

# Marking a Prosperous Future



Annual Report 2012

**SILKBANK**   
Yes we can

# Making a Prosperous Future

At Silkbank, our consistency towards providing the best marks our stature as a premium bank.

In addition to our core principles of quality and excellence, we commit ourselves to today. Today is when we strive to commit to our aspirations and promises; it is when we invest devotion and sincerity in order to secure the future of our identity, our legacy.

# Annual Report 2012



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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.

## Core Values

### Customer Focus

At Silkbank the customer remains at the core of all activities...  
Service Quality is our key differentiator.

### Integrity

At Silkbank we are honest and upfront maintaining the highest levels  
of personal and corporate integrity.

### Teamwork

Teamwork is our key strength... our success is in unity.

### Creativity

Out-of-the-box thinking is the enabling factor for us to be recognized  
as an innovative organization.

### Meritocracy

Merit remains our key primary criteria for rewarding performance.

### Humility

Humility remains at the core of all our relationships.

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# Making Innovation

## Products and Services



Credit Cards

SILKBANK MUNAFA ROZANA



All in One

SILKBANK BUSINESS VALUE ACCOUNT



ReadyLine

SILKBANK PERSONAL LOAN



Visa Debit Card

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Yes we can

### BRANCH BANKING

#### SILKBANK CURRENT ACCOUNTS

Caters to the plethora of financial needs of a diverse customer base.

*ALL IN ONE ACCOUNT:* Provides ultimate protection and security to customers with amazing banking and transactional benefits.

*BUSINESS VALUE ACCOUNT:* A unique business Current Account that provides customers with protection and transactional benefits tailored for any business. It is the first account that provides comprehensive business inventory coverage for up to Rs. 1 Crore.

*ONLINE EXPRESS:* Online Express gives the customer complete online solutions under one roof with a variety of tier-based transactional benefits.

*SALARY PREMIUM ACCOUNT:* An exceptional Current Account offering a host of financial convenience, protection and lifestyle benefits with hassle-free salary processing.

#### SAVINGS ACCOUNTS

Silkbanks Savings offers attractive features and competitive returns along with flexibility of current accounts.

*MUNAFA ROZANA:* The only Savings Account in Pakistan that pays profit in cash DAILY. Profit on funds is calculated and paid into the customer's account on a daily basis.

*PLS SAVINGS ACCOUNT:* Provides the benefits of a Savings Account with the convenience of a Current Account.

*SUPER SAVER ACCOUNT:* Provides the customer with the highest monthly returns on higher deposits and profit calculation on a daily profit basis with a monthly payout.

#### TERM DEPOSIT ACCOUNTS

*SALANA MUNAFA ACCOUNT:* Offers the highest profit with payout on maturity. It provides customers with an overdraft facility of up to 90% with other transactional benefits.

*SILKBANK MAHANA MUNAFA ACCOUNT:* Offers the highest profit with monthly payout. It provides customers with an overdraft facility of up to 90% with other transactional benefits.

#### BANCASSURANCE

One-stop professional financial service for the utmost convenience in protection needs. Services include: Mehfooz Har Pal, Roshan Mustaqbil, Silk Health Plan, Sunehra Kal, Silk Health Line, and Silk Secure Takaful.

### ALTERNATE DELIVERY CHANNELS

#### DIRECT INTERNET BANKING

With the Silkbanks Direct Internet Banking service customers can access and manage their accounts anywhere, anytime with amazingly convenient Internet Banking facilities.

#### SILKBANK PHONE BANKING

Why should customers walk to the bank when they can talk to the Bank! Silkbanks Phone Banking officers ensure that the customer's financial needs are taken care of with ultimate accessibility, convenience and security, 24/7.

# Products and Services

## VISA DEBIT CARD

Silbank VISA Debit Card offers international acceptance and provides protection against fraudulent transactions after the customer's report of loss.

## UTILITY BILLS PAYMENT SERVICE

With its launch customers can now use their Silbank VISA Debit Card (VDC) at any Silbank ATM to pay their utility bills or top up their mobile phones, round the clock, free of charge!

## CORPORATE AND INVESTMENT BANKING

### CORPORATE BANKING

From arranging capital for day-to-day operations to offering pertinent financial advice for a major business acquisition, Silbank has the expertise and experience for it all.

### INVESTMENT BANKING

Silbank offers a vast array of Debt and Equity advisory and arrangement services along with advisory services for restructurings, mergers & acquisitions and buy/sell-side advisory.

### MIDDLE MARKETS

Upholding the motto of "Yes We Can", Silbank stretches to a nationwide network fully equipped to equally cater to the vast and extensive middle market customers. Structured working capital lines are provided along with Current/Savings Accounts in order to enhance trade volumes of medium enterprises allowing them growth.

## CONSUMER BANKING

### PERSONAL LOAN

With Silbank Personal Loan of up to Rs. 2 million, customers can live up their dreams and enjoy life to the fullest.

### SILKBANK READY LINE

Provides customers with a fast processing running finance facility to meet their day-to-day emergency needs.

### CREDIT CARDS

The most innovative cards of the country, Silbank Credit Cards provide customers with 0% markup for an entire year upon transfer with Card Design Personalization and Customization.

## SMALL AND MEDIUM ENTERPRISES

### M'POWER

A running finance facility structured according to customer preferences. It helps business customers to leverage every business opportunity that comes their way and gives them greater freedom to focus on every important aspect of their business growth.

### SME CASH EASE

SME Cash Ease is a liquidity solution for SME level businesses to maintain a profitable working relationship with their clients.

## EMAAN ISLAMIC BANKING

Emaan Islamic Banking was inaugurated by conversion of seven conventional banking branches into dedicated Islamic Banking branches in 2012 and is geared towards providing Shariah-compliant banking products along with high level of customer satisfaction.

Annual Report 2012



# Chairman's Message

In line with the strategic direction of the Board, the Silkbank team enhanced its revenue momentum in 2012, both on the asset and the liability side of the business, rationalized expenses by exploring synergies, re-engineering processes and used existing resources to fuel growth. With a clear focus on current account products and incentives, the Bank's deposit mix showed a healthy growth during the year. The Bank crossed an important milestone in 2012, with the commercial launch of Silkbank's VISA Credit Card and conversion of its seven conventional branches into "Emaan Islamic Banking branches", which received an overwhelming response from the market. True to our core values, Silkbank staff maintained an unwavering customer service excellence, and mystery shopping conducted by a leading independent marketing research consultant has shown 86% customer satisfaction for the Bank, the highest amongst peer banks. The Bank also continued registering a significant reduction in non-performing loans (NPLs), despite a rising trend in the banking industry generally. However, an adverse effect on margins of the lowering discount rates, the necessity to continue making strategic investments for future growth and the generally fragile economic situation kept the Bank from making a profit in the year.

Going forward in 2013, the Bank has set significant goals to improve earnings. These are based on becoming capital compliant through a scheme for issuing preference shares of the Bank currently nearing a successful closure, increased cost efficiencies, and enhanced revenue streams from its business portfolio, including the new very promising businesses added in 2012 i.e. Islamic Banking & the Credit Card business.

I join the Board in wishing the management every success in 2013, in making the Bank a top service provider in the industry and a profitable one for its shareholders.



Munnawar Hamid, OBE  
Chairman



# President's Review



The Silkbanks team endeavoured to continue its growth momentum in 2012, with a clear focus on enhanced margins and new business introductions. Our strategy outlined a greater emphasis on the high margin products, both on the asset and the liability side of the business, while leveraging our existing infrastructure to launch our Emaan Islamic Banking initiative and Credit Cards. Simultaneously we aimed to rationalize expenses by exploring synergies, re-engineering processes and using existing resources to fuel growth.

Excellence in customer service continued to remain an all-encompassing goal, which had an overwhelming impact on the success of our initiatives during the year. Our growth remained consistent with high levels of customer satisfaction. True to our core values, Silkbanks staff maintained an unwavering customer focus. Wave after wave, the "Mystery Shopping Results", conducted by a leading independent marketing research consultancy, has reflected continued improvement in the service quality scores. In a comparative nationwide Mystery Shopping Survey conducted by an external agency, your Bank was ranked amongst the top in customer frontline experience with a score of 86%. This demonstrates the Silkbanks team's continued commitment to customer service.

In line with our strategic direction, the year 2012 witnessed a phenomenal growth in zero-rated current account deposits of Rs. 3.3 billion, which was a 24.3% increase over the previous year. For the same period, CASA deposits growth was at Rs. 3.661 billion, an increase of 11.6% over 2011. Overall deposits of the bank registered a growth of Rs. 5 billion over the previous year. Our increased focus on current and CASA deposits led to an 88 bps reduction in the bank's cost of funds for the year 2012 over the previous year. The COF reduction will continue to improve our bank spreads, as our current account and CASA-centric policy will continue in 2013.

I am proud to state that Silkbanks VISA Debit Card (VDC) customers now exceed 100,000 in number, with an impressive ATM usage trend. In 2012, your bank reflected one of the fastest growth amongst peer banks in retail spending on VDCs with a volume of Rs. 469 million, reflecting an increase of 47% over 2011. Alliances with key vendors have been a major contributor to the increased spending, giving us the edge to provide value addition to our deposit customers through attractive discount offers. Our high ATM availability and the look and feel of our ATM vestibules have contributed significantly to the enhanced use of our ATMs through our Visa Debit Cards.

The Alternative Delivery Channels (ADC) business continues to be an important tool in cost reduction, customer loyalty and the bank's innovative positioning. Your bank now provides SMS alerts to 67,433 customers, which is an 80% growth over the previous year. Reflecting a growth of 61%, now 21,654 customers are Internet Banking-enabled. Also, e-statements enrolment has reflected a 62% growth with 41,611 customers switching to e-statements, greatly reducing our correspondence costs. We also provide distribution convenience to our customers through the use of Inter Bank Funds Transfer to customers of IBFT member banks through ATMs and the internet banking platform. We continue to make great strides in the overseas remittance business through "Silk Fauree Transfer" that channels funds from overseas Pakistanis to their families absolutely free.

We continue to provide value-added services to our customers through the provision of Bancassurance products. Silkbank now is a major player in the Bancassurance business offering investment as well as health insurance.

On the assets side your bank's share of high margin products continued to figure prominently vs. overall advances. Personal Instalment Loans (PIL), Ready Line (RL) and M'Power together contribute almost Rs. 7.007 billion in advances, higher by 16% over the previous year. Our strategic focus will continue to be on the high-margin consumer asset products for increased spreads during 2013 and beyond.

In 2012, Silkbank successfully entered the credit cards industry by launching the most innovative Visa Credit Card. We are amongst a handful of banks offering secure Chip-based cards and pioneered a "0%" APR on Balance Transfer. Your bank is also the first in Pakistan to offer an online "Design Your Card" feature, which gives customers the freedom to personalize their Silkbank credit card by not just choosing from a range of designs but also put their favourite image as the card design. The credit cards business is already taking great strides forward and will further enhance our image as a full service commercial bank.

Your bank's SME business continued to focus on increased profitability and self-liquidating lines of credit based on trade finance. The year's margin before allocations for the SME business was 10.21% better than the previous year.

Your bank's Middle Market strategy had a clear focus on non-funded business. In line with this strategy, our Middle Market business continued to concentrate on non-funded trade-related business together with improving the asset quality. Silkbank's Middle Market business achieved the highest ever trade business figure of Rs. 22.734 billion, registering an impressive 40% increase over the previous year.

On the Corporate and Investment Banking Group (IBG) side, your bank's Investment Banking arm is leading the initiative of the private placement of Preference Shares offering of Rs. 2.5 billion. The transaction is expected to conclude in Q1 of 2013, enabling your bank to meet its capital requirements. Your bank's Corporate business also maintained its focus on trade and guarantee business, which registered a volume of Rs. 25.5 billion during the year. The unit's non-funded business reciprocity stood at 2.5 times the working capital lines. The bank's non-funded fee-based income reflected a 14.4% increase over 2011.

Your bank's Special Asset Management (SAM) team continues to reflect strong recovery totalling Rs. 1.456 billion during 2012. The SAM team was able to reduce NPL by Rs. 2.819 billion, which had a P&L impact of Rs. 2.138 billion. Your bank continued to enhance its risk management capability in the Corporate, Middle Market, SME and Consumer Businesses. An annual review of the credit policy manual (CPM) was conducted, keeping in mind all stakeholders. Reviews and monitoring of the industry caps, in line with peer banks, is an ongoing exercise that enables your bank to keep its risk appetite at acceptable levels. In 2012, the Risk Management team built successful liaison with State Bank of Pakistan and external audit teams assuring the bank in saving invaluable provisioning.

# President's Review

I am pleased to announce the successful launch of Islamic Banking under the brand of "Emaan Islamic Banking", offering Shariah-compliant products. At the year-end our deposit footing stood at Rs. 1.99 billion, achieved in just four months since inception. Our competitive edge will remain our superior service quality standards amongst the competing Islamic banks. We have successfully converted 7 conventional branches to Islamic banking and expect to launch another three branches in due course, offering a complete suite of Islamic liability products.

Your bank's growth on the business side was balanced off with stringent controls. Internal Control Department (ICD) continued its audits of both the front-end and the back office units of the bank, maintaining strict follow-up in closure of issues and observations raised in the internal and external audits. I am pleased to state that the AML system Phase 2 was successfully implemented across the bank. A total of 415 key staff members were trained by the ICD staff through workshops to ensure greater awareness of control and compliance procedures.

People will continue to be our most prized asset. Silkbank dedicated more than 40,000 hours of training, covering both soft skills as well as job skills-based training. The areas covered were service excellence, selling skills, product and operational knowledge, including management skill development courses and Branch Manager Excellence Programmes and Train the Trainer workshops. We will continue to improve the skill set of our employees through focused training. Your bank's Human Resource team focused on internal mapping tool aimed at significant reduction in external hiring. HR also conducted succession planning workshops where successors for key positions were identified and career development plans prepared. Your bank also participated in the Compensation and Benefits Survey 2011/2012 with AoN Hewitt to better benchmark grades and salary structures against peer banks.

With a view to optimize the bank's resources and explore synergies, the productivity team was put in place. Organizational structures were reviewed to ensure a minimum of four direct reports to each supervisor leading to rationalization of human resource. Process re-engineering and automation brought greater efficiency leading to both speed and accuracy in transaction processing. Major expense lines were monitored, leading to significant savings in rentals, utility expenses and diesel conservation. IT hardware as well as licensing costs were rationalized. Telecom costs were renegotiated, leading to significant savings. Renegotiation of existing insurance contracts also resulted in noticeable savings during the year.

The year 2013 brings with it newer and bigger challenges. We have to build on our strengths and reflect strong revenue growth momentum. We must also continue to optimize on expenses through greater synergies and re-engineering of processes for greater efficiency and productivity. Our new initiatives under Islamic Banking and cards are expected to augment our revenue momentum to ensure that we close next year on stronger footings.

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

Yes we can,



AZMAT TARIN  
President & CEO

# Annual Report 2012



**Making Leadership**

Corporate Information  
For the year ended December 31, 2012

**Board of Directors**

Munnawar Hamid, OBE	Chairman
Arshad Ghafur	Director
Humayun Bashir	Director
Javed Hamid	Director
Mohammad Ahmed Mannan	Director
Sadeq Sayeed	Director
Shamsul Hasan	Director
Tariq Iqbal Khan	Director
Azmat Tarin	President & CEO
Shaukat Tarin	Advisor to the Chairman

**Company Secretary**

Uzman Naveed Chaudhary

**Chief Financial Officer**

Syed Ammar Ali Zaidi

**Audit Committee**

Humayun Bashir	Chairman
Javed Hamid	Member
Sadeq Sayeed	Member

**Risk Committee**

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

# Corporate Information

## 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

## Registered Office

Silbank Limited  
Silbank Building, I. I. Chundrigar Road, Karachi.  
Tel No.: +92 21-111-00-7455 Ext. 413 & 414  
Fax No.: +92 21 32460464 & 32462902  
Email: [companysecretary@silkbank.com.pk](mailto:companysecretary@silkbank.com.pk)  
Website: [www.silkbank.com.pk](http://www.silkbank.com.pk)

## Share Registrar

Central Depository Company of Pakistan Limited (CDCPL)  
Share Registrar Department  
CDC House, 99-B, Block 'B',  
S.M.C.H.S., Main Shahra-e-Faisal  
Karachi-74400.  
Tel No.: Customer Support Services (Toll-free) 0800-CDCPL (23275)  
Fax No.: (92-21) 34326053  
Email: [info@cdcpak.com](mailto:info@cdcpak.com)  
Website: [www.cdcPakistan.com](http://www.cdcPakistan.com)

# Board of Directors





Sitting (L to R):

**Humayun Bashir**, Director

**Sadeq Sayeed**, Director

Standing (L to R):

**Tariq Iqbal Khan**, Director

**Shaukat Tarin**, Advisor to the Chairman

**Azmat Tarin**, President & CEO

# Board of Directors



**Javed Hamid**, Director

**Mohammad Ahmed Mannan**, Director

**Shamsul Hasan**, Director

**Munnawar Hamid OBE**, Chairman

**Arshad Ghafur**, Director

# Profile of Board of Directors

## Mr. Munawar Hamid, OBE - Chairman

Mr. Hamid was elected Director and Chairman of the Board, in March 2008 and was re-elected as a Director by the shareholders of the Bank and Chairman by the Board in August 2011. He is also Chairman of the HR Committee of the Board.

Mr. Hamid gained experience of commerce and industry while serving in a major chemicals company, ICI Pakistan Limited, as Chief Executive, as well as Chairman of a number of subsidiary companies of Global Corporations in Pakistan, which include ICI Pakistan and Pakistan PTA (now Lottee Pakistan PTA Ltd.). He has also served in London as a Global Senior Corporate Planner ICI Plc for its Pharmaceuticals, Agrochemicals and Seeds, and especially Chemical Businesses. Subsequently, he was the Advisor to the CEO of ICI Plc London, for South Asia. In addition to the Corporate sector, Mr. Hamid has been associated with a number of Boards, high-level consultative bodies, Public Sector Organizations, leading Advanced Educational Institutions and the Financial Sector of Pakistan. In October 1997, he was appointed Officer in the Most Excellent Order of the British Empire (OBE) by HM the Queen, for services to ICI and Economic Development in Pakistan. Mr. Hamid is a graduate from Punjab University, and also holds BA (Hons) and a Master's degree from Cambridge University (Gonville & Caius College), UK. He has over 45 years of experience in the fields of business & corporate management and operations. Mr. Hamid is also currently associated with the following organizations:

- |  |                          |
|--|--------------------------|
| - Linde Pakistan Ltd. (formerly BOC Pakistan Ltd.) | Chairman                 |
| - The Aga Khan University, Karachi                 | Member Board of Trustees |
| - The Aga Khan University - Gratuity Fund          | Trustee                  |
| - The Aga Khan University - Provident Fund         | Trustee                  |
| - Huntsman Corporation - Singapore                 | Advisor/Consultant       |

## Mr. Humayun Bashir - Director

Mr. Humayun Bashir was elected as an Independent Director on the Board of the Bank in March 2008, and has held this position since then. He was re-elected by the shareholders in August 2011. He is also Chairman of the Audit Committee of the Board, and a member of the HR Committee.

Mr. Humayun is a certified director under the IFC Corporate Governance programme since 2009. He has 35 years experience of working with IBM in Pakistan and Middle East. He has held CEO and Country General Manager positions for Pakistan and Afghanistan for 13 years, and is currently located in Dubai with IBM, as Middle East Africa Business Development Executive. Mr. Humayun's experience includes deep interaction with Banking and Telcom sectors in Pakistan, and he has participated in advising banks to deploy innovative solutions to improve controls, enhance customer experience, and reduce costs. He has served on the boards of Export Processing Zone Authority, Linde Pakistan, and Karachi Port Trust. He was elected as President of Overseas Chamber of Commerce & Industry (OICCI) in January 2012, and was elected President of American Business Council (ABC) in 2011.

He holds an Engineering Degree and has received training in business administration, marketing & communications at different IBM centres in Europe and US, including courses at INSEAD, France.

## Mr. Tariq Iqbal Khan - Director

Mr. Tariq Iqbal Khan was elected as an Independent Director on the Board in December 2010, and has held this position since then. He is also Chairman of the Risk Committee of the Board.

Mr. Tariq Iqbal Khan is the Ex-Chairman of National Investment Trust Limited. He has also served on various positions in Federal Board of Revenue (FBR) and Securities and Exchange Commission of Pakistan (SECP). Mr. Khan has also played a significant role at Pakistan Banks Association's Chairman. Mr. Khan is a Chartered Accountant by profession, and has over 30 years of experience. He has served on the Boards of various other banks and companies. Currently he holds directorship in the following companies:

- |  |          |
|--|----------|
| - Gadoon Textile Mills Ltd.            | Director |
| - International Steels Ltd.            | Director |
| - PICIC Insurance Company              | Director |
| - Interstate Gas System Ltd.           | Director |
| - Pakistan Electric Agency (Pvt.) Ltd. | Director |
| - FFC Energy Ltd.                      | Director |
| - Lucky Cement Ltd.                    | Director |
| - National Refinery Ltd.               | Director |

### Mr. Javed Hamid - Director

Mr. Javed Hamid was elected as a Non-Executive Director on the Board of the Bank in March 2008, and has held this position since then. He is also member of the Audit Committee and the Human Resource Committee of the Board.

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. Hamid has worked for nearly 30 years in the International Finance Corporation (IFC) of the World Bank Group. He was Director for the East Asia & 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, and has been frequently interviewed by the press. He has a keen interest in sustainable development and corporate governance issues. Mr. Javed Hamid 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. Hamid is also currently serving in the following organizations:

- IGI Funds Ltd., Pakistan	Chairman
- Asia Research & Capital Management, Hong Kong	Director
- Lombard Thai International Fund Manager, USA	Director
- Asia Pacific Medical Group, China	Director
- International Executive Services Corps, USA	Senior Advisor
- World Bank Group, USA	Consultant

### Mr. Sadeq Sayeed - Director

Mr. Sayeed was elected as a Non-Executive Director on the Board of the Bank in March 2008, and has held this position since then. He is also member of the Audit Committee of the Board.

Mr. Sayeed was appointed as Chairman of Metage Capital Ltd., an investment firm based in London, in March 2011. Prior to this, Mr. Sayeed was the 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 the 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 had 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 has 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 under-graduate 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. He is also an Adjunct Professor at Imperial College Business School, in London. He currently holds the following positions:

- Metage Capital Ltd.	Non-Executive Chairman
- Sinthos Capital Advisors LLP	Partner
- JS Investment Ltd.	Non-Executive Director

### Mr. Shamsul Hasan - Director

Mr. Shamsul Hasan was appointed by the Board as a Non-Executive Director on the Board of the Bank in November 2012.

Mr. Hasan is a senior investment and corporate banker. Prior to his joining the Bank, Mr. Hasan was the Managing Director and Chief Executive Officer of Pakistan Kuwait Investment Company (Pvt.) Ltd., a joint venture of Governments of Pakistan and Kuwait, from November 2008 till August 2011. Through his dynamic leadership, he completely turned around the

# Profiles of Board of Directors

company into a profitable organization. In 2011, Pakistan Kuwait Investment Company was given a Credit Rating of "AAA" by two independent credit rating agencies; it also achieved a very high Corporate Governance Rating. Mr. Hasan has also worked as the Country Head of Corporate & Investment Banking Group of the then Saudi Pak Commercial Bank Limited. He has over 33 years of banking experience with other local and international banks, and has a proven track record of over 20 years experience in senior management.

He is a graduate of Pakistan Military Academy, Kakul. Mr. Hasan has extensive banking training and has attended various international management development programmes, conducted by INSEAD France, National University of Singapore, Institute of Islamic Banking London and Euro Money London. Mr. Hasan is also currently associated with the following organizations:

- |                                     |          |
|-------------------------------------|----------|
| - FM 107 Pvt. Ltd.                  | Director |
| - Syndicate Entertainment Pvt. Ltd. | Director |
| - Roshan Media Pvt. Ltd.            | Director |

## Mr. Mohammad Ahmed Mannan - Director

Mr. M. A. Mannan was elected as an Executive Director on the Board of the Bank in August 2011. He is responsible for Islamic Banking and also spearheads the Merger/Acquisitions/Capital Raising activities, to deliver the best value for the Bank. Mr. Mannan is also a member of the Risk Committee of the Board.

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

He has served as CEO of Dubai Islamic Bank (DIB) from 2005 to 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. Today 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 from 2003 to 2005, as Deputy CEO of UBL, the country's third largest bank, with more than 1,000 branches and 10,000 employees in Pakistan and 14 countries of the world. In less than 3 years, he helped turn around the bank from a loss-making institution to Rs. 7 billion in profit. The balance sheet was doubled to Rs. 300 billion in the same period. He conceived and developed the Consumer Banking at UBL.

He started his career at Citibank (1991-2003), where Mr. Mannan's focus was on Consumer Banking. In his last assignment at Citibank, he was based out of 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 the State Bank of Pakistan, Ministry of Overseas Pakistani's and Ministry of Finance, increasing the remittances from \$7 billion in 2008 to \$13 billion in 2011.

Mr. Mannan is a Master of Business Administration (MBA) from the Institute of Business Administration (IBA).

## Mr. Azmat Tarin - President & CEO

Mr. Tarin is the President & CEO of Silkbanks since October 2008. Prior to which, he was the Executive Director in Silkbanks. He is also member of the HR Committee of the Board.

Mr. Tarin is a career banker with an experience of over 25 years. He started his career in Branch Operations in Lincoln Savings, California, in 1989. Subsequently, he moved to Saudi American Bank in Riyadh, where he was involved in a project of centralizing operations. He has also attended the Management Associate Programme at the Saudi American Bank.

His first banking assignment in Pakistan was with Union Bank Ltd. 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. Tarin is also serving as a Director of Sintos Capital Holding Ltd.

Mr. Tarin is a Master of Business Administration (MBA) in Management Sciences from Pepperdine University, Los Angeles, California.



Sitting (L to R):

Mian Asif Said

Talha Saeed

Standing (L to R):

Saqib Pal

Jawad Majid Khan

Kasim Feroze Khan

# Senior Management Committee



Goharulayn Afzal

Adnan Afridi

Azmat Tarin

Syed Jawaid Akhter

Shafaq Rahid

Syed Ammar Ali Zaidi

Jamil A. Khan

**SILKBANK**   
Yes we can

<b>Azmat Tarin</b>	President & CEO
<b>Mohammad Ahmed Mannan</b>	Executive Director
<b>Adnan Afridi</b>	Group Head Strategy and Investor Relations
<b>Goharulayn Afzal</b>	Group Head Operations, IT & Productivity
<b>Jamil A. Khan</b>	Group Head Compliance, Legal & Internal Control Division
<b>Jawad Majid Khan</b>	Group Head Islamic Banking
<b>Kasim Feroze Khan</b>	Group Head Special Assets Management and Other Real Estate Owned (OREO) Properties
<b>Mian Asif Said</b>	Group Head Wholesale Banking
<b>Muhammad Saqib Pal</b>	Chief Risk Officer
<b>Shafaq Rahid</b>	Head Customer Satisfaction & Quality
<b>Syed Ammar Ali Zaidi</b>	Chief Financial Officer
<b>Syed Jawaid Akhter</b>	Head Internal Audit
<b>Talha Saeed</b>	Group Head Retail Banking



## Background:

On September 15, 2001, under the supervision of the State Bank of Pakistan (SBP), the institution then known as the Prudential Bank was acquired by the management and associates of the Saudi Pak Industrial and Agricultural Investment Company (Pvt.) Ltd. (SAPICO). On March 31, 2008, a Consortium comprising IFC, Bank Muscat, Nomura International and Sinthos Capital, led by senior bankers Mr. Shaukat Tarin and Mr. Sadeq Sayeed, acquired 86.55% stake in Silkbank for around \$213 million or \$0.47 per share (PKR 29.3 equivalent per share). Under the new leadership, the Bank continues to grow at a mesmerizing pace setting new standards of outstanding banking service.

## Consortium Partners:



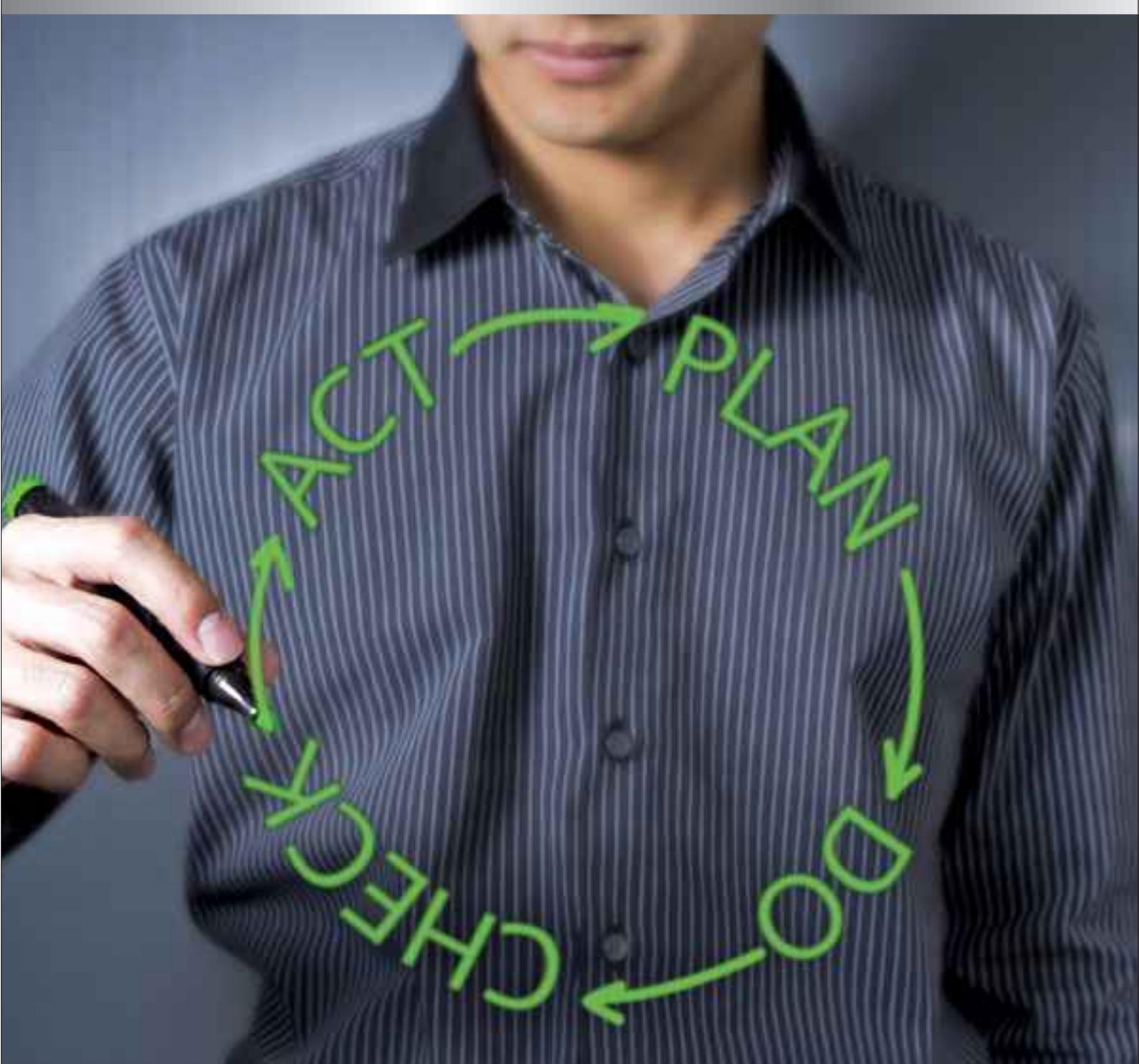
A member of the World Bank Group, IFC fosters sustainable economic growth in developing countries.



Largest bank of Oman with assets of over USD 15 billion, having significant presence in the Middle East.



A leading investment bank with network in over 30 countries and total assets of USD 221B. Recently acquired Lehman Brothers in Asia and Europe.



**Making Responsibility**

**Reports and Statements to the Members  
For the year ended December 31, 2012**

**Dear Shareholders,**

The Board of Directors is pleased to present the 19th Annual Report and the audited financial statements for the year ended December 31, 2012.

**Economic Review**

The macroeconomic landscape in 2012 continued to be dominated by monetary easing by the State Bank. With CPI hitting its 5 years low at 6.9% in Nov-12, the State Bank of Pakistan cut the discount rate to 9.5% in December, bringing the cumulative cut to 250 bps for the year. On the other hand concerns on the exchange rate remained in the forefront as a result of external debt obligations, particularly to the IMF, and the Rupee depreciated by 9% during the year compared to 5% the previous year.

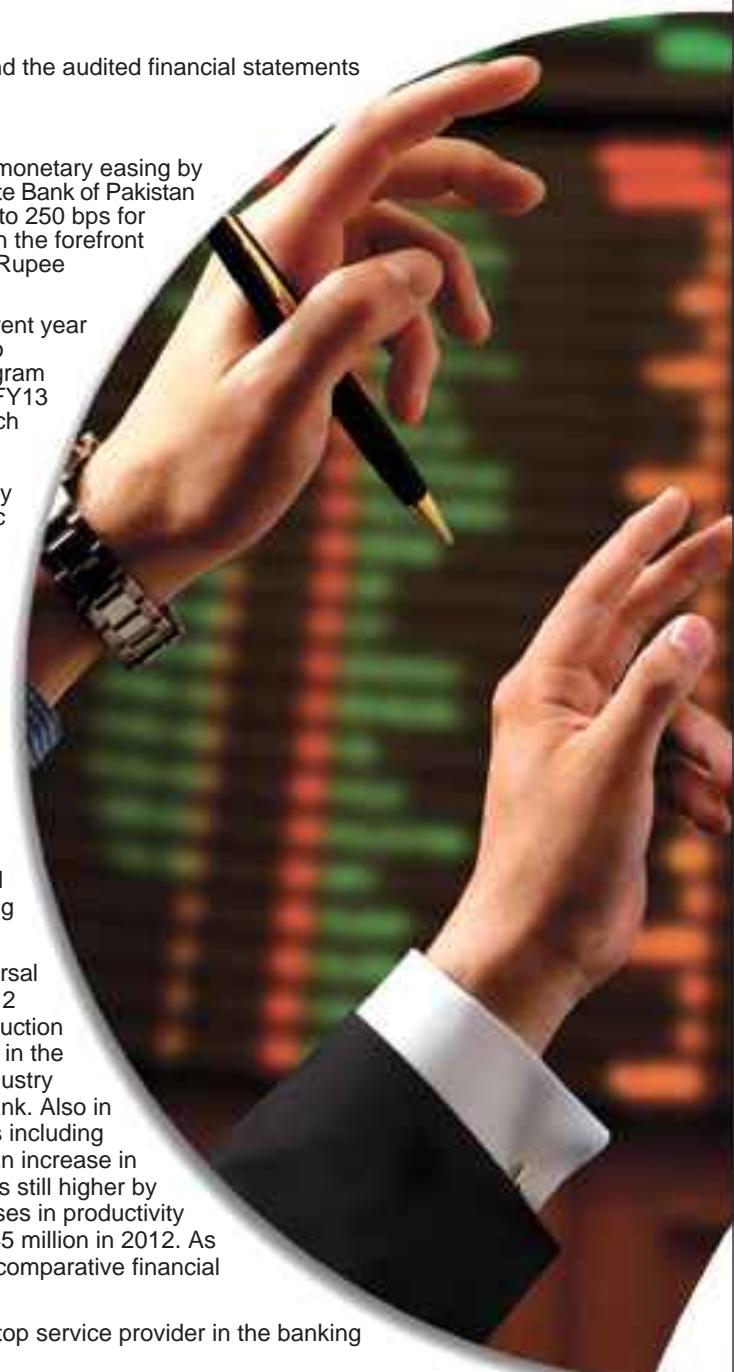
While the current account remained in surplus in the first half of the current year (US\$ 250million), pressure on the foreign exchange reserves has led to expectations that the country may need to request for another IMF program in 2013. Being an election year, fiscal deficit is expected to exceed the FY13 budgetary target of 4.7% of GDP and, as per IMF's estimate, could touch 7.0%-7.5% of GDP. Following elections and a possible re-entry into an IMF program, some progress probably towards the end of the year is expected on taxation reforms as well as other structural reforms, particularly in the energy sector and public sector enterprises, necessary for economic improvement.

**Silkbank's performance at a glance during 2012 and future strategy**

During the year 2012, the Bank increased revenue both on the asset and the liability side of the business. The Bank also significantly rationalized costs through synergies, re-engineering processes, restricting investment to existing resources, and a further dilution of expensive term deposits by low cost current and saving accounts (CASA). The Bank also made strategic investments in new businesses and successfully launched a Credit Card and an Islamic Banking business, during the year. As a result the Bank crossed an important milestone in the third quarter, with the commercial launch of Silkbank's VISA Credit Card and the conversion of seven conventional branches into "Emaan Islamic banking branches", which have received strong response from the market.

Whereas in 2011 the bulk of Bank's profitability came from recovery/reversal of provisions of approx. Rs. 2.60 billion, the corresponding figure in 2012 was Rs. 580 million, a variance of approx. Rs 2.0 billion. Further the reduction in discount rate of 250 basis points over the past year and the increase in the minimum pay out rate on deposits from 5% to 6% by SBP, led to an industry wide narrowing of margins which also affected the profitability of the Bank. Also in 2012, the Bank invested in core segments of its future growth platforms including credit cards, Islamic Banking and other consumer products leading to an increase in administrative expenses. As a result, though core operating income was still higher by Rs 250 million (NII+NFI), and costs were kept in control through increases in productivity and cost cutting measures, the Bank recorded a loss after tax of Rs. 345 million in 2012. As such the Bank is not in a position to declare dividend for the year. The comparative financial performance between 2011 & 2012 is given in the following section.

Going forward in 2013, the Bank continues to pursue its goal to be the top service provider in the banking industry,



# Directors' Report For the year ended December 31, 2012

become capital compliant and improve profitability. To achieve these goals, a clear three year strategy (inclusive of tax projections) has been devised based on a new capital injection of Rs. 2.4 billion through a scheme to issue preference shares. This will significantly enable focus on further available growth opportunities which supported by a continued reduction in cost of funds, increase in high margin consumer assets, further sale of OREO (Other Real Estate Owned) a strict monitoring of the credit portfolio and a strong revenue stream from the new businesses, should ensure an encouraging future.

## Financial Performance - 2012

	<b>2012</b>	<b>2011</b>
	<b>Rs. In million</b>	
Net mark-up income	1,902	1,871
Reversal / (Provisions), impairment and others	580	2,630
Non mark-up income	1,065	847
Non mark-up expense	(4,077)	(3,988)
	<hr/>	<hr/>
	(530)	1,360
Tax / (Reversal) of tax	185	(664)
	<hr/>	<hr/>
	(345)	696
(Loss) / Earning per share	<b>Rupee</b>	
	(0.13)	0.260

## Issuance of "PNCPS" - Perpetual, Non-Cumulative, Convertible, Preference Shares by the Bank for meeting Minimum Capital Requirement (MCR) and Capital Adequacy Ratio (CAR)

The State Bank of Pakistan vide its letter No. BSD/ CS/ 11653/12 dated October 4, 2012 had granted its in-principle approval to the Bank for the issuance of PNCPS of Rs. 2,400 million (inclusive of a Green Shoe Option of Rs. 1,000 million), by way of issue of capital other than a Rights Issue. This was followed by an approval of the scheme by the SECP, as well as an extension in the period allowed for the unpaid Rights of the Bank by another 3 years. This scheme will enable the Bank to issue 960 million Preference Shares, at an indicative face value of PKR 2.50 each, to qualified institutional investors and high net worth individuals convertible into common shares after three years from the date of issue. Proceeds from the issue (a total of Rs. 2,400 million) will contribute towards Tier - 1 capital of the Bank for the purpose of calculating Minimum Capital Requirements and Capital Adequacy Ratio, as stipulated by the SBP and will be utilized in the on-going business operations of the Bank. The additional capital, as stated above, should improve the Bank's credit rating which in turn will reduce the cost of borrowing and deposits, and enable the Bank to explore new business avenues for growth, and expand its branch network. An improved outlook on profitability, as a consequence of the above, is expected to in turn enhance investor interest in the Bank.

The Bank has received firm commitments for the scheme from various investors and is awaiting final SBP approval to successfully conclude the Scheme.

## Retail Banking Group

### Branch Banking

Branch Banking remains one of the most critical businesses for the Bank, accounting for over 145,000 customers and approx 75% of the Bank's deposit base. As mentioned above the branch banking strategy during the year has focused on reducing cost of funds on deposits, by replacing high cost deposits with low cost CASA deposits, and favorably modifying its deposit mix. The Bank's unique products such as All-in- One, Business Value Account & Munafa Rozana achieved high level of customer loyalty and satisfaction as indicated by mystery shopping and internal service measures.

The Business also developed new avenues for growth including Bancassurance, Remittances & Alternate Delivery Channel business. The Bank emerged as a major player in the growing remittances business, and received remittances of over Rs. 5.5 billion, and plans on further expansion through partnerships with more Exchange Companies. In addition the Bank's first Takaful products, the Silk Secure Takaful and the Silk Education Takaful, and an exclusive retirement plan, the Silk Retirement Plan, offering a guaranteed pension underwritten by major Insurance Companies, were launched.

### Silkbanks VISA Debit Card

The VISA Debit Card continued to show strong growth and a key milestone of 110,000 cards issued was achieved during the year.

### Consumer Assets

The Bank's strategy to focus on its Consumer Asset products, as a generator of high margins, continued to build its asset book size. Personal Installment Loans, Ready Line and M'Power together with SME products now contribute almost Rs. 7.26 billion in advances, and this strategic focus will continue to increase spreads during 2013 and beyond.

### Silkbanks VISA Credit Card

The Silkbanks VISA Credit Card was launched, in Karachi, Lahore, Rawalpindi & Islamabad, in the 3rd quarter of the year. It offers the unique feature of 0% APR on Balance Transfer, a facility to design personal cards, and a 2% cash back on retail transactions, and the first full year of business is expected to set a solid foundation for this Business to make it an integral part of the Bank's future growth strategy.

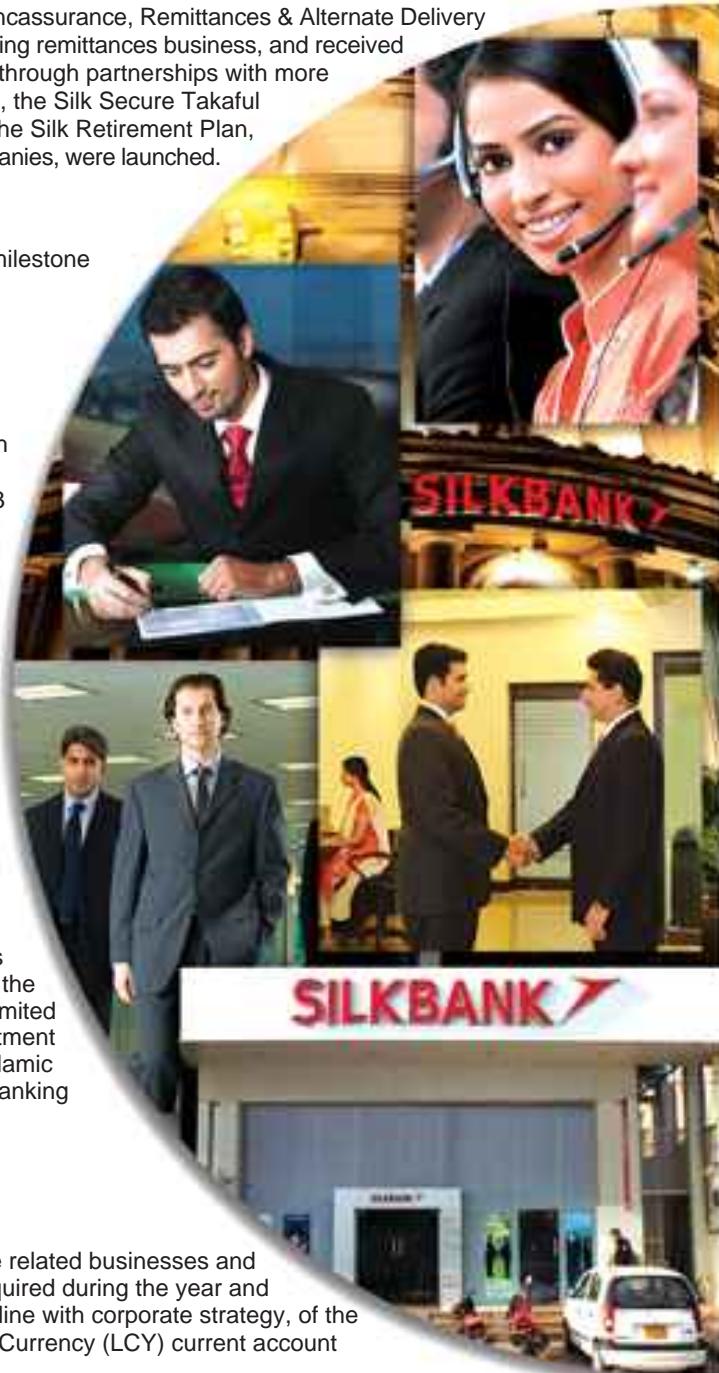
### Emaan Islamic Banking

With the launch of Emaan Islamic banking during the year, the Bank officially converted seven conventional branches into "Emaan Islamic banking branches" at the end of the third quarter of 2012. This business has received a promising response from the market and going forward, the Bank plans to explore other opportunities in this area including but not limited to, Islamic Auto Finance, Credit Cards, Personal Goods Finance, Investment in Sukuks and Corporate Risk Booking with a further expansion in its Islamic Branch Network. The Bank is confident that going forward the Islamic banking business will strongly complement its overall growth objectives.

### Wholesale Banking Group

#### Corporate Banking

During the year, Corporate Banking expanded its non-funded trade related businesses and improved its asset quality. A number of new relationships were acquired during the year and emphasis remained on structured, transaction related facilities. In line with corporate strategy, of the total increase of Rs. 5 billion in deposits during the year, the Local Currency (LCY) current account



# Directors' Report For the year ended December 31, 2012

deposits accounted for Rs. 2.54 billion. Going forward, Corporate Banking will focus on portfolio growth, primarily financed by redeployment of funds, to maximize yield and non-funded income.

## Middle Market Business

The designated Middle Market Branches (MMB), located in city trade centers, focused on generating assets with a high volume collateral business and corresponding CASA, and at the same time providing specialized and personalized services to middle tier target customers. Going forward, the MMBs will emphasize on aggressive resource allocation to increase trade and improve spreads.

## Financial Institution (FI) and Cash Management Services (CMS)

In 2012, the main role of the FI service was to create alliances with other banks globally to facilitate trade and treasury operations as well as manage nostro accounts and monitor cross border exposures. A CMS was launched in the first quarter of 2012, to facilitate collection and disbursal of funds with a customized MIS and an on-line access to optimize capital management. Going forward, the CMS strategy would be to leverage the Bank's existing client relationships in Corporate, Middle Market & SME segments and providing up-scale services through dedicated regional managers in Lahore, Islamabad and Faisalabad.

## Investment Banking

The Investment Banking Group was set-up as a stand-alone business unit under the umbrella of Wholesale Banking Group in March 2012. During FY2012, the team successfully concluded a number of transactions in both debt and equity. Going forward, the Investment Banking Group will build on the base created in 2012 and generate a strong "deal flow" by supporting clients in capital raising, restructuring and value creation.

## Treasury

During the year, the treasury sales team was strengthened with the addition of more expert staff and relevant training. This resulted in a stronger performance and the Bank achieved an income of Rs. 214 million from FX transactions. The Bank's equity portfolio also performed well during 2012, in line with the strong equity market performance, and posted significant capital gains and the dividend yield of the active portfolio was 12.3% for the year.

## Silk Webtrade

In order to accelerate its trade business the Bank launched the " Silk Webtrade", a state of the art web based service, to cater to the needs of trade finance customers, enabling them to electronically access trade related services including LC opening/Amendments/ Contract registrations/ Export Advance Payment processing, bills collection and purchases etc.

## Technology

The Bank worked on a number of technology initiatives during the year, the launch of Islamic Banking Module and the Credit Card being the highlights. The launch of Islamic banking was preceded by an extensive development of a comprehensive technology infrastructure, including hardware & software upgrades, to support its setup. The year also witnessed the launch of an EMV compliant chip based VISA credit card, with a state of the art technology base to support its operations. Various other technology based initiatives were undertaken to ensure end to end delivery of services to the customers in a timely manner, including a Silkbanks "Design My Card" website to offer customized image printing on credit cards.

## Human Resource

In HR, the Bank took significant initiatives to enhance both professional and personal development during the year. The HR function focused on providing relevant need-based learning interventions, and revamped its Learning & Development approach towards training and introduced specific programs to enhance productivity and efficiency in various business segments, as

well as leadership development of senior management. These included a Leadership Summit, Branch Manager Excellence Programs and Train-the-Trainer workshops.

To provide career growth opportunities to staff, HR focused on internal mapping (Job posting) and significantly reduced external hiring. Social media (LinkedIn, Face Book, Twitter) was incorporated in the recruitment strategy and external Talent Mapping was also introduced for the first time in the Bank. The Bank also participated in a Compensation and Benefits Survey, with Aon Hewitt a leading international consultancy service, to benchmark its compensation structures with peer banks and improve its reward systems.

Throughout the year, HR strengthened its partnership with all the segments of the Businesses to ensure responsive resourcing, effective grievance handling and coaching.

### Special Asset Management Group (SAMG)

Despite a deteriorating law and order situation, a sharp economic downturn and political instability in the country the SAMG managed to register a significant reduction in the Non Performing Loans (NPLs) of the Bank. It achieved a total NPL reduction / Profit and Loss impact of Rs. 2,616 million and Rs. 2,346 million respectively during 2012. The Real Estate Asset Management team (REAM) also effectively supported the SAMG by selling off various OREO (Other Real Estate Owned) assets, in the year.

### Service Quality

True to our core values, the Bank's staff maintained an unwavering customer focus. Mystery Shopping conducted by a leading independent marketing research consultancy indicated a score of 86% customer satisfaction, the highest amongst peer banks.

### Corporate Social Responsibility

The Bank is committed to growing its business in a way that is profitable and sustainable for its employees & the communities it operates in. The Bank provides support to a wide array of causes and this year supported programs for education & health, preservation of culture & history and promotion of youth & sports. The Bank's leadership also endorsed corporate initiatives for developing automation systems and processes for a paperless environment and energy conservation.

### Board of Directors

In the month of August 2012 one of our Director, Mr. Burhanuddin Khan resigned from the Board. The Board extends its appreciation to Mr. Burhanuddin Khan for his very valuable contribution to the Board. To fill the casual vacancy, the Board appointed Mr. Shamsul Hasan as the Director on November 15, 2012 for which SBP clearance was received on December 27, 2012. The Board warmly welcomes him and looks forward to benefit from his rich experience in banking industry. The current composition of the Board is as under:



# Directors' Report For the year ended December 31, 2012

Types of Director	No. of Directors
Independent Director	3
Non-Executive Director	4
Executive Director	2

## Directors' Training

During the year 2012, one of our Director, Mr. Mohammad Ahmed Mannan completed the Corporate Governance Leadership Skills (CGLS) Program of Pakistan Institute of Corporate Governance.

## 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.

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

Concerted efforts for the improvement of the Risk Management Functions have been made over the years which have resulted in better control & risk environment in the Bank. Following are some important aspects of the Risk Management Functions in Silk Bank Limited:-

#### a) Credit Risk

Independent Risk Management Units catering to the Corporate/Middle Market/ SME and Consumer segments are fully operational, which follow clearly laid out Policies and Procedures formulated in the form of Manuals and Product Programs. Credit Risk is thus continuously 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, effectively handling all documentation. The Bank has its own Obligor Risk Rating (ORR) system for Corporate, Middle Market and SMEs, which is regularly reviewed/updated. Besides we also have a robust EWS reporting system in place. These processes are capable of identifying problem loans at an early stage for timely remedial actions.

Under Consumer Banking, a separate collection unit operates for follow up and recovery. A centralized Special Assets Management Unit is also in place and is primarily responsible for handling the NPL accounts and recovery. The unit is performing its task in a very efficient manner.

Besides various management committees of the Bank, Credit Risk is also overviewed by the Risk Committee of the Board on an ongoing basis.



# Directors' Report For the year ended December 31, 2012

## b) 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 and reporting to the Head of Risk Management Group. Investment Committee (IC), Market Risk Policy Committee (MRPC) and Asset and Liabilities Committee (ALCO) are also functioning to supervise and approve Market Risk exposures. At Silk Bank, we have a well-defined Liquidity Policy, duly approved by the Board. Presently, various excel based tools are in use to generate MIS on Market Risk and reporting to senior management and regulators. We also plan to acquire "T-Risk Module" from Temenos which is capable of generating sophisticated modeling reports.

## c) Operational Risk

Under Operational 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 over-viewing and ensuring implementation of various operational guidelines and monitoring proofs and reconciliation across the Bank. Additionally, an independent Internal Audit function is also in place within the Bank, reporting to the Audit Committee of the Board. A Proper Compliance Department is also functional, inter alia 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 and AML/KYC. Business Continuity Plan (BCP) has also been in place to deal with any eventuality. Self-Assessment of Key Risk Indicators (KRI's) 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 Internal / External/SBP Auditors and ICU.

## Board of Directors' Meetings

During the year, following Board and its Committees meetings were held. Attendances by the Directors were as follows:

	Board Meetings		Audit Committee Meetings		Human Resource Committee Meetings		Risk Committee Meetings	
	Held during directorship	Attended	Held during directorship	Attended	Held during directorship	Attended	Held during directorship	Attended
Mr. Munnawar Hamid OBE	6	6	-	-	5	5	-	-
Mr. Humayun Bashir	6	6	4	4	5	4	-	-
Mr. Javed Hamid	6	5	4	4	5	5	-	-
Mr. Sadeq Sayeed	6	6	4	3	-	-	-	-
Mr. Tariq Iqbal Khan	6	6	-	-	-	-	4	4
Mr. Arshad Ghafur	6	4	-	-	-	-	4	3
Mr. Mohammad Ahmed Mannan	6	6	-	-	-	-	4	4
Mr. Azmat Tarin	6	6	4	4	5	5	-	-
Mr. Burhanuddin Khan	3	3	3	3	-	-	-	-

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

### 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, 2012**

S. No.	Categories of Shareholders	Number of Shareholders	Shares Held	Percentage
01	Directors and their spouse(s) and minor children	8	123,043,532	4.61%
02	Associated Companies, Undertaking and Related Parties*	4	2,038,735,553	76.31%
03	Executives	31	13,648,340	0.51%
04	Public sector companies and corporations	8	52,196,738	1.95%
05	Banks, Development Finance Institutions, Non-Banking Finance Companies, Insurance Companies, Takaful, Modarabas and Pension Funds	11	5,175,378	0.19%
06	Mutual Funds	4	748,929	0.03%
07	Others	94	123,817,079	4.64%
08	General Public - Foreign	9	32,619,862	1.22%
09	General Public - Local	7947	281,619,416	10.54%
	<b>Total</b>	<b>8,116</b>	<b>2,671,604,827</b>	<b>100.00%</b>

\* This does not include 40,000,000 shares of Mr. Shaukat Tarin kept in repo transaction.

**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, 2012**

S. No.	Categories of Shareholders	Number of Shares held	Category-wise No. of Folios/ CDC Acs.	Category-wise Shares held	Percentage
	<b>Directors, Chief Executive Officer and their Spouse and Minor Children</b>		<b>8</b>	<b>123,043,532</b>	<b>4.61%</b>
01	Munnawar Hamid, OBE	3,699			
02	Humayun Bashir	3,699			
03	Javed Hamid	500			
04	Sadeq Sayeed	102,817,019			
05	Tariq Iqbal Khan	5,000			
06	Mohammad Ahmed Mannan	500			
07	Azmat Tarin	20,013,115			
08	Farha Naz Tarin w/o Mr. Azmat Tarin	200,000			
	<b>Associated Companies, Undertakings and Related Parties</b>		<b>4</b>	<b>2,038,735,553</b>	<b>76.31%</b>
01	International Finance Corporation	702,689,067			26.30%
02	Shaukat Fayyaz Ahmad Tarin*	663,593,175			24.84%
03	Nomura European Investment Limited	356,676,342			13.35%
04	Bank Muscat S.A.O.G.	315,776,969			11.82%

\* This does not include 40,000,000 shares of Mr. Shaukat Tarin kept in repo transaction.

# Directors' Report For the year ended December 31, 2012

S. No.	Categories of Shareholders	Number of Shares held	Category-wise No. of Folios/ CDC Acs.	Category-wise Shares held	Percentage
<b>Mutual Funds</b>					
01	CDC - Trustee KASB Asset Allocation Fund	15,003	4	748,929	0.003%
02	Prudential Stock Fund Ltd.	1,542			0.000%
03	Pak Asian Fund Limited	5,000			0.000%
04	CDC - Trustee Nit-Equity Market Opportunity Fund	727,384			0.003%

There was no trading in Silkbanks shares carried out by any of the Directors and CEO, or their spouses and minor children during the year.

#### Auditors

Upon recommendation of the Audit Committee, the Board has proposed the appointment of M/s M. Yousuf Adil Saleem & Co., (Deloitte Pakistan), Chartered Accountants, as the statutory auditors of the Bank for the financial year 2013.

#### Credit Rating

The long term entity rating of the Bank is A-(Single A Minus) and the short term rating is A-3 (A-Three) as determined by JCR VIS. This rating however has been put under a rating watch as "Developing".

#### Future Outlook

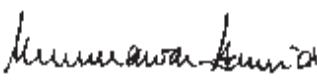
The funds to be received from the issuance of preference shares will increase Tier One capital of the Bank and contribute towards meeting MCR and CAR as stipulated by SBP. This will consequently contribute towards an improved credit rating of the Bank, reduce cost of deposits and enhance the profitability of the bank. The overall improved outlook will enable the Bank to explore new business avenues for growth, including Mergers and Acquisitions on a stronger footing. In addition the Bank will continue to make its cost base increasingly efficient through greater synergies and process re-engineering, and rigorously grow existing portfolio including the recently added initiatives of Islamic Banking and the Cards business.

#### 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. We are also equally thankful to our associates, staff and colleagues for their committed services to the Bank, and look forward to their continued support.

For and on Behalf of the Board of  
Silkbanks Limited

Karachi, March 01, 2013



Munawar Hamid  
Chairman

# Statement of Compliance with the Code of Corporate Governance for the year ended December 31, 2012

This statement is being presented to comply with the Code of Corporate Governance (CCG), contained in Regulation No. (35) of listing regulations of Karachi, Lahore and Islamabad Stock Exchange (Guarantee) Limited, for the purpose of establishing a framework of good governance, whereby a listed Company is managed in compliance with the best practices of corporate governance.

The Bank has applied the principles contained in the CCG in the following manner:

1. The Bank encourages representation of independent non-executive directors, and directors representing minority interests, on its Board of Directors. At present the Board includes:

Category	Names
Independent Directors	Mr. Munnawar Hamid OBE Mr. Humayun Bashir Mr. Tariq Iqbal Khan
Non-Executive Directors	Mr. Javed Hamid Mr. Sadeq Sayeed Mr. Shamsul Hasan Mr. Arshad Ghafur
Executive Directors	Mr. Mohammad Ahmed Mannan Mr. Azmat Tarin

The independent directors meet the criteria of independence under clause i (b) of the CCG.

2. The Directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Bank.
3. All the resident Directors of the Bank are registered as taxpayers, and none of them has defaulted in payment of any loan to a banking company, a DFI or NBFI, or being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. A casual vacancy occurring on the Board on August 29, 2012 was filled up by the directors within 78 days.
5. The Bank has prepared a "Code of Conduct", and has ensured that appropriate steps have been taken to disseminate it throughout the Bank, along with its supporting policies and procedures.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Bank. A complete record of particulars of 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 decisions on material transactions, including appointment and determination of remuneration, and terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman, and in his absence, by a Director elected by the Board for this purpose, and the Board have met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were appropriately recorded and circulated.
9. The Board arranged for training of one Director during the year.
10. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.

# Statement of Compliance with the Code of Corporate Governance for the year ended December 31, 2012

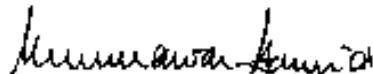
11. The Directors' report for this year has been prepared in compliance with the requirements of the CCG, and it fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by the CEO and CFO, before approval of the Board.
13. The Directors, CEO and executives, do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.
14. The Bank has complied with all the corporate and financial reporting requirements of the CCG.
15. The Board has formed an Audit Committee. It comprises of three members, of whom two are non-executive directors, and the chairman of the committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter, prior to approval of interim and final results of the Bank and as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has formed a Human Resource Committee. It comprises of four members, majority of whom are non-executive directors including two independent directors. The chairman of the committee is also an independent director.
18. The Board has set up an effective internal audit function with qualified and experienced professionals, for the purpose duly conversant with the policies and procedures of the Bank.
19. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review programme of the ICAP, 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 all its partners are in compliance with International Federation of Accountants' (IFAC) guidelines on code of ethics, as adopted by the ICAP.
20. 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.
21. The 'closed period', prior to the announcement of interim/final results and business decisions, which may materially affect the market price of the Bank's securities, was determined and intimated to directors, employees and stock exchange(s).
22. Material/Price sensitive information has been disseminated among all market participants at once, through stock exchange(s).
23. We confirm that all other material principles enshrined in the CCG have been complied with.

For and on Behalf of the Board of Silkbanks Limited



AZMAT TARIN  
President & CEO

Karachi, March 01, 2013



MUNNAWAR HAMID, OBE  
Chairman

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 strategy 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. Further, the compliance function also ensures Bank's compliance with all applicable laws, regulations and code of ethics.
- ✓ An organization 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).
- ✓ The 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.
- ✓ The management has established evaluation and approval procedures for all major capital expenditure and other transactions.

# Management's Statement on Internal Controls as of December 31, 2012

- ✓ 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 has been implemented, using statistics and monthly management accounts to highlight key performance indicators and variance from budgets and forecasts.
- ✓ 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.



Azmat Tarin  
President & CEO

Karachi, March 01, 2013

Notice is hereby given that the Nineteenth Annual General Meeting of Silkbank Limited will be held on Thursday, March 28, 2013 at 11:30 am at Beach Luxury Hotel, Karachi, to transact the following business.

**Ordinary Business:**

1. To confirm the minutes of Extra-ordinary General Meeting held on November 07, 2012.
2. To receive, consider and adopt the audited financial statements of the Bank for the year ended December 31, 2012 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. M. Yousuf Adil Saleem & Co. (Deloitte Pakistan), Chartered Accountants have consented to act as auditors of the Bank.

**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, March 01, 2013

Notes:

- ✓ The Share Transfer Books of the Bank will remain closed from **March 22, 2013** to **March 28, 2013** (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 Central Depository Company of Pakistan Limited to facilitate identification at the time of Annual General Meeting. In case of proxy, an attested copy of proxy's Identity Card, Account and Participant ID number 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.



KPMG Taseer Hadi & Co.  
Chartered Accountants  
Sheikh Sultan Trust Building No. 2  
Beaumont Road  
Karachi, 75530 Pakistan

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Fax +92 (21) 3568 5095  
Internet [www.kpmg.com.pk](http://www.kpmg.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 Karachi, Lahore & Islamabad Stock Exchanges 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, Listing Regulations of Karachi, Lahore & Islamabad Stock Exchanges require 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, 2012.

Karachi, March 01, 2013

KPMG Taseer Hadi & Co.  
Chartered Accountants



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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 31 December 2012 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for seventeen 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;

# Independent Auditors' Report to the members

- c) in our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, profit and loss account, statement of comprehensive income, cash flow statement, and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at 31 December 2012 and its true balance of the loss, 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.

## We draw attention to following matters:

- i) note 1.3 to the financial statements which highlights that the Bank has not been able to meet the regulatory requirement relating to capital as prescribed by the State Bank of Pakistan. The said note also describes the future plans of the management, to deal with the material uncertainties with respect to the capital requirements and Banks sustainability in the future. Further, the bank has been allowed extension upto 31 December 2012 by State Bank of Pakistan to meet the capital requirements and relaxation from provisioning as detailed in notes 10.11.2, 11.3.2, 11.3.3 and 11.5 to the financial statements.
- ii) note 13.2 and 13.3 to the financial statements which describes the fact that during the year the Bank has filed revised tax returns for tax year 2009 to tax year 2011 and accordingly adjusted the composition of deferred tax asset. These returns are subject to review by tax authorities. The notes also states that the Bank based on three year strategic plan including projections for taxable profits will be able to recover the deferred tax asset carried at 31 December 2012. The strategic plan and projections have been approved by the Board of Directors of the Bank. The preparation of projections involve management's assumptions regarding future business and economic conditions and therefore any significant change in such assumptions may have an effect on the realisability of the deferred tax asset.
- iii) note 14.2 to the financial statements which describes that the Bank acquired various properties aggregating to Rs. 2,069 million and sold debts which were previously written off or fully provided aggregating to Rs. 1,243 million. Net amount of Rs. 826 million was paid for acquisition of these properties and the debts were sold at the values offered by the seller of the properties. Further as mentioned in the note 14.2 to the financial statements, the Bank also acquired properties in lieu of partial settlement of loans amounting to Rs. 849 million. All of these properties are undeveloped and therefore their valuation involves a number of subjectivities. These properties have been evaluated based on the valuation reports from valuers on Pakistan Banks Association approved list of valuers. These transactions have been approved by the Board of Directors.

Our opinion is not qualified with respect to above matters.

Karachi, March 01, 2013

KPMG Taseer Hadi & Co.  
Chartered Accountants  
Mazhar Saleem

# Annual Report 2012





**Marking Perfection**

**Financial Statements  
For the year ended December 31, 2012**

**SILKBANK**   
Yes we can

	2012	2011	2010	2009	2008	2007	
<b>BALANCE SHEET</b>							
Share capital	13,431	13,431	13,431	9,003	9,003	5,002	
Reserves	163	139	-	225	219	219	
Deposits and other accounts	69,050	64,072	55,706	49,610	41,057	42,374	
Sub-ordinated loan	-	-	-	-	-	650	
Borrowings from financial institutions	11,377	17,782	9,871	15,088	8,739	6,880	
Total Assets	89,062	90,670	72,669	68,664	55,645	53,661	
Gross Advances	54,019	55,309	52,925	40,592	38,187	31,416	
Advances - Net of provisions	49,000	49,936	44,354	32,097	31,087	25,875	
Non-performing Advances	10,817	11,023	12,360	11,891	12,845	6,136	
Investments - Net of provisions	12,735	17,548	13,190	20,179	12,012	17,859	
Equity	5,354	5,639	4,834	1,763	4,391	2,180	
----- Rs. in million -----							
<b>PROFIT AND LOSS ACCOUNT</b>							
Markup/return/interest earned	8,584	8,386	6,776	5,913	4,588	4,800	
Markup/return/interest expensed	(6,681)	(6,515)	(5,927)	(5,856)	(4,219)	(4,440)	
Net markup/interest earned	1,902	1,871	849	58	369	360	
Provisions and Write-off	580	2,630	(228)	(2,309)	(1,642)	(3,132)	
Net markup/interest income/(loss) after provisions	2,483	4,501	621	(2,252)	(1,273)	(2,773)	
Non-markup/interest income	1,065	847	1,185	662	385	777	
Non-markup/interest expenses	(4,077)	(3,988)	(3,041)	(2,663)	(1,946)	(1,324)	
Profit/(Loss) before Taxation	(529)	1,359	(1,236)	(4,252)	(2,834)	(3,320)	
Profit/(Loss) after Taxation	(344)	695	(1,131)	(2,903)	(2,014)	(3,041)	
<b>FINANCIAL RATIOS</b>							
Income/Expense Ratio	Times	0.728	0.681	0.669	0.270	0.387	0.858
Return on average Equity (ROE)	%	(6.26)	13.27	(34.29)	(94.34)	(61.30)	(98.44)
Return on average Assets (ROA)	%	(0.38)	0.85	(1.60)	(4.67)	(3.69)	(5.39)
NPLs to Gross Advances ratio	%	20.02	19.93	23.35	29.29	33.64	19.53
Earning assets to Total Assets ratio	%	75.68	77.85	80.63	77.69	79.93	83.07
Earnings per share	Rs.	(0.13)	0.26	(0.49)	(2.52)	(2.83)	(5.49)
Gross spread ratio (NIM/Gross interest income)	%	22.16	22.31	12.53	0.98	8.05	7.49
<b>NON-FINANCIAL INFORMATION</b>							
Number of branches		85	85	85	82	65	55
Number of employees		2,750	2,564	2,179	1,959	1,721	1,253

# Value Added Statement

VALUE ADDED	2012		2011	
	Rs. '000	%	Rs. '000	%
Net Interest Income	1,902,228	86	1,870,838	55
Non-Interest Income	1,064,666	49	846,586	25
Operating Expenses excluding staff costs, depreciation and amortization	(1,360,498)	(62)	(1,970,370)	(58)
Provision against advances, investments & others	580,489	27	2,629,853	78
<b>Value added for distribution</b>	<b><u>2,186,885</u></b>	<b><u>100</u></b>	<b><u>3,376,907</u></b>	<b><u>100</u></b>
To employees				
Remuneration, provident fund and other benefits	2,253,052	103	1,927,634	57
To government				
Income tax	(184,998)	(8)	663,855	20
To expansion and growth				
Depreciation	387,419		85,898	
Amortization	75,683		4,457	
Retained Earnings	(344,271)		695,063	
	118,831	5	785,418	23
	<b><u>2,186,885</u></b>	<b><u>100</u></b>	<b><u>3,376,907</u></b>	<b><u>100</u></b>

	2012 Rs. M	12 Vs 11 %	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 %
<b>BALANCE SHEET</b>												
<b>ASSETS</b>												
Cash and balances with treasury banks	4,007	(10)	4,436	30	3,415	9	3,121	2	3,070	(5)	3,224	(19)
Balances with other banks	86	(9)	94	6	89	(41)	151	(21)	190	47	129	(79)
Lending to financial institutions	5,662	83	3,101	195	1,051	(2)	1,068	(22)	1,377	64	840	(82)
Investments (net)	12,735	(27)	17,548	33	13,190	(35)	20,179	68	12,012	(33)	17,859	13
Advances (net)	49,000	(2)	49,936	13	44,354	38	32,097	3	31,087	20	25,875	(11)
Operating fixed assets	4,637	(2)	4,756	95	2,444	(34)	3,721	24	3,002	27	2,368	2
Deferred tax assets (net)	3,615	1	3,569	(15)	4,193	5	3,976	52	2,614	48	1,768	74
Other assets	9,319	29	7,230	84	3,933	(10)	4,351	90	2,292	43	1,598	(4)
<b>TOTAL ASSETS</b>	<b>89,062</b>	<b>(2)</b>	<b>90,670</b>	<b>25</b>	<b>72,669</b>	<b>6</b>	<b>68,664</b>	<b>23</b>	<b>55,645</b>	<b>4</b>	<b>53,661</b>	<b>(9)</b>
<b>LIABILITIES</b>												
Bills payable	1,979	18	1,679	101	837	31	638	48	432	(24)	571	40
Borrowings from financial institutions	11,377	(36)	17,782	80	9,871	(35)	15,088	73	8,739	27	6,880	62
Deposits and other accounts	69,050	8	64,072	15	55,706	12	49,610	21	41,057	(3)	42,374	(14)
Sub-ordinated loan	-	-	-	-	-	-	-	-	-	(100)	650	-
Liabilities against assets subject to finance lease	-	-	-	-	-	(100)	10	(74)	40	(50)	80	27
Other liabilities	1,302	(13)	1,499	5	1,421	(9)	1,555	57	987	7	925	12
<b>TOTAL LIABILITIES</b>	<b>83,707</b>	<b>(2)</b>	<b>85,032</b>	<b>25</b>	<b>67,835</b>	<b>1</b>	<b>66,901</b>	<b>31</b>	<b>51,254</b>	<b>-</b>	<b>51,480</b>	<b>(7)</b>
<b>NET ASSETS</b>	<b>5,354</b>	<b>(5)</b>	<b>5,639</b>	<b>17</b>	<b>4,834</b>	<b>174</b>	<b>1,763</b>	<b>(60)</b>	<b>4,391</b>	<b>101</b>	<b>2,180</b>	<b>(45)</b>
<b>REPRESENTED BY</b>												
Share capital	26,716	-	26,716	-	26,716	197	9,003	-	9,003	80	5,002	30
Reserves	163	17	139	-	-	(100)	225	3	219	-	219	-
Discount on issue of rights shares	(13,285)	0	(13,285)	-	(13,285)	-	-	-	-	-	-	-
Accumulated loss	(8,400)	(4)	(8,055)	6	(8,614)	5	(9,031)	(47)	(6,132)	(49)	(4,120)	(281)
Surplus on revaluation of assets (net of tax)	160	30	123	627	17	(99)	1,566	20	1,301	21	1,080	7
<b>PROFIT AND LOSS ACCOUNT</b>	<b>5,354</b>	<b>(5)</b>	<b>5,639</b>	<b>17</b>	<b>4,834</b>	<b>174</b>	<b>1,763</b>	<b>(60)</b>	<b>4,391</b>	<b>101</b>	<b>2,180</b>	<b>(45)</b>
Markup/return/interest earned	8,584	2	8,386	24	6,776	15	5,913	29	4,588	(4)	4,800	29
Markup/return/interest expensed	(6,681)	3	(6,515)	10	(5,927)	1	(5,856)	39	(4,219)	(5)	(4,440)	36
Net markup/interest earned	1,902	2	1,871	120	849	1369	58	(84)	369	3	360	(20)
Provisions and Write-off	580	(78)	2,630	(1253)	(228)	(90)	(2,309)	41	(1,642)	(48)	(3,132)	668
Net markup/interest income/(loss) after provisions	2,483	(45)	4,501	625	621	(128)	(2,252)	77	(1,273)	(54)	(2,773)	(6493)
Non-markup/interest income	1,065	26	847	(29)	1,185	79	662	72	385	(51)	777	10
Non-markup/interest expenses	(4,077)	2	(3,988)	31	(3,041)	14	(2,663)	37	(1,946)	47	(1,324)	14
Profit/(Loss) before Taxation	(529)	(139)	1,359	(210)	(1,236)	(71)	(4,252)	50	(2,834)	(15)	(3,320)	712
Taxation	185	128	(664)	(736)	104	(92)	1,350	65	820	194	279	165
<b>Profit/(Loss) after Taxation</b>	<b>(344)</b>	<b>(150)</b>	<b>695</b>	<b>(161)</b>	<b>(1,131)</b>	<b>(61)</b>	<b>(2,903)</b>	<b>44</b>	<b>(2,014)</b>	<b>(34)</b>	<b>(3,041)</b>	<b>901</b>

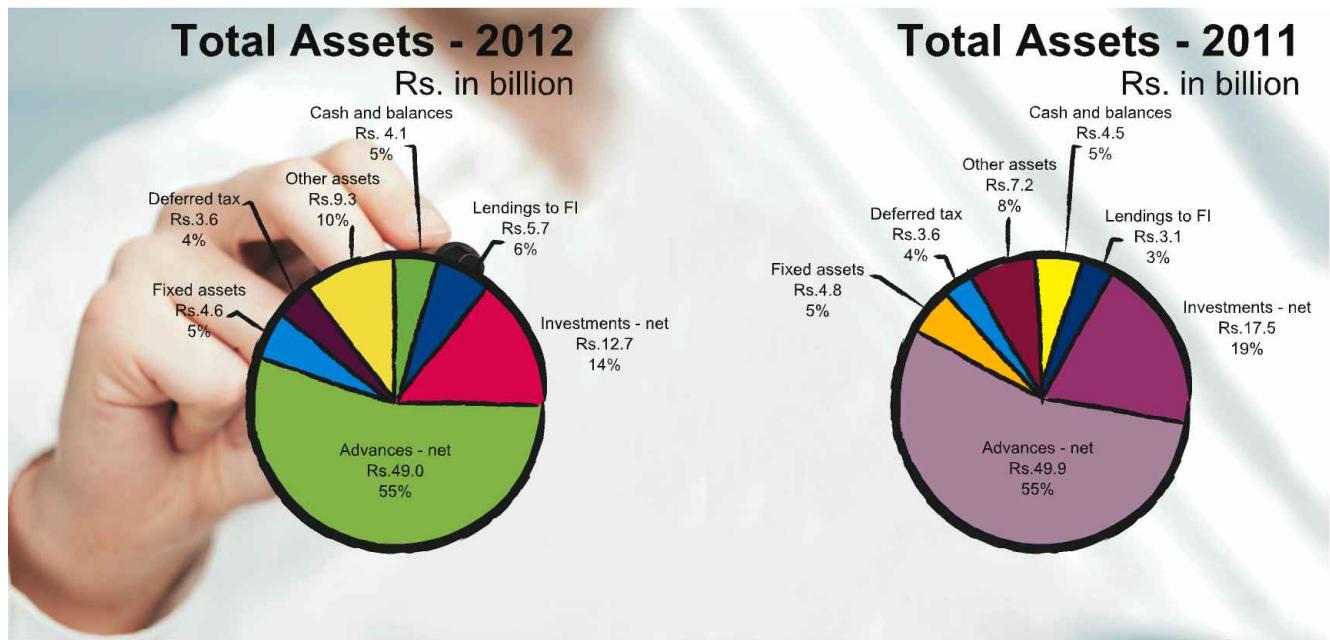
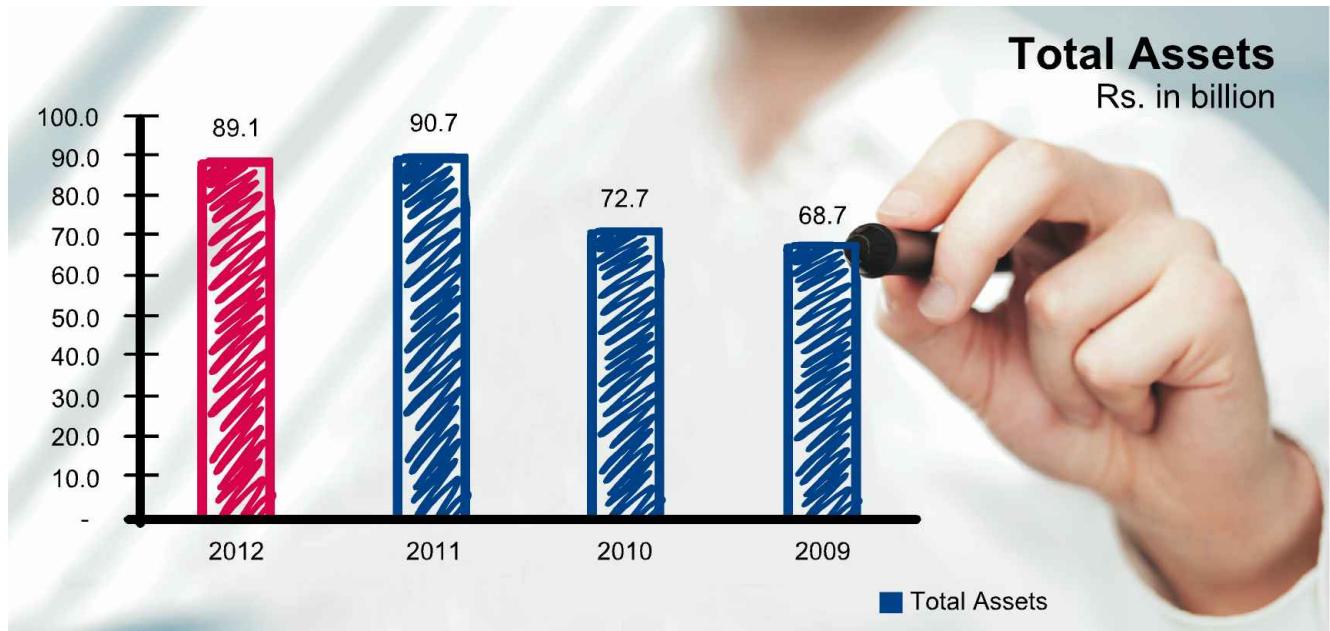
	2012		2011		2010		2009		2008		2007	
	Rs. M	%	Rs. M	%	Rs. M	%	Rs. M	%	Rs. M	%	Rs. M	%
<b>BALANCE SHEET</b>												
<b>ASSETS</b>												
Cash and balances with treasury banks	4,007	4	4,436	5	3,415	5	3,121	5	3,070	6	3,224	6
Balances with other banks	86	-	94	-	89	-	151	-	190	-	129	-
Lending to financial institutions	5,662	6	3,101	3	1,051	1	1,068	2	1,377	2	840	2
Investments (net)	12,735	14	17,548	19	13,190	18	20,179	29	12,012	22	17,859	33
Advances (net)	49,000	55	49,936	55	44,354	61	32,097	47	31,087	56	25,875	48
Operating fixed assets	4,637	5	4,756	5	2,444	3	3,721	5	3,002	5	2,368	4
Deferred tax assets (net)	3,615	4	3,569	4	4,193	6	3,976	6	2,614	5	1,768	3
Other assets	9,319	10	7,230	8	3,933	5	4,351	6	2,292	4	1,598	3
<b>TOTAL ASSETS</b>	<b>89,062</b>	<b>100</b>	<b>90,670</b>	<b>100</b>	<b>72,669</b>	<b>100</b>	<b>68,664</b>	<b>100</b>	<b>55,645</b>	<b>100</b>	<b>53,661</b>	<b>100</b>
<b>LIABILITIES</b>												
Bills payable	1,979	2	1,679	2	837	1	638	1	432	1	571	1
Borrowings from financial institutions	11,377	13	17,782	20	9,871	14	15,088	22	8,739	16	6,880	13
Deposits and other accounts	69,050	78	64,072	71	55,706	77	49,610	72	41,057	74	42,374	79
Sub-ordinated loan	-	-	-	-	-	-	-	-	-	-	650	1
Liabilities against assets subject to finance lease	-	-	-	-	-	-	10	-	40	-	80	-
Other liabilities	1,302	2	1,499	2	1,421	2	1,555	2	987	2	925	2
<b>TOTAL LIABILITIES</b>	<b>83,707</b>	<b>94</b>	<b>85,032</b>	<b>94</b>	<b>67,835</b>	<b>93</b>	<b>66,901</b>	<b>97</b>	<b>51,254</b>	<b>92</b>	<b>51,480</b>	<b>96</b>
<b>NET ASSETS</b>	<b>5,354</b>	<b>6</b>	<b>5,639</b>	<b>6</b>	<b>4,834</b>	<b>7</b>	<b>1,763</b>	<b>3</b>	<b>4,391</b>	<b>8</b>	<b>2,180</b>	<b>4</b>
<b>REPRESENTED BY</b>												
Share capital	26,716	30	26,716	29	26,716	37	9,003	13	9,003	16	5,002	9
Reserves	163	-	139	-	-	-	225	-	219	-	219	-
Discount on issue of rights shares	(13,285)	(15)	(13,285)	(15)	(13,285)	(18)	-	-	-	-	-	-
Accumulated loss	(8,400)	(9)	(8,055)	(9)	(8,614)	(12)	(9,031)	(13)	(6,132)	(11)	(4,120)	(8)
Surplus on revaluation of assets (net of tax)	160	-	123	-	17	-	1,566	2	1,301	2	1,080	2
<b>5,354</b>	<b>6</b>	<b>5,639</b>	<b>6</b>	<b>4,834</b>	<b>7</b>	<b>1,763</b>	<b>3</b>	<b>4,391</b>	<b>8</b>	<b>2,180</b>	<b>4</b>	
<b>PROFIT AND LOSS ACCOUNT</b>												
Markup/return/interest earned	8,584	89	8,386	91	6,776	85	5,913	90	4,588	92	4,800	86
Markup/return/interest expensed	(6,681)	(69)	(6,515)	(71)	(5,927)	(74)	(5,856)	(89)	(4,219)	(85)	(4,440)	(80)
Net markup/interest earned	1,902	20	1,871	20	849	11	58	1	369	7	360	6
Provisions and Write-off	580	6	2,630	28	(228)	(3)	(2,309)	(35)	(1,642)	(33)	(3,132)	(56)
Net markup/interest income/(loss) after provisions	2,483	26	4,501	49	621	8	(2,252)	(34)	(1,273)	(26)	(2,773)	(50)
Non-markup/interest income	1,065	11	847	9	1,185	15	662	10	385	8	777	14
Non-markup/interest expenses	(4,077)	(42)	(3,988)	(43)	(3,041)	(38)	(2,663)	(41)	(1,946)	(39)	(1,324)	(24)
Profit/(Loss) before Taxation	(529)	(5)	1,359	15	(1,236)	(16)	(4,252)	(65)	(2,834)	(57)	(3,320)	(60)
Taxation	185	2	(664)	(7)	104	1	1,350	21	820	16	279	5
<b>Profit/(Loss) After Taxation</b>	<b>(344)</b>	<b>(4)</b>	<b>695</b>	<b>8</b>	<b>(1,131)</b>	<b>(14)</b>	<b>(2,903)</b>	<b>(44)</b>	<b>(2,014)</b>	<b>(41)</b>	<b>(3,041)</b>	<b>(55)</b>

# Graphical Presentation of Financial Progress

Annual Report 2012

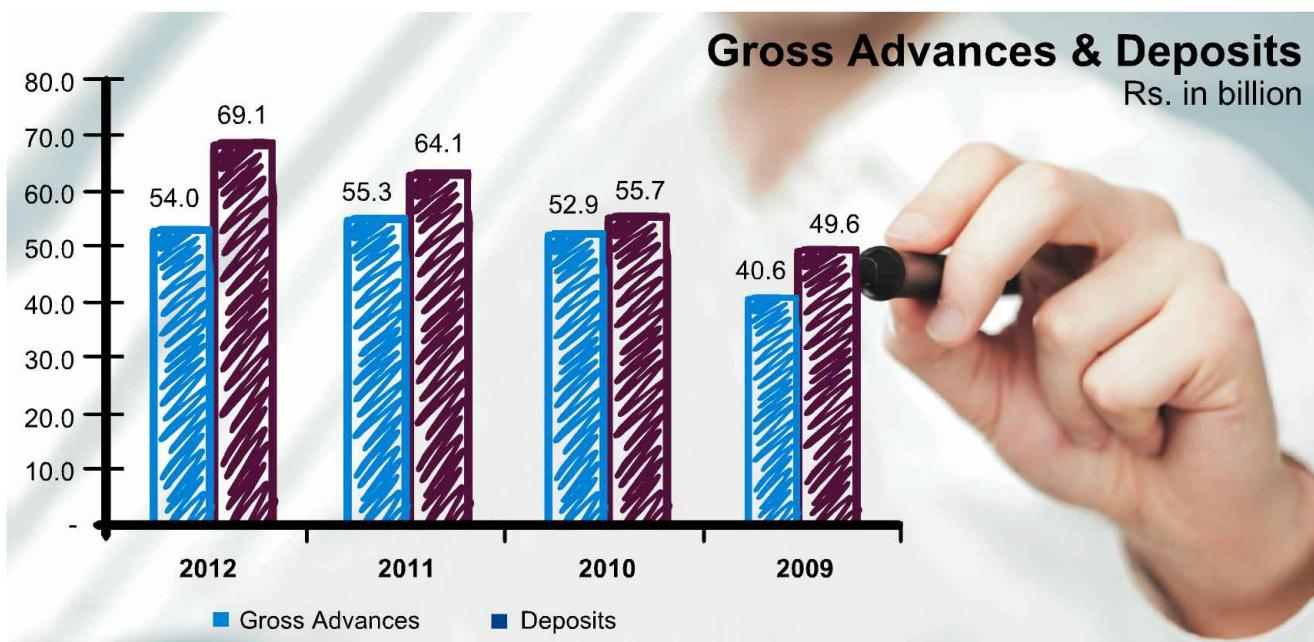
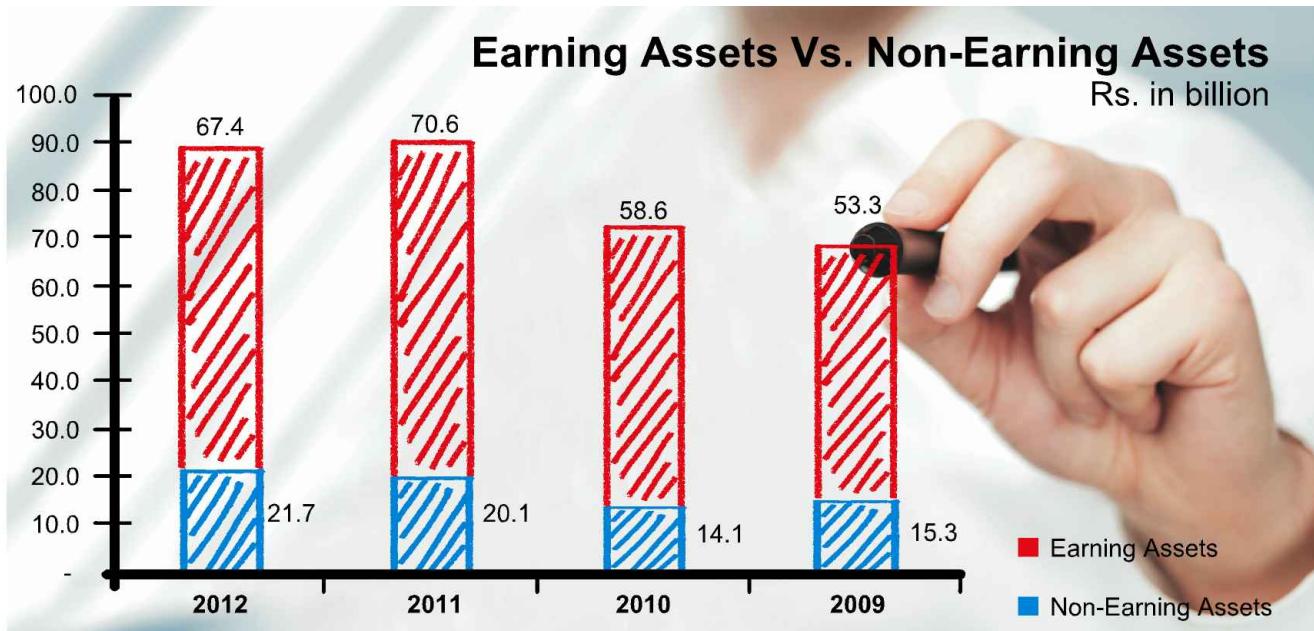


# Graphical Presentation of Financial Progress



# Graphical Presentation of Financial Progress

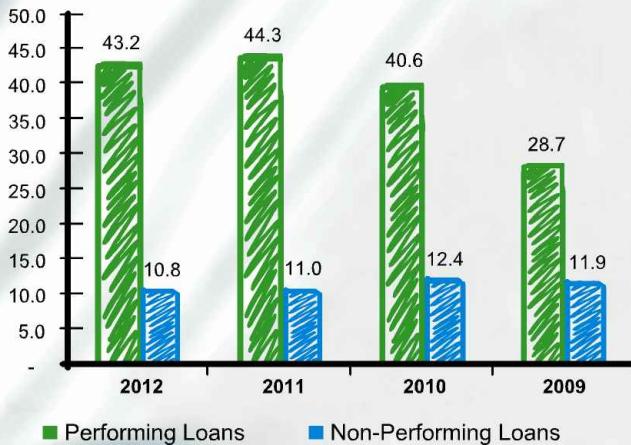
Annual Report 2012



# Graphical Presentation of Financial Progress

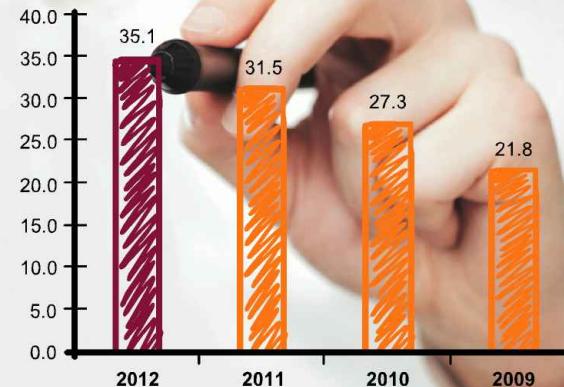
## Performing Vs. Non-Performing Loans

Rs. in billion



## CASA (Current & Saving Deposits)

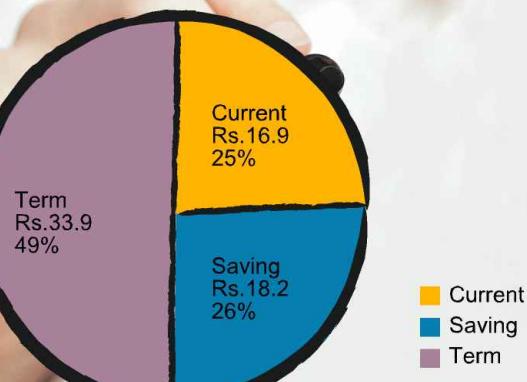
Rs. in billion



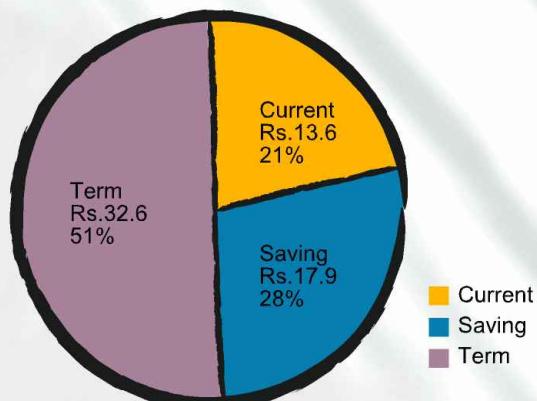
## Deposit Mix

Rs. in billion

2012



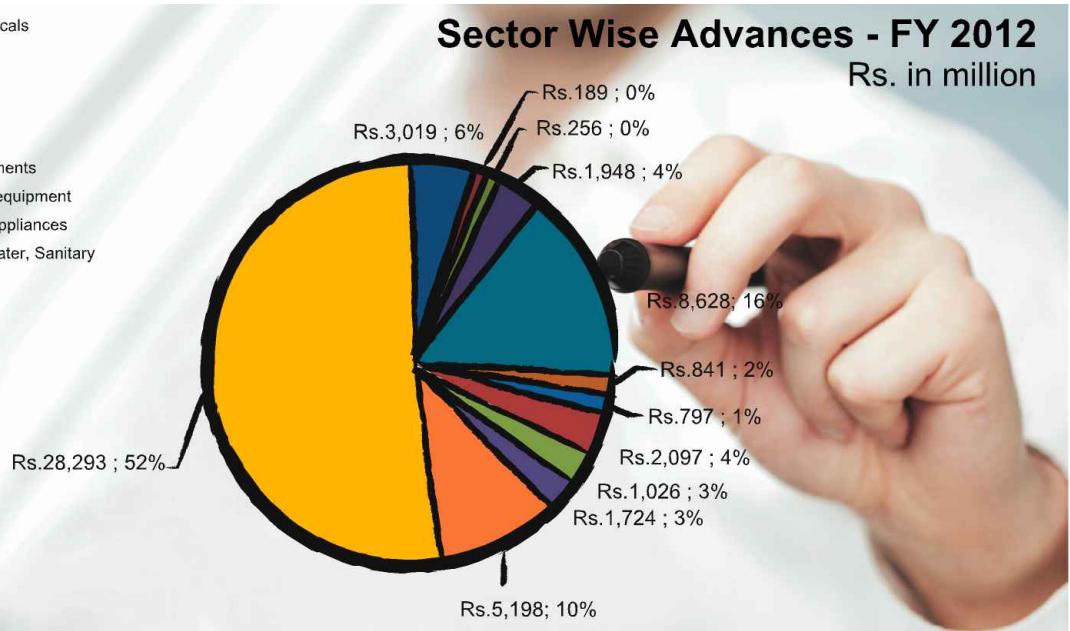
2011



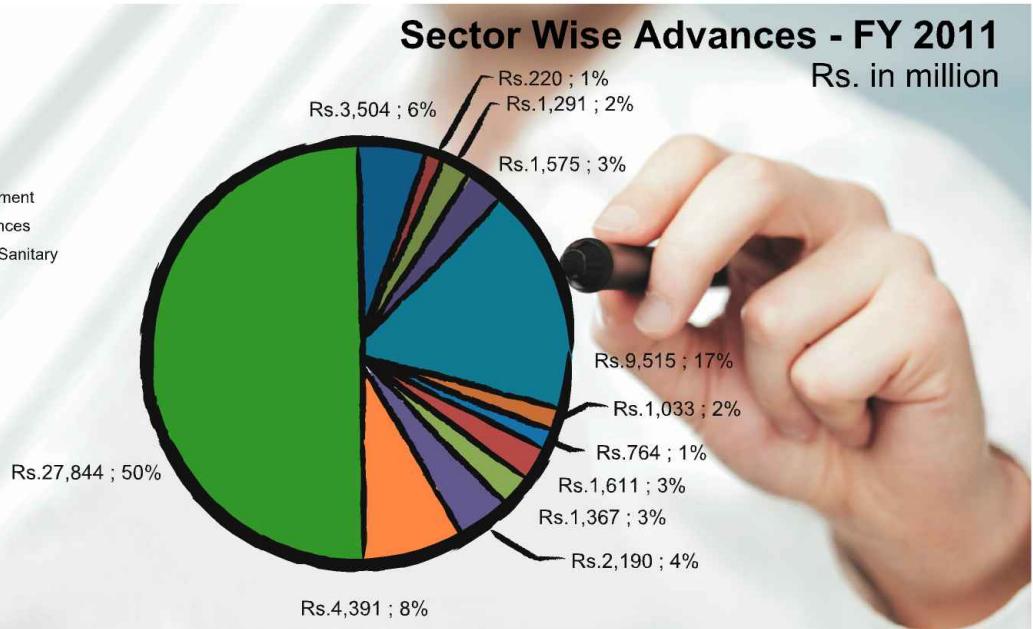
# Graphical Presentation of Financial Progress

Annual Report 2012

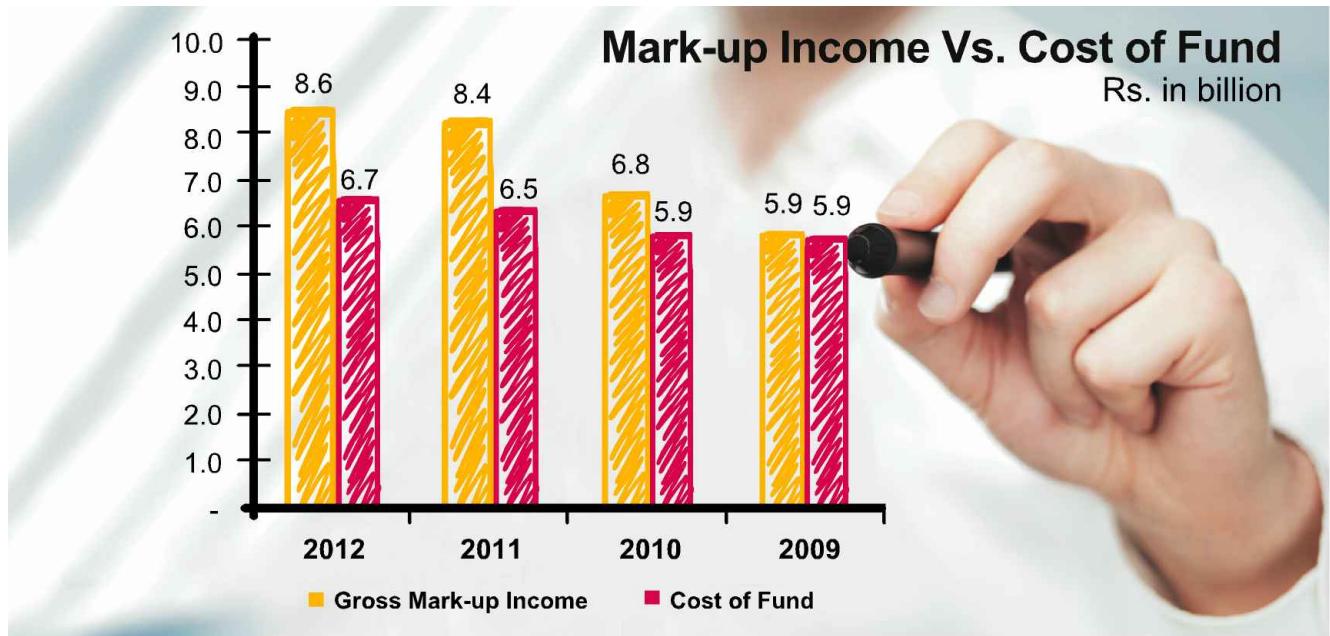
- Chemical and Pharmaceuticals
- Agribusiness
- Cement
- Sugar
- Textile
- Footwear and Leather garments
- Automobile/transportation equipment
- Electronics and electrical appliances
- Power (electricity), Gas, Water, Sanitary
- Financial
- Individuals
- Others



- Chemical and Pharmaceuticals
- Agribusiness
- Cement
- Sugar
- Textile
- Footwear and Leather garments
- Automobile/transportation equipment
- Electronics and electrical appliances
- Power (electricity), Gas, Water, Sanitary
- Financial
- Individuals
- Others



# Graphical Presentation of Financial Progress



	Note	2012	2011
		Rupees in ' 000	
<b>ASSETS</b>			
Cash and balances with treasury banks	7	4,006,569	4,436,142
Balances with other banks	8	86,002	94,322
Lendings to financial institutions	9	5,662,423	3,100,803
Investments - net	10	12,734,898	17,547,640
Advances - net	11	49,000,494	49,936,279
Operating fixed assets	12	4,637,334	4,755,911
Deferred tax assets - net	13	3,615,231	3,569,417
Other assets	14	9,318,619	7,229,763
		<b>89,061,570</b>	<b>90,670,277</b>
<b>LIABILITIES</b>			
Bills payable	15	1,978,549	1,679,456
Borrowings	16	11,376,781	17,781,686
Deposits and other accounts	17	69,050,447	64,071,908
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	18	1,302,008	1,498,720
		<b>83,707,785</b>	<b>85,031,770</b>
		<b>5,353,785</b>	<b>5,638,507</b>
<b>NET ASSETS</b>			
<b>REPRESENTED BY</b>			
Share capital	19	26,716,048	26,716,048
Reserves		162,762	139,013
Discount on issue of right shares		(13,284,674)	(13,284,674)
Accumulated loss		(8,400,375)	(8,054,519)
		<b>5,193,761</b>	<b>5,515,868</b>
Surplus / (deficit) on revaluation of assets - net of deferred tax	20	<b>160,024</b>	<b>122,639</b>
		<b>5,353,785</b>	<b>5,638,507</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	21		

The annexed notes 1 to 45 and Annexure I and II 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, 2012

	Note	2012 Rupees in ' 000	2011 Rupees in ' 000
Mark-up / return / interest earned	23	8,583,566	8,385,608
Mark-up / return / interest expensed	24	6,681,338	6,514,770
<b>Net Mark-up / Interest Income</b>		<b>1,902,228</b>	<b>1,870,838</b>
(Reversal) against non-performing loans and advances - net	11.3.1	(158,479)	(2,583,376)
Provision against consumer financing - net	11.3	46,921	98,066
Recovery against written off loan	14.2	(514,721)	(181,045)
Provision for diminution in the value of investments - net	10.14	20,308	2,985
Impairment in the value of investments		22,093	30,569
Bad debts written off directly	11.6	3,389	2,948
		<b>(580,489)</b>	<b>(2,629,853)</b>
<b>Net Mark-up / Interest Income after provisions</b>		<b>2,482,717</b>	<b>4,500,691</b>
<b>NON MARK-UP / INTEREST INCOME</b>			
Fee, Commission and Brokerage income	26.1	492,410	448,116
Dividend income		53,767	50,427
Income from dealing in foreign currencies		209,941	157,612
Gain / (Loss) on sale of securities - net	25	84,381	70,167
Unrealized gain on revaluation of investments - held for trading	10.1.2	50,346	-
Other income	26	173,821	120,264
<b>Total non-markup / interest income</b>		<b>1,064,666</b>	<b>846,586</b>
		<b>3,547,383</b>	<b>5,347,277</b>
<b>NON MARK-UP / INTEREST EXPENSES</b>			
Administrative expenses	27	4,213,559	3,779,045
Other (reversal) / provisions / impairment / write offs	28	(148,500)	179,832
Other charges	29	11,593	29,482
<b>Total non-markup / interest expenses</b>		<b>4,076,652</b>	<b>3,988,359</b>
		<b>(529,269)</b>	<b>1,358,918</b>
Extra ordinary / unusual items		-	-
<b>(LOSS) / PROFIT BEFORE TAXATION</b>		<b>(529,269)</b>	<b>1,358,918</b>
Taxation - Current	30	-	92,322
- Prior		(92,322)	-
- Deferred		(92,676)	571,533
		<b>(184,998)</b>	<b>663,855</b>
<b>(LOSS) / PROFIT AFTER TAXATION</b>		<b>(344,271)</b>	<b>695,063</b>
(Loss) / Earnings per share - Basic and Diluted	31	<b>(0.13)</b>	<b>0.26</b>

The annexed notes 1 to 45 and Annexure I and II form an integral part of these financial statements.

# Statement of Comprehensive Income For the year ended December 31, 2012

	Note	2012	2011
		Rupees in ' 000	Rupees in ' 000
<b>(Loss) / Profit for the year</b>		<b>(344,271)</b>	<b>695,063</b>
<b>Other comprehensive income</b>		<b>-</b>	<b>-</b>
Reversal of provision against upgraded rescheduled advances			
<b>Comprehensive income transferred to equity</b>		<b>(344,271)</b>	<b>695,063</b>
<b>Components of comprehensive income not reflected in equity</b>			
Surplus / (deficit) on revaluation of assets - net			
Deferred tax liability on revaluation of assets	13.1	<b>84,248</b>	<b>157,780</b>
	20	<b>(46,863)</b>	<b>(52,003)</b>
		<b>37,385</b>	<b>105,777</b>

The annexed notes 1 to 45 and Annexure I and II 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, 2012

	Note	2012 Rupees in ' 000	2011 Rupees in ' 000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
(Loss) / Profit before taxation		(529,269)	1,358,918
Less: Dividend income		(53,767)	(50,427)
		<b>(583,036)</b>	<b>1,308,491</b>
<b>Adjustments for non-cash items</b>			
Depreciation	12.2	387,419	380,848
Amortization of intangible assets	12.3	75,683	85,898
Amortization of premium on investment		81,136	222,915
Reversal against non-performing loans and advances - net	11.3.1	(158,479)	(2,583,376)
Provision against consumer financing	11.3	46,921	98,066
Recovery against written off loan	14.2	(514,721)	(181,045)
Provision for diminution in the value of investments - net	10.14	20,308	2,985
Impairment in the value of Investment		22,093	30,569
Unrealized Gain on revaluation of investments - held for trading	10.1.2	(50,346)	-
Other (reversal) / provisions written back	28	(148,500)	179,832
Gain on sale of operating fixed assets	26	(22,884)	(3,208)
		<b>(261,370)</b>	<b>(1,766,516)</b>
		<b>(844,406)</b>	<b>(458,025)</b>
<b>(Increase) / Decrease in operating assets</b>			
Lendings to financial institutions		(2,561,620)	(2,050,049)
Net investments in Held-for-Trading securities	10.1.2	(1,412,535)	20,535
Advances		1,047,343	(3,096,563)
Other assets (excluding advance taxation)		(1,285,256)	(3,294,971)
		<b>(4,212,068)</b>	<b>(8,421,048)</b>
<b>(Decrease) / Increase in operating liabilities</b>			
Bills payable		299,093	842,525
Borrowings from financial institutions		(6,404,905)	7,910,545
Deposits		4,978,539	8,365,720
Other liabilities (excluding current taxation)		(152,636)	79,116
		<b>(1,279,909)</b>	<b>17,197,906</b>
Income tax paid		(6,336,383)	8,318,833
<b>Net cash flow (used in) / from operating activities</b>		<b>(92,953)</b>	<b>(93,603)</b>
		<b>(6,429,336)</b>	<b>8,225,230</b>

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, 2012

### **CASH FLOW FROM INVESTING ACTIVITIES**

Net investment in Available-for-Sale securities  
 Net investment in Held-to-Maturity securities  
 Dividend received  
 Investment in operating fixed assets - net  
 Sale proceeds of property & equipment disposed off  
**Net cash flow from / (used in) investing activities**

Note	2012	2011
	Rupees in ' 000	
	<b>2,922,125</b>	<b>(6,034,126)</b>
	<b>3,367,571</b>	<b>1,561,124</b>
	<b>54,588</b>	<b>50,001</b>
	<b>(462,902)</b>	<b>(2,805,615)</b>
	<b>110,061</b>	<b>29,971</b>
	<b>5,991,443</b>	<b>(7,198,645)</b>
12.6		
	<b>-</b>	<b>-</b>
	<b>-</b>	<b>-</b>
	<b>-</b>	<b>-</b>
	<b>(437,893)</b>	<b>1,026,585</b>
	<b>4,530,464</b>	<b>3,503,879</b>
	<b>4,092,571</b>	<b>4,530,464</b>
32		

### **CASH FLOW FROM FINANCING ACTIVITIES**

Issuance of right shares  
 Expenses on issuance of right shares  
 Payment of lease obligations  
**Net cash flow from financing activities**  
**(Decrease) / Increase in cash and cash equivalents**  
 Cash and cash equivalents at January 01,  
**Cash and cash equivalents at December 31, 2012**

The annexed notes 1 to 45 and Annexure I and II 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, 2012

	Note	Share Capital	Discount on Issue of Shares	Share Deposit Money	*Statutory Reserves	Accumulated Profit / (Losses)	Total Equity
		Rupees In '000					
<b>Balance as at January 01, 2011</b>		26,716,048	(13,284,674)	-	-	(8,614,289)	4,817,085
<b>Total comprehensive Income for the year</b>		-	-	-	-	695,063	695,063
Profit after tax for the year ended December 31, 2011		-	-	-	-	695,063	695,063
		26,716,048	(13,284,674)	-	-	(7,919,226)	5,512,148
Transfer from surplus on revaluation of fixed assets on account of incremental depreciation- net of tax	20.3	-	-	-	-	3,720	3,720
Transfer to statutory reserve		-	-	-	139,013	(139,013)	-
		-	-	-	139,013	(135,293)	3,720
<b>Balance as at December 31, 2011</b>		26,716,048	(13,284,674)	-	139,013	(8,054,519)	5,515,868
<b>Total comprehensive Income for the year</b>		-	-	-	-	(344,271)	(344,271)
Loss after tax for the year ended December 31, 2012		-	-	-	-	(344,271)	(344,271)
Transfer from surplus on revaluation of fixed assets on account of incremental depreciation- net of tax	20.3	-	-	-	-	3,720	3,720
Transfer from surplus on revaluation of fixed assets on account of disposal of assets - net of tax		-	-	-	-	18,444	18,444
Transfer to statutory reserve		-	-	-	23,749	(23,749)	-
		-	-	-	23,749	(1,585)	22,164
<b>Balance as at December 31, 2012</b>		<b>26,716,048</b>	<b>(13,284,674)</b>	<b>-</b>	<b>162,762</b>	<b>(8,400,375)</b>	<b>5,193,761</b>

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

The annexed notes 1 to 45 and Annexure I and II form an integral part of these financial statements.

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President & CEO

Munnawar Hamid, OBE  
Chairman

Tariq Iqbal Khan  
Director

Humayun Bashir  
Director

## 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. The Bank operates through 85 branches (2011: 85) including 7 (2011: Nil) Islamic banking branches 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 October 2012 is 'A-3' and 'A-' respectively.
- 1.2** Majority shareholding 82.17% in the Bank as on December 31, 2012 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 SBP vide BSD Circular No. 7 dated April 15, 2009 set the Minimum Capital Requirement (MCR) for Banks of Rs. 9 billion (net of losses), to be achieved upto December 31, 2012 and Rs. 10 billion upto December 31, 2013. Further, the Bank is also required to maintain a Capital Adequacy Ratio (CAR) of at least 10% of the risk weighted assets of the Bank. The capital of the Bank (net of losses) as of December 31, 2012 amounted to Rs. 5.19 billion and CAR, as disclosed in note 39, remained below the prescribed level of 10%. 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.

In order to meet the above shortfall and improve the financial condition of the Bank, the management and sponsors of the Bank are taking following steps:

**- Issuance of Preference Share to generate capital of Rs. 2.4 Billion**

State Bank of Pakistan vide its letter No. BSD / CS / 11653/12 dated October 4, 2012 has granted its in-principle approval for the issuance of perpetual non-cumulative preference shares (PNCPS) of Rs. 2,400 million (inclusive of a Green Shoe Option of Rs. 1,000 million) by the Bank, by way of issue of capital other than a Rights Issue. This will enable the Bank to issue 960 million PNCPS at an indicative face value of PKR 2.50 each to qualified institutional investors and high net worth individuals, which will convert into common shares after three years from the date of issue. Proceeds from the Issue (a total of Rs. 2,400 million) will contribute towards Tier - I Capital of the Bank for the purpose of calculating Minimum Capital Requirements and Capital Adequacy Ratio as stipulated by the State Bank of Pakistan (SBP) from time to time and will be utilized in on-going business operations of the Bank. As a result, it is expected that the Bank's credit rating will improve, giving a further impetus to the Bank's market position and consequent growth in all business units, especially Consumer and Islamic Banking, as well as growth of Deposits and Assets especially in the Middle Market, eventually leading the Bank to become a profitable full service Commercial Bank. SECP has also granted the Bank a 3 year extension for subscription of the rights, in line with the tenor of the PNCPS.

**- Strategic Plan**

The Bank has prepared a 3 year strategic plan including projections for taxable profits for three years for the purpose of setting future course of action of the bank. These projections are approved by the Board and envisage additional capital injection through equity and sub-ordinated debt into the Bank and indicate future profitable operations based on various assumptions such as the sale of OREO of Rs. 3.6 billion, growth of deposits and advances, investment returns, future loan losses, interest rates, cost of funds etc.

**- Relaxation by State Bank of Pakistan (SBP)**

The Bank has sought extension from the SBP till December 31, 2012 to finalise its capital injection plan and expects a favourable response from the SBP in this regard.

# Notes to the Financial Statements For the year ended December 31, 2012

Based on the above, the Bank's management and the Board have made an assessment and are satisfied that the Bank has adequate resources to continue its business in the foreseeable future and therefore, have prepared these financial statements on a going concern basis. In making such assessments, the Board has taken into account material uncertainties with respect to events or conditions that may impact the recapitalisation plan of the Bank and consequently, its sustainability in future.

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.

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## 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 (IASB) 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.

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## 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 on or after January 01, 2013.

4.1

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. Had the change been taken in current year, loss before taxation would have been lower by Rs.29.11 million.

4.2

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. These amendments have no impact on the financial statements of the Bank.

- 4.3** 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.
- 4.4** 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 the financial statements of the Bank.
- 4.5** 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.
- 4.6** Annual Improvements 2009-2011 (effective for annual periods beginning on or after January 1, 2013). The new cycle of improvements contains amendments to the following four standards, with consequential amendments to other standards and interpretations.
- 4.7** IAS 1 Presentation of Financial Statements is amended to clarify that only one comparative period - which is the preceding period - is required for a complete set of financial statements. If an entity presents additional comparative information, then that additional information need not be in the form of a complete set of financial statements. However, such information should be accompanied by related notes and should be in accordance with IFRS. Furthermore, it clarifies that the 'third statement of financial position', when required, is only required if the effect of restatement is material to statement of financial position.
- 4.8** IAS 16 Property, Plant and Equipment is amended to clarify the accounting of spare parts, stand-by equipment and servicing equipment. The definition of 'property, plant and equipment' in IAS 16 is now considered in determining whether these items should be accounted for under that standard. If these items do not meet the definition, then they are accounted for using IAS 2 Inventories. The amendment is not likely to have any material impact on the financial statements of the Bank.
- 4.9** IAS 32 Financial Instruments: Presentation - is amended to clarify that IAS 12 Income Taxes applies to the accounting for period taxes relating to distributions to holders of an equity instrument and transaction costs of an equity transaction. The amendment removes a perceived inconsistency between IAS 32 and IAS 12.
- 4.10** IAS 34 Interim Financial Reporting is amended to align the disclosure requirements for segment assets and segment liabilities in interim financial reports with those in IFRS 8 Operating Segments. IAS 34 now requires the disclosure of a measure of total assets and liabilities for a particular reportable segment. In addition, such disclosure is only required when the amount is regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.
- 4.11** 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. This improvement is not relevant to the Bank's financial statements.

## 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.

# Notes to the Financial Statements For the year ended December 31, 2012

## 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.

Rewvisions 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.

### 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 profit that are probable and will be available against which these unused tax losses can be utilized.

**5.1.7 Useful life of fixed assets**

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. This year the management changed the useful life of certain fixed assets. Please refer note no 12.5 for details.

**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**

**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.

# Notes to the Financial Statements For the year ended December 31, 2012

## c) Available-for-sale

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

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.

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.

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.

### 6.4.1 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.

### 6.4.2 Profit and loss on sale of investments

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.

#### **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.

# Notes to the Financial Statements For the year ended December 31, 2012

## 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.

**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 mark-up is recognized on receipt basis. Interest / Mark-up on rescheduled / restructured loans and advances and investments is recognized in accordance with the directives of SBP.

Profit on sukuk is recognised on accrual basis.

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 Murabaha**

Murabaha transactions are reflected as receivable at the invoiced amount. However, the profit on that sale revenue not due for payment is deferred by recording a credit to the "Deferred Profit Murabaha placement" account.

**6.13 Ijara**

In ijara the bank provides the assets on pre-agreed rentals for specific tenures to the customers.

**6.14 Non Banking Assets acquired in satisfaction of claims (OREO)**

Non banking assets are recognized at lowest market value (including transfer charges). The market value is determined after obtaining three valuations from the valuators included in the approved panel of Pakistan Banking Association (PBA).

Provision against non performing loans is reversed on acquisition of non banking assets. Further, recoveries against previously written off loans through OREO are recognised as income in the profit and loss account.

Gains and losses on disposal of non banking assets are recognised in the profit and loss account at the transaction date.

**6.15 Foreign currencies**

**6.15.1 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.

**6.15.2 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.

# Notes to the Financial Statements For the year ended December 31, 2012

## 6.16 Financial instrument

### 6.16.1 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.

### 6.16.2 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.

## 6.17 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.

## 6.18 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:

### 6.18.1 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, mortgages, auto finance, unsecured lending and SME lending (including SME trade).

### 6.18.2 Geographical segment

The Bank conducts all its operations in Pakistan.

## 6.19 Fiduciary assets

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

		Note	December 31, 2012	December 31, 2011
			Rupees in '000	
<b>7</b>	<b>CASH AND BALANCES WITH TREASURY BANKS</b>			
	<b>In hand</b>			
	Local currency		<b>660,754</b>	690,153
	Foreign currencies		<b>391,810</b>	190,594
	National prize bonds		<b>2,311</b>	1,289
	<b>With State Bank of Pakistan (SBP) in</b>	7.1		
	Local currency - current account		<b>1,824,436</b>	2,392,317
	Foreign currency - current account		<b>281,724</b>	270,711
	- deposit account		<b>784,727</b>	798,043
	<b>With National Bank of Pakistan (NBP) in</b>			
	Local currency current - account		<b>60,807</b>	93,035
			<b>4,006,569</b>	<b>4,436,142</b>

**7.1** Deposits with SBP are maintained to comply with the statutory requirements issued from time to time.

## 8 BALANCES WITH OTHER BANKS

<b>In Pakistan</b>				
On Current accounts			<b>25,384</b>	30,749
<b>Outside Pakistan</b>				
On Current accounts			<b>60,618</b>	63,573
			<b>86,002</b>	<b>94,322</b>

## 9 LENDINGS TO FINANCIAL INSTITUTIONS

Call money lendings	9.2	<b>200,000</b>	41,000
Repurchase agreement lendings (Reverse repo)	9.3	<b>5,462,423</b>	3,059,803
		<b>5,662,423</b>	<b>3,100,803</b>
<b>9.1 PARTICULARS OF LENDING</b>			
In local currency		<b>5,662,423</b>	3,100,803
In foreign currencies		<b>-</b>	<b>-</b>
		<b>5,662,423</b>	<b>3,100,803</b>

**9.2** This carries mark-up 9.50% (2011: 13.75%) per annum with maturity in January, 2013 from Burj Bank Limited.

## 9.3 Securities held as collateral against lendings to financial institutions

Note	2012			2011		
	Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
	Rupees in '000					
Market Treasury bills	9.3.1	<b>3,672,067</b>	<b>295,894</b>	<b>3,967,961</b>	2,499,669	- 2,499,669
Pakistan Investment bonds	9.3.2	<b>1,028,361</b>	<b>406,101</b>	<b>1,434,462</b>	497,134	- 497,134
Shares	9.3.3	<b>60,000</b>	-	<b>60,000</b>	63,000	- 63,000
		<b>4,760,428</b>	<b>701,995</b>	<b>5,462,423</b>	3,059,803	- 3,059,803

# Notes to the Financial Statements For the year ended December 31, 2012

- 9.3.1** These have been purchased under the resale agreements at markup rates ranging from 7.46% to 9.85% (2011: 11.90% to 11.95%) per annum with maturities upto February 2013.
- 9.3.2** These have been purchased under the resale agreements at the markup rates ranging from 9.40% to 11.15% (2011: 11.95% to 12.50%) per annum with maturities in January 2013.
- 9.3.3** These have been purchased under the resale agreements at the markup rates of 14% (2011: 15%) per annum with maturities in January 2013.
- 9.3.4** The market value of collateral held against reverse repurchase agreement lendings as of December 31, 2012 is Rs. 5,494 million.

10	<b>INVESTMENTS</b>	Note	2012			2011				
			Held by Bank	Given an collateral	Total	Held by Bank	Given an collateral	Total		
<b>Rupees in ' 000</b>										
<b>10.1 Investments by Types:</b>										
<b>Held for Trading Securities</b>										
Pakistan Investment Bonds	10.1.2 / 10.5	1,049,353	413,528	1,462,881	-	-	-	-		
Market Treasury Bills	10.3	123,984	5,601,041	5,725,025	403,410	6,627,271	7,030,681			
Pakistan Investment Bonds	10.1.2 / 10.5	-	-	-	687,793	1,610,410	2,298,203			
GOP Ijara Sukuk	10.4	3,137,856	-	3,137,856	3,041,258	-	3,041,258			
Mutual Funds	10.6	5,405	-	5,405	11,233	-	11,233			
Preference Shares - Listed	10.7	10,000	-	10,000	15,000	-	15,000			
TFC - Listed	10.8	320,174	-	320,174	143,435	113,834	257,269			
TFC - Unlisted	10.9	609,475	-	609,475	790,921	-	790,921			
Sukuk bond	10.10	11,775	-	11,775	11,775	-	11,775			
Ordinary Shares - Listed	10.11	1,300,699	-	1,300,699	661,109	-	661,109			
Ordinary Shares - Unlisted	10.12	5,680	-	5,680	37,026	-	37,026			
Available-for-Sale Securities		5,525,048	5,601,041	11,126,089	5,802,960	8,351,515	14,154,475			
<b>Available-for-Sale Securities</b>										
Market Treasury Bills	10.3	123,984	5,601,041	5,725,025	403,410	6,627,271	7,030,681			
Pakistan Investment Bonds	10.1.2 / 10.5	-	-	-	687,793	1,610,410	2,298,203			
GOP Ijara Sukuk	10.4	3,137,856	-	3,137,856	3,041,258	-	3,041,258			
Mutual Funds	10.6	5,405	-	5,405	11,233	-	11,233			
Preference Shares - Listed	10.7	10,000	-	10,000	15,000	-	15,000			
TFC - Listed	10.8	320,174	-	320,174	143,435	113,834	257,269			
TFC - Unlisted	10.9	609,475	-	609,475	790,921	-	790,921			
Sukuk bond	10.10	11,775	-	11,775	11,775	-	11,775			
Ordinary Shares - Listed	10.11	1,300,699	-	1,300,699	661,109	-	661,109			
Ordinary Shares - Unlisted	10.12	5,680	-	5,680	37,026	-	37,026			
Available-for-Sale Securities		5,525,048	5,601,041	11,126,089	5,802,960	8,351,515	14,154,475			
<b>Held to Maturity Securities</b>										
Pakistan Investment Bonds	10.1.1	-	-	-	1,145,367	2,184,756	3,330,123			
Term Finance Certificates - Listed		-	-	-	37,448	-	37,448			
Shares Reverse Repo (fully provided)		74,910	-	74,910	74,910	-	74,910			
Held to Maturity Securities		74,910	-	74,910	1,257,725	2,184,756	3,442,481			
Investment in associate	10.13	48,032	-	48,032	45,000	-	45,000			
		6,697,343	6,014,569	12,711,912	7,105,685	10,536,271	17,641,956			
Less: Provisions for diminution in value of investments	10.14	(106,871)	-	(106,871)	(86,563)	-	(86,563)			
Investments (net of provision)		6,590,472	6,014,569	12,605,041	7,019,122	10,536,271	17,555,393			
Surplus / (Deficit) on revaluation of - Available- for-sale investments	20.1	129,857	-	129,857	(7,753)	-	(7,753)			
Total Net Investments at market value		6,720,329	6,014,569	12,734,898	7,011,369	10,536,271	17,547,640			

- 10.1.1** The State of Bank of Pakistan vide letter no BSD/BRP-4/35398/15886/2011 dated December 28, 2011 granted permission to shift the total portfolio of Pakistan Investment Bonds of Rs. 3.81 billion from 'Held to maturity' category to 'Available for sale'. Accordingly, the Bank reclassified Pakistan Investment Bonds (maturing after the year 2012) of Rs. 1 billion on 3 January 2012 from Held to maturity to Available for sale category. A revaluation loss of Rs. 111 million was recognised in the profit and loss.
- 10.1.2** On December 31, 2012, the Bank again reclassified Pakistan Investment Bonds (maturing after the year 2012) of Rs. 1.46 billion from Available for sale category to Held for trading category. A revaluation gain of Rs. 50.346 million was recognised in the profit and loss.
- 10.1.3** This includes non performing investments (net of impairment) amounting to Rs. 290 million against which provision for diminution in value of investment of Rs. 107 million has been held as at December 31, 2012

		Note	December 31, 2012	December 31, 2011
			Rupees in '000	
<b>10.2</b>	<b>INVESTMENTS BY SEGMENTS</b>			
	<b>Federal Government Securities</b>			
	- Market Treasury Bills	10.3	<b>5,725,025</b>	7,030,681
	- Pakistan Investment Bonds	10.5	<b>1,462,881</b>	5,628,326
	- GOP Ijara Sukuk	10.4	<b>3,137,856</b>	3,041,258
			<b>10,325,762</b>	15,700,265
	<b>Fully paid-up ordinary shares</b>			
	- Listed companies	10.11	<b>1,300,699</b>	661,109
	- Unlisted companies	10.12	<b>5,680</b>	37,026
			<b>1,306,379</b>	698,135
	<b>Term Finance Certificate, Debentures, Bonds and Participation Term Certificates</b>			
	Term Finance certificates - Listed	10.8	<b>320,174</b>	294,717
	- Unlisted	10.9	<b>609,475</b>	790,921
	Sukuk Bond	10.10	<b>11,775</b>	11,775
			<b>941,424</b>	1,097,413
	<b>Other Investments</b>			
	Mutual fund units	10.6	<b>5,405</b>	11,233
	Preference shares - Listed	10.7	<b>10,000</b>	15,000
	Investment in associates	10.13	<b>48,032</b>	45,000
	Shares repo		<b>74,910</b>	74,910
			<b>138,347</b>	146,143
	<b>Total Investments at Cost</b>			
	Less: Provision for diminution in the value of investments	10.14	<b>12,711,912</b>	17,641,956
	<b>Investments (net of provision)</b>		<b>(106,871)</b>	(86,563)
			<b>12,605,041</b>	17,555,393
	Deficit on revaluation of held for trading investments		-	-
	Surplus / (Deficit) on revaluation of available for sale investments	20.1	<b>129,857</b>	(7,753)
	<b>Total Net Investments at market value</b>		<b>12,734,898</b>	<b>17,547,640</b>
<b>10.2.1</b>	<b>Strategic Investment</b>			
	<b>Available-for-sale securities</b>			
	Ordinary shares - listed	10.7	<b>10,000</b>	15,000
	Ordinary shares - Unlisted	10.12	<b>5,680</b>	37,026
	<b>Associates</b>	10.13	<b>48,032</b>	45,000
			<b>63,712</b>	<b>97,026</b>

# Notes to the Financial Statements For the year ended December 31, 2012

	<b>Name of investment</b>	<b>Maturity period</b>	<b>Principal payment</b>	<b>Coupon rate</b>	<b>Coupon M-up / payment</b>
<b>10.3</b>	Market Treasury Bills	January 2013 to June 2013	On maturity	9.26% to 11.15%	At maturity
<b>10.4</b>	GOP Ijara Sukuk	May 2014 to September 2015	On maturity	9.26% to 10.43%	Semi-annually
<b>10.5</b>	Pakistan Investment Bonds	July 2013 to September 2019	On maturity	9.26% to 12%	Semi-annually
<b>10.5.1</b>	These include securities having face value of Rs.47.70 million (2011: 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.				
				<b>2012</b>	<b>2011</b>
				<b>Rating long term / short term</b>	<b>Rating long term / short term</b>
				<b>Amount</b>	<b>Amount</b>
				<b>Rupees in '000</b>	<b>Rupees in '000</b>
<b>10.6</b>	<b>Mutual Fund Units</b>		<b>Note</b>		
	PICIC Growth Fund		10.11.4	<b>Unrated</b>	-
	Golden Arrow Selected Stocks Fund			<b>Unrated</b>	-
	Asian Stock Fund Limited			<b>Unrated</b>	<b>5,405</b>
					<b>5,405</b>
					<b>11,233</b>
<b>10.7</b>	<b>Preference Shares-Listed</b>				
	Masood Textile Mills Limited		10.2.1	<b>Unrated</b>	<b>10,000</b>
					<b>15,000</b>
<b>10.8</b>	<b>Term Finance Certificates-Listed</b>				
	Escort Investment Bank Limited*			<b>BB</b>	<b>1,998</b>
	Jahangir Siddiqui Company Limited			<b>AA+</b>	<b>50,000</b>
	Pakistan Mobile Communication Limited			<b>AA-</b>	<b>192,850</b>
	Orix Leasing Pakistan Limited			<b>AA+</b>	-
	Engro Fertilizer Limited			<b>A+</b>	<b>75,326</b>
					<b>320,174</b>
					<b>257,269</b>

\*This represents investments in Non-investment grade TFC's as per Mutual Funds Association of Pakistan (MUFAP)

## 10.8.1 Particulars of Listed Term Finance Certificates

Particulars	Redemption Terms	Profit Rate Per annum	Profit Payment	Maturity
Escort Investment Bank Limited*	In 6 equal semi annual instalments starting from Sep. 2012	8%	Semi - annually	Sep. 2014
Jahangir Siddiqui Company Limited	In 8 semi annual instalments starting from Dec. 2012	6M Kibor + 2.4%	Semi - annually	30-Oct-16
Pakistan Mobile Communication Limited	20 equal instalments	3M Kibor + 2.65%	Quarterly	29-Mar-17
Engro Fertilizer Limited	14 semiannual instalments comprising principal of 0.2% (four instalments), 3.98% (next four instalments), 6% (next four instalments) and 30% (last two instalments)	6M Kibor + 2.4%	Semi - annually	17-Dec-16

	Note	Rating long term / short term	2012		2011	
			Amount	Rupees in '000	Amount	Rupees in '000
<b>10.9</b>	<b>Term Finance Certificates-Unlisted</b>					
	Avari Hotels	A-	479,767		A-	479,767
	JDW Sugar Mills Limited	A	-		A+	106,667
	Gharibwal Cement Limited (fully provided)*	D	5,974		D	5,974
	Bank Al Falah Limited	AA-	-		AA-	62,950
	Faysal Bank Limited	AA-	4,996		AA-	10,563
	Azgard Nine Limited*	D	8,780		-	-
	Pak Libya Holding Company	AA	109,958		AA	125,000
			609,475			790,921

\*This represents investments in Non-performing TFC's as per Mutual Funds Association of Pakistan (MUFAP)

**10.9.1** Particulars of Unlisted Term Finance Certificates

Particulars	Redemption Terms	Profit Rate Per annum	Profit Payment	Maturity
Avari Hotels*	3 unequal instalments as per restructured schedule commencing from June 30, 2013	3 Month Kibor + 3.25%	Semi - annually	1-Nov-14
Faysal Bank Limited	Semi annually (0.02% of the outstanding principal)	6 Month Kibor + 2.2%	Semi - annually	11-Oct-17
Azgard Nine Limited	7 semi annual instalments commencing from the 24th month ending after March 31, 2012	Zero coupon	Semi - annually	15-Aug-17
Pak Libya Holding Company	10 equal instalments	6 Month Kibor + 1.6%	Semi - annually	7-Feb-16

\* Restructured

**10.10 Sukuk Bond**

Engro Fertilizer Ltd. TFC Sukuk	A-	11,775	AA	11,775
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**10.11 Ordinary Shares-Listed**

Adamjee Insurance Co. Limited				
Agritech Limited	10.11.2	AA	13,931	
AKD Capital Limited	10.11.4	D	304,662	
Askari Bank Limited		Unrated	8,467	Unrated
Bank Alfalah Limited		AA/A1+	25,966	
BIAFO Chemical Industries Limited	10.11.4	Unrated	44,553	AA/A1+
		Unrated	28,000	80,640

# Notes to the Financial Statements For the year ended December 31, 2012

Note	Rating long term / short term	2012		2011	
		Amount	Rupees in '000	Amount	Rupees in '000
10.11.3	Unrated	10,538		-	
	A-/A2	-	AA/A1+	94,055	
	AA/A1+	13,217		-	
	Unrated	58,980	Unrated	37,437	
	Unrated	14,970		-	
	Unrated	135,053	Unrated	135,115	
	AA+/A1+	52,023	AA+/A1+	20,535	
	Unrated	-	Unrated	17,274	
	AA/A1+	-	Unrated	19,250	
	Unrated	173,992		-	
10.11.4	AA+/A1+	-	AA+/A1+	26,095	
	AAA/A-1+	46,999	AAA/A-1+	69,182	
	AAA/A1+	5,276		-	
	Unrated	3,624		-	
	AA-/A1+	4,751		-	
	A-/A2	18,505		-	
	A/A-2	24,947	AA-/A1+	16,743	
	AA-/A1+	12,389	AA-/A1+	26,582	
	A+/A1	61,200	AA-/A1+	51,911	
	AA/A1+	14,051	AA/A1+	5,260	
	Unrated	4,885	Unrated	-	
	Unrated	3,125		-	
	AA+/A1+	11,227	AA+/A1+	50,115	
	AA+/A1+	-	Unrated	5,535	
	Unrated	10,276		-	
	Unrated	1,018		-	
	Unrated	5,723		-	
10.11.4	Unrated	61,491		-	
	AA-/A1+	5,602		-	
	A-/A2	77,100	A/A 2	2,580	
	A-/A2	10,000		-	
	A+/A1	3,958		-	
	AA+/A1+	30,200		-	
	D	-	A-/A 2	2,800	
		1,300,699		661,109	

\* This represents investment net of provision for impairment of Rs. 3.78 million recognised in current year.

- 10.11.1** This represents zero coupon PPTFCs acquired against markup settlement of Rs. 8.8 million on the credit facilities of Azgard Nine Limited.
- 10.11.2** During the year 2012, 8.7 million shares of Agritech Limited were acquired from Azgard Nine Limited as part of the multiple agreements including Master Restructuring Agreements (MRA). These shares were acquired at an agreed price of Rs. 35 per share. The market value of the shares at 31 December, 2012 amounted to Rs. 11.67 per share resulting in an impairment of Rs. 200 million. The Bank has recorded an impairment of Rs.20 million as per the specific relaxation by SBP vide letter no BPRD/BRD/poly/2013-1857 dated 15 February, 2013.

As per the letter, 10% of the required impairment/provision is to be recorded as on 31 December, 2012 and the remaining amount of Rs. 180 million to be recorded in a phased manner upto 31 December, 2013. Had this relaxation not been availed, the provision against diminution in the value of investments would have been higher by Rs. 180 million and loss before tax would have been lower by Rs. 180 million.

- 10.11.3** This represents shares acquired by the Bank in the year 2011 at the rate of Rs.3 per share amounting to Rs.135 million from the sponsors of Gharibwal Cement Limited in the settlement of their outstanding exposure. As per the buy back arrangement, these shares may be bought back by the sponsors after a total period of three years against sale consideration of Rs. 4.44 per shares. The management alongwith its legal counsel contends that the shares can be sold by the Bank on its discretion hence they have been revalued at their market value instead of the repurchase price mentioned in the agreement.
- 10.11.4** These represent shares / mutual fund units acquired by the Bank during the current aggregating to Rs. 287 million from a borrower in lieu of settlement of overdue loan amounting to Rs. 250 million and markup of Rs. 37 million. Some of the shares were sold during the year.

	Name of CEO	Rating long term / short term	2012		2011	
			Amount	Rupees in '000	Amount	Rupees in '000
<b>10.12</b>	<b>Ordinary Shares-Unlisted</b>					
Pakistan Export Finance Guarantee Limited (fully provided)	Mr. Muneer Kamal	Unrated	5,680	Unrated	5,680	
Khushali Bank Limited	Mr. M. Ghalib Nishtar	Unrated	-	Unrated	10,000	
Al-Hamra (Private) Limited	Mr. Habib Ahmad	Unrated	-	Unrated	21,346	
			<b>5,680</b>		<b>37,026</b>	

- 10.12.1** In the current year, impairment loss of Rs. 21.346 million was recognised.

**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% (2011: 23.07%)	Pakistan	General Insurance

Summarized financial information in respect of associate based on latest available financial statements as at September 30, 2012 is set out below:

	Note	September 30, 2012	December 31, 2011
		Rupees in '000	
Total assets		473,299	428,873
Total liabilities		265,161	246,329
Net assets		<b>208,138</b>	<b>182,544</b>
 <b>Net premium revenue</b>		 <b>59,394</b>	 <b>93,468</b>
 <b>Profit for the period / year (after tax)</b>		 <b>25,594</b>	 <b>24,403</b>

# Notes to the Financial Statements For the year ended December 31, 2012

		Note	December 31, 2012	December 31, 2011	
			Rupees in '000		
<b>Share of loss from associate</b>					
Opening balance			<b>(36,927)</b>	(42,557)	
Share of profit / (loss) based on September 2012 financial statements un-audited			<b>5,905</b>	5,630	
Closing balance			<b>(31,022)</b>	<b>(36,927)</b>	
<b>10.14 Particulars of provision</b>					
Opening balance			<b>86,563</b>	83,578	
Charge for the year			<b>20,308</b>	2,985	
Reversals			-	-	
Write off			<b>20,308</b>	2,985	
Closing balance	10.14.1		<b>-</b>	-	
			<b>106,871</b>	<b>86,563</b>	
<b>10.14.1 Particulars of Provision in respect of Type and Segment</b>					
<b>Available-for-sale securities</b>					
Ordinary shares - listed			20,308	-	
Ordinary shares - unlisted			5,680	5,680	
Term finance certificates - unlisted			5,973	5,973	
<b>Held to Maturity Securities</b>					
Shares repo			<b>74,910</b>	74,910	
			<b>106,871</b>	<b>86,563</b>	
<b>10.15 Investment in Un-listed Shares, Term finance certificates and bonds.</b>					
<b>10.15.1 Investment in fully paid up ordinary share-unlisted</b>					
2012	2011	Paid up value	Name of investee	2012	2011
No. of ordinary shares	per share	Rupees		Rupees in '000	
<b>568,000</b>	568,000	10	Pakistan Export Finance Guarantee Chief Executive Mr. S.M Zaeem	<b>5,680</b>	5,680
-	10	10	Khushahli Bank Limited Chief Executive Mr. Ghalib Nishter	-	10,000
<b>5,000,000</b>	5,000,000	10	Al-Hamra (Private) Limited Chief Executive Mr. Habib Ahmed	-	21,346
				<b>5,680</b>	<b>37,026</b>

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# Notes to the Financial Statements

## For the year ended December 31, 2012

### **10.15.2 Term finance certificates-listed**

Name of Investee	No. of certificates held	Paid up value per certificate (Rupees)	2012	2011
			Rupees in '000	
Escort Investment Bank Limited	2,000	5,000	1,998	2,997
Jahangir Siddiqui Company	10,000	5,000	50,000	-
Pakistan Mobile Communication Limited	2,030	100,000	192,850	12,480
Engro Fertilizer Limited	16,374	5,000	75,326	151,792
Orix Leasing Pakistan Limited	-	-	-	90,000
			320,174	257,269

### **10.15.3 Term finance certificates-unlisted**

Name of Investee	No. of certificates held	Paid up value per certificate (Rupees)	2012	2011
			Rupees in '000	
Avari Hotels	113,000	5,000	<b>479,767</b>	479,767
Gharibwal Cement Limited (fully provided)	1,195	5,000	<b>5,974</b>	5,974
Faysal Bank Limited	1,000	5,000	<b>4,996</b>	10,563
Azgard Nine Limited	1,756	5,000	<b>8,780</b>	-
Pak Libya Holding Co.	22,005	5,000	<b>109,958</b>	125,000
JDW Sugar Mills Limited	-	-	-	106,667
Bank Al Falah Limited	-	-	-	<b>62,950</b>
			<b>609,475</b>	790,921

## 11. ADVANCES - NET

Loans, cash credits, running finances, etc.

Loans, cash credits, running balances, etc.		
In Pakistan	<b>52,805,286</b>	54,367,573
Outside Pakistan	-	-
 Bills discounted and purchased (excluding treasury bills)		
Payable in Pakistan	<b>98,094</b>	209,611
Payable outside Pakistan	<b>1,115,382</b>	732,178
	<b>1,213,476</b>	941,789
 <b>Advances - gross</b>	<b>54,018,762</b>	55,309,362
Provision for non-performing advances - specific	11.2	(5,261,835)
Provision against consumer finance - general	11.4	(111,248)
 <b>Advances net of provision</b>	<b>49,000,494</b>	49,936,279

# Notes to the Financial Statements For the year ended December 31, 2012

		Note	December 31, 2012	December 31, 2011
			Rupees in '000	
<b>11.1</b>	<b>Particulars of advances (Gross)</b>			
<b>11.1.1</b>	In local currency		<b>53,864,805</b>	54,554,865
	In foreign currencies		153,957	754,497
<b>11.1.2</b>	Short Term ( for upto one year)		<b>54,018,762</b>	55,309,362
	Long Term ( for over one year)		<b>37,184,681</b>	32,323,710
			<b>16,834,081</b>	22,985,652
			<b>54,018,762</b>	55,309,362
<b>11.2</b>	Advances include Rs. 10,817 (2011: Rs. 11,023) million which have been placed under non-performing status as detailed below.			
			<b>2012</b>	<b>2011</b>
	<b>Category of classification - specific</b>		Classified Advances	Provision required
			Rupees in '000	Rupees in '000
	Substandard		297,133	12,820
	Doubtful		2,192,178	366,733
	Loss		<b>8,327,646</b>	<b>4,480,546</b>
			<b>10,816,957</b>	<b>4,860,099</b>
			<b>4,860,099</b>	<b>4,860,099</b>
			11,022,942	5,261,835
			5,261,835	5,261,835
<b>11.3</b>	Particulars of provision against non-performing advances		<b>2012</b>	<b>2011</b>
		<b>Note</b>	Specific	General
			Rupees in '000	Rupees in '000
	<b>Opening balance</b>		5,261,835	111,248
	Charge for the period		<b>974,672</b>	<b>47,411</b>
	Reversals		<b>(1,106,151)</b>	<b>(490)</b>
	Net (reversals) / charge	11.3.1	<b>(158,479)</b>	<b>(111,558)</b>
	Amounts written off	11.6	<b>(243,257)</b>	<b>-</b>
	<b>Closing Balance</b>		<b>4,860,099</b>	<b>158,169</b>
			<b>5,018,268</b>	<b>5,373,083</b>
			5,261,835	111,248
			5,261,835	111,248
			<b>2011</b>	<b>2011</b>
			Specific	General
			Rupees in '000	Rupees in '000
	<b>Opening balance</b>		8,556,924	13,182
	Charge for the period		429,134	99,386
	Reversals		(3,012,510)	(1,320)
	Net (reversals) / charge	11.3.1	(2,583,376)	98,066
	Amounts written off	11.6	(711,713)	-
	<b>Closing Balance</b>		5,261,835	111,248
			5,261,835	111,248
			<b>2011</b>	<b>2011</b>
			Specific	General
			Rupees in '000	Rupees in '000
<b>11.3.1</b>	<b>Net charge during the year - specific provisioning</b>			
	Net reversed / charge classified to profit and loss account	11.3	<b>(158,479)</b>	(2,583,376)
	Less: (Charge) / Reversal made directly to the equity as capital reserve		-	-
	Net (decrease) / increase in provision against non-performing advances		<b>(158,479)</b>	(2,583,376)
<b>11.3.2</b>	The State Bank of Pakistan through its various circulars / letters has allowed relaxation to the Bank in maintaining provisioning against exposure to Dewan Group till December 31, 2012. The relaxation resulted in reduction of Rs. 606 million (2011: 684 million) in provision against loans and advances.			

**11.3.3** The State Bank of Pakistan through its letter No.BPRD/BRD-04/Faysal/2013/1695 dated February 13, 2013 has allowed relaxation to Bank in maintaining provision upto 75% of required provision against exposure of Gulistan Textile Mills, Gulistan Spinning Mills, Paramount Spinning Mills and Gulshan Spinning Mills. This results in relief of Rs.211 million as on December 31, 2012.

**11.3.4** 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 State Bank of Pakistan for Consumer Financing.

	December 31, 2012	December 31, 2011
	Rupees in '000	
<b>11.4 Particulars of provision for consumer financing - general</b>		
Opening balance	111,248	13,182
Charge for the year	47,411	99,386
Reversals	<u>(490)</u>	<u>(1,320)</u>
Closing balance	<u><b>158,169</b></u>	<u><b>111,248</b></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.

The Bank has availed the above mentioned benefit of FSV against the non-performing loans. This has resulted an accumulated decrease in loss after tax of Rs. 2,221 million which 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, 2012 has an after tax profit impact of Rs.762 million which shall not be available for payment of cash or stock dividend.

# Notes to the Financial Statements For the year ended December 31, 2012

	December 31, 2012	December 31, 2011
	Rupees in '000	
<b>11.6 Particulars of write offs</b>		
Against provision	<b>243,257</b>	711,713
Directly charged to profit and loss account	<b>3,389</b>	2,948
	<b>246,646</b>	<b>714,661</b>
Write offs of Rs. 500,000 and above	<b>244,896</b>	711,928
Write offs of below Rs. 500,000	<b>1,750</b>	2,733
	<b>246,646</b>	<b>714,661</b>
<b>Detail of loan write off of Rs. 500,000 and above</b>		
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, 2012 is given in Annexure - I. However, this write-off does not affect the Bank's right to recover the debts from these customers.		
<b>11.7 Particulars of loans and advances to directors, associated companies, etc.</b>		
<b>Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons</b>		
Balance at beginning of the year	505,596	385,978
Loans granted during the year	410,734	225,116
Repayments	<b>(586,039)</b>	<b>(105,498)</b>
Balance at end of the year	<b>330,291</b>	<b>505,596</b>
<b>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</b>		
Balance at beginning of the year	-	-
Loans granted during the year	3,507,946	-
Repayments	<b>(3,450,028)</b>	<b>-</b>
Balance at end of the year	<b>57,918</b>	<b>-</b>
<b>Debts due by subsidiary companies, controlled firms, managed modarbas and other related parties</b>		
Balance at beginning of the year	-	-
Loans granted during the year	-	-
Repayments	-	-
Balance at end of the year	-	-

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

	Note	2012		2011									
		Rupees in '000											
<b>12</b>	<b>OPEFRATING FIXED ASSETS</b>												
	Capital work-in-progress	12.1	47,941		34,772								
	Property and equipment	12.2	4,110,672		4,317,373								
	Intangible assets	12.3	478,721		403,766								
			<b>4,637,334</b>		<b>4,755,911</b>								
<b>12.1</b>	<b>Capital work-in-progress</b>												
	Civil works		11,223		-								
	Advances to suppliers and contractors		36,718		34,772								
			<b>47,941</b>		<b>34,772</b>								
<b>12.1.1</b>	<b>Movement in capital work-in-progress</b>												
	Opening balance		34,772		88,902								
	Additions during the year		143,152		52,154								
	Transferred to property and equipment		(129,983)		(106,284)								
	Closing balance		<b>47,941</b>		<b>34,772</b>								
<b>12.2</b>	<b>Property and equipment</b>												
		Cost / Revaluation		Accumulated Depreciation									
		As at January 01, 2012	Adjust-ment	Additions	Disposals	As at December 31, 2012	As at January 01, 2012	Adjust-ment	Charge for the year/ (Deletions)	As at December 31, 2012	Net Book value as at December 31, 2012	Rate of depreciation	
		Rupees in '000											
	Freehold Land - 12.2.1 & 12.2.2	167,928	-	-	(21,444)	146,484	-	-	-	-	146,484	-	
	Leasehold Land - 12.2.1 & 12.2.2	1,952,313	-	-	(44,992)	1,907,321	-	-	-	-	1,907,321	-	
	Building- Leasehold	779,569	-	-	(6,310)	773,259	33,915	-	42,967	(993)	75,889	697,370	5%
	Building- Freehold Land	81,373	-	-	-	81,373	20,434	-	-	-	20,434	60,939	5%
	Leasehold Improvements	849,728	-	12,473	-	862,201	301,166	-	81,259	-	382,425	479,776	10%
	Furniture & Fixture	246,814	-	4,112	(87)	250,839	88,269	-	24,031	(22)	112,278	138,561	10%
	Other Equipment	379,273	-	12,664	(100)	391,837	217,188	-	46,133	(73)	263,248	128,589	20%
	Computers	730,378	60	75,156	(220)	805,374	446,883	-	107,226	(220)	553,889	251,485	20% - 33.33%
	Vehicles	414,202	-	194,628	(116,319)	492,511	176,350	-	85,803	(69,789)	192,364	300,147	20%
	<b>December 31, 2012</b>	<b>5,601,578</b>	<b>60</b>	<b>299,033</b>	<b>(189,472)</b>	<b>5,711,199</b>	<b>1,284,205</b>	<b>-</b>	<b>387,419</b>	<b>(71,097)</b>	<b>1,600,527</b>	<b>4,110,672</b>	

**12.2.1** The Bank's land and building were revalued on November 25, 2008 by Hasib Associates, an independent valuer, on market value basis. The revaluation resulted in a surplus of Rs. 1,670 million. Had there been no revaluation, the carrying value of the revalued land and buliding would have been lower by Rs. 103.79 million (2011: Rs. 157.15 million).

**12.2.2** The disposal of freehold land & leasehold land include sale of two branches which were subsequently leased back by the Bank.

	As at January 01, 2011	Adjust-ment	Cost / Revaluation			As at January 01, 2011	Adjust-ment	Accumulated Depreciation			As at December 31, 2011	Net Book value as at December 31, 2011	Rate of depreciation	
			Additions	Disposals	As at December 31, 2011			Charge for the year/ (Deletions)	As at December 31, 2011					
			Rupees in '000											
	Freehold Land - 12.2.1 & 12.2.2	167,928	-	-	167,928	-	-	-	-	-	167,928	-	-	
	Leasehold Land - 12.2.1 & 12.2.2	85,563	-	1,866,750	-	1,952,313	-	-	-	-	1,952,313	-	-	
	Building- Leasehold	157,319	-	622,250	-	779,569	16,045	(3,512)	21,382	-	33,915	745,654	5%	
	Building- Freehold Land	10,976	-	70,397	-	81,373	243	19,018	1,173	-	20,434	60,939	5%	
	Leasehold Improvements	804,392	844	44,492	-	849,728	222,252	526	78,388	-	301,166	548,562	10%	
	Furniture & Fixture	229,201	1,416	16,197	-	246,814	63,899	1,316	23,054	-	88,269	158,545	10%	
	Other Equipment	416,471	(54,697)	17,925	426	379,273	187,192	(28,481)	58,857	(380)	217,188	162,085	20%	
	Computers	605,551	52,393	72,548	114	730,378	291,453	25,856	129,688	(114)	446,883	283,495	20% - 33.33%	
	Vehicles	341,892	-	128,739	56,429	414,202	137,581	175	68,306	(29,712)	176,350	237,852	20%	
	<b>December 31, 2011</b>	<b>2,819,293</b>	<b>(44)</b>	<b>2,839,298</b>	<b>56,969</b>	<b>5,601,578</b>	<b>918,665</b>	<b>14,898</b>	<b>380,848</b>	<b>(30,206)</b>	<b>1,284,205</b>	<b>4,317,373</b>		

# Notes to the Financial Statements

## For the year ended December 31, 2012

## 12.3 Intangible assets

					2012						
Cost					Accumulated Amortisation					Net Book value as at December 31, 2012	Rate of Amortisation
As at January 01, 2012	Adjust-ment	Additions	Disposals	As at December 31, 2012	As at January 01, 2012	Adjust-ment	Amortizati-on for the year	(Deletions)	As at December 31, 2012		
Rupees in '000											
575,584	-	150,638	-	726,222	171,818	-	75,683	-	247,501	478,721	14.28%-25%

Cost					Accumulated Amortisation					Net Book value as at December 31, 2011	Rate of Amortisation 31, 2011	
As at January 01, 2011	Adjust- ment	Additions	Disposals	As at December 31, 2011	As at January 01, 2011	Adjust- ment	Amortization for the year	(Deletions)	As at December 31, 2011			
Rupees in '000												
Computer software December 31, 2011	540,857	-	34,727	-	575,584	86,582	(662)	85,898	-	171,818	403,766	14.28%-25%

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

Furniture, electrical, office and computer equipment	<b>494,278</b>	387,842
Vehicles	<b>30,908</b>	28,503
	<b>525,186</b>	416,345

**12.5** In January, 2012 remaining useful lives of certain Banks's assets were reviewed by the management. The revised and previous remaining useful lives of individual significant components are as under:

	<b>Average useful life</b>	
	<b>New as at January 01, 2012</b>	<b>Previously estimated</b>
T24 Software	10 years	7 years
T24 Hardware	5 years	4 years
Other Software	5 years	4 years
MIS Equipments	5 years	3 years
Generators	10 years	5 Years

The revised estimates of remaining useful lives were used by the Bank for the purpose of calculation of depreciation charge with effect from January 01, 2012. Had these estimates not been revised, the loss before tax for the year ended December 31, 2012 and for subsequent years would have been lower by Rs 47.50 million each year with corresponding effect on the net book value of property and equipment.

# Notes to the Financial Statements For the year ended December 31, 2012

## 12.6

### Details of disposal of fixed assets - By negotiations

Description	Date of capitalization	Date of disposal	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain / (Loss)	Particulars of purchaser
Rupees in '000								
Shah Street, Jodia Bazar 12/62	30-Jun-98	31-May-12	9,356	-	9,356	12,500	3,144	External Muhammad Shah Nawaz
Verjee Street, Jodia Bazar 6/16	30-Jun-98	31-May-12	4,437	-	4,437	8,500	4,063	External Muhammad Shah Nawaz
Verjee Street, Jodia Bazar 6/16	30-Jun-98	31-May-12	3,000	512	2,488	3,000	512	External Muhammad Shah Nawaz
28 Model Town New Town Hall Rahim Yar Khan	13-Dec-06	30-Jun-12	21,444	-	21,444	20,850	(594)	External Gul Jhanzaib Khan
Property of Saima Classic, Rashid Mihas road	1-Sep-10	13-Dec-12	3,310	480	2,830	17,000	14,170	External Rubina Makhdoom
Honda Civic Vti Prosmatec Oriel	14-Dec-08	26-Jan-12	1,859	1,147	712	712	-	Bank employee Zahid Aftab
Honda Civic VTi Oriel Reg # ART-927	11-Mar-09	26-Jan-12	1,789	1,014	775	775	1	Bank employee Minhaquddin Shaikh
Toyota Corolla GLI	28-Jul-11	26-Jan-12	1,400	140	1,260	1,260	-	Bank employee Mohsin Zia
Suzuki Cultus VXR CNG Reg # APS-716	15-Aug-10	15-Feb-12	600	180	420	460	40	Bank employee Syed Kazim
Suzuki Cultus Reg # AQZ-576	8-Jul-08	24-Feb-12	712	510	202	202	-	Bank employee Ghulam Fareed
Suzuki Alto Reg # RA 410	10-Nov-10	2-Mar-12	600	160	440	440	-	Bank employee Usman Kardar
BMW 5301 Reg # LWJ-0006	14-Dec-08	12-Mar-12	4,974	3,235	1,739	1,739	-	Bank employee Aneeq Khawar
Mercedes Benz S350C	3-Dec-08	15-Mar-12	10,570	7,700	2,870	2,870	-	Bank employee Aneeq Khawar
Honda City Reg # LW-215	31-Dec-08	15-Mar-12	950	602	348	348	-	Bank employee Umar Bin Moin
Toyota Corolla Gli A/T 1598CC	29-Dec-11	26-Mar-12	1,554	78	1,476	1,476	-	Bank employee Irfan Azam
Suzuki Swift RS 413 DLX 1328CC	13-Jul-11	26-Mar-12	1,000	133	867	867	-	Bank employee Imran Nasir
Honda City Reg # AMZ-978	5-Apr-07	30-Mar-12	846	832	14	186	172	Bank employee Nasir Jamal
Honda City Reg # LWM-519	9-Jan-07	30-Mar-12	874	874	0	279	279	Bank employee Irfanuddin Khan
Suzuki Cultus Reg # APP-375	2-Nov-07	30-Mar-12	694	602	92	208	116	Bank employee Fahim Siddiqui
Suzuki Cultus Reg # APM-491	14-Oct-07	30-Apr-12	694	625	69	69	-	Bank employee Imran Ahmed
Suzuki Jimmy 1328CC Reg # BD-4886	24-Jun-11	30-Apr-12	1,400	233	1,167	1,167	-	Bank employee Muhammad Zahid Ahmed
Suzuki Cultus VXLMC Reg # ARM-683	3-Dec-08	17-May-12	889	608	281	281	-	Bank employee Muhammad Kashif Malik
Honda City I-Dsi Reg # LED-07-6515	11-Mar-09	17-May-12	600	380	220	220	-	Bank employee Rouf Jamal
Honda Civic Vti Prosmatec Oriel	8-Jul-09	17-May-12	1,400	794	606	630	24	Bank employee Akbar Ali
Honda Civic VTi	31-Dec-08	18-May-12	808	539	269	269	-	Bank employee Saftain Gilani
Suzuki Cultus VXR CNG	14-Jun-09	18-May-12	600	350	250	250	-	Bank employee Asghar Ali
Honda City Manual Reg # LEC-09-6273	4-Nov-09	25-May-12	600	300	300	300	-	Bank employee Tafoor Hamid
Suzuki Cultus VXL Reg # NJ-736	5-Sep-08	25-May-12	779	572	207	207	-	Bank employee Qasim Banori
Suzuki Cultus VXL Reg # LED-08-1409	12-Feb-10	15-Jun-12	600	280	320	320	-	Bank employee Aqeel Mirza
Toyota Corolla XLi Model 2007 Reg # APL-340	29-Jul-11	21-Jun-12	600	110	490	490	-	Bank employee Saeed Ahmed
Toyota Corolla Gli 2421 Reg # ARQ-257	30-Sep-11	21-Jun-12	600	90	510	510	-	Bank employee Inayat Ali
Honda City I-Dsi Model 2008	1-Sep-08	21-Jun-12	1,060	795	265	265	-	Bank employee Mazhar Ahmed
Toyota Corolla Xli	31-Dec-08	21-Jun-12	1,000	684	316	316	-	Bank employee Waheed Irshad
Suzuki Alto VXR CNG	8-Jul-09	21-Jun-12	600	350	250	250	-	Bank employee Masroor Ahmed
Suzuki Liana RH413 RXI Reg # ASG-488	8-Mar-11	21-Jun-12	875	219	656	656	-	Bank employee Muhammad Sharqi
Honda Civic Ivtec 1800 CC Reg # AQR-818	5-Jun-08	22-Jun-12	1,526	1,221	305	330	25	Bank employee Irshad Nazir
Honda City I-Dsi Reg No ARH 624	3-Nov-08	22-Jun-12	829	594	235	235	-	Bank employee Imran Roshan Ali
Honda City Automatic G-7 Reg # ARS-857	11-Mar-09	22-Jun-12	1,439	936	503	527	24	Bank employee Syed Zafar Alam
Toyota Corolla XLi2421 Reg # LED-10-5001	1-Dec-10	22-Jun-12	600	180	420	420	-	Bank employee Mukhtar Ahmed
Suzuki Alto CNG Model 2011	29-Dec-11	22-Jun-12	600	60	540	540	-	Bank employee Abdul Rauf
Suzuki Swift RS413 DLX 1328 CC	15-Mar-10	26-Jun-12	1,000	450	550	550	-	Bank employee Asad Sajjad
Corolla XLi 1299CC	23-Jun-11	26-Jun-12	1,400	280	1,120	1,120	-	Bank employee Omer Bin Javed
Toyota Corolla Altis 1800 CC Reg # AQR-221	5-Jun-08	26-Jun-12	1,322	1,058	264	286	22	Bank employee Nadeem Qureshi
Honda City I-Dsi Reg # NH-743	5-Aug-08	26-Jun-12	742	569	173	185	12	Bank employee Ashfaq Qureshi
Honda City I-Dsi Reg # NJ-469	5-Sep-08	26-Jun-12	779	584	195	195	-	Bank employee Noman Arif
Suzuki Liana RXI CNG MT Reg # ANU-582	12-Feb-09	26-Jun-12	600	400	200	200	-	Bank employee Saeed Ahmed Shaikh
Suzuki Alto VXR MT Reg # ARS-758	11-Mar-09	26-Jun-12	600	390	210	210	-	Bank employee Kashif Khan
Honda City Vario Reg # ANV-073	14-Nov-09	26-Jun-12	1,000	517	483	500	17	Bank employee Omar Kazmi
Suzuki Cultus VXLRC Reg# APU-349	4-Nov-10	26-Jun-12	600	190	410	440	30	Bank employee Ahmed Kamal
Honda Civic Ivtec Prosmatec Oriel 1800 CC	11-Nov-08	26-Jun-12	1,768	1,268	500	500	-	Bank employee Arif Kauser
Toyota Corolla Reg # AQX-084	24-Jun-11	28-Jun-12	600	120	480	480	-	Bank employee Khalid Sami
Honda City Reg # MF-439 Model 2007	31-Dec-08	28-Jun-12	829	567	262	262	-	Bank employee Sajid Hassan
Suzuki Cultus VXLMC	14-Apr-09	28-Jun-12	600	380	220	220	-	Bank employee Asad Ali
Mercedez Benz Reg # RJ-468	25-Aug-11	28-Jun-12	2,500	417	2,083	2,125	42	Bank employee Shajid Iqbal
Toyota Corolla GLi A/T 1598CC	24-Jun-11	30-Jun-12	1,000	200	800	800	-	Bank employee Majid Khan
Honda City Reg # ANR-147	5-Jul-08	30-Jun-12	779	610	169	169	-	Bank employee Aman Gul
Suzuki Liana Eminent Reg # MZ-096	5-Jun-08	30-Jun-12	742	594	148	161	12	Bank employee Syed Waqas
Honda Civic EXi Reg # ALF-08-716	3-Oct-08	30-Jun-12	829	608	221	221	-	Bank employee Asif Saeed
Honda City manual	14-Sep-10	2-Jul-12	1,000	367	633	633	-	Bank employee Syed Latifat Hussain
Toyota Prado Model 2006 Black Reg # BD-9810	5-Apr-08	9-Jul-12	2,650	2,165	485	398	(87)	Bank employee Sohail Bashir
Toyota Corolla Gli Reg # ANB-016	15-Aug-10	10-Jul-12	1,400	537	863	863	-	Bank employee Ather Kamal
Suzuki Swift DLX (A/T) model 2012	26-Jun-12	13-Jul-12	950	16	934	934	-	Bank employee Afadia Shoib Khan
Suzuki Cultus Reg # APM-489	14-Oct-07	30-Jul-12	694	660	34	34	-	Bank employee Mohd Raees Khan
Honda City I-Dsi	15-Jul-10	31-Jul-12	600	240	360	370	10	Bank employee Mahwish Ahmed

# Notes to the Financial Statements For the year ended December 31, 2012

Description	Date of capitalization	Date of disposal	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain / (Loss)	Particulars of purchaser
Rupees in '000								
Mercedes Benz Model 2007	1-Oct-11	31-Jul-12	1,400	210	1,190	1,190	-	Bank employee Syed Qasim Rizvi
Honda city Vario Reg # ARB-097	5-Aug-08	31-Jul-12	1,060	831	229	282	53	Bank employee Junaid Bachani
Suzuki Cultus VXLMC	31-Dec-08	31-Jul-12	889	623	266	266	-	Bank employee Muhammad Farooq Sameen Siddiqui
Honda City Steermatic Reg # APF-060	17-Aug-07	1-Aug-12	981	980	0	0	-	Bank employee Junaid Shabbir
Honda City I-Dsi Registration # ANC-830	11-Feb-10	2-Aug-12	600	300	300	300	-	Bank employee Ashar Saem
Toyota Cuore-CX A/T 847CC	29-Jul-11	3-Aug-12	600	130	470	480	10	Zareen Naem
Toyota Corolla GL Reg # LED-09-8314	15-Dec-09	6-Aug-12	1,000	534	466	466	-	Ejaz Ahmed Malik
Honda Civic I Vtec	14-Apr-09	7-Aug-12	1,312	875	437	415	(22)	Bank employee Jamil A Khan
Toyota Land Cruiser Prado Reg # BD-8670	5-Aug-08	9-Aug-12	3,420	2,737	683	683	-	Muneeb Ahmed
Suzuki Cultus VXLMC	31-Dec-08	13-Aug-12	889	637	252	252	-	Bank employee Zaheer Anwar Iqbal
Honda Civic Reg # LWG-0250	4-Mar-11	13-Aug-12	600	170	430	430	-	Izhar ul Haq
Honda Civic 1.8 iVtec Reg # LEE-08-6244	1-Sep-08	29-Aug-12	1,718	1,346	372	343	(29)	Sukha Riaz
Suzuki Cultus VXL, Reg # LRN-7272,	5-May-03	3-Sep-12	609	609	0	0	-	Zahid Ilyas Abbasi insurance claim
Toyota Altis A/T 488W 1598CC	29-Jul-11	4-Sep-12	1,400	327	1,073	1,143	70	Najam Faiz
Honda City I-Dsi Reg # LEE-08-5460,	1-Sep-08	5-Sep-12	1,053	843	210	210	-	Mansoor Mukhtar
Honda Civic 1.8 iVtec Reg # ARD-529	15-Aug-08	6-Sep-12	1,715	1,401	314	342	28	shahid Latif
Honda City IDSI	17-May-11	12-Sep-12	1,000	267	733	733	-	Bank employee Humayun Fayyaz
Suzuki Cultus Reg # LEE-08-2827	15-Jul-08	20-Sep-12	742	619	123	123	-	Farrukh Kiyani
Suzuki Mehran SB308 VXR CNG 796CC	1-Dec-10	15-Oct-12	544	200	344	362	18	Zulfiqar Ahmed
Honda Civic 1.8 iVtec Reg # LED-07-6243	1-Sep-08	15-Oct-12	1,718	1,404	314	314	-	Amir Nasiruddin
Honda City I-Dsi Reg # LEE-08-5458	1-Sep-08	16-Oct-12	988	807	181	181	-	Ali Kashif Rizvi
Honda Civic I-Vtec Prosmatec Oriel 1800 CC	4-Nov-08	5-Nov-12	1,775	1,421	354	354	-	Bank employee Muhammad Farooq Abdullah
Suzuki Cultus SF410 VXR 993 Model 2011	17-Nov-11	6-Nov-12	910	182	728	743	15	Shahram Raza
Honda Civic Vti Oriel Reg # LED-07-1991	15-Aug-08	13-Nov-12	1,475	1,254	221	221	-	Pervaiz Siddiqui
Suzuki Cultus Reg # APR-487	14-Oct-07	29-Nov-12	694	694	0	0	-	Syed Wasif Ahmed
Honda Civic Reg # LEH-07-3456	31-Dec-08	29-Nov-12	829	636	193	193	-	Faisal Javed
Suzuki Cultus VXRI color Silky silver model 2012	21-Jul-12	30-Nov-12	970	65	905	938	33	Jamal Ishaq Khan
Toyota Vitz 990 CC	1-Sep-08	30-Nov-12	779	649	130	156	26	Agha Asfandyar Khan
Daihatsu Cuore Reg # ARY-723	14-Apr-09	30-Nov-12	600	430	170	180	10	Sabahat Yousuf Dar
Honda Civic iVtec Prosmatec Oriel 1800 CC	11-Nov-08	20-Dec-12	1,768	1,444	324	412	88	Javed Majid Khan
Toyota Crown Royal Saloon REGISTRATION NUMBER APV 999	5-May-11	20-Dec-12	2,500	792	1,708	1,708	-	Shahid Aziz Malik
Honda Civic iVtec Prosmatec Oriel 1800 CC Reg # LEE-08-733	4-Nov-08	20-Dec-12	1,053	860	193	684	491	Imran Aslam
Honda Civic Vti Prosmatec Oriel	11-Nov-08	20-Dec-12	1,768	1,444	324	324	-	Babar Wajid
Honda Civic Vti Prosmatec	13-Jan-10	20-Dec-12	1,000	584	416	433	17	Anthony Almeida
Honda City manual	15-Jul-10	20-Dec-12	600	290	310	310	-	Asad Abbas
Honda Civic iVtec Prosmatec Oriel 1800 CC Reg # AQR-295	10-Aug-08	20-Dec-12	1,223	1,060	163	163	-	Syed Obaid Ahmed
Nissan Sunny 2008 Reg # AQV-847	14-Mar-09	28-Dec-12	1,312	962	350	394	42	Syed Naveed Ali
Honda City Manual Reg # ART-924	11-Mar-09	31-Dec-12	1,319	858	461	461	-	
<b>Total</b>			<b>157,864</b>	<b>70,781</b>	<b>87,083</b>	<b>109,969</b>	<b>22,884</b>	
<b>Others</b>								
01 No Desk 30"x63"	14-Sep-09	16-Mar-12	23	6	17	17	-	Bank employee Aneeq Khawar
01 No Side rack 16"x42"	14-Sep-09	16-Mar-12	12	3	9	9	-	Bank employee Aneeq Khawar
01 No. double seater sofa (SB) finished	7-Oct-10	16-Mar-12	19	3	16	16	-	Bank employee Aneeq Khawar
01 Nos Desk 24"x48"	14-Sep-09	16-Mar-12	17	4	13	13	-	Bank employee Aneeq Khawar
10 Nos Visitors chairs with oak arms	14-Sep-09	16-Mar-12	6	2	4	4	-	Bank employee Aneeq Khawar
Executive chair low back with armrest	30-Oct-03	16-Mar-12	4	3	1	1	-	Bank employee Aneeq Khawar
01 No Table Rove Side	14-Jun-10	16-Mar-12	7	2	5	5	-	Bank employee Aneeq Khawar
01 No Sony Vaio Laptop T237GN	3-Jul-08	16-Mar-12	220	220	-	-	-	Bank employee Aneeq Khawar
01 No. 40" Samsung LCD Model LA-40S81B	15-Jul-08	16-Mar-12	100	73	27	27	-	Bank employee Aneeq Khawar
<b>Total</b>			<b>408</b>	<b>316</b>	<b>92</b>	<b>92</b>	<b>-</b>	
<b>Grand Total</b>			<b>158,272</b>	<b>71,097</b>	<b>87,175</b>	<b>110,061</b>	<b>22,884</b>	
Adjustment due to changes in value - note 2.3.1			31,200					
<b>Grand Total</b>			<b>189,472</b>					

# Annual Report 2012

# Notes to the Financial Statements

## For the year ended December 31, 2012

		December 31, 2012	December 31, 2011
	Note	Rupees in '000	
<b>13 DEFERRED TAX ASSETS - NET</b>			
<b>Deferred tax debits arising in respect of</b>			
Deficit on revaluation of investment		-	6,572
Provision for diminution against investments		14,840	-
Provision for other Assets		7,350	-
Provision against Non-performing advances		1,914,913	810,780
Unabsorbed tax depreciation		474,446	-
Unused tax losses		1,475,871	3,664,548
		<b>3,887,420</b>	<b>4,481,900</b>
<b>Deferred tax credits arising due to</b>			
Accelerated tax depreciation		(198,561)	(372,295)
Surplus on revaluation of investments	20.1	(45,450)	(3,858)
Surplus on revaluation of property and equipment	20.2	(28,178)	(29,479)
		<b>(272,189)</b>	<b>(405,632)</b>
		<b>3,615,231</b>	<b>4,076,268</b>
Deferred tax asset written off		-	(506,851)
<b>Net Deferred tax Asset</b>		<b>3,615,231</b>	<b>3,569,417</b>

## 13.1 Movement in temporary differences

	Balance at January 01, 2011	Recognised in profit and loss	Recognised in equity	Balance at December 31, 2011	Adjustments Note 13.2	Adjusted Balance as at December 31, 2011	Recognised in profit and loss	Recognised in equity	Balance at December 31, 2012
<b>Deductible / (Taxable) temporary differences on:</b>									
Provision against loans and advances	981,524	(170,744)	-	810,780	992,741	1,803,521	111,392	-	1,914,913
Permanent diminution against investments	-	-	-	-	-	-	14,840	-	14,840
Accumulated losses	3,868,380	(203,832)	-	3,664,548	(2,218,331)	1,446,217	29,654	-	1,475,871
Deferred tax asset written off	-	(506,851)	-	(506,851)	506,851	-	-	-	-
Deficit on revaluation AFS- Govt Securities	56,027	-	(49,455)	6,572	-	6,572	-	(9,117)	(2,545)
Provision for other Assets	-	-	-	-	-	-	7,350	-	7,350
Unabsorbed tax depreciation	-	-	-	-	474,446	474,446	-	-	474,446
Accelerated Depreciation	(265,905)	(106,390)	-	(372,295)	244,293	(128,002)	(70,559)	-	(198,561)
Surplus on revaluation of investments	3,211	-	(7,069)	(3,858)	-	(3,858)	-	(39,047)	(42,905)
Revaluation of property and equipment	(30,789)	-	1,310	(29,479)	-	(29,479)	-	1,301	(28,178)
Amounts on which Deferred tax not recognised during the year	(419,495)	416,284	3,211	-	-	-	-	-	-
Deferred Tax	4,192,953	(571,533)	(52,003)	3,569,417	-	3,569,417	92,676	(46,863)	3,615,231

13.2

During the year, the Bank carried out an exercise to review the composition of deferred tax asset and realized that the return for Tax Year (TY) 2009 was not submitted in accordance with the Seventh Schedule of the Income Tax Ordinance, 2001. Accordingly the returns for the TY 2009, 2010 and 2011 were revised and deferred tax asset composition has accordingly been changed. The correction of error resulted in reclassification of deferred tax on provisions, taxable business losses and unabsorbed tax depreciation. In prior years the taxable business losses were inclusive of tax depreciation which has now been separated. Deferred tax recognised on tax losses for the years 2007 - Rs.207 million, 2008 - Rs.175 million, 2009 - Rs.403 million, 2010 - Rs.608 million and 2012 - Rs.81 million will expire in years 2013, 2014, 2015, 2016 and 2018 respectively.

# Notes to the Financial Statements For the year ended December 31, 2012

**13.3** The Bank has prepared a 3 years strategic plan including projections for taxable profits for three years and concluded that there would be enough profits against which deferred tax asset created on unused tax losses and other credits 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.

**13.4** Status of tax and other details are disclosed in note 30 of the financial statements.

		December 31, 2012	December 31, 2011
	Note	Rupees in '000	
<b>14</b>	<b>OTHER ASSETS</b>		
Income / Mark-up accrued in local currency		<b>1,512,591</b>	1,800,855
Income / Mark-up accrued in foreign currencies		1,250	7,021
Advances, deposits, advance rent and other prepayments		438,277	357,096
Advance Taxation		141,199	-
Non-banking assets acquired in satisfaction of claims	14.2	<b>5,421,409</b>	3,166,010
Non-banking assets acquired in satisfaction of claims with buy back option with customer	14.2	<b>1,716,407</b>	1,842,372
Branch adjustment account		7,137,816	5,008,382
Unrealized gain on forward foreign exchange contracts		53,188	71,144
Others		83,849	79,040
		179,604	283,880
Less: Provision held against other assets	14.3	<b>9,547,774</b>	7,607,418
<b>Other Assets (Net of Provision)</b>		<b>(229,155)</b>	<b>(377,655)</b>
		<b>9,318,619</b>	<b>7,229,763</b>
<b>14.1</b>	<b>Market value of non-banking assets acquired in satisfaction of claims</b>	<b>7,375,124</b>	5,539,862

**14.2** Includes properties aggregating to Rs. 2,193 million (including registration cost of Rs. 124 million) against which debts previously written off / fully provided aggregating to Rs. 1,243 million were sold. The debts have been sold at the values offered by the seller of the properties. Further, during the year, the Bank also acquired properties from Invest Cap Group in lieu of partial settlement of loans amounting to Rs. 913 million (including registration cost of Rs. 64 million). These properties are currently un-developed and have been evaluated based on the valuation reports from valuers on Pakistan Banks Association's list of approved valuers.

#### **14.3 Provisions against other assets**

Opening balance		<b>377,655</b>	214,696
Charge for the year		21,000	255,364
Reversals		(169,500)	(75,532)
Net (reversal) / charge for the year	28	<b>(148,500)</b>	179,832
Amount written off		-	(16,873)
Closing balance		<b>229,155</b>	<b>377,655</b>

**14.3.1** This represents reversal on account of certain OREO properties which were transferred in the name of the Bank in the current year.

	Note	December 31, 2012	December 31, 2011
		Rupees in ' 000	
<b>15</b>	<b>BILLS PAYABLE</b>		
	In Pakistan	<b>1,978,549</b>	1,679,456
	Outside Pakistan	-	-
		<b>1,978,549</b>	<b>1,679,456</b>
<b>16</b>	<b>BORROWINGS</b>		
	In Pakistan	<b>10,801,523</b>	17,365,342
	Outside Pakistan	<b>575,258</b>	<b>416,344</b>
		<b>11,376,781</b>	<b>17,781,686</b>
<b>16.1</b>	<b>Particulars of borrowings with respect to currencies</b>		
	In local currency	<b>10,791,390</b>	17,126,317
	In foreign currencies	<b>585,391</b>	<b>655,369</b>
		<b>11,376,781</b>	<b>17,781,686</b>
<b>16.2</b>	<b>Details of borrowings secured / unsecured</b>		
	<b>Secured</b>		
	Borrowings from State Bank of Pakistan (re-finance)		
	Export refinance scheme	16.2.1	<b>3,199,348</b>
	Long term finance - export oriented projects	16.2.1	<b>12,316</b>
	Long term financing facility	16.2.1	<b>55,012</b>
	Refinance facility for modernization of SMEs	16.2.1	<b>8,150</b>
	Repurchase agreement borrowings	16.2.2	<b>6,716,564</b>
			<b>9,991,390</b>
	<b>Unsecured</b>		
	Call borrowings	16.2.3	<b>810,133</b>
	Overdrawn Nostro accounts		<b>575,258</b>
			<b>1,385,391</b>
			<b>11,376,781</b>
<b>16.2.1</b>	These borrowings carry markup at the rate ranging from 5% to 10% (2011: 5% to 10%) per annum.		
<b>16.2.2</b>	These represent funds borrowed from the local interbank money market carrying interest rate ranging from 8.79% to 8.82% (2011: 11.50% to 13.00%) per annum with maturities upto January 2013 against government securities.		
<b>16.2.3</b>	These represent unsecured borrowings from the local money market carrying interest rate ranging from 9.40% to 9.90% (2011 : 12% to 13%) per annum with maturities upto January 2013.		

# Notes to the Financial Statements For the year ended December 31, 2012

		<b>December 31, 2012</b>	<b>December 31, 2011</b>
		Rupees in ' 000	
<b>17</b>	<b>DEPOSITS &amp; OTHER ACCOUNTS</b>		
	<b>Customers</b>		
	Fixed deposits	33,368,865	31,110,593
	Savings deposits	17,676,899	17,574,649
	Current accounts - non - remunerative	15,874,800	12,732,572
	Margin accounts - non - remunerative	736,024	607,860
	Others	212,470	187,191
		<b>67,869,058</b>	<b>62,212,865</b>
	<b>Financial institutions</b>		
	Remunerative deposits	1,104,391	1,793,237
	Non - remunerative deposits	76,998	65,806
		<b>1,181,389</b>	<b>1,859,043</b>
		<b>69,050,447</b>	<b>64,071,908</b>
<b>17.1</b>	<b>Particulars of deposits</b>		
	In local currency	63,769,246	58,796,148
	In foreign currencies	5,281,201	5,275,760
		<b>69,050,447</b>	<b>64,071,908</b>
<b>18</b>	<b>OTHER LIABILITIES</b>		
	Mark-up / Return / Interest payable in local currency	788,417	799,315
	Mark-up / Return / Interest payable in foreign currency	2,447	4,605
	Un-earned Commission and income on bills discounted	45,938	52,005
	Accrued expenses	54,860	65,258
	Unrealized loss on forward foreign exchange contracts	38,715	54,845
	Tax liability - net	-	44,076
	Workers' Welfare Fund (WWF)	34,293	27,733
	Advance received against future sale of Non Banking Assets	96,086	286,790
	Others	241,252	164,093
		<b>1,302,008</b>	<b>1,498,720</b>
<b>19</b>	<b>SHARE CAPITAL</b>		
<b>19.1</b>	<b>Authorised capital</b>		
<b>December 31,</b>	<b>December 31,</b>		
<b>2012</b>	<b>2011</b>		
<b>No. of shares in '000</b>			
<b>4,000,000</b>	<b>4,000,000</b>	Ordinary shares of Rs.10 each	
			<b>Rupees in '000</b>
		<b>40,000,000</b>	<b>40,000,000</b>

**19.2 Issued, subscribed and paid up capital**

December 31, 2012	December 31, 2011	No. of shares in '000	December 31, 2012	December 31, 2011	Rupees in '000
800,315	800,315	Ordinary shares of Rs.10 each Fully paid in cash	8,003,150	8,003,150	
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	1,000,000	1,000,000	
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	17,712,898	17,712,898	
<b>2,671,605</b>	<b>2,671,605</b>		<b>26,716,048</b>	<b>26,716,048</b>	

**19.3** The State Bank of Pakistan (SBP) 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 Rs. 9 billion by end of financial year 2012 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%.

**19.4** 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. Out of these right shares 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.

**19.5 CAPITAL ADEQUACY**

Total Capital Adequacy Ratio

Un-Audited December 31, 2012	Audited December 31, 2011
<b>5.69%</b>	<b>6.59%</b>

**2012                    2011**  
**Number of Shares in '000**

**19.6 Reconciliation of number of ordinary shares of Rs. 10 each**

At beginning of the year

**2,671,605**

2,671,605

Issued during the year

**-**

-

At end of the year

**2,671,605**

2,671,605

**20 SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS - NET OF DEFERRED TAX**

Surplus / (Deficit) on revaluation of securities

20.1 **84,407**

(5,039)

Surplus on revaluation of property and equipment

20.2 **75,617**

127,678

**160,024**

122,639

# Notes to the Financial Statements For the year ended December 31, 2012

		December 31, 2012	December 31, 2011
	Note	Rupees in ' 000	
<b>20.1</b>	<b>Surplus / (Deficit) on revaluation of Available-for-sale securities</b>		
	Federal Government securities	<b>7,272</b>	(18,776)
	Quoted Securities	<b>122,585</b>	11,023
		<b>129,857</b>	(7,753)
	10.1 Deferred tax asset recognised	<b>(45,450)</b>	2,714
		<b>84,407</b>	(5,039)
<b>20.2</b>	<b>Surplus on revaluation of property and equipment</b>		
	Surplus on revaluation of properties	<b>103,795</b>	157,157
	Deferred tax (liability) recognised	<b>(28,178)</b>	(29,479)
		<b>75,617</b>	127,678
<b>20.3</b>	<b>Reconciliation of surplus on revaluation of property and equipment</b>		
	At beginning of the year	<b>157,157</b>	160,877
	Surplus realized on account of incremental depreciation (net of tax)	<b>(3,720)</b>	(3,720)
	Surplus realized on disposal of property and equipment	<b>20.3.1 (49,642)</b>	-
	At end of the year	<b>12.2.1 103,795</b>	157,157
<b>20.3.1</b>	This includes adjustment due to changes in value amounting to Rs. 31.2 million recognised in the profit and loss account.		
<b>21</b>	<b>CONTINGENCIES AND COMMITMENTS</b>		
<b>21.1</b>	<b>Direct Credit substitutes</b>		-
<b>21.2</b>	<b>Transaction-related contingent liabilities</b>		
	Guarantees favouring:		
	Government	<b>7,490,282</b>	7,657,988
	Banking companies and other financial institutions	<b>160,531</b>	206,948
	Others	<b>1,709,467</b>	1,648,697
<b>21.3</b>	<b>Trade-related contingent liabilities</b>		
	Letters of Credit & Acceptances	<b>4,589,144</b>	4,412,150
<b>21.4</b>	Claims against the bank not acknowledged as debt	<b>337,233</b>	348,243
<b>21.4.1</b>	Suits for damages of Rs. 850 billion has been filed against the Bank by borrowers / employee in respect of certain disputes relating to loans and advances. The management of the Bank and its legal counsel considers that the case is a counterblast in response to the recovery case filed by the Bank. The Bank and its legal counsel are confident that the case will be dismissed as actual damages have to be proven in such cases. This case has been filed in respect of recovery suit filed by the Bank which stands decreed and the defendants appeal in respect thereof has been dismissed by the High Court.		

# Notes to the Financial Statements For the year ended December 31, 2012

	Note	December 31, 2012	December 31, 2011
		Rupees in ' 000	
<b>21.5</b>	<b>Commitments in respect of forward contracts</b>		
	Forward Exchange contracts with State Bank of Pakistan, banks and other institutions		
	Sale	<b>6,174,393</b>	<b>3,179,611</b>
	Purchase	<b>10,523,822</b>	<b>7,376,571</b>
<b>21.6</b>	Claims against the bank by Competition Commission of Pakistan & Others	<b>35,000</b>	-
<b>21.7</b>	Commitments in respect of Property, civil work & equipment	<b>2,461</b>	<b>3,395</b>
	Purchase of Hardware / Software	<b>85,761</b>	<b>106,768</b>
<b>22</b>	<b>DERIVATIVE INSTRUMENTS</b>	<b>88,222</b>	<b>110,163</b>

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 Foreign Exchange 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 no 21.5 There was no equity futures position at the year end.

# Notes to the Financial Statements For the year ended December 31, 2012

	Note	December 31, 2012	December 31, 2011
		Rupees in ' 000	
<b>23</b>	<b>MARK-UP / RETURN / INTEREST EARNED</b>		
	<b>On loans and advances to:</b>		
	i) Customers	23.1 <b>6,844,005</b>	6,826,168
	ii) Financial Institutions	-	-
	<b>On investments in:</b>		
	i) Held-for-trading securities	-	-
	ii) Available-for-sale securities	1,382,222	925,163
	iii) Held-to-maturity securities	153,808	461,215
		<b>1,536,030</b>	<b>1,386,378</b>
	On deposits with financial institutions	390	263
	On call money lendings	16,202	76,807
	On securities purchased under resale agreements	186,939	95,992
		<b>8,583,566</b>	<b>8,385,608</b>
<b>23.1</b>	This figure is net of mark-up suspended in accordance with the Prudential Regulations of the SBP amounting to Rs. 254.85 million (2011: Rs. 605.972 million).		
<b>24</b>	<b>MARK-UP / RETURN / INTEREST EXPENSED</b>		
	Deposits	<b>5,099,507</b>	4,970,438
	Securities sold under repurchase agreements	633,803	581,337
	Call borrowings	305,771	335,886
	Borrowing from State Bank of Pakistan under export refinance scheme	291,686	356,336
	SWAP Money market expense	345,592	267,645
	Others	4,979	3,128
		<b>6,681,338</b>	<b>6,514,770</b>
<b>25</b>	<b>GAIN / (LOSS) ON SALE OF SECURITIES - NET</b>		
	Federal government securities		
	Market treasury bills	10,948	30,377
	Pakistan Investment bonds	(8,058)	3,185
	GOP Ijara Sukuk Bonds	19,823	924
	Shares - Listed	58,305	31,368
	Term finance certificates	3,441	5257
	Mutual funds	(78)	(944)
		<b>84,381</b>	<b>70,167</b>
<b>26</b>	<b>OTHER INCOME</b>		
	Rent on property	12,027	10,244
	Gain on sale of property and equipment - net	22,884	3,208
	Income from non-banking assets and profit from sale of or dealing with such assets	26.2      28,455	10,580
	Postage, telex, services charges etc.	37,920	33,571
	Trade business rebate	47,338	29,540
	Pakistan remittance initiatives income	6,753	441
	Others	26.1      18,444	32,680
		<b>173,821</b>	<b>120,264</b>

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# **Notes to the Financial Statements**

## **For the year ended December 31, 2012**

- 26.1** For 2011, fee relating to issuance of credit and debit cards and relating commission income aggregating to Rs. 61.821 million has been reclassified to fee, commission and brokerage income.

**26.2** In the current year, the Bank sold properties having book value of Rs. 683 million for Rs. 712 million.

			Note	December 31, 2012	December 31, 2011
				Rupees in ' 000	
<b>27</b>	<b>ADMINISTRATIVE EXPENSES</b>				
	Salaries, allowances and other benefits			<b>2,115,439</b>	1,792,621
	Charge for defined benefit plan			<b>50,046</b>	56,926
	Contribution to defined contribution plan			<b>63,043</b>	57,616
	Non-executives directors' fees, allowances and other expenses			<b>23,990</b>	20,090
	Rent, taxes, insurance, electricity, etc.			<b>599,634</b>	620,434
	Legal and professional charges			<b>226,066</b>	174,174
	Communications			<b>129,012</b>	124,669
	Repairs and maintenance			<b>131,657</b>	122,843
	Stationery and printing			<b>36,569</b>	38,035
	Security charges			<b>56,794</b>	52,957
	Advertisement and publicity			<b>67,113</b>	35,758
	Donation	27.1		<b>200</b>	-
	Depreciation			<b>387,419</b>	380,848
	Amortization of intangible assets			<b>75,683</b>	85,898
	Auditors' remuneration	27.2		<b>5,110</b>	4,457
	Fuel and traveling expenses			<b>101,551</b>	106,819
	Brokerage and commission			<b>7,091</b>	6,732
	Subscriptions and newspapers			<b>9,562</b>	7,917
	Entertainment			<b>24,710</b>	17,439
	Others			<b>102,870</b>	72,812
				<b>4,213,559</b>	<b>3,779,045</b>
<b>27.1</b>	<b>Donations</b>				
	Peoples primary Health Project, Gov. of Baluchistan			<b>200</b>	-
	During the year four Acer Aspire Laptops were donated to Provincial support unit, Peoples Primary Health Project, Government of Baluchistan with SILKBANK logo engraved on these laptops.				
<b>27.2</b>	<b>Auditors' remuneration</b>				
	Annual audit fee			<b>1,900</b>	1,700
	Half yearly review			<b>800</b>	700
	Special certifications			<b>2,000</b>	1,740
	Out-of-pocket expenses			<b>410</b>	317
				<b>5,110</b>	<b>4,457</b>
<b>28</b>	<b>OTHER (REVERSAL) / PROVISIONS / IMPAIRMENT / WRITE OFFS</b>				
	Net (reversal) / provision against other assets	14.3.1		<b>(148,500)</b>	179,832
	Impairment of capital assets			<b>-</b>	-
				<b>(148,500)</b>	<b>179,832</b>

# Notes to the Financial Statements For the year ended December 31, 2012

	Note	2012	2011
		Rupees in '000	
<b>29 OTHER CHARGES</b>			
Penalties imposed by SBP	29.1	1,021	133
Operational loss		<b>4,012</b>	1,616
Worker's Welfare Fund		<b>6,560</b>	27,733
		<b>11,593</b>	29,482
<b>29.1</b>	This represents penalties imposed by SBP on various non-compliances related to rules and regulations.		
<b>30 INCOME TAX EXPENSE</b>			
<b>Current</b>			
- for the year		-	92,322
- prior year		<b>(92,322)</b>	-
		<b>(92,322)</b>	92,322
<b>Deferred</b>			
- for the year	30.3	<b>(184,885)</b>	571,533
- prior year		<b>92,209</b>	-
		<b>(92,676)</b>	571,533
		<b>(184,998)</b>	663,855
<b>30.1 Effective tax rate reconciliation</b>			
(Loss) / profit before tax		<b>(529,269)</b>	1,358,918
Tax rate		35%	35%
Tax at applicable rate		<b>(185,244)</b>	475,621
Minimum tax		<b>(92,322)</b>	92,322
Permanent difference		359	47
Deferred tax asset written off		<b>(92,209)</b>	87,356
Others		-	8,509
		<b>(184,998)</b>	663,855
<b>30.2</b>	The income tax returns of the Bank have been submitted upto tax year 2012. The Bank has filed appeals before ATIR against certain disallowances amounting to Rs. 1,996 million made by Tax officer for assessment / tax year(s) 2000-2001, 2001-2002, 2002-2003 and 2004. The disallowances amounting to Rs. 682 million in respect of tax year 2003 and 2006 are pending at CIR (A). The management is confident that the outcome of these appeals would be in favor of the Bank.		
<b>30.3</b>	Minimum tax for the year 2011 (Rs.92 million) and current year (Rs.73 million) have been re-classified to advance tax as management is confident that these will be adjusted against taxable liability of bank in subsequent years upto 6 years.		
<b>30.4</b>	The Bank's return in respect of AJK operations have been submitted up to and including tax year 2012. 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.		

		Note	December 31, 2012	December 31, 2011
			Rupees in ' 000	
<b>31</b>	<b>(LOSS) / EARNING PER SHARE - BASIC AND DILUTED</b>			
	(Loss) / Profit after taxation for the year (Rupees in '000)		<b>(344,271)</b>	<b>695,063</b>
	Weighted average number of ordinary shares (in '000)		<b>2,671,605</b>	<b>2,671,605</b>
	(Loss) / Profit per share - Basic and Diluted (Rupee)		<b>(0.13)</b>	<b>0.26</b>
<b>32</b>	<b>CASH AND CASH EQUIVALENTS</b>			
	Cash and balances with treasury banks	7	<b>4,006,569</b>	<b>4,436,142</b>
	Balances with other banks	8	<b>86,002</b>	<b>94,322</b>
			<b>4,092,571</b>	<b>4,530,464</b>
<b>33</b>	<b>STAFF STRENGTH</b>		<b>2012</b>	<b>2011</b>
	Permanent		<b>1,260</b>	<b>1,261</b>
	Temporary / Contractual basis		<b>35</b>	<b>35</b>
	Bank's own staff strength at the end of the year		<b>1,295</b>	<b>1,296</b>
	Outsourced		<b>1,455</b>	<b>1,268</b>
	<b>Total staff strength</b>		<b>2,750</b>	<b>2,564</b>
<b>34</b>	<b>DEFINED BENEFIT PLAN</b>			
<b>34.1</b>	<b>General description</b>			
	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 dated December 31, 2012.			
	The gratuity cost for the year ending December 31, 2013 works out to be Rs. 49.866 million.			
	The main assumptions used for actuarial valuation are as under:			
<b>34.2</b>	<b>Principal actuarial assumption</b>		<b>2012</b>	<b>2011</b>
	Discount factor used (% per annum)		<b>12%</b>	<b>13%</b>
	Expected increase in eligible pay (% per annum)		<b>11%</b>	<b>13%</b>
	Long term rate of return on assets (% per annum) compound		<b>12%</b>	<b>12%</b>
	Normal retirement age (years)		<b>60 years</b>	<b>60 years</b>
<b>34.3</b>	<b>Movement of present value of defined benefit obligation</b>		<b>December 31, 2012</b>	<b>December 31, 2011</b>
	Opening balance		<b>179,179</b>	<b>139,487</b>
	Current service cost		<b>51,412</b>	<b>47,851</b>
	Interest cost		<b>25,735</b>	<b>23,111</b>
	(Gain) on defined benefit obligation		<b>(3,949)</b>	<b>(19,549)</b>
	Prior service cost resulting from change in benefits		<b>-</b>	<b>-</b>
	Actual benefits paid during the year		<b>(18,737)</b>	<b>(11,721)</b>
	Closing balance		<b>233,640</b>	<b>179,179</b>

# Notes to the Financial Statements For the year ended December 31, 2012

	Note	December 31, 2012	December 31, 2011		
		Rupees in '000			
<b>34.4 Movement of fair value of plan assets</b>					
Opening balance		<b>190,369</b>	127,225		
Expected return on plan assets		27,101	21,990		
Contribution made		50,046	56,926		
Benefits paid by the fund		(18,737)	(11,721)		
Gain / (loss) on plan assets		13,974	(4,051)		
Closing balance		<b>262,753</b>	<b>190,369</b>		
<b>34.4.1</b>	Major categories / composition of plan assets comprises of government securities of 75% and debt instruments of 25%.				
<b>34.5 Reconciliation of amount payable to defined benefit plan</b>					
Present value of defined benefit obligation		<b>233,640</b>	179,179		
Fair value of plan assets		(262,753)	(190,369)		
Net actuarial gain not recognized		29,113	11,190		
Past service cost not yet recognized		-	-		
Liability recognized in balance sheet	34.6	-	-		
<b>34.6 Movement in payable to defined benefit plan</b>					
Opening balance		-	-		
Charge for the year		50,046	56,926		
Contribution to fund made during the year: Bank contribution : Employees contribution		(50,046)	(56,926)		
Closing balance		-	-		
<b>34.7 Charge for defined benefit plan</b>					
Current service cost		51,412	47,851		
Interest cost		25,735	23,111		
Expected return on plan assets		(27,101)	(21,990)		
Recognition of loss on obligation		-	7,954		
		<b>50,046</b>	<b>56,926</b>		
<b>34.8 The history of the plan for the current and prior four years are as follows:</b>					
	2012	2011	2010	2009	2008
	Rupees in '000				
Present value of defined benefit obligation	233,640	179,179	139,487	93,632	49,762
Fair value of plan assets	(262,753)	(190,369)	(127,225)	(40,740)	(22,862)
(Surplus) / Deficit	(29,113)	(11,190)	12,262	52,892	26,900
Experience adjustments on defined benefit obligation	3,949	19,549	16,008	(6,988)	(1,597)
Experience adjustments on assets	13,974	(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. Contribution funds are placed with bank account maintained with SILKBANK in super profit scheme at a rate of 10%.

**34.10** The expected charge for the year 2013 is Rs.49.86 million.

**35 COMPENSATION OF DIRECTORS AND EXECUTIVES**

	2012 President / Chief Executive	2011 President / Chief Executive	2012 Executive Director	2011 Executive Director	2012 Executives	2011 Executives
Rupees in '000						
Managerial remuneration	<b>29,861</b>	25,211	<b>25,083</b>	13,324	<b>543,219</b>	478,942
Charge for defined benefit plan	<b>2,487</b>	2,100	<b>2,089</b>	763	<b>39,686</b>	36,450
Contribution to defined contribution plan	<b>2,487</b>	2,100	<b>2,089</b>	763	<b>39,686</b>	36,450
Rent and house maintenance	<b>14,931</b>	12,605	<b>12,542</b>	6,662	<b>268,611</b>	239,472
Utilities	-	-	-	-	-	-
Medical	<b>2,986</b>	2,521	<b>2,539</b>	1,332	<b>53,722</b>	47,943
Conveyance	-	-	-	-	-	-
Others	<b>18,772</b>	14,042	<b>14,115</b>	3,186	<b>261,737</b>	220,381
	<b>71,524</b>	58,579	<b>58,457</b>	26,030	<b>1,206,661</b>	1,059,638
Number of persons remained during the year	<b>1</b>	1	<b>1</b>	1	<b>382</b>	341

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.

In addition to the above, bonus amounting to Rs. 125.4 million for the year 2011 has been paid in the year 2012 to employees of the Bank.

**36 FAIR VALUE OF FINANCIAL INSTRUMENTS**

**36.1 On-balance sheet financial instruments**

	2012		2011	
	Book value	Fair value	Book value	Fair value
Rupees in '000				
<b>Assets</b>				
Cash balances with treasury banks	<b>4,006,569</b>	<b>4,006,569</b>	4,436,142	4,436,142
Balances with other banks	<b>86,002</b>	<b>86,002</b>	94,322	94,322
Lending to financial institutions	<b>5,662,423</b>	<b>5,662,423</b>	3,100,803	3,100,803
Investments	<b>12,734,898</b>	<b>12,734,898</b>	17,547,640	17,414,617
Advances	<b>49,000,494</b>	<b>49,000,494</b>	49,936,279	49,936,279
Other assets	<b>9,318,619</b>	<b>9,318,619</b>	7,229,763	7,229,763
	<b>80,809,005</b>	<b>80,809,005</b>	82,344,949	82,211,926

# Notes to the Financial Statements For the year ended December 31, 2012

	2012		2011	
	Book value	Fair value	Book value	Fair value
<b>Rupees in '000</b>				
<b>Liabilities</b>				
Bills payable	1,978,549	1,978,549	1,679,456	1,679,456
Borrowings	11,376,781	11,376,781	17,781,686	17,781,686
Deposits and other accounts	<b>69,050,447</b>	<b>69,050,447</b>	64,071,908	64,071,908
Sub-ordinated loans	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-
Other liabilities	<b>1,302,008</b>	<b>1,302,008</b>	1,498,720	1,498,720
	<b>83,707,785</b>	<b>83,707,785</b>	85,031,770	85,031,770
<b>36.2 Off-balance sheet financial instruments</b>				
Forward purchase of foreign exchange	<b>10,523,822</b>	<b>10,523,822</b>	7,376,571	7,376,571
Forward agreements for borrowing	-	-	-	-
Forward sale of foreign exchange	<b>6,174,393</b>	<b>6,174,393</b>	3,179,611	3,179,611
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 effective yield / interest rates, maturity and repricing profile are stated in notes 40.2.3 and 40.3.1 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 in primary segments in accordance with the core functions performed by the business groups.

\*It includes Islamic banking business (for details refer Annexure II).

**2012**

Total income - net	844,573	2,122,321	2,966,894
Total expenses	(464,601)	(3,031,562)	(3,496,163)
Net income / (loss)	379,972	(909,241)	(529,269)
Segment Assets (Gross)	60,986,842	33,199,867	94,186,709
Segment Non Performing Loans	7,366,746	3,450,211	10,816,957
Segment Provision Required	3,863,817	1,261,322	5,125,139
Segment Liabilities	20,206,996	63,500,789	83,707,785
Segment Return on net Assets (ROA) (%)	1.00%	-2.81%	
Segment Cost of funds (%)	11.41%	7.42%	

	Wholesale Banking	Consumer / SME Banking	Total
Rupees in '000			
Total income - net	844,573	2,122,321	2,966,894
Total expenses	(464,601)	(3,031,562)	(3,496,163)
Net income / (loss)	379,972	(909,241)	(529,269)
Segment Assets (Gross)	60,986,842	33,199,867	94,186,709
Segment Non Performing Loans	7,366,746	3,450,211	10,816,957
Segment Provision Required	3,863,817	1,261,322	5,125,139
Segment Liabilities	20,206,996	63,500,789	83,707,785
Segment Return on net Assets (ROA) (%)	1.00%	-2.81%	
Segment Cost of funds (%)	11.41%	7.42%	

**2011**

Total income - net	1,083,380	1,634,044	2,717,424
Total expenses	(1,000,648)	2,359,154	1,358,506
Net income / (loss)	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 Required	4,653,684	805,962	5,459,646
Segment Liabilities	26,211,583	58,820,187	85,031,770
Segment Return on net Assets (ROA) (%)	3.20%	-2.84%	1.50%
Segment Cost of funds (%)	12.67%	8.19%	9.24%

**38**

**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 else where, with related parties and balances with them as at the year-end were as follows:

# Notes to the Financial Statements For the year ended December 31, 2012

	2012			2011		
	Directors	Key management personnel & Others	Associated companies & common directorship	Directors	Key management personnel & Others	Associated companies & common directorship
<b>Rupees in '000</b>						
<b>Balances</b>						
<b>Loans</b>						
Outstanding at beginning	21,399	11,849	-	-	-	-
Loans given during the year	1,871	28,661	3,507,946	44,837	20,329	-
Loans repaid during the year	(21,399)	(19,950)	(3,450,028)	(23,438)	(8,480)	-
Loans outstanding at end	1,871	20,560	57,918	21,399	11,849	-
<b>Deposits</b>						
Deposits at beginning	18,535	78,103	66,925	12,085	101,976	55,482
Deposit received during the year	321,856	1,706,827	971,826	300,095	1,491,377	570,491
Deposit repaid during the year	(326,665)	(1,606,519)	(895,961)	(293,645)	(1,515,250)	(559,048)
<b>Deposits at end</b>	<b>13,726</b>	<b>178,411</b>	<b>142,790</b>	<b>18,535</b>	<b>78,103</b>	<b>66,925</b>
<b>Transactions</b>						
Short term employment benefits	54,279	638,399	-	-	476,019	-
Termination benefits	4,179	43,518	-	-	31,621	-
Mark-up earned on loans	344	3,102	27,442	2,646	1,715	-
Mark-up paid on deposits	452	7,202	11,851	503	2,554	6,571
Mark-up earned on TFC's	-	-	-	-	-	-
Services rendered / goods supplied	25,314	126,932	121,646	-	-	29,539
Software purchased	-	-	-	-	-	9,483

**38.1** Deposits of employees Provident Fund & employees Gratuity Fund - Rs.98 million (2011: 61 million) carries mark-up at the rates ranging from 10% to 15% (2011 : 10% to 15%)

## **39 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	December 31, 2012	December 31, 2011			
		Rupees in ' 000				
<b>Regulatory Capital Base</b>						
<b>Tier I Capital</b>						
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		162,762	139,013			
Accumulated losses	39.1	(9,278,313)	(8,932,456)			
		4,315,823	4,637,931			

	Note	December 31, 2012	December 31, 2011
		Rupees in ' 000	
<b>Deductions:</b>			
Book value of intangibles		<b>478,721</b>	403,766
Shortfall in provisions required against classified assets irrespective of any relaxation allowed by SBP.		<b>210,272</b>	-
Deficit on account of revaluation of available-for-sale investments		-	-
Other deductions		<b>24,016</b>	22,500
<b>Total eligible Tier I capital</b>		<b>713,009</b>	<b>426,266</b>
<b>Supplementary Capital</b>		<b>3,602,814</b>	<b>4,211,665</b>
<b>Tier II Capital</b>			
Subordinated debt (upto 50% of total Tier I Capital)		-	-
General provisions or general reserves for loan losses-up to maximum of 1.25% of Risk Weighted Assets (see para 1.3.4(b) of the instructions)		<b>158,169</b>	111,248
Revaluation reserve (upto 45%)	39.1	<b>500,215</b>	462,303
		<b>658,384</b>	<b>573,551</b>
<b>Deductions:</b>			
Other deductions		<b>24,016</b>	22,500
<b>Total eligible Tier II Capital</b>		<b>634,368</b>	<b>551,051</b>
<b>Eligible Tier III Capital</b>		-	-
<b>Total supplementary capital eligible for capital adequacy ratio (Maximum upto 100% of total eligible Tier I capital)</b>		<b>4,237,182</b>	4,762,716
<b>Total Eligible Capital</b>		<b>4,237,182</b>	<b>4,762,716</b>
<b>Risk Weighted Amounts</b>			
Total Credit Risk Weighted Amount		<b>64,750,815</b>	64,734,103
Total Market Risk Weighted Amount		<b>4,991,797</b>	4,140,038
Total Operational Risk Weighted Amount		<b>4,736,071</b>	3,379,619
<b>Total Risk Weighted Amount</b>		<b>74,478,683</b>	<b>72,253,760</b>
<b>Capital Adequacy Ratios</b>			
Credit Risk Capital Adequacy Ratio		<b>6.54%</b>	7.36%
Tier 1 Capital to Total Risk Weighted Amount		<b>4.84%</b>	5.83%
<b>TOTAL CAPITAL ADEQUACY RATIO</b>		<b>5.69%</b>	6.59%

Under the standardized approach to credit risk, general provisions can be included in Tier - II capital subject to the limit of 1.25% of the risk weighted assets.

39.1

In 2011, 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.

# Notes to the Financial Statements For the year ended December 31, 2012

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-II 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 2012 has been adjusted accordingly.

## **39.2 Credit Risk - General disclosures**

The Bank uses the standardised approach for all its credit exposure.

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:

<b>Exposures</b>	<b>2012</b>				
	<b>JCR - VIS</b>	<b>PACRA</b>	<b>S &amp; P</b>	<b>Fitch</b>	<b>Moody's</b>
Corporate Banks	✓	✓	-	-	-
Banks	✓	✓	✓	✓	✓

## **39.3 Credit exposures subject to Standardized Approach**

<b>Exposures</b>	Rating Category	<b>2012</b>			<b>2011</b>		
		Amount Outstanding	Deduction CRM	Net Exposures	Amount Outstanding	Deduction CRM	Net Exposures
		(Rupees in '000)			(Rupees in '000)		
Cash and Cash Equivalents		1,054,875	-	1,054,875	882,036	-	882,036
Claims on Government of Pakistan		1,824,436	-	1,824,436	5,722,440	-	5,722,440
Foreign Currency claims on SBP		1,052,374	-	1,052,374	1,064,057	-	1,064,057
Claims on other sovereigns and on SBP		14,077	-	14,077	4,697	-	4,697
Government of Pakistan other than PKR							
Banks	1	71,700	-	71,700	95,028	93,035	1,993
Banks	2,3	59,718	-	59,718	88,148	-	88,148
Banks	4,5	6,800	-	6,800	-	-	-
Banks	Unrated	-	-	-	33,820	-	33,820
Banks- 3 months or less Fcy		735,988	-	735,988	438,600	-	438,600
Banks- 3 months or less Lcy		5,545,032	4,204,443	1,340,589	2,884,702	2,159,306	725,396
Corporates	1	431,094	-	431,094	806,668	-	806,668
Corporates	2	1,757,600	-	1,757,600	1,747,644	-	1,747,644
Corporates	3,4	75,000	-	75,000	83,333	-	83,333
Corporates	5,6	1,102,087	-	1,102,087	2,695,879	137,923	2,557,956
Corporates	D	25,117,562	2,228,585	22,888,977	25,492,077	2,528,488	22,963,589
Retail		12,288,448	674,019	11,614,429	11,651,173	653,435	10,997,738
Residential mortgage		1,610,292	-	1,610,292	1,557,508	-	1,557,508
Past due loans		5,956,857	-	5,956,857	5,761,107	-	5,761,107
Listed Equity investments - banks		15,250	-	15,250	52,448	-	52,448
Unlisted equity investments		-	-	-	31,346	-	31,346
Investments in operating fixed assets		4,158,613	-	4,158,613	4,352,145	-	4,352,145
Other assets		12,933,848	-	12,933,848	10,799,180	-	10,799,180
		75,811,651	7,107,047	68,704,604	76,244,036	5,572,187	70,671,849

## 40 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.

# Notes to the Financial Statements For the year ended December 31, 2012

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.

The 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 of new products.

## **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 Bank's business plan, State Bank of Pakistan 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

The Bank's 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 the 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 the Bank a system has been developed and successfully implemented to assign Credit / Obligor Risk Ratings to each borrower.

#### 40.1.4 Segmental information

##### 40.1.4.1 Segments by class of business

	2012					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
	(Note 11)		(Note 17)		(Note 21)	
Chemical and Pharmaceuticals	3,018,822	5.6%	1,304,274	1.9%	625,221	4.5%
Agribusiness	188,722	0.3%	59,894	0.1%	-	0.0%
Cement	256,357	0.5%	169,579	0.2%	295,854	2.1%
Sugar	1,948,404	3.6%	24,936	0.0%	2,000	0.0%
Textile	8,628,222	16.0%	267,760	0.4%	1,943,805	13.9%
Footwear and Leather garments	841,404	1.6%	40,583	0.1%	132,714	1.0%
Automobile/transportation equipment	797,335	1.5%	65,877	0.1%	4,031	0.0%
Electronics and electrical appliances	2,097,241	3.9%	62,262	0.1%	502,596	3.6%
Power (electricity), Gas, Water, Sanitary	1,026,499	1.9%	967,181	1.4%	800,644	5.7%
Financial	1,724,346	3.2%	826,739	1.2%	1,326,871	9.5%
Insurance	-	0.0%	354,647	0.5%	-	0.0%
Individuals	5,198,253	9.6%	36,198,358	52.4%	-	0.0%
Exports / Imports & Trading	2,665,114	4.9%	398,387	0.6%	-	0.0%
Hotel & Resorts	1,140,691	2.1%	229,949	0.3%	75,347	0.5%
Telecommunications	1,160,979	2.1%	280,388	0.4%	436,797	3.1%
Others	23,326,373	43.2%	27,799,633	40.3%	7,803,544	55.9%
	54,018,762	100%	69,050,447	100%	13,949,424	100%

# Notes to the Financial Statements

## For the year ended December 31, 2012

	2011					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000 (Note 11)	% (Note 17)	Rupees in '000 (Note 17)	% (Note 17)	Rupees in '000 (Note 21)	% (Note 21)
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%
	<b>55,309,362</b>	<b>100%</b>	<b>64,071,908</b>	<b>100%</b>	<b>13,925,783</b>	<b>100%</b>

### 40.1.4.2 Segment by sector

	2012					
	Advances (Gross) (Note 11)		Deposits (Note 17)		Contingencies and commitments (Note 21)	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public/Government	114,055	0%	13,272,823	19%	7,490,282	54%
Private	53,904,707	100%	55,777,624	81%	6,459,142	46%
	<b>54,018,762</b>	<b>100%</b>	<b>69,050,447</b>	<b>100%</b>	<b>13,949,424</b>	<b>100%</b>

	2011					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public/Government	149,009	0%	10,723,239	17%	7,657,988	55%
Private	55,160,353	100%	53,348,669	83%	6,267,795	45%
	<b>55,309,362</b>	<b>100%</b>	<b>64,071,908</b>	<b>100%</b>	<b>13,925,783</b>	<b>100%</b>

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

	2012		2011
	Classified Advances	Specific Provisions held	Classified Advances
Rupees in '000			
Agri business	196,542	124,526	207,999
Textile	3,727,504	1,878,244	2,899,424
Chemical and pharmaceuticals	504,748	292,914	515,013
Cement	139,289	48,860	144,289
Sugar	167,747	121,518	229,180
Footwear and leather garments	90,644	84,747	90,144
Automobile and transportation equipment	706,879	388,633	707,701
Electronics and electrical appliances	662,866	523,640	953,681
Exports / Imports	686,855	381,662	634,633
Financial	91,761	91,761	93,079
Services	640,727	115,935	821,495
Individuals	982,518	306,597	662,759
Others	<u>2,218,877</u>	<u>501,062</u>	<u>3,063,545</u>
	<u>10,816,957</u>	<u>4,860,099</u>	<u>11,022,942</u>
	<u>10,816,957</u>	<u>4,860,099</u>	<u>5,261,835</u>

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

	2012		2011
	Classified Advances	Specific Provisions	Classified Advances
Rupees in '000			
Public/Government	-	-	-
Private	<u>10,816,957</u>	<u>4,860,099</u>	<u>11,022,942</u>
	<u>10,816,957</u>	<u>4,860,099</u>	<u>5,261,835</u>

**40.1.4.5 Geographical segment analysis**

	2012		
	(Loss) / Profit before taxation	Total assets employed	Net assets employed
Rupees in '000			
Pakistan	<u>(529,269)</u>	<u>89,061,570</u>	<u>5,353,785</u>
2011			
Pakistan	1,358,918	90,670,277	5,638,507
	Rupees in '000		
	<u>1,358,918</u>	<u>90,670,277</u>	<u>24,940,371</u>

# Notes to the Financial Statements For the year ended December 31, 2012

## 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 investment portfolio because the values of its trading positions are sensitive to changes in market prices and rates.

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 Group 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.

### 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.

Pakistan Rupee  
United States Dollar  
Great Britain Pound  
Japanese Yen  
Euro  
Other currencies

	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
Rupees in ' 000				
Pakistan Rupee	87,388,897	77,821,872	(4,261,530)	5,305,495
United States Dollar	1,396,247	4,646,581	3,259,267	8,933
Great Britain Pound	211,630	739,133	522,464	(5,039)
Japanese Yen	1,967	14	-	1,953
Euro	53,960	500,185	479,799	33,574
Other currencies	8,869	-	-	8,869
	<b>89,061,570</b>	<b>83,707,785</b>	-	<b>5,353,785</b>
2011				
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
	<b>90,670,277</b>	<b>85,031,770</b>	-	<b>5,638,507</b>

#### 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.

#### 40.2.3 Mismatch of interest rate sensitive assets and liabilities

2012

Effective Yield / Interest rate	Total	Exposed to Yield / Interest risk										Non-interest bearing financial instruments
		Up to 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years		
Rupees in ' 000												
<b>On-balance sheet financial instruments</b>												
<b>Assets</b>												
Cash and balances with treasury banks	4,006,569	-	-	-	-	-	-	-	-	-	4,006,569	
Balances with other banks	86,002	-	-	-	-	-	-	-	-	-	86,002	-
Lending to financial institutions	11.19%	5,662,423	5,460,141	202,282	1,930,077	6,796,971	629,197	311,016	132,393	-	-	-
Investments-net	10.50%	12,734,898	1,563,639	42,543	12,762,270	3,054,826	45,630	104,900	120,784	-	-	1,329,062
Advances-net	12.29%	49,000,494	239,591	25,107,040	-	-	-	415,916	253,177	154,125	1,454,470	5,956,858
Other assets		1,514,531	-	-	-	-	-	-	-	-	-	1,514,531
	<b>73,004,917</b>	<b>7,263,371</b>	<b>25,351,865</b>	<b>14,692,347</b>	<b>9,851,797</b>	<b>674,827</b>	<b>415,916</b>	<b>253,177</b>	<b>154,125</b>	<b>1,454,470</b>	<b>12,893,022</b>	
<b>Liabilities</b>												
Bills payable		1,978,549	-	-	-	-	-	-	-	-	1,978,549	
Borrowings	10.70%	11,376,781	8,101,955	2,199,449	1,075,377	-	-	-	-	-	-	-
Deposits and other accounts	7.46%	69,050,447	33,930,561	5,961,415	5,985,004	7,008,207	-	-	992	-	-	16,164,268
Sub-ordinated loans		-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	836,802
Other liabilities		836,802	-	-	-	-	-	-	-	-	-	-
	<b>83,242,579</b>	<b>42,032,516</b>	<b>8,160,864</b>	<b>7,060,381</b>	<b>7,008,207</b>	<b>-</b>	<b>-</b>	<b>992</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,979,619</b>
<b>On-balance sheet gap</b>	<b>(10,237,662)</b>	<b>(34,769,145)</b>	<b>17,191,001</b>	<b>7,631,966</b>	<b>2,843,590</b>	<b>674,827</b>	<b>415,916</b>	<b>252,185</b>	<b>154,125</b>	<b>1,454,470</b>	<b>(6,086,597)</b>	
Total Yield/Interest Risk Sensitivity Gap												
Cumulative Yield/Interest Risk Sensitivity gap												
	<b>(10,237,662)</b>	<b>(34,769,145)</b>	<b>(17,578,144)</b>	<b>(9,946,178)</b>	<b>(7,102,588)</b>	<b>(6,427,761)</b>	<b>(6,011,845)</b>	<b>(5,759,660)</b>	<b>(5,605,535)</b>	<b>(4,151,065)</b>	<b>(10,237,662)</b>	

# Notes to the Financial Statements For the year ended December 31, 2012

Effective Yield / Interest rate	Total	Exposed to Yield / Interest risk									Non-interest bearing financial instruments
		Up to 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	
		Rupees in '000									
<b>On-balance sheet financial instruments</b>											
<b>Assets</b>											
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	2,603,668	497,135	-	-	-	-	-	-	-	-
Investments	13.81% 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%	49,936,279	1,505,909	23,105,245	13,234,730	5,048,164	6,894	15,835	18,194	23,159	5,761,107
Other assets	1,807,876										1,807,876
	76,923,062	4,572,254	24,377,838	14,667,572	11,808,834	451,203	4,307,376	678,790	1,891,287	1,217,861	12,950,047
<b>Liabilities</b>											
Bills payable	1,673,456	-	-	-	-	-	-	-	-	-	1,673,456
Borrowings	11.77% 8.33%	17,781,686	13,608,988	2,540,872	1,076,576	7,540,647	52,785	86,121	-	-	416,344
Deposits and other accounts	64,071,908	23,898,297	7,568,081	-	11,371,885	-	80,561	6,170	10,122	-	13,596,145
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	855,925	-	-	-	-	-	-	-	-	-	855,925
	84,388,975	37,507,285	10,108,953	8,617,223	11,371,885	133,346	92,291	10,122	-	-	16,547,870
<b>On-balance sheet gap</b>	(7,465,913)	(32,935,031)	14,268,885	6,050,349	436,949	317,857	4,215,085	668,668	1,891,287	1,217,861	(3,597,823)
<b>Total Yield/Interest Risk Sensitivity Gap</b>	(7,465,913)	(32,935,031)	14,268,885	6,050,349	436,949	317,857	4,215,085	668,668	1,891,287	1,217,861	(3,597,823)
<b>Cumulative Yield/Interest Risk Sensitivity gap</b>			(18,666,146)	(12,615,797)	(12,178,848)	(11,860,991)	(7,645,906)	(6,977,238)	(6,085,951)	(3,868,090)	(7,465,913)

## 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

The maturities of deposits are determined on the basis of study conducted by the Bank based on past years data and the analysis reviewed by the ALCO from time to time.

# Notes to the Financial Statements For the year ended December 31, 2012

	Total	Up to 1 month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
Rupees in '000										
<b>Assets</b>										
Cash and balances with treasury banks	4,006,569	766,631	23,913	151,893	3,064,132	-	-	-	-	-
Balances with other banks	86,002	86,002	-	-	-	-	-	-	-	-
Lending to financial institutions	5,662,423	5,460,141	202,282	1,655,747	1,538	3,755,677	783,719	450,906	545,405	-
Investments-net	12,734,898	2,455,354	3,086,552	5,755,040	2,333,081	14,474,818	3,221,660	6,511,310	3,141,773	1,042,841
Advances-net	49,000,494	5,340,204	7,179,767	579,667	579,667	579,667	579,667	1,159,332	-	-
Operating fixed assets	4,637,334	579,667	579,667	-	-	903,808	903,808	1,807,615	-	-
Deferred tax assets	3,615,231	-	-	-	-	-	-	-	-	-
Other assets	9,318,619	2,040,558	366,559	6,573,531	337,971	-	-	-	-	-
<b>Total assets</b>	<b>89,061,570</b>	<b>16,728,557</b>	<b>11,438,740</b>	<b>14,715,878</b>	<b>6,316,389</b>	<b>19,713,970</b>	<b>5,488,854</b>	<b>9,929,163</b>	<b>3,687,178</b>	<b>1,042,841</b>
<b>Liabilities</b>										
Bills payable	1,978,549	1,978,549	-	-	-	-	-	-	-	-
Borrowings	11,376,781	8,362,480	1,654,632	1,294,413	8,150	57,106	-	-	-	-
Deposits and other accounts	69,050,447	8,809,311	7,921,396	9,111,750	14,838,925	2,138,823	5,255,138	10,487,933	5,244,237	5,242,934
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Other liabilities	1,302,008	658,449	285,824	143,034	71,517	71,517	71,667	-	-	-
<b>Total liabilities</b>	<b>83,707,785</b>	<b>19,808,789</b>	<b>9,861,852</b>	<b>10,549,197</b>	<b>14,918,592</b>	<b>2,267,446</b>	<b>5,326,805</b>	<b>10,487,933</b>	<b>5,244,237</b>	<b>5,242,934</b>
<b>Net assets</b>	<b>5,353,785</b>	<b>(3,080,232)</b>	<b>1,576,888</b>	<b>4,166,681</b>	<b>(8,602,203)</b>	<b>17,446,524</b>	<b>162,049</b>	<b>(558,770)</b>	<b>(1,557,059)</b>	<b>(4,200,093)</b>
	Total	Up to 1 month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
Rupees in '000										
<b>Assets</b>										
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
Operating fixed assets	4,755,911	594,489	594,489	-	594,489	594,489	892,059	1,188,977	1,785,299	-
Deferred tax assets	3,569,417	-	-	-	-	-	-	-	-	-
Other assets	7,229,763	2,295,737	296,166	4,362,877	274,983	-	-	-	-	-
<b>Total assets</b>	<b>90,670,277</b>	<b>13,717,959</b>	<b>9,939,580</b>	<b>12,279,089</b>	<b>13,489,176</b>	<b>17,029,036</b>	<b>7,758,215</b>	<b>10,025,775</b>	<b>5,821,313</b>	<b>610,134</b>
<b>Liabilities</b>										
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	-	-	-
<b>Total liabilities</b>	<b>85,031,770</b>	<b>25,191,993</b>	<b>11,673,055</b>	<b>9,669,507</b>	<b>12,776,556</b>	<b>1,896,534</b>	<b>4,892,960</b>	<b>9,469,532</b>	<b>4,731,341</b>	<b>4,730,292</b>
<b>Net assets</b>	<b>5,638,507</b>	<b>(11,474,034)</b>	<b>(1,733,475)</b>	<b>2,609,582</b>	<b>712,620</b>	<b>15,132,502</b>	<b>2,865,255</b>	<b>556,243</b>	<b>1,089,972</b>	<b>(4,120,158)</b>
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	122,639									
- net of deferred tax	5,638,507									

# Notes to the Financial Statements For the year ended December 31, 2012

## 40.3.2 Maturities of assets and liabilities - based on contractual maturity of these 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
Rupees in '000										
<b>Assets</b>										
Cash and balances with treasury banks	4,006,569	4,006,569	-	-	-	-	-	-	-	-
Balances with other banks	86,002	86,002	-	-	-	-	-	-	-	-
Lending to financial institutions	5,662,423	5,460,141	202,282	-	-	-	-	-	-	-
Investments-net	12,734,898	2,455,354	3,086,552	1,655,747	1,538	3,755,677	783,719	450,906	545,405	-
Advances-net	49,000,494	5,340,204	7,179,767	5,755,040	2,333,081	14,474,818	3,221,660	6,511,310	3,141,773	-
Operating fixed assets	4,637,334	579,667	579,667	579,667	579,667	579,667	579,667	1,159,332	-	1,042,841
Deferred tax assets	3,615,231	-	-	-	-	903,808	903,808	1,807,615	-	-
Other assets	9,318,619	2,040,558	366,559	6,573,531	337,971	-	-	-	-	-
	89,061,570	19,968,495	11,414,827	14,563,985	3,252,257	19,713,970	5,488,854	9,929,163	3,687,178	1,042,841
<b>Liabilities</b>										
Bills payable	1,978,549	1,978,549	-	-	-	-	-	-	-	-
Borrowings	11,376,781	8,362,480	1,654,632	1,294,413	8,150	57,106	-	-	-	-
Deposits and other accounts	69,050,447	40,912,398	6,690,461	8,103,456	13,360,149	49,722	12,515	2,686	60	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Other liabilities	1,302,008	658,449	285,824	143,034	71,517	71,517	71,667	-	-	-
	83,707,785	51,911,876	8,549,917	9,540,903	13,439,816	178,345	84,182	12,686	60	-
<b>Net assets</b>	<b>5,353,785</b>	<b>(31,943,381)</b>	<b>2,864,910</b>	<b>5,023,082</b>	<b>(10,187,559)</b>	<b>19,533,562</b>	<b>5,404,672</b>	<b>9,926,477</b>	<b>3,687,118</b>	<b>1,042,841</b>
Share capital	26,716,048	-	-	-	-	-	-	-	-	-
Reserves	162,762	-	-	-	-	-	-	-	-	-
Discount on issue of shares	(13,284,674)	-	-	-	-	-	-	-	-	-
Accumulated loss	(8,400,375)	-	-	-	-	-	-	-	-	-
Surplus on revaluation of asset - net of deferred tax	160,024	-	-	-	-	-	-	-	-	-
	<b>5,353,785</b>									
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
Rupees in '000										
<b>Assets</b>										
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
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	-	-
Other assets	7,229,763	2,295,737	296,166	4,362,877	274,983	-	-	-	-	-
	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
<b>Liabilities</b>										
Bills payable	1,679,456	1,679,456	-	-	-	-	-	-	-	-
Borrowings	17,781,886	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	-	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	10,481,473	8,758,853	11,442,700	204,161	163,255	10,122	-	-
<b>Net assets</b>	<b>5,638,507</b>	<b>(36,663,148)</b>	<b>(568,212)</b>	<b>3,353,371</b>	<b>(1,305,439)</b>	<b>16,824,875</b>	<b>7,594,960</b>	<b>10,015,656</b>	<b>5,821,313</b>	<b>610,134</b>
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	-	-	-	-	-	-	-	-	-
	<b>5,638,507</b>									

**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.

**41 TRUST ACTIVITIES**

The Bank is not engaged in any significant trust activities. However, the Bank acts as security agent of investment portfolio services as custodian on behalf of its customers.

**42 ISLAMIC BANKING BUSINESS (IBB)**

In order to meet the guidelines for Sharia compliance in Islamic banking institutions (IBI), statement of financial position and profit and loss account of IBP as at December 31, 2012 is given in Annexure - II. Further detailed disclosure are also given in the said annexure to comply instructions issued by SBP to improve transparency and standardization in IBIs profit and loss distribution policies and practices dated November 19, 2012 and BSD circular No.3 dated January 22, 2013.

**43 SUBSEQUENT EVENTS**

State Bank of Pakistan vide its letter No. BSD/ CS/ 11653/12 dated October 4, 2012 has granted its in-principle approval for the issuance of perpetual non-cumulative preference shares (PNCPS) of Rs. 2,400 million (inclusive of a Green Shoe Option of Rs. 1,000 million) by the Bank, by way of issue of capital other than a Rights Issue. This will enable the Bank to issue 960 million PNCPS at an indicative face value of PKR 2.50 each to qualified institutional investors and high net worth individuals, which will convert into common shares after three years from the date of issue.

There are no other significant events subsequent to December 31, 2012.

**44 DATE OF AUTHORIZATION FOR ISSUE**

The financial statements were authorized for issue on **March 01, 2013** by the Board of Directors of the Bank.

# Notes to the Financial Statements For the year ended December 31, 2012

## 45 GENERAL

- 45.1** These financial statements have been prepared in accordance with the revised format for financial statements of banks issued by the SBP through BSD circular letter No.3 dated February 22, 2011
- 45.2** Captions in respect of which no amounts exist may not be reproduced in the financial statements except in case of Balance Sheet and Profit & Loss account.
- 45.3** Figures have been rounded off to the nearest thousand rupee except stated otherwise.
- 45.4** Corresponding figures have been rearranged and reclassified, wherever necessary, for better presentation and disclosure and this has been disclosed in relevant notes.

Azmat Tarin  
President & CEO

Munnawar Hamid, OBE  
Chairman

Tariq Iqbal Khan  
Director

Humayun Bashir  
Director

# Statement of Written-off Loans For the year ended December 31, 2012

## SILKBANK LIMITED

## ANNEXURE - I

### **STATEMENT OF WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF FIVE HUNDRED THOUSAND RUPEES OR ABOVE PROVIDED DURING THE YEAR ENDED DECEMBER 31, 2012**

Party Name	Address	Name of the individuals/ Partners/Directors (with C.N.I.C. No.)	Father's / Husband Name	Amount Outstanding at the beginning of the year					Principal Written- off	Interest / Mark-up written- off	Other Financial Relief Provided	Total (9+10+11=12)
				Principal	Interest / Mark-up	Other	Total 5+6+7=8					
1	2	3	4	5	6	7	8	9	10	11	12	
Rose Associates	Mezzanine 65-W, Executive Heights, Fazal-e-Haq Road, Blue Area, Islamabad.	Mr. Ch. Muhammad Arif CNIC: 61101-1971453-1	Mr. Ch. Gulab Din	99,998	34,316	-	134,314	-	12,732	-	12,732	
Nida Irfan	House No. 14/1 Block D, Phase I DHA, Lahore.	Mr. Nida Irfan CNIC: 35202-2827786-6	W/o Irfan Aqueel Daultana	11,000	1,552	-	12,552	-	1,033	-	1,033	
A. N. Traders	3rd Floor Golden Tower, Korangi Phase I, Karachi. C-12/1 Street 21, Punjab Colony, Clifton Cantonment Board, Karachi.	Mr. Muhammad Amin CNIC: 42301-0866729-5	Mr. Abdul Aziz	45,045	6,313	-	51,358	15,045	6,313	-	21,358	
Afnan Construction Company	FL-5, Block-3-A, Gullistan-e-Johar, Karachi.	Mrs. Nusrat Samreen CNIC: 42201-0275581-4	Mr. Muhammad Saleem	19,964	3,856	-	23,820	-	3,820	-	3,820	
Khan Unique Builders (Pvt) Ltd.	4th Floor, Khan Arcade 37-J, Gulberg III, Lahore.	Mr. Khalid Mujeeb Pervaiz Khan CNIC: 35202-2314281-1  Mrs. Uzma Khalid Khan CNIC: 35202-2231025-4  Mr. Muhammad Awais Khalid Khan CNIC: 35202-4031033-9	Mr. Muhammad Sadiq Pervaiz Khan  Mr. Khalid Mujeeb Pervaiz Khan  Mr. Khalid Mujeeb Pervaiz Khan	94,697	8,601	-	103,298	47,697	8,601	-	56,298	
Al-Kashif Enterprises	Arshad Manzil, Opp. Roop Mahal, Hirabad, Hyderabad.	Mr. Jan Muhammad Samoon (Late) CNIC: 4130-34594215-7	Mr. Ghazi Khan Samoo	3,499	1,011	-	4,510	1,499	1,011	-	2,510	
Qami CNG	Near M-3, Opp. Total Pump, Sargodha Road, Faisalabad.	Mr. Ahmed Raza Bhatti CNIC: 33100-3655400-1  Mr. Usman Hamad Bhatti CNIC: 33100-7232022-9  Mr. Hassan Abdullah CNIC: 37405-0422165-5	Mr. Iftikhar Jillani  Mr. Hamid Jillani  Mr. Aslam Cheema	3,482	835	-	4,317	-	835	-	835	
Areco Traders	40/17-B-1, College Road, Township, Lahore.	Mr. Ali Sheraz Syed CNIC: 35200-1492665-3	Mr. Sikhwat Ali Syed	5,000	948	-	5,948	-	948	-	948	
United Construction	202/129, Speedy Tower, Phase 1, DHA, Karachi.	Mr. Khalid Javaid CNIC: 42301-6172900-9  Mr. Mubashir Khalid CNIC: 42201-8670100-3  Mr. Umer Khalid CNIC: 42301-4591402-3	Mr. Khawaja Sajjad Ahmed  Mr. Khalid Javaid  Mr. Khalid Javaid	4,028	618	-	4,646	-	618	-	618	
Sikandar Hanif Razzak	Suite No. 606, Trade Avenue, Main Hasrat Mohani Road, Karachi.	Mr. Muhammad Sikandar CNIC: 516-89-146939  Mr. Haji Abdul Razzak CNIC: 516-47-140403  Mr. Muhammad Hanif CNIC: 450-94-185638	Mr. Muhammad Adam  Mr. Haji Abdul Karim  Mr. Abdul Ghaffar	4,997	1,416	-	6,413	3,364	1,416	-	4,780	

Contd.

# Statement of Written-off Loans

## For the year ended December 31, 2012

Rupees in '000

Party Name	Address	Name of the individuals/ Partners/Directors (with C.N.I.C. No.)	Father's / Husband Name	Amount Outstanding at the beginning of the year				Principal Written- off	Interest / Mark-up written- off	Other Financial Relief Provided	Total (9+10+11=12)
				Principal	Interest / Mark-up	Other	Total 5+6+7=8				
1	2	3	4	5	6	7	8	9	10	11	12
R. M. Gulistan Eng. & Contractors	F-104 Block - F, Allama Rasheed Turabi Road, North Nazimabad, Karachi.	Mr. Raja Muhammad Gulistan CNIC: 42101-0771768-7	Mr. Raja Karam Khan	180,150	115,884	-	296,034	-	115,884	-	115,884
		Mr. Raja Muhammad Tariq CNIC: 42301-6390559-9	Mr. Raja Muhammad Gulistan								
		Mr. Muhammad Aasif CNIC: 42101-2515234-9	Mr. Raja Muhammad Gulistan								
		Mr. Raja Muhammad Faisal CNIC: 37201-1968603-9									
Al Vera Enterprises	34/A, Block - L, Gulberg III, Lahore.	Mr. Aamir Chaudhry CNIC: 35202-2843122-5	Mr. Khalid Chaudhry	62,783	7,727	-	70,510	25,114	7,727	-	32,841
		Mrs. Kishwar Chaudhry CNIC: 35202-8612012-2	W/o Mr. Khalid Chaudhry								
Prudential Fund Management	B-9/G Block - B, 2nd Floor, Meher sons Estate, Talpur Road, Karachi.	Mr. Rasheedullah Yacoob CNIC: 35202-2843122-5	Mr. Muhammad Yacoob	-	8,408	-	8,408	-	8,408	-	8,408
		Mrs. Sanober Akhter Yacoob CNIC: 514-51-024748	W/o Mr. Rasheedullah Yacoob								
		Mr. M. Asif Dar CNIC: 517-43-122723									
Eleganze (Pvt.) Ltd.	57/A, B-III Gulberg III, Lahore. Rajpoot Road, Village Kamahan, Lahore.	Mr. Adil Azam Khawaja CNIC: 35202-4267913-5	Mr. Mustansar Hussain Khawaja	4,907	517	-	5,424	3,307	517	-	3,824
		Mr. Fawad Ahmed Minhas CNIC: 35202-1616053-9	Mr. Zafar Ahmed Minhas								
Trec (Pvt.) Ltd.	F-104 Block - F, Allama Rasheed Turabi Road, North Nazimabad, Karachi.	Mr. Muhammad Tariq CNIC: 42301-6390559-9	Mr. Raja Muhammad Gulistan	44,895	30,242	-	75,137	-	30,242	-	30,242
		Mr. Sadiq Tariq CNIC: 42301-8249649-2	W/o Mr. Muhammad Tariq								
		Mr. Muhammad Ashraf CNIC: 61101-5744686-3	Mr. Noor Khan								
Ismail Traders	44 - Nichalson Road, Lahore.	Mr. Maqsood Iqbal CNIC: 35202-5734929-9	Mr. Ch. Muhammad Ismail	2,000	527	-	2,527	-	527	-	527
Ghaznavi CNG Filling Station	Chowk Mumraiz, Opp. Awan Cold Storage, G.T. Road, Pabbi, Distt. Nowshera.	Mr. Shahid Pervez Ghaznavi CNIC: 17301-16230542-9	Mr. Abdul Aziz Ghaznavi	7,572	648	-	8,220	-	648	-	648
		Mst. Attaya Jabeen CNIC: 17301-1434491-4	W/o Mr. Shahid Pervez Ghaznavi								
		Mr. Zeeshan Shahid CNIC: 17301-1530544-9	Mr. Shahid Pervez Ghaznavi								
		Mr. Shuja Shahid Ghaznavi CNIC: 17301-5391385-5	Mr. Shahid Pervez Ghaznavi								

Contd.

# Statement of Written-off Loans For the year ended December 31, 2012

## SILKBANK LIMITED

## ANNEXURE - I

### STATEMENT OF WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF FIVE HUNDRED THOUSAND RUPEES OR ABOVE PROVIDED DURING THE YEAR ENDED DECEMBER 31, 2012

Party Name	Address	Name of the individuals/ Partners/Directors (with C.N.I.C. No.)	Father's / Husband Name	Amount Outstanding at the beginning of the year				Principal Written- off	Interest / Mark-up- written- off	Other Financial Relief Provided	Rupees in '000 Total (9+10+11=12)
				Principal	Interest / Mark-up	Other	Total 5+6+7=8				
1	2	3	4	5	6	7	8	9	10	11	12
S. Rahim Buksh Board Mills (Pvt) Ltd.	58-KM, G.T. Road, Kamran Town, Attawa, Gujranwala.	Mr. Sh. Muhammad Shafique CNIC: 35201-0983944-1  Mr. Sheikh Shahbaz Shafique CNIC: 35201-4931658-3	Mr. Muhammad Sharif  Mr. Sheikh Muhammad Shafique	44,509	6,547	-	51,056	12,009	6,547	-	18,556
AMZ Spinning & Weaving Mills Ltd.	Ocean Centre, 40 Talpur Road, Karachi.	Mr. Pesumal Arlani CNIC: 41304-8382824-5  Mr. Dilaram CNIC: 41304-7210597-1  Mr. Aftab Ahmed Saraya CNIC: 42201-1088962-9  Mr. Munir Haji Ebrahim CNIC: 42301-9074093-7  Mr. Nabil Farooq Jangda CNIC: 42000-5084155-9  Mr. Farooq Haji Jangda CNIC: 42201-1723070-5	Mr. Gangumal Arlani  Mr. Pesumal Arlani  Mr. Muhammad Yunus  Mr. Haji Ebrahim  Mr. Farooq Haji Jangda  Mr. Haji Muhammad Yusuf	282,099	24,818	-	306,917	127,099	24,818	-	151,917
Danish (Pvt) Ltd.	Flat No. 3 608 6th Floor, Crystal Homes, Karachi.	Mr. Danish Riyaz CNIC: 42201-3895477-1 Mr. Riyaz Ahmed CNIC: 42301-7897247-7 Mrs. Musarrat Riyaz CNIC: 42301-6933928-2	Mr. Riyaz Ahmed  Mr. Mian Mohammad Shafi  Mr. Riyaz Ahmed	5,000	1,256	-	6,256	-	1,475	-	1,475
Imran Enterprises	33-XX, Commercial Area, DHA, Lahore.	Mr. Imran Noor CNIC: 35202-2400015-3  Mr. Mubashar Ali CNIC: 35201-8886401-9	Mr. Noor Muhammad  Mr. Muzaffar Ali	35,000	1,509	-	36,509	-	1,509	-	1,509
Seven Star CNG Gas Station	81-A/2, Gulberg III, Lahore.	Mr. Muhammad Hussain Mehdi CNIC: 44107-2040792-9  Mrs. Maryam Hussain Mehdi CNIC: 44107-4563314-2  Mr. Tariq Iqbal CNIC: 35202-3991114-7  Mr. Muzaffar Hussain CNIC: 35202-7374922-7	Mr. Hussain Mehdi  Mr. Hussain Mehdi  Mr. Muhammad Iqbal  Mr. Javaid Muzaffar Butt	15,000	1,268	-	16,268	-	3,481	-	3,481
Kinetic Inf'l. (Pvt.) Ltd.	4-Muhammad Arcade, LMQ Road, Multan.	Mr. Muhammad Munir Malik CNIC: 36302-8098463-5  Mrs. Kauser Munir Malik CNIC: 36302-5670950-0  Mr. Malik Fawad Aziz CNIC: 36302-9581453-3	Mr. Abdul Aziz  W/o Mr. Muhammad Munir Malik  Mr. Muhammad Munir Malik	15,862	639	-	16,501	-	4,629	-	4,629

Contd.

# Statement of Written-off Loans

## For the year ended December 31, 2012

Rupees in '000

Party Name	Address	Name of the individuals/ Partners/Directors (with C.N.I.C. No.)	Father's / Husband Name	Amount Outstanding at the beginning of the year				Principal Written- off	Interest / Mark-up written- off	Other Financial Relief Provided	Total (9+10+11 = 12)
				Principal	Interest / Mark-up	Other	Total 5+6+7=8				
1	2	3	4	5	6	7	8	9	10	11	12
A.G. Khan Consortium	Office No. 414, 4th Floor, Al-Qadir Heights, I-Baber Block, New Garden Town Lahore.	Mr. Abdul Qaddus Khan CNIC: 35202-2577921-5	Mr. Abdul Ghaffar Khan	10,700	5,368	-	16,068	-	5,734	-	5,734
Indigo Enterprises	505, Siddiq Trade Centre, 72 Main Boulevard Gulberg, Lahore.	Mr. Shahid Iqbal CNIC: 35201-6230652-9  Mr. Muhammad Iqbal CNIC: 35102-0566006-3	Mr. Muhammad Iqbal  Mr. Muhammad Abdullah	-	4,029	-	4,029	-	10,508	-	10,508
Hebson Int'l	Office No. 23 Makkah Center, Moti Bazar, Lahore.	Mr. Abdul Rasheed CNIC: 35200-7331709-7  Mr. Shahid Iqbal CNIC: 35202-5321865-5	Mr. Haji Ghulam Muhammad  Mr. Ghulam Muhammad	19,987	5,531	-	25,518	2,987	5,640	-	8,627
Syed Nasir Zafar	Bunglow No. 25/2 31st Street, Khyaban-e-Shamsheer, DHA, Karachi.	Mr. Syed Nasir Zafar CNIC: 42301-0904561-9	Mr. Syed Zafar Ahmed	2,976	2,577	-	5,553	2,976	2,577	-	5,553
Mian Kashif Zubair	House No. 69 Block V, Lahore.	Mr. Mian Kashif Zubair CNIC: 35201-1225713-3	Mr. Mian Mohammad Zubair	20,976	721	-	21,697	-	523	-	523
Muhammad Asif	House No. 272 Block 6, Gulshan-e-Iqbal, Karachi.	Mr. Muhammad Asif CNIC: 42000-0500365-1	Mr. Muhammad Latif	914	355	-	1,269	490	355	-	845
Shahzad KHAN	House No. C-65 Block 6, F.B. Area, KDA, Scheme 16, Karachi.	Mr. Shahzad Khan CNIC: 42101-1761193-1	Mr. Muhammad Shafi Khan (Late)	-	828	-	828	-	828	-	828
Muhammad Arshad Hussain	House No. 40 Block, Bahria Town Street, Safari Villas 2, G.T. Road, Nearest Land Mark, Near Toyota Rawal Motors, Rawalpindi.	Mr. Muhammad Arshad Hussain CNIC: 37405-0331315-9	Mr. Muhammad Hussain	900	57	7	964	900	57	-	957
Tariq Latif	House No. 345-C Block, Street, Peshawar Road, Area Westridge 1, Nearest Land Mark, Rawalpindi Cantt.	Mr. Tariq Latif CNIC: 37405-0257532-3	Mr. Abdul Latif	490	45	8	543	490	45	-	535
Hafiz Shehzad Malik	House No. 168 Block M, Street Area, Phase VIII, DHA, Nearest Land Mark, Lahore.	Mr. Hafiz Shehzad Malik CNIC: 35202-7977100-1	Mr. Chaudhary Abdul Malik	850	143	9	1,002	850	143	-	993
Darkhshanda Shaheen	House No. H 269, A Block, New Street, Muslim Town Area Nearest Land Mark, Lahore.	Mrs. Darkhshanda Shaheen CNIC: 35202-6394837-6	Mr. Syed Naseer Ahmed Bukhari	431	75	14	520	431	75	-	506
Mazhar Javed Awan	House No. H 16 Block, Street St 51 Area, Marvi Road, F-7/4 Nearest Land Mark, Islamabad.	Mr. Mazhar Javed Awan CNIC: 13101-6800051-9	Mr. Muhammad Yaqoob Awan	640	97	-	737	638	97	-	735

1,050,351 279,282 38 1,329,671 244,896 270,321 - 515,217

## SHARI'A ADVISOR'S REPORT

Emaan Islamic Banking, Silkbank Ltd.  
For the year ended 31st December 2012

The Shari'a Advisor confirms that, in preparation for and since the commencement of Islamic Banking operations of Emaan Islamic Banking in September 2012, he has:

- In collaboration with different departments within the Bank and in line with the commencement of Islamic banking business, reviewed and approved different Shari'a-compliant products. Furthermore, the Shari'a Advisor reviewed and endorsed all relevant documents that were submitted to him for approval, in addition to the review of the proposed amendments made in the Profit Distribution Policy and other documents, in compliance with SBP instructions and guidelines.
- Received various queries and requests from different quarters in the Bank, and responded in an adequate manner, issuing numerous Fatawa in the process.
- Reviewed the schedules of charges (SOCs) that were periodically submitted for his approval, made necessary amendments, and vetted those charges that were in compliance with the principles of Shari'a.
- Reviewed and approved all the profits distributed on a monthly basis till date, and is of the view that the allocation of funds, weightages, profit-sharing ratios, and the monthly distribution of profits amongst the shareholders and remunerative account holders has been made in line with the principles of Shari'a.
- Designed an extensive programme for the training of the Bank's staff in areas of Islamic Banking and Finance, and conducted a series of comprehensive training sessions on 'The Philosophy of Islamic Banking and Islamic Financial Contracts'; 'Mudaraba and Profit Distribution Mechanism'; and 'Misconceptions about Islamic Banking', in Islamabad, Lahore and Karachi.
- Studied the financial statements of the Bank for the year 2012 in detail, and is of the opinion that the financial statements for 2012 are in order.

Given that the Bank is still in its infancy, with only three (3) months of operation since the date of its commencement in September 2012, and the very limited nature of investments and placements made by the Bank, a comprehensive Shari'a audit shall be conducted by the Shari'a Advisor and his team during the current year In Sha Allah.

Moreover, efforts by the management of the bank are underway in order to convert the existing conventional staff finance into Shari'a-compliant facilities, and to bring health insurance, car insurance, etc. for the Bank's staff under the umbrella of Takaful, during the current year In Sha Allah.

Based on the above, and on the initial review of all relevant documents and procedures conducted till date, the Shari'a Advisor confirms that the Bank adequately conforms to the rules and principles of Shari'a, the rules, regulations and guidelines for Shari'a compliance and other rules issued by SBP, and the Fatawa issued by the Shari'a Advisor.



**Mufti Syed Adnan Kakakhail**  
Shari'a Advisor  
Emaan Islamic Banking  
(Division of Silkbank)  
Islamabad

**Mufti Syed Adnan Kakakhail**  
Shari'a Advisor  
Emaan Islamic Banking  
(Division of Silkbank)  
Islamabad

# Emaan Islamic Banking Business For the year ended December 31, 2012

**ISLAMIC BANKING BUSINESS** 

**Annexure - II**

The Bank is operating 7 Islamic Banking branches at the end of 2012 as compare to Nil Islamic branches at the end of 2011.

**December 31,  
2012**      **December 31,  
2011**

<b>A) STATEMENT OF FINANCIAL POSITION</b>	<b>Note</b>	<b>Rupees in ' 000</b>
<b>ASSETS</b>		
Cash and balances with treasury banks		129,967
Balances with other banks		1,883
Due from Financial Institutions		1,167,943
Investments		685,670
Islamic Financing and Related Assets		-
Operating fixed assets		94,077
Other assets		379,906
<b>Total Assets</b>		2,459,446
<b>LIABILITIES</b>		
Bills payable		25,053
Due to Financial Institutions		-
Deposits and other accounts		
-Current Accounts		435,108
-Saving Accounts		534,192
-Term Deposits		842,132
-Others		-
-Deposit from Financial Institutions -Remunerative		170,000
-Deposits from Financial Institutions-Non-Remunerative		18,153
Due to Head Office		-
Other liabilities		30,584
<b>Total Liabilities</b>		2,055,222
<b>NET ASSETS</b>		404,224
<b>REPRESENTED BY</b>		
Islamic Banking Fund		425,000
Reserves		-
Unappropriated/ Unremitted profit		(25,583)
Surplus/ (Deficit) on revaluation of assets		399,417
		4,807
		404,224
*This represents deferred commodity murabaha (lending) to the Treasury (Conventional). This has been eliminated at the Bank level.		
<b>B) REMUNERATION TO SHARIA ADVISOR / BOARD</b>		772
<b>C) CHARITY FUND</b>		
Opening Balance		-
Additions during the period		-
Payments/Utilization during the period		-
Closing Balance		-



	Note	December 31, 2012	December 31, 2011
		Rupees in ' 000	
<b>D) ISLAMIC FINANCING AND RELATED ASSETS</b>		-	-
Financing / Investment Receivables		-	-
Advances		-	-
Assets / Inventories		-	-
Others		-	-
<b>E) PROFIT AND LOSS ACCOUNT</b>			
Profit / return earned on financings, investments and placements		43,642	-
Return on deposits and others dues expensed		23,770	-
Net spread earned		19,872	-
<b>Other Income</b>			
Fees, commission and brokerage income		72	-
Income from dealing in foreign currencies		13	-
Gain on sale of securities		5,465	-
Other income		282	-
<b>Total other income</b>		5,832	-
<b>Other Expenses</b>			
Administrative expenses		51,287	-
<b>(Loss) / Profit before taxation</b>		(25,583)	-
<b>F) DISCLOSURES</b>			

**The number and nature of pools maintained by the IBI along with their key features and risk & reward characteristics.**

Emaan Islamic Banking, the Islamic Banking Division (IBD) of Silkbank Ltd., has a well-defined profit and loss distribution and pool management framework for creation of one or more pools of assets to be financed by different types of deposits. Currently, the IBD has the policy of maintaining a single Modaraba Pool. All funds obtained through Islamic Banking operations are being invested in this Common Modaraba Pool. The key features and risk/reward features of the same are given below.

**Key Features**

The Account Holder, in his capacity as the fund provider (called Rabbul Mal in Fiqh terminology) authorizes the IBD acting as the investment manager (called Mudarib in Fiqh terminology) to invest the Account Holder's funds on the basis of an unrestricted Modaraba agreement in line with rules and principles of Shari'a.

Under the unrestricted Modaraba agreement, the IBD in its capacity as the fund manager invests the funds accepted from Account Holders in Shari'a compliant financial transactions and investments. The IBD receives a pre-agreed portion (Mudarib Share) in the profit generated from these activities.

In line with the principles of commingling Modaraba, where the Mudarib is permitted to commingle its own funds with the funds received on the basis of the Modaraba, and to comply with the regulations of the SBP on creation of an Islamic Banking Fund (the "IBF"), Silk Bank has created an Islamic Banking Fund of Rs. 425 Million and deposited the same in its common Modaraba pool.

# Emaan Islamic Banking Business For the year ended December 31, 2012

## Risk & Rewards Characteristics

The profit shall be shared between the Rabbul Mal and the Mudarib as per the agreed ratio, while the loss, if any, shall be borne by the Rabbul Mal in proportion to his invested amount unless the Mudarib is found to be negligent or in breach of the terms and conditions of the Modaraba agreement.

In case of commingling of the Mudarib's own funds with the funds of the Account Holders, the Mudarib shall get the full profit of its own funds and bear the entire loss thereof.

Profit (or loss) for the Account Holder is calculated on the basis of a weightage system which takes into consideration the size of funds, its period and profit payment frequency (details of the weightages are available in all the branches and website). The bigger the size of the fund and the longer the tenor, the higher would be the weightage allocated to the fund for profit distribution.

## Avenues / sectors of economy / business where Modaraba based deposits have been deployed.

Modaraba based funds have been deployed in earning assets such as Government of Pakistan Ijarah Sukuk and placements have been made with financial institutions etc. Such deposits have not been invested in fixed or other assets. The Mudarib / Bank is solely responsible to bear all the cost / assets from its own equity. This includes the Mudarib's administrative and capital expenditure, which will be borne by Mudarib / Bank from its own funds / equity.

## Parameters used for allocation of profit, charging expenses and provisions etc. along with a brief description of their major components.

Allocation of profit, expenses has been categorized through chart of account. Income derived from investment, administrative expenses and provision directly attributable to depositors fund shared with pool.

Brief description of major components:

- Profit earned on Ijarah Sukuk
- Profit on Commodity Murabaha placements with financial institutions
- Capital gain on Sukuk

## Mudarib Share (in amount and Percentage of Distributable income).

The Bank, in its capacity as Mudarib, has earned an amount of Rs. 10.213 million as Mudarib Share. This Mudarib Share, as a percentage of the profit distributable (profit allocated to depositors' funds from the pool's net income), is 40%.

## Amount and percentage of Mudarib share transferred to the depositors through Hiba (if any).

Mudarib Share amount transferred to the depositors through Hiba is Rs. 8.452 million and Mudarib Share transfer percentage is 82.8%.

## Profit rate earned vs. profit rate distributed to the depositors during the year.

Profit rate earned is 10.32% and the profit rate distributed to depositors is 7.14%.

# Annual Report 2012



**Marking Excellence**

**Highlights and Achievements  
For the year ended December 31, 2012**

## BUSINESS GROWTH

- ✓ CA portfolio grew by Rs. 3.31 billion, increasing from Rs. 13.56 billion to Rs. 16.90 billion.
- ✓ CASA Ratio increased to 50.9% from 49.1% for the year 2012.
- ✓ As compared to year 2011, CASA has increased by 11.6% in 2012.
- ✓ Overall Cost of Fund for the year 2012 reduced by 0.9%, hence increasing revenue by Rs. 603.84 million.

### Middle Market

- ✓ MM achieved the highest ever Trade business figure of Rs. 22.734 billion in 2012 with a year-on-year increase of approximately 40%.
- ✓ MM maintained a low cost of funds in the Bank which was 4.76% in December 2012 and overall average was 6.16% for the year. MM posted Rs. 412 million of EBIT surpassing its budget by 6%.

### Consumer Banking

- ✓ Consumer Asset portfolio witnessed a healthy year-on-year growth of 17% in terms of outstanding receivables. As of December 2012, total portfolio stands at Rs. 8,039 million compared to Rs. 6,872 million in year 2011.
- ✓ High yielding products (Personal Loan & Ready Line) posted a growth of 42.5% year-on-year.

## ALTERNATE DELIVERY CHANNELS

### ADC Services Enrolments

- ✓ Issued VISA Debit Cards crossed 100,000.
- ✓ SMS alerts enrolments displayed 80% YTD growth at 67,433 customers.
- ✓ E-Statement enrolments displayed 62% YTD growth at 41,611 customers.
- ✓ Internet Banking enrolments displayed 61% YTD growth at 21,654.

### PVTV Ratio:

- ✓ POS Value to Transaction Value Ratio increased from 2.9% in 2011 to 4.1% in 2012.

### ATM:

- ✓ ATM withdrawal amount increased from Rs. 8.87 billion in 2011 to around Rs. 10 billion in 2012, recording an increase of 13%.

### POS

- ✓ Retail Spending on VISA Debit Card increased from 112,371 transactions & Rs. 320 million volume in 2011 to 136,858 transactions & Rs. 469 million volume in 2012, more than 22% and 47% growth respectively.

## CORPORATE & INVESTMENT BANKING

- ✓ IBG led the capital raising initiative for the Bank with the privately placed preference share offering of Rs. 2.5 billion. The transaction is expected to conclude during Q1 2013.
- ✓ Corporate Banking achieved average outstanding exposure at Rs. 19,171 million during 2012.
- ✓ Trade and Guarantee business of Rs. 25.5 billion achieved during the year.
- ✓ Non-Funded business reciprocity stood at 2.5 times to funded, working capital lines.
- ✓ Non-Funded Fee Income showed a growth of 14.4% compared to FY 2011.

## BUSINESS INTRODUCTIONS



### Launch of Emaan Islamic Banking

- ✓ Successfully launched the Emaan Islamic Banking venture geared towards providing Shariah-compliant banking products along with high level of customer satisfaction.
- ✓ The launch involved the conversion of seven conventional branches and complete liability product suite consisting of Current Account, Savings Regular, Enhanced Savings, Premium Savings, Term Deposits and VISA Debit Card being offered from day one.
- ✓ Launched in September 2012, with the distinctive identity of Emaan Islamic Banking, it has proven to be a resounding success with a PE deposit book closure of Rs. 1.99 billion.



### Launch of Credit Cards

Successfully entered the credit card industry by launching the ultimate secure CHIP based Silkbank Visa Credit Cards with a pioneering feature of 0% APR on Balance Transfer. The bank also became the first in Pakistan to offer an online "Design Your Card" feature that gives customers the freedom to personalize their Silkbank credit card by not just choosing from a range of designs but also put their favorite image as the card design.

## RISK MANAGEMENT

### SAM

- ✓ Total Jan-Dec 2012 NPL Reduction Rs. 2,819 million and impact on P&L is Rs. 2,138 million.
- ✓ Written-off loans of Rs. 514 million recovered.
- ✓ Yielded handsome recoveries of Rs. 1,456 million from major chronic defaulters.

### Compliance

- ✓ AML System Phase-2 implemented across the Bank after successful UAT.
- ✓ 683 AOF/KYC forms for the period 01st Oct 2011 to 30th June 2012 reviewed at ASD and compliance observations report released to businesses.
- ✓ AML/CTF/CCD (Pan Pakistan) workshops conducted; 415 staff members were trained.

### Fraud Risk Management Unit

- ✓ In Consumer Products, FRMU has managed to conduct vigilance for 1,366 cases. Investigation for 388 cases and total 85 cases were declined with the potential save of Rs. 61,834,000. Total VDC transactions reviewed were 162,749 with the potential save of Rs. 4,532,662 against 33 Visa Debit Cards. Overall, 39 Branch Banking cases were investigated.
- ✓ Successful launch of Silkbank VISA Chip Credit Card by updating VISA Credit Card forms, defining system functionality & parameters for authorization and FRMU. The team reviewed 5,292 Credit Card transactions, conducted Vigilance for 327 cases and performed investigation of 81 cases. Total 2 Credit Card cases were declined by FRMU and managed Potential Save of Rs. 560,000/-.
- ✓ FRMU Team successfully managed to Recover Fraud Amount of Rs. 872,400/-.

### PRODUCTIVITY INITIATIVES

- ✓ During 2012 a total of Rs. 51.7 million were saved compared to the premises and rental expense of the previous year.
- ✓ On the utility expense management, a total of Rs. 34 million were saved over the previous year through introduction of Extended Power Supply systems to replace the existing UPS.
- ✓ IT & Telecom savings amounted to Rs. 35 million for 2012.
- ✓ Renegotiation of insurance contracts resulting in a total savings against budgeted provision of Rs. 21 million.

### SME

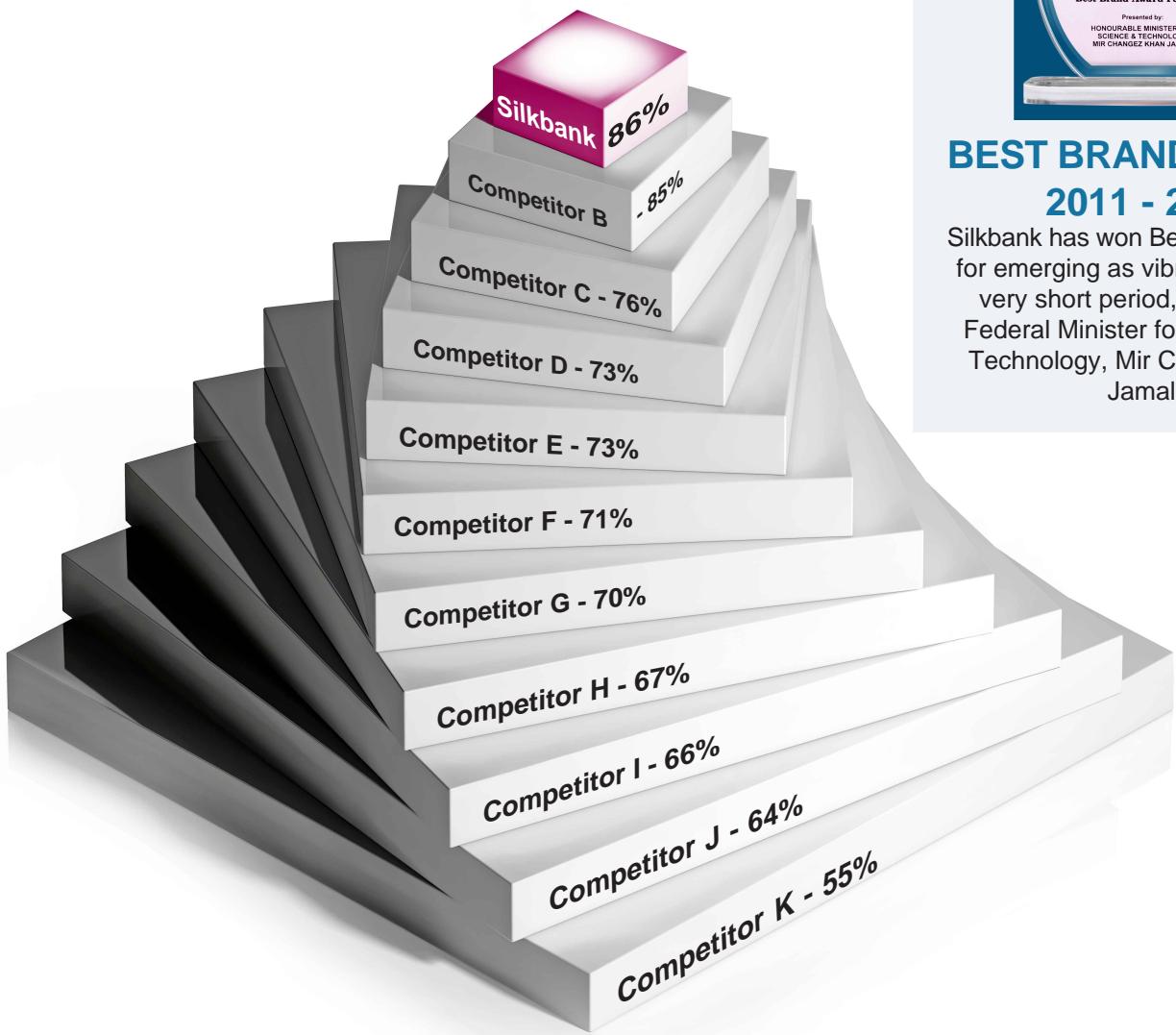
- ✓ Over achieved Margin by 30% as compared to budget for 2012 and last year 2011 translating a growth of more than Rs. 88 million.
- ✓ Margin before allocation was 58% higher as compared to budget by Rs. 77.21 million and 10.21% higher as compared to last year by Rs. 19.44 million.
- ✓ NPL recovery of Rs. 169.4 million.

### PEOPLE MANAGEMENT

- ✓ HR focused on the internal mapping tool which significantly reduced external hiring. The implantation of social media and external Talent Mapping concept has also been introduced for cost effectiveness.
- ✓ Succession planning sessions were conducted in April and December, 2012 where successors for key positions were identified and their career development plans prepared.
- ✓ Participated in Compensation and Benefits Survey, 2011/2012 with AoN Hewitt to benchmark compensation, grades and salary structures with peer banks.
- ✓ HR Governance system introduced.
- ✓ Introduced Branch Manager Excellence Program and Train the Trainer workshops to enhance productivity and efficiency of segments.

## CUSTOMER SERVICE AND QUALITY

A nationwide independent Mystery Shopping Survey conducted by an external agency, highlights Silkbank on the top in customer frontline experience with 86%.



## BEST BRAND AWARD 2011 - 2012

Silkbank has won Best Brand award for emerging as vibrant brand in a very short period, awarded by Federal Minister for Science and Technology, Mir Changez Khan Jamali.

## We Understand and We Care:

As part of our commitment to a better society and in turn a better country, we at Silkbank recognize our social responsibilities and aim to visibly play a leading role within the bank's spheres of influence to make a genuine and tangible difference in people's lives. We measure our success not only in terms of financial criteria, but also by supporting the community that we serve. Our thinking and implementation of our CSR objectives is evident from our balanced approach, which integrates CSR elements into our strategic planning and our day-to-day business activities.



### A Festival Of Spring:

Being a socially responsible corporate citizen of Pakistan, Silkbank has always acknowledged the need to appreciate and support various causes for social betterment and awareness. To further our goals, Silkbank recently participated in the Spring Festival 2012, organized by volunteers at Sindh Institute of Urology and Transplant (SIUT) to encourage their peers about social service.



### Caring For Life:

With the aim to bring down high levels of maternal and prenatal mortality in Pakistan and in the spirit of Corporate Social Responsibility, Silkbank supported the Fund-raising Gala for Lady Dufferin Hospital. Silkbank is proud of its association with Lady Dufferin Hospital for their commendable work in providing equal quality services to patients in both general and private wards.



### Realising What's Important:

Nothing satisfies our sense of Corporate Social Responsibility more than empowering women and providing education opportunities for children. To fulfil our goals of women empowerment and education, Silkbank feels extremely proud to work hand in hand with Children Health and Education Foundation (CHAEF) in providing exclusive primary healthcare services and quality primary education to the under-privileged people of Pakistan.



**Family  
Educational  
Services  
Foundation**

### Educating The Future:

To help children reach their full potential, Silkbank recently partnered with Family Educational Services Foundation (FESF) Children's Benefit Concert for 5,000 handicapped and less privileged children in Pakistan. Since 1984, FESF has been investing in educational development by providing innovative training programmes and services and Silkbank takes pride in sharing their vision.

# Serving the Community



## Promoting Goodness:

To realize budding talent and encourage the spirit of healthy competition through promotion of domestic cricket, Silkbank supported the T20 Cricket Match and Family Gala held at the Moin Khan Academy, DHA Ground, organized by The OGS Trust. The Trust provides financial assistance to students who are unable to bear their own educational expenses.

## Paying A Musical Tribute:

As part of our commitment to social welfare and to play a positive role in preserving the musical heritage of Pakistan, Silkbank supported an event to pay tribute to Malaka-e-Tarannum, Madam Noor Jahan for her contribution towards the music industry. This event was organized by Pak Media Communication and included performances by various artists who paid their regards to Madam Noor Jahan.



## Raising The Voice Of Education:

To improve and raise the teaching/learning standards of English in Pakistan, Silkbank is extremely pleased of being a partner of SPELT in their educational endeavours in Pakistan.



## Painting A Healthy Smile:

To support the noble cause of educating the citizens, Silkbank advocated an event to encourage young dentists to step forward and raise awareness about the importance of dental care and dental hygiene. The event was organized by The Pakistan Dental Community, offering free dental checkups on the occasion to help people lead a healthier life.



## Purifying Lives:

Silkbank continued its role of a torch-bearer for good health by partnering with the Kidney Centre to raise awareness against nephro-urological diseases. Silkbank appreciates and applauds the Kidney Centre for providing free or largely subsidized care to its patients and looks forward to playing a positive role in bettering the healthcare system in Pakistan.



## Feeding The Soul Through Music:

As part of its commitment to social welfare and preservation of heritage, Silkbank recently collaborated with 'Tarz', a fund-raising musical event at Indus Valley School of Arts and Architecture for Karwan-e-Hayat. Dedicated to the cause of better mental health in Pakistan, Karwan-e-Hayat is a non-profit charity organization that provides free or largely subsidized mental health care to neglected and stigmatized section of the society.

# Annual Report 2012



**Making Unity**

**Shareholding Information  
For the year ended December 31, 2012**



**COMBINED PATTERN OF CDC & PHYSICAL SHARE-HOLDINGS AS AT DECEMBER 31, 2012**

NO.	CATEGORIES/SUB-CATEGORIES OF SHAREHOLDERS	NUMBER OF SHARES HELD	CATEGORYWISE NO. OF FOLIOS / CDC	CATEGORYWISE SHARES HELD	PERCENTAGE
01	<b>DIRECTORS AND THEIR SPOUSE(S) AND MINOR CHILDREN</b>		8	123,043,532	4.61%
	Munnawar Hamid, OBE	3,699			
	Humayun Bashir	3,699			
	Tariq Iqbal Khan	5,000			
	Javed Hamid	500			
	Sadeq Sayeed	102,817,019			
	Mohammad Ahmed Mannan	500			
	Azmat Tarin	20,013,115			
	Farah Naz Tarin w/o Mr. Azmat Tarin	200,000			
02	<b>ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES</b>		4	2,038,735,553	76.31%
	INTERNATIONAL FINANCE CORPORATION		702,689,067		26.30%
	SHAUkat FAYAZ AHMAD TARIN*		663,593,175		24.84%
	NOMURA EUROPEAN INVESTMENT LIMITED		356,676,342		13.35%
	BANK MUSCAT S.A.O.G.		315,776,969		11.82%
03	<b>EXECUTIVES</b>		31	13,648,340	0.51%
04	<b>PUBLIC SECTOR COMPANIES AND CORPORATIONS</b>		8	52,196,738	1.95%
05	<b>BANKS, DEVELOPMENT FINANCE INSTITUTIONS, NON-BANKING FINANCE COMPANIES, INSURANCE COMPANIES, TAKAFUL, MODARABAS AND PENSION FUNDS</b>		11	5,175,378	0.19%
06	<b>MUTUAL FUNDS</b>		04	748,929	0.03%
07	<b>OTHERS</b>		94	123,817,079	4.64%
08	<b>GENERAL PUBLIC - Local</b>		7,947	281,619,416	10.54%
	- Foreign		9	32,619,862	1.22%
	<b>TOTAL</b>		8,116	2,671,604,827	100%
	<b>SHARE-HOLDERS HOLDING TEN PERCENT OR MORE VOTING INTEREST IN THE BANK</b>				
	<b>TOTAL PAID-UP CAPITAL OF THE BANK</b>	2,671,604,827 shares			
	<b>10% OF PAID-UP CAPITAL OF THE BANK</b>	267,160,483 shares			
	<b>NAME(S) OF SHAREHOLDER(S)</b>	<b>NO. OF SHARES HELD</b>	<b>PERCENTAGE</b>		
	INTERNATIONAL FINANCE CORPORATION	702,689,067	26.30%		
	SHAUkat FAYAZ AHMAD TARIN*	663,593,175	24.84%		
	NOMURA EUROPEAN INVESTMENT LIMITED	356,676,342	13.35%		
	BANK MUSCAT S.A.O.G.	315,776,969	11.82%		

\* This does not include 40,000,000 shares of Mr. Shaukat Tarin kept in repo transaction.

# Pattern of Shareholdings - Q1 and Physical As on December 31, 2012

No. Of Shareholders	Shareholding			Total Shares Held	No. Of Shareholders	Shareholding			Total Shares Held
461	1	to	100	15,850	27	145001	to	150000	4,040,586
705	101	to	500	277,313	3	150001	to	155000	455,748
763	501	to	1000	704,118	4	155001	to	160000	639,058
2277	1001	to	5000	7,301,759	6	160001	to	165000	981,742
1164	5001	to	10000	9,880,035	3	165001	to	170000	506,044
433	10001	to	15000	5,685,400	10	170001	to	175000	1,743,320
390	15001	to	20000	7,414,504	5	175001	to	180000	883,971
314	20001	to	25000	7,435,505	5	180001	to	185000	911,735
167	25001	to	30000	4,781,286	6	185001	to	190000	1,132,149
126	30001	to	35000	4,216,812	2	190001	to	195000	385,500
106	35001	to	40000	4,095,960	39	195001	to	200000	7,791,593
70	40001	to	45000	2,998,378	10	200001	to	205000	2,025,877
229	45001	to	50000	11,374,832	7	205001	to	210000	1,448,803
46	50001	to	55000	2,433,054	5	210001	to	215000	1,070,300
52	55001	to	60000	3,067,913	6	220001	to	225000	1,346,082
39	60001	to	65000	2,460,387	1	225001	to	230000	229,000
39	65001	to	70000	2,671,317	2	230001	to	235000	466,000
39	70001	to	75000	2,879,800	2	235001	to	240000	478,000
22	75001	to	80000	1,732,130	1	240001	to	245000	245,000
31	80001	to	85000	2,569,380	10	245001	to	250000	2,499,000
23	85001	to	90000	2,035,245	2	250001	to	255000	501,517
12	90001	to	95000	1,118,335	2	260001	to	265000	522,500
127	95001	to	100000	12,679,074	2	265001	to	270000	535,500
24	100001	to	105000	2,458,213	3	270001	to	275000	822,164
11	105001	to	110000	1,195,170	2	275001	to	280000	555,540
7	110001	to	115000	796,767	4	285001	to	290000	1,152,930
9	115001	to	120000	1,070,195	16	295001	to	300000	4,800,000
15	120001	to	125000	1,872,280	3	300001	to	305000	909,430
10	125001	to	130000	1,289,928	2	305001	to	310000	615,874
9	130001	to	135000	1,202,116	4	310001	to	315000	1,255,445
8	135001	to	140000	1,105,828	2	315001	to	320000	631,004
6	140001	to	145000	858,222	1	320001	to	325000	323,395

# Pattern of Shareholdings - Old and Physical As on December 31, 2012

No. Of Shareholders	Shareholding		Total Shares Held	No. Of Share Holders	Shareholding		Total Shares Held
1	325001	to 330000	327,809	1	570001	to 575000	575,000
2	330001	to 335000	668,500	2	595001	to 600000	1,200,000
2	335001	to 340000	676,232	1	605001	to 610000	609,833
5	345001	to 350000	1,748,317	2	650001	to 655000	1,304,056
1	350001	to 355000	353,198	1	655001	to 660000	660,000
1	365001	to 370000	369,902	2	665001	to 670000	1,337,005
3	370001	to 375000	1,123,500	1	670001	to 675000	671,308
1	375001	to 380000	378,000	3	695001	to 700000	2,097,965
2	380001	to 385000	770,000	3	700001	to 705000	2,107,003
1	385001	to 390000	389,973	1	705001	to 710000	708,400
1	390001	to 395000	395,000	1	715001	to 720000	716,547
12	395001	to 400000	4,800,000	1	725001	to 730000	727,384
4	400001	to 405000	1,608,462	4	745001	to 750000	3,000,000
1	405001	to 410000	406,892	1	790001	to 795000	795,000
2	410001	to 415000	822,002	3	795001	to 800000	2,395,006
1	420001	to 425000	423,300	1	800001	to 805000	801,500
1	425001	to 430000	427,000	1	860001	to 865000	861,781
1	430001	to 435000	435,000	1	875001	to 880000	876,000
1	435001	to 440000	439,500	1	895001	to 900000	900,000
3	445001	to 450000	1,350,000	1	900001	to 905000	905,000
1	450001	to 455000	454,059	1	945001	to 950000	950,000
3	460001	to 465000	1,390,082	1	950001	to 955000	954,518
1	470001	to 475000	475,000	1	955001	to 960000	956,000
1	475001	to 480000	480,000	1	965001	to 970000	970,000
15	495001	to 500000	7,500,000	1	970001	to 975000	975,000
1	500001	to 505000	502,792	1	975001	to 980000	979,500
1	510001	to 515000	515,000	7	995001	to 1000000	7,000,000
1	515001	to 520000	516,441	1	1000001	to 1005000	1,001,500
1	525001	to 530000	525,601	1	1015001	to 1020000	1,020,000
2	545001	to 550000	1,100,000	1	1020001	to 1025000	1,025,000
1	550001	to 555000	552,608	1	1065001	to 1070000	1,065,834
1	565001	to 570000	570,000	1	1075001	to 1080000	1,076,041

# Pattern of Shareholdings - C and Physical As on December 31, 2012

No. Of Shareholders		Shareholding	Total Shares Held	No. Of Shareholders		Shareholding	Total Shares Held
1	1080001	to 1085000	1,083,053	1	2990001	to 2995000	2,991,000
1	1100001	to 1105000	1,100,003	1	3045001	to 3050000	3,046,181
1	1125001	to 1130000	1,128,477	1	3105001	to 3110000	3,108,500
1	1190001	to 1195000	1,194,657	1	3135001	to 3140000	3,139,482
1	1235001	to 1240000	1,237,500	1	3310001	to 3315000	3,314,733
3	1245001	to 1250000	3,744,255	1	3560001	to 3565000	3,565,000
1	1295001	to 1300000	1,300,000	1	3570001	to 3575000	3,574,500
1	1320001	to 1325000	1,324,943	1	3715001	to 3720000	3,717,000
2	1345001	to 1350000	2,699,500	1	3995001	to 4000000	4,000,000
1	1350001	to 1355000	1,355,000	1	4085001	to 4090000	4,090,000
1	1355001	to 1360000	1,360,000	1	4295001	to 4300000	4,300,000
1	1400001	to 1405000	1,400,587	1	6280001	to 6285000	6,283,209
1	1435001	to 1440000	1,439,000	1	6835001	to 6840000	6,838,154
1	1455001	to 1460000	1,457,000	1	6995001	to 7000000	7,000,000
1	1490001	to 1495000	1,494,500	1	7395001	to 7400000	7,398,040
2	1495001	to 1500000	3,000,000	1	9995001	to 10000000	10,000,000
1	1500001	to 1505000	1,504,141	1	13170001	to 13175000	13,174,061
1	1515001	to 1520000	1,516,727	1	16465001	to 16470000	16,467,577
1	1530001	to 1535000	1,530,282	1	19215001	to 19220000	19,216,691
1	1535001	to 1540000	1,536,290	1	20835001	to 20840000	20,837,000
1	1550001	to 1555000	1,552,921	1	27905001	to 27910000	27,908,004
1	1570001	to 1575000	1,573,445	1	36225001	to 36230000	36,228,668
1	1610001	to 1615000	1,611,559	1	42165001	to 42170000	42,165,500
1	1645001	to 1650000	1,650,000	1	53020001	to 53025000	53,020,288
1	1720001	to 1725000	1,724,000	1	53615001	to 53620000	53,616,846
1	1745001	to 1750000	1,747,116	1	86345001	to 86350000	86,349,442
1	1810001	to 1815000	1,810,788	1	252060001	to 252065000	252,061,010
1	1950001	to 1955000	1,953,819	1	315775001	to 315780000	315,776,969
1	2200001	to 2205000	2,205,000	1	315995001	to 316000000	316,000,000
1	2285001	to 2290000	2,287,756	1	356675001	to 356680000	356,676,342
1	2370001	to 2375000	2,374,752	1	702685001	to 702690000	702,689,067
1	2855001	to 2860000	2,856,228				
				8123			<b>2,671,604,827</b>



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#### (3) KARACHI REGION B

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**(4) ISLAMABAD REGION**

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**(5) LAHORE EAST**

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**Branch Manager**  
Allama Iqbal Town Branch,  
6-Hunza Block, Allama Iqbal Town, Lahore.  
Tel.: (042) 37809309, 37809314-15  
Fax: (042) 37805866

**Usman Kardar**

**Branch Manager**  
Thokar Niaz Baig Branch,  
7-B, Judicial Colony, Raiwind Road,  
Thokar Niaz Baig, Lahore.  
Tel.: (042) 35314045-46, 35314049  
Fax: (042) 35314048

**Muhammad Ahmed Khan Malik**

**Area/Branch Manager**  
Shadman Town,  
119-A, Colony No. 1, Shadman Town, Lahore.  
Tel.: (042) 37576442, 37576397  
Fax: (042) 37576559

**Muhammad Ghulshan**

**Area/Branch Manager**  
Kotwali Road Branch,  
Kotwali Road, Faisalabad.  
Tel.: (041) 2619973, 2643604  
Fax: (041) 2619984

**Muhammad Azam Saroya**  
**Branch Manager**  
Sheikhupura Branch,  
Sharif Plaza, Main Lahore - Sargodha Road,  
Sheikhupura.  
Tel.: (056) 3813529, 3812665  
Fax: (056) 3810059

**Saeed Ahmed Khan Niazi**  
**Branch Manager**  
Sargodha Branch,  
Khayam Chowk, Gulberg Park, Sargodha.  
Tel.: (048) 3768101-2  
Fax: (048) 3768103

**M. Asad Ali Shaikh**

**Branch Manager**  
Johar Town Branch,  
Block 15, M. A. Johar Town, Lahore.  
Tel.: (042) 35314890-92, 35314895  
Fax: (042) 35314893

**Ageel Mirza**

**Branch Manager**  
Shahalam Market Branch,  
15-B, Shahalam Market, Lahore.  
Tel.: (042) 37376186, 37376780-82  
Fax: (042) 37376183

**Sheikh Mubin Rafiq**

**Branch Manager**  
Rawind Branch,  
Railway Road, Adjacent Red Chilli Restaurant,  
Rawind.  
Tel.: (042) 35393815, 35393811-13  
Fax: (042) 35393814

**Liaquat Ali**

**Branch Manager**  
Sargodha Branch,  
Pul-111, Sargodha/Faisalabad Road,  
Sargodha.

Tel.: (048) 3791980-82

Fax: (048) 3791983

**Mahmood A. Sheikh**

**Branch Manager**  
WAPDA Town Branch,  
11-G, PIA Housing Society (WAPDA Town  
Roundabout), Lahore.

Tel.: (042) 35188525, 35188520

Fax: (042) 35188527

**(6) LAHORE WEST**

**Sardar Kamran Nakai**

**Regional General Manager**  
R.G.M. Office, 6-Q, Gulberg-II, Lahore.  
Mob: 03334211383  
Tel.: (042) 35751536-7, 35761088  
Fax: (042) 35764076

**Nawazish Ali Hashmi**

**Branch Manager**  
Gujranwala Branch,  
B-137, S-14, Shaukat Centre, G. T. Road,  
Gujranwala.

Tel.: (045) 3250214, 3713269, 3856268-70  
Fax: (045) 3856271

**Tahir Jamil Qureshi**

**Branch Manager**  
Sialkot Branch,  
70, Paris Road, Sialkot.  
Tel.: (042) 4266778, 4597489, 4597491  
Fax: (042) 4589002

**Chaudhry Gulzar Hussain**

**Branch Manager**  
Gujrat Branch,  
B-17/1553-R-R, Near Eidgah Masjid, G. T.  
Road, Gujrat.  
Tel.: (053) 3536262, 3535144, 3531472  
Fax: (053) 3531732

**Ayesha Hameed**

**Branch Manager**  
Gulberg Branch,  
97-A/D-I, P.E.C. Building, Liberty Roundabout,  
Gulberg-II, Lahore.  
Tel.: (042) 35678010-11, 35878351  
Fax: (042) 35678012

**Tafir Hameed**

**Area/Branch Manager**  
Garden Town,  
Flat 1-4, Usman Block, New Garden Town,  
Lahore.  
Tel.: (042) 35940306-9, 35940300  
Fax: (042) 35940301

**Muhammad Nadeem Faisal**  
**Area/Branch Manager**  
Defence Branch,  
320, Block Z, Commercial Area,  
Phase-III, Lahore.  
Tel.: (042) 35693080, 35692930-33  
Fax: (042) 35693010

**M. Taqi Raza**  
**Branch Manager**  
Model Town Branch,  
16, Bank Square Market, Model Town, Lahore.  
Tel.: (042) 35915580-1, 35915587  
Fax: (042) 35915583

**Asif Saeed**

**Branch Operation Manager**  
Mandi Bahauddin Branch,  
Qader Trade Centre, Ghallah Mandi,  
Mandi Bahauddin.  
Tel.: (054) 6507060, 6507056-8  
Fax: (054) 6507059

**Raza Ali**

**Area Manager**  
Fortress Stadium Branch,  
Shop No. 3, Silver Star, Fortress Stadium,  
Lahore.  
Tel.: (042) 36623140-2, 36623144  
Fax: (042) 36623143

**Naveed Ahmed Tarig**

**Branch Manager**  
L-Block Gulberg Branch,  
52-L, Gulberg-II, Kalma Chowk, Lahore.  
Tel.: (042) 35857133-1, 35857245  
Fax: (042) 35857262

**M. Fahd Munawar Khan**

**Branch Manager**  
Cavalry Ground Branch,  
20-Commercial Area, Cavalry Ground, Lahore.  
Tel.: (042) 36610273-6, 36610280  
Fax: (042) 36610277

**Imran Ejaz**

**Branch Manager**  
Batapur Branch.  
Tel.: (042) 36580385-7  
Direct: (042) 36580387  
Fax: (042) 36580384

**(7) MULTAN REGION**

**Syed Qasim Rizvi**  
**Regional General Manager**  
10-A, Bosan Road, Gulgash, Multan.  
Tel.: (061) 6750260  
Fax: (061) 6750253

**Amjad Altaf**

**Branch Manager**  
Bahawalpur Branch,  
Near Fawara Chowk, Off Ahmedpur East  
Road, Bahawalpur.  
Tel.: (062) 2876184, 2877520-21  
Fax: (062) 2877531

**Tahir Mahmood**

**Branch Manager**  
Dera Ghazi Khan Branch,  
Hotel Shalimar, Fandi Bazaar, Dera Ghazi Khan.  
Tel.: (064) 2466682  
Fax: (064) 2466682

**Rouf Jamal**

**Area Manager**  
Multan Branch,  
10-A, Bosan Road, Gulgash, Multan.  
Tel.: (061) 6750251, 6750255, 6750256  
Fax: (061) 6750253

**Muhammad Ikrumullah**

**Branch Manager**  
Sahiwal Branch,  
Khasra No. 499A, Khawat No. 07,  
Kharooni No. 07, Jall Road,  
Civil Lines, Sahiwal.  
Tel.: (040) 4224182, 4224184  
Fax: (040) 4222915

**Adil Jatoi**

**Branch Manager**  
Sukkur Branch,  
Husaini Road, Sukkur.  
Tel.: (071) 5619141-43  
Fax: (071) 5619151

**Muhammad Alap Arsalan**  
**Branch Manager (Acting)**  
Rahim Yar Khan Branch,  
26-Shahi Road, Rahim Yar Khan.  
Tel.: (068) 5884345, 5881302  
Fax: (068) 5879408

**Muhammad Arif Irfan**

**Area Manager**  
Larkana Branch,  
Pakistan Chowk, Larkana.  
Tel.: (074) 4059499  
Fax: (074) 4059599

**Mustafa Haider**

**Branch Manager**

Qasim Branch,

S. P Chowk, Multan.

Tel.: (061) 4587711

Fax: (061) 4586680

**(8) ISLAMIC BANKING BRANCHES**

**Syed Fasih Haider Burney**

**Area Manager**  
Shahrah-e-Faisali Branch,  
47-A, Dar-ul-Aman Housing Society,  
P.E.C.H.S, Block 7/B, Shahrah-e-Faisal,  
Karachi.

Tel.: (021) 34533106-9, 34523099, 34521766

Fax: (021) 34533110

**Imran Ali Bajwa**

**Branch Manager**

Clifton Branch,

Show Room No. 1, Plot No. D-69,  
Block 7, Clifton, Karachi.

Tel.: (021) 35371841-2

Fax: (021) 35371839

**Anjum Rafiq**

**Branch Manager**

Madina Town Branch,

6-C-101, Susan Road, Madina Town,

Faisalabad.

Tel.: (041) 8503411-13, 8503414

Fax: (041) 8503416

**Muhammad Kaleem Sabir**

**Area Manager**

T-Block, D.H.A.,  
88 Sector CCA, Block B, Phase-II, C,

D.H.A., Lahore.

Tel.: (042) 35748849, 35748850

Fax: (042) 35767637

**Saqib Hussain Butt**

**Area Manager**

Gulberg Mini Market, Q block

6-Q Block, Gulberg-II, Lahore.

Tel.: (042) 35751536-7, 35752855

Fax: (042) 35764076

**Sonia Usman**

**Branch Manager**

F-8 Markaz Branch,

Plot No. 18-C, Kaghan Road, Islamabad.

Tel.: (051) 2287450, 2287455-57

Fax: (051) 5766147, 5766151-52

**Muhammad Ali Abbas**

**Branch Manager**

Chaklala Branch,

Plot No. 46, Commercial Area, Chaklala

Scheme-III, Rawalpindi.

Tel.: (051) 5766147, 5766151-52

Fax: (051) 5766150



**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  
BMI Bank Bsc  
Habib Bank Ltd.  
United Bank Ltd.  
National Bank of Pakistan

**Bangladesh**

Habib Bank Ltd.  
Bank Al Falah

**Belgium**

Habib Bank Ltd.  
Commerzbank AG

**KBC Bank NV**

Fortis Bank SA/NV  
Royal Bank of Scotland

**Bulgaria**

Citibank  
United Bulgarian Bank

**Canada**

Habib Canadian Bank  
Royal Bank of Scotland

**China**

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  
Laishang 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

**Denmark**

Danske Bank A/S  
Nordea Bank Denmark A/S

**Egypt**

Mashreqbank PSC

**Finland**

Nordea Bank Finland PLC  
Skandinaviska Enskilda Banken

**France**

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

**Germany**

Commerzbank AG  
Danske Bank  
Deutsche Bank AG  
National Bank of Pakistan

**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  
Royal Bank of Scotland  
UBAF  
Wells Fargo  
West LB AG

# Foreign Correspondents

**India**  
 Mashreqbank  
 Royal Bank of Scotland  
 Deutsche Bank AG  
 Oman Int'l Bank SAOG  
 JP Morgan

**Indonesia**  
 Royal Bank of Scotland  
 JP Morgan

**Ireland**  
 National Irish Bank

**Italy**  
 Commerzbank AG  
 Royal Bank of Scotland  
 Banca Di Roma S.P.A.  
 Banco Di Napoli S.P.A.  
 Banco Populare SOC  
 Banco Popolare Di Novara S.P.A.  
 Banco Popolare Di Verona SGSP  
 Banca 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

**Kazakhstan**  
 BTA Bank JSC

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

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

**Kosovo**  
 Reffieisen Bank

**Lebanon**  
 Habib Bank Ltd.

**Malaysia**  
 Citibank N.A.  
 Royal Bank of Scotland  
 JP Morgan

**Mexico**  
 Banco Del Bajío S.A.

**Mauritius**  
 Habib Bank Ltd.  
 Mauritius Commercial Bank Ltd.

**Morocco**  
 Attijariwafa Bank

**Nepal**  
 Himalayan Bank Ltd.

**Netherlands**  
 Commerzbank AG  
 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  
 Bank Muscat

**Poland**  
 Nordea Bank Poliska S.A.  
 Royal Bank of Scotland

**Philippines**  
 JP Morgan  
 Mizuho Corporate Bank

**Portugal**  
 Banco BPI S.A.

**Qatar**  
 United Bank Ltd.  
 Doha Bank  
 BNP Paribas Fortis  
 Mashreqbank PSC

**Romania**  
 Piraeus Bank

**Russia**  
 Citibank  
 Commerzbank AG

**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**  
 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.  
 West LB AG  
 UBAF

**South Africa**  
 Habib Overseas Bank Ltd.  
 HBZ Bank Ltd.  
 First Rand Bank

**Serbia**  
 Unicredit Bank

**Spain**  
 Commerzbank AG  
 Fortis Bank S.A.  
 Banco Popular Espanol, S.A.  
 Bankinter S.A.  
 Caja de Ahorros del Mediterraneo  
 Caja Espana de Inversiones  
 Caja D'estalvis I Pensions de Barcelona  
 La Caixa  
 Banco Sabadell

**Sri Lanka**  
 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) S.A.  
 Habibsons Bank  
 Credit Suisse  
 Royal Bank of Scotland  
 United Bank AG  
 Citibank N.A.  
 Banque De Commerce  
 et de Palegements (BCP)

**Taiwan**  
 Bank of New York  
 Bank of America  
 Royal Bank of Scotland  
 JP Morgan  
 Wells Fargo

**Thailand**  
 Bank of Ayudha Public Company Ltd.  
 Export Import Bank of Thailand  
 Royal Bank of Scotland  
 Citibank N.A.  
 JP Morgan

**Turkey**  
 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  
 United Bank Ltd.  
 Habib Bank Ltd.  
 Mashreqbank 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 of America  
 Clydesdale Bank  
 Deutsche Bank  
 Habib Bank AG Zurich  
 Habib Allied PLC  
 Commerzbank AG  
 Mashreqbank PSC  
 Northern Bank  
 JP Morgan  
 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 AG  
 Deutsche Bankers Trust Co.  
 Doha Bank  
 Habib American Bank  
 Habib Bank Ltd.  
 Intesa Sanpaolo S.P.A.  
 JP Morgan  
 Mashreqbank PSC  
 Mizuho Corporate Bank Ltd.  
 M & I Bank  
 National Bank of Pakistan  
 Sumitomo Mitsui Banking Corporation  
 TD Bank N.A.  
 Union Bank of California  
 Valley National Bank  
 US Bank Minneapolis  
 Union Bank N.A.  
 United Bank Ltd.  
 Wells Fargo N.A.  
 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 on my/our behalf at Annual General  
Meeting of the Bank to be held on March 28, 2013 and/or adjournment thereof.

As witness my/our hand(s) seal this on the \_\_\_\_\_ day of \_\_\_\_\_ 2013.

Signed by the said \_\_\_\_\_

In presence of      1. \_\_\_\_\_  
                          \_\_\_\_\_

                          2. \_\_\_\_\_  
                          \_\_\_\_\_

Folio No. CDC Account No.

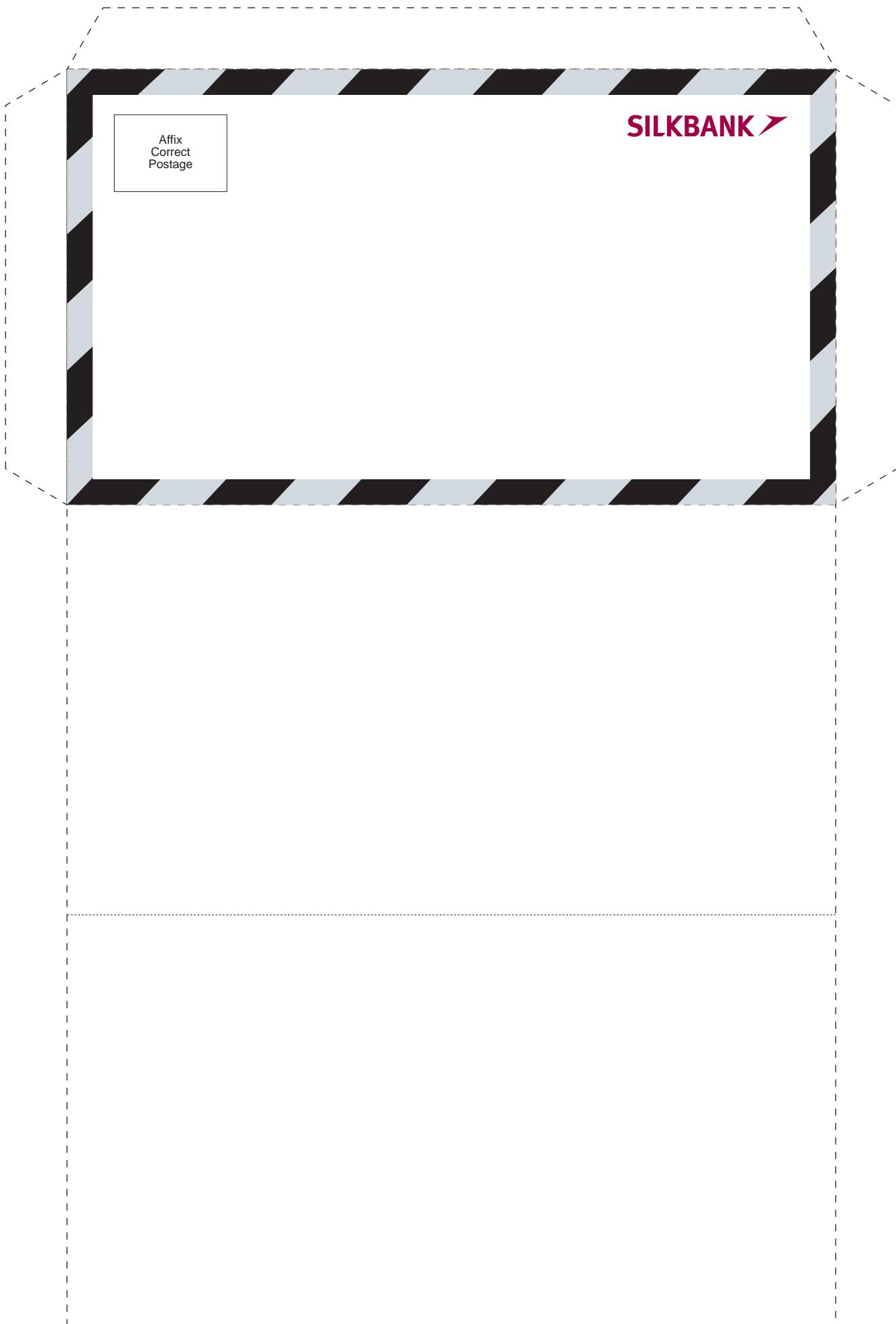
Signature on  
Revenue Stamp  
of Appropriate Value

**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.



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Postage



Silkbank Building, I.I. Chundrigar Road, Karachi.  
☞ [www.silkbank.com.pk](http://www.silkbank.com.pk) ☚ 111-007-455