures of the Bank are subject to the Standardized Approach , with Simple Approach for credit risk mitigation.

36.1.2 Credit Risk: Disclosures on Portfolio Subject to Simple Approach - Basel II Specific

The Bank 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 S&P 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

Types of exposures	JCR-VIS (Local Currency)	PACRA (Local Currency)	Standard & Poors (Foreign Currency)
Corporates	x	x	-
Banks	x	x	x
Sovereigns	-	-	-
Small and Medium Enterprises	-	-	-
Securitized	-	-	-
Others (public sector enterprises)	-	-	-

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

Credit Exposures Subject to Simple Approach

Risk buckets	Amount outstanding/ credit equivalent (Rated and Unrated)	CRM deduction	Net amount
	------(Rupees in '000)-----		
0%	3,363,075	-	3,363,075
20%	40,800	-	40,800
35%	2,883	-	2,883
50%	166,054	-	166,054
75%	4,079	453	3,626
100%	508,358	847	507,511
150%	-	-	-
	4,085,249	1,300	4,083,949

CRM: Credit Risk Mitigation

Credit Risk: Disclosures on Credit Risk Mitigation for Simple Approach – Basel II Specific

Eligible collaterals used by the Bank for credit risk mitigation are cash margins and cash deposits, government securities, financial guarantees, listed shares, and other listed, quoted or rated securities. The Bank requires perfection of collaterals by marking lien on cash margins and deposits, pledging of shares and other securities, and verifying the authenticity of guarantees received. Shares and securities including marketable government securities are taken at market value, and other government securities are taken at encashment value.

36.2 Segments by class of business

	2010					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Textile	106,820	21.65	424	0.05	-	-
Chemical and pharmaceuticals	55,894	11.33	77,447	9.14	70,617	12.31
Automobile and transportation equipment	83,858	17.00	1,327	0.16	9,460	1.65
Power (electricity), gas, water, sanitary	-	-	10,671	1.26	-	-
Wholesale and retail trade	-	-	96,740	11.41	475,653	82.89
Financial	20,880	4.23	106,472	12.56	-	-
Insurance	-	-	2,039	0.24	-	-
Services	69,980	14.19	15,770	1.86	800	0.14
Individuals	22,243	4.51	237,208	27.98	150	0.03
Agribusiness & food processing	-	-	1,989	0.23	-	-
Wires and cables	-	-	-	-	1,925	0.34
Information technology	-	-	577	0.07	-	-
Health and education	-	-	88,137	10.40	740	0.13
Iron and steel	53,714	10.89	734	0.09	389	0.07
Electrical machinery and apparatus	-	-	6,445	0.76	6,618	1.15
Packaging	69,595	14.11	16	-	-	-
Manufacturing of Plastic Goods	9,909	2.01	-	-	-	-
Trust and funds	-	-	169,830	20.03	-	-
Others	435	0.08	31,966	3.76	7,465	1.29
	493,328	100.00	847,792	100.00	573,817	100.00

Segments by class of business

	2009					
	Advances (Gross)		Deposits			
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Textile	68,969	16.22	164	0.02	-	-
Chemical and pharmaceuticals	-	-	69,326	10.04	112,404	31.03
Automobile and transportation equipment	47,485	11.17	16,846	2.44	14,592	4.03
Power (electricity), gas, water, sanitary	-	-	1,511	0.22	-	-
Wholesale and retail trade	-	-	87,141	12.63	141,613	39.09
Financial	55,556	13.07	14,053	2.04	-	-
Insurance	-	-	1,189	0.17	-	-
Services	22,073	5.19	64,335	9.32	4,310	1.19
Individuals	40,976	9.64	236,682	34.29	150	0.04
Agribusiness & food processing	-	-	2,737	0.40	75	0.02
Wires and cables	27	0.01	-	-	2,806	0.77
Information technology	-	-	585	0.08	-	-
Health and education	-	-	34,443	4.99	740	0.20
Iron and steel	93,013	21.88	15,020	2.18	56,472	15.59
Electrical machinery and apparatus	-	-	6,445	0.93	6,618	1.83
Packaging	87,050	20.48	2,253	0.33	15,021	4.15
Manufacturing of Plastic Goods	9,959	2.34	1,972	0.29	-	-
Trust and funds	-	-	134,752	19.52	-	-
Others	-	-	742	0.11	7,465	2.06
	425,108	100.00	690,196	100.00	362,266	100.00

36.3 Segment by sector

	2010					
	Advances (Gross)		Deposits			
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / government	-	-	10,671	1.26	-	-
Private	493,328	100.00	837,121	98.74	573,817	100.00
	493,328	100.00	847,792	100.00	573,817	100.00
Segment by sector	2009					
	Advances (Gross)		Deposits			
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / government	-	-	1,511	0.18	-	-
Private	425,108	100.00	688,685	81.23	362,266	100.00
	425,108	100.00	690,196	81.41	362,266	100.00

36.4 Details of non-performing advances and specific provisions by class of business segment

	2010		2009	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	----- (Rupees in '000) -----			
Individuals	15,281	15,281	16,166	15,905
Financial	20,833	-	55,556	18,389
Wholesale & Retail	4,389	435	3,951	-
Textile	8,000	-	7,545	-
	48,503	15,716	83,218	34,294

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

Public / government	-	-	-	-
Private	48,503	15,716	83,218	34,294
	48,503	15,716	83,218	34,294

37. GEOGRAPHICAL SEGMENT ANALYSIS

	2010			
	Loss before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	----- (Rupees in '000) -----			
Pakistan	(37,399)	4,201,031	3,000,780	573,817
	(37,399)	4,201,031	3,000,780	573,817

Total assets employed includes intra group items of Rs. 22.07 million.

	2009			
	Loss before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	----- (Rupees in '000) -----			
Pakistan	(58,706)	3,945,451	2,847,576	362,266
	(58,706)	3,945,451	2,847,576	362,266

Total assets employed includes intra group items of Rs. 9.258 million.

38. MARKET RISK

Market risk is the risk of loss arising from movements in market variables including observable variables such as interest rates, exchange rates and equity indices, and others which may be only indirectly observable such as volatilities and correlations. The Bank warehouses market risk for customer facilitation, and also positions itself in the financial markets for proprietary trading. The Bank's policy is that all market risk taking activity is undertaken within approved market risk limits, and that the Bank's standards / guiding principles are upheld at all times.

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

The Bank uses the Standardized Approach to calculate capital charge for market risk as per Basel II regulatory framework. Details of capital charge for market risk are given in note 35.3.

38.1 Foreign Exchange Risk

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

	2010			Net foreign currency exposure
	Assets	Liabilities	Off-balance sheet items	
----- (Rupees in '000) -----				
Pakistan rupee	726,436	889,623	-	(163,187)
United States dollar	3,465,711	305,987	256,910	3,416,634
Great Britain pound	5,605	4,544	-	1,061
Swiss Francs	2,500	-	-	2,500
Japanese yen	427	-	-	427
Euro	352	97	-	255
	4,201,031	1,200,251	256,910	3,257,690
----- (Rupees in '000) -----				
	2009			Net foreign currency exposure
	Assets	Liabilities	Off-balance sheet items	
----- (Rupees in '000) -----				
Pakistan rupee	658,573	1,033,963	-	(375,390)
United States dollar	3,281,623	59,510	-	3,222,113
Great Britain pound	5,020	5,139	-	(119)
Swiss Francs	212	-	-	212
Japanese yen	64	-	-	64
Euro	873	177	-	696
	3,946,365	1,098,789	-	2,847,576

38.2 Yield / interest Rate Risk

The Bank has clear objectives, strategies, and risk tolerance level in order to protect it from interest rate risk. To achieve this objective, the Bank matches the interest rate sensitivity of its assets and liabilities by placing them into various time buckets according to the earlier of contractual re-pricing or maturity dates. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies. The Bank has also a system in place to monitor the effectiveness of its policies and limits.

38.3 Yield / interest rate risk in the banking book – Basel II Specific

The Bank holds financial assets and financial liabilities with different maturities or repricing dates and linked to different benchmark rates, thus creating exposure to unexpected changes in the level of interest rates. Interest rate risk in the banking book refers to the risk associated with interest-bearing financial instruments.

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

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

38.4 Equity Position Risk

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

39. MISMATCH OF INTEREST RATE SENSITIVE ASSETS AND LIABILITIES

Yield / interest rate sensitivity position for on balance sheet instruments is based on the earlier of contractual re-pricing and maturity date and for off-balance sheet instruments is based on settlement date.

On-balance sheet financial instruments	Effective Yield / Interest rate %	2010										Non-interest bearing financial instruments
		Total	Exposed to Yield / Interest risk									
			Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years	
(Rupees in '000)												
Assets												
Cash and balances with treasury banks	0.13	3,363,076	-	-	-	-	-	-	-	-	-	3,363,076
Balances with other banks		62,870	61,020	-	-	-	-	-	-	-	-	1,850
Lending to financial institutions	11.46	110,000	110,000	-	-	-	-	-	-	-	-	-
Investments		-	-	-	-	-	-	-	-	-	-	-
Advances	13.37	477,612	202,414	269,004	314	523	1,086	1,023	1,462	1,786	-	-
Other assets	-	159,842	143,984	-	-	-	-	-	-	-	-	15,858
		4,173,400	517,418	269,004	314	523	1,086	1,023	1,462	1,786	-	3,380,784
Liabilities												
Bills payable	-	5,493	-	-	-	-	-	-	-	-	-	5,493
Borrowings	11.04	321,910	258,410	36,968	26,532	-	-	-	-	-	-	-
Deposits and other accounts	6.61	847,792	276,377	58,107	15,030	130,198	-	-	-	-	-	368,080
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	25,056	-	-	-	-	-	-	-	-	-	25,056
		1,200,251	534,787	95,075	41,562	130,198	-	-	-	-	-	398,629
On-balance sheet gap		2,973,149	(17,369)	173,929	(41,248)	(129,675)	1,086	1,023	1,462	1,786	-	2,982,155
Off-balance sheet financial instruments												
Forward purchase of foreign exchange		256,910	256,910	-	-	-	-	-	-	-	-	-
Forward sale of foreign exchange		-	-	-	-	-	-	-	-	-	-	-
Forward commitment to extend credit		166,070	166,070	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		422,980	422,980	-	-	-	-	-	-	-	-	-
Total Yield / Interest Risk Sensitivity Gap			405,611	173,929	(41,248)	(129,675)	1,086	1,023	1,462	1,786	-	
Cumulative Yield / Interest Risk Sensitivity Gap			405,611	579,540	538,292	408,617	409,703	410,726	412,188	413,974	-	

On-balance sheet financial instruments	Effective Yield / Interest rate %	2009										Non-interest bearing financial instruments
		Total	Exposed to Yield / Interest risk									
			Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years	
(Rupees in '000)												
Assets												
Cash and balances with treasury banks	0.1	3,328,022	-	-	-	-	-	-	-	-	-	3,328,022
Balances with other banks	11.02	52,781	52,560	-	-	-	-	-	-	-	-	221
Lending to financial institutions		150,000	150,000	-	-	-	-	-	-	-	-	-
Investments	14.36	-	-	-	-	-	-	-	-	-	-	-
Advances		387,223	190,103	188,019	-	137	261	456	1,966	5,637	644	-
Other assets	-	14,211	-	-	-	-	-	-	-	-	-	14,211
		3,932,237	392,663	188,019	-	137	261	456	1,966	5,637	644	3,342,454
Liabilities												
Bills payable	12.91	7,577	-	-	-	-	-	-	-	-	-	7,577
Borrowings	7.10	382,008	350,000	10,000	22,008	-	-	-	-	-	-	-
Deposits and other accounts		690,196	259,798	17,987	28,083	89,136	-	-	-	-	-	295,192
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	16,575	-	-	-	-	-	-	-	-	-	16,575
		1,096,356	609,798	27,987	50,091	89,136	-	-	-	-	-	319,344
On-balance sheet gap		2,835,881	(217,135)	160,032	(50,091)	(88,999)	261	456	1,966	5,637	644	3,023,110
Off-balance sheet financial instruments												
Forward purchase of foreign exchange		-	-	-	-	-	-	-	-	-	-	-
Forward sale of foreign exchange		-	-	-	-	-	-	-	-	-	-	-
Forward commitment to extend credit		787,750	787,750	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		787,750	787,750	-	-	-	-	-	-	-	-	-
Total Yield / Interest Risk Sensitivity Gap			570,615	160,032	(50,091)	(88,999)	261	456	1,966	5,637	644	
Cumulative Yield / Interest Risk Sensitivity Gap			570,615	730,647	680,556	591,557	591,818	592,274	594,240	599,877	600,521	

39.1 Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. Sensitivity to interest rate risk arises from mismatches of financial assets and liabilities that mature or reprice in a given period. The Bank manages these mismatches through risk management strategies where significant changes in gap positions can be adjusted.

39.2 The interest rate exposure taken by the Bank arises from investing in corporate, small medium enterprises, consumer financing, investment banking and interbank activities where variation in market interest rates may affect the profitability of the Bank. This risk is addressed by the management which reviews the interest rate dynamics at regular intervals and decides repricing of assets and liabilities ensuring that the spread of the Bank remains at acceptable level.

39.3 The advances and deposits of the Bank are repriced on a periodical basis based on the interest rates scenario.

40. MATURITIES OF ASSETS AND LIABILITIES

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

	2010									
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years
	(Rupees in '000)									
<i>Assets</i>										
Cash and balances with treasury banks	3,363,076	113,317	-	-	-	-	-	-	-	3,249,759
Balances with other banks	62,870	62,870	-	-	-	-	-	-	-	-
Lending to financial institutions	110,000	110,000	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-	-	-
Advances	477,612	202,414	107,937	82,550	66,854	9,419	5,190	1,462	1,786	-
Operating fixed assets	22,983	591	12,660	1,772	3,491	2,290	1,196	789	194	-
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Other assets	164,490	152,443	10,450	521	256	8	24	-	788	-
	4,201,031	641,635	131,047	84,843	70,601	11,717	6,410	2,251	2,768	3,249,759
<i>Liabilities</i>										
Bills payable	5,493	5,493	-	-	-	-	-	-	-	-
Borrowings	321,910	258,410	36,968	26,532	-	-	-	-	-	-
Deposits and other accounts	847,792	644,457	58,107	15,030	130,198	-	-	-	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	25,056	6,113	8,244	1,339	336	120	-	-	-	8,904
	1,200,251	914,473	103,319	42,901	130,534	120	-	-	-	8,904
<i>Net assets</i>	3,000,780	(272,838)	27,728	41,942	(59,933)	11,597	6,410	2,251	2,768	3,240,855
Head office capital account	3,393,743									
Accumulated loss	(392,963)									
	3,000,780									

	2009									
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years
	(Rupees in '000)									
<i>Assets</i>										
Cash and balances with treasury banks	3,328,022	124,882	-	-	-	-	-	-	-	3,203,140
Balances with other banks	52,781	52,781	-	-	-	-	-	-	-	-
Lending to financial institutions	150,000	150,000	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-	-	-
Advances	387,223	190,103	111,606	66,202	10,348	261	456	1,966	5,637	644
Operating fixed assets	10,461	424	848	1,272	2,491	3,882	1,010	419	115	-
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Other assets	16,964	8,961	5,788	402	238	763	24	-	788	-
	3,945,451	527,151	118,242	67,876	13,077	4,906	1,490	2,385	6,540	3,203,784
<i>Liabilities</i>										
Bills payable	7,577	7,577	-	-	-	-	-	-	-	-
Borrowings	382,008	350,000	10,000	22,008	-	-	-	-	-	-
Deposits and other accounts	690,196	554,990	17,987	28,083	89,136	-	-	-	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	18,094	5,120	1,859	1,166	925	120	-	-	-	8,904
	1,097,875	917,687	29,846	51,257	90,061	120	-	-	-	8,904
<i>Net assets</i>	2,847,576	(390,536)	88,396	16,619	(76,984)	4,786	1,490	2,385	6,540	3,194,880
Head office capital account	3,203,140									
Accumulated loss	(355,564)									
	2,847,576									

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

The Bank seeks to ensure that it has access to funds at reasonable cost even under adverse conditions, by managing its liquidity risk across all class of assets and liabilities in accordance with regulatory guidelines and to take advantage of any lending opportunities as they arise.

The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds. Management monitors the maturity profile to ensure that adequate liquidity is maintained.

In accordance with SBP regulations, the Bank maintains a statutory cash reserve requirement (CRR) with SBP equal to weekly average of 5% (subject to daily minimum of 4%) of total Demand Liabilities (including Time Deposits with tenor of less than 1 year). In addition to that, the Bank maintains statutory liquidity requirement (SLR) of 19% (excluding CRR) of total Time and Demand Liabilities. The Bank have successfully manages its CRR and SLR requirements.

41. OPERATIONAL RISK

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

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

41.1 OPERATIONAL RISK DISCLOSURES - BASEL II SPECIFIC

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

42. ACCOUNTING ESTIMATES AND JUDGMENTS

Provision against non-performing loans and advances

The Bank reviews its loan portfolios to assess amount of non-performing loans and advances and provision required there against on a quarterly basis. The specific provision is made in accordance with the Prudential Regulations issued by the State Bank of Pakistan.

Income taxes

In making the estimates for income taxes currently payable by the Bank, the management looks at the current income tax law and the decisions of appellate authorities on certain issues in the past.

Through Finance Act, 2010 certain amendments have been introduced in Seventh Schedule to the Income Tax Ordinance, 2001. The provision for advances & off balance sheet items will now be allowed at 5% of total gross advances for consumer and SMEs (as defined in SBP prudential Regulation). The provision for advances and off balance sheet items other than those falling in definition of consumer & SMEs will be allowed upto 1% of such total gross advances.

Further a new Rule 8(A) has been introduced in Seventh Schedule to allow for amounts provided for in tax year 2008 and prior to said tax year for doubtful debts, which were neither claimed nor allowed as tax deductible in any year shall be allowed as deduction in tax year in which such doubtful debts are written off.

Property and equipment

The Bank reviews the rate of depreciation, useful life, residual value and value of assets for possible impairment on an annual basis. Any change in the estimates in future years might effect the carrying amounts of the respective items of property and equipments with a corresponding effect on the depreciation charge and impairment.

Intangible assets

The Bank reviews the rate of amortisation and value of intangible assets for possible impairment on an annual basis. Any change in the estimates in future years might affect the carrying amounts of intangible assets with a corresponding affect on the amortisation charge and impairment, if any.

Retirement benefits

The Bank contributes to the staff gratuity fund on the basis of actuarial valuation which takes into account certain assumptions regarding interest rate, increase in salary and inflation rate etc. Any change in these estimates in future years might effect the Bank's liability with corresponding effect on the charge for the retirement benefit plan.

Fair value of derivatives

The fair value of derivatives which are not quoted in active markets are determined by using valuation techniques. The valuation techniques take into account the relevant interest rates in effect at the balance sheet date and the rates contracted.

43. GENERAL

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

44. DATE OF AUTHORIZATION

These financial statements were authorized for issue on _____ by the management of the Bank.

Acting Country Manager

Manager Finance