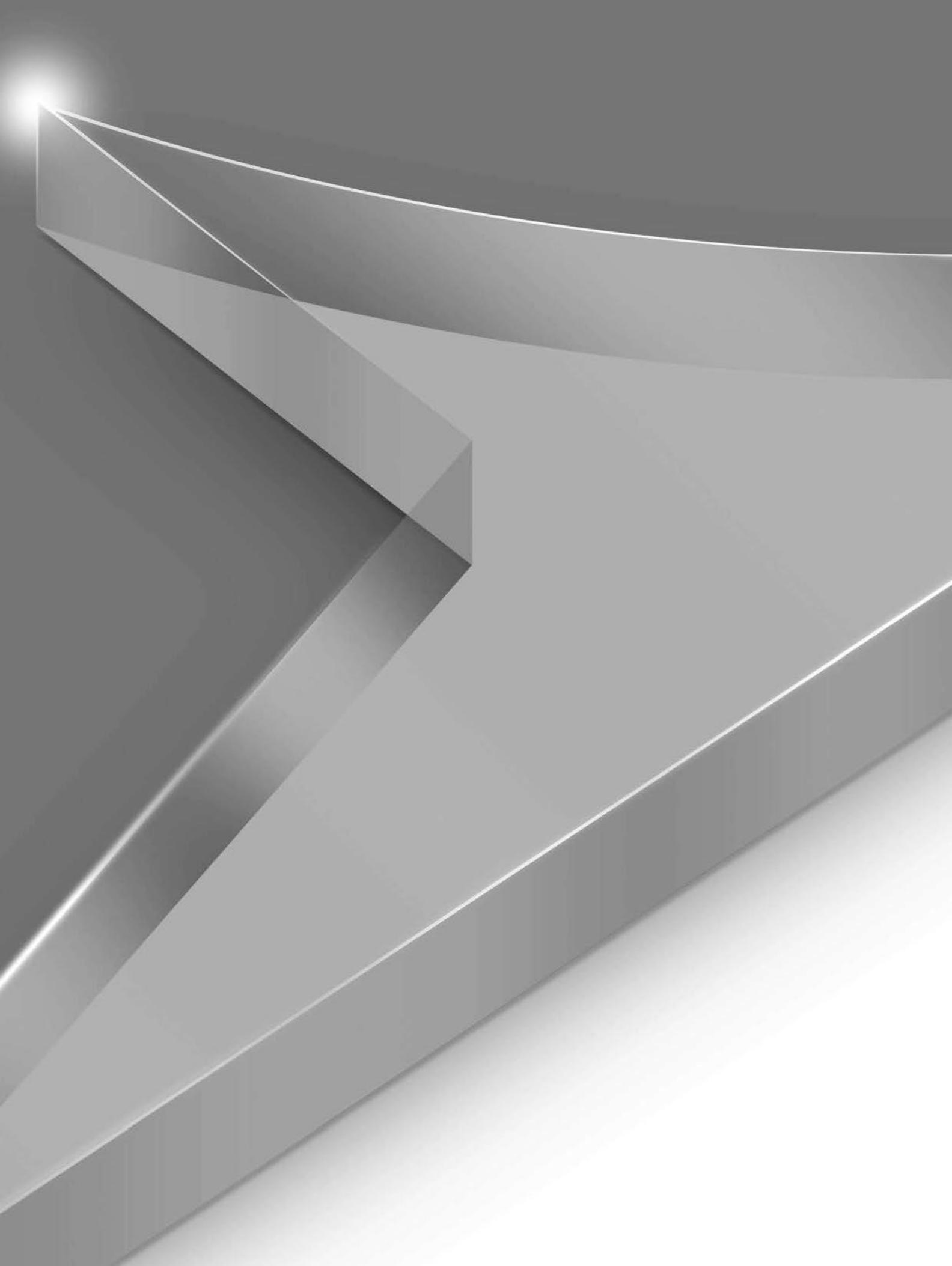




Excellence
in Premier Banking

ANNUAL REPORT 2011

SILKBANK 



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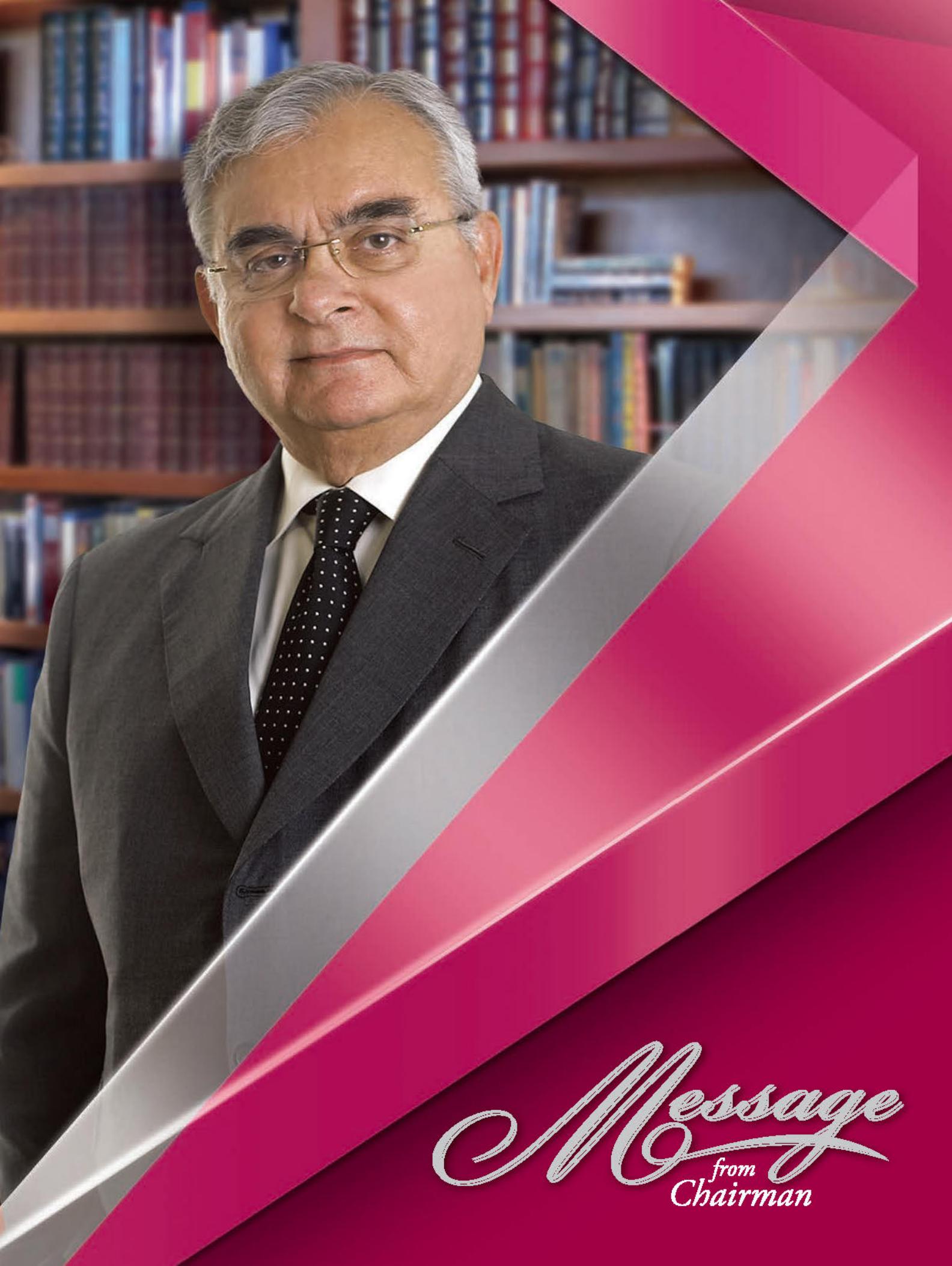
Vision

Benchmark of Excellence in
Premier Banking



Mission

To be the leader in premier banking,
trusted by customers for accessibility,
service and innovation; be an employer of
choice creating value for all stakeholders



Message
from
Chairman

It gives me immense pleasure to present the results for the year ended December 31, 2011.

Although economic conditions presented various challenges with devastating floods in the early part of the year displacing over 20 million people, the year end results are reflective of the Management's continuing commitment in meeting the expectations of the people who invest and trust in us. This has been made possible through attention to several core issues and a clear vision. The Management endeavored to achieve the highest standards of services through mystery shopping and customer satisfaction surveys, greater automation and controls through induction of a world class system based on leading edge technology, innovative and value added products, process re-engineering for better business processes, greater efficiency and productivity and strict regulatory compliance. Last but not the least, the deployment of a committed team of professionals has been the basis of our success. The actions taken during the year have positioned the Bank well to build on its solid base and take advantage of opportunities in the coming year.

I would like to thank all business units and the support units of the Bank for delivering commendable performance in the year 2011 and especially applaud the remarkable efforts and achievements being made by the Special Assets Management Division of the Bank who despite the downturn in the global economy have managed to register a significant reduction in the NPLs of the Bank, in each consecutive year, since the takeover by the new Management in 2008.

With an ethics based and culture driven foundation and a talented Management, we will continue to capitalize on different opportunities and meet future challenges with enthusiasm and hopefully go beyond targeted milestones.



Munawar Hamid
Munawar Hamid, OBE
Chairman



*President
& CEO's*
Review

The Silkbanks team resolved to make 2011 a turnaround year for the Bank. To achieve this objective, we enhanced our revenue momentum and rationalized on expenses by exploring synergies, re-engineering processes and utilizing existing resources to fuel growth. I am pleased to announce that true to our motto "YES WE CAN" your Bank registered a remarkable turnaround in 2011 by reflecting a profit before tax of Rs. 1.359 billion for the year. Our Retail, Corporate and Middle Market businesses scaled new heights of service excellence, accelerating our business momentum both on the asset and the liability side, which positively impacted our business margins.

Silkbanks total deposits reflected strong growth of Rs. 8.4 billion for the year. We outpaced the banking industry growth rate to close at Rs. 64.1 billion for 2011. Our deposit strategy was to dilute the expensive term deposits in favour of low cost Current and Saving Accounts (CASA). Our deposit strategy relied on creating the pull effect through launch of innovative products and a push through direct sales teams supported by aggressive marketing campaigns. Our new current account products, since launch, have contributed Rs. 2.4 billion in deposits. We added "Munafa Rozana" to our CASA product menu, which offers an industry first of a daily profit payment feature in this product class. Launched only in July 2011, the product amassed a portfolio of over Rs. 1.1 billion for the year. Our CASA centric strategy is paying off by improving our CASA ratio to as high as 49% at the end of 2011.

Silkbanks Alternative Delivery Channels (ADC) together with the Bancassurance Business and Inward Remittances continue to augment our earnings. Your Bank is now a major player in the Bancassurance business offering simultaneous Investment & health insurance with an annual revenue of Rs. 65.3 million. In order to offer more product options to customers, your Bank entered into a strategic alliance with Dawood Family Takaful for distribution of Islamic Savings Insurance plans. With Asia Care we are collaborating for In-patient Health Insurance Plans, expected to be launched in the first quarter of 2012.

Silkbanks Visa Debit Card, having alliances with major merchants across Pakistan, has been a major success story, recognized by VISA International as well. ADC income increased from Rs. 19.92 million in 2010 to Rs. 59.18 million in 2011, registering a phenomenal growth of 197% for the period. "Silk Fauree Transfer", which offers overseas Pakistanis the ability to remit funds across Pakistan absolutely free, is pacing up the revenue momentum.

Your Bank continued its focus on providing distribution convenience to its customers through alternative delivery mechanisms. We now join a selected number of banks, which offer their customers the ability to remit funds to bank accounts in any of the Inter-Bank Funds Transfer (IBFT) member banks. The facility is available at all ATMs and the internet banking platform. Customers can also pay their utility bills at any time using our ATMs. Our endeavour to continuously improve our services through product and service innovation will ensure that customers score us high on innovation.

Simultaneous with growth, a consistent emphasis on high levels of customer satisfaction and loyalty was sustained. True to our core values, Silkbanks staff maintained unwavering customer focus. In the monthly "Mystery Shopping Results" conducted by a leading independent marketing research consultancy covering all branches, a continuous improvement has been noted in each successive survey. In another comparative customer satisfaction survey vs. the 10 leading customer service oriented banks, your Bank scored the highest customer satisfaction ratings at 95%. This demonstrates our continued commitment to customer service.

Your Bank has a well devised consumer lending strategy. Our high margin consumer lending products have made a healthy contribution to Silkbanks advances portfolio. Our Consumer Loans portfolio stands at Rs. 6.02 billion compared to Rs. 2.67 billion in the previous year, reflecting a phenomenal year on year growth of 126% in outstanding receivables.

President & CEO's Review

In the aftermath of the economic slowdown since 2008, Non-Performing Loans (NPLs) have dampened the profitability dynamics of commercial banks. I am pleased to advise you that contrary to the banking industry trend, your Bank managed to register a significant reduction in NPLs, in each consecutive year since the takeover by the new management. An NPL reduction by the Special Assets Management team of Rs. 3.398 billion and a Provision Reversal of Rs. 1.829 billion was recorded for the year 2011. The Real Estate Asset Management team (REAM) also supported the Special Assets Management team by successfully selling off various properties held as OREO (Other Real Estate Owned), during the year.

Your Bank continued to enhance its risk management capability in the Corporate, Middle Market, SME and Consumer businesses. Target Market and Credit Application (CA) format for Corporate, Middle Market and SME segments were specifically reviewed to cater to the needs of the respective business units. Assessment of the Risk Acceptance Criteria (RACs) is an ongoing exercise which enables the Bank to keep its risk appetite at acceptable levels. During 2011, the Risk Management team has redefined procedures for mark-up collection, revised per party and group lending limits, realigned the Credit Administration Department (CAD) and revised the Credit Policy Manual to achieve improved monitoring and controls.

The aim of the Corporate & Investment Banking Group for 2011 was to ramp up the trade and guarantee business, participate in long term financing facilities, offer advisory services, maintain a healthy risk asset portfolio and reduce NPLs. Despite the current economic conditions, the Group has performed exceptionally well, exceeding its targets for the year by a significant margin. This was achieved both through enhanced growth in the regular business streams, as well as, higher recoveries of NPLs. Proactive account management also helped contain infection in the Bank's advances portfolio. A number of new relationships were booked during the year and emphasis remained on structured, transaction related facilities. Investment Banking successfully closed a number of transactions including Privately Placed TFCs, Syndicated Term Loans and Restructuring of Corporate Bond Issues totalling Rs. 6 billion during 2011.

Your Bank manages its liquidity with stringent risk management and prudent liquidity management techniques. In the backdrop of considerable economic and political uncertainty, Silkbanks Treasury has played a significant role in the growing Trade Finance business of the Bank by contributing an income of Rs. 157.6 million from trade related transactions. In addition, Treasury reflected capital gains by capitalizing on the interest rate volatility during the year. Fixed income portfolio was significantly enhanced to take advantage of higher interest rates and also to earn positive spreads through arbitrage in the interbank market. The Bank's equity portfolio provided superior returns during the year 2011. While KSE-100 index posted a negative return of 5.6%, our equity portfolio registered a positive return of above 16%, outperforming the index by 21.6%. The Bank maintained a liquidity focus on short term investments and followed a strategy of increasing secondary market trade activity. We capitalized on arbitrage opportunities, and continued with our customer-centric business model.

Our staff has always been the focus of our planning process. Human Resource Development has a profound impact on business processes and a direct relationship with service quality standards. Silkbanks dedicated more than 39,000 hours of training covering both soft skills as well as job-skills. The training programs covered service excellence, selling skills, product and operational knowledge including management skill development. In fulfilling our mission to be the "Employer of Choice", we invited all our employees to an "Employee Engagement Survey". The staff provided valuable feedback, enabling the setting of internal benchmarks to ensure continuous alignment to our Vision, Mission and Core Values.

The year 2012 brings with it newer and bigger challenges. With the grant of the Islamic Banking license by SBP, efforts are already underway to leverage our existing infrastructure to roll out Islamic Banking operations. Your Bank is also on the verge of launching its credit card product with unique features for which system testing is underway. The additional portfolios will further enhance our image as a full service commercial bank.

It is my privilege to lead the dynamic Silkbanks team. I would like to thank every member of the team for their dedication, commitment and hard work during the year. I would also like to thank our Stakeholders, Sponsors and Directors for their continued guidance, support and patronage.

Yes we can,



Azmat Tarin
President & CEO



SILKBANK
SENIOR MANAGEMENT
COMMITTEE

Senior Management Committee

Azmat Tarin
President & CEO

Aneeq Khawar
Chief Risk Officer

Kasim Faroze Khan
Group Head Special Assets
Management & Other Real Estate
Owned (OREO) Properties

Mian Asif Said
Group Head Wholesale
Banking

Jawad Majid Khan
Head of Islamic Banking

Abdul Mateen Khan
Head of SME

Kamran Bashir
Head of Other Real Estate
Owned (OREO) Properties

Muhammed Saqlib Pal
Head of Credit Risk Division

Shahram Raza Bakhtiar
Head of Consumer Assets

Sohail Bashir
Head of Operations

Sumbul Munir
Head of Corporate &
Investment Banking



Goharulayn Afzal
Group Head Operations,
IT & Productivity



Talha Saeed
Group Head Retail Banking



Aurangzeb Afridi
Group Head Human Resource
& Service Quality



Jamil A. Khan
Group Head Compliance, Legal
& Internal Control Division



Mohammad Zahid Ahmed
Chief Financial Officer (CFO)



Farooq Nasim Butt
Head of Middle Market



Javed Yousuf Edhi
Head of Information
Technology



Naiyer Manzoor Salfi
Head of Marketing Services
and Public Relations



Shafiq Rahid
Head of Customer
Satisfaction & Quality



Syed Jawaid Akhtar
Head of Internal Audit



Syed Salman Hasan
Business Head Credit Cards



Uzman Neveed Chaudhary
Company Secretary/Head of
Investor Relations & Legal Affairs



**SILKBANK
BOARD OF DIRECTORS**



Tariq Iqbal Khan, FCA
Director

Shaukat Tarin
Advisor to the Chairman

Azmat Tarin
President & CEO

M.A. Mannan
Director

Burhanuddin Khan
Director

Munnawar Hamid, OBE
Chairman

Arshad Ghafur
Director

Humayun Bashir
Director

Sadeq Sayeed
Director

Javed Hamid
Director

Profiles of Board of Directors of Silkbank Limited - 2011

1. Mr. Munnawar Hamid OBE, Chairman

Mr. Hamid's experience of commerce and industry was gained while serving a major chemicals company as the Chief Executive and Chairman of a number of subsidiary companies of Global Corporations in Pakistan which includes ICI Pakistan and Pakistan PTA (now Lottee Pakistan PTA Ltd), as well as overseas in London where he served as a global Senior Corporate Planner for the Pharmaceutical, Agrochemicals and Seeds and specially Chemical Business and the American region of the ICI Group, and subsequently as Advisor to the CEO of ICI PLC London for South Asia. In addition to the Corporate Sector, he was associated with a number of Boards, high level consultative bodies, Public Sector Organizations, leading Advanced Educational Institutions, and the Financial Sector of Pakistan. He was appointed (Officer in the Most Excellent Order of the British Empire) OBE by HM the Queen for services to British interests and Economic Development in Pakistan in 1997. Mr. Hamid is a graduate from Punjab University and holds a Master's degree from Cambridge University, (Gonville & Caius College) UK, and now has over 43 years of experience in the fields of business & corporate management and operations. Mr. Hamid is also currently serving on the Board of the following organizations:

■ Linde Pakistan Limited (formerly BOC Pakistan Ltd.)	Chairman
■ The Agha Khan University, Karachi	Member Board of Trustees
■ Oxford and Cambridge Trust	Trustee
■ The Agha Khan University - Gratuity Fund	Trustee
■ The Agha Khan University - Provident Fund	Trustee
■ The English Speaking Union of Pakistan	Vice President

2. Mr. Humayun Bashir - Director

Mr. Humayun Bashir is a Certified Director under the IFC program. He has thirty-four years of diversified experience with IBM Pakistan and IBM Middle East (Dubai) in Sales, Technology Services, Financial Sector, Government Sector and General Management. Mr. Humayun served last 12 years as CEO and Country General Manager IBM Pakistan. He has served on board of Export Processing Zone Authority and was the President of American Business Council in 2011. He is the President of Overseas Investors Chamber of Commerce & Industries (OICCI) and serves on Institute of Business Administration's (IBA) Advisory Council. Mr. Humayun holds a Degree in Engineering and Business qualifications from IBA / Insead France. Mr. Humayun is currently serving in the following organizations:

■ IBM Pakistan & Afghanistan	Country General Manager
■ Linde Pakistan Limited (formerly BOC Pakistan Ltd.)	Director
■ Overseas Investors Chamber of Commerce & Industries	President

3. Mr. Javed Hamid - Director

Mr. Javed Hamid is a Senior Finance Executive with extensive international banking, investment and development experience. He has a strong background in investing in emerging markets, negotiating investment agreements between Governments and institutional investors, managing international investment portfolios, and providing technical assistance to developing countries. Mr. Javed worked for nearly 30 years in the International Finance Corporation (IFC) of The World Bank Group. He was Director for the East Asia and Pacific Region and a member of the Management Committee of IFC. He is a well-known authority and speaker on international banking, investment and development issues, frequently interviewed by the press. He has a keen interest in sustainable development and corporate governance issues. Mr. Javed is a graduate from Cambridge University, UK and an MBA from Harvard University, USA. His published works have appeared in the Asian Wall Street Journal, Far Eastern Economic Review and various academic journals. Mr. Javed is also currently serving in the following organizations:

■ International Executive Services Corps, USA	Senior Advisor
■ IGI Funds Limited, Pakistan	Chairman
■ IGI Insurance Limited, Pakistan	Advisor
■ Lombard Thai International Fund Manager, USA	Director

Profiles of Board of Directors of Silkbank Limited - 2011

4. Mr. Sadeq Sayeed - Director

Mr. Sadeq Sayeed was appointed Chairman of Metage Capital Limited, an investment firm based in London, in March 2011. Prior to this, Mr. Sayeed was CEO of Nomura Europe in 2008 having joined the company in 2000 as Special Advisor. This appointment followed the acquisition of the Lehman Brothers businesses in EMEA and Asia in which Mr. Sayeed played a key role. In addition, he was Chairman of both the European Management Committee and the European Capital Commitments Committee at Nomura. In 2010, Mr. Sayeed retired as CEO of Nomura.

Previously Mr. Sayeed has been responsible for a number of key strategic projects globally including the creation of Terra Firma Capital Partners, a £2 billion private equity fund. He was also responsible for creating the joint venture between Rothschild and Nomura in respect of their global investment banking activities. Mr. Sayeed has over 30 years of experience in investment banking including arbitrage trading, structured finance, fund management and financial advice. He previously served as Managing Director of Credit Suisse First Boston where he spent 15 years and served as a member of the Operating Committee. Prior to his global investment banking career he was Consultant to the World Bank in Washington DC.

Mr. Sayeed holds an undergraduate degree in economics with concentration in electrical engineering from Massachusetts Institute of Technology (MIT), as well as a Master's degree in finance from MIT's Sloan School. Mr Sayeed is a visiting Associate Scholar at Pembroke College, Cambridge and he is also Adjunct Professor at Imperial College Business School in London. He currently serves in the following organizations:

■ Sinthos Capital Advisors LLP	Partner
■ JS Investment Limited	Non-Executive Director

5. Mr. Arshad Ghafur - Director

Mr. Arshad Ghafur is a Managing Director in Nomura International's Investment Banking Division, where he currently serves as CEO Qatar and Head of Global Finance for the Middle East and Africa. He joined Lehman Brothers in 1998, and moved to Nomura International following their acquisition of the Lehman Brothers' businesses in 2008. In his role as Head of Global Finance, he is responsible for Nomura's presence in Qatar, Equity Capital Markets, Debt Capital Markets and Cross-Asset Derivative Solutions. He also sits on the Global Executive Committees for Global Finance and the Middle East. Prior to his current role in the Middle East, Mr. Ghafur ran Lehman Brothers' Capital Advisory Group for Europe, the Middle East and Africa. Mr. Ghafur has over 15 years of investment banking experience in securities trading, capital raising, structured funding and risk mitigation, and has executed over 150 transactions for Sovereigns, Sovereign Wealth Funds and Financial Institutions around the world. Mr. Ghafur holds a Bachelor of Science from the University of Pennsylvania, a Master of Science from Lahore School of Economics and a Master of Science from London School of Economics.

6. Mr. Tariq Iqbal Khan - Director

Mr. Tariq Iqbal Khan is the Ex-Chairman of National Investment Trust Limited. He has also served on various positions at FBR and SECP. Mr. Khan has also played a significant role at Pakistan Banks Association as Chairman. Mr. Khan is a Chartered Accountant by qualification and has over 30 years of experience. He has served at the boards of various other banks and companies. Currently he holds directorship in the following organizations:

■ Attock Refinery Limited	Director
■ Fauji Energy Limited	Director
■ International Steels Limited	Director
■ Gadoon Textile Mills Limited	Director
■ Interstate Gas System Limited	Director
■ Pakistan Electric Agency (Pvt.) Limited	Director

Profiles of Board of Directors of Silkbank Limited - 2011

7. Mr. Burhanuddin Khan - Director

Mr. Burhanuddin Khan is a seasoned banker with rich experience in consumer banking. Mr. Burhan is a strategist and proven results-driven Consumer Banking Manager with a strong ability for managing and communicating changes, building new lines of business revenue and building relationships with clients and colleagues.

Before being elected on the Board of the Bank, Mr. Burhan was working as the Head of Retail Banking in UAE at the Royal Bank of Scotland where he was responsible for franchise of the bank for UAE leading a headcount of 1200, total assets and liabilities in excess of \$680 million and funds of approximately \$215 million. Mr. Burhan also served as the Head of Consumer Banking UAE for Standard Chartered Bank and a Distribution Head for Citibank, Australia.

Mr. Burhan holds an MBA from Golden Gate University, San Francisco, California, USA.

8. Mr. M. A. Mannan - Director

Mr. M. A. Mannan has over 20 years of banking experience locally and internationally. He has led, structured and turned around banks in the conventional and Islamic Banking spheres.

Mr. Mannan is currently Executive Director at Silkbank responsible for Islamic Banking. He also spearheads the Merger / Acquisitions activities to deliver best value for the Bank and advised the management on turning around the Bank.

Mr. Mannan served as CEO of Dubai Islamic Bank (DIB) from 2005-2010. He was responsible for launching the franchise in Pakistan. He led it to its current status of being the second largest Islamic bank in Pakistan. DIB is a full suite bank with complete business lines of Corporate and Investment Banking, Treasury, Commercial / SME business, Consumer Assets and Retail Banking.

Prior to joining DIB, Mr. Mannan served as Deputy CEO of UBL, country's third largest bank from 2003-2005 with more than 1,000 branches and 10,000 employees in Pakistan and 14 countries of the world.

He started his career at Citibank (1991-2003). At Citibank, Mr. Mannan's focus was on Consumer Banking. In his last assignment at Citibank, he was based at New York with a direct line responsibility to deliver \$790 million revenue and \$650 million in pretax profits by Cross Selling to customers across all Citibank Cards portfolios consisting of 93 million customers.

He is also the Chairman of the task force on Remittance to Pakistan. He envisioned and created Pakistan Remittance Initiative (PRI), a joint initiative of State Bank of Pakistan, Ministry of Overseas Pakistanis and Ministry of Finance.

Mr. Mannan holds an MBA from the Institute of Business Administration.

9. Mr. Azmat Tarin - President & CEO

Mr. Azmat Tarin is the President & CEO of Silkbank since October 2008. Prior to that he was Executive Director in Silkbank.

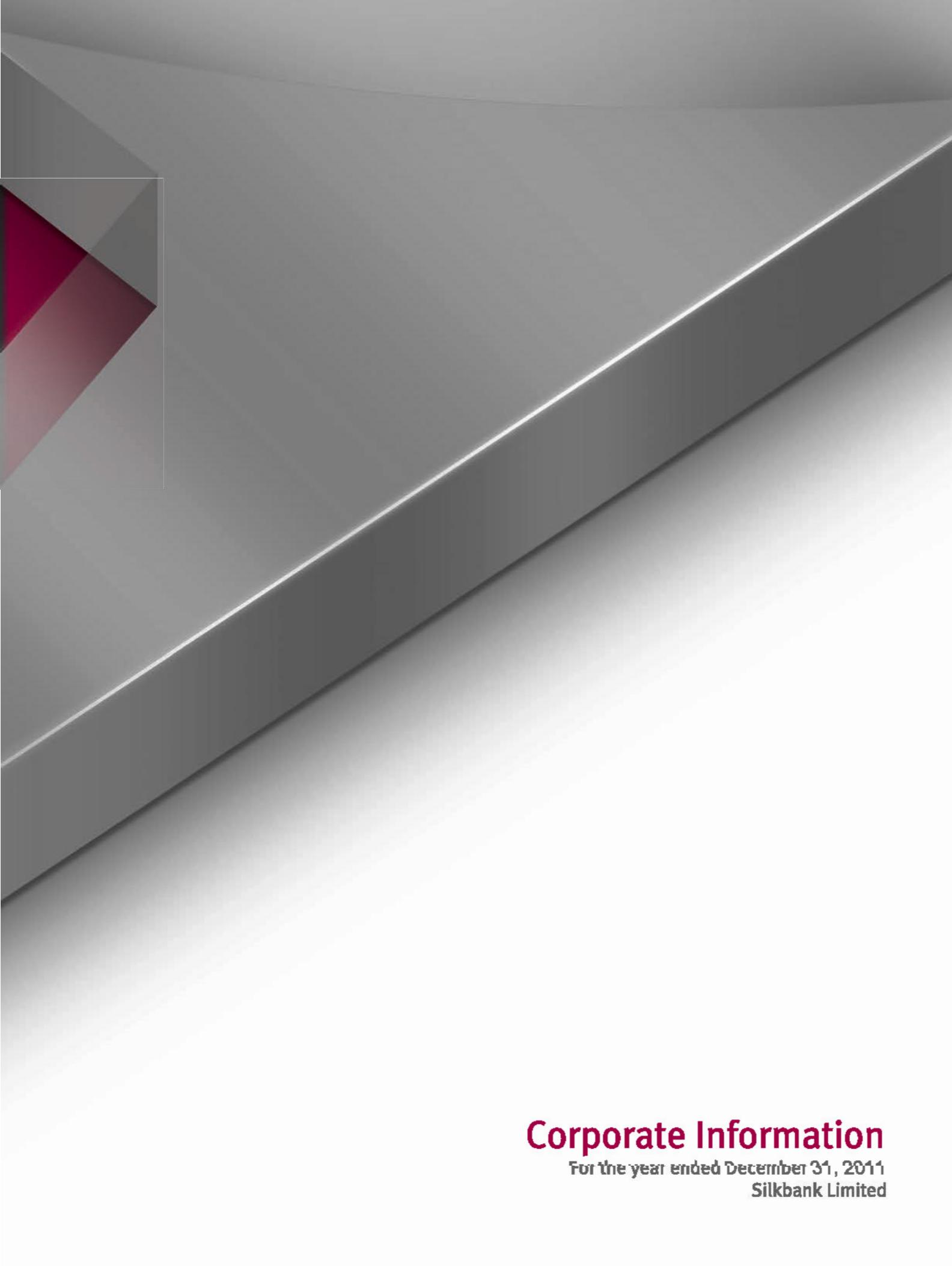
Mr. Azmat is a career banker with work experience of over 20 years. He started his career in branch operations in Lincoln Savings in California in 1989. Subsequently, he moved to Saudi American Bank in Riyadh where he was involved in a project of centralizing operations. He also attended the Management Associate Program at the Saudi American Bank.

His first banking assignment in Pakistan was with Union Bank Limited from 1999 to 2006 as Head of Retail Banking where he was a part of the core team that turned the bank into one of the most profitable banks of the country. In addition, he served on the Board of Union Leasing from 2001 to 2006.

Mr. Azmat is currently serving as Director of Sintos Capital Holding Limited.

Mr. Azmat is an MBA in Management Sciences from Pepperdine University in Los Angeles, California.





Corporate Information

For the year ended December 31, 2011
Silkbank Limited

Corporate Information

Board of Directors

Munnawar Hamid, OBE	Chairman
Arshad Ghafur	Director
Humayun Bashir	Director
Javed Hamid	Director
Sadeq Sayeed	Director
Tariq Iqbal Khan, FCA	Director
Burhanuddin Khan	Director
Mohammad Ahmed Mannan	Director
Azmat Tarin	President & CEO

Company Secretary

Uzman Naveed Chaudhary

Chief Financial Officer

Mohammad Zahid Ahmed

Audit Committee

Humayun Bashir	Chairman
Javed Hamid	Member
Sadeq Sayeed	Member
Burhanuddin Khan	Member

Risk Committee

Tariq Iqbal Khan, FCA	Chairman
Arshad Ghafur	Member
Mohammad Ahmed Mannan	Member

Human Resource Committee

Munnawar Hamid, OBE	Chairman
Humayun Bashir	Member
Javed Hamid	Member
Azmat Tarin	Member

Auditors

KPMG Taseer Hadi & Co.
Chartered Accountants

Legal Advisor

Cornelius, Lane & Mufti

Corporate Information

Registered Office

Silkbank Limited

Silkbank Building, I.I. Chundrigar Road, Karachi.

Telephone No.: +92 21-111-00-7455 Ext. 413 & 414

Fax No.: +92 21-32460464 & 32462902

Website: www.silkbank.com.pk

Share Registrar

Noble Computer Services (Pvt.) Limited

First Floor, House of Habib Building (Siddiqsons Tower)

3-Jinnah Cooperative Housing Society, Main Shahrah-e-Faisal

Karachi – 75350

Telephone No.: + 92 21-34325482-87

Fax No.: + 92 21-34325442

E-mail: ncsl@noble-computers.com

Website: www.noble-computers.com

Senior Management Committee (SMC)

Azmat Tarin

President & CEO

Aneeq Khawar

Chief Risk Officer

Goharulayn Afzal

Group Head Operations, IT & Productivity

Talha Saeed

Group Head Retail Banking

Aurangzeb Afridi

Group Head Human Resource & Service Quality

Kasim Feroze Khan

Group Head Special Assets Management & Other

Mian Asif Said

Real Estate Owned (OREO) Properties

Jamil A. Khan

Group Head Wholesale Banking

Mohammad Zahid Ahmed

Group Head Compliance, Legal & Internal Control Division

Jawad Majid Khan

Chief Financial Officer (CFO)

Abdul Mateen Khan

Head of Islamic Banking

Farooq Nasim Butt

Head of SME

Javed Yousuf Edhi

Head of Middle Market

Kamran Bashir

Head of Information Technology

Muhammad Saqib Pal

Head of Other Real Estate Owned (OREO) Properties

Naiyar Manzoor Saifi

Head of Credit Risk Division

Shafaq Rahid

Head of Marketing Services and Public Relations

Shahram Raza Bakhtiari

Head of Customer Satisfaction & Quality

Sohail Bashir

Head of Consumer Assets

Sumbul Munir

Head of Operations

Syed Jawaid Akhtar

Head of Corporate & Investment Banking

Syed Salman Hasan

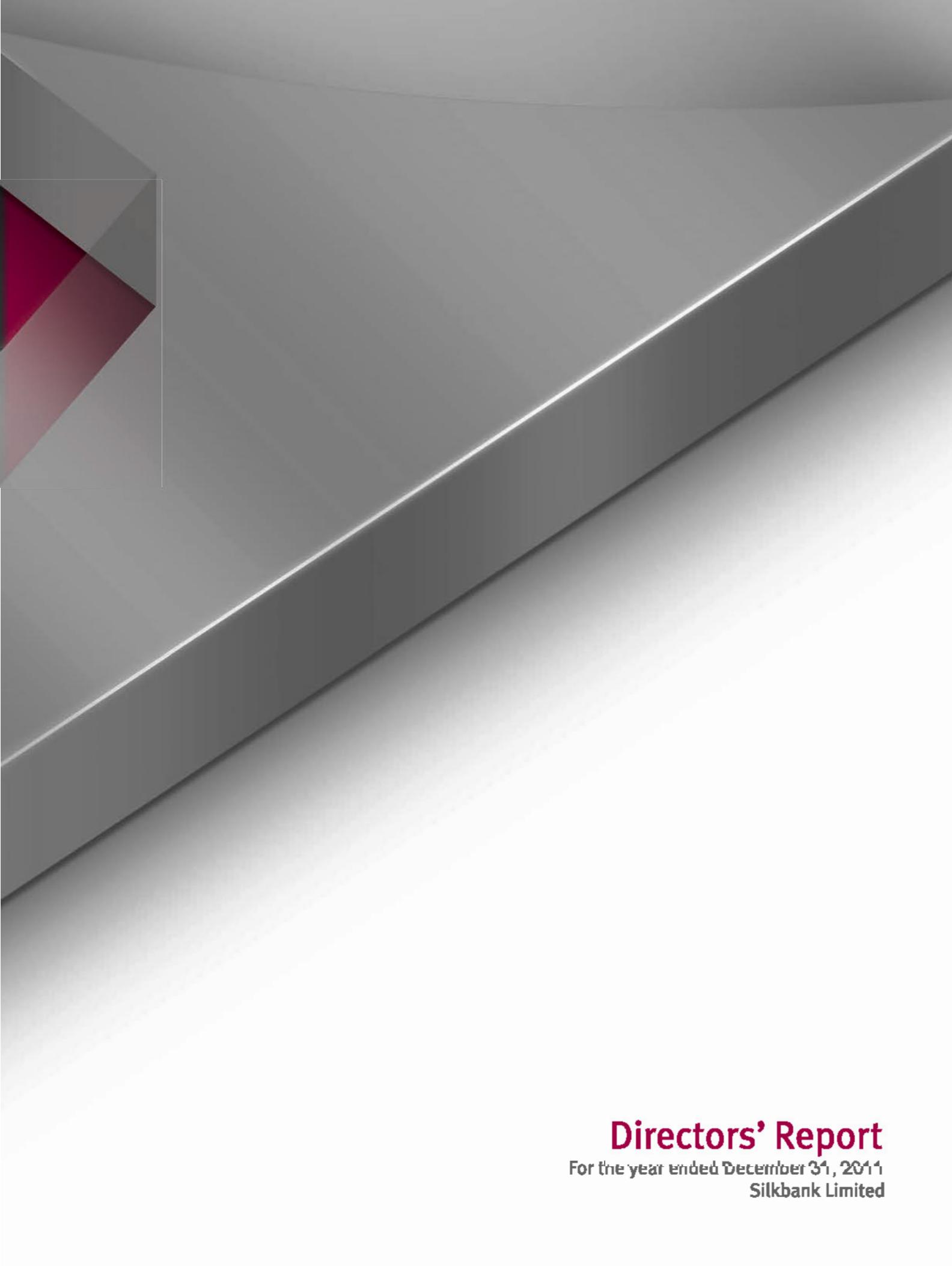
Head of Internal Audit

Uzman Naveed Chaudhary

Business Head Credit Cards

Company Secretary/Head of Investor Relations & Legal Affairs

Excellence
in Innovation



Directors' Report

For the year ended December 31, 2011
Silkbank Limited

Directors' Report for the Year Ended December 31, 2011

The Directors are pleased to present the 18th Annual Report and the audited financial statements for the year ended December 31, 2011.

2011 Review

Economy

The economy showed a mixed picture in 2011 and although inflation eased it was increasingly difficult for the Government to contain its fiscal deficit, because of unexpected expenditure on the dengue epidemic in Punjab, floods in Sindh and the energy sector inter-corporate debt. This led the Government to issue additional T-Bills & PIBs of approximately Rs. 300 billion during the year. As a consequence, economic growth is now expected to miss the 4.2% target for Financial Year 2012, although some support was received by the reduction in the policy rate by 200 bps by SBP, which enabled the private sector credit off-take to increase by around 12%, to Rs. 194 billion.

Going forward inflation is expected to rise once again in 2012 which, together with adverse price movements globally, is expected to have negative implications for Pakistan's external trade account, as growth in imports are likely to outpace growth in exports. The external position will be further effected by capital outflow due to a recession in Europe and a low growth outlook, locally. Additional pressure on the exchequer is expected, as 2012 may be an election year in which Government expenditures are traditionally high and an overall large budgetary deficit of around 7% has been forecast. Overall, 2012 is expected to be a challenging year once again, unless significant progress can be achieved in enhancing external inflows, increasing revenue collection and reducing Government expenditure, including the restructuring of state owned enterprises.

Silkbank's Performance at a Glance

The Bank continued to improve its performance during 2011. This was made possible by increasing revenues, rationalizing costs through re-engineering business processes, increasing existing resource productivity and a significant reduction in cost of deposits of 30 bps by focusing on increasing the proposition of low cost current and saving accounts (CASA) versus expensive term deposits. Enhancement of customer service quality and creativity and innovation in the Bank's various marketing products were also important contributors to this improved performance. A significant reduction in NPLs, against the general rising trend in the industry is equally noteworthy.

The Bank has in place a strategic branch expansion plan to enhance its share of the banking business in Pakistan. At present, the total number of branches is 85, out of which the following branches have been dedicated as Middle Market branches to cater to the needs of middle tier customers:

1. Jodia Bazar Branch, Karachi
2. Cloth Market Branch, Karachi
3. Circular Road Branch, Lahore
4. Badami Bagh Branch, Lahore

These branches are located in City Trade Centers and shall focus on generating Assets with high volume collateral business and corresponding CASA, while providing specialized and personalized services to middle tier target customers.

Financial Results 2011

As a result of the above, the following are the financial results for the year:

	2011	2010
	Rs. in Million	
Net mark-up income	1,871	849
Reversal / (Provisions), impairments and others	2,630	(228)
Non mark-up income	846	1,185
Non mark-up expenses	(3,988)	(3,041)
Profit / (loss) before tax	1,359	(1,235)
Tax / (Reversal) of tax	664	(104)
Profit / (loss) after tax	695	(1,131)
Rupee		
Earnings / (loss) per share	0.26	(0.49)

Directors' Report for the Year Ended December 31, 2011

Minimum Capital Requirement (MCR) and Capital Adequacy Requirement (CAR)

In 2010, the Bank had issued 311% Rights Shares at a discount of Rs. 7.50 per share to generate a net capital of Rs. 7 billion to meet the Minimum Capital Requirement (MCR) set by State Bank of Pakistan, which have remained partly unsubscribed by Rs. 2.572 billion. The State Bank of Pakistan had granted extension to the Bank till December 31, 2011 for meeting this shortfall in the MCR, as well as CAR. The Bank has made arrangements to raise Rs. 1.5 billion in subordinated debt / TFCs to support CAR and has been actively following up with potential investors to achieve MCR. This exercise however, is likely to be completed in the current year, and the Bank has therefore obtained further extension till June 30, 2012 from the State Bank of Pakistan for meeting the MCR.

Corporate Social Responsibility

The Bank has been supporting number of charities across the nation for various causes such as education, health, environment, wildlife, culture and heritage. A blood donation campaign was arranged, in February 2011 at the Bank, in which staff participated voluntarily to donate blood to the Fatimid Foundation, which caters to more than three thousand patients of Thalassaemia, Haemophilia and other blood related disorders, most of whom are children.

Board of Directors

In the month of March 2011, Mr. Shaukat Tarin resigned as Director from the Board and was reappointed Advisor to the Chairman. The Board extends its appreciation to Mr. Shaukat Tarin for his valuable contribution and looks forward to his support and guidance in strengthening the Bank in his current role as Advisor. In an Extra Ordinary General Meeting of the shareholders held on August 10, 2011, nine members were duly elected as Directors on the Board of the Bank for the next three years including Mr. Burhanuddin Khan and Mr. Mohammad Ahmed Mannan as new Directors and the composition of the new Board is now as under:

Types of Directors	No of Directors
Independent Directors	3
Non-Executive Directors	3
Executive Directors	2
Nominee / Sponsor Director	1

During the year, the Board of Directors continued to focus on improving further the governance structure of the Bank, strengthen policy framework and clearly demarcate the roles and responsibilities of the Board and the management, in line with the regulatory framework of the State Bank of Pakistan.

Corporate and Financial Reporting Framework

The Board is mindful of its responsibilities under the Code of Corporate Governance of the Securities and Exchange Commission of Pakistan (SECP). In doing so, it wishes to make the following statements:

- a) The financial statements prepared by the management of the Bank, present fairly its state of affairs, the result of its operation, cash flow and changes in equity.
- b) Proper books of account of the Bank have been maintained.
- c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d) International Financial Reporting Standards as applicable in Pakistan have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
- e) The system of internal control is sound in design and has been effectively implemented and monitored. Management's statement on internal control is enclosed herewith which is endorsed by the Board as required by the State Bank of Pakistan. The Board is ultimately responsible for the Bank's system of internal control and reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve objectives and by its nature can provide only reasonable and not absolute assurance against material misstatement or loss.

Directors' Report for the Year Ended December 31, 2011

The process used by the Board to review the effectiveness of the system of internal control includes, inter alia, the following:

- An audit committee has been formed which has written terms of reference and reports to the Board. It reviews the approach adopted by the Bank's internal audit department, as well as the scope of and its relationship with the external auditors. It also receives reports from the internal audit, and any material control weakness that is identified is discussed and agreed actions are taken in areas of concern.
- An organization structure has been established which supports clear lines of communication and tiered levels of authority with the delegation of appropriate responsibility and accountability.
- Business strategies agreed at divisional level are approved by the Board. In addition there is an annual budgeting and strategic planning process. These strategies are reviewed during the year to reflect any significant changes in the business environment.

The principal features of control framework include:

- Evaluation and approvals procedures for major capital expenditure and other transactions
- Regular reporting and monitoring of financial performance using operating statistics and monthly management accounts which highlight key performance indicators and variance from budget and quarterly forecasts
- Review of the health, safety, environment and contingency management processes and other significant policies

Further, reviews of the system of internal control are also carried out by the internal audit department and management conclusions on internal control are confirmed by divisional management to the Board.

- f) There are no significant doubts upon the Bank's ability to continue as a going concern.
- g) There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.

Risk Management Framework

The Bank was acquired by the present management on March 31, 2008. Ever since, continuous improvements have been made in the Risk Management Function, and the following are some of its important aspects:

Credit Risk

Independent Risk Management Units catering to the Corporate / Middle Market / SME and Consumer Banking are fully operational, which follow clear and proper laid down Policies and Procedures documented in the form of Manuals and Product Programs through which credit risk is being monitored by respective risk units. Broad based Credit Approval authorities have also been delegated to various approvers for credit sign off.

Credit Administration units are in place for all segments of the Bank, handling effective documentation. The Bank has its own Obligor Risk Rating (ORR) system for Corporate, Middle Market and SMEs, which is regularly updated. In addition the Bank has a robust EWS reporting system in place which is capable of identifying problem loans at an early stage for timely remedial action. A separate collection unit operates for follow up and recovery in the consumer business and a centralized Special Assets Management Unit is also in place and is primarily responsible for NPL accounts and recovery.

In addition to various management committees of the Bank, Credit Risk is overviewed by the Risk Committee of the Board on an ongoing basis.

Market Risk

A Middle Office function (independent of the Treasury) has been established within the Bank, with the primary responsibility of monitoring market risk function, reporting to the Head of Risk Management Group. In addition an Investment Committee (IC), a Market Risk Policy Committee (MRPC) and an Assets and Liabilities Committee (ALCO) are functioning to supervise and approve Market Risk exposures. The Bank has a well defined and approved Liquidity Policy, duly approved by the Board. Presently, various excel-based tools are in use to generate MIS on Market Risk for reporting to senior management and the regulators. During 2012, the Bank plans to acquire "T-Risk Module" from Temenos which is capable of generating sophisticated modeling reports.

Directors' Report for the Year Ended December 31, 2011

Operational Risk

To ensure optimum management of Operation Risk, appropriate Operational Policies and Procedures have been documented and disseminated for managing operational risk. An Internal Control Unit is also operational with the primary task of overviewing and ensuring implementation of various operational guidelines and monitoring proofs and reconciliation across the Bank. Additionally, independent Internal Audit function is also in place within the Bank, reporting to the Audit Committee of the Board.

The Bank has an effective Compliance Department to ensure that all legal and regulatory requirements are properly addressed in addition to the implementation of Anti Money Laundering and Know your Customer (AML / KYC) Policies. In this respect, appropriate training to relevant staff has been imparted including training on strict monitoring of transactions as well as AML / KYC. A Business Contingency Plan (BCP) is in place and has been tested to deal with any eventuality. Self-Assessment of Key Risk Indicators (KRIs) and compliance of standards, codes and guidelines is regularly being carried out and documented.

A Control and Compliance Committee (CCC) actively reviews all control related issues and ensures implementation of recommendations by the Internal / External / SBP Auditors and the ICU.

Board of Directors' Meetings

During the year, five meetings of the Board of Directors were held. Attendances by the Directors were as follows:

	Number of the Meetings	
	Held During Directorship	Attended
Munnawar Hamid, OBE	5	5
Humayun Bashir	5	5
Javed Hamid	5	5
Sadeq Sayeed	5	5
Arshad Ghafur	5	2
Tariq Iqbal Khan	5	4
Shaukat Tarin S.I	1	1
Burhanuddin Khan	3	3
Mohammad Ahmed Mannan	3	3
Azmat Tarin	5	5

Leave of absence was granted to Directors who could not attend the meeting.

Directors' Report for the Year Ended December 31, 2011

Pattern of Shareholding

The pattern of shareholding as required under the Companies Ordinance 1984 and the Code of Corporate Governance is as follows:

Combined Pattern of CDC & Physical Share Holdings as at December 31, 2011

Category No.	Categories of Shareholders	No. of Shareholders	Shares Held	Percentage
1	Individuals	7,301	244,639,550	9.16
2	Investment Companies	4	83,224,726	3.12
3	Joint Stock Companies	92	101,253,841	3.79
4	Directors, Chief Executive Officer and their Spouse and Minor Children	9	123,044,032	4.61
5	Executives	39	21,129,752	0.79
6	NIT / ICP	3	24,370,574	0.91
7	Associated Companies, Undertakings and Related Parties	4	2,032,452,344	76.08
8	Public Sector Companies and Corporations	0	0	0.00
9	Banks, DFIS, NBFIS, Insurance Companies Modarabas and Mutual Funds			
9.1	Financial Institutions	3	6,778,105	0.25
9.2	Leasing Companies	3	1,648,170	0.06
9.3	Insurance Companies	5	47,987	0.00
9.4	Modarabas	1	300,000	0.01
9.5	Mutual Funds	3	2,336,542	0.09
10	Foreign Investors	13	30,316,991	1.13
11	Co-operative Societies	2	35,000	0.00
12	Charitable Trusts	1	1,213	0.00
13	Others	1	26,000	0.00
		7,484	2,671,604,827	100.00

The aggregate shares held by the Directors, Chief Executive and their spouse and minor children along with Associated Companies, Undertakings and Related Parties as at December 31, 2011

S. No.	Categories of Shareholders	Number of Shares Held	Category Wise No. of Folios / CDC Acs.	Category Wise Shares Held	Percentage
	Directors, Chief Executive Officer and their Spouse and Minor Children		9	123,044,032	4.61%
1	Munawar Hamid, OBE	3,699			
2	Humayun Bashir	3,699			
3	Javed Hamid	500			
4	Sadeq Sayeed	102,817,019			
5	Tariq Iqbal Khan	5,000			
6	Burhanuddin Khan	500			
7	Mohammad Ahmed Mannan	500			
8	Azmat Tarin	20,013,115			
9	Farha Naz Tarin w/o Mr. Azmat Tarin	200,000			
	Associated Companies, Undertakings and Related Parties		4	2,032,452,344	76.08%
1	International Finance Corporation	702,689,067			
2	Shaukat Fayaz Ahmad Tarin	657,309,966			
3	Nomura European Investment Limited	356,676,342			
4	Bank Muscat S.A.O.G	315,776,969			

Directors' Report for the Year Ended December 31, 2011

Credit Rating

The JCR-VIS Credit Rating Agency has maintained the long term entity rating of the Bank as A- (Single A Minus) and the short term rating as A-2 (A-Two) and the rating has been put under a rating watch as "Developing".

External Auditors

The retiring auditors, being eligible, offer themselves for re-appointment till the conclusion of the next Annual General Meeting. The Audit Committee of the Board has recommended M/s. KPMG Taseer Hadi & Co. Chartered Accountants, the retiring auditors, as external auditors of the Bank for another term.

Future Outlook

Having remained intensively engaged in rebuilding the entire franchise for the last 2½ years, the Bank is now fully geared to make a turnaround, although the year 2012 brings with it newer and bigger challenges. This would be possible on the basis of improvements and other achievements already in place in the following areas:

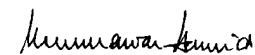
1. Technology and Human Resource
2. New Products offering
3. Improvement in Branch Network and Infrastructure
4. Improvement in Service Quality
5. Enhancement of Risk Management
6. Branch Quality
7. Strong Control Environment
8. Special Asset Performance

Additionally, with the grant of the Islamic Banking license by SBP, efforts are already underway to leverage the Bank's existing infrastructure to establish Islamic Banking operations and the coming year will also see a mass credit card launch for which system testing is already underway. These portfolio additions are expected to strongly support the Bank's expansion and enhance market presence as a full service commercial Bank.

Appreciation and Acknowledgement

We take this opportunity to express our deepest gratitude to our customers and business partners for their continued support and trust, and our sincere appreciation to the State Bank of Pakistan for their guidance and cooperation extended to the Bank, as it progresses through this difficult period. We are also equally thankful to our associates, staff and colleagues for their committed services to the Bank, and look forward to their continued loyalty and support.

**For and on Behalf of the Board of
Silkbank Limited**


Munnawar Hamid, OBE
Chairman

Karachi, February 29, 2012





Statement of Compliance with the Code of Corporate Governance & Statement of Internal Control

For the year ended December 31, 2011
Silkbank Limited

Statement of Compliance with the Code of Corporate Governance for the Year Ended December 31, 2011

The Board of Silkbank Limited extends full support and commitment towards the implementation of the highest standards of Corporate Governance.

This statement is being presented to comply with the requirement of the Prudential Regulations for Corporate / Commercial Banking issued by the State Bank of Pakistan (SBP), Code of Corporate Governance issued by the Securities and Exchange Commission of Pakistan (SECP) and Listing Regulations of Stock Exchanges.

The Bank has complied with the requirements in the following manner:

1. The Bank encourages representation of independent / non-executive directors. At present, the Board consists of seven non-executive directors inclusive of three independent directors and two executive directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies.
3. All the resident directors of the Bank are registered taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or NBFI or being member of a stock exchange has been declared as a defaulter by that stock exchange.
4. During the year one casual vacancy occurred on the Board which was filled in by the Board within the extended time allowed by the Securities and Exchange Commission of Pakistan (SECP).
5. The Bank has prepared "Statements of Ethics and Business Practices" which has been signed by all the directors and employees of the Bank.
6. The Board has developed and approved a vision and mission statement and an overall corporate strategy and significant policies of the Bank. A complete record of particulars of the significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decision on material transactions including appointment and the determination of remuneration and terms and conditions of the employment of the Chief Executive have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman.
9. Related party transactions carried out on "Arm's Length Basis" in accordance with the Related Party Transaction Policy were placed before the Audit Committee of the Board and Board of Directors, except for those transactions which are under the terms of employment.
10. The Board has met five times during the year. Notices of the Board meetings, along with agenda and working papers were circulated at least seven days before the meeting except in cases where an emergent meeting was held. The minutes of the meeting were appropriately recorded and circulated.
11. The Directors of the Bank are well conversant with their duties and responsibilities as described by the Code of Corporate Governance.
12. The Board approved appointments of the Chief Financial Officer / Company Secretary and the Head of Internal Audit including their remuneration and terms of conditions of employment as determined by the Chief Executive.
13. The Board arranged orientation courses for its directors to apprise them of their duties and responsibilities.
14. The Directors' Report for the year has been prepared in compliance with the requirement of the Code and fully describes the salient matters required to be disclosed.
15. The financial statements of the Bank were duly endorsed by the CEO and CFO before the approval of the Board.
16. The Directors, Chief Executive and executives do not hold any interest in the shares of the Bank, other than that disclosed in the pattern of shareholding.
17. The Bank has complied with all corporate and financial reporting requirements.
18. The Board has formed an Audit Committee comprising of four members. The Chairman of the Committee is an independent director.

Statement of Compliance with the Code of Corporate Governance for the Year Ended December 31, 2011

19. Four meetings of the Audit Committee were held during the year prior to approval of interim and final results of the Bank as required by the Code. The terms of reference of the Committee have been approved by the Board and advised to the Committee for compliance.
20. The Board has set-up an effective internal audit function, the members of which are considered suitably qualified and experienced for the purpose. The Audit department reports to the Audit Committee.
21. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on the code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.
22. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
23. The quarterly un-audited financial statements of the Bank are circulated along with the review of Directors. Half yearly financial statements were subject to the limited review by the statutory auditors. The financial statements for the year ended December 31, 2011 have been audited and will be circulated in accordance with the requirements of the Code of Corporate Governance.
24. All material information required under the relevant rules have been provided to the Stock Exchanges and to the Securities and Exchange Commission of Pakistan within the prescribed time limit.
25. We confirm that all other material principles contained in the Code have been complied with.

**For and on Behalf of the Board of
Silkbank Limited**



Azmat Tarin
President & CEO



Munnawar Hamid, OBE
Chairman

Karachi, February 29, 2012

Management's Statement on Internal Control for the Year Ended December 31, 2011

This statement is issued in compliance with the State Bank of Pakistan (SBP) BSD Circular No.: 07 of 2004 on Internal Controls.

In Silkbank, effective internal controls are considered an integral part of the management and accountability function. The focus of internal control, both as a concept and as a practical management tool, has evolved over the years from narrow traditional financial controls to a broader system of controls encompassing all areas of operations in the Bank.

The management of Silkbank Limited acknowledges its responsibility for maintaining an adequate system of internal controls and procedures and is committed for all necessary efforts and resources desired to institute appropriate control procedures and monitor its effectiveness.

In line with ICFR guidelines, the management has implemented effective process designed to manage and mitigate the risks to achieve the Bank's business strategies and policies and to provide reasonable assurance in relation to the above mentioned objectives.

Over the years, the management has been able to adopt strategies to ensure effective monitoring and improvement of internal controls. These include the following:

- In order to meet the SBP requirements on internal control, the Bank has acquired the services of a reputable consultancy firm for guidance and documenting the existing controls. Based on their recommendations, the Bank has implemented the COSO framework of internal controls.
- The Bank has adopted a statement of ethics and business practices that is signed by all directors and employees. Furthermore, the compliance function also ensures the Bank's compliance with all applicable laws, regulations and code of ethics.
- An organizational structure has been established which supports clear lines of communication and tiered levels of authority and segregation of duties commensurate with accountability.
- The Bank has established an effective Internal Audit structure, reporting directly to the Audit Committee of the Board.
- An Internal Control Department is established to proactively monitor and validate Controls in line with Regulatory guidelines (ICFR) and COSO implementation (BSD-7).
- Management has established evaluation and approval procedures for all major capital expenditures and other activities / transactions.
- The Bank has implemented various key policies and procedure guidelines / manuals covering all the areas of operations including those related to Branch Banking Operations, Treasury, Credit Risk, employee welfare and contingency management, etc.
- Management gives due consideration to the recommendations made by the internal and external auditors for improvements in the internal control system and takes action to implement such recommendations.
- Management has established evaluation and approval procedures for all major capital expenditure and other transactions.
- There is an annual budgeting and strategic planning process in the Bank. Financial forecasts are reviewed on a periodical basis to reflect significant change in the business environment. Regular reporting and monitoring of financial performance of the departments and the Bank as a whole have been implemented, using statistics and monthly management accounts to highlight key performance indicators and variance from budgets and forecasts.

Management's Statement on Internal Control for the Year Ended December 31, 2011

- The Bank has implemented various significant policies covering all the areas of operations including those relating to employees welfare and contingency management processes. The policies are reviewed periodically.
- Management also emphasizes on imparting of training to enhance knowledge and understanding of the Bank's internal policies and procedures and prudential regulations. This has resulted in the strengthening of the control environment.

With the implementation of COSO framework (under the SBP guidelines on Internal controls) and regular monitoring of the defined controls, the overall control environment in the Bank is geared to provide reasonable assurance to the Bank's management, stakeholders and Board of Directors, which we believe will continue to further improve with time.

Karachi, February 29, 2012



Azmat Tarin
President & CEO





Notice of AGM & Auditors' Review

For the year ended December 31, 2011
Silbank Limited

Notice of the 18th Annual General Meeting

Notice is hereby given that the Eighteenth Annual General Meeting of Silkbank Limited will be held on Thursday, March 29, 2012 at 11:00 am at the Beach Luxury Hotel, Karachi, to transact the following business:

Ordinary Business

1. To confirm the minutes of Extra Ordinary General Meeting held on August 10, 2011.
2. To receive, consider and adopt the audited financial statements of the Bank for the year ended December 31, 2011 together with the Directors' and Auditors' reports thereon.
3. To appoint auditors to hold office till the conclusion of the next Annual General Meeting and to fix their remuneration. M/s KPMG Taseer Hadi and Co. Chartered Accountants, retire and being eligible offer themselves for re-appointment.

Any Other Business

To transact any other business with the permission of the Chair

By the Order of the Board

**Uzman Naveed Chaudhary
Company Secretary / Head of
Investor Relations and Legal Affairs**

Karachi, February 29, 2012

Notes:

- The Share Transfer Book of the Bank will remain closed from March 22, 2012 to March 29, 2012 (both days inclusive).
- A member entitled to attend and vote at this meeting may appoint another member as his / her proxy to attend and vote. Proxies in order to be effective must be received at the registered office of the Bank duly stamped and signed not less than 48 hours before the meeting.
- Members whose shares are deposited with the Central Depository Company of Pakistan Limited are requested to bring Original Computerized National Identity Card along with the participant's ID number and their Account number in the Central Depository Company of Pakistan Limited to facilitate identification at the time of the Annual General Meeting. In case of proxy, an attested copy of the proxy's Identity Card, Account and Participant ID number must be enclosed. In case of corporate entity, the Board of Directors' resolution / power of attorney with the specimen signature of the nominee shall be produced at the time of the meeting (unless it has been provided earlier or the corporate entity has appointed a proxy).
- Members are requested to promptly notify the Bank of any change in their addresses.

Auditors' Review



K MG Taseer Ha. I & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2
Seamont Road
Karachi, 75530 Pakistan

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Fax +92 (21) 3568 5095
Internet www.kmg.com.pk

Auditors' Review Report to the Members on the Directors' Statement of Compliance with the Best Practices of the Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Silkbank Limited ("the Bank") to comply with the Listing Regulations of the Karachi Stock Exchange where the Bank is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Bank. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Bank's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Bank personnel and review of various documents prepared by the Bank to comply with the Code.

As part of our audit of financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Further, sub-regulation (xiii a) of Listing Regulation No. 35 (previously Regulation No. 37) notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 January, 2009 requires the Bank to place before the Board of Directors for their consideration and approval of related party transactions distinguishing between transactions carried out on terms equivalent to those that prevailed in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended 31 December, 2011.

Karachi, February 29, 2012

**KPMG Taseer Haider & Co.
Chartered Accountants**





Independent Auditors' Report

For the year ended December 31, 2011
Silkbank Limited

Auditors' Report



K MG Taseer Ha I & Co.
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Auditors' Report to the Members

We have audited the annexed statement of financial position of Silkbank Limited (the Bank) as at December 31, 2011 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for eleven branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, which in the case of loans and advances covered more than 60% of the total loans and advances of the bank, we report that:

- a) in our opinion, proper books of accounts have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984), and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- 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 Bank's business; and
 - III) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;
- c) in our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, profit and loss account, statement of comprehensive income, cash flow statement, and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at December 31, 2011 and its true balance of the profit, its cash flows and changes in equity for the year then ended; and
- d) In our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Auditors' Report

We draw attention to following matters:

- i) Note 1.3 and 39 to the financial statements which highlight that the Bank has not been able to meet the minimum capital requirement (net of losses) of Rs. 8 billion at December 31, 2011 and the capital adequacy ratio of 10% as applicable to the Bank. The Bank has been granted extension in meeting the minimum capital requirement and Capital Adequacy Ratio by State Bank of Pakistan till June 30, 2012; and
- ii) Note 13 to the financial statements which states that the Bank based on a 5 year strategic plan including projections for taxable profits for five years had concluded that there would be enough profits against which deferred tax asset created on unused tax losses can be utilized. The strategic plan and projections have been approved by Board of Directors of the Bank.

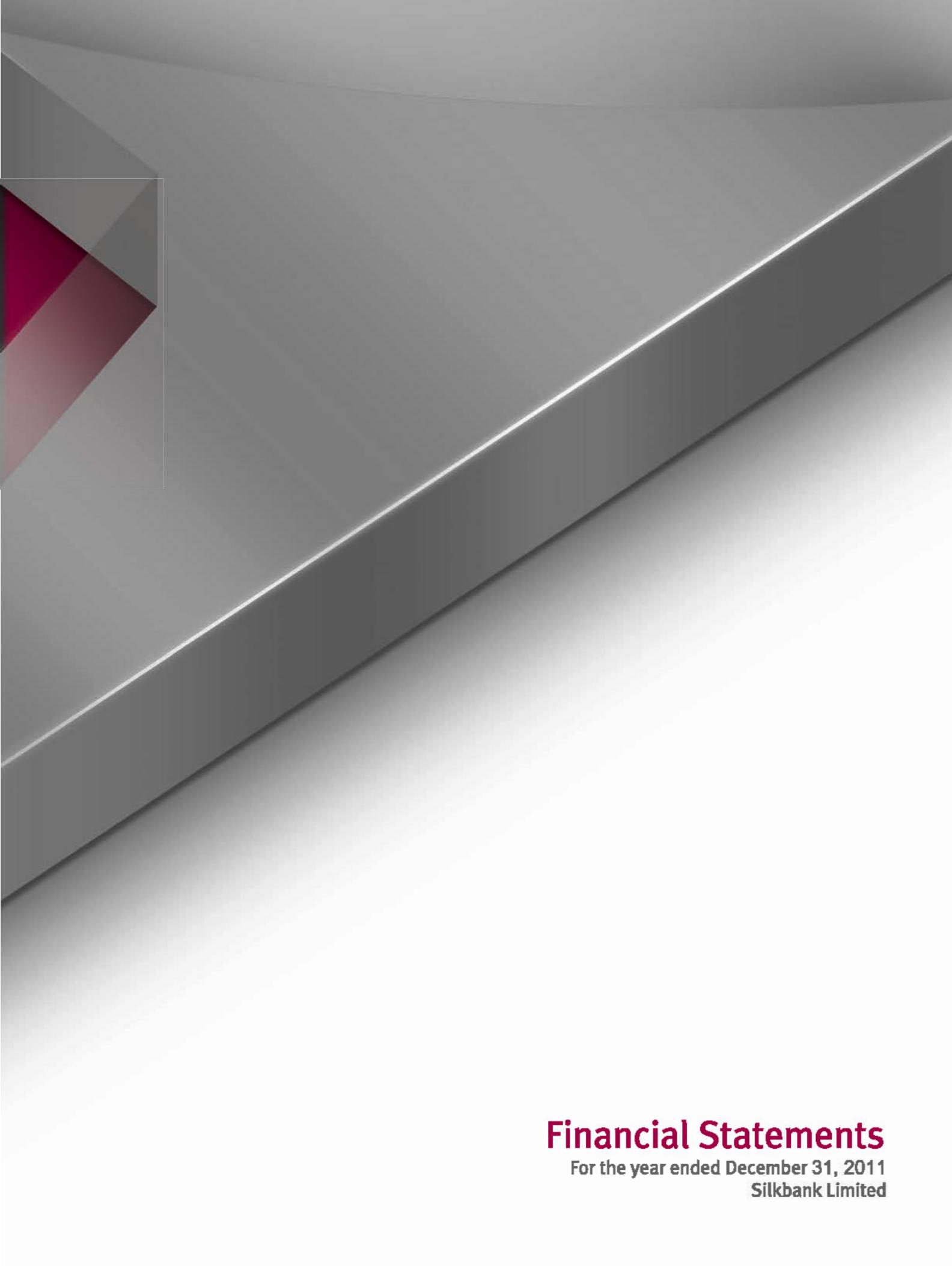
Our opinion is not qualified with respect to above matters.

The financial statements of the Bank for the year ended December 31, 2010 were audited by another firm of chartered accountants who expressed an unmodified opinion dated March 2, 2011.

Karachi, February 29, 2012

**KPMG Taseer Hadi & Co.
Chartered Accountants
Syed Iftikhar Anjum**





Financial Statements

For the year ended December 31, 2011
Silkbank Limited

Six Years' Financial Highlights

	2011	2010	2009	2008	2007	2006
	Rs. in Million					
BALANCE SHEET						
Share capital	13,431	13,431	9,003	9,003	5,002	3,848
Reserves	139	-	225	219	219	219
Deposits and other accounts	64,072	55,706	49,610	41,057	42,374	49,015
Sub-ordinated loan	-	-	-	-	650	650
Borrowings from financial institutions	17,782	9,871	15,088	8,739	6,880	4,237
Total Assets	90,670	72,669	68,664	55,645	53,661	59,201
Gross Advances	55,309	52,925	40,592	38,187	31,416	31,527
Advances-Net of provisions	49,936	44,354	32,097	31,087	25,875	29,022
Non performing Advances	11,023	12,360	11,891	12,845	6,136	4,635
Investments - net of provisions	17,548	13,190	20,179	12,012	17,859	15,829
Equity	5,639	4,834	1,763	4,391	2,180	3,998
PROFIT AND LOSS ACCOUNT						
Mark-up/return/interest earned	8,386	6,776	5,913	4,588	4,800	3,712
Mark-up/return/interest expensed	(6,515)	(5,927)	(5,856)	(4,219)	(4,440)	(3,261)
Net mark-up/interest earned	1,871	849	58	369	360	451
Provisions and Write off	2,630	(228)	(2,309)	(1,642)	(3,132)	(408)
Net mark-up/interest income/(loss) after provisions	4,501	621	(2,252)	(1,273)	(2,773)	43
Non-markup/interest income	847	1,185	662	385	777	706
Non-markup/interest expenses	(3,988)	(3,041)	(2,663)	(1,946)	(1,324)	(1,158)
Profit/(Loss) before Taxation	1,359	(1,236)	(4,252)	(2,834)	(3,320)	(409)
Profit/(Loss) after Taxation	695	(1,131)	(2,903)	(2,014)	(3,041)	(304)
FINANCIAL RATIOS						
Income/Expense Ratio	Times	0.681	0.669	0.270	0.387	0.858
Return on average Equity (ROE)	%	13.27	(34.29)	(94.34)	(61.30)	(98.44)
Return on average Assets (ROA)	%	0.85	(1.60)	(4.67)	(3.69)	(5.39)
NPLs to Gross Advances ratio	%	19.93	23.35	29.29	33.64	19.53
Earning assets to Total Assets ratio	%	77.85	80.63	77.69	79.93	83.07
Earnings per share	Rs	0.26	(0.49)	(2.52)	(2.83)	(5.49)
Gross spread ratio (NIM/Gross interest income)	%	22.31	12.53	0.98	8.05	7.49
NON FINANCIAL INFORMATION						
Number of branches		85	85	82	65	55
Number of employees		2564	2179	1959	1721	1253
						1426

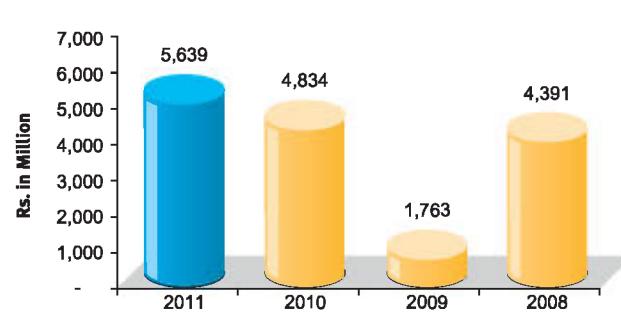
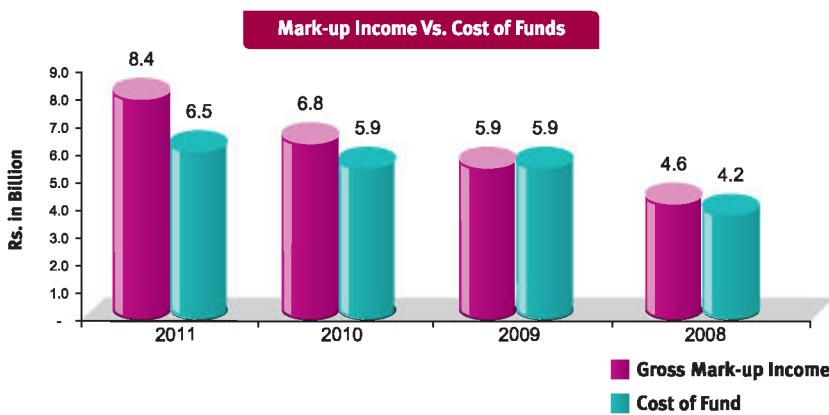
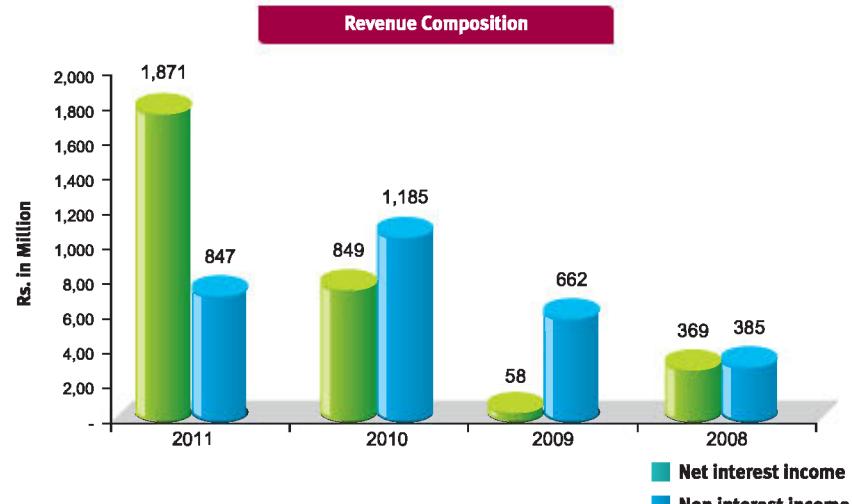
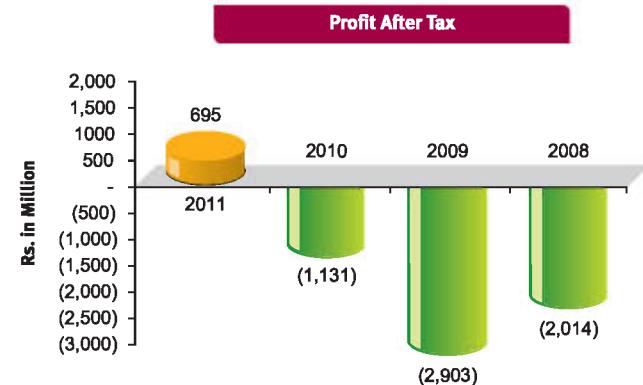
Horizontal Analysis

	2011 Rs M	11 Vs 10 %	2010 Rs M	10 Vs 09 %	2009 Rs M	09 Vs 08 %	2008 Rs M	08 Vs 07 %	2007 Rs M	07 Vs 06 %	2006 Rs M	06 Vs 05 %
BALANCE SHEET												
ASSETS												
Cash and balances with treasury banks	4,436	30%	3,415	9%	3,121	2%	3,070	-5%	3,224	-19%	3,994	58%
Balances with other banks	94	6%	89	-41%	151	-21%	190	47%	129	-79%	614	-34%
Lending to financial institutions	3,101	195%	1,051	-2%	1,068	-22%	1,377	64%	840	-82%	4,748	-46%
Investments	17,548	33%	13,190	-35%	20,179	68%	12,012	-33%	17,859	13%	15,829	27%
Advances	49,936	13%	44,354	38%	32,097	3%	31,087	20%	25,875	-11%	29,022	49%
Operating fixed assets	4,756	95%	2,444	-34%	3,721	24%	3,002	27%	2,368	2%	2,322	51%
Deferred tax assets (net)	3,569	-15%	4,193	5%	3,976	52%	2,614	48%	1,768	74%	1,015	11%
Other assets	7,230	84%	3,933	-10%	4,351	90%	2,292	43%	1,598	-4%	1,657	60%
TOTAL ASSETS	90,670	25%	72,669	6%	68,664	23%	55,645	4%	53,661	-9%	59,201	24%
LIABILITIES												
Bills payable	1,679	101%	837	31%	638	48%	432	-24%	571	40%	408	105%
Borrowings from financial institutions	17,782	80%	9,871	-35%	15,088	73%	8,739	27%	6,880	62%	4,237	-23%
Deposits and other accounts	64,072	15%	55,706	12%	49,610	21%	41,057	-3%	42,374	-14%	49,015	32%
Sub-ordinated loan	-	-	-	0%	-	0%	-	-100%	650	0%	650	0%
Liabilities against assets subject to finance lease	-	-	-	-100%	10	-74%	40	-50%	80	27%	63	100%
Other liabilities	1,499	5%	1,421	-9%	1,555	57%	987	7%	925	12%	830	75%
TOTAL LIABILITIES	85,032	25%	67,835	1%	66,901	31%	51,254	0%	51,480	-7%	55,203	26%
NET ASSETS	5,639	17%	4,834	174%	1,763	-60%	4,391	101%	2,180	-45%	3,998	5%
REPRESENTED BY												
Share capital	26,716	-	26,716	197%	9,003	0%	9,003	80%	5,002	30%	3,848	0%
Reserves	139	-	-	-100%	225	3%	219	0%	219	0%	219	0%
Discount on issue of rights shares	(13,285)	0%	(13,285)	-	-	-	-	-	-	-	-	-
Accumulated loss	(8,055)	6%	(8,614)	5%	(9,031)	-47%	(6,132)	-49%	(4,120)	-281%	(1,081)	-26%
Surplus on revaluation of assets (net of tax)	123	627%	17	-99%	1,566	20%	1,301	21%	1,080	7%	1,013	69%
	5,639	17%	4,834	174%	1,763	-60%	4,391	101%	2,180	-45%	3,998	5%
PROFIT AND LOSS ACCOUNT												
Mark-up/return/interest earned	8,386	24%	6,776	15%	5,913	29%	4,588	-4%	4,800	29%	3,712	41%
Mark-up/return/interest expensed	(6,515)	10%	(5,927)	1%	(5,856)	39%	(4,219)	-5%	(4,440)	36%	(3,261)	76%
Net mark-up/interest earned	1,871	120%	849	1369%	58	-84%	369	3%	360	-20%	451	-42%
Provisions and Write off	2,630	-1253%	(228)	-90%	(2,309)	41%	(1,642)	-48%	(3,132)	668%	(408)	-19%
Net mark-up/interest income/(loss) after provisions	4,501	625%	621	-128%	(2,252)	77%	(1,273)	-54%	(2,773)	-6493%	43	-84%
Non-markup/interest income	847	-29%	1,185	79%	662	72%	385	-51%	777	10%	706	7%
Non-markup/interest expenses	(3,988)	31%	(3,041)	14%	(2,663)	37%	(1,946)	47%	(1,324)	14%	(1,158)	45%
Profit/(Loss) before Taxation	1,359	-210%	(1,236)	-71%	(4,252)	50%	(2,834)	-15%	(3,320)	712%	(409)	-391%
Taxation	(664)	-736%	104	-92%	1,350	65%	820	194%	279	165%	105	-239%
Profit/(Loss) after Taxation	695	-161%	(1,131)	-61%	(2,903)	44%	(2,014)	-34%	(3,041)	901%	(304)	-570%

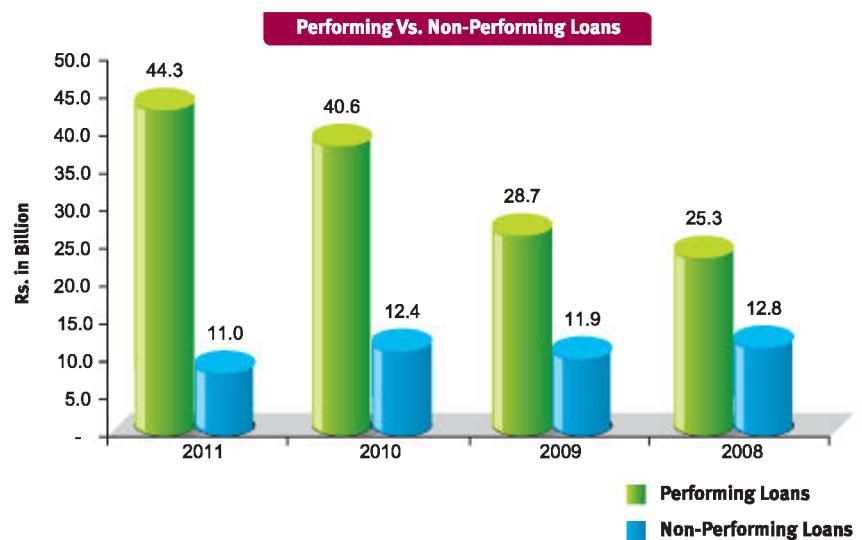
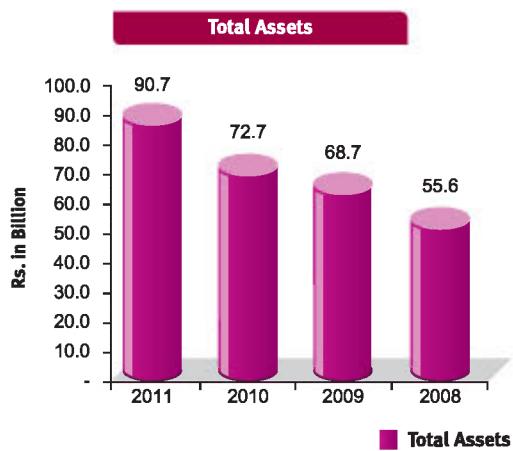
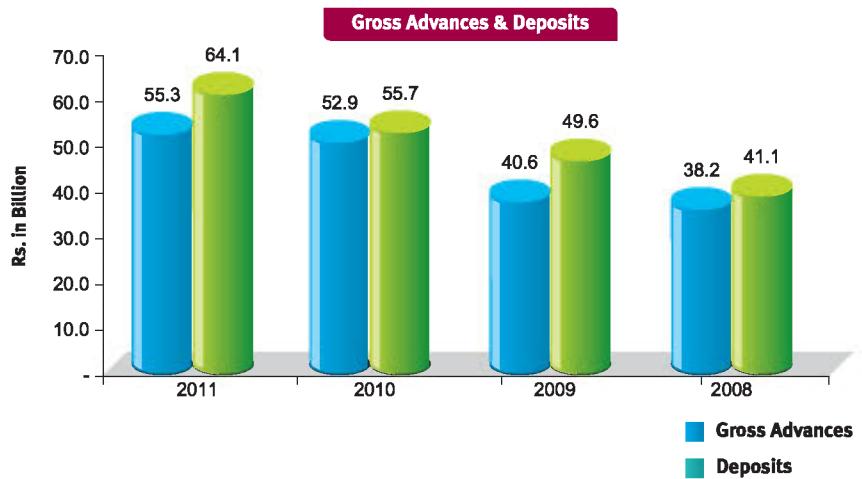
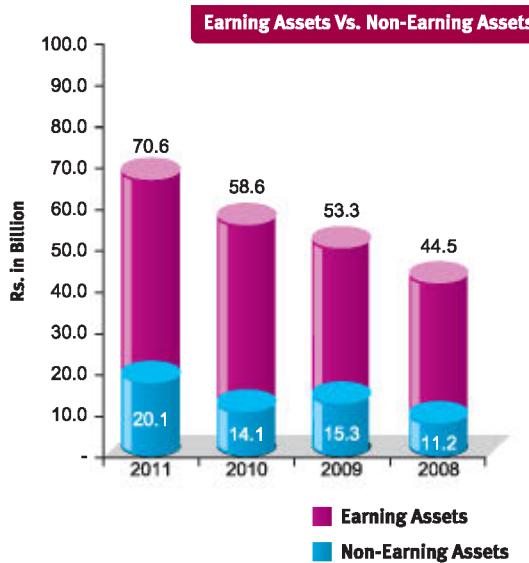
Vertical Analysis

	2011		2010		2009		2008		2007		2006	
	Rs M	%	Rs M	%	Rs M	%	Rs M	%	Rs M	%	Rs M	%
BALANCE SHEET												
ASSETS												
Cash and balances with treasury banks	4,436	5%	3,415	5%	3,121	5%	3,070	6%	3,224	6%	3,994	7%
Balances with other banks	94	0%	89	0%	151	0%	190	0%	129	0%	614	1%
Lending to financial institutions	3,101	3%	1,051	1%	1,068	2%	1,377	2%	840	2%	4,748	8%
Investments	17,548	19%	13,190	18%	20,179	29%	12,012	22%	17,859	33%	15,829	27%
Advances	49,936	55%	44,354	61%	32,097	47%	31,087	56%	25,875	48%	29,022	49%
Operating fixed assets	4,756	5%	2,444	3%	3,721	5%	3,002	5%	2,368	4%	2,322	4%
Deferred tax assets (net)	3,569	4%	4,193	6%	3,976	6%	2,614	5%	1,768	3%	1,015	2%
Other assets	7,230	8%	3,933	5%	4,351	6%	2,292	4%	1,598	3%	1,657	3%
TOTAL ASSETS	90,670	100%	72,669	100%	68,664	100%	55,645	100%	53,661	100%	59,201	100%
LIABILITIES												
Bills payable	1,679	2%	837	1%	638	1%	432	1%	571	1%	408	1%
Borrowings from financial institutions	17,782	20%	9,871	14%	15,088	22%	8,739	16%	6,880	13%	4,237	7%
Deposits and other accounts	64,072	71%	55,706	77%	49,610	72%	41,057	74%	42,374	79%	49,015	83%
Sub-ordinated loan	-	0%	-	0%	-	0%	-	0%	650	1%	650	1%
Liabilities against assets subject to finance lease	-	0%	-	0%	10	0%	40	0%	80	0%	63	0%
Other liabilities	1,499	2%	1,421	2%	1,555	2%	987	2%	925	2%	830	1%
TOTAL LIABILITIES	85,032	94%	67,835	93%	66,901	97%	51,254	92%	51,480	96%	55,203	93%
NET ASSETS	5,639	6%	4,834	7%	1,763	3%	4,391	8%	2,180	4%	3,998	7%
REPRESENTED BY												
Share capital	26,716	29%	26,716	37%	9,003	13%	9,003	16%	5,002	9%	3,848	6%
Reserves	139	0%	-	0%	225	0%	219	0%	219	0%	219	0%
Discount on issue of rights shares	(13,285)	-15%	(13,285)	-18%	-	0%	-	0%	-	0%	-	0%
Accumulated loss	(8,055)	-9%	(8,614)	-12%	(9,031)	-13%	(6,132)	-11%	(4,120)	-8%	(1,081)	-2%
Surplus on revaluation of assets (net of tax)	123	0%	17	0%	1,566	2%	1,301	2%	1,080	2%	1,013	2%
	5,639	6%	4,834	7%	1,763	3%	4,391	8%	2,180	4%	3,998	7%
PROFIT AND LOSS ACCOUNT												
Mark-up/return/interest earned	8,386	91%	6,776	85%	5,913	90%	4,588	92%	4,800	86%	3,712	84%
Mark-up/return/interest expensed	(6,515)	-71%	(5,927)	-74%	(5,856)	-89%	(4,219)	-85%	(4,440)	-80%	(3,261)	-74%
Net mark-up/interest earned	1,871	20%	849	11%	58	1%	369	7%	360	6%	451	10%
Provisions and Write off	2,630	28%	(228)	-3%	(2,309)	-35%	(1,642)	-33%	(3,132)	-56%	(408)	-9%
Net mark-up/interest income/(loss) after provisions	4,501	49%	621	8%	(2,252)	-34%	(1,273)	-26%	(2,773)	-50%	43	1%
Non-markup/interest income	847	9%	1,185	15%	662	10%	385	8%	777	14%	706	16%
Non-markup/interest expenses	(3,988)	-43%	(3,041)	-38%	(2,663)	-41%	(1,946)	-39%	(1,324)	-24%	(1,158)	-26%
Profit/(Loss) before Taxation	1,359	15%	(1,236)	-16%	(4,252)	-65%	(2,834)	-57%	(3,320)	-60%	(409)	-9%
Taxation	(664)	-7%	104	1%	1,350	21%	820	16%	279	5%	105	2%
Profit/(Loss) after Taxation	695	8%	(1,131)	-14%	(2,903)	-44%	(2,014)	-41%	(3,041)	-55%	(304)	-7%

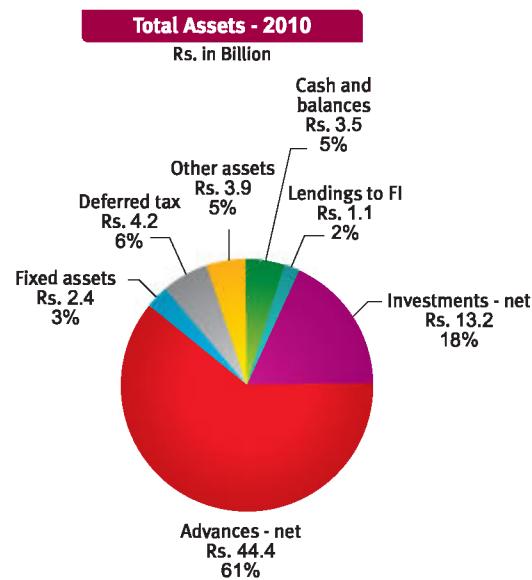
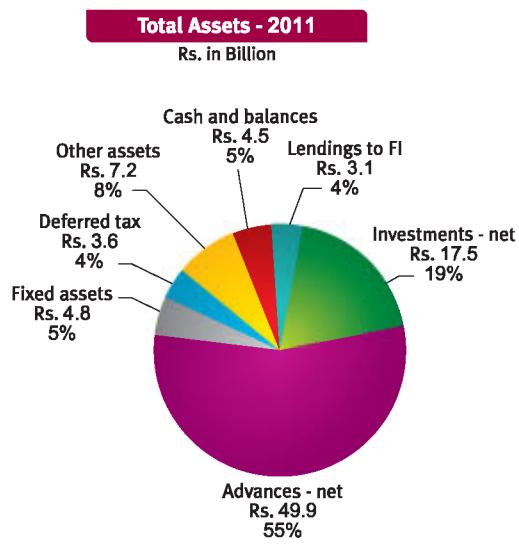
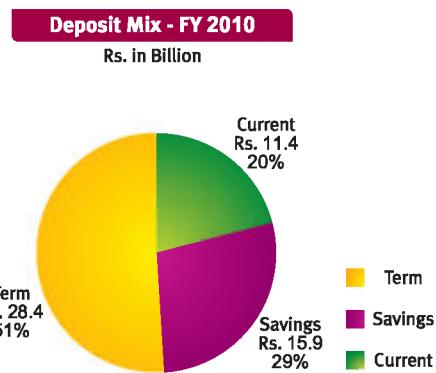
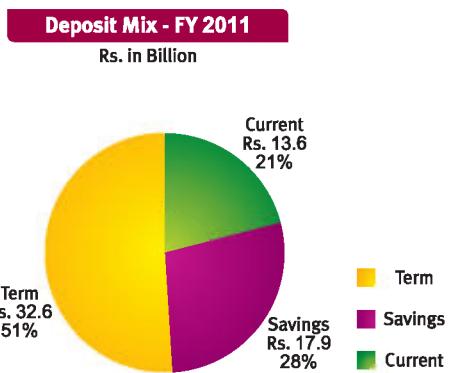
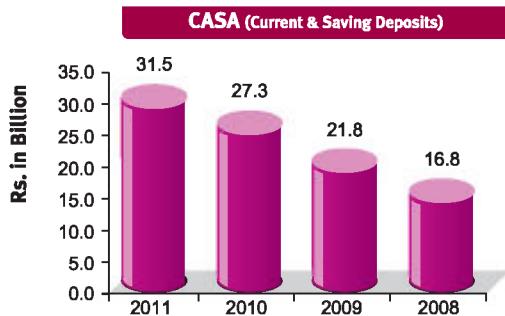
Graphical Presentation of Financial Progress



Graphical Presentation of Financial Progress



Graphical Presentation of Financial Progress



Statement of Financial Position as at December 31, 2011

	Notes	December 31, 2011	December 31, 2010
		Rupees in '000	
ASSETS			
Cash and balances with treasury banks	7	4,436,142	3,414,524
Balances with other banks	8	94,322	89,355
Lendings to financial institutions	9	3,100,803	1,050,754
Investments - net	10	17,547,640	13,190,048
Advances - net	11	49,936,279	44,354,406
Operating fixed assets	12	4,755,911	2,443,805
Deferred tax assets - net	13	3,569,417	4,192,954
Other assets	14	7,229,763	3,933,247
		90,670,277	72,669,093
LIABILITIES			
Bills payable	15	1,679,456	836,931
Borrowings from financial institutions	16	17,781,686	9,871,141
Deposits and other accounts	17	64,071,908	55,706,188
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	18	1,498,720	1,420,886
		85,031,770	67,835,146
NET ASSETS		5,638,507	4,833,947
REPRESENTED BY			
Paid-up capital	19	26,716,048	26,716,048
Reserves		139,013	-
Discount on issue of right shares		(13,284,674)	(13,284,674)
Accumulated loss		(8,054,519)	(8,614,289)
		5,515,868	4,817,085
Surplus / (deficit) on revaluation of assets	20	122,639	16,862
		5,638,507	4,833,947
CONTINGENCIES AND COMMITMENTS	21		

The annexed notes 1 to 43 form an integral part of these financial statements.

Azmat Tarin
President & CEO

Munnawar Hamid, OBE
Chairman

Tariq Iqbal Khan
Director

Humayun Bashir
Director

Profit and Loss Account for the Year Ended December 31, 2011

	Notes	2011 Rupees in '000	2010
Mark-up / return / interest earned	23	8,385,608	6,775,565
Mark-up / return / interest expensed	24	6,514,770	5,926,528
Net Mark-up / Interest Income		1,870,838	849,037
(Reversal) / provision against non-performing loans and advances - net	11.3.1	(2,583,376)	151,739
Provision against consumer financing	11.3	98,066	8,736
Provision / (reversal) for diminution in the value of investments - net	10.14	2,985	(1,559)
Recovery against written off loan		(181,045)	-
Impairment in the value of investments		30,569	69,198
Bad debts written off directly		2,948	-
Net Mark-up / Interest Income after provisions		(2,629,853)	228,114
		4,500,691	620,923
NON MARK-UP / INTEREST INCOME			
Fee, Commission and Brokerage income		386,295	322,162
Dividend income		50,427	29,316
Income from dealing in foreign currencies		157,612	130,944
Gain / (Loss) on sale of securities - net	25	70,167	(71,345)
Unrealized (Loss) on revaluation of investments - held for trading	10.15	-	(94)
Other income	26	182,085	773,821
Total non-markup / interest income		846,586	1,184,804
		5,347,277	1,805,727
NON MARK-UP / INTEREST EXPENSES			
Administrative expenses	27	3,779,045	3,153,601
Other provisions / (reversal) / write offs	28	179,832	(136,945)
Other charges	29	29,482	24,617
Total non-markup / interest expenses		3,988,359	3,041,273
PROFIT / (LOSS) BEFORE TAXATION		1,358,918	(1,235,546)
Income tax expense			
Taxation - Current	30	92,322	85,608
- Prior		-	-
- Deferred		571,533	(190,000)
		663,855	(104,392)
PROFIT / (LOSS) AFTER TAXATION		695,063	(1,131,154)
Earnings / (loss) per share - Basic and Diluted	31	0.26	(0.49)

The annexed notes 1 to 43 form an integral part of these financial statements.

Azmat Tarin
President & CEO

Munawar Hamid, OBE
Chairman

Tariq Iqbal Khan
Director

Humayun Bashir
Director

Statement of Comprehensive Income for the Year Ended December 31, 2011

	Notes	2011 Rupees in '000	2010
Profit / (Loss) for the year		695,063	(1,131,154)
Other comprehensive income			
Reversal of provision against upgraded rescheduled advances	11.3.1	-	(6,093)
Comprehensive income transferred to equity		695,063	(1,137,247)
Components of comprehensive income not reflected in equity			
Surplus / (deficit) on revaluation of assets		157,780	(69,818)
Deferred tax (asset) on revaluation of assets		(52,003)	26,807
		105,777	(43,011)

The annexed notes 1 to 43 form an integral part of these financial statements.

Azmat Tarin
President & CEO

Munnawar Hamid, OBE
Chairman

Tariq Iqbal Khan
Director

Humayun Bashir
Director

Statement of Cash Flows

for the Year Ended December 31, 2011

	Notes	2011	2010
		Rupees in '000	
CASH FLOW FROM OPERATING ACTIVITIES			
Profit / (loss) before taxation		1,358,918	(1,235,546)
Dividend income		(50,427)	(29,316)
		<u>1,308,491</u>	<u>(1,264,862)</u>
Adjustments for non-cash items			
Depreciation	12.2	380,848	289,671
Amortization of premium on investment		222,915	235,355
Amortization of intangible assets	12.3	85,898	49,940
(Reversal) / Provision against non-performing advances	11.3.1	(2,583,376)	151,739
Provision / (Reversal) against consumer finance	11.3	98,066	8,736
Provision / (reversal) for diminution in the value of investments - net	10.14	2,985	(1,559)
Impairment in the value of Investment		30,569	69,198
Unrealized Gain on revaluation of investments - held for trading	10.15	-	94
Provision for Gratuity		-	45,143
Other (reversal) / provisions written back	28	179,832	(136,945)
Gain on sale of fixed assets	12.5	(3,208)	567,653
Financial charges on leased assets		-	1,884
		<u>(1,585,471)</u>	<u>1,280,909</u>
		<u>(276,980)</u>	<u>16,047</u>
(Increase) / Decrease in operating assets			
Lendings to financial institutions		(2,050,049)	(733,046)
Net investments in Held-for-Trading securities		20,535	1,789,235
Advances		(3,096,563)	(12,424,854)
Other assets		(3,476,016)	258,613
		<u>(8,602,093)</u>	<u>(11,110,052)</u>
Increase / (Decrease) in operating liabilities			
Bills payable		842,525	199,329
Borrowings from financial institutions		7,910,545	(5,217,191)
Deposits		8,365,720	6,096,154
Other liabilities		79,116	(247,533)
		<u>17,197,906</u>	<u>830,759</u>
Income tax paid		8,318,833	(10,263,246)
Net cash flow from operating activities		<u>(93,603)</u>	<u>(82,823)</u>
		<u>8,225,230</u>	<u>(10,346,069)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Net investment in Available-for-Sale securities		(6,034,126)	4,783,567
Net investment in Held-to-Maturity securities		1,561,124	267,443
Dividend received		50,001	29,316
Sale proceeds of property & equipment disposed off		29,971	2,476,261
Investment in operating fixed assets		(2,805,615)	(1,967,343)
Net cash flow from investing activities		<u>(7,198,645)</u>	<u>5,589,244</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Issuance of right shares		-	4,428,224
Expenses on issuance of right shares		-	(177,108)
Payment of lease obligations		-	(12,360)
Net cash flow from financing activities		<u>-</u>	<u>4,238,756</u>
Increase / (Decrease) in cash and cash equivalents			
Cash and cash equivalents at January 01,		1,026,585	(518,069)
Cash and cash equivalents at December 31,	32	<u>3,503,879</u>	<u>4,021,948</u>
		<u>4,530,464</u>	<u>3,503,879</u>

The annexed notes 1 to 43 form an integral part of these financial statements.

Azmat Tarin
President & CEO

Munnawar Hamid, OBE
Chairman

Tariq Iqbal Khan
Director

Humayun Bashir
Director

Statement of Changes in Equity for the Year Ended December 31, 2011

	Share Capital	Discount on Issue of Shares	Share Deposit Money	*Statutory Reserves	Others	Accumulated (Loss)	Total Equity
Rupees In '000							
Balance as at January 01, 2010	9,003,150	-	-	218,556	6,093	(9,030,894)	196,905
(Loss) after tax for the year ended December 31, 2010	-	-	-	-	-	(1,131,154)	(1,131,154)
Other comprehensive income - net of tax							
Reversal of provision against upgraded rescheduled advances	-	-	-	-	(6,093)	-	(6,093)
	-	-	-	-	(6,093)	(1,131,154)	(1,137,247)
Transactions with owners, recorded directly in equity							
Share deposit money	-	-	4,428,224	-	-	-	4,428,224
Issuance of right shares	17,712,898	(13,284,674)	(4,428,224)	-	-	-	-
Expenses incurred on account of right issue	-	-	-	-	-	(177,108)	(177,108)
	17,712,898	(13,284,674)	-	-	-	(177,108)	4,251,116
Transfer from statutory reserve	-	-	-	(218,556)	-	218,556	-
Transfer from surplus on revaluation of fixed assets	-	-	-	-	-	1,502,591	1,502,591
on account of disposal of assets - net of tax	-	-	-	-	-	-	-
Transfer from surplus on revaluation of fixed assets	-	-	-	-	-	3,720	3,720
on account of incremental depreciation- net of tax	-	-	-	-	-	-	-
Balance as at December 31, 2010	26,716,048	(13,284,674)	-	-	-	(8,614,289)	4,817,085
Total comprehensive Income for the year							
Profit after tax for the year ended December 31, 2011	-	-	-	-	-	695,063	695,063
	-	-	-	-	-	695,063	695,063
Transfer from surplus on revaluation of fixed assets on							
account of incremental depreciation - net of tax	-	-	-	-	-	3,720	3,720
Transfer to statutory reserve	-	-	-	-	139,013	-	(139,013)
Balance as at December 31, 2011	26,716,048	(13,284,674)	-	139,013	-	(8,054,519)	5,515,868

*Statutory reserve represents amount set aside as per requirements of section 21 of the Banking Companies Ordinance, 1962.

The annexed notes 1 to 43 form an integral part of these financial statements.

Azmat Tarin
President & CEO

Munawar Hamid, OBE
Chairman

Tariq Iqbal Khan
Director

Humayun Bashir
Director

Notes to the Financial Statements for the Year Ended December 31, 2011

1 STATUS AND NATURE OF BUSINESS

- 1.1** Silkbank Limited ("the Bank") was incorporated in Pakistan on April 04, 1994 as a public limited company under the Companies Ordinance, 1984. The Bank commenced commercial operations on May 07, 1995. Its shares are quoted on all the Stock Exchanges in Pakistan. The Bank is engaged in banking services as described in the Banking Companies Ordinance, 1962. It operates through 85 branches (December 31, 2010: 85) in Pakistan with the registered office located at Silkbank Building, I. I. Chundrigar Road, Karachi. The short term and long term credit rating of the Bank rated by JCR-VIS Credit Rating Company Limited in August 2011 is 'A-2' and 'A-' respectively.
- 1.2** Majority shareholding 82.1709 % in the Bank as on December 31, 2011 is held by a consortium comprising of Bank Muscat S.A.O.G, Nomura European Investment Limited, International Finance Corporation (IFC) and executives of the Sinthos Capital Advisors Limited. As a result of rights issue which are in process of subscription, the majority shareholding in the Bank may change upon full subscription towards the rights.
- 1.3** The Bank had a short fall of Rs. 2.48 billion as on December 31, 2011 in meeting the minimum capital requirement (MCR) of Rs. 8 billion (net of losses), as required under BSD circular No. 7 of 2009. The Bank, had issued rights shares at a discount in 2010 to generate net capital of Rs. 7 billion. The rights issue had partly remained unsubscribed and at present the Bank has unpaid rights of Rs. 2.572 billion. The Bank is negotiating with various investors for subscription towards the unpaid rights and it is expected that the shares shall be subscribed by March 31, 2012. State Bank of Pakistan has granted extension to the Bank till June 30, 2012 in meeting the MCR and the Capital Adequacy Ratio (CAR) requirement. The Bank is required to submit a capital enhancement plan duly approved by the board of directors to State Bank of Pakistan by March 31, 2012. State Bank of Pakistan vide its letter BSD/BAI-3/608/10274/2011 dated August 11, 2011 advised bank to not incur any capital expenditure without approval of SBP and do not enter into related party transactions. Securities and Exchange Commission of Pakistan have intimated that they would grant further period to complete subscription of unpaid rights similar to time granted by SBP.

2 BASIS OF PRESENTATION

In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan (SBP) has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by bank from their customers and immediate resale to them at appropriate markup in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.

These financial statements have been prepared in Pakistani Rupee which is the reporting and functional currency.

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 International Accounting Standards Board (ISAB) as notified under the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and the provisions of and directives issued by the State Bank of Pakistan (SBP) and Securities and Exchange Commission of Pakistan (SECP). In case requirements differ, the provisions of Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the requirement of said directives shall prevail.

The SBP 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 SECP dated April 28, 2008, IFRS 7 - "Financial Instruments Disclosures" has not been made applicable for banks. However, instruments have been classified and valued in accordance with the requirements of various circulars issued by SBP.

4 STANDARDS, AMENDMENTS AND INTERPRETATIONS OF APPROVED ACCOUNTING STANDARDS NOT YET EFFECTIVE

The following standards, amendments and interpretation of approved accounting standards will be effective for accounting period beginning or after January 01, 2012.

- 4.1** Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after January 1, 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 measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendment is not likely to have an impact on financial statements of the Bank.
- 4.2** IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after January 1, 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective January 1, 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on financial statements of the Bank.

Notes to the Financial Statements for the Year Ended December 31, 2011

- 4.3 IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after January 1, 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments have no impact on financial statements of the Bank.
- 4.4 IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after January 1, 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. During the year, the Bank has recognized actuarial loss of Rs. 7.95 million in the profit and loss account and its unrecognized actuarial gain at December 31, 2011 amounted to Rs. 11 million. Following, the change actuarial gain or loss will be recorded immediately in other comprehensive income.
- 4.5 Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after July 1, 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments are not likely to have an impact on financial statements of the Bank.
- 4.6 Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after January 1, 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement. The amendments are not likely to have an impact on financial statements of the Bank.
- 4.7 IFRIC 20 - Stripping cost in the production phase of a surface mining (effective for annual periods beginning on or after January 1, 2013). The interpretation requires production stripping cost in a surface mine to be capitalized if certain criteria are met. The amendments are not likely to have an impact on financial statements of the Bank.

5 BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention except that certain fixed assets are stated at revalued amounts, certain investments are stated at market value and derivative financial instruments have been marked to market.

5.1 Use of 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 and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Judgments made by management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below:

5.1.1 Provision against non-performing loans and advances

The Bank reviews its loans portfolio to assess amount of non-performing loans and advances and provision required there against on a quarterly basis. Provisions are made as per the guidelines in the Prudential Regulations issued by State Bank of Pakistan.

5.1.2 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.

5.1.3 Held-to-maturity investments

The Bank follows the guidance provided in SBP's circulars for classification of non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity.

Notes to the Financial Statements for the Year Ended December 31, 2011

5.1.4 Impairment of 'available-for-sale' equity investments

The Bank determines that 'available-for-sale' equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged required judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, the impairment may be appropriate when there is an evidence of deterioration in the financial health of the invested industry and sector performance, changes in technology and operational/financial cash flows.

5.1.5 Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in these financial statements (note 34) for actuarial valuation of staff retirement benefit plans. 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 affect the liability / asset under these plans in those years.

5.1.6 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. For, recovery of deferred tax asset recognized on unused tax losses, the management projects and determine future taxable profits that are probable and will be available against which these unused tax losses can be utilized.

5.1.7 Useful life of property and equipments

In making estimates of the depreciation / amortization method, the management uses method which reflects the pattern in which economic benefits are expected to be consumed by the Bank. 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.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

6.1 Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with treasury banks, balances with other banks in current and deposit accounts and call money lendings in the money market.

6.2 Lendings to / borrowings from financial institutions

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

6.2.1 Sale under repurchase obligations

Securities sold subject to a re-purchase agreement (repo) are retained in the financial statements as investment and the counter party liability is included in borrowings from financial institutions. The differential in sale and re-purchase value is accrued over the period of the agreement and recorded as an expense.

6.2.2 Purchase under resale obligations

Securities purchased under agreement to resell (reverse repo) are included in lendings to financial institutions. The differential between the contracted price and resale price is amortized over the period of the agreement and recorded as income.

6.3 Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Bank commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

6.4 Investments

6.4.1 The Bank classifies its investments as follows:

a) Held-for-trading

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

b) Held-to-maturity

These are securities with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity.

c) Available-for-sale

These are investments that do not fall under the "held-for-trading" or "held-to-maturity" categories.

Notes to the Financial Statements for the Year Ended December 31, 2011

6.4.2 In accordance with the requirements of State Bank of Pakistan, quoted securities, other than those classified under "held-to-maturity" portfolio and investments in associates, are carried at fair value. Investments classified as "held-to-maturity" are carried at amortized cost.

6.4.3 The surplus / (deficit) arising on quoted securities classified as "available-for-sale" is kept in a separate account which is shown in the balance sheet below equity. The surplus / (deficit) is taken to profit and loss account when the investment is disposed off or impaired.

The surplus / (deficit) arising on quoted securities classified as "held-for-trading" is taken to profit and loss account.

6.4.4 Unquoted equity securities are valued at the lower of cost and break-up value. Subsequent increases or decreases in the carrying value are credited/charged to income. 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.

6.4.5 Investment in associates

Investment in associates in which the bank has significant influence, but not control, over the financial and operating policies are accounted for using the equity method.

Companies where there are common directors but the Bank does not have significant influence are accounted for as ordinary investments.

6.4.6 Profit and loss on sale of investments is included in income currently.

6.4.7 Provision for diminution in the values of securities (except participation term certificates and term finance certificates) is made after considering impairment, if any, in their value. Provisions for diminution in value of debentures, participation term certificates and term finance certificates are made as per the Prudential Regulations issued by the State Bank of Pakistan.

6.5 Advances

Advances are stated net of specific and general provisions. Specific provision against funded loans are determined in accordance with the requirements of the Prudential Regulations issued by SBP and charged to the profit and loss account. General provision is maintained at 1.5% of the fully secured consumer portfolio, and 5% of the unsecured consumer portfolio.

Advances are written off when there are no prospects of recovery after all the recovery procedures have been exhausted.

6.6 Operating fixed assets

6.6.1 Property and equipment

Owned assets

An item of property and equipment is initially recognized at cost which is equal to the fair value of consideration paid at the time of acquisition or construction of the asset.

6.6.2 Measurement subsequent to initial recognition

Property and equipment other than land and buildings, are stated at cost less accumulated depreciation and accumulated impairment losses.

Land is stated at its revalued amount whereas buildings are stated at revalued amount less accumulated depreciation and accumulated impairment losses.

Surplus arising on revaluation is credited to the surplus on revaluation of fixed assets account. Deficit arising on subsequent revaluation of fixed assets is adjusted against the balance in the above-mentioned surplus account as allowed under the provisions of the Companies Ordinance, 1984. The surplus on revaluation of fixed assets to the extent of incremental depreciation charged on the related assets is transferred to equity.

Gains or losses on disposal of assets are taken to income currently, except that the related surplus on revaluation of fixed asset (net of deferred tax) is transferred directly to unappropriated profit or accumulated loss.

6.6.3 Depreciation

Depreciation is computed over the useful lives of the related assets under the straight line method. Depreciation on additions and deletions during the year is charged for the proportionate period with respect to number of months during which the assets remained in use. Same basis and estimates for depreciation are applied to owned assets and assets subject to finance lease.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized and the assets so replaced, if any, are retired.

6.6.4 Capital work-in-progress

Capital work-in-progress is stated at cost accumulated up to the balance sheet date and represents expenditure incurred on property and equipment in the course of construction. These expenditures are transferred to relevant category of property and equipment as and when the assets become available for use.

Notes to the Financial Statements for the Year Ended December 31, 2011

6.6.5 Intangible assets

These include computer software and are recorded initially at cost and subsequently carried at cost less any accumulated amortization and any accumulated impairment losses, if any.

These are amortized over their finite useful lives and amortization is charged to income using the straight line method.

6.7 Income tax

6.7.1 Current

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

6.7.2 Deferred

Deferred tax is recognized using the balance sheet liability method on all major temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. In addition, the Bank also records deferred tax asset on available tax losses. Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The Bank also recognizes deferred tax asset / liability on deficit / surplus on revaluation of fixed assets and securities which is adjusted against the related deficit / surplus in accordance with the requirements of the International Accounting Standard (IAS) 12 "Income Taxes".

6.8 Impairment

At each balance sheet date the Bank reviews the carrying amounts of its assets other than deferred tax asset to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any. Recoverable amount is the greater of net selling price and value in use. Whenever the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and an impairment loss is recognized as an expense immediately.

6.9 Provisions

Provisions are recognized when the Bank 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 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.

Provision against identified non-funded losses is recognized when identified and reasonable certainty exist for the Bank to settle the obligation. The loss is charged to profit and loss account net-off expected recovery and is classified under the other liabilities.

6.10 Staff retirement benefits

6.10.1 Defined contribution plan

The Bank operates an approved funded provident fund scheme for all its permanent employees. Equal monthly contributions are made, both by the Bank and its employees, to the fund at the rate of 8.33 percent of basic salaries of employees.

6.10.2 Defined benefit plan

The Bank operates an approved gratuity scheme for all its regular employees. Beginning from January 01, 2005, the entitlement of the employees starts on completion of five years with the Bank. Projected Unit Credit Cost Method has been used for actuarial valuation.

A portion of the actuarial gains or losses is recognized if the net cumulative unrecognized actuarial gains or losses at the end of the previous year exceed the "corridor" which is defined as the greater of:

- a) 10% of the present value of the defined benefit obligation at that date (before deducting plan assets); and
- b) 10% of the fair value of any plan assets at that date.

Notes to the Financial Statements for the Year Ended December 31, 2011

6.11 Revenue recognition

Mark-up / Return on advances and return on investments are recognized on accrual basis that takes in account effective yield on the asset except in case of loans and advances classified under the Prudential Regulations issued by the SBP on which markup is recognized on receipt basis. Interest/Markup on rescheduled / restructured loans and advances and investments is recognized in accordance with the directives of SBP.

Fee, brokerage and commission income is recognized on accrual basis.

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

Gain / Loss on sale of investments is credited / charged to profit and loss account currently.

6.12 Foreign currencies

6.12.1 Foreign currency transactions

Transactions in foreign currencies are translated to rupees at the foreign exchange rates ruling on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the balance sheet date. Forward foreign exchange contracts and foreign bills purchased are valued at forward rates applicable to their respective maturities. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined.

6.12.2 Commitments

Commitments for outstanding forward foreign exchange contracts disclosed in these financial statements are translated at forward rates applicable to their respective maturities. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the balance sheet date.

Translation gains and losses are included in income currently.

6.13 Financial instrument

6.13.1 Financial assets and liabilities

Financial instruments carried on the balance sheet include cash and bank balances, lendings to financial institutions, investments, advances, certain receivables, borrowings from financial institutions, deposits, bills payable, lease liability and other payables. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them.

6.13.2 Derivative financial instruments

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

6.14 Off-setting

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

6.15 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of the other segments. Segment information is presented as per the Bank's functional structure and guidance of the SBP. Following are the main business segments of the Bank:

6.15.1 Business segments

Wholesale Banking

Deposits, trade and other lending activities for corporates and financial institutions. It also includes the overall management of treasury of the Bank, which entails management of liquidity and interest rate risk of the bank.

Consumer / SME Banking

Wealth management, deposits of retail customer, mortgages, auto finance, unsecured lending and SME lending (including SME trade).

6.15.2 Geographical segment

The Bank conducts all its operations in Pakistan.

6.16 Fiduciary assets

Assets held in fiduciary capacity are not treated as assets of the Bank in the balance sheet.

Notes to the Financial Statements for the Year Ended December 31, 2011

	Note	2011	2010				
		Rupees in '000					
7 CASH AND BALANCES WITH TREASURY BANKS							
In hand							
Local currency		690,153	583,519				
Foreign currencies		190,594	189,569				
National prize bonds		1,289	1,443				
With State Bank of Pakistan (SBP) in	7.1						
Local currency account		2,392,317	1,735,325				
Foreign currency - current account		270,711	196,964				
- deposit account		798,043	593,837				
With National Bank of Pakistan (NBP) in							
Local currency current account		93,035	113,867				
		4,436,142	3,414,524				
7.1	Deposits with SBP are maintained to comply with the statutory requirements issued from time to time.						
8 BALANCES WITH OTHER BANKS							
In Pakistan							
Current accounts		30,749	46,319				
Outside Pakistan							
Current accounts		63,573	43,036				
		94,322	89,355				
9 LENDINGS TO FINANCIAL INSTITUTIONS							
In local currency							
Call money lendings	9.1	41,000	570,000				
Repurchase agreement lendings (Reverse repo)	9.2	3,059,803	480,754				
		3,100,803	1,050,754				
9.1	These carry mark-up at 13.75% (2010: 14.25% to 15%) per annum with maturity upto January 2012.						
9.2	Securities held as collateral against repurchase agreement lendings						
		2011	2010				
		Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
		Note		Rupees in '000			
Market treasury bills	9.2.1	2,499,669	-	2,499,669	-	-	-
Pakistan investment bonds	9.2.2	497,134	-	497,134	480,754	-	480,754
Shares	9.2.3	63,000	-	63,000	-	-	-
		3,059,803	-	3,059,803	480,754	-	480,754
9.2.1	These have been purchased under the resale agreements at markup rates ranging from 11.90% to 11.95% (2010: Nil) per annum with maturities upto January 2012.						
9.2.2	These have been purchased under the resale agreements at the markup rates ranging from 11.95% to 12.50% (2010: 13.55%) per annum with maturities upto March 2012.						
9.2.3	These have been purchased under the resale agreements at the markup rates of 15% (2010: Nil) per annum with maturities upto January 2012.						

Notes to the Financial Statements for the Year Ended December 31, 2011

10 INVESTMENTS

10.1	Investments by Types:	Note	2011			2010		
			Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
			Rupees in '000					
	Held for Trading Securities							
10.1	Listed Shares		-	-	-	20,535	-	20,535
	Available-for-Sale Securities							
	Market Treasury Bills	10.3	403,410	6,627,271	7,030,681	2,711,103	1,181,497	3,892,600
	Pakistan Investment Bonds	10.4	687,793	1,610,410	2,298,203	2,135,838	-	2,135,838
	GOP Ijara Sukuk	10.5	3,041,258	-	3,041,258	-	-	-
	Mutual Funds	10.6	11,233	-	11,233	8,388	-	8,388
	Commercial Papers	10.7	-	-	-	67,014	-	67,014
	Preference Shares - Listed	10.8	15,000	-	15,000	29,769	-	29,769
	TFC - Listed	10.9	143,435	113,834	257,269	146,732	-	146,732
	TFC - Unlisted	10.10	802,696	-	802,696	1,709,125	-	1,709,125
	Ordinary Shares - Listed	10.11	661,109	-	661,109	343,117	-	343,117
	Ordinary Shares - Unlisted	10.12	37,026	-	37,026	39,900	-	39,900
	Available-for-Sale Securities		5,802,960	8,351,515	14,154,475	7,190,986	1,181,497	8,372,483
	Held to Maturity Securities							
	Pakistan Investment Bonds		1,145,367	2,184,756	3,330,123	1,403,429	3,477,838	4,881,267
	Term Finance Certificates - Listed		37,448	-	37,448	47,428	-	47,428
	Shares Repo		74,910	-	74,910	74,910	-	74,910
	Held to Maturity Securities		1,257,725	2,184,756	3,442,481	1,525,767	3,477,838	5,003,605
	Investment in associate	10.13	45,000	-	45,000	46,350	-	46,350
	Investments at Cost		7,105,685	10,536,271	17,641,956	8,783,638	4,659,335	13,442,973
	Less : Provisions for diminution in value of investments	10.14	(86,563)	-	(86,563)	(83,578)	-	(83,578)
	Investments - net of provision		7,019,122	10,536,271	17,555,393	8,700,060	4,659,335	13,359,395
	(Deficit) on revaluation of							
	- Held-for-trading investments	10.15	-	-	-	(94)	-	(94)
	- Available- for-sale investments	20.1	(7,753)	-	(7,753)	(169,253)	-	(169,253)
	Total Investments		7,011,369	10,536,271	17,547,640	8,530,713	4,659,335	13,190,048

Notes to the Financial Statements for the Year Ended December 31, 2011

		2011	2010
		Rupees in '000	
10.2 Investments by segments			
Federal Government Securities			
Market Treasury Bills		7,030,681	3,892,600
Pakistan Investment Bonds		5,628,326	7,017,105
GOP Ijara Sukuk		3,041,258	-
		15,700,265	10,909,705
Fully paid-up ordinary shares			
Listed companies		661,109	363,652
Unlisted companies		37,026	39,900
		698,135	403,552
Term Finance Certificate, Debentures, Bonds and Participation Term Certificates			
Term Finance certificates	- Listed	294,717	194,160
	- Unlisted	802,696	1,709,125
		1,097,413	1,903,285
Other Investments			
Mutual fund units		11,233	8,388
Preference shares	- Listed	15,000	29,769
Investment in associates		45,000	46,350
Investment in commercial papers		-	67,014
Shares repo		74,910	74,910
		146,143	226,431
Investments at Cost			
Provision for diminution in the value of investments		17,641,956	13,442,973
Investments - net of provision		(86,563)	(83,578)
		17,555,393	13,359,395
Deficit on revaluation of held for trading investments		-	(94)
Deficit on revaluation of available for sale investments		(7,753)	(169,253)
Total Investments		17,547,640	13,190,048
10.3 Market Treasury Bills			
Name of investment	Maturity period	Principal payment	Coupon rate
Market treasury bills	February 2012 to November 2012	On maturity	11.77% to 13.87%
			At maturity
10.4 Pakistan Investment Bonds			
Name of investment	Maturity period	Principal payment	Coupon rate
Pakistan Investment bonds	February 2012 to September 2019	On maturity	8% to 12%
			Semi-annually
These include securities having face value of Rs. 47.70 million (2010: Rs. 47.70 Million) pledged with State Bank of Pakistan and National Bank of Pakistan as security to facilitate T.T discounting facility to branches of the Bank.			
10.5 GOP Ijara Sukuk			
Name of investment	Maturity period	Principal payment	Coupon rate
Ijara Sukuk	March 2014 to December 2014	On maturity	11.79% to 13.28%
			Semi-annually

Notes to the Financial Statements for the Year Ended December 31, 2011

		2011		2010	
		Rating long term / short term	Amount	Rating long term / short term	Amount
		Rupees in '000		Rupees in '000	
10.6	Mutual Fund Units				
	PICIC Growth Fund	Unrated	9,284		-
	Golden Arrow Selected Stocks Fund	Unrated	1,949	Unrated	3,947
	NAMCO Balanced Fund	Unrated	-	Unrated	4,441
			<u><u>11,233</u></u>		<u><u>8,388</u></u>
10.7	Commercial Papers		-	Unrated	<u><u>67,014</u></u>
			<u><u></u></u>		<u><u></u></u>
This represents investment in commercial papers issued by Pak Electron Limited carrying interest rate of Nil (2010: 16.11%) with matured on July 25, 2011.					
10.8	Preference Shares-Listed				
	Chenab Limited	Unrated	-	Unrated	14,769
	Masood Textile Mills Limited	Unrated	15,000	Unrated	15,000
			<u><u>15,000</u></u>		<u><u>29,769</u></u>
10.9	Term Finance Certificates-Listed				
	Escort Investment Bank Limited	BBB-	2,997	A-/A-1	4,996
	Worldcall Telecom Limited		-	A	3,064
	Askari Bank Limited		-	AA-	63,040
	Pakistan Mobile Communication Limited	A+	12,480	A+	20,800
	Engro Chemicals Limited		-	AA-	54,832
	Orix Leasing Pakistan Limited	AA+	90,000		-
	Engro Fertilizer Limited	AA	151,792		-
			<u><u>257,269</u></u>		<u><u>146,732</u></u>
10.10	Term Finance Certificates-Unlisted				
	Avari Hotels	A-	479,767	A-	479,767
	JDW Sugar Mills Limited	A+	106,667	A-/A-2	149,333
	Gharibwal Cement Limited	D	5,974	D	5,974
	Bank Al-Habib Limited	AA	-	AA	16,980
	Bank Al Falah Limited	AA-	62,950	AA-	90,071
	Faysal Bank Limited	AA-	10,563	AA-	100,000
	Engro Fertilizer Ltd. TFC Sukuk	AA	11,775		-
	Power Holding (Private) Limited		-	Unrated	867,000
	Pak Libya Holding Co.	AA	125,000		-
			<u><u>802,696</u></u>		<u><u>1,709,125</u></u>

Notes to the Financial Statements for the Year Ended December 31, 2011

		2011		2010	
		Rating long term / short term	Amount	Rating long term / short term	Amount
		Rupees in '000		Rupees in '000	
10.11	Ordinary Shares-Listed				
	Hub Power Company Limited	AA+/A1+	20,535		-
	Hira Textile Mills Limited		-	Unrated	2,854
	Summit Bank Limited	A/A 2	2,580	A-/A 2	3,930
	PTA Limited	Unrated	-	Unrated	3,647
	Fauji Fertilizer Bin Qasim Ltd.	Unrated	37,437		-
	National Bank of Pakistan	AAA / A-1+	69,182	AAA / A-1+	26,450
	Pakistan Oil fields Limited	Unrated	-	Unrated	6,723
	Gharibwal Cement Ltd.	Unrated	135,115		-
	Jahangir Siddiqui Co. Limited	Unrated	19,250		-
	Pakistan Reinsurance Limited		-	Unrated	3,436
	Pakistan Gen. Power Limited	AA/ A-1+	5,260		-
	Engro Chemicals Limited		-	AA / A-1+	9,182
	Engro Corporation	AA/A1+	94,055		-
	Nishat Chunian Power Limited	AA-/A1+	16,743		-
	Nishat Power Limited	AA- / A-1+	51,911	AA- / A-1+	43,750
	Pakistan State Oil Limited	AA+/ A-1+	50,115	AA+/ A-1+	21,490
	Kot Addu Power Company Limited		-	Unrated	30,626
	Nishat Chunian Limited		-	AA- / A-1+	7,283
	Nishat Mills Limited	AA-/A1+	26,582	A+/A1	10,709
	World Call Telecom Limited	A-/A 2	2,800	A-/A 2	9,081
	Thall Limited		-	Unrated	4,801
	ICI Pakistan	Unrated	17,274	Unrated	7,043
	M.C.B Bank Limited	AA+/ A-1+	26,095	AA+/ A-1+	10,441
	Pakistan Telecommunication Limited	Unrated	5,535	Unrated	20,638
	United Bank Limited		-	AA+/ A-1+	13,127
	Attock Petroleum Limited		-	AA/A1+	11,918
	Pakistan Petroleum Limited		-	Unrated	18,880
	Bank Alfalah Limited	AA/A1+	80,640	AA/A1+	77,108
			661,109		343,117

10.12 Ordinary Shares-Unlisted

Pakistan Export Finance Guarantee Limited	Unrated	5,680	Unrated	5,680
Khushali Bank Limited	Unrated	10,000	Unrated	10,000
Al-Hamra (Private) Limited	Unrated	21,346	Unrated	24,220
		37,026		39,900

Notes to the Financial Statements for the Year Ended December 31, 2011

10.13 Investment in Associate

Name of associate	Chief Executive Officer	Proportion of ownership interest	Place of incorporation	Principal activity
Saudi Pak Insurance Company Limited	Mian M. A. Shahid	23.07% (2010: 23.07%)	Pakistan	General Insurance

Summarized financial information in respect of associate based on latest available financial statements as at September 30, 2011 is set out below:

	Note	September 30, 2011	December 31, 2010
			Rupees in '000
Total assets		429,559	401,967
Total liabilities		259,739	243,826
Net assets		<u>169,820</u>	<u>158,141</u>
Net premium revenue		<u>61,644</u>	<u>82,071</u>
Profit / (Loss) for the period / year (after tax)		<u>11,678</u>	<u>(42,728)</u>

10.13.1 Share of loss from associate

	2011	2010
Opening balance	(42,557)	(32,700)
Share of profit / (loss) based on September 2011 financial statements un-audited	2,694	(9,857)
Closing balance	<u>(39,863)</u>	<u>(42,557)</u>

10.14 Particulars of provision

Opening balance		83,578	85,137
Charge for the year		2,985	-
Reversals		-	(1,559)
Write off		2,985	(1,559)
Closing balance	10.14.1	<u>86,563</u>	<u>83,578</u>

10.14.1 Particulars of provision in respect of type and segment

Available-for-sale securities			
Ordinary shares - unlisted		5,680	5,680
Term finance certificates - unlisted		5,973	2,988
Held to Maturity Securities			
Shares repo		74,910	74,910
		<u>86,563</u>	<u>83,578</u>

10.15 (Deficit) on revaluation of investments classified as held-for-trading

Listed shares		-	(94)
		<u>-</u>	<u>(94)</u>

Notes to the Financial Statements for the Year Ended December 31, 2011

	Note	2011	2010
		Rupees in '000	
11 ADVANCES - NET			
Loans, cash credits, running finances, etc.			
In Pakistan		54,367,573	51,377,508
Outside Pakistan		-	-
		54,367,573	51,377,508
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		209,611	551,643
Payable outside Pakistan		732,178	995,361
		941,789	1,547,004
Advances - gross		55,309,362	52,924,512
Provision for non-performing advances - specific	11.2	(5,261,835)	(8,556,924)
Provision against consumer finance- general	11.4	(111,248)	(13,182)
		49,936,279	44,354,406

11.1 Particulars of advances (Gross)

11.1.1	In local currency	54,554,865	52,787,961
	In foreign currencies	754,497	136,551
		55,309,362	52,924,512
11.1.2	Short Term (for upto one year)	32,323,710	24,232,756
	Long Term (for over one year)	22,985,652	28,691,756
		55,309,362	52,924,512

11.2 Advances include Rs. 11,023 (2010: Rs. 12,360) million which have been placed under non-performing status as detailed below.

Category of classification - specific	2011			2010		
	Classified Advances	Provision required	Provision held	Classified Advances	Provision required	Provision held
Rupees in '000						
Substandard	1,028,712	147,126	147,126	666,550	82,358	82,358
Doubtful	1,373,709	118,922	118,922	1,074,123	298,309	298,309
Loss	8,620,521	4,995,787	4,995,787	10,619,231	8,176,257	8,176,257
	11,022,942	5,261,835	5,261,835	12,359,904	8,556,924	8,556,924

11.3 Particulars of provision against non-performing advances

Note	2011			2010		
	Specific	General	Total	Specific	General	Total
Rupees in '000						
Opening balance	8,556,924	13,182	8,570,106	8,490,158	4,446	8,494,604
Charge for the period	429,134	99,386	528,520	983,091	8,736	991,827
Reversals	(3,012,510)	(1,320)	(3,013,830)	(825,259)	-	(825,259)
Net charge / (reversals)	(2,583,376)	98,066	(2,485,310)	157,832	8,736	166,568
Amounts written off	11.3.1	(711,713)	-	(711,713)	(91,066)	-
Closing Balance		5,261,835	111,248	5,373,083	8,556,924	13,182

Notes to the Financial Statements for the Year Ended December 31, 2011

	Note	2011	2010
		Rupees in '000	
11.3.1	Net charge during the year - specific provisioning		
Net reversed / charge classified to profit and loss account		(2,583,376)	157,832
Less: (Charge) / Reversal made directly to the equity as capital reserve	11.3.2	-	6,093
Net (decrease) / increase in provision against non-performing advances		<u>(2,583,376)</u>	<u>151,739</u>

11.3.2 SBP, through its BSD Circular 10 of 2009, introduced interim instructions on classification / provisioning requirement in respect of rescheduling / restructuring of such loans and advances that are overdue by less than one year at the time of rescheduling / restructuring.

Interim instructions allowed the banks to upgrade its classified loans by one category at the time of rescheduling / restructuring of the loan or advances, subject to some terms and conditions imposed in the aforementioned circular. Moreover, the reversal of provisions against rescheduled / restructured loans and advances need to be made into the equity as a capital reserve and shall not be credited to profit and loss account. However, said instructions were valid till June 30, 2010.

11.3.3 General provision against consumer finance loans represents provision made equal to 1.5% of the fully secured performing portfolio and 5% of the unsecured performing portfolio as required by the Prudential Regulations issued by the SBP for Consumer Financing.

11.4 **Particulars of provision for consumer financing - general**

	2011	2010
	Rupees in '000	
Opening balance	13,182	4,446
Charge for the year	99,386	8,736
Reversals	(1,320)	-
Closing balance	<u>111,248</u>	<u>13,182</u>

11.5 Amendments in Prudential Regulations in respect of provisioning against non-performing advances.

SBP vide its BSD Circular No.2 dated January 27, 2009, BSD Circular No.10 dated October 20, 2009 and BSD Circular 2 dated June 3, 2010 has amended Prudential Regulations in respect of provisioning against non-performing advances, the latest being BSD Circular No. 1 dated October 21, 2011 under which the benefit of Forced Sale Value (FSV) has been amended as under:

For SME's and Corporate and Commercial Banking:

- 1) On mortgaged residential, commercial & industrial properties (land & building only) @ 75%, 60%, 45%, 30% and 20% from 1st to 5th year respectively.
- 2) On plant & machinery @ 30%, 20% and 10% from 1st to 3rd year respectively.
- 3) On Pledged stocks @ 40% for three years.

For Consumer Banking:

On mortgaged residential properties @ 75% for 1st and 2nd year, 50% for 3rd and 4th year and 30% for the 5th year.

SBP has further allowed Silk Bank Limited to avail FSV benefits on mortgage residential, commercial & industrial properties upto 31-12-2012 at 100% for 1st and 2nd year, 90% for 3rd year, 75% for the 4th year & 50% for the 5th and 6th year of classification.

Notes to the Financial Statements for the Year Ended December 31, 2011

The Bank has availed FSV benefit against non-performing loans. During the year, total FSV benefit resulted in increase in after tax profit of Rs. 1.134 billion. Accordingly, as of December 31, 2011, the accumulated FSV benefit resulted in decrease in accumulated loss after tax to the extent of Rs. 2.850 billion. This amount shall not be available for payment of cash or stock dividend.

The FSV benefit allowed in accordance with SBP letter to Silkbank upto December 31, 2011 has an after tax profit impact of Rs.634 million.

	2011	2010
	Rupees in '000	
11.6 Particulars of write offs		
Against provision	711,713	91,066
Directly charged to profit and loss account	2,948	-
	<u>714,661</u>	<u>91,066</u>
Write offs of Rs. 500,000 and above	711,928	89,020
Write offs of below Rs. 500,000	2,733	2,046
	<u>714,661</u>	<u>91,066</u>

Detail of loan write off of Rs. 500,000 and above

In terms of sub-section (3) of section 33A of the Banking Companies Ordinance, 1962 the statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended December 31, 2011 is given in Annexure - I. However, this write-off does not affect the Bank's right to recover the debts from these customers.

	2011	2010
	Rupees in '000	
11.7 Particulars of loans and advances to directors, associated companies, etc.		
Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons		
Balance at beginning of the year	385,978	332,523
Loans granted during the year	225,116	76,187
Repayments	(105,498)	(22,732)
Balance at end of the year	<u>505,596</u>	<u>385,978</u>
Debts due by companies or firms in which the directors of the Bank are/(were) interested as directors, partners or in the case of private companies as members		
Balance at beginning of the year	-	-
Loans granted during the year	-	-
Repayments	-	-
Balance at end of the year	<u>-</u>	<u>-</u>
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties		
Balance at beginning of the year	-	-
Loans granted during the year	-	-
Repayments	-	-
Balance at end of the year	<u>-</u>	<u>-</u>

Details of loans and advances to associates, subsidiary and other related parties are given in note 38.

Notes to the Financial Statements for the Year Ended December 31, 2011

Notes to the Financial Statements for the Year Ended December 31, 2011

	2010										
	Cost / Revaluation					Accumulated Depreciation					
	As at	Adjust-	Additions	Disposals	As at	As at	Adjust-	Charge for	(Revaluation) /	As at	Net Book
	January	ment			December	January	ment	the year	(Deletions)	December	value as at
	01, 2010				31, 2010	01, 2010				31, 2010	December
	Rupees in '000										
Freehold Land	557,179	-	146,484	535,735	167,928	-	-	-	-	-	167,928
Leasehold Land	1,282,131	-	-	1,196,568	85,563	-	-	-	-	-	85,563
Building- Leasehold	260,919	-	-	103,600	157,319	13,360	655	9,368	(7,338)	16,045	141,274
Building- Freehold Land	64,000	-	10,976	64,000	10,976	3,200	-	1,576	(4,533)	243	10,733
Leasehold Improvements	587,768	(1,000)	217,624	-	804,392	158,472	-	63,780	-	222,252	582,140
Furniture & Fixture	139,709	(934)	90,426	-	229,201	47,696	(375)	16,578	-	63,899	165,302
Other Equipment	285,501	-	131,806	836	416,471	127,733	732	59,500	(773)	187,192	229,279
Computers	245,343	55,253	305,322	367	605,551	154,036	55,441	82,103	(127)	291,453	314,098
Vehicles	284,283	(1,600)	98,459	39,250	341,892	88,045	11,746	56,766	(18,976)	137,581	204,311
December 31, 2010	3,706,833	51,719	1,001,097	1,940,356	2,819,293	592,542	68,199	289,671	(31,747)	918,665	1,900,628

12.3 Intangible assets

	2011										
	Cost					Accumulated Amortisation					
	As at	Adjust-	Additions	Disposals	As at	As at	Adjust-	Amortization	(Deletions) /	As at	Net Book
	January	ment			December	January	ment	for the year	(Revaluation)	December	value as at
	01, 2011				31, 2011	01, 2011				31, 2011	December
	Rupees in '000										
Computer software	540,857	-	34,727	-	575,584	86,582	(662)	85,898	-	171,818	403,766
December 31, 2011											14.28%-'25%
	2010										
Cost											
As at	Adjust-	Additions	Disposals	As at	As at	Adjust-	Amortization	(Deletions) /	As at	Net Book	Rate of
January	ment			December	January	ment	for the year	(Revaluation)	December	value as at	Amortisation
	01, 2010			31, 2010	01, 2010				31, 2010		
	Rupees in '000										
Computer software	65,499	-	475,358	-	540,857	36,612	30	49,940	-	86,582	454,275
December 31, 2010											14.28%-'25%

12.4 The gross carrying amount of fully depreciated assets that are still in use:

Furniture, electrical, office and computer equipment	387,842	250,883
Vehicles	28,503	24,832
	416,345	275,715

Notes to the Financial Statements for the Year Ended December 31, 2011

12.5 Details of disposal of fixed assets - By negotiations

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain / (Loss)	Particulars of purchaser
Rupees in '000						
Honda Civic 1.8 Vtec Reg # ARD-836	1,725	834	891	891	-	Bank Employee Samira javed
Honda City I-Dsi Reg # LEF-07-2745	1,000	183	817	817	-	Bank Employee Ghulam Shabir Malik
Suzuki Cultus Reg # LEE-08-2824	737	381	356	356	-	Bank Employee Rehana Nisar
Suzuki CultusReg # AQZ-937	741	396	345	345	-	Bank Employee Asif Hussain
Honda Civic Vti Reg # KA-232	1,095	931	164	387	223	Bank Employee Tariq Javed Rajput
Suzuki Alto RA410 VXR 970	600	50	550	550	-	Bank Employee Adnan Sheikh
Toyota Corolla GLI	1,000	134	866	866	-	Bank Employee Imran Fazli
Suzuki Liana RXI MT Reg # AQX-279	712	392	320	320	-	Bank Employee Pervez Akhtar
Toyota Vitz 990 CC Reg #ASZ-944	600	110	490	500	10	Bank Employee Faisal Haroon Bangesh
Toyota Corolla Xli	600	210	390	390	-	Bank Employee Majid Khan
Toyota Corolla Xli Reg # AQW-940	940	533	407	407	-	Bank Employee Muhammad Muntazir
Honda City Vario Reg # ARB-476	995	548	447	447	-	Bank Employee Omer Bin Jawed
Suzuki Cultus VXL Reg # LEB-08-7095,	650	347	303	303	-	Bank Employee Iftikhar Hussain
Toyota Corolla Xli Reg # LEF-07-2324,	900	465	435	435	-	Bank Employee Mohsin Zia
Honda Civic Vti Prosmatec Oriel Reg # AKW-319	824	412	412	412	-	Bank Employee Waseem Ahmed
Toyota Corolla Gli	944	441	503	503	-	Bank Employee Javaid Alam
Toyota Corolla Xli	1,000	350	650	650	-	Bank Employee Hassan Mahmood
Honda Civic Ivtec Prosmatec Oriel Reg # AQX-084	978	554	424	424	-	Bank Employee Mirza Asim Baig
Honda Civic Ivtec Prosmatec Oriel Reg # AQT-117	829	429	400	415	15	Bank Employee Sohail Rana Janjua
Toyota Camry Reg # AQX-734	3,250	1,897	1,353	1,353	-	Bank Employee Syed Liaquat Ali
Toyota Corolla Gli Reg # AQX-648	968	549	419	419	-	Bank Employee Hamith Mana
Suzuki Cultus VXLMC Reg # ARM-439,	889	445	444	444	-	Bank Employee Abdul Rehman Rauf
Toyota Corolla Xli Reg # AUY-786,	889	445	444	444	-	Bank Employee Suhail Siddiqui
Honda City	988	560	428	428	-	Bank Employee Syed Kamal Mohiuddin
Honda City Manual	600	240	360	360	-	Bank Employee Syed Khurram Zaidi
Suzuki Alto VXR CNG Reg #PV-340,	600	170	430	430	-	Bank Employee Masroor Amjad
Toyota Corolla for Reg# APN-121	742	470	272	272	-	Bank Employee Inayat Ali Hudda
Honda Civic 1.8 Ivtec Reg # LEE-08-4035	1,718	1,031	687	687	-	Bank Employee Muhammd Farooq Naseem
Honda Civic Prosmatec, Reg # LEA-08-6928	1,425	855	570	570	-	Bank Employee Khawaja Shaiq Iqbal
Honda City I-Dsi	1,008	588	420	420	-	Bank Employee Waheed A Ghuman
Honda City I DSI Reg No LWG-08-2142	609	335	274	274	-	Bank Employee Khawaja Muhammad Tanveer
Suzuki Alto VXR Silky Silver MT Reg # ANU-582	600	290	310	310	-	Bank Employee Zameer Memon
Honda City Vario For, Reg # APV-412	900	420	480	480	-	Bank Employee Waheed Abidi
Honda City Manual	600	240	360	360	-	Bank Employee Furqan Arshad
Toyota Corolla Gli Reg # ASL-528	1,354	519	835	858	23	Bank Employee Ghulam Ali Khan
Honda Civic Vti Prosmatec Oriel Reg# LED-09-8240	1,400	467	933	933	-	Bank Employee Qasim Ali Rizvi
Suzuki Swift RS413 DLX 1328 CC	1,000	184	816	816	-	Bank Employee Afsheen Hassan
Suzuki Cultus SF-410 VXR CNG	600	120	480	510	30	Bank Employee Rehan M. Khan
Honda Civic Reg # NJ-898	1,000	200	800	817	17	Bank Employee Munawar udin Durra
Suzuki Liana RH413 LXI CNG 1328CC Reg # ASG-397	600	30	570	570	-	Bank Employee Sohail Shoukat
Honda city Vario Reg # ARB-319	1,060	689	371	371	-	Bank Employee Atia Alam
Honda City I-Dsi .Reg # LEF-08	1,008	622	386	420	34	Bank Employee Junaid Mirza
Honda City Manual	600	250	350	360	10	Bank Employee Mubashar Nadeem
Honda Civic Vti . Reg # LRP-09-2000	1,000	384	616	616	-	Bank Employee Irfan Azam Zafar
Suzuki Cultus SF410 VXLMC	600	110	490	490	-	Bank Employee Waseem Mian
Suzuki Liana Lxi Reg # NG-398.	741	470	271	271	-	Bank Employee Mehmood Ahmed
Suzuki Alto VXR Reg # LEB-09-8423	580	242	338	367	29	Bank Employee Shahriyar Alam
Honda City Manual	1,000	467	533	533	-	Bank Employee Humera Mirza
Honda Civic Vti Prosmetic Oriel	1,860	435	1,425	1,465	40	Bank Employee Gulbano Asim
Items having book value of less than Rs.250,000 and cost of less than Rs.1,000,000	9,910	8,782	1,128	3,905	2,777	
	56,969	30,206	26,763	29,971	3,208	

Notes to the Financial Statements for the Year Ended December 31, 2011

		Note	2011	2010																																																																																											
			Rupees in '000																																																																																												
13	DEFERRED TAX ASSETS - NET																																																																																														
	Deferred tax debits arising in respect of																																																																																														
	Provision against non-performing advances		810,780	981,524																																																																																											
	Unused tax losses		3,664,548	3,868,380																																																																																											
	Deficit on revaluation of investments		6,572	56,027																																																																																											
			4,481,900	4,905,931																																																																																											
	Deferred tax credits arising in respect of																																																																																														
	Accelerated tax depreciation		(372,295)	(265,905)																																																																																											
	Surplus on revaluation of equity investments		(3,858)	3,211																																																																																											
	Surplus on revaluation of property and equipment	20.2	(29,479)	(30,789)																																																																																											
			(405,632)	(293,483)																																																																																											
			4,076,268	4,612,448																																																																																											
	Deferred tax asset written off		(506,851)	-																																																																																											
	Deferred tax asset not recognized		-	(419,494)																																																																																											
	Net Deferred tax Asset		3,569,417	4,192,954																																																																																											
13.1	During the year, the Bank carried out an exercise to review the composition of deferred tax asset and realized that deferred tax asset has not been booked on provision for non-performing advances due to restriction placed on allowance for provision against non-performing advances placed by Seventh Schedule to Income Tax Ordinance, 2001 (Seventh Schedule). According to the Seventh Schedule provision for advances and off balance sheet items is allowed upto 5% of advances for consumer and SMEs (as defined in SBP prudential regulations) and for other advances upto 1% of such advances. The correction of error resulted in reduction in deferred tax asset not recognized from Rs. 429 million to Rs. 419 million at December 31, 2010.																																																																																														
13.2	Movement in temporary differences																																																																																														
		<table border="1"> <thead> <tr> <th>Balance at January 1, 2010</th> <th>Recognised in profit and loss</th> <th>Recognised in equity</th> <th>Balance at December 31, 2010</th> <th>Recognised in profit and loss</th> <th>Recognised in equity</th> <th>Balance at December 31, 2011</th> </tr> </thead> <tbody> <tr> <td>Deductible temporary differences on:</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Provision against loans and advances</td> <td>989,352</td> <td>(7,828)</td> <td>-</td> <td>981,524</td> <td>(170,744)</td> <td>-</td> </tr> <tr> <td>Accumulated losses</td> <td>3,164,324</td> <td>704,056</td> <td>-</td> <td>3,868,380</td> <td>(203,832)</td> <td>-</td> </tr> <tr> <td>Deferred tax asset written off</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>(506,851)</td> <td>-</td> </tr> <tr> <td>Deficit on revaluation AFS- Govt Securities</td> <td>30,520</td> <td>-</td> <td>25,507</td> <td>56,027</td> <td>-</td> <td>(49,455)</td> </tr> <tr> <td>Liability subject to finance lease</td> <td>(800)</td> <td>800</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> </tr> <tr> <td>Accelerated Depreciation</td> <td>(175,158)</td> <td>(90,747)</td> <td>-</td> <td>(265,905)</td> <td>(106,390)</td> <td>-</td> </tr> <tr> <td>Surplus on revaluation of equity</td> <td>-</td> <td>-</td> <td>3,211</td> <td>3,211</td> <td>-</td> <td>(7,069)</td> </tr> <tr> <td>Revaluation of property and equipment</td> <td>(32,091)</td> <td>-</td> <td>1,302</td> <td>(30,789)</td> <td>-</td> <td>1,310</td> </tr> <tr> <td>Amounts on which Deferred not recognised during the year</td> <td>-</td> <td>(416,281)</td> <td>(3,213)</td> <td>(419,494)</td> <td>416,284</td> <td>3,210</td> </tr> <tr> <td>Deferred Tax</td> <td>3,976,147</td> <td>190,000</td> <td>26,807</td> <td>4,192,954</td> <td>(571,533)</td> <td>(52,004)</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>3,569,417</td> </tr> </tbody> </table>	Balance at January 1, 2010	Recognised in profit and loss	Recognised in equity	Balance at December 31, 2010	Recognised in profit and loss	Recognised in equity	Balance at December 31, 2011	Deductible temporary differences on:							Provision against loans and advances	989,352	(7,828)	-	981,524	(170,744)	-	Accumulated losses	3,164,324	704,056	-	3,868,380	(203,832)	-	Deferred tax asset written off	-	-	-	-	(506,851)	-	Deficit on revaluation AFS- Govt Securities	30,520	-	25,507	56,027	-	(49,455)	Liability subject to finance lease	(800)	800	-	-	-	-	Accelerated Depreciation	(175,158)	(90,747)	-	(265,905)	(106,390)	-	Surplus on revaluation of equity	-	-	3,211	3,211	-	(7,069)	Revaluation of property and equipment	(32,091)	-	1,302	(30,789)	-	1,310	Amounts on which Deferred not recognised during the year	-	(416,281)	(3,213)	(419,494)	416,284	3,210	Deferred Tax	3,976,147	190,000	26,807	4,192,954	(571,533)	(52,004)							3,569,417		
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						3,569,417																																																																																									
13.3	The Bank has prepared a 5 year strategic plan including projections for taxable profits for five years and concluded that there would be enough profits against which deferred tax asset created on unused tax losses can be utilized. The plan is based on the growth assumptions, introduction of new products, addition of new branches, recoveries from non performing portfolio and introduction of new capital.																																																																																														
14	OTHER ASSETS																																																																																														
	Income/ Mark-up accrued in local currency		1,800,855	1,746,955																																																																																											
	Income/ Mark-up accrued in foreign currency		7,021	8,768																																																																																											
	Advances, deposits, advance rent and other prepayments		357,096	473,159																																																																																											
	Non-banking assets acquired in satisfaction of claims	14.1	3,166,010	1,679,624																																																																																											
	Non-banking assets acquired in satisfaction of claims with buy back option with customer	14.1	1,842,372	59,570																																																																																											
	Unrealized gain on forward foreign exchange contracts		79,040	65,685																																																																																											
	Branch adjustment account		71,144	51,407																																																																																											
	Others		283,880	62,775																																																																																											
			7,607,418	4,147,943																																																																																											
	Less: Provision held against other assets	14.2	(377,655)	(214,696)																																																																																											
	Other assets (net of provision)		7,229,763	3,933,247																																																																																											
14.1	Market value of non-banking assets acquired in satisfaction of claims		5,539,862	1,739,194																																																																																											

Notes to the Financial Statements for the Year Ended December 31, 2011

	Note	2011	2010
		Rupees in '000	
14.2 Provisions against other assets			
Opening balance		214,696	232,031
Charge for the year		255,364	2,344
Reversals		(75,532)	(3,019)
Net (reversal) / charge for the year	28	179,832	(675)
Amount written off		(16,873)	(16,660)
Closing balance		377,655	214,696
15 BILLS PAYABLE			
In Pakistan		1,679,456	836,931
Outside Pakistan		-	-
		1,679,456	836,931
16 BORROWINGS			
In Pakistan		17,365,342	9,789,309
Outside Pakistan		416,344	81,832
		17,781,686	9,871,141
16.1 Particulars of borrowings			
In local currency		17,126,317	9,789,309
In foreign currencies		655,369	81,832
		17,781,686	9,871,141
16.2 Details of borrowings			
Secured			
Borrowings from SBP (re-finance)			
Under export refinance scheme	16.2.1	3,707,636	3,454,516
LTF-EOP	16.2.1	40,901	64,128
LTFF	16.2.1	83,171	111,330
ERF Modernization	16.2.1	18,338	-
Repurchase agreement borrowings	16.2.2	10,536,271	4,659,335
		14,386,317	8,289,309
Unsecured			
Call borrowings	16.2.3	2,979,025	1,500,000
Overdrawn Nostro accounts		416,344	81,832
		3,395,369	1,581,832
		17,781,686	9,871,141
16.2.1	These borrowings carry markup at the rate ranging from 5% to 10% (2010: 5% to 9.5%) per annum.		
16.2.2	These represent funds borrowed from the local interbank money market carrying interest rate ranging from 11.50% to 13.00% (2010: 12.80% to 13.25%) per annum with maturities upto January 2012.		
16.2.3	These represent unsecured borrowings from the local money market carrying interest rate ranging from 12% to 13% (2010 : 13.85% to 13.9%) per annum with maturities upto March 2011.		

Notes to the Financial Statements for the Year Ended December 31, 2011

		2011	2010
		Rupees in '000	
17	DEPOSITS & OTHER ACCOUNTS		
Customers			
Fixed deposits		31,110,593	26,430,555
Savings deposits		17,574,649	15,937,905
Current accounts - non-remunerative		12,732,572	10,637,559
Margin accounts - non -remunerative		607,860	542,090
Others		187,191	134,310
		62,212,865	53,682,419
Financial institutions			
Remunerative deposits		1,793,237	1,961,573
Non-remunerative deposits		65,806	62,196
		1,859,043	2,023,769
		64,071,908	55,706,188
17.1	Particulars of deposits		
In local currency		58,796,148	51,657,312
In foreign currencies		5,275,760	4,048,876
		64,071,908	55,706,188
18	OTHER LIABILITIES		
Mark-up / Return / Interest payable in local currency		799,315	711,382
Mark-up / Return / Interest payable in foreign currency		4,605	2,642
Un-earned Commission		52,005	40,136
Accrued expenses		65,258	219,889
Unrealized loss on forward foreign exchange contracts		54,845	95,721
Tax liability - net		44,076	45,358
Workers' Welfare Fund (WWF)		27,733	-
Others		450,883	305,758
		1,498,720	1,420,886
19	SHARE CAPITAL		
19.1	Authorised capital		
December 31, 2011	December 31, 2010		
No. of shares in '000			
4,000,000	4,000,000	Ordinary shares of Rs.10 each	
			Rupees in '000
			40,000,000
			40,000,000
19.2	Issued, subscribed and paid up share capital		
December 31, 2011	December 31, 2010		
No. of shares in '000			
800,315	800,315	Ordinary shares of Rs.10 each Fully paid in cash	
100,000	100,000	Ordinary shares of Rs.10 each Fully paid in cash and issued at a discount of Rs.2.5 per share	
1,771,290	1,771,290	Ordinary shares of Rs.10 each Fully paid in cash and issued at a discount of Rs.7.5 per share	
2,671,605	2,671,605		Rupees in '000
			8,003,150
			1,000,000
			17,712,898
			26,716,048
			8,003,150
			1,000,000
			17,712,898
			26,716,048

Notes to the Financial Statements for the Year Ended December 31, 2011

19.3 The Bank has approved issuance of rights shares @311.00226% on December 2, 2009 at a discount of Rs.7.5 per share on the face value of Rs.10 each to generate net additional capital of Rs. 7 billion. These rights shares were taken up by the shareholders. An amount of Rs. 2.572 billion has remained unsubscribed and the Bank is in negotiations with various investors for share subscription towards the unpaid rights.

19.4 Capital management policies and procedures

The Bank's objectives when managing capital are:

- to comply with the capital requirements set by the regulator;
- to safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored frequently by the Bank's management by employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented in Pakistan by the SBP.

19.5 The State Bank of Pakistan requires each commercial bank to: (a) hold the minimum level of the regulatory capital (net of losses) to be raised to Rs.10 billion by the year ending December 31, 2013. The raise is to be achieved in phased manner requiring Rs. 8 billion paid up capital (net of losses) by the end of the financial year 2011 and (b) maintain a ratio of total regulatory capital to the risk-weighted asset (the "Basel ratio") at or above the internationally agreed minimum of 10%.

19.6 The Bank's regulatory capital is divided into two tiers:

Tier 1 or core capital: share capital, share premium, reserves for bonus shares, general reserves created out of the profits for the year and unappropriated profit.; and

Tier 2 supplementary capital: general provisions or general reserves for loans losses, revaluation reserves exchange translation reserves, undisclosed reserves and subordinated debt.

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

The table in note 39, summaries the composition of regulatory capital and the ratios of the Bank for the year ended December 31, 2011.

	Note	2011	2010
		Rupees in '000	
19.7 Reconciliation of number of ordinary shares of Rs. 10 each			
At beginning of the year		2,671,605	900,315
Issued during the year		-	1,771,290
At end of the year		<u>2,671,605</u>	<u>2,671,605</u>
20 SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS - NET OF DEFERRED TAX			
(Deficit) on revaluation of securities	20.1	(5,039)	(113,226)
Surplus on revaluation of property and equipment	20.2	<u>127,678</u>	<u>130,088</u>
		<u>122,639</u>	<u>16,862</u>
20.1 (Deficit) / Surplus on revaluation of securities			
Federal Government securities		(18,776)	(160,078)
Quoted Securities		<u>11,023</u>	<u>(9,175)</u>
10.1		<u>(7,753)</u>	<u>(169,253)</u>
Deferred tax asset recognised	13	<u>2,714</u>	<u>56,027</u>
		<u>(5,039)</u>	<u>(113,226)</u>

Notes to the Financial Statements for the Year Ended December 31, 2011

	Note	2011	2010
		Rupees in '000	
20.2 Surplus on revaluation of property and equipment			
Surplus on revaluation of properties	20.3	157,157	160,877
Deferred tax (liability) recognised	13	(29,479)	(30,789)
		127,678	130,088
20.3 Reconciliation of surplus on revaluation of property and equipment			
At beginning of the year		160,877	1,667,188
Surplus realized on disposal of property and equipment		-	(1,502,591)
Surplus realized on account of incremental depreciation (net of tax)		(3,720)	(3,720)
At end of the year		157,157	160,877
21 CONTINGENCIES AND COMMITMENTS			
21.1 Direct Credit substitutes			
21.2 Transaction-related contingent liabilities			
Guarantees favouring			
Government		7,657,988	7,628,737
Banking companies and other financial institutions		206,948	761,829
Others		1,648,697	572,196
21.3 Trade-related contingent liabilities			
Letters of Credit & Acceptances		4,412,150	3,041,251
21.4 Claims against the bank not acknowledged as debt		348,243	207,607
21.5 Commitments in respect of			
Forward Exchange contracts with State Bank of Pakistan, banks and other institutions			
Sale		3,179,611	2,729,569
Purchase		7,376,571	3,475,039
21.6 Commitments in respect of			
Property, civil work & equipment		3,395	34,550
Purchase of Hardware / Software		106,768	9,758
		110,163	44,308
22 DERIVATIVE INSTRUMENTS			

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices. The principal derivatives used by the Bank are forward foreign exchange contracts and equity futures. The Bank at this stage does not engage in Interest Rate Swaps, Forward Rate Agreements and FX Options.

A forward foreign exchange contract is an agreement to buy or sell a specified amount of foreign currency on a specified future date at an agreed rate. Equity futures are exchange traded contractual agreements to either buy or sell a specified security at a specific price and date in the future. The Bank enters into these contracts for the purposes of squaring currency / equity positions.

All derivatives are recognized at their fair value. Fair values are obtained from quoted market prices in active markets. Derivatives are carried in the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative.

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations. The principal amount of the derivative contract does not represent real exposure to credit risk, which is limited to the positive fair value of instrument.

The details of commitments under forward foreign exchange contracts outstanding at year-end have been given in note There was no equity futures position at the year end.

Notes to the Financial Statements for the Year Ended December 31, 2011

	Note	2011	2010
		Rupees in '000	
23 MARK-UP / RETURN / INTEREST EARNED			
On loans and advances to:			
Customers	23.1	6,826,168	5,136,287
On investments in:			
Held-for-trading securities		-	22,795
Available-for-sale securities		925,163	956,323
Held-to-maturity securities		461,215	502,308
		1,386,378	1,481,426
On deposits with financial institutions		263	160
On call money lendings		76,807	64,745
On securities purchased under resale agreements		95,992	92,947
		8,385,608	6,775,565
23.1	This figure is net of mark-up suspended in accordance with the Prudential Regulations of the SBP amounting to Rs. 605.972 million (2010: Rs. 602.96 million).		
24 MARK-UP / RETURN / INTEREST EXPENSED			
Deposits		4,970,438	4,445,627
Securities sold under repurchase agreements		581,337	789,277
Call borrowings		335,886	187,255
Borrowing from State Bank of Pakistan under export refinance scheme		356,336	269,590
SWAP Money market expense		267,645	231,933
Others		3,128	2,846
		6,514,770	5,926,528
25 GAIN / (LOSS) ON SALE OF SECURITIES - net			
Federal government securities			
Pakistan Investment bonds		3,185	(99,806)
Market treasury bills		30,377	2,381
Ijara Sukuk Bonds		924	-
Shares - Listed		31,368	17,028
Term finance certificates		5,257	904
Mutual funds		(944)	8,148
		70,167	(71,345)
26 OTHER INCOME			
Rent on property		10,244	16,550
Net profit on sale of property and equipment		3,208	567,653
Income from non-banking assets and profit from sale of or dealing with such assets		10,580	50,678
Postage, telex, services charges etc.		33,571	33,692
Trade business rebate		29,540	27,355
Others		94,942	77,893
		182,085	773,821

Notes to the Financial Statements for the Year Ended December 31, 2011

	Note	2011	2010
		Rupees in '000	
27 ADMINISTRATIVE EXPENSES			
Salaries, allowances and other benefits		1,792,621	1,563,279
Charge for defined benefit plan		57,307	45,143
Contribution to defined contribution plan		57,616	52,308
Non-executives directors' fees, allowances and other expenses		20,090	15,464
Rent, taxes, insurance, electricity, etc.		620,434	544,237
Legal and professional charges		174,174	78,902
Communications		124,669	94,103
Repairs and maintenance		122,843	105,635
Financial charges on leased assets		-	1,884
Stationery and printing		38,035	36,414
Security charges		52,957	55,023
Advertisement and publicity		35,758	50,265
Donation	27.1	-	3,488
Depreciation	12.2	380,848	289,671
Amortization of intangible assets	12.3	85,898	49,940
Auditors' remuneration	27.2	4,457	3,625
Fuel and traveling expenses		106,819	85,852
Brokerage and commission		6,732	6,121
Subscriptions and newspapers		7,917	1,091
Entertainment		17,439	24,096
Others		72,431	47,060
		3,779,045	3,153,601
27.1 Donations			
Pakistan Centre for Philanthropy		-	833
Donation for flood victims		-	2,655
		-	3,488
During the year five computers having cumulative WDV of Rs. 5 were donated to All Pakistan Women Association (APWA). None of the directors and their spouse have interest in this donation.			
27.2 Auditors' remuneration			
Annual audit fee		1,700	1,050
Half yearly review		700	550
Special certifications		1,740	1,725
Out-of-pocket expenses		317	300
		4,457	3,625
28 OTHER (REVERSAL) / PROVISIONS / IMPAIRMENT / WRITE OFFS			
Realized surplus on revaluation of properties		-	(150,445)
Net provision / (reversal) against other assets	14.2	179,832	(675)
Impairment of capital assets		-	14,175
		179,832	(136,945)

Notes to the Financial Statements for the Year Ended December 31, 2011

		Note	2011	2010
			Rupees in '000	
29	OTHER CHARGES			
	National Accountability Bureau Commission		-	172
	Penalties imposed by SBP	29.1	133	17,492
	Federal Excise Duty default surcharge		-	4,772
	Operational loss		1,616	2,181
	Worker's Welfare Fund		27,733	-
			29,482	24,617
29.1	This represents penalties imposed by SBP on various non-compliances related to rules and regulations.			
30	INCOME TAX EXPENSE			
	Current		92,322	85,608
	Prior years		-	-
	Deferred		571,533	(190,000)
			663,855	(104,392)
30.1	Effective tax rate reconciliation			
	Profit / (loss) before tax		1,358,918	(1,235,546)
	Tax rate		35%	35%
	Tax at applicable rate		475,621	(432,441)
	Minimum tax		92,322	85,608
	Permanent difference		47	-
	Deferred tax asset written off		87,356	-
	Deferred tax asset not recognised		-	242,441
	Other		8,509	-
			663,855	(104,392)
30.2	Status of assessments			
	The income tax returns of the Bank have been submitted upto tax year 2011. As regard to tax year 2008, a favourable order has been received from Appellate Tribunal Inland Revenue (ATIR). The Bank has filed appeals before ATIR against certain disallowances amounting to Rs. 1,996 million made by Taxation Officer for assessment / tax year(s) 2000-2001, 2001-2002, 2002-2003 and 2004. The disallowances amounting to Rs. 707 million in respect of tax year 2003 and 2006 are pending at Commissioner Inland Revenue (Appeals). The management is confident that the outcome of these appeals would be in favor of the Bank.			
30.3	The Bank's return in respect of AJK operations have been submitted up to and including tax year 2011. Certain appeals were filed before the various appellate forums which are pending for adjudication. The management is confident that the outcome of these appeals would be in favor of the Bank.			
31	LOSS PER SHARE - BASIC AND DILUTED			
	Profit / (Loss) after taxation for the year (Rupees in '000)		695,063	(1,131,154)
	Weighted average number of ordinary shares (in '000)		2,671,605	2,309,173
	Profit / (Loss) per share - Basic and Diluted (Rupee)		0.26	(0.49)
32	CASH AND CASH EQUIVALENTS			
	Cash and balances with treasury banks	7	4,436,142	3,414,524
	Balances with other banks	8	94,322	89,355
			4,530,464	3,503,879

Notes to the Financial Statements for the Year Ended December 31, 2011

		2011	2010
		Number of persons	
33	STAFF STRENGTH		
	Permanent	1,261	1,247
	Temporary / Contractual basis	35	14
	Bank's own staff strength at the end of the year	<u>1,296</u>	<u>1,261</u>
	Outsourced	1,268	918
	Total staff strength	<u>2,564</u>	<u>2,179</u>
34	DEFINED BENEFIT PLAN		
34.1	General description		
	The Bank operates an approved gratuity scheme for all its regular employees. The entitlement of the employees will start on completion of five years with the Bank beginning from January 01, 2005. Projected Unit Credit Actuarial Cost Method has been used for actuarial valuation.		
	The main assumptions used for actuarial valuation are as under:		
34.2	Principal actuarial assumption	2011	2010
	Discount factor used per annum	13.00%	14.50%
	Expected increase in eligible pay per annum	13.00%	13.50%
	Long term rate of return on assets per annum compound	12.00%	14.50%
	Normal retirement age	<u>60 years</u>	60 years
34.3	Movement of present value of defined benefit obligation	Note	2011
	Opening balance		93,632
	Current service cost		41,956
	Interest cost		14,447
	(Gain) / loss on defined benefit obligation		(16,008)
	Prior service cost resulting from change in benefits		9,575
	Actual benefits paid during the year		(4,115)
	Closing balance		<u>139,487</u>
34.4	Movement of fair value of plan assets		2010
	Opening balance		127,225
	Expected return on plan assets		21,990
	Contribution made		56,926
	Benefits paid by the fund		(4,115)
	Gain / (loss) on plan assets		(170)
	Closing balance		<u>127,225</u>
34.5	Reconciliation of amount payable to defined benefit plan		
	Present value of defined benefit obligation		139,487
	(Unrecognized) actuarial gain / (loss)		(4,192)
	Fair value of plan assets		(127,225)
	Unrecognized prior years service cost		(8,070)
	Liability recognized in balance sheet	34.6	<u>-</u>
34.6	Movement in payable to defined benefit plan		
	Opening balance		35,075
	Charge for the year		45,143
	Contribution during the period		(80,218)
	Closing balance		<u>-</u>

Notes to the Financial Statements for the Year Ended December 31, 2011

	2011	2010
	Rupees in '000	
34.7 Charge for defined benefit plan		
Current service cost	47,851	41,956
Interest cost	23,111	14,447
Expected return on plan assets	(21,990)	(10,667)
Recognition of loss / (gain) on obligation	7,954	(593)
	<u>56,926</u>	<u>45,143</u>

34.8 The history of the plan for the current and prior four years are as follows:

	2011	2010	2009	2008	2007
	Rupees in '000				
Present value of defined benefit obligation	179,179	139,487	93,632	49,762	42,493
Fair value of plan assets	(190,369)	(127,225)	(40,740)	(22,862)	(25,130)
Deficit / (Surplus)	(11,190)	12,262	52,892	26,900	17,363
Experience adjustments on defined benefit obligation	19,549	16,008	(6,988)	(1,597)	5,374
Experience adjustments on assets	(4,051)	(170)	(9,146)	(6,919)	-

34.9 DEFINED CONTRIBUTION PLAN

The Bank operates an approved funded contributory provident fund for all its permanent employees to which equal monthly contributions are made both by the Bank and the employees at the rate of 8.33% of basic salary. The financial statements of the fund are separately prepared and audited and are not included as part of these financial statements.

35 COMPENSATION OF DIRECTORS AND EXECUTIVES

	2011 President / CEO	2010 President / CEO	2011 Executive Director	2010 Executive Director	2011 Executives	2010 Executives
	Rupees in '000					
Managerial remuneration	25,211	22,766	13,324	29,927	478,942	420,063
Charge for defined benefit plan	2,100	1,896	763	2,493	36,450	33,146
Contribution to defined contribution plan	2,100	1,896	763	2,493	36,450	33,146
Rent and house maintenance	12,605	11,383	6,662	14,963	239,472	210,032
Utilities	-	-	-	-	-	-
Medical	2,521	2,277	1,332	2,993	47,943	42,006
Conveyance	-	-	-	5,985	-	83,999
Others	14,042	12,553	3,186	-	220,381	79,225
	58,579	52,771	26,030	58,854	1,059,638	901,617
Number of persons remained during the year	1	1	1	1	341	295

The Chief Executive, Executive Director and Executives are provided with free use of bank maintained cars. Executive means employees, other than Chief Executive Officer and directors, whose basic salary exceeds five hundred thousand rupees in a financial year.

Notes to the Financial Statements for the Year Ended December 31, 2011

36 FAIR VALUE OF FINANCIAL INSTRUMENTS

36.1 On-balance sheet financial instruments

	2011		2010	
	Book value	Fair value	Book value	Fair value
	Rupees in '000			
Assets				
Cash balances with treasury banks	4,436,142	4,436,142	3,414,524	3,414,524
Balances with other banks	94,322	94,322	89,355	89,355
Lending to financial institutions	3,100,803	3,100,803	1,050,754	1,050,754
Investments	17,547,640	17,414,617	13,190,048	12,824,681
Advances	49,936,279	49,936,279	44,354,406	44,354,406
Other assets	7,229,763	7,229,763	3,933,247	3,933,247
	82,344,949	82,211,926	66,032,334	65,666,967
Liabilities				
Bills payable	1,679,456	1,679,456	836,931	836,931
Borrowings	17,781,686	17,781,686	9,871,141	9,871,141
Deposits and other accounts	64,071,908	64,071,908	55,706,188	55,706,188
Liabilities against assets subject to finance lease	-	-	-	-
Other liabilities	1,498,720	1,498,720	1,420,886	1,420,886
	85,031,770	85,031,770	67,835,146	67,835,146

36.2 Off-balance sheet financial instruments

Forward purchase of foreign exchange	7,376,571	7,376,571	3,475,039	3,475,039
Forward agreements for borrowing	-	-	-	-
Forward sale of foreign exchange	3,179,611	3,179,611	2,729,569	2,729,569
Forward agreements for lending	-	-	-	-

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

The fair value of traded investments is based on quoted market price. Fair value of unquoted equity investments is determined on the basis of break-up value of these investments as per the latest available audited financial statements.

The fair value of fixed term advances of over one year and fixed term deposits of over one year can not be calculated with sufficient reliability due to non-availability of relevant active market for similar assets and liabilities. Loans and advances are reduced for any impairment against non-performing advances determined in accordance with Prudential Regulations detailed in note 11.3.

The maturity and repricing profile and effective yield / interest rates are stated in notes 42.2.3 and 42.3.1 respectively.

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

37 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

For management purposes the Bank is organized into following major business segments:

- Wholesale Banking
- Consumer / SME Banking

All assets, liabilities, off balances sheet items, and items of income and expense are distributed to primary segments in accordance with the core functions performed by the business groups.

Notes to the Financial Statements for the Year Ended December 31, 2011

	2011		
	Wholesale Banking	Consumer / SME Banking	Total
Rupees in '000			
Current year			
Net Markup / Interest income	4,174,462	(2,303,624)	1,870,838
Non Markup / Interest income	532,055	314,531	846,586
Internal income	(3,623,137)	3,623,137	-
Operating Income	1,083,380	1,634,044	2,717,424
Non Markup / non Interest expense	1,020,705	2,967,654	3,988,359
Operating Profit before provisions & taxation	62,675	(1,333,610)	(1,270,935)
Provisions against non performing loans - net of recoveries	2,051,922	608,500	2,660,422
Impairment in the value of investments	(30,569)	-	(30,569)
Profit before taxation	2,084,028	(725,110)	1,358,918
Segment Assets (Gross)	69,759,099	26,370,824	96,129,923
Segment Non Performing Loans	8,032,817	2,990,125	11,022,942
Segment Provision	4,653,684	805,962	5,459,646
Segment Liabilities	26,211,583	58,820,187	85,031,770
Segmented Return on net Assets (ROA) (%)	3.20%	-2.84%	1.50%
COF %	12.67%	8.19%	9.24%
Rupees in '000			
2010			
	Wholesale Banking	Consumer / SME Banking	Total
Net Markup / Interest income	3,258,689	(2,409,652)	849,037
Non Markup / Interest income	549,006	635,798	1,184,804
Internal Income	(3,438,253)	3,438,253	-
Operating Income	369,442	1,664,399	2,033,841
Non Markup / non Interest expense	722,936	2,318,337	3,041,273
Operating Profit before provisions & taxation	(353,494)	(653,938)	(1,007,432)
Provisions against non performing loans - net of recoveries	231,536	(392,011)	(160,475)
Impairment in the value of investments	(67,639)	-	(67,639)
Profit before taxation	(189,597)	(1,045,949)	(1,235,546)
Segment Assets (Gross)	60,067,938	21,254,839	81,322,777
Segment Non Performing Loans	8,876,306	3,483,598	12,359,904
Segment Provision	7,368,168	1,285,516	8,653,684
Segment Liabilities	14,383,747	53,451,399	67,835,146
Segmented Return on net Assets (ROA) (%)	-0.36%	-5.24%	-1.70%
COF %	11.83%	8.47%	9.40%

Notes to the Financial Statements for the Year Ended December 31, 2011

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RELATED PARTY TRANSACTIONS

Related parties comprise directors, major shareholders of the Bank and the companies owned by such shareholders, entities owned by the directors of the company, companies where directors of the Bank also hold directorship, key employees, entities that have key management personnel in common and employee benefit plan.

Transactions with the related parties are executed substantially on the same terms, including mark-up rates and collaterals, as those prevailing at the time for comparable transaction with the unrelated parties and do not involve more than a normal risk (i.e. under the Comparable Uncontrolled Price Method).

Other than those transactions which are made under the terms of employment, the majority of the transactions with related parties comprise loans and advance, deposits, issuance of letter of credits and guarantees.

Advances for the house building, conveyance and for personal use have also been provided to the staff and executives at reduced rates in accordance with the employment and pay policy. These have been disclosed in note 11.7 of the financial statements. Facility of group life insurance and hospitalization insurance is also provided to staff and executives. In addition to this, executives of the Bank have been provided with Bank maintained car.

Details of transactions, other than disclosed elsewhere, with related parties and balances with them as at the year-end were as follows:

	2011			2010		
	Directors	Key management personnel & Others	Associated companies & common directorship	Directors	Key management personnel & Others	Associated companies & common directorship
Rupees in '000						
Balances						
Loans						
Outstanding at beginning	-	-	-	-	1,153	-
Loans given during the year	44,837	20,329	-	-	2,766	-
Loans repaid during the year	(23,438)	(8,480)	-	-	(3,919)	-
Loans outstanding at end	21,399	11,849	-	-	-	-
Deposits						
Deposits at beginning	12,085	101,976	55,482	2,469	57,861	36,830
Deposit received during the year	300,095	1,491,377	509,491	2,286,139	712,552	964,015
Deposit repaid during the year	(293,645)	(1,515,250)	(559,048)	(2,276,523)	(668,437)	(945,363)
Deposit at end	18,535	78,103	5,925	12,085	101,976	55,482
Investment in Term Finance Certificates	-	-	-	-	-	20,800
Transactions						
Short term employment benefits	-	476,019	-	-	364,643	-
Termination benefits	-	31,621	-	-	29,111	-
Mark-up earned on loans	2,646	1,715	-	-	70	-
Mark-up paid on deposits	503	2,554	6,571	207	4,899	5,669
Mark-up earned on TFC's	-	-	-	-	-	5,096
Services rendered / goods supplied	-	-	29,539	-	-	110,052
Software purchased	-	-	9,483	-	-	10,161

Notes to the Financial Statements for the Year Ended December 31, 2011

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CAPITAL ADEQUACY

The risk weighted assets to capital ratio, calculated in accordance with the BSD Circular No. 08 of 2006 dated June 27, 2006 by State Bank of Pakistan is as follows:

	Note	2011	2010		
		Rupees in '000			
Regulatory Capital Base					
Tier I Capital					
Fully paid-up-capital		26,716,048	26,716,048		
Discount on issuance of right shares		(13,284,674)	(13,284,674)		
General reserves as disclosed on the Balance Sheet		139,013	-		
Accumulated losses	39.1	(8,932,456)	(9,492,226)		
		4,637,931	3,939,148		
Deductions:					
Book value of intangibles		403,766	454,275		
Shortfall in provisions required against classified assets irrespective of any relaxation allowed by SBP.		-	765,064		
Deficit on account of revaluation of available-for-sale investments		-	-		
Other deductions		22,500	37,500		
Total eligible Tier 1 capital		<u>426,266</u>	<u>1,256,839</u>		
		<u>4,211,665</u>	<u>2,682,309</u>		
Supplementary Capital					
Tier II Capital					
Subordinated debt (up to 50% of total Tier I Capital)		-	-		
General provisions or general reserves for loan losses-up to maximum of 1.25% of Risk Weighted Assets		111,248	13,182		
Revaluation reserve (up to 45%)	39.1	462,303	391,302		
		<u>573,551</u>	<u>404,484</u>		
Deductions:					
Other deductions		22,500	37,500		
Total eligible Tier 2 Capital		<u>551,051</u>	<u>366,984</u>		
Eligible Tier III Capital		<u>-</u>	<u>-</u>		
Total Supplementary Capital eligible for capital adequacy ratio (Maximum upto 100% of Total eligible Tier 1 capital)		<u>4,762,716</u>	<u>3,049,293</u>		
Total Eligible Capital		<u>4,762,716</u>	<u>3,049,293</u>		
Risk Weighted Amounts					
Total Credit Risk Weighted Amount		64,166,382	53,196,156		
Total Market Risk Weighted Amount		4,109,984	3,526,170		
Total Operational Risk Weighted Amount		3,383,619	1,450,891		
Total Risk Weighted Amount		<u>71,659,985</u>	<u>58,173,217</u>		
Capital Adequacy Ratios					
Credit Risk Capital Adequacy Ratio		7.42%	5.73%		
Tier 1 Capital to Total Risk Weighted Amount		5.88%	4.61%		
TOTAL CAPITAL ADEQUACY RATIO		<u>6.65%</u>	<u>5.24%</u>		

Notes to the Financial Statements for the Year Ended December 31, 2011

39.1 During the year, the Bank acquired the Central Office Karachi Property for Rs. 2.48 billion from M/s Arif Habib Equity (Private) Limited. The said property was sold to Arif Habib Equity (Private) Limited for Rs. 2 billion through an agreement to sell dated 29 June 2010. The transaction was necessitated due to long term needs of the Bank for such property and plans of Arif Habib Equity (Private) Limited for the said Property.

In view of the repurchase of the property, State Bank of Pakistan while recognizing the sale as a sale, vide their letter dated August 24, 2011, have advised the Bank to reclassify 50% of the gain realized on sale of the said property (including amount transferred from revaluation surplus to accumulated loss) for capital adequacy calculation purposes as part of Tier-2 capital with treatment similar to Revaluation reserves. Accordingly, an amount of Rs. 877.937 million has been transferred from Accumulated loss to Revaluation reserve (eligible upto 45%) as Tier II Capital for Capital adequacy calculations. Total Capital Adequacy Ratio at 31 December 2010 has been adjusted accordingly.

39.2 Credit risk - General disclosures

The Bank uses the 'Standardized Approach' for all its credit risk exposures.

The Bank uses reputable and SBP approved rating agencies for deriving risk weight to specific credit exposures. These are applied consistently across the Bank credit portfolio for both on-balance sheet and off-balance sheet exposures. The methodology applied for using External Credit Assessment Institutions (ECAI's) inclusive of the alignment of alpha numerical scale of each agency used with risk bucket is as per SBP Basel II guidelines as given below:

Exposures	2011	
	JCR - VIS	PACRA
Corporate	✓	✓
Banks	✓	✓
Sovereigns	✗	✗
SME's	✗	✗
Securitisation	N/A	N/A
Others	N/A	N/A

39.3 Credit exposures subject to Standardized Approach

Exposures	Rating / Category #	2011			2010		
		Amount Outstanding	Deduction CRM	Net Amount	Amount Outstanding	Deduction CRM	Net Amount
Cash and Cash Equivalents	-	882,036	-	882,036	584,962	-	584,962
Claims on Government of Pakistan	-	5,815,475	-	5,815,475	6,730,459	-	6,730,459
Foreign Currency claims on SBP	-	1,064,057	-	1,064,057	980,370	-	980,370
Claims on other sovereigns and on Government of Pakistan other than PKR		4,697	-	4,697	-	-	-
PSE's	Unrated	-	-	-	550,664	-	550,664
Claims on Banks 2,3 rated		88,148	-	88,148	-	-	-
Claims on Banks	Unrated	35,813	-	35,813	-	-	-
Banks Fcy	Unrated	438,600	-	438,600	535,228	-	535,228
Banks Lcy		2,884,702	2,159,306	725,396	1,369,487	-	1,369,487
Corporates	1	565,850	-	565,850	738,010	-	738,010
Corporates	2	2,582,483	-	2,582,483	2,663,037	-	2,663,037
Corporates	5,6	1,861,040	137,923	1,723,117	392,897	-	392,897
Corporates	Unrated	25,851,518	2,465,126	23,386,392	26,590,966	2,517,714	24,073,252
Retail portfolio		11,615,883	653,435	10,962,448	7,946,796	1,070,435	6,876,361
Secured by residential property		1,557,508	-	1,557,508	1,367,580	-	1,367,580
Past due loans		5,761,107	-	5,761,107	3,802,980	-	3,802,980
Listed Equity investments - banks		52,448	-	52,448	176,501	-	176,501
Unlisted equity investments		31,346	-	31,346	39,900	-	39,900
Investments in operating fixed assets		4,352,145	-	4,352,145	1,989,530	-	1,989,530
Other assets		10,799,180	-	10,799,180	8,286,038	-	8,286,038
		76,244,036	5,415,790	70,828,246	64,745,405	3,588,149	61,157,256

Notes to the Financial Statements for the Year Ended December 31, 2011

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RISK MANAGEMENT

The business of banking is dependent upon acceptance and management of financial risk. It involves identification, measurement, monitoring and controlling risks with a view to ensure that:

- adequate capital is available as a buffer;
- exposures remain within the limits prescribed by the Board of Directors; and
- risk taking decisions are in line with business strategy and objectives set by the Board.

The Bank is exposed to a number of risks, which it manages at different levels.

The main categories of risk are;

Credit risk

The risk of losses because counterparties fail to meet all or part of their obligations towards the Bank.

The Bank has established an appropriate credit risk structure and culture whereby policies are reviewed and revamped to maintain sound credit granting procedures, maintaining appropriate credit administration, measurement, monitoring processes and adequate controls.

Risk Management structure includes Credit approval, Credit Administration, Centralized Processing, Credit Monitoring and Basel II functions reporting to the Risk Management Group Head. Senior and experienced officials are heading each risk category.

The Bank manages credit risk through:

- establishment of acceptable risk levels;
- sound procedures and controls for the management of risk assets and credit documentation;
- target market planning and overall market intelligence; and
- accurate and detailed information about the borrower, its financial position and operations of the Bank.

Market risk

The risk of losses because the market value of the Bank's assets and liabilities will vary with changes in market conditions.

Market Risk measures and controls are applied at the portfolio level and limits and other controls are applied to particular books and to specific portfolios. Controls and established parameters are applied to prevent any undue risk concentrations in the trading book and include controls on exposure to individual market risk factors and on positions in securities of individual issuers.

Treasury Middle Office (TMO) performs market risk management activities. TMO is jointly responsible with Treasury front office for drawing, reviewing market risk policies (fund management, treasury investment) and processes, monitoring and implementation; and escalating any deviation to ALCO/MRPC.

Operational risk

The risk of losses owing to deficient or erroneous internal procedures, human or system errors, or external events.

The Bank has in place robust, duly approved various policies, procedures and a Business Continuity Plan. These are continuously reviewed to strengthen operational controls.

Risk policy sets minimum standards and requires all business units to identify and assess risks. The business units are responsible for day-to-day monitoring of operational risks and for limiting losses as a result thereof. The business unit must report operational risk events in the management reporting system. Risk Management has developed a loss database for recording of these events which will be utilized towards building a database to mitigate operational risk.

Liquidity risk

The risk of losses because the Bank's normal liquidity reserves are not sufficient to meet its obligations.

Silk Bank's approach to liquidity risk management is to ensure as far as possible that it will always have sufficient liquidity to meet its liabilities when due. The Fund Management Policy is formulated keeping in view SBP's guidelines on risk management and Basel II principles on sound liquidity management.

The ALCO/ MRPC is responsible for managing the composition of assets and liabilities; management of liquidity, timely identification of sources of market and liquidity risk, pricing of deposits and advances, deciding on the required maturity profile and the mix of incremental assets and liabilities, defining the interest rate view of the bank and deciding on future strategies for treasury, reviewing and articulating the funding policy; and evaluating the market and liquidity risks involved in launching new products.

Notes to the Financial Statements for the Year Ended December 31, 2011

40.1 Credit risk

40.1.1 Credit risk management objectives and policies

Credit risk is the risk that a counterparty will not settle its obligation in accordance with the terms of approval or agreed terms.

Credit exposures include both individual borrowers and groups of connected counterparties and portfolios in the banking and trading books.

Credit Risk Policy & Management Group (CRP & MG) is structured to effectively analyze, monitor & manage credit risk through its policy and procedures that are closely aligned with Silk Bank's business plan, State Bank of Pakistan's Prudential Regulations & Basel II requirements.

Sanctioning authority & approval levels for all facilities is conferred by Board of Directors upon various functionaries of the Bank and is circulated for information of all concerned through circulars issued by CRP & MG. Credit Sanctioning powers / Authority levels in terms of BOD approval as enhanced / amended from time to time relates to the total exposure of a customer or a customer group, and not to specific loans.

40.1.2 Credit risk rating

Credit risk rating is an important tool in monitoring and controlling credit risk. In order to facilitate early identification of changes in risk profiles, credits with deteriorating ratings will be subject to additional oversight and monitoring, for example through more frequent visits from Relationship Managers and inclusion on a watch list that is regularly reviewed by senior management. The internal risk ratings can be used by line management in different departments to track the current characteristics of the credit portfolio.

In light of the requirements of SBP guidelines and in view of Basel II Accord, the Bank has to assess soundness and appropriateness of internal credit risk measurement and management system. We now need to build the foundation for the IRB (Internal Rating Based) Approach and construct data warehouse conforming to the data criterion of Basel II.

In the absence of standard and reliable financials to realistically evaluate the strength of a company for assigning ORR, we have to resort to other pragmatically emphasized quantitative /qualitative factors, which have traditionally been considered for extending credit. The Quantitative Evaluation is based on financial indicators, while Qualitative Evaluation is based on subjective factors.

40.1.3 Objective of Internal Credit Risk Rating (ORR)

Usually credit ratings are aimed at achieving one or more of the following:

- Internal capital allocation
- Internal risk reporting
- Portfolio management
- The setting of credit risk concentration limits
- Developing risk-based pricing benchmarks

At Silk Bank the initial objective of ORR is to generate accurate and consistent ratings for credit portfolio of the bank. Credit/ Obligor risk ratings are summary indicators of the degree of risk inherent in Silk Bank's individual credit exposures. A credit rating represents an assessment of the probability of default attached to a given counterparty to meet debt servicing and other repayment obligations on a timely basis. At Silk Bank a system has been developed and successfully implemented to assign Credit/ Obligor Risk Ratings to each borrower.

Notes to the Financial Statements for the Year Ended December 31, 2011

40.1.4 Segmental information

40.1.4.1 Segments by class of business

	2011					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Chemical and Pharmaceuticals	3,503,596	6.3%	1,252,160	2.0%	515,431	3.7%
Agribusiness	219,765	0.4%	32,777	0.1%	31,275	0.2%
Cement	1,291,270	2.3%	123,853	0.2%	137,075	1.0%
Sugar	1,575,446	2.8%	1,493	0.0%	2,405	0.0%
Textile	9,515,343	17.2%	314,815	0.5%	899,506	6.5%
Footwear and Leather garments	1,033,372	1.9%	25,292	0.0%	166,603	1.2%
Automobile/transportation equipment	764,349	1.4%	44,421	0.1%	250,747	1.8%
Electronics and electrical appliances	1,611,460	2.9%	35,864	0.1%	293,066	2.1%
Power (electricity), Gas, Water, Sanitary	1,366,989	2.5%	1,055,151	1.6%	683,567	4.9%
Financial	2,189,843	4.0%	1,766,020	2.8%	2,241,918	16.1%
Insurance	3,105	0.0%	93,023	0.1%	900	0.0%
Individuals	4,390,844	7.9%	33,715,501	52.6%	-	0.0%
Exports / Imports & Trading	2,908,044	5.3%	370,227	0.6%	-	0.0%
Hotel & Resorts	1,158,546	2.1%	51,470	0.1%	27,175	0.2%
Telecommunications	772,410	1.4%	84,292	0.1%	389,863	2.8%
Others	23,004,980	41.6%	25,105,549	39.2%	8,286,252	59.5%
	55,309,362	100%	64,071,908	100%	13,925,783	100%

	2010					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Chemical and Pharmaceuticals	3,298,120	7.6%	880,564	2.2%	1,199,935	6.5%
Agribusiness	148,752	0.4%	34,822	0.1%	-	0.0%
Cement	964,619	3.5%	122,452	0.7%	387,671	2.1%
Sugar	1,602,065	2.5%	23,605	0.1%	258,448	1.4%
Textile	11,353,732	22.8%	1,089,909	0.3%	1,698,369	9.2%
Footwear and Leather garments	690,437	1.6%	83,977	0.0%	-	0.0%
Automobile and transportation equipment	767,000	2.0%	41,627	0.0%	158,761	0.9%
Electronics and electrical appliances	1,261,123	2.6%	7,817	0.5%	335,982	1.8%
Power (electricity), Gas, Water, Sanitary	1,506,642	2.6%	2,415,122	0.2%	989,485	5.4%
Financial	1,046,487	1.2%	1,895,963	8.3%	2,390,618	46.5%
Insurance	-	0.5%	127,806	0.7%	299,061	1.6%
Individuals	2,078,887	4.1%	32,053,008	49.4%	3,692	0.0%
Others	28,206,648	48.5%	16,929,516	37.5%	4,281,991	24.6%
	52,924,512	100%	55,706,188	100%	12,004,013	100%

Notes to the Financial Statements for the Year Ended December 31, 2011

40.1.4.2 Segment by sector

	2011					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Public/Government	149,009	-	10,723,239	13%	7,657,988	41%
Private	55,160,353	100%	53,348,669	87%	6,267,795	59%
	55,309,362	100%	64,071,908	100%	13,925,783	100%
2010						
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
	50,938	-	7,056,530	13%	7,628,737	41%
Public/Government	52,873,574	100%	48,649,658	87%	4,375,276	59%
Private	52,924,512	100%	55,706,188	100%	12,004,013	100%

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

	2011		2010	
	Classified Advances	Specific Provisions	Classified Advances	Specific Provisions
	Rupees in '000			
Agriculture, forestry, hunting and fishing	207,999	118,668	39,374	19,909
Textile	2,899,424	2,008,854	3,140,508	2,305,450
Chemical and pharmaceuticals	515,013	296,995	177,630	129,204
Cement	144,289	48,860	288,650	68,438
Sugar	229,180	146,518	449,109	244,807
Footwear and leather garments	90,144	83,387	14,103	10,975
Automobile and transportation equipment	707,701	374,253	723,498	386,005
Electronics and electrical appliances	953,681	703,035	1,036,035	1,000,253
Construction	-	-	453,521	155,025
Exports / Imports	634,633	204,027	218,007	117,773
Financial	93,079	87,226	49,379	49,379
Services	821,495	101,103	481,216	186,227
Individuals	662,759	218,010	359,790	119,604
Others	3,063,545	870,899	4,929,084	3,763,875
	11,022,942	5,261,835	12,359,904	8,556,924

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

	2011		2010	
	Classified Advances	Specific Provisions	Classified Advances	Specific Provisions
	Rupees in '000			
Public/Government	-	-	-	-
Private	11,022,942	5,261,835	12,359,904	8,556,924
	11,022,942	5,261,835	12,359,904	8,556,924

Notes to the Financial Statements for the Year Ended December 31, 2011

40.1.4.5 Geographical segment analysis

	2011	Total assets employed	Net assets employed	Contingencies and commitments
Rupees in ' 000				
Pakistan	1,358,918	90,670,277	5,638,507	24,940,371
Rupees in ' 000				
	2010	Total assets employed	Net assets employed	Contingencies and commitments
Pakistan	(1,235,546)	72,669,093	4,833,947	18,460,536

40.2 Market Risk

Market risk is defined as the potential loss in market value of a given portfolio that can be expected to be incurred arising from changes in market prices, namely interest rates, foreign exchange rates and equity prices.

The Bank is exposed to market risk in its trading portfolio because the values of its trading positions are sensitive to changes in market prices and rates. Similarly, it is also exposed to market risk in its investment portfolio.

The Bank has a well established framework for market risk management with the Treasury Investment Policy, Liquidity Policy and Market Risk Management Policy. The Bank has major objective of protecting and increasing net interest income in the short run and market value of the equity in the long run for enhancing the shareholders wealth. Further, it defines the contours of the way the Bank's market risk is managed within defined parameters and with prescriptive guidelines on the tools, techniques and processes.

The Asset Liability Committee (ALCO), Market Risk Policy Committee (MRPC) and Investment Committee is entrusted with key decision making in establishing market risk related strategies and monitoring there-against. The Committee decides on product pricing, mix of assets, liabilities, stipulates liquidity and interest rate risk limits, monitors them, articulates the Bank's interest rate view and determines the business strategy of the Bank.

Management of interest rate risk of the Banking Book is primarily focused on interest and fair value through Re-pricing Gap Analysis, Analysis of the Net Interest Income Sensitivity, Duration, Value-at-Risk (VaR) and Fair Value Sensitivity. The management of interest risk of the trading book is achieved through mark-to-market practice and exposure analysis. On a periodical basis, risk monitoring reports are prepared for senior management to gain an accurate understanding of Bank's risk position. Mathematical model like Stress-Testing is carried out at least biannually.

The Middle Office in Risk Management Division has an independent reporting structure on risk aspects and helps management in determining compliance in terms of exposure analysis, tracking of limits, funding and various other risk sensitive market parameters.

Notes to the Financial Statements for the Year Ended December 31, 2011

40.2.1 Foreign exchange risk

Currency risk is the risk of loss arising from the fluctuation of exchange rates. Bank's currency risk is first controlled through a substantially matched funding policy. We utilize appropriate hedging instruments, such as forward foreign exchange (FX) contracts, currency swaps to effectively hedge and manage currency risks.

The majority of foreign currency exposure is in the US dollar. Bank is carefully monitoring the net foreign currency exposure and the effect of exchange rate fluctuation by conducting mark to market sensitivity and stress testing on a regular basis as well as utilizing the currency forward FX contracts to control the risk. Beside that we have Foreign Exchange Stop Loss Limit based on Daily Value-at-Risk (VaR) to manage the loss absorption capacity of the Bank.

	2011			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
Rupees in '000				
Pakistan rupee	88,530,862	79,502,559	(3,451,041)	5,577,262
United States dollar	2,001,848	4,515,803	2,557,707	43,752
Great Britain pound	75,784	567,866	505,962	13,880
Japanese yen	513	14	(669)	(170)
Euro	58,001	445,528	388,041	514
Other currencies	3,269	-	-	3,269
	90,670,277	85,031,770	-	5,638,507
2010				
Rupees in '000				
Pakistan rupee	69,414,042	63,776,009	(936,653)	4,701,380
United States dollar	3,084,754	2,846,175	(114,466)	124,113
Great Britain pound	102,292	615,087	514,985	2,190
Japanese yen	5,276	12	-	5,264
Euro	60,515	597,863	536,134	(1,214)
Other currencies	2,214	-	-	2,214
	72,669,093	67,835,146	-	4,833,947

40.2.2 Equity position risk

The Bank is exposed to equity price changes on its investments in Trading Book. These equity exposures are primarily related to market price movements in local equity market index. Changes in the overall value of equity trading book are recorded through Profit and loss account. Bank's Investment Committee approves the investment stocks and their limits. It also reviews the portfolio with mark to market position on regular basis. Stop loss limits have been approved and are monitored on a regular basis.

Notes to the Financial Statements for the Year Ended December 31, 2011

40.2.3 Mismatch of interest rate sensitive assets and liabilities

Effective Yield / Interest rate	2011										
	Total	Up to 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	Non-Interest bearing financial instruments
Assets											
Cash and balances with treasury banks	4,436,142	4,436,142	-	-	-	-	-	-	-	-	
Balances with other banks	94,322	94,322	-	-	-	-	-	-	-	-	
Lending to financial institutions	13.81% 3,100,803	2,603,668	497,135	-	-	-	-	-	-	-	
Investments	10.07% 17,547,640	463,496	775,458	1,432,842	6,760,670	444,309	4,291,541	660,596	1,868,128	850,600	
Advances	14.84% 49,938,279	5,945,032	7,730,533	5,681,791	2,421,894	15,084,273	2,035,098	6,363,090	3,953,185	610,134	
Other assets	7,229,763	-	-	-	-	-	-	-	-	111,249	
	82,344,949	13,542,660	9,003,126	7,114,633	9,182,564	15,528,582	6,326,639	7,023,686	5,821,313	610,134	8,191,612
Liabilities											
Bills payable	1,679,456	-	-	-	-	-	-	-	-	1,679,456	
Borrowings	11.77% 17,781,686	13,608,968	2,540,872	1,076,576	-	52,785	86,121	-	-	416,344	
Deposits and other accounts	8.33% 64,071,908	23,898,297	7,568,081	7,540,847	11,371,685	80,561	6,170	10,122	-	13,586,145	
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	
Other liabilities	1,498,720	-	-	-	-	-	-	-	-	1,498,720	
	85,031,770	37,507,285	10,108,953	8,617,223	11,371,885	133,346	92,291	10,122	-	17,190,665	
	(2,686,821)	(23,964,625)	(1,105,827)	(1,502,590)	(2,189,321)	15,395,236	6,234,348	7,013,564	5,821,313	610,134	(8,999,053)
On-balance sheet gap											
Off-balance sheet financial instruments											
Forward lending (Including call lending, repurchase agreement, commitments to extend credit, etc.)	-	-	-	-	-	-	-	-	-	-	
Forward borrowings (Including call borrowing, repurchase agreement borrowing etc.)	-	-	-	-	-	-	-	-	-	-	
On-balance sheet gap	-	-	-	-	-	-	-	-	-	-	
	(2,686,821)	(23,964,625)	(1,105,827)	(1,502,590)	(2,189,321)	15,395,236	6,234,348	7,013,564	5,821,313	610,134	(8,999,053)
	Total Yield/Interest Risk Sensitivity Gap	(23,964,825)	(25,070,452)	(28,573,042)	(28,762,363)	(13,387,127)	(7,132,779)	(119,215)	5,702,098	6,312,232	(2,686,821)
	Cumulative Yield/Interest Risk Sensitivity gap	(23,964,825)	(25,070,452)	(28,573,042)	(28,762,363)	(13,387,127)	(7,132,779)	(119,215)	5,702,098	6,312,232	(2,686,821)

Effective Yield / Interest rate	2010										
	Total	Up to 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	Non-Interest bearing financial instruments
Assets											
Cash and balances with treasury banks	3,414,524	3,414,524	-	-	-	-	-	-	-	-	
Balances with other banks	89,355	-	-	-	-	-	-	-	-	89,355	
Lending to financial institutions	12.96% 1,050,754	291,499	759,255	-	-	-	-	-	-	-	
Investments	9.66% 13,190,048	202,282	2,102,730	462,855	2,548,877	2,253,073	470,790	2,071,101	2,452,936	625,404	
Advances	13.21% 44,354,406	4,873,666	5,608,735	6,253,452	7,489,935	3,620,746	3,702,600	7,243,111	3,237,317	2,311,664	
Other assets	3,933,247	-	-	-	-	-	-	-	-	3,933,247	
	66,032,334	8,781,971	8,470,720	6,716,307	10,038,812	5,873,819	4,173,390	9,314,212	5,690,253	2,311,664	4,661,166
Liabilities											
Bills payable	836,931	-	-	-	-	-	-	-	-	836,931	
Borrowings	12.19% 9,871,141	4,352,714	3,727,095	1,615,874	-	7,298	53,023	115,137	-	-	
Deposits and other accounts	8.63% 55,706,188	23,155,615	6,998,280	5,045,598	8,657,319	423,567	37,809	10,122	-	11,377,878	
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	
Other liabilities	1,420,886	-	-	-	-	-	-	-	-	1,420,886	
	67,835,146	27,508,329	10,725,375	6,661,472	8,657,319	430,865	90,832	125,259	5,690,253	2,311,664	13,635,695
	(1,802,812)	(18,726,358)	(2,254,655)	54,835	1,381,493	5,442,954	4,082,558	9,188,953	5,690,253	2,311,664	(8,974,509)
On-balance sheet gap											
Off-balance sheet financial instruments											
Forward lending (Including call lending, repurchase agreement, commitments to extend credit, etc.)	-	-	-	-	-	-	-	-	-	-	
Forward borrowings (Including call borrowing, repurchase agreement borrowing etc.)	-	-	-	-	-	-	-	-	-	-	
On-balance sheet gap	-	-	-	-	-	-	-	-	-	-	
	(1,802,812)	(18,726,358)	(2,254,655)	54,835	1,381,493	5,442,954	4,082,558	9,188,953	5,690,253	2,311,664	(8,974,509)
	Total Yield/Interest Risk Sensitivity Gap	(18,726,358)	(2,254,655)	54,835	1,381,493	5,442,954	4,082,558	9,188,953	5,690,253	2,311,664	(8,974,509)
	Cumulative Yield/Interest Risk Sensitivity gap	(18,726,358)	(20,981,013)	(20,926,178)	(19,544,685)	(14,101,731)	(10,019,173)	(830,220)	4,860,033	7,171,697	(1,802,812)

Notes to the Financial Statements for the Year Ended December 31, 2011

40.3 Liquidity risk

The risk of losses because the Bank's normal liquidity reserves are not sufficient to meet its obligations.

Bank's approach to liquidity risk management is to ensure as far as possible that it will always have sufficient liquidity to meet its liabilities when due. The Fund Management Policy is formulated keeping in view SBP's guidelines on risk management and Basel II principles on sound liquidity management.

The Bank has an ALCO and a Market Risk Policy Committee (MRPC) that are part of the framework for management of risk.

The ALCO/ MRPC is responsible for managing the composition of assets and liabilities management of liquidity, timely identification of sources of market and liquidity risk, pricing of deposits and advances, deciding on the required maturity profile and the mix of incremental assets and liabilities, defining the interest rate view of the bank and deciding on future strategies for treasury, reviewing and articulating the funding policy; and evaluating the market and liquidity risks involved in launching of new products.

Liquidity contingency funding plans have been drawn up to ensure that alternative funding strategies are in place when any of the indicators being monitored enter into the warning or stress zone and can be implemented on a timely basis to minimize the liquidity risks that may arise upon the occurrence of an unanticipated change in market conditions.

40.3.1 Maturities of assets and liabilities - based on working prepared by the Asset and Liability Management Committee (ALCO) of the Bank

	Total	Up to 1 month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
2011										
Rupees in '000										
Assets										
Cash and balances with treasury banks	4,436,142	845,743	26,619	166,865	3,396,915	-	-	-	-	-
Balances with other banks	94,322	94,322	-	-	-	-	-	-	-	-
Lending to financial institutions	3,100,803	2,603,669	497,134	-	-	-	-	-	-	-
Investments	17,547,640	1,324,912	780,882	1,459,161	6,786,989	444,309	4,222,663	660,596	1,868,128	-
Advances	49,936,279	5,959,087	7,744,290	5,695,697	2,435,800	15,098,179	2,049,004	6,390,903	3,953,185	610,134
Other assets	7,229,763	2,295,737	296,166	4,362,877	274,983	-	-	-	-	-
Operating fixed assets	4,755,911	594,489	594,489	594,489	594,489	594,489	594,489	1,188,977	-	-
Deferred tax assets	3,569,417	-	-	-	-	892,059	892,059	1,785,299	-	-
	90,670,277	13,717,959	9,939,580	12,279,089	13,489,176	17,029,036	7,758,215	10,025,775	5,821,313	610,134
Liabilities										
Bills payable	1,679,456	1,679,456	-	-	-	-	-	-	-	-
Borrowings	17,781,686	14,025,332	2,540,872	1,076,576	-	52,785	86,121	-	-	-
Deposits and other accounts	64,071,908	8,714,929	8,759,963	8,451,301	12,705,741	1,772,934	4,735,875	9,469,532	4,731,341	4,730,292
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Other liabilities	1,498,720	772,276	372,220	141,630	70,815	70,815	70,964	-	-	-
	85,031,770	25,191,993	11,673,055	9,669,507	12,776,556	1,896,534	4,892,960	9,469,532	4,731,341	4,730,292
Net assets	5,638,507	(11,474,034)	(1,733,475)	2,609,582	712,620	15,132,502	2,865,255	556,243	1,089,972	(4,120,158)
Share capital	26,716,048									
Reserves	139,013									
Discount on issue of shares	(13,284,674)									
Accumulated loss	(8,054,519)									
Surplus on revaluation of asset - net of deferred tax	122,639									
	5,638,507									

Notes to the Financial Statements for the Year Ended December 31, 2011

Maturities of assets and liabilities

	Total	Up to 1 month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	2010
Rupees in '000											
Assets											
Cash and balances with treasury banks	3,414,524	2,358,526	263,999	263,999	264,000	264,000	-	-	-	-	-
Balances with other banks	89,355	89,355	-	-	-	-	-	-	-	-	-
Lending to financial institutions	1,050,754	291,499	759,255	-	-	-	-	-	-	-	-
Investments	13,190,048	827,686	2,102,730	688,377	2,323,355	2,253,073	470,790	2,071,101	2,452,936	-	-
Advances	44,354,406	4,875,314	5,610,383	6,255,099	7,491,582	3,622,394	3,704,247	7,246,406	3,237,317	2,311,664	-
Other assets	3,933,247	2,224,429	333,287	976,219	399,312	-	-	-	-	-	-
Operating fixed assets	2,443,805	305,476	305,476	305,476	305,476	305,476	305,476	610,949	-	-	-
Deferred tax assets	4,192,954	-	-	-	-	1,048,239	1,048,239	2,096,477	-	-	-
	72,669,093	10,972,285	9,375,130	8,489,170	10,783,725	7,493,182	5,528,752	12,024,933	5,690,253	2,311,664	
Liabilities											
Bills payable	836,931	836,931	-	-	-	-	-	-	-	-	-
Borrowings	9,871,141	4,352,715	3,727,095	1,615,874	-	7,298	53,023	115,136	-	-	-
Deposits and other accounts	55,706,188	9,509,422	10,231,771	7,808,210	12,832,566	2,656,441	2,270,682	4,475,870	3,549,211	2,372,015	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	1,420,886	759,069	292,177	187,267	60,791	60,791	60,791	-	-	-	-
	67,835,146	15,458,137	14,251,043	9,611,351	12,893,357	2,724,530	2,384,496	4,591,006	3,549,211	2,372,015	
Net assets	<u>4,833,947</u>	<u>(4,485,852)</u>	<u>(4,875,913)</u>	<u>(1,122,181)</u>	<u>(2,109,632)</u>	<u>4,768,652</u>	<u>3,144,256</u>	<u>7,433,927</u>	<u>2,141,042</u>	<u>(60,351)</u>	
Share capital	26,716,048										
Reserves	-										
Discount on issue of shares	(13,284,674)										
Accumulated loss	(8,614,289)										
Surplus on revaluation of asset - net of deferred tax	16,862										
	<u>4,833,947</u>										

Notes to the Financial Statements for the Year Ended December 31, 2011

40.3.2 Maturities of assets and liabilities - based on contractual maturity of the assets and liabilities of the Bank

	Total	Up to 1 month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
	2011									
	Rupees in '000									
Assets										
Cash and balances with treasury banks	4,436,142	4,436,142	-	-	-	-	-	-	-	-
Balances with other banks	94,322	94,322	-	-	-	-	-	-	-	-
Lending to financial institutions	3,100,803	2,603,669	497,134	-	-	-	-	-	-	-
Investments	17,547,640	1,324,912	780,882	1,459,161	6,786,989	444,309	4,222,663	660,596	1,868,128	-
Advances	49,936,279	5,959,087	7,744,290	5,695,697	2,435,800	15,098,179	2,049,004	6,390,903	3,953,185	610,134
Other assets	7,229,763	2,295,737	296,166	4,362,877	274,983	-	-	-	-	-
Operating fixed assets	4,755,911	594,489	594,489	594,489	594,489	594,489	594,489	1,188,977	-	-
Deferred tax assets	3,569,417	-	-	-	-	892,059	892,059	1,785,299	-	-
	90,670,277	17,308,358	9,912,961	12,112,224	10,092,261	17,029,036	7,758,215	10,025,775	5,821,313	610,134
Liabilities										
Bills payable	1,679,456	1,679,456	-	-	-	-	-	-	-	-
Borrowings	17,781,686	14,025,332	2,540,872	1,076,576	-	52,785	86,121	-	-	-
Deposits and other accounts	64,071,908	37,494,442	7,568,081	7,540,647	11,371,885	80,561	6,170	10,122	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Other liabilities	1,498,720	772,276	372,220	141,630	70,815	70,815	70,964	-	-	-
	85,031,770	53,971,506	10,481,173	8,758,853	11,442,700	204,161	163,255	10,122	-	-
Net assets	5,638,507	(36,663,148)	(568,212)	3,353,371	(1,350,439)	16,824,875	7,594,960	10,015,653	5,821,313	610,134
Share capital	26,716,048									
Reserves	139,013									
Discount on issue of shares	(13,284,674)									
Accumulated loss	(8,054,519)									
Surplus on revaluation of asset - net of deferred tax	122,639									
	5,638,507									

Notes to the Financial Statements for the Year Ended December 31, 2011

Maturities of assets and liabilities

	Total	Up to 1 month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	2010
Rupees in '000											
Assets											
Cash and balances with treasury banks	3,414,524	3,414,524	-	-	-	-	-	-	-	-	-
Balances with other banks	89,355	89,355	-	-	-	-	-	-	-	-	-
Lending to financial institutions	1,050,754	291,499	759,255	-	-	-	-	-	-	-	-
Investments	13,190,048	827,686	2,102,730	688,377	2,323,355	2,253,073	470,790	2,071,101	2,452,936	-	-
Advances	44,354,406	4,875,314	5,610,383	6,255,099	7,491,582	3,622,394	3,704,246	7,246,407	3,237,317	2,311,664	-
Other assets	3,933,247	2,224,429	333,287	1,041,903	333,628	-	-	-	-	-	-
Operating fixed assets	2,443,805	305,476	305,476	305,476	305,476	305,476	610,949	-	-	-	-
Deferred tax assets	4,192,954	-	-	-	1,048,238	1,048,239	2,096,477	-	-	-	-
	72,669,093	12,028,283	9,111,131	8,290,855	10,454,041	7,229,181	5,528,751	12,024,934	5,690,253	2,311,664	
Liabilities											
Bills payable	836,931	836,931	-	-	-	-	-	-	-	-	-
Borrowings	9,871,141	4,352,715	3,727,095	1,615,874	-	7,298	53,023	115,136	-	-	-
Deposits and other accounts	55,706,188	34,533,494	6,998,280	5,045,598	8,657,319	423,567	37,809	10,121	-	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	1,420,886	759,066	292,177	187,268	60,791	60,791	60,793	-	-	-	-
	67,835,146	40,482,206	11,017,552	6,848,740	8,718,110	491,656	151,625	125,257	-	-	-
Net assets	<u>4,833,947</u>	<u>(28,453,923)</u>	<u>(1,906,421)</u>	<u>1,442,115</u>	<u>1,735,931</u>	<u>6,737,525</u>	<u>5,377,126</u>	<u>11,899,677</u>	<u>5,690,253</u>	<u>2,311,664</u>	
Share capital	26,716,048										
Reserves	-										
Discount on issue of shares	(13,284,674)										
Accumulated loss	(8,614,289)										
Surplus on revaluation of asset - net of deferred tax	16,862										
	<u>4,833,947</u>										

40.4 Operational risk

The risk of losses owing to deficient or erroneous internal procedures, human or system errors, or external events.

The Bank has in place robust, duly approved various policies, procedures and a Business Continuity Plan. These are continuously reviewed to strengthen operational controls.

Risk policy sets minimum standards and requires all business units to identify and assess risks. The business units are responsible for day-to-day monitoring of operational risks and for limiting losses as a result thereof. They also report operational risk events in the management reporting system.

Operational risk tolerance levels, however, have not been established but a broad strategic operational risk direction is in place. This process will move further with the implementation of Internal Control Systems (COSO compliant in process) and Operational Risk Management. Presently, this risk is effectively managed through robust operational policies and procedures.

Notes to the Financial Statements for the Year Ended December 31, 2011

41 SUBSEQUENT EVENTS

There were no significant adjustable events subsequent to December 31, 2011, which may require an adjustment to the financial statements or additional disclosure.

42 DATE OF AUTHORIZATION FOR ISSUE

The financial statements were authorized for issue on February 29, 2012 by the Board of Directors of the Bank.

43 GENERAL

Figures have been rounded off to the nearest thousand rupee except stated otherwise.

Azmat Tarin
President & CEO

Munnawar Hamid, OBE
Chairman

Tariq Iqbal Khan
Director

Humayun Bashir
Director

Statement of Written-off Loans or any Other Financial Relief of Five Hundred Thousand Rupees or Above Provided During the Year Ended December 31, 2011

Annexure - I

Rs. In '000

S. No.	Party Name	Address	Name of the individuals/ Partners/Directors (with N.I.C. No.)	Father's / Husband Name	Amount Outstanding				Principal Written-off	Interest / Mark-up Written-off	Other Financial Relief Provided	Total (8+9+10)
					Principal	Interest / Mark-up	Other	Total				
1			2	3	4	5	6	7	8	9	10	11
1	Twin City	Plot # 55, Khayabane Jauher, Industries, I-10/3, Islamabad	Zafar Iqbal Qureshi CNIC: 61101-8678502-1 Adil Zafar Qureshi CNIC: 61101-8687052-1 Azra Zafar Qureshi CNIC: 61101-9937780-0 Salma Adil CNIC: 61101-5052905-6	Mian Muhammad Amin Qureshi Zafar Iqbal Qureshi W/o Zafar Iqbal Qureshi W/o Adil Zafar Qureshi	99,000	11,643	-	110,643	6,999	24,488	-	31,487
2	Kabir Paper	Plot # 112/17, Industrial Area, Kot Lakhpat Lahore	Ch. Hamayun Mehmood NIC: 272-58-724312 Mrs. Rabia Hamayun NIC: 276-87-367690 Gulshan Ara NIC: NA	Ch. Chanan Din Ch. Hamayun Mehmood	-	2,425	-	2,425	-	2,425	-	2,425
3	Services Pharma	E-2, Sub Plot No: E-2/G-2, Sohail Centre, Block-III, Nazimabad, Karachi	Syed Yasir Mehmood NIC: 502-77-796561	Syed Maqsood Alam	531	236	-	767	265	236	-	501
4	Nayyar Noman	Flat # C-5, Hill Park Apartment Sub Plot 1-C Block-C, Plot # 167/13 subblock 788, Memon Co-operative Housing Society Karachi	Nayyar Noman Khan CNIC: 42201-9887136-1	Hakim Khan	5,592	210	-	5,802	392	210	-	802
5	Nadia Textile Mills	6 KM, Railwind Road, Lahore	Shahid Chaudhry CNIC: 35201-8753190-5 Qazi Muhammad Ali CNIC: 35202-9736089-3 Zaheer udin Babar CNIC: 35202-2163509-3	Shamas Ud Din Qazi Farooq Latif Khan Jamal Din	266,938	16,905	-	283,843	67,938	16,906	-	84,844
6	Wareed Lubricants	48-B outside Ghalla Mandi Bahawalpur	Muhammad Khalid Farooq CNIC 31202-8775365-5	Muhammad Sadiq	665	613	-	1,278	-	613	-	613
7	Farooq Woollen Mills	Climax Abad, G. T. Road, Gujranwala.	Muhammad Farooq CNIC: 34101-7839290-3 Muhammad Ayub CNIC: 34101-2782780-7	Ch. Meraj Din Ch. Meraj Din	78,972	8,705	-	87,677	-	8,705	-	8,705
8	Green Wood Corp	Climax Abad, G. T. Road, Gujranwala.	Muhammad Farooq CNIC: 34101-7839290-3	Ch. Meraj Din	114,350	12,679	-	127,029	-	12,679	-	12,679
9	Jofa International	28-C, 26th Street, 4th Floor, Tauheed Commercial Area, Phase-V, DHA, Karachi	Muhammad Asim CNIC: 42301-4283384-9 Imran Yousuf CNIC: 42301-7985753-3	Muhammad Sadiq Muhammad Yousuf	66,626	10,865	-	77,491	-	9,601	-	9,601
10	Hussain Constructions	Off. 497-N, Phase I, DHA , Lahore Cantt.	Shahab Hussain CNIC: 903091-330857-7	Nighah Hussain	24,993	4,703	-	29,696	-	4,704	-	4,704
11	Syed Muhammad Ahsan Zaidi	37-C, Khayaban-e-Safer, Flat No: 5, D.H.A. Phase-VI, Karachi	Syed M. Ahsan Zaidi CNIC: 42101-1898876-3	Syed Karamat Hussain Zaidi	-	-	-	-	1,092	124	-	1,215
12	Standard Foods	74/B-3, Gulberg-III, Lahore.	Farooq Habib CNIC: 35201-1404121-3 Ittikhar Habib CNIC: 35201-1238068-3	Habib Ullah Khan Habib Ullah Khan	66,915	14,870	-	81,785	23,223	14,870	-	38,093
13	Standard Fruits	74/B-3, Gulberg-III, Lahore.	Habib Ullah Khan CNIC: 35201-7921528-3 Zafar Ullah Khan CNIC: 35202-3010280-3 Ittikhar Habib CNIC: 35201-1238068-3	Mian Akbar Ali Mian Akbar Ali Habib Ullah Khan	31,308	9,593	-	40,901	-	9,593	-	9,593
14	Abdul Sattar Lasi	Abdul Sattar Lasi	Shaikh Abdul Sattar Lasi CNIC: 42000-0423154-9	Haji Jumma	42,894	9,534	-	52,428	27,762	9,534	-	37,296
15	National Flour & Oil Ind.	National Flour & Oil Ind.	Shaikh Abdul Sattar Lasi CNIC: 42000-0423154-9	Haji Jumma	92,493	20,220	-	112,713	92,493	20,220	-	112,713
16	Bella Builders	Bella Builders	Shaikh Abdul Sattar Lasi CNIC: 42000-0423154-9	Haji Jumma	170,012	70,158	-	240,170	-	70,158	-	70,158
17	Kausar Flour Mills	House No: 40/3, Street No: 31, Phase-5, DHA, Karachi	Muhammad Tariq Ghulam Mustafa Shaikh Abdul Sattar Lasi CNIC: 42000-0423154-9	Haji Jumma	111,754	21,542	-	133,296	111,754	21,542	-	133,296

Contd

Statement of Written-off Loans or any Other Financial Relief of Five Hundred Thousand Rupees or Above Provided During the Year Ended December 31, 2011

Annexure - I

Rs. In '000

S. No.	Party Name	Address	Name of the individuals/ Partners/Directors (with N.I.C. No.)	Father's / Husband Name	Amount Outstanding				Principal Written-off	Interest / Mark-up Written-off	Other Financial Relief Provided	Total (8+9+10)
					Principal	Interest / Mark-up	Other	Total				
			2	3	4	5	6	7	8	9	10	11
18	Keach Flour Mills	Keach Flour Mills	Shaikh Abdul Settar Lasi CNIC: 42000-0423154-9	Haji Jumma	14,856	3,434	-	18,290	111,754	3,434	-	3,434
19	U.S.Traders	U. S. Traders	Shaikh Abdul Settar Lasi CNIC: 42000-0423154-9	Haji Jumma	295,846	91,648	-	387,494	295,846	91,648	-	387,494
20	Heera Pesticide	Taj Garh Road, Rahimyar Khan	Maj Serfraz Ahmed CNIC: 35201-1421231-9 Khurram Serfraz CNIC: 31303-0647065-9 Javaid Akhtar CNIC: 31303-1711254-3	Serfraz Ahmed, Akbar Ali	3,760	787	-	4,547	-	787	-	787
21	Al - Fejr Establishment	C-14, Hassan Lodge, Block-7, F. B. Area, Karachi C/34, S.I.T.E Area, Super Highway, Karachi	Saeedul-Haq NIC: 518-71-280224 Jamil Akhter NIC: 501-64-231941	Absar-ul-Haq Abdul Aziz Salar Zai	3,161	1,021	-	4,182	-	1,021	-	1,021
22	Mehran Oil	Bahwalpur, Road Multan.	Syed Muhammad Baqir CNIC: 36302-9199737-7	Syed Bakhtiar Abbas.	2,500	1,959	-	4,459	-	1,959	-	1,959
23	Muhammad Saleem	16, Rafiq Lodge, Raja Mansion, Yacoob Khan Road, Karachi	Muhammad Saleem NIC: 512-63-064699	Tahir Muhammad	20,800	6,635	-	27,435	-	3,463	-	3,463
24	Atlas Cables (Pvt) Ltd	9th Floor, Textile Plaza Mumtaz Hassan Road, Karachi	Arshad Javed CNIC: 42201-02553233 Danish Javed CNIC: 42201-02553237 Adeel Javed CNIC: 42201-33853305 AI-Aman Javed CNIC: 42201-04305809	S. Nazir Hussain Arshad Javed Arshad Javed Arshad Javed	263,854	22,740	-	286,594	82,539	22,739	-	105,278
25	Atlas Rubber	9th Floor, Textile Plaza Mumtaz Hassan Road, Karachi	Arshad Javed CNIC: 42201-02553233 Danish Javed CNIC: 42201-02553237 Adeel Javed CNIC: 42201-33853305 AI-Aman Javed CNIC: 42201-04305809	S. Nazir Hussain Mr Arshad Javed Mr Arshad Javed Mr Arshad Javed	22,966	4,153	-	27,119	-	4,154	-	4,154
26	Coral International	6 Floor MM Tower 28 A Block K Gulberg II Lahore	Javed Khan CNIC 35201-1375073-7 Kashmali Khan CNIC 35201-5557139-6 Fatima Khan CNIC 35201-5547734-6	Mehmood Khan	15,000	1,551	-	16,551	-	1,551	-	1,551
27	Al-Noor Flour Mills	Al Noor Flour Mills Sheershah Bypass Near Nagh Shah Chowk Multan	Naveed Hussain CNIC 36202-9033460-9 Muzzamil Hussain CNIC 36302-4902519-1	Ali Hassan	48,897	8,340	-	57,037	-	8,340	-	8,340
28	M . F & Company	Mander Gali No. 1/3, Karkhana Bazar, Faisalabad.	Muhammad Faisal Maqsood CNIC 33100-9381674-9	Maqsood Alam	34,999	8,242	-	43,241	-	4,698	-	4,698
29	Mustafa Kamal Kazi	168-ii, Street 24, Phase VIII, DHA, Karachi	Mustafa Kamal Kazi CNIC 41303-6124982-5	Ahmed Muhammad Kazi	18,650	5,604	-	24,254	-	2,557	-	2,557
30	Farhan Munir & Co	Mian House, 198/RB, Near Getwala Bridge, Sheikhupura Road, Faisalabad.	Muhammed Munir CNIC: 33100-7888686-7 Janilia Bibi CNIC 33100-3463189-8 Shamim Akhtar CNIC 33100-1147658-4	Mahmood Ali Mahmood Ali Ghias-ud-Din	24,996	4,010	-	29,006	-	4,010	-	4,010
31	Saeed ul Hassan	10/7 Al Karem, Faiz Road, Old Muslim Town Lahore	Saeed ul Hassan CNIC 35200-1456776-5	Sheikh Ghulam Muhammad	29,995	7,778	-	37,773	-	7,778	-	7,778
32	Muhammad Ali Saqi	H # 2 Block-H Bazar Area Malir Cantt Karachi	Muhammad Ali Saqi CNIC: 35200-6520888-7	Muhammad Mahi	800	106	-	906	800	106	-	906
33	Rana Shauket Ali Khan	33-C Pirwadhai Road Gulshan Iqbal Colony Rawalpindi	Rana Shauket Ali Khan CNIC: 37405-0344285-3	Khaill Ahmed Khan	825	111	-	936	825	111	-	936

1,974,748 383,020 - 2,357,768 711,928 384,863 - 1,098,891





Achievements & Corporate Social Responsibility

For the year ended December 31, 2011
Silkbank Limited

Achievements 2011

Business Growth

- Overall deposit has grown from Rs. 55.7 billion year end 2010 to Rs. 64.1 billion year end 2011
- CASA growth, since takeover, by 8% making it to be 49% of total deposits
- Reduced cost of deposits by 30 bps (8.33% - 2011; 8.63 - 2010)
- Business Value Account (Current Account), first in the industry to offer free Business Inventory Insurance Coverage, was launched in October 2010 and has managed to build a portfolio of over Rs. 700 million till December 31, 2011.
- All-in-One, a current account for individuals with Insurance benefits stands at over Rs. 1.6 billion as of December 31, 2011 with growth of Rs. 0.24 billion

Corporate and Investment Banking

- Corporate Banking continued to exceed budget of 123% YTD
- Trade and Gtee business reached YTD of Rs. 18.94 billion
- IBG successfully raised Rs. 1.2 billion through PPTFCs and a Syndicated Financing Facility for Pak Libya Holding Company and Pak Elektron Limited
- An Arrangement Fee of Rs. 51.79 million booked during 2011 against a target of Rs. 31.5 million

Business Development

- Silkbank successfully deployed Inter-Bank Funds Transfer and Utility Bills Payment Service for its customers at all Silkbank ATMs through 1Link
- Silk Fauree Transfer offers remittance services through which funds can be sent from any Silkbank Partner Exchange Company outside Pakistan, absolutely free. In addition, Silkbank now facilitates inward remittances through Western Union.
- Visa Debit Card: Quarterly Point of Sales (POS) performance shows a significant increase in utilization of the Debit Card at POS outlets and spend volume increased by more than 100% from December 2010 to December 2011 (increased from 56,752 transactions and Rs.149.5 million volume in 2010 to 112,371 transactions and Rs. 320 million volume in 2011).

Bancassurance

- Signed an agency agreement with Dawood Family Takaful for distribution of their savings and education plans through the branch banking network
- Signed an agency agreement with AsiaCare Health and Life Insurance for distribution of health insurance plans through the branch banking network
- The overall bancassurance revenue recorded was over Rs. 65 million in 2011

Achievements 2011

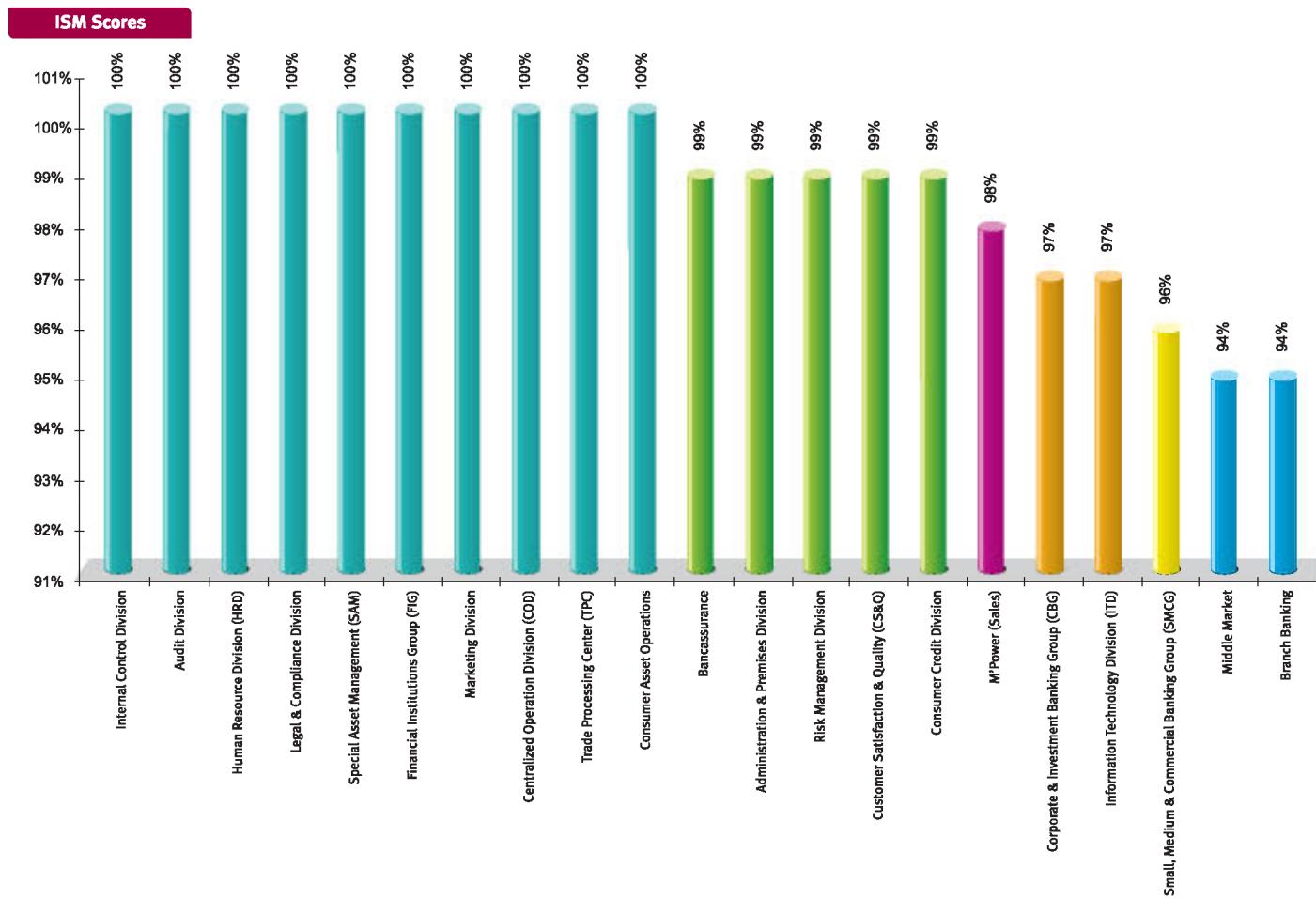
Product Introductions

- Munafa Rozana: A unique savings account launched this year offering payout of cash profit, daily. This account has built a portfolio of over Rs.1.1 billion till December 31, 2011
- Ready Line: A running finance facility launched in July 2011 has booked a volume of Rs. 274 million and utilization of Rs. 95 million
- Salary Premium Account: As of December 2011, twelve organizations have transferred their payroll to the Salary Premium Account

Customer Service Quality

Service Quality

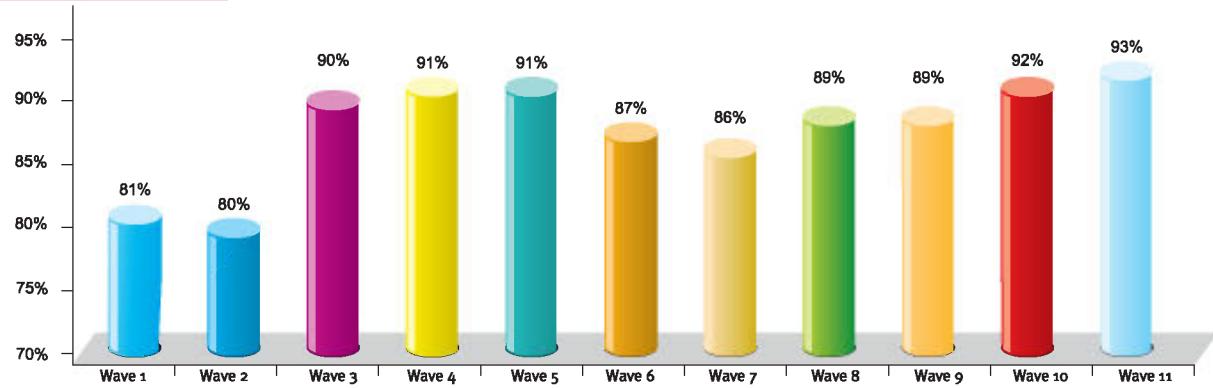
- Overall the Bank has achieved an "Outstanding" rating by scoring 94% in the Internal Service Measures (ISM) Program. A total of 21 segments were monitored through 174 ISMs



Achievements 2011

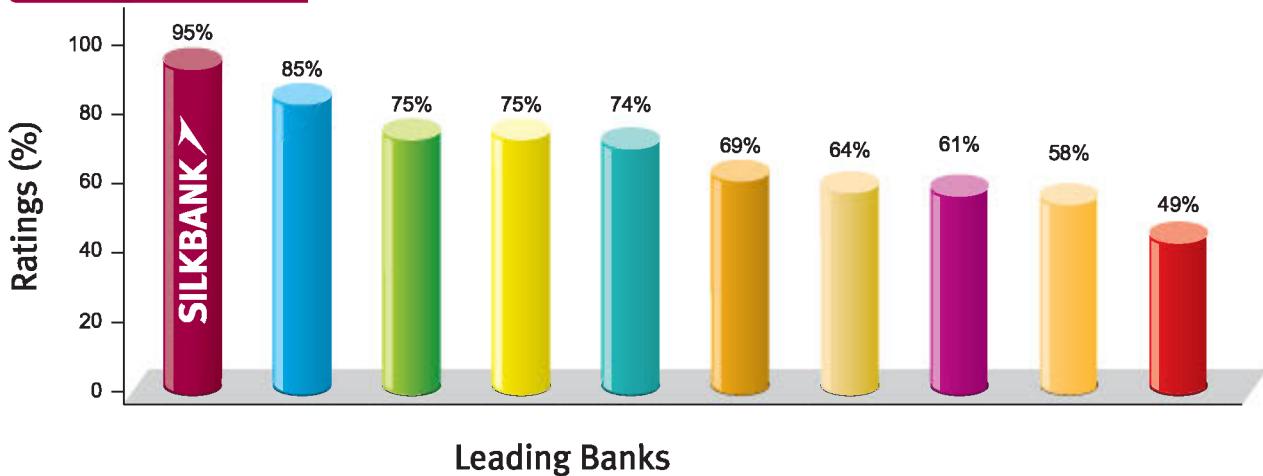
- During the year Silkbank excelled in Mystery Shopping Program by Branch Banking ending the year with 93% and Middle Market with 95%

Mystery Shopping Program



- In 2011, an independent exercise of Competition Mystery Shopping was carried out by 3rd party vendor, in which Silkbank has scored the highest amongst ten leading banks from Karachi, Lahore and Islamabad. Silkbank achieved an outstanding rating with a score of 95%

Competition Mystery Shopping



Achievements 2011

Risk Management

SAM

- NPL Reduction of Rs. 3.398 billion
- Provision Reversal of Rs. 1.829 billion

Internal Control

- During the year 2011, a total of 277 internal control validation reviews were conducted for Branch Banking and other Centralized Operations (Credit Admin, Trade Services, Consumer Operations and Centralized Operations (including UMU / ASD / CPC / TDR and Loans Units))
- Daily basis proactive ATM claim settlement, replenishment and reconciliation monitoring including PRI / Switch / Visa transaction reconciliation and settlement
- Daily comprehensive Treasury Middle Market Risk Review Report with 'Beta-B' analysis circulated to members MRPC, also developed Market Risk Policy in 2011

Consumer Credit

- Finalization of Revolving Credit Product Program
- FRMU Vigilance: A potential saving of Rs. 6.2 million against VISA Debit Card and Rs. 64.5 million in Consumer Assets by Fraud Vigilance Staff
- In-house development of Front-end Fraud Detection System for online Visa Debit Cards transaction reviewing - under testing phase
- Successful implementation of Cards' UAT - CardPro and CAMS and Revolving Credit System implementation

Risk Management

- Revision of Credit Policy Manual and carrying out certain amendments after approval from the Risk Committee of the Board
- Regular updation / revision of Risk Acceptance Criteria for all business units
- Realignment of the Credit Administration Department (CAD) to help better monitoring and achieve better controls

Legal and Compliance

- User Acceptance Testing of Currency Transactions Reports (CTR) completed with soft launch of the system
- Business Continuity Plan / Disaster Recovery drill for T-24 Core Banking System successfully conducted involving segments and selected branches in all provinces
- Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) awareness training provided

Internal Business Processes

Productivity Initiatives

- Trade Services Automation: End-to-end tracking of trade processes between all stakeholders with digital archiving of documents and improved processing turnaround time

Achievements 2011

- Banca Automation: Eliminated the need of inputting data at the Centralized Operations Division; all data input is now performed by the insurance partner. Enhanced customer experience through immediate information on the application status by the Call Center and branches
- On the utilities side, the focus was on reduction of both existing electricity charges through waste elimination as well as reduction in diesel expenditure. Extended Power Supply (EPS) units were put in place to replace UPS based power, which provided an economical interim solution to diesel generators driven electricity supply. This initiative is expected to provide a relief of 35-40% on diesel expenditure
- Head count for 2011 was kept almost flat barring the Islamic banking initiative through process re-engineering, review through time and motion studies and centralization of inter-related operational activities to eliminate duplication of costs

Premises Management

- Space audits and analysis of rental premises conducted to evaluate relocation of offices to owned premises

People Management

Employee Loyalty and Retention

- In fulfilling its aim to the Employer of Choice, an Employee Engagement Survey took place in June 2011 to gauge employee commitment, satisfaction and alignment levels, and specifically determine satisfaction with management, leadership and work culture. An action plan within each segment was devised to alleviate any gaps and a review of these action plans will start during QTR 1 of 2012.
- Group Health Insurance introduced for sales and non-clerical staff. This is a major step towards enhancing employee loyalty resulting in employee retention.

Learning and Development

- During 2011, more than 39,000 hours of learning events were conducted including 234 off-site training sessions attended by more than 3,600 participants covering banking operations, sales and service excellence, systems related trainings, customer due diligence: KYC/AML, and wide range of topics related to soft skills and managerial courses
- Initiated Branch Master Classes (BMC) across 85 branches in which BMs / BOMs conducted weekly Master Classes with their respective teams on the topics and dates circulated by the HRD

HR Cost Savings

- New formula for service charges for hiring outsourced staff has resulted in an annual saving of Rs. 12 million

Technology and Innovation

- Launch technology enabling services for Pakistan Remittance Initiative, Inter-Bank Funds Transfer, Utility Bill Payment, Mobile Bill Payment and Mobile Top-ups
- Implemented top of the line hardware and software infrastructure to launch its chip based credit cards in 2012
- In order to further strengthen and streamline its internal processes and functions the Bank has implemented various systems such as the in-house developed Anti Money Laundering system, Oracle Financials and Document and Content Management System
- Implemented Automated Account Profitability Report (APR) for Corporate and SME customers
- Customer Call Management System developed for automated tracking of sales visits for deepening customer relationships & repeat sales and system generated MIS & performance reports

Corporate Social Responsibility

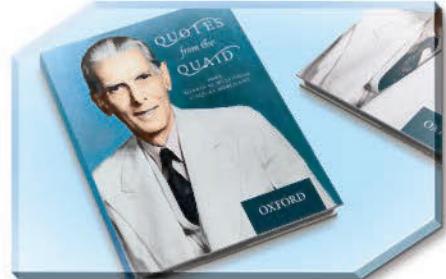
BANKING RESPONSIBLY: At Silkbank, we are committed to growing our business in a way that is profitable and sustainable for our employees, our communities and the planet in which we operate. We provide support to a wide array of charities across the nation. This year, we have supported causes nurturing education and health, preserving the environment and wildlife and remembering our culture and history. We have also endorsed corporate volunteering through employee blood donation drives, developing systems and processes gearing towards a paperless environment and energy conservation by taking personal initiatives within each department to eliminate wastage. We take pride in being a bank that works towards leading the nation and people towards progress.



Contributed two primary health, mother and child healthcare centers to CHAEF



Supported Fatimid Foundation by setting up blood donation camps at Silkbank



Supported 'Quotes from the Quaid' a book launched to celebrate Pakistan's 60th anniversary



Supported the Ghalib Memorial Trust in holding a conference on Ghalib studies



Provided support to HOPE (Health Oriented Preventive Education) in fulfilling their humanitarian causes



Provided support to Family Educational Services



Supported initiatives to help save wildlife



Supported initiatives to help save the environment

Additional Shareholders' Information as at December 31, 2011

NO.	CATEGORIES/SUB-CATEGORIES OF SHAREHOLDERS	NUMBER OF SHARES HELD	CATEGORY WISE NO. OF FOLIOS/ CDC ACCOUNTS	CATEGORY WISE SHARES HELD	PERCENTAGE
01	INDIVIDUALS		7,301	244,639,550	9.16
02	INVESTMENT COMPANIES		4	83,224,726	3.12
03	JOINT STOCK COMPANIES		92	101,253,841	3.79
04	DIRECTORS, CHEF EXECUTIVE OFFICER AND THEIR SPOUSE AND MINOR CHILDREN		9	123,044,032	4.61
	Munawar Hamid, OBE	3,699			
	Humayun Bashir	3,699			
	Javed Hamid	500			
	Sadeq Sayeed	102,817,019			
	Tariq Iqbal Khan	5,000			
	Burhanuddin Khan	500			
	Mohammad Ahmed Mannan	500			
	Azmat Tarin	20,013,115			
	Farha Naz Tarin w/o Mr. Azmat Tarin	200,000			
05	EXECUTIVES		39	21,129,752	0.79
06	NIT / ICP		3	24,370,574	0.91
	NATIONAL BANK OF PAKISTAN-TRUSTEE DEPARTMENT NI(U)T FUND	24,019,591			
	INDUSTRIAL DEVELOPMENT BANK OF PAKISTAN	2,666			
	NATIONAL INVESTMENT TRUST LIMITED	348,317			
07	ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES		4	2,032,452,344	76.08
	INTERNATIONAL FINANCE CORPORATION	702,689,067			
	SHAUkat Fayaz AHMED TARIN	657,309,966			
	NOMURA EUROPEAN INVESTMENT LIMITED	356,676,342			
	BANK MUSCAT S.A.O.G	315,776,969			
08	PUBLIC SECTOR COMPANIES AND CORPORATIONS		0	0	0.00
09	BANKS, DFIs, NBFIs, INSURANCE COMPANIES MODARABAS AND MUTUAL FUNDS		15	11,110,804	0.42
10	FOREIGN INVESTORS		13	30,316,991	1.13
11	CO-OPERATIVE SOCIETIES		2	35,000	0.00
12	CHARITABLE TRUSTS		1	1,213	0.00
13	OTHERS		1	26,000	0.00
	TOTAL	7,484		2,671,604,827	100.00
	SHAREHOLDERS HOLDING 10% OR MORE VOTING INTEREST				
	TOTAL PAID-UP CAPITAL OF THE COMPANY	2,671,604,827 shares			
	10% OF THE PAID-UP CAPITAL OF THE COMPANY	267,160,483 shares			

NAME(S) OF SHAREHOLDER(S)	NO. OF SHARES HELD	PERCENTAGE
		HELD
INTERNATIONAL FINANCE CORPORATION	702,689,067	26.30
SHAUkat Fayaz AHMED TARIN	657,309,966	24.60
NOMURA EUROPEAN INVESTMENT LIMITED	356,676,342	13.35
BANK MUSCAT S.A.O.G.	315,776,969	11.82

Pattern of Share Holdings

CDC and Physical as on 31/12/2011

NUMBER OF SHARE HOLDERS	SHARE HOLDING		TOTAL SHARES HELD	NUMBER OF SHARE HOLDERS	SHARE HOLDING		TOTAL SHARES HELD		
	HOLDING	SHARES HELD			HOLDING	SHARES HELD			
404	1	-	100	15,042	22	145,001	-	150,000	3,282,091
661	101	-	500	254,237	2	150,001	-	155,000	301,246
809	501	-	1,000	742,141	4	155,001	-	160,000	627,864
2,222	1,001	-	5,000	6,992,601	3	160,001	-	165,000	490,142
1,084	5,001	-	10,000	9,029,038	3	165,001	-	170,000	502,930
373	10,001	-	15,000	4,852,223	8	170,001	-	175,000	1,389,407
330	15,001	-	20,000	6,180,055	2	175,001	-	180,000	352,625
252	20,001	-	25,000	5,918,443	5	180,001	-	185,000	918,300
135	25,001	-	30,000	3,851,051	4	185,001	-	190,000	753,646
85	30,001	-	35,000	2,834,401	1	190,001	-	195,000	191,000
99	35,001	-	40,000	3,813,134	31	195,001	-	200,000	6,197,151
74	40,001	-	45,000	3,172,832	7	200,001	-	205,000	1,417,857
149	45,001	-	50,000	7,393,518	4	205,001	-	210,000	822,003
39	50,001	-	55,000	2,078,217	3	210,001	-	215,000	638,874
47	55,001	-	60,000	2,760,920	1	215,001	-	220,000	220,000
35	60,001	-	65,000	2,205,761	7	220,001	-	225,000	1,564,972
32	65,001	-	70,000	2,195,920	2	225,001	-	230,000	456,077
31	70,001	-	75,000	2,295,623	2	240,001	-	245,000	485,024
28	75,001	-	80,000	2,195,685	11	245,001	-	250,000	2,747,500
18	80,001	-	85,000	1,489,130	3	250,001	-	255,000	758,300
16	85,001	-	90,000	1,423,854	4	255,001	-	260,000	1,035,618
12	90,001	-	95,000	1,116,856	1	265,001	-	270,000	267,100
111	95,001	-	100,000	11,073,707	3	270,001	-	275,000	824,664
26	100,001	-	105,000	2,662,816	5	275,001	-	280,000	1,383,342
13	105,001	-	110,000	1,419,420	1	285,001	-	290,000	286,459
8	110,001	-	115,000	898,270	17	295,001	-	300,000	5,088,434
10	115,001	-	120,000	1,186,244	3	300,001	-	305,000	912,709
9	120,001	-	125,000	1,116,901	3	310,001	-	315,000	943,886
10	125,001	-	130,000	1,291,514	1	320,001	-	325,000	325,000
10	130,001	-	135,000	1,338,600	3	325,001	-	330,000	983,210
10	135,001	-	140,000	1,384,636	1	330,001	-	335,000	332,200
7	140,001	-	145,000	1,000,502	1	335,001	-	340,000	338,000

Pattern of Share Holdings CDC and Physical as on 31/12/2011

NUMBER OF SHARE HOLDERS		SHARE HOLDING		TOTAL SHARES HELD	NUMBER OF SHARE HOLDERS		SHARE HOLDING		TOTAL SHARES HELD
3	345,001	-	350,000	1,048,317	2	635,001	-	640,000	1,280,000
1	350,001	-	355,000	353,198	1	650,001	-	655,000	653,823
1	355,001	-	360,000	360,000	1	655,001	-	660,000	660,000
1	365,001	-	370,000	365,042	1	670,001	-	675,000	671,308
1	370,001	-	375,000	375,000	1	685,001	-	690,000	685,061
3	375,001	-	380,000	1,126,965	2	695,001	-	700,000	1,398,003
2	385,001	-	390,000	776,309	1	700,001	-	705,000	702,500
1	390,001	-	395,000	393,000	2	730,001	-	735,000	1,464,506
8	395,001	-	400,000	3,200,000	1	740,001	-	745,000	740,325
3	400,001	-	405,000	1,202,572	4	745,001	-	750,000	2,998,841
1	405,001	-	410,000	406,892	2	785,001	-	790,000	1,576,890
2	410,001	-	415,000	822,002	1	790,001	-	795,000	795,000
1	420,001	-	425,000	423,300	5	795,001	-	800,000	3,997,754
2	445,001	-	450,000	900,000	1	810,001	-	815,000	810,616
1	450,001	-	455,000	454,059	1	825,001	-	830,000	825,006
2	460,001	-	465,000	925,082	1	850,001	-	855,000	851,000
1	465,001	-	470,000	470,000	1	860,001	-	865,000	861,781
1	470,001	-	475,000	475,000	1	885,001	-	890,000	890,000
2	475,001	-	480,000	960,000	2	895,001	-	900,000	1,800,000
1	490,001	-	495,000	494,460	1	915,001	-	920,000	916,909
10	495,001	-	500,000	5,000,000	1	965,001	-	970,000	970,000
1	500,001	-	505,000	502,792	5	995,001	-	1,000,000	5,000,000
1	510,001	-	515,000	511,381	1	1,000,001	-	1,005,000	1,001,500
1	515,001	-	520,000	516,441	1	1,015,001	-	1,020,000	1,020,000
3	545,001	-	550,000	1,647,000	1	1,020,001	-	1,025,000	1,025,000
2	550,001	-	555,000	1,103,333	1	1,075,001	-	1,080,000	1,076,041
1	565,001	-	570,000	570,000	2	1,100,001	-	1,105,000	2,203,480
1	570,001	-	575,000	571,941	1	1,190,001	-	1,195,000	1,194,657
5	595,001	-	600,000	2,995,233	1	1,195,001	-	1,200,000	1,200,000
1	600,001	-	605,000	601,833	1	1,215,001	-	1,220,000	1,216,932
3	615,001	-	620,000	1,853,903	1	1,245,001	-	1,250,000	1,249,974
1	625,001	-	630,000	627,000	1	1,295,001	-	1,300,000	1,300,000

Pattern of Share Holdings

CDC and Physical as on 31/12/2011

NUMBER OF SHARE HOLDERS	SHARE		TOTAL	NUMBER OF SHARE HOLDERS	SHARE		TOTAL	
	HOLDING	SHARES HELD		HOLDING	SHARES HELD			
1	1,320,001	-	1,325,000	1,324,943	1	4,085,001	-	4,090,000
1	1,400,001	-	1,405,000	1,404,292	1	4,295,001	-	4,300,000
1	1,435,001	-	1,440,000	1,439,000	1	6,195,001	-	6,200,000
1	1,445,001	-	1,450,000	1,450,000	1	6,495,001	-	6,500,000
3	1,495,001	-	1,500,000	4,500,000	1	6,835,001	-	6,840,000
1	1,515,001	-	1,520,000	1,516,727	1	7,395,001	-	7,400,000
1	1,545,001	-	1,550,000	1,550,000	1	9,995,001	-	10,000,000
1	1,550,001	-	1,555,000	1,552,921	1	13,170,001	-	13,175,000
1	1,610,001	-	1,615,000	1,611,559	1	16,465,001	-	16,470,000
1	1,645,001	-	1,650,000	1,650,000	1	19,215,001	-	19,220,000
1	1,670,001	-	1,675,000	1,671,781	1	24,015,001	-	24,020,000
1	1,695,001	-	1,700,000	1,700,000	1	36,225,001	-	36,230,000
1	1,745,001	-	1,750,000	1,747,116	1	40,440,001	-	40,445,000
1	1,810,001	-	1,815,000	1,810,788	1	40,600,001	-	40,605,000
1	1,840,001	-	1,845,000	1,844,860	1	53,020,001	-	53,025,000
1	1,895,001	-	1,900,000	1,896,156	1	70,970,001	-	70,975,000
1	1,950,001	-	1,955,000	1,953,819	1	86,345,001	-	86,350,000
1	2,070,001	-	2,075,000	2,074,043	1	252,060,001	-	252,065,000
1	2,145,001	-	2,150,000	2,150,000	1	315,775,001	-	315,780,000
1	2,175,001	-	2,180,000	2,180,000	1	315,995,001	-	316,000,000
1	2,285,001	-	2,290,000	2,287,756	1	356,675,001	-	356,680,000
1	2,370,001	-	2,375,000	2,374,752	1	702,685,001	-	702,690,000
1	2,650,001	-	2,655,000	2,653,000				
1	2,990,001	-	2,995,000	2,991,000	7,490			2,671,604,827
1	3,045,001	-	3,050,000	3,046,181				
1	3,105,001	-	3,110,000	3,108,500				
1	3,135,001	-	3,140,000	3,139,482				
1	3,245,001	-	3,250,000	3,250,000				
1	3,310,001	-	3,315,000	3,314,733				
1	3,580,001	-	3,585,000	3,583,209				
1	3,715,001	-	3,720,000	3,717,343				
1	3,995,001	-	4,000,000	4,000,000				

Branch Network



(1) Middle Market Regions

Farooq Nasir
Head Middle Market
Silkbank House,
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Fax: (042) 36316367

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Operations Manager
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73, Circular Road, Lahore
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Fax: (042) 37673831

Iqbal Musarat Siddiqui
Manager
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66, Grain Market Badami Bagh, Lahore
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Fax: (042) 37731355

Muhammad Farooq Abdulla
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Jodia Bazar, Karachi
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Faisal Shwan
Manager
Cloth Market Branch, Karachi
Khanwala Building,
Fakhre Matl Branch, Cloth
Market, Khanadar,
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(2) Karachi Region A

Omer Bin Javaid
Regional General Manager
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Zamzama Clifton, Karachi
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Majid Khan
Area Manager
Clifton Branch
Show Room No. 1, Plot No. D-69,
Block-7, Clifton, Karachi
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Main Khayaban-e-Itehad,
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Mehwish Ahmed
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91-E, 9th Commercial Street,
DHA, Phase-IV, Karachi
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(3) Karachi Region B

Mirza Muhammad Aslam Balg
Regional General Manager
Shop No. 1, 2, 3 & 4, Plot No. 151-A,
Khalid Bin Waleed Road /
Alama Iqbal Road, Block-2,
PECHS, Karachi
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Ext: 207
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Tanveer Hussain Khan
Branch Manager
Hyderabad Branch
F-17, Badri Manzi, Opp. Old
Cafe George, Risala Road,
Hyderabad
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Syed Latafat Hussain Naqvi
Area / Branch Manager
Gulshan-Iqbal, Branch
Block 10/A, Saima Classic,
Main Rashid Minhas Road,
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Mahmood Ahmed
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Behadurabad Branch, Karachi
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Plot No.106, Behadur Yar Jung,
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Block-3, KCHS Union Limited,
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S.I.T.E. Branch, Karachi
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Syed Ahmed Hasnain
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Rashid Munir
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Junaid A. Bashani
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M.A. Jinnah Road Branch, Karachi
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Raziuddin Khan
Branch Manager
Sohrab Goth Branch
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Muhammad Faraz Zahid
Branch Manager
Saddar Branch
Shop No. 1, 283-A, Snow White Center,
Abdullah Haroon Road, Near Hotel
Jabees, Saddar, Karachi
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Fax: (021) 35223050

Branch Network

Mohammad Hassan Riaz Branch Manager Adamjee Nagar Branch Plot No. 419/F, Sana Complex, C.P. Berar Society, Ameer Khosroo Road, Karachi Tel: (021) 34302501, 34302500-02 Fax: (021) 34302503	Ahmed Afzal Uliah Manager Attock Branch B-2, Pleader Lane, Attock City, Tehsil & District, Attock Tel: (057) 2702201, 2613646, 2702202 Fax: (057) 2613486	(5) Lahore East Izhar-ul-Haq Regional General Manager Silkbank House, 14-Egerton Road, Lahore Tel: (042) 36302317 Fax: (042) 36279272	Mahmood A. Sheikh Manager WAPDA Town Branch 11-G, PIA Housing Society, (WAPDA Town Roundabout), Lahore Tel: (042) 35188525, 35188520 Fax: (042) 35188527	Zaheer ud Din Baber Branch Operation Manager L-Block, Gulberg Branch 52-L, Gulberg III, Kalma Chowk, Lahore Tel: (042) 35857131-33, 35857246 Fax: (042) 35857282
Faisal Bin Amer Branch Manager Khalid Bin Waleed Road Branch Shop No. 1, 2, 3 & 4, Plot No. 151-A, Khalid Bin Waleed Road / Allama Iqbal Road, Block-2, PECHS, Karachi Tel: (021) 34306525, 34306521-23 Fax: (021) 34308524	Fakhar Uddin Siddiqui Manager Gujjar Khan Branch Ward No. 5, Main G.T. Road, Gujjar Khan Tel: (0513) 510026, 512866-71 Fax: (0513) 512872	Muhammad Naem Dar Area / Chief Manager Main Branch, Lahore, Silkbank House, 14-Egerton Road, Lahore Tel: (042) 36309055 Fax: (042) 36279272	Najam Faiz Area / Branch Manager Peco Road Branch, Lahore 896-D, Faisalabad Town, Peco Road, Lahore Tel: (042) 35177414 Fax: (042) 35177413	(6) Lahore West Sardar Kamran Nakai Regional General Manager R.G.M. Office, 6-Q Gulberg II, Lahore Mobile: (0333) 4211383 P.A. Box No.: (042) 35751567, 35761088 Fax: (042) 35764076
Syed Fasih Haider Burney Branch Manager F.B. Area Branch Plot No. C-31/A, Ground Floor, Block-6, F.B. Area, KDA Scheme 16, Karachi Tel: (021) 36342995, 36342901-02 Fax: (021) 36342904	Waseem Ul Haq Manager (Acting) Chaklala Branch Plot No. 48, Commercial Area, Chaklala Scheme-III, Rawalpindi Tel: (051) 57661547, 5766151-52 Fax: (051) 5766150	Raja Qamar Uz Zaman Manager Dina Branch Chaudhry Street, Mangla Road, Dina Tel: (0544) 635011, 635013-16 Fax: (0544) 636987	Ramiz H. Farooqui Manager Allama Iqbal Town Branch, Lahore 8-Hunza Block, Allama Iqbal Town, Lahore Tel: (042) 35433094, 35433680-81 Fax: (042) 35433682	Nawazish Ali Hashmi Branch Manager Gujranwala Branch B-13/7-147, Shaukat Centre, G.T. Road, Gujranwala Tel: (055) 3250214, 3731269, 3856268-70 Fax: (055) 3656271
(4) Islamabad Region	Mohammad Talal Akbar Khan Bangash Manager Wah Cantt. Branch Plot No. 1, A/37, Civic Centre, Aslam Market, Wah Cantt. Tel: (051) 4546306, 4546300, 4546303 Fax: (051) 4546302	Uaman Kardar Manager Thokar Niazi Balig Branch, Lahore 7-B, Judicial Colony, Rawalpindi Thokar Niazi Balig, Lahore Tel: (042) 35314045-46, 35314049 Fax: (042) 35314048	Muhammad Ahmed Khan Malik Area / Branch Manager Shahdman Town, Lahore 119-A, Colony No. 1, Shahdman Town, Lahore Tel: (042) 37578442, 37578397 Fax: (042) 37576559	Tahir Jamil Qureshi Branch Manager Sialkot Branch 70, Paris Road, Sialkot Tel: (052) 4268778, 4597489, 4597491 Fax: (052) 4589002
Imran Aslam Regional General Manager 13-L, F-7 Markaz, Islamabad Tel: (051) 2608025, 2608028 Fax: (051) 2608027	Prince Salman Ali Khan Manager F-7 Markaz Branch Building No.13-L, F-7 Markaz, Islamabad Tel: (051) 2808118, 2608075, 2608077-79 Fax: (051) 2653987	Muhammad Ghurfran Area / Branch Manager Kotwalli Road Branch, Faisalabad Kotwalli Road, Faisalabad Tel: (041) 2619973, 2643804 Fax: (041) 2619984	Anjum Rafiq Manager Madina Town Branch, Faisalabad 6C-Z-101, Susan Road, Madina Town, Faisalabad Tel: (041) 8503411-13, 8503414 Fax: (041) 8503416	Irfan Azam Zafar Area / Branch Manager Gulberg Branch, Lahore Gulberg Branch, 97-A/D-I, P.E.C Building, Liberty Roundabout, Gulberg III, Lahore Tel: (042) 35878010-11, 35878351 Fax: (042) 35878012
Muhammad Farooq Sarwar Manager Islamabad Main Branch 93-Riazia Sharif Plaza, Blue Area, Islamabad Tel: (051) 2278101, 2802081-63, 2272921-23 Fax: (051) 282935	Sonia Usman Manager F-8 Markaz Branch Plot No. 16-C, Kaghan Road, Islamabad Tel: (051) 2287450, 2287455-57 Fax: (051) 2287454	Maryam Rashid Manager E-11 Markaz Branch Plot No. 3, E-11/3 Markaz, Islamabad Tel: (051) 2228750, 2228746-48 Fax: (051) 2228749	Muhammad Azam Saroya Manager Sheikhupura Branch Shair Plaza, Main Lahore, Sargodha Road, Sheikhupura Tel: (056) 3813529, 3812665 Fax: (056) 3810595	Taifur Hameed Area / Branch Manager Garden Town, Lahore Flat 1-4, Usman Block, New Garden Town, Lahore Tel: (042) 35940306-09, 35940300 Fax: (042) 35940301
Waqar Ul Hassan Manager Operations Rawalpindi Main Branch Aslam Plaza, Saddar, 80 Main Adamjee Road, Rawalpindi Cantt. Tel: (051) 5794165, 5512104-06 Fax: (051) 5524560	Muhammad Faisal Branch Operations Manager Dadayal Branch Plot No. 315, Rajput Plaza, Main Rawalpindi Road, Opp. Old Tehsil, Headquarter Hospital, Dadayal (AJK) Tel: (05827) 485741, 485738-38 Fax: (05827) 465739	Saeed Ahmed Khan Niazi Manager Sargodha Branch Khayam Chowk, Gulberg Park, Sargodha Tel: (048) 3768101, 3768102 Fax: (048) 3768103	Muhammad Nadeem Faisal Area / Branch Manager Defence Branch, Lahore 32D-Z Block, Commercial Area, Phase-III, Lahore Tel: (042) 35693080, 35692930-33 Fax: (042) 35693010	Rouf Jamal Area Manager Multan Branch 10-A, Bosan Road, Gulgasht, Multan Tel: (081) 6750251, 48750255, 6750256 Fax: (061) 6750253
Asad Sajid Area Manager / Branch Manager Peshawar Main Branch Lamsy Arcade, 1-C Fakhar-e-Alam Road, Peshawar Cent. Tel: (091) 5276290, 5278122, 5276938 Fax: (091) 5276414	Maryam Rashid Manager F-8 Markaz Branch Plot No. 16-C, Kaghan Road, Islamabad Tel: (051) 2287450, 2287455-57 Fax: (051) 2287454	Muhammad Faisal Branch Operations Manager Dadayal Branch Plot No. 315, Rajput Plaza, Main Rawalpindi Road, Opp. Old Tehsil, Headquarter Hospital, Dadayal (AJK) Tel: (05827) 485741, 485738-38 Fax: (05827) 465739	Saeed Ahmed Khan Niazi Manager Sargodha Branch Khayam Chowk, Gulberg Park, Sargodha Tel: (048) 3768101, 3768102 Fax: (048) 3768103	Tahir Mahmood Manager (Acting) Dera Ghazi Khan Branch Hotel Shamil, Faridi Bazar, Dera Ghazi Khan Tel: (064) 2466682, 2466883 Fax: (084) 2466883
Ishtiaq Ahmed Qazi Manager Mirpur (Azad Kashmir) Branch 82-D, Allama Iqbal Road, Sector B-4, Mirpur (Azad Kashmir) Tel: (05827) 446415, 446414, 446559 Fax: (05827) 445145	Farrukh Kiani Manager Jhelum Branch Plot No. 8, Paswal Plaza, G.T.S. Square, Jhelum City, Jhelum Tel: (0544) 624971, 623973-75 Fax: (0544) 623976	Kibrin Sana Manager Westridge Branch Plot No. 488-491, Westridge Bazar Road, Westridge-1, Rawalpindi Tel: (051) 5491544, 5491540-42 Fax: (051) 5491543	M. Asad Ali Shaikh Manager Johar Town Branch Plot No. 15, Block-M, M.A. Johar Town, Lahore Tel: (042) 35314895, 35314890-92 Fax: (042) 35314893	Muhammad Ikramullah Manager Sahiwal Branch Khasra No. 4998, Khawet No. 07, Kharooni No. 07, Jail Road, Civil Lines, Sahiwal Tel: (040) 4224182, 4224184 Fax: (040) 4228915
Abdul Haseeb Jan Manager Khyber Bazaar Branch, Peshawar Haji Khan Building, Sulkano Square, Khyber Bazaar, Peshawar Tel: (091) 9213883, 2252832 Fax: (091) 252481	Aqeel Mirza Manager Shahalam Market Branch 15-B, Shahalam Market, Lahore Tel: (042) 37378188, 37378780-82 Fax: (042) 37376183	Sejjad A. Malik Manager Rawalpindi Branch Railway Road, Adjacent Red Chilli Restaurant, Rawalpindi Tel: (042) 35393815, 35393811-13 Fax: (042) 35393814	M. Taqi Raza Branch Manager Model Town Branch 16, Bank Square Market, Model Town, Lahore Tel: (042) 35915580-81, 35915587 Fax: (042) 35815583	Adil Jatoi Manager Sukkur Branch Husaini Road, Sukkur Tel: (071) 5619141-43 Fax: (071) 5619151
Khuram Hanif Area Manager / Branch Manager I-8 Markaz Branch, Islamabad Plot No. 6, Larab Plaza, Sector I-8, Markaz, Islamabad Tel: (051) 4861302, 4102163, 4861303-04 Fax: (051) 4861300	Farrukh Kiani Manager Jhelum Branch Plot No. 8, Paswal Plaza, G.T.S. Square, Jhelum City, Jhelum Tel: (0544) 624971, 623973-75 Fax: (0544) 623976	Kibrin Sana Manager Westridge Branch Plot No. 488-491, Westridge Bazar Road, Westridge-1, Rawalpindi Tel: (051) 5491544, 5491540-42 Fax: (051) 5491543	Asif Saeed Branch Operation Manager Mandi Bahauddin Branch Qeder Trade Centre, Ghalleh Mandi, Mandi Bahauddin Tel: (054) 6507060, 6507056-58 Fax: (054) 6507059	Mehmood Hussain Manager Rahimyar Khan Branch 26-Shahi Road Branch, Rahimyar Khan Tel: (068) 5884345, 5881302 Fax: (068) 5879408
Sajid Hassan Khan Manager F-11 Markaz Branch Plot No. 25-D, F-11 Markaz, Islamabad Tel: (051) 2102305, 2210586, 2228005-06 Fax: (051) 2210587	Kibrin Sana Manager Westridge Branch Plot No. 488-491, Westridge Bazar Road, Westridge-1, Rawalpindi Tel: (051) 5491544, 5491540-42 Fax: (051) 5491543	Aqeel Mirza Manager Shahalam Market Branch 15-B, Shahalam Market, Lahore Tel: (042) 37378188, 37378780-82 Fax: (042) 37376183	Asif Saeed Branch Operation Manager Mandi Bahauddin Branch Qeder Trade Centre, Ghalleh Mandi, Mandi Bahauddin Tel: (054) 6507060, 6507056-58 Fax: (054) 6507059	Muhammad Arif Irfan Area Manager Larkana Branch Pakistan Chowk, Larkana Tel: (074) 4059489 Fax: (074) 4059599
Arbab Zarak Khan Manager G-9 Markaz Branch, Islamabad 4-B Karachi Company, G-9 Markaz, Islamabad Tel: (051) 2855826, 2855824-25 Fax: (051) 2855827	Asif Siddique Butt Manager (Acting) Bahria Town Branch Plot No. 91, Civic Centre, Bahria Town, Rawalpindi Tel: (051) 5731705, 5731702-03 Fax: (051) 5731704	Syed Hafeez Ur Rahman Banori Manager (Acting) Hazro Branch Plot No. BII-382A, Allah Wala Chowk, Circular Road, Mohallah Abdul, Hazro Tel: (057) 2313298, 2313292-94 Fax: (057) 2313295	Liaquat Ali Manager Pull-111, Sargodha Branch Pull-111, Sargodha, Faisalabad Road, Sargodha Tel: (048) 3791980-82 Fax: (048) 3791983	Raza Ali Area Manager Fortress Stadium Branch Shop No. 3, Silver Star, Fortress Stadium, Lahore Tel: (042) 36823140-42, 36623144 Fax: (042) 36623143
Khalid Latif Manager (Acting) Rawalpindi Satellite Town Branch D-321, Fifth Road, Satellite Town, Rawalpindi Tel: (051) 4850876, 4850877-78 Fax: (051) 4850874				

Foreign Correspondents



Afghanistan

Habib Bank Ltd.

Argentina

Royal Bank of Scotland

Australia

JP Morgan
Westpac Banking Corp

Austria

Royal Bank of Scotland
Raiffeisen Zentralbank Oesterreich
Unicredit Bank Austria

Bahrain

Arab Investment Bank
Al Baraka Islamic Bank
BMO Bank Bsc
Habib Bank Ltd.
United Bank Ltd.
National Bank of Pakistan
Standard Chartered Bank

Bangladesh

Habib Bank Ltd.
Standard Chartered Bank
Bank Al Falah

Belgium

Habib Bank Ltd.
Commerzbank Ag
KBC Bank Nv
Fortis Bank SA./NV
Royal Bank of Scotland

Brazil

JP Morgan

Bulgaria

Citibank
United Bulgarian Bank

Canada

Habib Canadian Bank
Royal Bank of Scotland

China

Standard Chartered Bank
Agricultural Bank of China
Commerzbank Ag
Bank of Jiangsu Co. Ltd.

Royal Bank of Scotland

Bank of China
China Construction Bank
China Ever Bright Bank
Industrial and Comm'l Bank of China
Laihang Bank Co. Ltd.
JP Morgan
Shenzhen Development Bank
Bank of New York Mellon
Wells Fargo Bank
West LB AG

Cyprus

Marfin Popular Bank Public Co.

Czech Republic

Commerzbank Ag
Royal Bank of Scotland
LBBW Bank CZ A.S.

Denmark

Danske Bank A/S
Nordea Bank Denmark A/S

Egypt

Mashreqbank Psc
JP Morgan

Finland

Nordea Bank Finland Plc
Skandinaviska Enskilda Banken

France

Commerzbank
National Bank of Pakistan
UBAF
Habib Bank Ltd.
BNP Paribas SA

Germany

Commerzbank Ag
Danske Bank
Deutsche Bank AG
National Bank of Pakistan
SEB AG
Landesbank Baden-Wurttemberg
Standard Chartered Bank
Suedwestbank AG
Unicredit
JP Morgan

Hungary

K and H Bank Zrt.
Magyarorszagi Volksbank RT
Deutsche Bank Rt.
Calyon Bank
CIB Bank Ltd.
Commerzbank AG

Hong Kong

BNP Paribas Fortis Bank
DBS Bank
Citibank N.A.
Habib Finance Int'l Ltd.
HBZ Finance Ltd.
Intesa Sanpaolo
National Bank of Pakistan
Mashreqbank psc
JP Morgan
Standard Chartered
Royal Bank of Scotland
UBAF
Wells Fargo
West LB AG

India

Standard Chartered
Mashreqbank
Royal Bank of Scotland
Deutsche Bank AG
Oman Int'l Bank SAOG
JP Morgan

Indonesia

Standard Chartered Bank
Royal Bank of Scotland
JP Morgan

Iran

Bank Mellat Iran
Bank Sedarat Iran

Ireland

National Irish Bank

Italy

Commerzbank Ag
Royal Bank of Scotland
Banca Di Roma S.P.A.
Banco Di Napoli S.P.A.
Banco Popolare SOC
Banco Popolare Di Novara S.P.A.
Banco Popolare Di Verona SGSP
Banco Monte Parma
Banca Carige S.P.A.
Banca UBAE
Iccrea Banca
Intesa Sanpaolo
Mizuho Corporate Bank Ltd.
Unicredit Banca S.P.A.
Unicredit Corporate Banking S.P.A.
UBI Banca
Cassa di Risparmio in Bologna

Japan

National Bank of Pakistan
Citibank
Bank of New York
JP Morgan
Mizuho Corporate Bank Ltd.
Sumitomo Mitsui Banking Corp
UBAF
Royal Bank of Scotland
Wells Fargo Bank

Jordan

Standard Chartered Bank

Kazakhstan

BTA Bank JSC

Kenya

Standard Chartered Bank

Kuwait

Gulf Bank K.S.C.
Alahli Bank of Kuwait K.S.C.
National Bank of Kuwait
Citibank N.A.
Mashreqbank

Foreign Correspondents

Korea

Korea Exchange Bank
Korea Development Bank
Kookmin Bank
JP Morgan
National Bank of Pakistan
Standard Chartered First Bank
Shinhan Bank
Suhyup Bank
UBAF
Royal Bank of Scotland
Pusan Bank
Wells Fargo Bank
Woori Bank

Kosovo

Reffleisen Bank

Lebanon

Habib Bank Ltd.

Malaysia

Standard Chartered Bank
Citibank N.A.
Royal Bank of Scotland
JP Morgan

Mauritius

Habib Bank Ltd.
Mauritius Commercial Bank Ltd.

Morocco

Attijariwafa Bank

Mexico

JP Morgan

Nepal

Himalayan Bank Ltd.

Netherlands

Commerzbank
Royal Bank of Scotland
Deutsche Bank AG
Habib Bank Ltd.
Hollandsche Bank Unie NV
BNP Paribas Fortis Nederland NV

Norway

Nordea Bank Norge Asa
DNB Nor Bank ASA

Oman

Habib Bank Ltd.
Oman International Bank
Standard Chartered Bank
Bank Muscat

Poland

Nordea Bank Poliska SA
Royal Bank of Scotland

Philippines

JP Morgan
Mizuho Corporate Bank

Portugal

Banco BPI SA

Qatar

United Bank Limited
Doha Bank
BNP Paribas Fortis

Romania

Piraeus Bank

Russia

Citibank
Commerzbank

Saudi Arabia

JP Morgan
National Commercial Bank
Saudi Hollandi Bank
Bank Muscat
National Bank of Pakistan

Singapore

Royal Bank of Scotland
Bank of America
DBS Bank
Citibank N.A.
BNP Paribas Fortis Bank
Habib Bank Ltd.
JP Morgan
Mizuho Corporate Bank
National Bank of Kuwait
Rabo Bank
Sumitomo Mitsui Banking Corporation Ltd.
Standard Chartered Bank
West LB AG
UBAF

South Africa

Royal Bank of Scotland
Habib Overseas Bank Ltd.
HBZ Bank Ltd.

Malaysia

FirstRand Bank

Spain

Commerzbank
Fortis Bank S.A.
Banco Popular Espanol, S.A.
Bankinter SA
Caja de Ahorres del Mediterraneo
Caja Espana de Inversiones
Caja D'estalvis i Pensions de Barcelona
La Caixa
Banco Sabadell

Sri Lanka

Standard Chartered Bank
Muslim Commercial Bank Ltd.
Habib Bank Ltd.
Hatton National Bank

Sweden

Nordea Bank
Skandinaviska Enskilda Banken
Svenska Handelsbanken
Royal Bank of Scotland
Danske Bank

Switzerland

Banque Cantonale Vaudoise
Habib Bank AG Zurich
BNP Paribas Fortis Bank
Credit Agricole (Suisse) SA
Habibsons Bank
Credit Suisse
Royal Bank of Scotland
United Bank AG Zurich
Citibank N.A.
Banque De Commerce et de Palements (BCP)

Taiwan

Bank of New York
Bank of America
Royal Bank of Scotland
Standard Chartered Bank

Thailand

Bank of Ayudha Public Company Ltd.
Export Import Bank of Thailand
Standard Chartered Bank
Royal Bank of Scotland

Turkey

Citibank N.A.
JP Morgan
Royal Bank of Scotland
Habib Bank Ltd.
Turkiye Vakiflar Bankasi T.A.O.
Turkiye Garanti Bankasi AS
Turk Ekonomi Bankasi AS

U.A.E.

Citibank N.A.
Dubai Islamic Bank
Emirates NBD Bank
Emirates Islamic Bank
Standard Chartered Bank
United Bank Ltd.
Habib Bank Ltd.
Mashreq Bank Psc
Royal Bank of Scotland
National Bank of Fujairah
Habib Bank AG Zurich
Noor Islamic Bank
First Gulf Bank
Abu Dhabi Islamic Bank
JP Morgan

U.K.

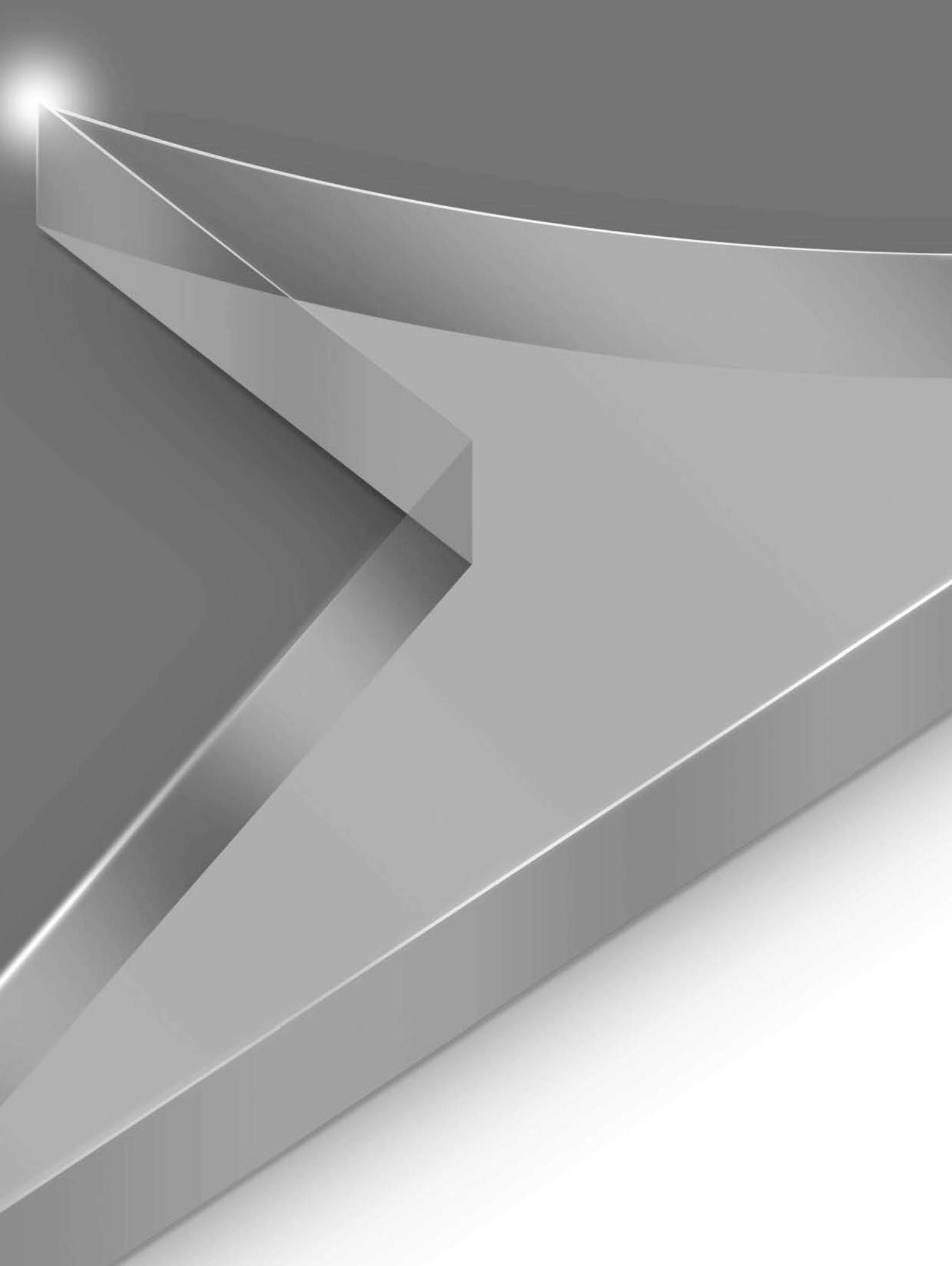
ABC International Bank plc
Bank Luemi
Bank of America
Clydesdale Bank
Deutsche Bank
Habib Bank AG Zurich
Habib Allied plc
Standard Chartered Bank
Commerzbank
Mashreq Bank Psc
Northern Bank
JP Morgan
Merrill Lynch Int'l Bank Ltd.
Nordea Bank Finland
National Westminster Bank
Royal Bank of Scotland
Habibsons Bank
Citibank N.A.
United National Bank

U.S.A.

Royal Bank of Scotland
Bank of America
Bank of New York Mellon
Bank of the West
Citibank N.A.
Commerzbank
Deutsche Bankers Trust Co.
Doha Bank
Habib American Bank
Habib Bank Ltd.
International Finance Corporation
Intesa Sanpaolo S.P.A.
JP Morgan
Mashreqbank psc
Mizuho Corporate Bank Ltd.
M & I Bank
National Bank of Pakistan
Standard Chartered Bank
Sumitomo Mitsui Banking Corporation
TD Bank NA
Union Bank of California
Valley National Bank
US Bank Minneapolis
Union Bank NA
United Bank Ltd.
Wells Fargo NA
Woori Bank

Vietnam

JP Morgan





Form of Proxy
Annual General Meeting

I/We _____

of _____

being a member(s) of **Silkbank Limited** holding _____

ordinary shares hereby appoint _____

of _____ or failing him/her _____

of _____ as my / our proxy in my / our absence to attend and vote for me / us and my / our behalf at Annual

General Meeting of the Bank to be held on March 29, 2012 and / or adjournment thereof.

As witness my / our hand(s) seal this on the _____ day of _____
2012.

Signed by the said _____

In presence of 1. _____

2. _____

Signature on
Revenue Stamp
of Appropriate Value

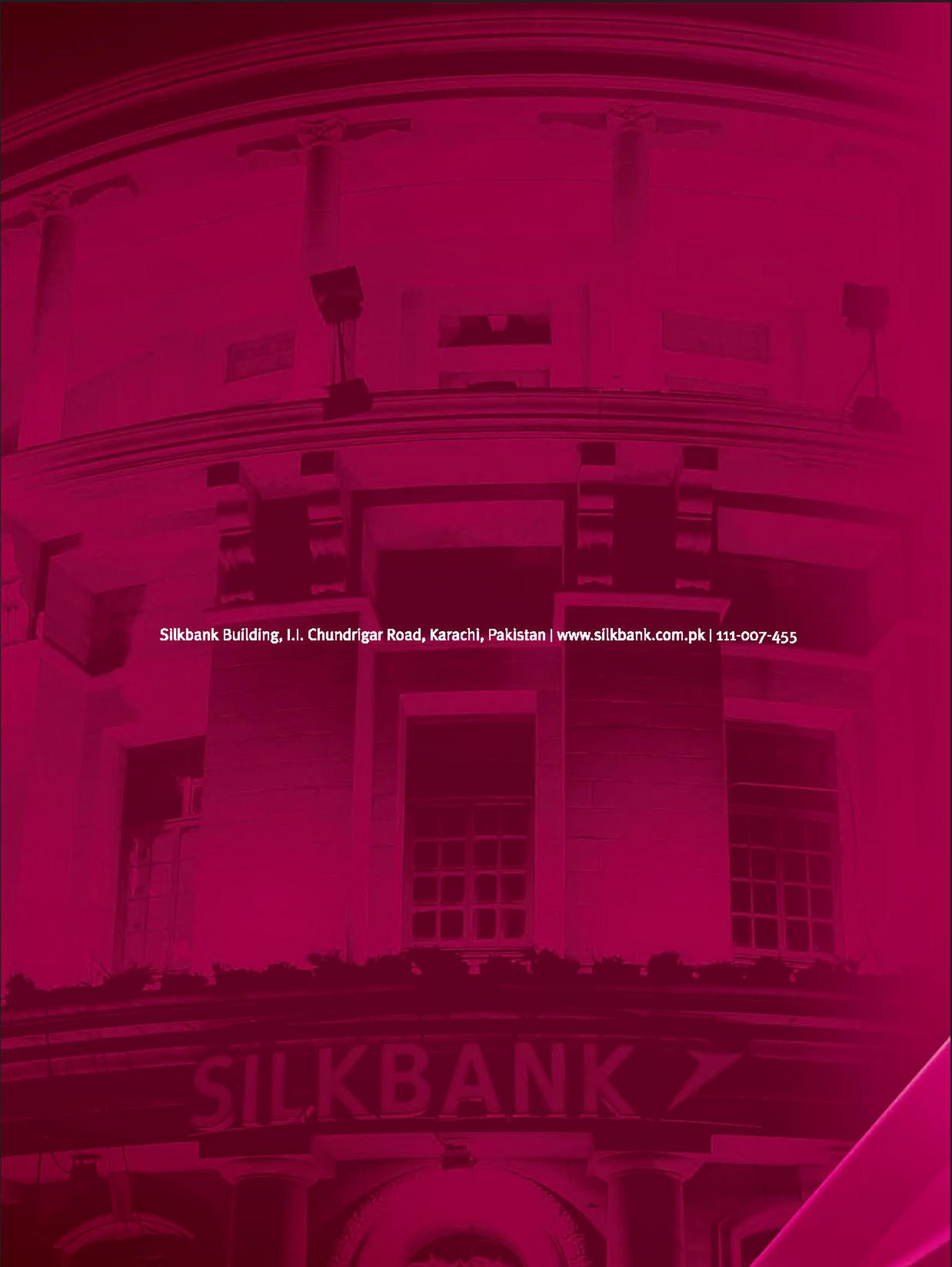
Folio No. CDC Account No.

Important:

1. The Proxy Form, duly completed and signed, must be received at the Company's Shares Registrar Office not less than 48 hours before the time of holding the meeting.
2. No person shall act as proxy unless he / she himself / herself is a member of the Company, except that a corporate entity may appoint any person who is not a member.
3. If a member appoints more than one proxy and more than one instrument of proxy are deposited by a member with the Company, all such instruments of proxy shall be rendered invalid.
4. In case of proxy for an individual CDC shareholder, attested copies of CNIC or the passport, account and participant's ID number of the beneficial owner along with the proxy is required to be furnished with the Proxy Form.
5. In case of corporate entity, the Board of Directors' resolution / power of attorney with the specimen signature shall be submitted (unless it has been provided earlier) along with the Proxy Form of the Company.

The logo for Silkbank, featuring the word "SILKBANK" in a bold, black, sans-serif font with a red horizontal bar through the letter "K".

Affix
Correct
Postage



Silkbank Building, I.I. Chundrigar Road, Karachi, Pakistan | www.silkbank.com.pk | 111-007-455

SILKBANK