

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

FIRST QUARTERLY REPORT 2010

SILKBANK
Yes we can

WHY SILK?

Inspiration for the name Silkbank comes from the Silk Route - a trade corridor connecting Asia to Europe and the rest of the world. Silk, known for its distinctive properties and characteristics, symbolizes Silkbank's brand beliefs.

Premium & Upscale

Silk is known for class and premium quality. Silkbank is positioned as an upscale bank providing its customers with premium banking experience.

Talent & Innovation

Silk embodies talent and timeless innovation. Silkbank promises its customers innovative products delivered through talented staff.

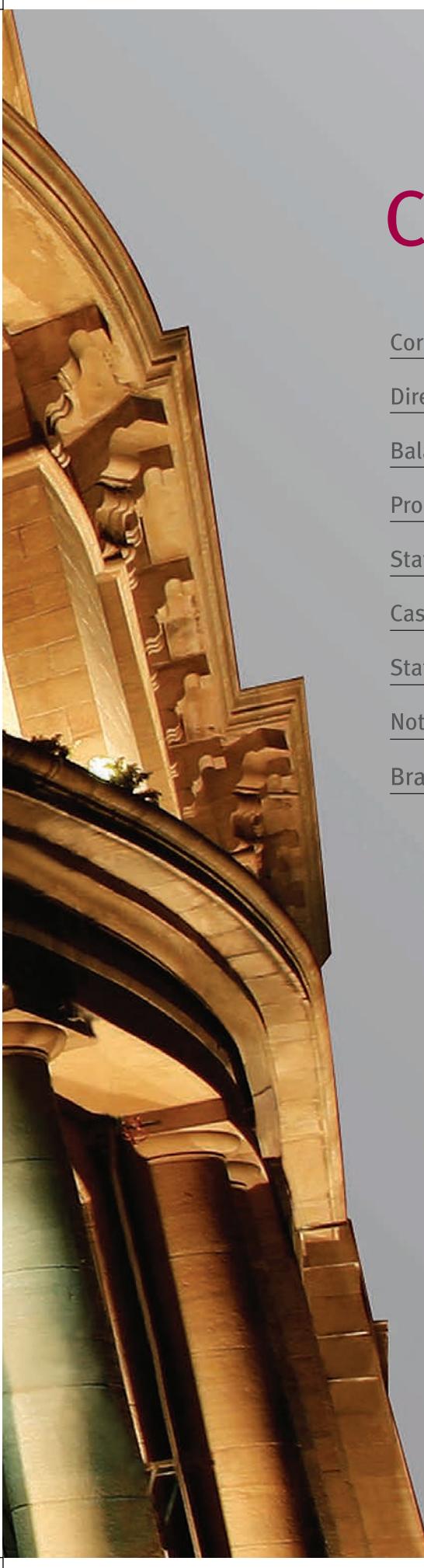
Strong & Reliable

Silk is amongst the strongest fibres known to mankind. Silkbank derives its strength from its strong international institutional sponsors giving it credibility and reliability.

Dependable

Silk through the times has held its value. Silkbank driven by a team of professionals provides an optimal experience that you can depend on.

SILKBANK 
Yes we can



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Corporate Information

Board of Directors

Munnawar Hamid, OBE
 Ahmed Bin Mohamed Bin Abdullah Al-Abri
 Humayun Bashir
 Javed Hamid
 Sadeq Sayeed
 Arif Mahmood Ali
 Arshad Ghaffur
 Azmat Shahzad Ahmed Tarin

Chairman
 Director
 Director
 Director
 Director
 Director
 Director
 President & CEO

Company Secretary

Syed Liaquat Ali, FCA

Audit Committee

Humayun Bashir
 Sadeq Sayeed
 Arif Mahmood Ali
 Arshad Ghaffur

Chairman
 Member
 Member
 Member

Risk Committee

Ahmed Al-Abri
 Humayun Bashir
 Javed Hamid
 Arshad Ghafur

Chairman
 Member
 Member
 Member

Human Resources Committee

Munnawar Hamid, OBE
 Azmat Shahzad Ahmed Tarin
 Javed Hamid

Chairman
 Member
 Member

Auditors

Anjum Asim Shahid Rahman
 Chartered Accountants

Legal Advisor

Cornelius, Lane & Mufti

Corporate Information

Registered Office

Silkbank Limited
 Silkbank Building, I.I. Chundrigar Road, Karachi.
 Telephone No: +92 21 111 007 455 Ext. 414 & 436
 Fax No: +92 21 32460464
 Website: www.silkbank.com.pk

Share Registrar

Noble Computer Services (Pvt.) Limited
 Mezzanine Floor, House of Habib Building (Siddiqsons Tower)
 3-Jinnah Cooperative Housing Society, Main Shahrah-e-Faisal
 Karachi – 75350
 Phone: + 92 21 34325482-87
 Fax: + 92 21 34325442
 E-mail: ncls@noble-computers.com
 Website: www.noble-computers.com

Senior Management Committee (SMC)

Azmat Tarin	President & CEO
Aneeq Khawar	Chief Operating Officer
Jamil A. Khan	Group Head Compliance, Legal & ICD
Kasim Feroze Khan	Group Head Special Assets Management
Goharulayn Afzal	Group Head Marketing & Strategic Planning
Talha Saeed	Group Head Retail Banking
Syed Liaquat Ali	CFO & Company Secretary
Syed Jawaid Akhtar	Head of Internal Audit
Sumbul Munir	Head of Corporate & Investment Banking
Shafaq Rahid	Head of Customer Satisfaction & Quality

Directors' Review Report March 31, 2010

Balance Sheet as at March 31, 2010

Dear Shareholders,
We are pleased to present the un-audited financial statements of Silkbank Limited for the 1st Quarter ended March 31, 2010.

Economic Review

The overall economic environment in Pakistan is expected to continue showing a stable position on the back of improved performance of the agriculture and large scale manufacturing sector, enhanced workers' remittance, stabilized inflation and interest rates and controlled fiscal and current account deficits. A more visible momentum of growth will be seen once the SME sector starts picking up which has been delayed due to the ongoing energy crisis.

Financial Performance

Summarized financial performance of Silkbank Limited for the period ended March 31, 2010 is as follows:

	Rupees in Million
Loss before provisions	368
Provisions (net recovery)	42
Loss after provisions	<u>410</u>
Basic Loss per share (Rupee)	<u>0.16</u>

The loss for the quarter was largely due to the impact of the essential investments being made to strengthen the Bank and a delay in the placement of new capital.

Minimum Capital Requirement (MCR)

Approximate rupees 4.3 billion of new capital is in place in response to the recently announced Rights Issue and subscription towards the unpaid rights shares of approximately Rs 2.7 billion, is expected to be completed by June 25, 2010 as allowed by State Bank of Pakistan.

Future Outlook

The Bank will continue cleaning its Balance Sheet and expanding its size by mobilizing more deposits and launching new products. This together with the new capital in place will enable the Bank to make strong progress towards profitability.

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" due to the existing delay in meeting the capital requirements, which should be achieved shortly.

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
Silkbank Limited**


Munnawar Hamid, OBE
Chairman

Karachi,
May 27, 2010

	Un-audited March 31, 2010	Audited December 31, 2009
Note		Rupees in '000
ASSETS		
Cash and balances with treasury banks	3,217,232	3,120,880
Balances with other banks	123,164	151,068
Lending to financial institutions	1,300,737	1,067,708
Investments	15,510,245	20,179,329
Advances	35,897,414	32,097,490
Operating fixed assets	3,852,014	3,720,695
Deferred tax assets (net)	3,970,966	3,976,149
Other assets	3,596,795	4,351,022
	67,468,567	68,664,341
LIABILITIES		
Bills payable	754,077	637,602
Borrowings from financial institutions	11,048,477	15,088,332
Deposits and other accounts	48,812,658	49,610,034
Liabilities against assets subject to finance lease	9,703	10,476
Other liabilities	1,346,276	1,554,808
	61,971,191	66,901,252
NET ASSETS		
Share capital	26,286,109	9,003,150
Reserves	224,649	224,649
Discount on issue of right shares	(12,962,219)	-
Accumulated loss	(9,622,446)	(9,030,894)
	3,926,093	196,905
Surplus on revaluation of assets (net of tax)	1,571,283	1,566,184
	5,497,376	1,763,089

REPRESENTED BY

Share capital	8	26,286,109	9,003,150
Reserves		224,649	224,649
Discount on issue of right shares		(12,962,219)	-
Accumulated loss		(9,622,446)	(9,030,894)
		3,926,093	196,905
Surplus on revaluation of assets (net of tax)		1,571,283	1,566,184
		5,497,376	1,763,089

CONTINGENCIES AND COMMITMENTS

The annexed notes from 1 to 14 form an integral part of these financial statements.

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Sd/-
President & CEO

Sd/-
Chairman

Sd/-
Director

Sd/-
Director

Profit and Loss Account-unaudited for the quarter ended March 31, 2010

Statement of Comprehensive Income-unaudited for the quarter ended March 31, 2010

	March 31, 2010 Rupees in '000	March 31, 2009 Rupees in '000		March 31, 2010 Rupees in '000	March 31, 2009 Rupees in '000	
Mark-up/return/interest earned	1,589,872	1,355,563	Loss for the period	(409,619)	(471,568)	
Mark-up/return/interest expensed	1,520,940	1,337,528	Other comprehensive income	-	-	
Net mark-up/ interest earned	68,932	18,035	Total comprehensive loss for the year	(409,619)	(471,568)	
Provision against non-performing loans and advances - net	42,706	63,303	Surplus / deficit on revaluation of 'available-for-sale' securities and 'fixed assets' are presented under a separate head below equity as 'surplus / deficit on revaluation of assets' in accordance with the requirements specified by the State Bank of Pakistan vide its BSD circular 20 dated August 04, 2000 and BSD circular 10 dated July 13, 2004 and Companies Ordinance, 1984 respectively.			
Reversal of provision against consumer finance	(796)	(2,344)				
Diminution/(reversal) in the value of investments	-	(694)				
Impairment of Available-for-Sale investments	-	54,034				
Bad debts written off directly	-	-				
Net mark-up / interest income/(loss) after provisions	41,910	114,299				
	27,022	(96,264)				
NON MARK-UP/INTEREST INCOME						
Fee, commission and brokerage income	90,595	85,210				
Dividend income	11,278	4,808				
Income from dealing in foreign currencies	30,159	27,710				
Gain on sale of investments - net	11,740	47,488				
Unrealized (loss)/gain on revaluation of investments classified as Held-for-Trading	(3,187)	118				
Other income	80,649	30,333				
Total non-markup/interest income	221,234	195,667				
	248,256	99,403				
NON MARK-UP/INTEREST EXPENSES						
Administrative expenses	655,237	576,210				
Other provisions / write offs	-	-				
Other charges	336	10,777				
Total non-markup/interest expenses	655,573	586,987				
LOSS BEFORE TAXATION	(407,317)	(487,584)				
Taxation- Current	2,302	2,619				
- Prior year(s)	-	-				
- Deferred	-	(18,635)				
LOSS AFTER TAXATION	2,302	(16,016)				
	(409,619)	(471,568)				
Rupee						
Loss per share - Basic and Diluted (Rupee/share)	(0.16)	(0.52)				

The annexed notes from 1 to 14 form an integral part of these financial statements.

Sd/-
President & CEO

Sd/-
Chairman

Sd/-
Director

Sd/-
Director

Sd/-
President & CEO

Sd/-
Chairman

Sd/-
Director

Sd/-
Director

Cash Flow Statement - Unaudited for the quarter ended March 31, 2010

	March 31, 2010 Rupees in '000	March 31, 2009 Rupees in '000
CASH FLOW FROM OPERATING ACTIVITIES		
Loss before taxation	(407,317)	(487,583)
Less: Dividend Income	(11,278)	(4,808)
	(418,595)	(492,391)
Adjustments for non-cash items		
Depreciation	61,373	49,515
Amortization of premium on investment	59,076	50,682
Amortization of intangible assets	3,010	3,027
Provision against non-performing advances	42,706	63,303
Reversal of provision against consumer finance	(796)	(2,344)
Provision for diminution in Investment	-	(694)
Unrealized Loss on revaluation of investments classified as Held for Trading	3,187	118
Impairment of investment classified as Available for Sale	-	54,034
Provision for Gratuity	3,405	5,670
(Gain) on sale of fixed assets	(49,234)	(5,353)
Financial charges on leased assets	140	1,771
	122,867	219,729
	(295,728)	(272,662)
(Increase) / Decrease in operating assets		
Lendings to financial institutions	(455,280)	(2,742,601)
Net investments in Held-for-Trading securities	1,736,300	(1,283)
Advances	(3,841,834)	(929,387)
Other assets (excluding advance taxation)	754,227	(1,294,411)
	(1,806,587)	(4,967,682)
Increase / (Decrease) in operating liabilities		
Bills payable	116,475	5,455,933
Borrowings from financial institutions	(4,039,855)	(2,886,758)
Deposits	(797,376)	3,747,091
Other liabilities	(195,401)	172,152
	(4,916,157)	6,488,418
Income tax paid	(7,018,471)	1,248,074
Net cash flow from operating activities	7,056	(2,619)
	(7,011,415)	1,245,455
CASH FLOW FROM INVESTING ACTIVITIES		
Net investment in Available-for-Sale securities	2,884,542	(1,646,202)
Net investment in Held-to-Maturity securities	488	73,543
Dividend Income	11,278	4,808
Sale proceeds of property & equipment disposed off	49,234	12,384
Investment in operating fixed assets	(182,642)	(115,458)
Net cash flow from investing activities	2,762,900	(1,670,925)
CASH FLOW FROM FINANCING ACTIVITIES		
Payments of lease obligations	(913)	(8,645)
Expense on account of right shares	(182,863)	-
Issue of right shares	4,320,740	-
Net cash flow from financing activities	4,136,964	(8,645)
Increase / (Decrease) in cash and cash equivalents	(111,551)	(434,115)
Cash and cash equivalents at January 01,	4,021,948	4,561,415
Cash and cash equivalents at March 31,	3,910,396	4,127,300

The annexed notes from 1 to 14 form an integral part of these financial statements.

Statement of Changes in Equity for the quarter ended March 31, 2010

	Share Capital	Discount on Issue of Shares	Share Deposit Money	*Statutory Reserves	Others	Accumulated Profit / (Loss)	Net Equity
Rupees in '000							
Balance as at January 01, 2009	9,003,150	-	218,556	-	(6,131,709)	3,089,997	
Loss for the quarter after taxation	-	-	-	-	-	(471,567)	(471,567)
Transfer from surplus on revaluation of fixed assets on account of incremental depreciation- net of tax	-	-	-	-	-	929	929
Balance as at March 31, 2009-Unaudited							
	9,003,150	-	218,556	-	(6,602,347)	2,619,359	
Loss for the nine months after taxation	-	-	-	-	-	(2,431,338)	(2,431,338)
Reversal of provision against reschedule/restructured loans and advances	-	-	-	-	6,093	-	6,093
Transfer to statutory reserve	-	-	-	-	-	-	-
Transfer from surplus on revaluation of fixed assets on account of incremental depreciation- net of tax	-	-	-	-	-	2,791	2,791
Balance as at December 31, 2009-Audited							
	9,003,150	-	218,556	6,093	(9,030,894)	196,905	
Loss for the quarter after taxation	-	-	-	-	-	(409,619)	(409,619)
Share deposit money for issue of right shares	-	-	4,320,740	-	-	-	4,320,740
Share deposit money utilized for issue of right shares	-	-	(4,320,740)	-	-	-	(4,320,740)
Issue of right shares	17,282,959	-	-	-	-	-	17,282,959
Discount on issue of right shares	-	(12,962,219)	-	-	-	-	(12,962,219)
Expenses incurred on account of right issue	-	-	-	-	-	(182,863)	(182,863)
Transfer from surplus on revaluation of fixed assets on account of incremental depreciation- net of tax	-	-	-	-	-	930	930
Balance as at March 31, 2010	26,286,109	(12,962,219)	-	218,556	6,093	(9,622,446)	3,926,093

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

The annexed notes from 1 to 14 form an integral part of these financial statements.

Notes to the Financial Statements for the quarter ended March 31, 2010

1. STATUS AND NATURE OF BUSINESS

SilkBank Limited (formerly Saudi Pak Commercial Bank Limited) was incorporated in Pakistan on April 04, 1994 as a public limited company under the Companies Ordinance, 1984. The Bank commenced commercial operations on May 07, 1995. Its shares are quoted on all the Stock Exchanges in Pakistan. The Bank is engaged in banking services as described in the Banking Companies Ordinance, 1962. It operates through 85 branches (2009: 82) 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 July 2009 is 'A-3' and 'A-' respectively.

The Bank has a short fall of Rs. 2,298 billion as on March 31, 2010 in meeting minimum capital requirement as on December 31, 2009 of Rs. 6 billion free of losses, as required by BSD circular No. 19 of 2008. As disclosed in note 8.1, State Bank of Pakistan has deferred the applicability of the requirement of minimum capital requirement till June 25, 2010 on specific request of the bank.

2. BASIS OF PRESENTATION

The disclosures made in these condensed interim financial statements have been limited based on the format prescribed by the SBP vide BSD circular letter No. 2, dated May 12, 2004 and IAS 34 "Interim Financial Reporting", therefore the above referred to changes introduced through IAS 1 (revised) have not been taken into consideration in the preparation of these condensed interim financial statements. Further, they do not include all of the information required for full annual financial statements, and these condensed interim financial statements should be read in conjunction with the financial statements of the Bank for the year ended December 31, 2009.

3. STATEMENT OF COMPLIANCE

These condensed interim financial statements (i.e. "financial information") have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and directives issued by the State Bank of Pakistan (SBP) and Securities and Exchange Commission of Pakistan (SECP). Approved accounting standards comprise such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as notified under the Companies Ordinance, 1984. In case requirement differ, the provisions of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the requirement of the said directives shall prevail.

The SBP vide BSD Circular No. 10, dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instrument: 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, the IFRS – 7 "Financial Instruments: Disclosures" has not been made applicable for banks. However instruments have been valued in accordance with the requirements of various circulars issued by SBP.

4. ESTIMATES

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements made by the management in applying the accounting policies and the key sources of estimation uncertainty were the same as those applied to financial statements for the year ended December 31, 2009.

These condensed interim financial statements are unaudited and are being submitted to the shareholders in accordance with section 245 of the Companies Ordinance, 1984.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted for the preparation of these condensed interim financial statements are the same as those applied in preparing the annual financial statements for the year ended December 31, 2009.

6. INVESTMENTS

	Note 6.1	Held by bank	Given as collateral	Total
Rupees in '000				
As at March 31, 2010-Unaudited		8,513,687	6,996,558	15,510,245
As at December 31, 2009-Audited		8,657,879	11,521,450	20,179,329

Notes to the Financial Statements for the quarter ended March 31, 2010

	March 31, 2010-Unaudited			December 31, 2009-Audited		
	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
Rupees in '000						
6.1 Investments by type:						
Held-for-Trading securities	46,403	-	46,403	1,782,703	-	1,782,703
Held-to-Maturity securities	304,652	4,935,482	5,240,134	1,540,148	3,759,550	5,299,698
Available-for-Sale securities	8,260,813	2,061,076	10,321,889	5,444,531	7,761,900	13,206,431
Investment in Associate	75,000	-	75,000	75,000	-	75,000
Investment at cost						
Less: Provision for diminution in value of investments	(85,137)	-	(85,137)	(85,137)	-	(85,137)
Investments-net of provision						
(Deficit) / Gain on revaluation of Held-for-Trading securities	(750)	-	(750)	69	-	69
Available-for-Sale securities	(87,294)	-	(87,294)	(99,435)	-	(99,435)
	8,513,687	6,996,558	15,510,245	8,657,879	11,521,450	20,179,329

Un-audited Audited
March 31, December 31,
2010 2009
Rupees in '000

Federal Government Securities	4,954,751	9,029,855
Market treasury bills	8,075,407	8,759,005
Pakistan investment bonds	13,030,158	17,788,860
Fully paid-up ordinary shares	277,059	174,758
Listed companies	65,680	65,680
Unlisted companies	342,739	240,438
Term Finance Certificates, Debentures,	202,459	252,130
Bonds and Participation Term Certificates	1,874,079	1,786,910
Term finance certificates	- Listed	
	- Unlisted	
Other investments	39,543	54,542
Mutual fund units	44,538	44,538
Preference shares	-	-
- Listed		
- Unlisted		
Investment in commercial papers	-	46,504
Investment in associate	75,000	75,000
Shares repo	74,910	74,910
	233,991	295,494
Total investments at cost	15,683,426	20,363,832
Provision for diminution in the value of investments	(85,137)	(85,137)
Investments - net of provision	15,598,289	20,278,695
Deficit on revaluation of held for trading investments	(750)	69
Deficit on revaluation of available for sale investments	(87,294)	(99,435)
	15,510,245	20,179,329

Notes to the Financial Statements for the quarter ended March 31, 2010

7. ADVANCES - NET

	Note	Un-audited March 31, 2010	Audited December 31, 2009
		Rupees in '000	
Loans, cash credits, running finances, etc.			
In Pakistan		43,313,066	39,637,979
Outside Pakistan		-	-
		43,313,066	39,637,979
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		454,983	296,655
Payable outside Pakistan		664,427	657,460
		1,119,410	954,115
Advances - gross		44,432,477	40,592,094
Provision for non-performing advances - specific	7.2	(8,531,412)	(8,490,158)
Provision against consumer finance - general	7.3	(3,650)	(4,446)
Advances - net of provisions		35,897,414	32,097,490

7.1 Advances include Rs. 11,966 million (2009: Rs.11,891 million) which have been placed under non-performing status as detailed below:

Category of classification - specific	March 31, 2010-Unaudited			December 31, 2009-Audited		
	Classified Advances	Provision Required (Domestic)	Provision held	Classified Advances	Provision Required (Domestic)	Provision held
	Rupees in '000					
Substandard	613,501	124,697	124,697	457,149	103,196	103,196
Doubtful	617,049	161,415	161,415	1,054,404	263,384	263,384
Loss	10,765,917	8,245,300	8,245,300	10,379,875	8,123,578	8,123,578
	11,996,467	8,531,412	8,531,412	11,891,428	8,490,158	8,490,158

7.2 Particulars of provision against non-performing advances

	March 31, 2010-Unaudited			December 31, 2009-Audited		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
Opening balance	8,490,158	4,446	8,494,604	7,089,770	10,249	7,100,019
Reclassification of provision against other assets	-	-	-	(323,097)	-	(323,097)
	8,490,158	4,446	8,494,604	6,766,673	10,249	6,776,922
Charge for the period	239,860	-	239,860	3,272,861	-	3,272,861
Reversals	(197,154)	(796)	(197,950)	(1,108,216)	(5,803)	(1,114,019)
Net Charge / (reversals) for the period	42,706	(796)	41,910	2,164,645	(5,803)	2,158,842
Amounts written off	(1,452)	-	(1,452)	(441,160)	-	(441,160)
Closing Balance	8,531,412	3,650	8,535,062	8,490,158	4,446	8,494,604

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

Notes to the Financial Statements for the quarter ended March 31, 2010

8. SHARE CAPITAL
Authorized capital

Unaudited March 31, 2010	Audited December 31, 2009	Unaudited March 31, 2010	Audited December 31, 2009
No. of shares in '000		Rupees in '000	
4,000,000	4,000,000	Ordinary shares of Rs. 10 each.	40,000,000

Issued, subscribed and paid up share capital

Unaudited March 31, 2010	Audited December 31, 2009	Unaudited March 31, 2010	Audited December 31, 2009
No. of shares in '000		Rupees in '000	
800,315	800,315	Fully paid up ordinary shares of Rs. 10 each	8,003,150
100,000	100,000	Fully paid up ordinary shares of Rs. 10 each	1,000,000
1,728,296	-	Issued at a discount of Rs. 2.5 per share	17,282,959
2,628,611	900,315	Fully paid up ordinary shares of Rs. 10 each	26,286,109

8.1 The State Bank of Pakistan requires each commercial bank to: (a) hold the minimum level of the regulatory capital (net of losses) to be raised to Rs. 10 billion by the year ending December 31, 2013. The raise is to be achieved in phased manner requiring Rs. 6 billion paid up capital (net of losses) by the end of the financial year 2009 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%.

The Bank has approved issuance of rights shares @ 311.00226% on December 2, 2009 at a discount of Rs. 7.5 per share on the face value of Rs. 10 each to generate net additional capital of Rs. 7 billion. These rights shares were subsequently taken up by the shareholders and by the close date Rs. 4.3 billion had been subscribed by the shareholders. Arrangements are in hand for the subscription of Rs. 2.7 billion towards the un-paid rights shares and it is expected to be completed by June 25, 2010.

The Bank had a short fall of Rs. 2,298 million as on March 31, 2010 in meeting the minimum capital requirement of Rs. 6 billion (net of losses), as required under BSD circular No. 7 of 2009. With the additional capital of Rs. 2.7 billion in place, as described above, the bank would be fully compliant for the Minimum Capital Requirements (MCR) and for the Capital Adequacy Ratio (CAR).

The Bank has been granted extension in meeting MCR till June 25, 2010 by the State Bank of Pakistan.

Notes to the Financial Statements for the quarter ended March 31, 2010

9. CONTINGENCIES AND COMMITMENTS

	Un-audited March 31, 2010	Audited December 31, 2009	
Rupees in '000			
9.1 Direct credit substitutes	-	-	
Guarantees favouring			
Government	4,563,885	3,948,414	
Banking companies and other financial institutions	535,803	90,442	
Others	1,218,249	1,293,072	
9.2 Transaction-related contingent liabilities			
Letters of Credit & Acceptances	6,176,100	2,923,902	
9.4 Claims against the bank not acknowledged as debt	207,607	186,875	
9.4.1 The Bank has purchased a property of Rs. 68.882 million in Lahore in year 2006 for its own use. Although the builder has released the clearance letter in favor of the bank but due to dispute between Military Estate Officer and builder in respect of area allotted for parking, the title documents of the property has not been transferred in bank's name. The said property has therefore been classified as capital work in progress.			
9.5 Commitments in respect of:			
Forward Exchange contracts with State Bank of Pakistan, banks and other institutions	1,645,024	1,137,795	
Sale	4,172,473	3,190,282	
Purchase	5,817,497	4,328,077	
9.6 Commitments in respect of:			
Property civil work & equipment	147,718	388,052	
Purchase of software	179,466	50,162	
10. TAXATION			

Through amendment in Income Tax Ordinance 2001, vide Finance Act 2009, minimum tax is not applicable on income of the bank if the bank has suffered gross loss during the period. Accordingly no tax provision has been made in the accounts for the current period. The provision of Rs. 2.302 million in the accounts has been made in respect of Azad Jammu Kashmir operations.

11. RELATED PARTY TRANSACTIONS

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

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 of 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 the reduced rates in accordance with the employment and pay policy. 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.

Notes to the Financial Statements for the quarter ended March 31, 2010

Details of transactions with related parties and balances with them as at the period-end were as follows:

March 31, 2010-Unaudited			December 31, 2009-Audited		
Directors	Key Management Personnel	Associated Companies & Common Directorship	Directors	Key Management Personnel	Associated Companies & Common Directorship
Rupees in '000					
Balances					
Loans					
Outstanding at the beginning of the period	-	1,153	-	-	1,666
Loans given during the period	-	459	-	-	5,307
Loans repaid during the period	-	(398)	-	-	(5,820)
Loans outstanding at the end of the period	-	1,214	-	-	1,153
Deposits					
Deposits at the beginning of the period	2,469	57,861	36,830	6,915	105,632
Deposit received during the period	23,523	154,371	246,933	143,375	815,101
Deposit repaid during the period	(25,450)	(170,370)	(218,473)	(147,821)	(862,872)
Deposit at the end of the period	542	41,862	65,290	2,469	57,861
Subordinated loan	-	-	-	-	-
Letter of credit and acceptance	-	-	-	-	-
Investment in Term Fiancne Certificates	-	-	6,128	-	6,128
Forward foreign exchange contracts	-	-	-	-	-
Transactions					
Short term employment benefits	-	69,748	-	-	288,235
Termination benefits	-	6,130	-	-	23,431
Mark-up and commission earned	-	49	229	-	198
Mark-up and commission paid	23	384	777	279	4,412
Brokerage paid	-	-	-	-	-
Revaluation & exchange income	-	-	-	-	-
Rent Income	-	-	-	-	-
Services Rendered / goods supplied	-	-	8,408	-	191,248
Software Procured	-	-	9,042	-	10,145

12. SUBSEQUENT EVENTS

There were no significant adjustable events subsequent to March 31, 2010, that might require an adjustment to these condensed interim financial statements or that may require disclosure and have not already been disclosed in these financial statements.

13. DATE OF AUTHORISATION FOR ISSUE

The financial statements were authorised for issuance on May 27, 2010 by the Board of Directors of the Bank.

14. GENERAL

Figures have been rounded off to the nearest thousand rupees.

Sd/-
President & CEO

Sd/-
Chairman

Sd/-
Director

Sd/-
Director

Branch Network



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