



KPMG Taseer Hadi & Co.  
Chartered Accountants

**Silk Bank Limited**


**Financial Statements  
For the Year Ended  
December 31, 2011**

**SILKBANK Limited**  
**Statement of Financial Position**  
**As At December 31, 2011**

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

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

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**Azmat Tarin**      **Munnawar Hamid, OBE**      **Tariq Iqbal Khan**      **Humayun Bashir**  
 President & CEO      Chairman      Director      Director

**SILKBANK Limited**  
**Profit And Loss Account**  
**For The Year Ended December 31, 2011**

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

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

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**Azmat Tarin**                      **Munnawar Hamid, OBE**                      **Tariq Iqbal Khan**                      **Humayun Bashir**  
 President & CEO                      Chairman                      Director                      Director

**SILKBANK Limited**  
**Statement of Comprehensive Income**  
**For The Year Ended December 31, 2011**

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

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**Azmat Tarin**  
 President & CEO

  
**Munnawar Hamid, OBE**  
 Chairman

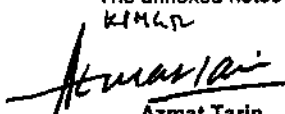
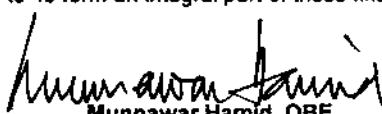
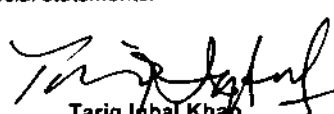
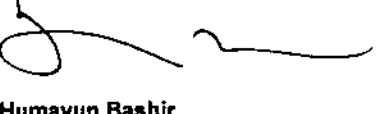
  
**Tariq Iqbal Khan**  
 Director

  
**Humayun Bashir**  
 Director

**SILKBANK Limited**  
**Statement of Cash Flows**  
**For The Year Ended December 31, 2011**

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

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

**Azmat Tarin**  
 President & CEO

**Munnawar Hamid, OBE**  
 Chairman

**Tariq Iqbal Khan**  
 Director

**Humayun Bashir**  
 Director

**SILKBANK Limited**  
**Statement of Changes in Equity**  
**For The Year Ended December 31, 2011**

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


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

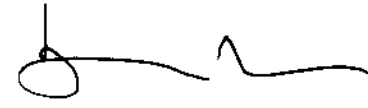
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 Azmat Tarim  
 President & Chief Executive

  
 Munnawar Hamid, OBE  
 Chairman

  
 Tariq Iqbal Khan  
 Director

  
 Humayun Bashir  
 Director

**SILKBANK Limited**  
**Notes to the Financial Statements**  
**For The Year Ended December 31, 2011**

**1 STATUS AND NATURE OF BUSINESS**

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

**2 BASIS OF PRESENTATION**

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

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

**3 STATEMENT OF COMPLIANCE**

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

The SBP has deferred the applicability of International Accounting Standard 39, "Financial Instruments: Recognition and Measurement" (IAS 39) and International Accounting Standard 40, "Investment Property" (IAS 40) for banking companies till further instructions. Further, according to the notification of SECP dated April 28, 2008, IFRS 7 - "Financial Instruments Disclosures" has not been made applicable for banks. However, instruments have been classified and valued in accordance with the requirements of various circulars issued by SBP.

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

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

- 4.1 Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after January 1, 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendment is not likely to have an impact on financial statements of the Bank.
- 4.2 IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after January 1, 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective January 1, 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on financial statements of the Bank.

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

## 5 BASIS OF MEASUREMENT

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

### 5.1 Use of critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

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

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

#### 5.1.1 Provision against non-performing loans and advances

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

#### 5.1.2 Fair value of derivatives

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

#### 5.1.3 Held-to-maturity investments

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

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#### 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 property and equipments

In making estimates of the depreciation / amortization method, the management uses method which reflects the pattern in which economic benefits are expected to be consumed by the Bank. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method would be changed to reflect the change in pattern.

### 6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 6.1 Cash and cash equivalents

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

#### 6.2 Lendings to / borrowings from financial institutions

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

##### 6.2.1 Sale under repurchase obligations

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

##### 6.2.2 Purchase under resale obligations

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

#### 6.3 Trade and settlement date accounting

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

#### 6.4 Investments

##### 6.4.1 The Bank classifies its investments as follows:

###### a) Held-for-trading

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

###### b) Held-to-maturity

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

###### c) Available-for-sale

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

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

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

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

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

#### 6.4.5 Investment in associates

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

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

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

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

#### 6.5 Advances

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

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

#### 6.6 Operating fixed assets

##### 6.6.1 Property and equipment

###### Owned assets

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

##### 6.6.2 Measurement subsequent to initial recognition

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

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

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

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

##### 6.6.3 Depreciation

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

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

##### 6.6.4 Capital work-in-progress

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

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#### **6.6.5 Intangible assets**

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

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

#### **6.7 Income tax**

##### **6.7.1 Current**

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

##### **6.7.2 Deferred**

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

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

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

#### **6.8 Impairment**

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

#### **6.9 Provisions**

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

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

#### **6.10 Staff retirement benefits**

##### **6.10.1 Defined contribution plan**

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

##### **6.10.2 Defined benefit plan**

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

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

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

#### **6.11 Revenue recognition**

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

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

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

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

## **6.12 Foreign currencies**

### **6.12.1 Foreign currency transactions**

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

### **6.12.2 Commitments**

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

Translation gains and losses are included in income currently.

## **6.13 Financial Instrument**

### **6.13.1 Financial assets and liabilities**

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

### **6.13.2 Derivative financial instruments**

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

## **6.14 Off-setting**

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

## **6.15 Segment reporting**

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

### **6.15.1 Business segments**

#### **Wholesale Banking**

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

#### **Consumer / SME Banking**

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

### **6.15.2 Geographical segment**

The Bank conducts all its operations in Pakistan.

## **6.16 Fiduciary assets**

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

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	Note	2011 Rupees in '000	2010
<b>7 CASH AND BALANCES WITH TREASURY BANKS</b>			
<b>In hand</b>			
Local currency		690,153	583,519
Foreign currencies		190,594	189,569
National prize bonds		1,289	1,443
<b>With State Bank of Pakistan (SBP) in</b>	7.1		
Local currency account		2,392,317	1,735,325
Foreign currency - current account		270,711	198,964
- deposit account		798,043	593,837
<b>With National Bank of Pakistan (NBP) in</b>			
Local currency current account		93,035	113,867
		<u>4,436,142</u>	<u>3,414,524</u>

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

## 8 BALANCES WITH OTHER BANKS

### In Pakistan

Current accounts

30,749 46,319

### Outside Pakistan

Current accounts

63,573 43,036

94,322 89,355

## 9 LENDINGS TO FINANCIAL INSTITUTIONS

### In local currency

Call money lendings

9.1 41,000 570,000

Repurchase agreement lendings (Reverse repo)

9.2 3,059,803 480,754

3,100,803 1,050,754

9.1 These carry mark-up at 13.75% (2010: 14.25% to 15%) per annum with maturity upto January 2012.

9.2 **Securities held as collateral against repurchase agreement lendings**

		2011			2010		
		Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
Rupees in '000							
Market treasury bills	9.2.1	2,499,669	-	2,499,669	-	-	-
Pakistan investment bonds	9.2.2	497,134	-	497,134	480,754	-	480,754
Shares	9.2.3	63,000	-	63,000	-	-	-
		<u>3,059,803</u>	-	<u>3,059,803</u>	<u>480,754</u>	-	<u>480,754</u>

9.2.1 These have been purchased under the resale agreements at markup rates ranging from 11.90% to 11.95% (2010: Nil) per annum with maturities upto January 2012.

9.2.2 These have been purchased under the resale agreements at the markup rates ranging from 11.95% to 12.50% (2010: 13.55%) per annum with maturities upto March 2012.

9.2.3 These have been purchased under the resale agreements at the markup rates of 15% (2010: Nil) per annum with maturities upto January 2012.

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10 INVESTMENTS

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

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	Note	2011	2010
		Rupees in '000	
<b>10.2 Investments by segments</b>			
<b>Federal Government Securities</b>			
Market Treasury Bills		7,030,681	3,892,600
Pakistan Investment Bonds		5,628,326	7,017,105
GOP Ijara Sukuk		3,041,258	-
		15,700,265	10,909,705
<b>Fully paid-up ordinary shares</b>			
Listed companies		661,109	363,652
Unlisted companies		37,026	39,900
		698,135	403,552
<b>Term Finance Certificate, Debentures, Bonds and Participation Term Certificates</b>			
Term Finance certificates - Listed		294,717	194,160
- Unlisted		802,696	1,709,125
		1,097,413	1,903,285
<b>Other Investments</b>			
Mutual fund units		11,233	8,388
Preference shares - Listed		15,000	29,769
Investment in associates		45,000	46,350
Investment in commercial papers		-	67,014
Shares repo		74,910	74,910
		146,143	226,431
<b>Investments at Cost</b>		17,641,956	13,442,973
Provision for diminution in the value of investments		(86,563)	(83,578)
<b>Investments - net of provision</b>		17,555,393	13,359,395
Deficit on revaluation of held for trading investments		-	(94)
Deficit on revaluation of available for sale investments		(7,753)	(169,253)
<b>Total Investments</b>		17,547,640	13,190,048

### 10.3 Market Treasury Bills

Name of Investment	Maturity period	Principal payment	Coupon rate	Coupon payment
Market Treasury Bills	February 2012 to November 2012	On maturity	11.77% to 13.87%	At maturity

### 10.4 Pakistan Investment Bonds

Name of investment	Maturity period	Principal payment	Coupon rate	Coupon payment
Pakistan Investment Bonds	February 2012 to September 2019	On maturity	8% to 12%	Semi-annually

These include securities having face value of Rs.47.70 million (2010: Rs. 47.70 Million) pledged with State Bank of Pakistan and National Bank of Pakistan as security to facilitate T.T discounting facility to branches of the Bank.

### 10.5 GOP Ijara Sukuk

Name of Investment	Maturity period	Principal payment	Coupon rate	Coupon payment
Ijara Sukuk KMG	March 2014 to December 2014	On maturity	11.79% to 13.28%	Semi-annually

		2011		2010	
	Rating long term / short term	Amount  Rupees in '000	Rating long term / short term	Amount  Rupees in '000	
<b>10.6 Mutual Fund Units</b>					
PICIC Growth Fund	Unrated	9,284		-	
Golden Arrow Selected Stocks Fund	Unrated	1,949	Unrated	3,947	
NAMCO Balanced Fund	Unrated	-	Unrated	4,441	
		<u>11,233</u>		<u>8,388</u>	
<b>10.7 Commercial Papers</b>		-	Unrated	67,014	
This represents investment in commercial papers issued by Pak Electron Limited carrying interest rate of Nil (2010: 16.11% %) with matured on July 25, 2011.					
<b>10.8 Preference Shares-Listed</b>					
Chenab Limited	Unrated	-	Unrated	14,769	
Masood Textile Mills Limited	Unrated	15,000	Unrated	15,000	
		<u>15,000</u>		<u>29,769</u>	
<b>10.9 Term Finance Certificates-Listed</b>					
Escort Investment Bank Limited	BBB-	2,997	A-/A-1	4,996	
Worldcall Telecom Limited		-	A	3,064	
Askari Bank Limited		-	AA-	63,040	
Pakistan Mobile Communication Limited	A+	12,480	A+	20,800	
Engro Chemicals Limited		-	AA-	54,832	
Orix Leasing Pakistan Limited	AA+	90,000		-	
Engro Fertilizer Limited	AA	151,792		-	
		<u>257,269</u>		<u>146,732</u>	
<b>10.10 Term Finance Certificates-Unlisted</b>					
Avari Hotels	A-	479,767	A-	479,767	
JDW Sugar Mills Limited	A+	106,667	A-/A-2	149,333	
Gharibwal Cement Limited	D	5,974	D	5,974	
Bank Al-Habib Limited	AA	-	AA	16,980	
Bank Al Falah Limited	AA-	62,950	AA-	90,071	
Faysal Bank Limited	AA-	10,563	AA-	100,000	
Engro Fertilizer Ltd. TFC Sukuk	AA	11,776		-	
Power Holding (Private) Limited		-	Unrated	857,000	
Pak Libya Holding Co.	AA	125,000		-	
		<u>802,596</u>		<u>1,709,125</u>	
<b>10.11 Ordinary Shares-Listed</b>					
Hub Power Company Limited	AA+/A1+	20,636		-	
Hira Textile Mills Limited		-	Unrated	2,854	
Summit Bank Limited	A/A 2	2,580	A-/A 2	3,930	
PTA Limited	Unrated	-	Unrated	3,647	
Fauji Fertilizer Bin Qasim Ltd.	Unrated	37,437		-	
National Bank of Pakistan	AAA / A-1+	69,182	AAA / A-1+	26,450	
Pakistan Oil fields Limited	Unrated	-	Unrated	6,723	
Gharibwal Cement Ltd.	Unrated	136,116		-	
Jahangir Siddiqui Co. Limited	Unrated	19,250		-	
Pakistan Reinsurance Limited		-	Unrated	3,436	
Pakistan Gen. Power Limited	AA/ A-1+	5,260		-	
Engro Chemicals Limited		-	AA / A-1+	9,182	
Engro Corporation	AA/A1+	94,055		-	
Nishat Chunian Power Limited	AA-/A1+	16,743		-	
Nishat Power Limited	AA- / A-1+	61,911	AA- / A-1+	43,750	
Pakistan State Oil Limited	AA+/ A-1+	60,116	AA+/ A-1+	21,490	
Kot Addu Power Company Limited		-	Unrated	30,826	
Nishat Chunian Limited		-	AA- / A-1+	7,283	
Nishat Mills Limited	AA-/A1+	26,582	A+/A1	10,709	
World Call Telecom Limited	A-/A 2	2,800	A-/A 2	9,081	
Thal Limited		-	Unrated	4,801	
ICI Pakistan	Unrated	17,274	Unrated	7,043	
M.C.B Bank Limited	AA+/ A-1+	28,095	AA+/ A-1+	10,441	
Pakistan Telecommunication Limited	Unrated	5,535	Unrated	20,638	
United Bank Limited		-	AA+/ A-1+	13,127	
Attock Petroleum Limited		-	AA/A1+	11,918	
Pakistan Petroleum Limited		-	Unrated	18,880	
Bank Afalah Limited	AA/A1+	80,840	AA/A1+	77,108	
		<u>661,109</u>		<u>343,117</u>	

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	Rating long term / short term	2011	2010
		Amount Rupees in '000	Amount Rupees in '000
<b>10.12 Ordinary Shares-Unlisted</b>			
Pakistan Export Finance Guarantee Limited	Unrated	5,680	5,680
Khushali Bank Limited	Unrated	10,000	10,000
Al-Hamra (Private) Limited	Unrated	21,346	24,220
		<u>37,026</u>	<u>39,900</u>

**10.13 Investment in Associate**

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

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

	Note	September 30, 2011	December 31, 2010
		Rupees in '000	
Total assets		429,659	401,967
Total liabilities		269,739	243,826
Net assets		<u>169,820</u>	<u>158,141</u>
Net premium revenue		<u>61,644</u>	<u>62,071</u>
Profit / (Loss) for the period / year (after tax)		<u>11,678</u>	<u>(42,728)</u>
<b>10.13.1 Share of loss from associate</b>			
Opening balance		(42,557)	(32,700)
Share of profit / (loss) based on September 2011 financial statements un-audited		2,694	(9,857)
Closing balance		<u>(39,863)</u>	<u>(42,557)</u>
	Note	2011	2010
		Rupees in '000	
<b>10.14 Particulars of provision</b>			
Opening balance		83,578	85,137
Charge for the year		2,985	-
Reversals		-	(1,559)
		2,985	(1,559)
Write off		-	-
Closing balance	10.14.1	<u>86,563</u>	<u>83,578</u>
<b>10.14.1 Particulars of provision in respect of type and segment</b>			
<b>Available-for-sale securities</b>			
Ordinary shares - unlisted		5,680	5,680
Term finance certificates - unlisted		5,973	2,988
<b>Held to Maturity Securities</b>			
Shares repo		74,910	74,910
		<u>86,563</u>	<u>83,578</u>
<b>10.16 (Deficit) on revaluation of Investments classified as held-for-trading</b>			
Listed shares		-	(94)
		-	<u>(94)</u>

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		2011	2010
		Rupees in '000	
<b>11</b>	<b>ADVANCES - NET</b>		
	Loans, cash credits, running finances, etc.		
	In Pakistan	54,367,673	51,377,508
	Outside Pakistan	-	-
		<u>54,367,673</u>	<u>51,377,508</u>
	Bills discounted and purchased (excluding treasury bills)		
	Payable in Pakistan	209,611	551,643
	Payable outside Pakistan	732,178	995,361
		<u>941,789</u>	<u>1,547,004</u>
	<b>Advances - gross</b>	<u>56,309,362</u>	<u>52,924,512</u>
	Provision for non-performing advances - specific	11.2 (6,261,835)	(8,556,924)
	Provision against consumer finance- general	11.4 (111,248)	(13,182)
		<u>49,935,279</u>	<u>44,354,406</u>
<b>11.1</b>	<b>Particulars of advances (Gross)</b>		
<b>11.1.1</b>	In local currency	54,554,868	52,787,961
	In foreign currencies	754,497	138,551
		<u>55,309,362</u>	<u>52,924,512</u>
<b>11.1.2</b>	Short Term ( for upto one year)	32,323,710	24,232,756
	Long Term ( for over one year)	22,985,652	28,691,756
		<u>55,309,362</u>	<u>52,924,512</u>

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

Category of classification - specific	2011			2010		
	Classified Advances	Provision required	Provision held	Classified Advances	Provision required	Provision held
	Rupees in '000					
Substandard	1,028,712	147,126	147,126	668,550	82,358	82,358
Doubtful	1,373,709	118,922	118,922	1,074,123	296,309	296,309
Loss	8,620,521	4,995,787	4,995,787	10,619,231	8,176,257	8,176,257
	<u>11,022,942</u>	<u>5,261,835</u>	<u>5,261,835</u>	<u>12,359,904</u>	<u>8,556,924</u>	<u>8,556,924</u>

11.3 Particulars of provision against non-performing advances

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

		2011	2010
		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		(2,583,376)
	Less: (Charge) / Reversal made directly to the equity as capital reserve	11.3.2	6,093
	Net (decrease) / increase in provision against non-performing advances		<u>(2,583,376)</u>

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

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

11.3 General provision against consumer finance loans represents a 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.

		2011	2010
		Rupees in '000	
<b>11.4</b>	<b>Particulars of provision for consumer financing - general</b>		
	Opening balance	13,182	4,446
	Charge for the year	99,386	8,736
	Reversals	(1,320)	-
	Closing balance	<u>111,248</u>	<u>13,182</u>

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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 FSV benefit against non-performing loans. During the year, total FSV benefit resulted in increase in after tax profit of Rs. 1,134 billion. Accordingly, as of December 31, 2011, the accumulated FSV benefit resulted in decrease in accumulated loss after tax to the extent of Rs. 2.85 billion. This amount shall not be available for payment of cash or stock dividend.

The FSV benefit allowed in accordance with SBP letter to Silkbank upto December 31, 2011 has an after tax profit impact of Rs.834 million.

	2011	2010
	Rupees in '000	
<b>11.6 Particulars of write offs</b>		
Against provision	711,713	91,066
Directly charged to profit and loss account	2,948	-
	<u>714,661</u>	<u>91,066</u>
Write offs of Rs. 500,000 and above	711,828	89,020
Write offs of below Rs. 500,000	2,733	2,046
	<u>714,661</u>	<u>91,066</u>

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

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

	Note	2011	2010
		Rupees in '000	
<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		385,978	332,523
Loans granted during the year		225,116	76,187
Repayments		(105,498)	(22,732)
Balance at end of the year		<u>605,596</u>	<u>385,978</u>
<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		-	-
Repayments		-	-
Balance at end of the year		<u>-</u>	<u>-</u>
<b>Debts due by subsidiary companies, controlled firms, managed moderabas and other related parties</b>			
Balance at beginning of the year		-	-
Loans granted during the year		-	-
Repayments		-	-
Balance at end of the year		<u>-</u>	<u>-</u>

Details of loans and advances to associates, subsidiary and other related parties are given in note 39.

<b>12 OPERATING FIXED ASSETS</b>			
Capital work-in-progress	12.1	34,772	88,902
Property and equipment	12.2	4,317,373	1,900,828
Intangible assets	12.3	403,766	454,275
		<u>4,756,911</u>	<u>2,443,805</u>
<b>12.1 Capital work-in-progress</b>			
Civil works		-	73,873
Equipment		-	1,995
Advances to suppliers and contractors		34,772	13,034
		<u>34,772</u>	<u>88,902</u>
<b>12.1.1 Movement in capital work-in-progress</b>			
Opening balance		88,902	569,328
Additions during the year		52,164	588,991
Transferred to property and equipment		(106,284)	(1,053,179)
Impairment on capital work-in-progress		-	(16,238)
		<u>34,772</u>	<u>88,902</u>

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12.2 Property and equipment

	2011						Rate of depreciation		
	Cost / Revaluation			Accumulated Depreciation					
As at January 01, 2011	Adjustment	Additions	Disposals	As at December 31, 2011	As at January 01, 2011	Adjustment	Charge for the year/ (Deletions) / (Revaluation)	As at December 31, 2011	Net Book value as at December 31, 2011
Freehold Land	167,928	-	-	-	167,928	-	-	-	167,928
Leasehold Land	85,563	-	1,868,750	-	1,952,313	-	-	-	1,952,313
Building- Leasehold	157,318	-	622,250	-	779,569	(3,512)	21,382	33,915	745,654
Building- Freehold Land	10,976	-	70,397	-	81,373	19,018	1,173	20,434	60,939
Leasehold Improvements	804,392	844	44,492	-	849,728	222,252	528	301,166	548,562
Furniture & Fixture	229,201	1,418	16,197	-	246,814	63,899	23,054	88,269	158,545
Other Equipment	416,471	(54,697)	17,925	426	379,273	(28,481)	58,857	(380)	162,085
Computers	605,551	52,393	72,548	114	730,378	291,453	129,688	(114)	283,495
Vehicles	341,892	-	128,739	56,429	414,202	137,581	68,306	(29,712)	237,852
<b>December 31, 2011</b>	<b>2,819,293</b>	<b>(44)</b>	<b>2,839,298</b>	<b>56,969</b>	<b>5,801,578</b>	<b>14,898</b>	<b>380,848</b>	<b>(30,208)</b>	<b>4,317,373</b>

	2010						Rate of depreciation		
	Cost / Revaluation			Accumulated Depreciation					
As at January 01, 2010	Adjustment	Additions/ Revaluation	Disposals	As at December 31, 2010	As at January 01, 2010	Adjustment	Charge for the year/ (Deletions) / (Revaluation)	As at December 31, 2010	Net Book value as at December 31, 2010
Freehold Land	557,179	-	146,484	535,735	167,928	-	-	-	167,928
Leasehold Land	1,282,131	-	-	1,196,568	85,563	-	-	-	85,563
Building- Leasehold	280,919	-	-	103,800	157,319	13,360	9,368	(7,338)	141,274
Building- Freehold Land	64,000	-	10,976	64,000	10,976	3,200	1,576	(4,533)	10,733
Leasehold Improvements	587,768	(1,000)	217,624	-	804,392	158,472	63,780	222,252	582,140
Furniture & Fixture	139,708	(834)	90,426	-	229,201	47,896	16,578	(773)	165,302
Other Equipment	285,501	-	131,808	836	416,471	127,733	59,500	187,192	229,279
Computers	245,343	55,253	305,322	367	605,551	154,036	82,103	(127)	314,068
Vehicles	284,283	(1,800)	98,459	39,250	341,892	86,045	58,768	(18,978)	204,311
<b>December 31, 2010</b>	<b>3,708,833</b>	<b>51,718</b>	<b>1,001,097</b>	<b>1,940,356</b>	<b>2,819,293</b>	<b>68,199</b>	<b>289,671</b>	<b>(31,747)</b>	<b>1,900,628</b>

12.3 Intangible assets

	2011						Rate of Amortisation		
	Cost			Accumulated Amortisation					
As at January 01, 2011	Adjustment	Additions	Disposals	As at December 31, 2011	As at January 01, 2011	Adjustment	Amortization for the year/ (Revaluation)	As at December 31, 2011	Net Book value as at December 31, 2011
Computer software	540,657	-	34,727	-	575,584	88,582	(862)	85,898	483,766
<b>December 31, 2011</b>	<b>540,657</b>	<b>-</b>	<b>34,727</b>	<b>-</b>	<b>575,584</b>	<b>88,582</b>	<b>(862)</b>	<b>85,898</b>	<b>483,766</b>

	2010						Rate of Amortisation		
	Cost			Accumulated Amortisation					
As at January 01, 2010	Adjustment	Additions	Disposals	As at December 31, 2010	As at January 01, 2010	Adjustment	Amortization for the year/ (Revaluation)	As at December 31, 2010	Net Book value as at December 31, 2010
Computer software	85,499	-	475,358	-	540,857	36,612	30	49,940	454,275
<b>December 31, 2010</b>	<b>85,499</b>	<b>-</b>	<b>475,358</b>	<b>-</b>	<b>540,857</b>	<b>36,612</b>	<b>30</b>	<b>49,940</b>	<b>454,275</b>

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

	2011	2010
Furniture, electrical, office and computer equipment	387,842	250,883
Vehicles	28,503	24,832
	<u>416,345</u>	<u>275,715</u>

12.5 Details of disposal of fixed assets - By negotiations

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain / (Loss)	Particulars of purchaser
Rupees in '000						
Honda Civic 1.8 Vtec Reg # ARD-836	1,725	834	891	891	-	Bank Employee Samira javed
Honda City I-Dsi Reg # LEF-07-2745	1,000	183	817	817	-	Bank Employee Ghulam Shabir Malik
Suzuki Cultus Reg # LEE-08-2824	737	381	356	356	-	Bank Employee Rehana Nisar
Suzuki Cultus Reg # AQZ-937	741	396	345	345	-	Bank Employee Asif Hussain
Honda Civic Vti Reg # KA-232	1,095	931	164	387	223	Bank Employee Tariq Javed Rajput
Suzuki Alto RA410 VXR 970	600	50	550	550	-	Bank Employee Adnan Sheikh
Toyota Corolla GLI	1,000	134	866	866	-	Bank Employee Imran Fazli
Suzuki Liana RXI MT Reg # AQX-279	712	392	320	320	-	Bank Employee Pervez Akhtar
Toyota Vitz 990 CC Reg #ASZ-944	600	110	490	500	10	Bank Employee Faisal Haroon Bangesh
Toyota Corolla Xli	600	210	390	390	-	Bank Employee Majid Khan
Toyota Corolla Xli Reg # AQW-940	940	533	407	407	-	Bank Employee Muhammad Muntazir
Honda City Vario Reg # ARB-476	995	548	447	447	-	Bank Employee Omer Bin Jawed
Suzuki Cultus VXL Reg # LEB-08-7095,	650	347	303	303	-	Bank Employee Iftikhar Hussain
Toyota Corolla Xli Reg # LEF-07-2324,	900	465	435	435	-	Bank Employee Mohsin Zia
Honda Civic Vti Prosmatec Oriel Reg # AKW-319	824	412	412	412	-	Bank Employee Waseem Ahmed
Toyota Corolla Gli	944	441	503	503	-	Bank Employee Javaid Alam
Toyota Corolla Xli	1,000	350	650	650	-	Bank Employee Hassan Mahmood
Honda Civic Ivttec Prosmatec Oriel Reg # AQX-084	978	554	424	424	-	Bank Employee Mirza Asim Baig
Honda Civic Ivttec Prosmatec Oriel Reg # AQT-117	829	429	400	415	15	Bank Employee Sohail Rana Janjua
Toyota Camry Reg # AQX-734	3,250	1,897	1,353	1,353	-	Bank Employee Syed Liaquat Ali
Toyota Corolla Gli Reg # AQX-648	968	549	419	419	-	Bank Employee Harmith Mana
Suzuki Cultus VXL MC Reg # ARM-439,	889	445	444	444	-	Bank Employee Abdul Rehman Rauf
Toyota Corolla Xli Reg # AUJ-786,	889	445	444	444	-	Bank Employee Suhail Siddiqui
Honda City	988	560	428	428	-	Bank Employee Syed Kamal Mohiuddin
Honda City Manual	600	240	360	360	-	Bank Employee Syed Khurram Zaidi
Suzuki Alto VXR CNG Reg #PV-340,	600	170	430	430	-	Bank Employee Masroor Arnjad
Toyota Corolla for Reg# APN-121	742	470	272	272	-	Bank Employee Inayat Ali Hudda
Honda Civic 1.8 Ivttec Reg # LEE-08-4035	1,718	1,031	687	687	-	Bank Employee Muhammd Farooq Naseem
Honda Civic Prosmatec, Reg # LEA-08-6928	1,425	855	570	570	-	Bank Employee Khawaja Shaiq Iqbal
Honda City I-Dsi	1,008	588	420	420	-	Bank Employee Waheed A Ghuman
Honda City I DSI Reg No LWG-08-2142	609	335	274	274	-	Bank Employee Khawaja Muhammad Tanveer
Suzuki Alto VXR Silky Silver MT Reg # ANU-582	600	290	310	310	-	Bank Employee Zameer Memon
Honda City Vario For, Reg # APV-412	900	420	480	480	-	Bank Employee Waheed Abidi
Honda City Manual	600	240	360	360	-	Bank Employee Furqan Arshad
Toyota Corolla Gli Reg # ASL-528	1,354	519	835	858	23	Bank Employee Ghulam Aali Khan
Honda Civic Vti Prosmatec Oriel Reg# LED-09-8240	1,400	467	933	933	-	Bank Employee Qasim Ali Rizvi
Suzuki Swift RS413 DLX 1328 CC	1,000	184	816	816	-	Bank Employee Afsheen Hassan
Suzuki Cultus SF-410 VXR CNG	600	120	480	510	30	Bank Employee Rehan M. Khan
Honda Civic Reg # NJ-898	1,000	200	800	817	17	Bank Employee Munawar uddin Durrani
Suzuki Liana RH413 LXI CNG 1328CC Reg # ASG-3	600	30	570	570	-	Bank Employee Sohail Shoukat
Honda city Vario Reg # ARB-319	1,060	689	371	371	-	Bank Employee Atia Alam
Honda City I-Dsi .Reg # LEF-08	1,008	622	386	420	34	Bank Employee Junaid Mirza
Honda City Manual	600	250	350	360	10	Bank Employee Mubashar Nadeem
Honda Civic Vti . Reg # LRP-09-2000	1,000	384	616	616	-	Bank Employee Irfan Azam Zafar
Suzuki Cultus SF410 VXL MC	600	110	490	490	-	Bank Employee Waseem Mian
Suzuki Liana Lxi Reg # NG-398.	741	470	271	271	-	Bank Employee Mehmood Ahmed
Suzuki Alto VXR Reg # LEB-09-8423	580	242	338	367	29	Bank Employee Shahriyar Alam
Honda City Manual	1,000	487	513	533	-	Bank Employee Humara Mirza
Honda Civic Vti Prosmatic Oriel	1,880	435	1,425	1,465	40	Bank Employee Gulbano Asim
Items having book value of less than Rs.250,000 and cost of less than Rs. 1,000,000	9,910	6,782	1,128	3,805	2,777	
	<b>58,969</b>	<b>30,206</b>	<b>26,763</b>	<b>29,971</b>	<b>3,208</b>	

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	Note	2011	2010
		Rupees in '000	
<b>13 DEFERRED TAX ASSETS - NET</b>			
<b>Deferred tax debits arising in respect of</b>			
Provision against non-performing advances		810,780	981,524
Unused tax losses		3,864,548	3,868,380
Deficit on revaluation of investments		6,572	56,027
		4,481,900	4,905,931
<b>Deferred tax credits arising in respect of</b>			
Accelerated tax depreciation		(372,295)	(265,905)
Surplus on revaluation of equity investments		(3,858)	3,211
Surplus on revaluation of property and equipment	20.2	(29,479)	(30,789)
		<u>(405,632)</u>	<u>(293,483)</u>
		4,076,268	4,612,448
Deferred tax asset written off		(506,851)	-
Deferred tax asset not recognized		-	(419,494)
<b>Net Deferred tax Asset</b>		<u>3,569,417</u>	<u>4,192,954</u>

13.1 During the year, the Bank carried out an exercise to review the composition of deferred tax asset and realized that deferred tax asset has not been booked on provision for non-performing advances due to restriction placed on allowance for provision against non-performing advances placed by Seventh Schedule to Income Tax Ordinance, 2001 (Seventh Schedule). According to the Seventh Schedule provision for advances and off balance sheet items is allowed upto 5% of advances for consumer and SMEs (as defined in SBP prudential regulations) and for other advances upto 1% of such advances. The correction of error resulted in reduction in deferred tax asset not recognized from Rs. 429 million to Rs. 419 million at December 31, 2010.

13.2 Movement in temporary differences

	Balance at January 01, 2010	Recognised in profit and loss	Recognised in equity	Balance at December 31, 2010	Recognised in profit and loss	Recognised in equity	Balance at December 31, 2011
<b>Deductible temporary differences on:</b>							
Provision against loans and advances	989,352	(7,828)	-	981,524	(170,744)	-	810,780
Accumulated losses	3,164,324	704,056	-	3,868,380	(203,832)	-	3,664,548
Deferred tax asset written off	-	-	-	-	(506,851)	-	(506,851)
Deficit on revaluation AFS- Govt Securities	30,520	-	25,507	56,027	-	(49,455)	6,572
Liability subject to finance lease	(800)	800	-	-	-	-	-
Accelerated Depreciation	(175,158)	(90,747)	-	(265,905)	(106,390)	-	(372,295)
Surplus on revaluation of equity	-	-	3,211	3,211	-	(7,069)	(3,858)
Revaluation of property and equipment	(32,091)	-	1,302	(30,789)	-	1,310	(29,479)
Amounts on which Deferred not recognised during the year	-	(416,281)	(3,213)	(419,494)	416,284	3,210	-
<b>Deferred Tax</b>	<b>3,976,147</b>	<b>190,000</b>	<b>26,807</b>	<b>4,192,954</b>	<b>(571,533)</b>	<b>(52,004)</b>	<b>3,569,417</b>

13.3 The Bank has prepared a 5 year strategic plan including projections for taxable profits for five years and concluded that there would be enough profits against which deferred tax asset created on unused tax losses can be utilized. The plan is based on the growth assumptions, introduction of new products, addition of new branches, recoveries from non performing portfolio and introduction of new capital.

14 OTHER ASSETS

Income/ Mark-up accrued in local currency		1,800,855	1,746,955
Income/ Mark-up accrued in foreign currency		7,021	8,768
Advances, deposits, advance rent and other prepayments		357,098	473,159
Non-banking assets acquired in satisfaction of claims	14.1	3,166,010	1,679,624
Non-banking assets acquired in satisfaction of claims with buy back option with customer	14.1	1,842,372	59,570
Unrealized gain on forward foreign exchange contracts		79,040	65,685
Branch adjustment account		71,144	51,407
Others		283,880	62,775
		7,607,418	4,147,943
Less: Provision held against other assets	14.2	(377,655)	(214,696)
<b>Other assets (net of provision)</b>		<u>7,229,763</u>	<u>3,933,247</u>
<b>14.1 Market value of non-banking assets acquired in satisfaction of claims</b>		<u>5,539,882</u>	<u>1,739,194</u>

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	Note	2011	2010
		Rupees in '000	
<b>14.2 Provisions against other assets</b>			
Opening balance		214,696	232,031
Charge for the year		255,364	2,344
Reversals		(75,532)	(3,019)
<b>Net (reversal) / charge for the year</b>	28	179,832	(675)
Amount written off		(16,873)	(16,660)
Closing balance		<u>377,655</u>	<u>214,696</u>
<b>15 BILLS PAYABLE</b>			
In Pakistan		1,679,456	836,931
Outside Pakistan		-	-
		<u>1,679,456</u>	<u>836,931</u>
<b>16 BORROWINGS</b>			
In Pakistan		17,365,342	9,789,309
Outside Pakistan		416,344	81,832
		<u>17,781,686</u>	<u>9,871,141</u>
<b>16.1 Particulars of borrowings</b>			
In local currency		17,126,317	9,789,309
In foreign currencies		655,369	81,832
		<u>17,781,686</u>	<u>9,871,141</u>
<b>16.2 Details of borrowings</b>			
<b>Secured</b>			
Borrowings from SBP (re-finance)			
Under export refinance scheme	16.2.1	3,707,636	3,454,516
LTF-EOP	16.2.1	40,901	64,128
LTFF	16.2.1	83,171	111,330
ERF Modernization	16.2.1	18,338	-
Repurchase agreement borrowings	16.2.2	10,536,271	4,659,335
		<u>14,386,317</u>	<u>8,289,309</u>
<b>Unsecured</b>			
Call borrowings	16.2.3	2,979,025	1,500,000
Overdrawn Nostro accounts		416,344	81,832
		<u>3,395,369</u>	<u>1,581,832</u>
		<u>17,781,686</u>	<u>9,871,141</u>

- 16.2.1 These borrowings carry markup at the rate ranging from 5% to 10% (2010: 5% to 9.5% ) per annum.
- 16.2.2 These represent funds borrowed from the local interbank money market carrying interest rate ranging from 11.50% to 13.00% (2010: 12.80% to 13.25%) per annum with maturities upto January 2012.
- 16.2.3 These represent unsecured borrowings from the local money market carrying interest rate ranging from 12% to 13% (2010 : 13.85% to 13.9% ) per annum with maturities upto March 2011.

	Note	2011	2010
		Rupees in '000	
<b>17 DEPOSITS &amp; OTHER ACCOUNTS</b>			
Customers			
Fixed deposits		31,110,593	26,430,555
Savings deposits		17,574,649	15,937,905
Current accounts - non-remunerative		12,732,572	10,637,559
Margin accounts - non -remunerative		607,860	542,090
Others		187,191	134,310
		<b>62,212,865</b>	<b>53,882,419</b>
Financial institutions			
Remunerative deposits		1,793,237	1,961,573
Non-remunerative deposits		65,806	62,196
		<b>1,859,043</b>	<b>2,023,769</b>
		<b>64,071,908</b>	<b>55,706,188</b>
<b>17.1 Particulars of deposits</b>			
In local currency		58,796,148	51,657,312
In foreign currencies		5,275,760	4,048,876
		<b>64,071,908</b>	<b>55,706,188</b>
<b>18 OTHER LIABILITIES</b>			
Mark-up/ Return/ Interest payable in local currency		799,315	711,382
Mark-up/ Return/ Interest payable in foreign currency		4,605	2,642
Un-earned Commission		52,005	40,136
Accrued expenses		65,258	219,889
Unrealized loss on forward foreign exchange contracts		54,845	95,721
Tax liability - net		44,076	45,358
Workers' Welfare Fund (WWF)		27,733	-
Others		450,883	305,758
		<b>1,498,720</b>	<b>1,420,886</b>

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**19 SHARE CAPITAL**

**19.1 Authorised capital**

December 31, 2011	December 31, 2010		December 31, 2011	December 31, 2010
No. of shares in '000			Rupees in '000	
<u>4,000,000</u>	<u>4,000,000</u>	Ordinary shares of Rs.10 each	<u>40,000,000</u>	<u>40,000,000</u>

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

December 31, 2011	December 31, 2010		December 31, 2011	December 31, 2010
No. of shares in '000			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
<u>2,671,605</u>	<u>2,671,605</u>		<u>26,716,048</u>	<u>26,716,048</u>

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

**19.4 Capital management policies and procedures**

The Bank's objectives when managing capital are:

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

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

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

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

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

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

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

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

2011

		2011	2010
		No. of shares in '000	
<b>19.7</b>	<b>Reconciliation of number of ordinary shares of Rs. 10 each</b>		
	At beginning of the year	2,671,605	900,315
	Issued during the year	-	1,771,290
	At end of the year	<u>2,671,605</u>	<u>2,671,605</u>
		2011	2010
		Rupees in '000	
<b>20</b>	<b>SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS - NET OF DEFERRED TAX</b>		
	(Deficit) on revaluation of securities	20.1 (5,039)	(113,226)
	Surplus on revaluation of property and equipment	20.2 127,678	130,088
		<u>122,639</u>	<u>16,862</u>
<b>20.1</b>	<b>(Deficit) / Surplus on revaluation of securities</b>		
	Federal Government securities	(18,776)	(160,078)
	Quoted Securities	11,023	(9,175)
		10.1 (7,753)	(169,253)
	Deferred tax asset recognised	13 2,714	56,027
		<u>(5,039)</u>	<u>(113,226)</u>
<b>20.2</b>	<b>Surplus on revaluation of property and equipment</b>		
	Surplus on revaluation of properties	20.3 157,157	160,877
	Deferred tax (liability) recognised	13 (29,479)	(30,789)
		<u>127,678</u>	<u>130,088</u>
<b>20.3</b>	<b>Reconciliation of surplus on revaluation of property and equipment</b>		
	At beginning of the year	160,877	1,667,188
	Surplus realized on disposal of property and equipment	-	(1,502,591)
	Surplus realized on account of incremental depreciation (net of tax)	(3,720)	(3,720)
	At end of the year	<u>157,157</u>	<u>160,877</u>

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	Note	2011	2010
		Rupees in '000	
<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	7,657,988	7,628,737
	Banking companies and other financial institutions	206,948	761,829
	Others	1,648,697	572,196
<b>21.3</b>	<b>Trade-related contingent liabilities</b>		
	Letters of Credit & Acceptances	4,412,150	3,041,251
<b>21.4</b>	Claims against the bank not acknowledged as debt	348,243	207,607
<b>21.5</b>	<b>Commitments in respect of</b>		
	Forward Exchange contracts with State Bank of Pakistan, banks and other institutions		
	Sale	3,179,611	2,729,569
	Purchase	7,376,571	3,475,039
<b>21.6</b>	<b>Commitments in respect of</b>		
	Property, civil work & equipment	3,395	34,550
	Purchase of Hardware / Software	106,768	9,758
		<u>110,163</u>	<u>44,308</u>

## 22 DERIVATIVE INSTRUMENTS

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

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

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

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

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

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	Note	2011 Rupees in '000	2010
<b>23 MARK-UP / RETURN / INTEREST EARNED</b>			
<b>On loans and advances to:</b>			
Customers	23.1	6,826,168	5,136,287
<b>On investments in:</b>			
Held-for-trading securities		-	22,795
Available-for-sale securities		925,163	956,323
Held-to-maturity securities		461,215	502,308
		1,386,378	1,481,426
On deposits with financial institutions		263	160
On call money lendings		76,807	64,745
On securities purchased under resale agreements		95,992	92,947
		<u>8,385,608</u>	<u>6,775,565</u>
<b>23.1</b>	This figure is net of mark-up suspended in accordance with the Prudential Regulations of the SBP amounting to Rs. 605.972 million (2010: Rs. 602.96 million).		
<b>24 MARK-UP / RETURN / INTEREST EXPENSED</b>			
Deposits		4,970,438	4,445,627
Securities sold under repurchase agreements		581,337	789,277
Call borrowings		335,886	187,255
Borrowing from State Bank of Pakistan under export refinance scheme		356,336	269,590
SWAP Money market expense		267,645	231,933
Others		3,128	2,846
		<u>6,514,770</u>	<u>5,926,528</u>
<b>25 GAIN / (LOSS) ON SALE OF SECURITIES - net</b>			
Federal government securities			
Pakistan Investment bonds		3,185	(99,806)
Market treasury bills		30,377	2,381
Ijara Sukuk Bonds		924	-
Shares - Listed		31,368	17,028
Term finance certificates		5,257	904
Mutual funds		(944)	8148
		<u>70,167</u>	<u>(71,345)</u>
<b>26 OTHER INCOME</b>			
Rent on property		10,244	16,550
Net profit on sale of property and equipment		3,208	567,653
Income from non-banking assets and profit from sale of or dealing with such assets		10,580	50,678
Postage, telex, services charges etc.		33,571	33,692
Trade busines rebate		29,540	27,355
Others		94,942	77,893
		<u>182,085</u>	<u>773,821</u>

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	Note	2011	2010
		Rupees in '000	
<b>27 ADMINISTRATIVE EXPENSES</b>			
Salaries, allowances and other benefits		1,792,621	1,563,279
Charge for defined benefit plan		57,307	45,143
Contribution to defined contribution plan		57,616	52,308
Non-executives directors' fees, allowances and other expenses		20,090	15,464
Rent, taxes, insurance, electricity, etc.		620,434	544,237
Legal and professional charges		174,174	78,902
Communications		124,669	94,103
Repairs and maintenance		122,843	105,635
Financial charges on leased assets		-	1,884
Stationery and printing		38,035	36,414
Security charges		52,957	55,023
Advertisement and publicity		35,758	50,265
Donation	27.1	-	3,488
Depreciation	12.2	380,848	289,671
Amortization of intangible assets	12.3	85,898	49,940
Auditors' remuneration	27.2	4,457	3,625
Fuel and traveling expenses		106,819	85,852
Brokerage and commission		6,732	6,121
Subscriptions and newspapers		7,917	1,091
Entertainment		17,439	24,096
Others		72,431	47,060
		<u>3,779,045</u>	<u>3,153,601</u>
<b>27.1 Donations</b>			
Pakistan Centre for Philanthropy		-	833
Donation for flood victims		-	2,655
		<u>-</u>	<u>3,488</u>
During the year five computers having cumulative WDV of Rs. 5 were donated to All Pakistan Women Association (APWA). None of the directors and their spouse have interest in this donation.			
<b>27.2 Auditors' remuneration</b>			
Annual audit fee		1,700	1,050
Half yearly review		700	550
Special certifications		1,740	1,725
Out-of-pocket expenses		317	300
		<u>4,457</u>	<u>3,625</u>
<b>28 OTHER (REVERSAL) / PROVISIONS / IMPAIRMENT / WRITE OFFS</b>			
Realized surplus on revaluation of properties		-	(150,445)
Net provision / (reversal) against other assets	14.2	179,832	(675)
Impairment of capital assets		-	14,175
		<u>179,832</u>	<u>(136,945)</u>
<b>29 OTHER CHARGES</b>			
National Accountability Bureau Commission		-	172
Penalties imposed by SBP	29.1	133	17,492
Federal Excise Duty default surcharge		-	4,772
Operational loss		1,616	2,181
Worker's Welfare Fund		27,733	-
		<u>29,482</u>	<u>24,617</u>

29.1 This represents penalties imposed by SBP on various non-compliances related to rules and regulations.

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	Note	2011 Rupees in '000	2010
<b>30 INCOME TAX EXPENSE</b>			
Current		92,322	85,608
Prior years		-	-
Deferred		571,533	(190,000)
		<u>663,855</u>	<u>(104,392)</u>
<b>30.1 Effective tax rate reconciliation</b>			
Profit / (loss) before tax		1,358,918	(1,235,546)
Tax rate		35%	35%
Tax at applicable rate		475,621	(432,581)
Minimum tax		92,322	85,608
Permanent difference		47	-
Deferred tax asset written off		87,356	-
Deferred tax asset not recognised		-	242,581
Other		8,509	-
		<u>663,855</u>	<u>(104,392)</u>

**30.2 Status of assessments**

The income tax returns of the Bank have been submitted upto tax year 2011. As regard to tax year 2008, a favourable order has been received from Appellate Tribunal Inland Revenue (ATIR). The Bank has filed appeals before (ATIR) against certain disallowances amounting to Rs. 1,996 million made by TO for assessment / tax year(s) 2000-2001, 2001-2002, 2002-2003 and 2004. The disallowances amounting to Rs. 707 million in respect of tax year 2003 and 2006 are pending at CIR (A). The management is confident that the outcome of these appeals would be in favor of the Bank.

**30.3** The Bank's return in respect of AJK operations have been submitted up to and including tax year 2011. Certain appeals were filed before the various appellate forums which are pending for adjudication. The management is confident that the outcome of these appeals would be in favor of the Bank.

**31 LOSS PER SHARE - BASIC AND DILUTED**

	2011	2010
Profit / (Loss) after taxation for the year (Rupees in '000)	695,063	(1,131,154)
Weighted average number of ordinary shares (in '000)	2,671,605	2,309,173
Profit / (Loss) per share - Basic and Diluted (Rupee)	0.26	(0.49)

	Note	2011 Rupees in '000	2010
<b>32 CASH AND CASH EQUIVALENTS</b>			
Cash and balances with treasury banks	7	4,436,142	3,414,524
Balances with other banks	8	94,322	89,355
		<u>4,530,464</u>	<u>3,503,879</u>

	2011	2010
	Number of persons	
<b>33 STAFF STRENGTH</b>		
Permanent	1,261	1,247
Temporary/ Contractual basis	35	14
Bank's own staff strength at the end of the year	1,296	1,261
Outsourced	1,268	918
<b>Total staff strength</b>	<u>2,564</u>	<u>2,179</u>

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### 34 DEFINED BENEFIT PLAN

#### 34.1 General description

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

The main assumptions used for actuarial valuation are as under:

34.2 Principal actuarial assumption	2011	2010
Discount factor used per annum	13.00%	14.50%
Expected increase in eligible pay per annum	13.00%	13.50%
Long term rate of return on assets per annum compound	12.00%	14.50%
Normal retirement age	60 years	60 years

	Note	2011	2010
		Rupees in '000	
<b>34.3 Movement of present value of defined benefit obligation</b>			
Opening balance		139,487	93,632
Current service cost		47,851	41,956
Interest cost		23,111	14,447
(Gain) / loss on defined benefit obligation		(19,549)	(16,008)
Prior service cost resulting from change in benefits		-	9,575
Actual benefits paid during the year		(11,721)	(4,115)
Closing balance		<u>179,179</u>	<u>139,487</u>
<b>34.4 Movement of fair value of plan assets</b>			
Opening balance		127,225	40,740
Expected return on plan assets		21,990	10,667
Contribution made		56,926	80,103
Benefits paid by the fund		(11,721)	(4,115)
Gain / (loss) on plan assets		(4,051)	(170)
Closing balance		<u>190,369</u>	<u>127,225</u>
<b>34.5 Reconciliation of amount payable to defined benefit plan</b>			
Present value of defined benefit obligation		179,179	139,487
(Unrecognized) actuarial gain / (loss)		11,190	(4,192)
Fair value of plan assets		(190,369)	(127,225)
Unrecognized prior years service cost		-	(8,070)
Liability recognized in balance sheet	34.6	<u>-</u>	<u>-</u>
<b>34.6 Movement in payable to defined benefit plan</b>			
Opening balance		-	35,075
Charge for the year		56,926	45,143
Contribution during the period		(56,926)	(80,218)
Closing balance		<u>-</u>	<u>-</u>
<b>34.7 Charge for defined benefit plan</b>			
Current service cost		47,851	41,956
Interest cost		23,111	14,447
Expected return on plan assets		(21,990)	(10,667)
Recognition of loss / (gain) on obligation		7,954	(593)
		<u>56,926</u>	<u>45,143</u>

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

	2011	2010	2009	2008	2007
	Rupees in '000				
Present value of defined benefit obligation	179,179	139,487	93,832	49,762	42,493
Fair value of plan assets	(190,369)	(127,225)	(40,740)	(22,862)	(25,130)
Deficit/(Surplus)	(11,190)	12,262	52,892	26,900	17,363
Experience adjustments on defined benefit obligation	19,549	16,008	(6,988)	(1,597)	5,374
Experience adjustments on assets	(4,051)	(170)	(9,146)	(6,919)	-

**34.9 DEFINED CONTRIBUTION PLAN**

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

**35 COMPENSATION OF DIRECTORS AND EXECUTIVES**

	2011	2010	2011	2010	2011	2010
	President / CEO		Executive Director		Executives	
	Rupees in '000					
Managerial remuneration	25,211	22,768	13,324	29,927	478,942	420,063
Charge for defined benefit plan	2,100	1,896	763	2,493	36,450	33,146
Contribution to defined contribution plan	2,100	1,896	763	2,493	36,450	33,146
Rent and house maintenance	12,605	11,383	6,662	14,963	239,472	210,032
Utilities	-	-	-	-	-	-
Medical	2,521	2,277	1,332	2,993	47,943	42,008
Conveyance	-	-	-	5,985	-	83,999
Others	14,042	12,553	3,186	-	220,381	79,225
	<b>58,579</b>	<b>52,771</b>	<b>26,030</b>	<b>58,854</b>	<b>1,059,638</b>	<b>901,817</b>
Number of persons remained during the year	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>341</b>	<b>295</b>

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.

**36 FAIR VALUE OF FINANCIAL INSTRUMENTS**

**36.1 On-balance sheet financial instruments**

	2011		2010	
	Book value	Fair value	Book value	Fair value
	Rupees in '000			
<b>Assets</b>				
Cash balances with treasury banks	4,436,142	4,436,142	3,414,524	3,414,524
Balances with other banks	94,322	94,322	89,355	89,355
Lending to financial institutions	3,100,803	3,100,803	1,050,754	1,050,754
Investments	17,547,640	17,414,617	13,190,048	12,824,681
Advances	49,936,279	49,936,279	44,354,406	44,354,406
Other assets	7,229,763	7,229,763	3,933,247	3,933,247
	<b>82,344,949</b>	<b>82,211,928</b>	<b>66,032,334</b>	<b>65,666,967</b>
<b>Liabilities</b>				
Bills payable	1,679,456	1,679,456	836,931	836,931
Borrowings	17,781,686	17,781,686	9,871,141	9,871,141
Deposits and other accounts	64,071,908	64,071,908	55,706,188	55,706,188
Liabilities against assets subject to finance lease	-	-	-	-
Other liabilities	1,498,720	1,498,720	1,420,886	1,420,886
	<b>85,031,770</b>	<b>85,031,770</b>	<b>67,835,146</b>	<b>67,835,146</b>

**36.2 Off-balance sheet financial instruments**

Forward purchase of foreign exchange	7,376,571	7,376,571	3,475,039	3,475,039
Forward agreements for borrowing	-	-	-	-
Forward sale of foreign exchange	3,179,811	3,179,811	2,729,569	2,729,569
Forward agreements for lending	-	-	-	-

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

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

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

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

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

### 37 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

- Wholesale Banking
- Consumer / SME Banking

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

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

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### 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:

	2011			2010		
	Directors	Key management personnel & Others	Associated companies & common directorship	Directors	Key management personnel & Others	Associated companies & common directorship
Rupees in '000						
<b>Balances</b>						
<b>Loans</b>						
Outstanding at beginning	-	-	-	-	1,153	-
Loans given during the year	44,837	20,329	-	-	2,766	-
Loans repaid during the year	(23,438)	(8,480)	-	-	(3,919)	-
<b>Loans outstanding at end</b>	<b>21,399</b>	<b>11,849</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Deposits</b>						
Deposits at beginning	12,085	101,976	55,482	2,469	57,861	36,830
Deposit received during the year	300,095	1,491,377	509,491	2,286,139	712,552	964,015
Deposit repaid during the year	(293,645)	(1,515,250)	(559,048)	(2,276,523)	(668,437)	(945,383)
<b>Deposit at end</b>	<b>18,535</b>	<b>78,103</b>	<b>5,925</b>	<b>12,085</b>	<b>101,976</b>	<b>55,482</b>
Investment in Term Finance Certificates	-	-	-	-	-	20,800
<b>Transactions</b>						
Short term employment benefits	-	476,019	-	-	364,643	-
Termination benefits	-	31,621	-	-	29,111	-
Mark-up earned on loans	2,646	1,715	-	-	70	-
Mark-up paid on deposits	503	2,554	6,571	207	4,899	5,669
Mark-up earned on TFC's	-	-	-	-	-	5,096
Services rendered / goods supplied	-	-	29,539	-	-	110,052
Software purchased	-	-	9,483	-	-	10,161

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### 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:

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

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

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

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### 39.2 Credit risk - General disclosures

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

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

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

### 39.3 Credit exposures subject to Standardized Approach

Exposures	Rating / Category #	2011			2010		
		Amount Outstanding	Deduction CRM	Net Amount	Amount Outstanding	Deduction CRM	Net Amount
Cash and Cash Equivalents	-	882,036	-	882,036	584,962	-	584,962
Claims on Government of Pakistan	-	5,815,475	-	5,815,475	6,730,459	-	6,730,459
Foreign Currency claims on SBP	-	1,064,057	-	1,064,057	980,370	-	980,370
Claims on other sovereigns and on Government of Pakistan other than PKR		4,697	-	4,697	-	-	-
PSE's	Unrated	-	-	-	550,664	-	550,664
Claims on Banks 2,3 rated		88,148	-	88,148	-	-	-
Claims on Banks	Unrated	35,813	-	35,813	-	-	-
Banks Fcy	Unrated	438,600	-	438,600	535,228	-	535,228
Banks Lcy		2,884,702	2,159,306	725,396	1,369,487	-	1,369,487
Corporates	1	565,850	-	565,850	738,010	-	738,010
Corporates	2	2,582,483	-	2,582,483	2,663,037	-	2,663,037
Corporates	5,6	1,861,040	137,923	1,723,117	392,897	-	392,897
Corporates	Unrated	25,851,518	2,465,126	23,386,392	26,590,968	2,517,714	24,073,252
Retail portfolio Secured by residential property		11,615,883	653,435	10,962,448	7,946,796	1,070,435	6,876,361
Past due loans		1,557,508	-	1,557,508	1,367,580	-	1,367,580
Listed Equity investments - banks		5,761,107	-	5,761,107	3,802,980	-	3,802,980
Unlisted equity investments		52,448	-	52,448	176,501	-	176,501
Investments in operating fixed assets		31,346	-	31,346	39,900	-	39,900
Other assets		4,352,145	-	4,352,145	1,989,530	-	1,989,530
		10,799,180	-	10,799,180	8,286,038	-	8,286,038
		<b>76,244,036</b>	<b>5,415,790</b>	<b>70,828,246</b>	<b>64,745,405</b>	<b>3,588,149</b>	<b>61,157,256</b>

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## 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.

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

### Liquidity risk

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

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

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

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#### 40.1 Credit risk

##### 40.1.1 Credit risk management objectives and policies

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

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

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

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

##### 40.1.2 Credit risk rating

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

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

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

##### 40.1.3 Objective of Internal Credit Risk Rating (ORR)

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

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

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

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40.1.4 Segmental information

40.1.4.1 Segments by class of business

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

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

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40.1.4.2 Segment by sector

	2011					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public/Government	149,009	-	10,723,239	13%	7,657,988	41%
Private	55,160,353	100%	53,348,669	87%	6,267,795	59%
	55,309,362	100%	64,071,908	100%	13,925,783	100%

	2010					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public/Government	50,938	-	7,056,530	13%	7,628,737	41%
Private	52,873,574	100%	48,649,658	87%	4,375,276	59%
	52,924,512	100%	55,706,188	100%	12,004,013	100%

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

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

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

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

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#### 40.1.4.5 Geographical segment analysis

		2011			
		Profit / (loss) before taxation	Total assets employed	Net assets employed	Contingen- cies and commit- ments
		Rupees in ' 000			
Pakistan		1,358,918	90,670,277	5,638,507	24,940,371
		2010			
		Profit / (loss) before taxation	Total assets employed	Net assets employed	Contingen- cies and commit- ments
		Rupees in ' 000			
Pakistan		(1,235,546)	72,669,093	4,833,947	18,460,536

#### 40.2 Market Risk

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

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

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

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

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

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

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#### 40.2.1 Foreign exchange risk

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

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

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

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40.2.3 Mismatch of interest rate sensitive assets and liabilities

	Effective Yield/Interest rate	2011										Non-interest bearing financial instruments	
		Exposed to Yield/Interest risk											
		Up to 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 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		4,438,142	-	-	-	-	-	-	-	-	-	-	-
Balances with other banks		84,322	-	-	-	-	-	-	-	-	-	-	-
Lending to financial institutions	13.81%	3,100,803	487,135	1,432,842	8,760,670	444,309	4,291,541	-	-	-	-	-	-
Investments	10.07%	17,547,840	775,458	1,432,842	8,760,670	444,309	4,291,541	-	-	-	-	-	-
Advances	14.84%	49,958,279	7,730,553	5,861,791	2,421,894	15,084,273	2,035,090	6,383,090	1,848,128	3,953,185	810,134	-	830,600
Other assets		7,228,783	-	-	-	-	-	-	-	-	-	-	111,249
		62,344,949	9,003,126	7,114,633	9,182,564	15,528,592	6,328,639	7,023,888	5,821,313	610,134	-	-	8,191,612
<b>Liabilities</b>													
Bills payable		1,879,456	-	-	-	-	-	-	-	-	-	-	-
Borrowings	11.77%	17,781,688	-	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	8.33%	84,071,908	2,540,872	1,076,576	-	86,121	86,121	-	-	-	-	-	-
Sub-ordinated loans		-	7,568,081	7,540,647	11,371,885	80,561	6,170	-	10,122	-	-	-	-
Liabilities against assets subject to finance		-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities		1,498,720	-	-	-	-	-	-	-	-	-	-	-
		85,031,770	10,108,953	8,617,223	11,371,885	133,346	92,291	10,122	-	-	-	-	-
<b>On-balance sheet gap</b>		(23,686,821)	(1,105,827)	(1,502,590)	(2,189,321)	15,395,236	6,234,348	7,013,584	5,821,313	610,134	-	-	(8,999,053)
<b>Off-balance sheet financial instruments</b>													
Forward lending (including call lending, repurchase)		-	-	-	-	-	-	-	-	-	-	-	-
Forward borrowings (including call borrowing, repurchase)		-	-	-	-	-	-	-	-	-	-	-	-
<b>Off-balance sheet gap</b>		-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Yield/Interest Risk Sensitivity Gap</b>		(23,686,821)	(1,105,827)	(1,502,590)	(2,189,321)	15,395,236	6,234,348	7,013,584	5,821,313	610,134	-	-	(8,999,053)
<b>Cumulative Yield/Interest Risk Sensitivity</b>		(23,686,821)	(25,070,452)	(26,573,042)	(28,762,363)	(13,367,127)	(7,132,779)	(119,215)	3,023,098	6,312,232	-	-	(2,686,821)
Rupees in '000													
<b>Assets</b>													
Cash and balances with treasury banks		3,414,524	-	-	-	-	-	-	-	-	-	-	-
Balances with other banks		89,335	-	-	-	-	-	-	-	-	-	-	-
Lending to financial institutions	12.96%	1,050,754	789,255	482,855	2,548,877	2,253,073	470,790	2,071,101	2,452,936	-	-	-	89,355
Investments	9.65%	13,190,048	207,282	625,452	7,489,935	3,620,746	3,702,600	7,243,111	3,237,317	2,311,664	-	-	825,404
Advances	13.21%	44,354,408	4,873,666	6,253,452	7,489,935	3,620,746	3,702,600	7,243,111	3,237,317	2,311,664	-	-	13,180
Other assets		3,823,247	-	-	-	-	-	-	-	-	-	-	3,933,247
		66,022,334	8,781,971	6,716,307	10,038,812	5,873,819	4,173,390	9,314,212	5,690,253	2,311,664	-	-	4,661,186
<b>Liabilities</b>													
Bills payable		836,931	-	-	-	-	-	-	-	-	-	-	-
Borrowings	12.15%	9,871,141	4,352,714	1,615,874	-	7,298	53,023	115,137	-	-	-	-	-
Deposits and other accounts	8.63%	55,706,188	23,155,615	5,045,596	8,657,319	423,567	37,809	10,122	-	-	-	-	11,377,878
Sub-ordinated loans		-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance		-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities		1,420,888	-	-	-	-	-	-	-	-	-	-	-
		67,835,146	27,608,329	10,725,315	8,661,472	430,865	90,832	125,269	-	-	-	-	13,615,693
<b>On-balance sheet gap</b>		(1,802,812)	(18,726,358)	(2,254,653)	(2,254,653)	54,835	4,082,558	9,188,953	5,690,253	2,311,664	-	-	(8,974,299)
<b>Off-balance sheet financial instruments</b>													
Forward lending (including call lending, repurchase agreement, commitments to extend credit)		-	-	-	-	-	-	-	-	-	-	-	-
Forward borrowings (including call borrowing, repurchase agreement borrowing etc.)		-	-	-	-	-	-	-	-	-	-	-	-
<b>Off-balance sheet gap</b>		-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Yield/Interest Risk Sensitivity Gap</b>		(1,802,812)	(18,726,358)	(2,254,653)	(2,254,653)	54,835	4,082,558	9,188,953	5,690,253	2,311,664	-	-	(8,974,299)
<b>Cumulative Yield/Interest Risk Sensitivity</b>		(1,802,812)	(20,951,012)	(23,205,665)	(25,460,318)	(14,101,483)	(10,018,925)	(630,220)	4,860,033	7,171,697	-	-	(1,802,812)

48.2 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 SIFM guidelines on risk management and listed 11 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 ensuring on future strategies for treasury, financing and circulating the funding policy, and reviewing the interest and liquidity risk in financing 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 risk that may arise upon the occurrence of an unanticipated change in market conditions.

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

	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
<b>Assets</b>										
Cash and balances with Monetary banks	4,438,162	548,243	28,619	196,968	3,146,131	-	-	-	-	-
Balances with other banks	64,322	64,322	-	-	-	-	-	-	-	-
Lending to financial institutions	3,949,863	2,461,669	487,124	1,608,911	4,796,899	4,222,862	998,638	1,568,128	-	-
Advancements	17,647,668	1,324,513	780,382	5,654,887	2,434,066	18,898,179	3,649,804	1,300,603	2,942,185	818,124
Other assets	49,344,278	8,493,087	7,246,290	4,364,877	274,063	894,489	1,582,877	1,728,294	-	-
Operating fixed assets	7,229,263	2,288,727	396,188	854,489	684,489	857,835	1,728,294	-	-	-
Deferred tax assets	4,746,911	184,489	184,489	-	-	-	-	-	-	-
<b>Liabilities</b>										
Bills payable	1,878,699	1,878,699	2,846,872	1,878,699	62,786	99,121	-	-	-	-
Borrowings	17,781,698	14,976,232	9,719,893	5,481,261	12,796,241	4,328,278	9,468,827	6,721,541	4,726,292	-
Deposits and other accounts	64,871,908	8,714,829	8,714,829	1,481,261	1,773,234	1,773,234	3,649,804	1,300,603	-	-
Subordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to Finance leases	1,698,278	373,829	151,628	38,616	79,864	9,468,827	2,882,292	4,721,541	4,726,292	-
Other liabilities	8,821,122	1,212,621	1,212,621	1,212,621	1,212,621	1,212,621	1,212,621	1,212,621	1,212,621	-
<b>Net assets</b>	<b>8,821,122</b>	<b>1,212,621</b>	<b>1,212,621</b>	<b>1,212,621</b>	<b>1,212,621</b>	<b>1,212,621</b>	<b>1,212,621</b>	<b>1,212,621</b>	<b>1,212,621</b>	<b>-</b>
Equity capital	28,716,842	-	-	-	-	-	-	-	-	-
Reserves	18,613	-	-	-	-	-	-	-	-	-
Discount on issue of shares	(12,284,874)	-	-	-	-	-	-	-	-	-
Accumulated loss	8,944,719	-	-	-	-	-	-	-	-	-
Surplus on revaluation of asset - net of deferred tax	122,628	-	-	-	-	-	-	-	-	-
	<b>122,628</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

	2010									
	Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
<b>Assets</b>										
Cash and balances with Monetary banks	3,414,524	2,269,829	263,898	260,908	264,000	264,000	-	-	-	-
Balances with other banks	88,395	88,325	-	-	-	-	-	-	-	-
Borrowings with other banks	1,050,754	291,486	759,225	686,377	2,263,073	670,760	2,571,101	2,462,908	-	-
Lending to financial institutions	13,190,048	827,889	2,102,729	6,255,088	7,481,062	3,622,364	7,248,408	3,227,211	2,311,864	-
Investments	44,384,408	4,878,314	8,178,218	348,312	305,478	305,478	305,478	305,478	-	-
Advances	3,833,217	2,224,428	358,478	305,478	305,478	305,478	305,478	305,478	-	-
Other assets	2,442,865	305,478	305,478	305,478	305,478	305,478	305,478	305,478	-	-
Operating fixed assets	4,122,854	1,072,286	9,278,120	6,488,120	7,481,120	6,488,120	6,488,120	6,488,120	5,982,254	3,211,864
Deferred tax assets	72,888,028	10,872,286	10,793,725	10,793,725	10,793,725	10,793,725	10,793,725	10,793,725	10,793,725	10,793,725
<b>Liabilities</b>										
Bills payable	628,331	628,331	3,272,098	1,615,874	7,268	53,029	-	-	-	-
Borrowings	9,821,714	8,328,422	10,221,771	7,609,210	12,032,596	2,896,441	2,270,682	4,475,870	3,548,211	2,372,015
Deposits and other accounts	58,708,168	8,714,829	8,714,829	1,481,261	1,773,234	1,773,234	3,649,804	1,300,603	-	-
Subordinated loans	-	-	-	-	-	-	-	-	-	-
Other liabilities	1,620,066	789,698	263,122	187,262	40,251	40,251	40,251	40,251	-	-
<b>Net assets</b>	<b>8,821,122</b>	<b>1,212,621</b>	<b>1,212,621</b>	<b>1,212,621</b>	<b>1,212,621</b>	<b>1,212,621</b>	<b>1,212,621</b>	<b>1,212,621</b>	<b>1,212,621</b>	<b>-</b>
Equity capital	28,716,842	-	-	-	-	-	-	-	-	-
Reserves	18,613	-	-	-	-	-	-	-	-	-
Discount on issue of shares	(12,284,874)	-	-	-	-	-	-	-	-	-
Accumulated loss	8,944,719	-	-	-	-	-	-	-	-	-
Surplus on revaluation of asset - net of deferred tax	122,628	-	-	-	-	-	-	-	-	-
	<b>122,628</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

RUB

Figures in '000

	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
<b>Assets</b>										
Cash and balances with central banks	4,536,143	4,435,142	-	-	-	-	-	-	-	-
Reserves with other banks	84,325	84,325	-	-	-	-	-	-	-	-
Lending to financial institutions	3,189,883	3,063,699	497,134	1,483,161	976,369	444,369	4,222,065	688,886	1,881,118	-
Investments	17,617,648	1,319,912	7,961,651	6,898,687	3,432,869	16,286,578	2,616,864	6,209,892	5,863,188	936,134
Advances	48,239,278	4,968,897	7,744,298	4,262,877	27,818,813	894,489	1,199,277	894,489	-	-
Other assets	7,274,745	3,296,737	299,196	884,689	884,689	892,658	1,782,258	-	-	-
Operating fixed assets	4,714,811	484,488	-	-	-	-	-	-	-	-
Deferred tax assets	3,689,417	-	-	-	-	-	-	-	-	-
	99,079,277	17,399,336	9,912,861	13,112,236	16,992,281	17,213,538	7,216,216	7,676,776	8,811,518	676,136
<b>Liabilities</b>										
Bills payable	1,279,468	1,279,468	-	-	-	-	-	-	-	-
Deposits and other accounts	17,771,198	16,925,238	3,248,673	1,678,678	11,217,488	61,796	64,121	-	-	-
Subordinated loans	64,071,366	17,694,464	7,849,864	7,449,847	-	66,981	5,178	16,128	-	-
Loans from other banks	-	-	-	-	-	-	-	-	-	-
Loans from other assets pledged to other banks	-	-	-	-	-	-	-	-	-	-
Other liabilities	1,486,739	772,278	572,228	161,826	78,816	79,919	79,844	19,122	-	-
	18,251,779	18,471,184	18,461,173	9,748,883	11,462,796	298,911	187,265	19,122	-	-
Net assets	1,828,497	63,152,152	669,217	3,363,353	5,529,485	16,914,627	7,028,951	7,657,000	8,811,518	676,136
Share capital	29,716,848	-	-	-	-	-	-	-	-	-
Reserves	196,915	-	-	-	-	-	-	-	-	-
Discount on issue of shares	(17,284,874)	-	-	-	-	-	-	-	-	-
Accumulated loss	(6,864,619)	-	-	-	-	-	-	-	-	-
Other reserves	122,819	-	-	-	-	-	-	-	-	-
	3,232,689	-	-	-	-	-	-	-	-	-

RUB

Figures in '000

	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
<b>Assets</b>										
Cash and balances with central banks	3,414,524	3,414,524	-	-	-	-	-	-	-	-
Reserves with other banks	80,265	80,265	-	-	-	-	-	-	-	-
Lending to financial institutions	1,050,754	281,469	750,286	980,377	2,323,252	2,253,073	470,790	2,071,101	2,482,698	-
Investments	13,180,046	817,686	2,182,790	6,255,080	7,481,582	3,622,384	3,704,296	7,246,407	3,237,317	2,311,864
Advances	44,354,496	4,875,314	9,810,263	1,541,803	333,629	306,476	306,476	610,946	-	-
Other assets	3,893,247	2,224,429	333,287	1,045,478	306,476	1,045,226	1,046,226	2,066,477	-	-
Operating fixed assets	2,443,855	305,479	-	-	-	-	-	-	-	-
Deferred tax assets	5,132,854	-	-	-	-	-	-	-	-	-
	77,868,091	12,028,281	9,111,133	8,290,855	10,464,041	7,228,181	5,528,731	12,024,634	5,880,253	2,311,864
<b>Liabilities</b>										
Bills payable	638,851	638,851	-	-	-	-	-	-	-	-
Deposits and other accounts	9,871,141	4,362,715	3,727,095	1,818,874	8,857,319	7,268	53,023	118,129	-	-
Subordinated loans	55,706,188	34,533,494	6,968,280	5,045,586	-	420,987	37,898	10,121	-	-
Loans from other banks	-	-	-	-	-	-	-	-	-	-
Loans from other assets pledged to other banks	-	-	-	-	-	-	-	-	-	-
Other liabilities	1,420,889	729,088	262,177	187,268	80,265	80,265	80,265	-	-	-
	67,837,069	40,463,748	11,697,545	8,049,738	9,718,133	81,625	151,625	128,250	-	-
Net assets	10,031,022	63,564,533	1,413,588	2,241,117	7,745,908	6,446,556	5,377,006	11,896,384	5,880,253	2,311,864
Share capital	26,716,046	-	-	-	-	-	-	-	-	-
Reserves	(12,284,674)	-	-	-	-	-	-	-	-	-
Discount on issue of shares	(6,614,289)	-	-	-	-	-	-	-	-	-
Accumulated loss	-	-	-	-	-	-	-	-	-	-
Surplus on revaluation of asset	-	-	-	-	-	-	-	-	-	-
Profit of deferred tax	19,892	-	-	-	-	-	-	-	-	-
	4,633,842	-	-	-	-	-	-	-	-	-

UAB

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.

SUBSEQUENT EVENTS

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

DATE OF AUTHORIZATION FOR ISSUE

The financial statements were authorized for issue on \_\_\_\_\_ by the Board of Directors of the Bank.

GENERAL

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

K.P.H. c



Azmat Tariq  
President & CEO



Munnawar Hamid, OBE  
Chairman



Tariq Iqbal Khan  
Director



Humayun Bashir  
Director