

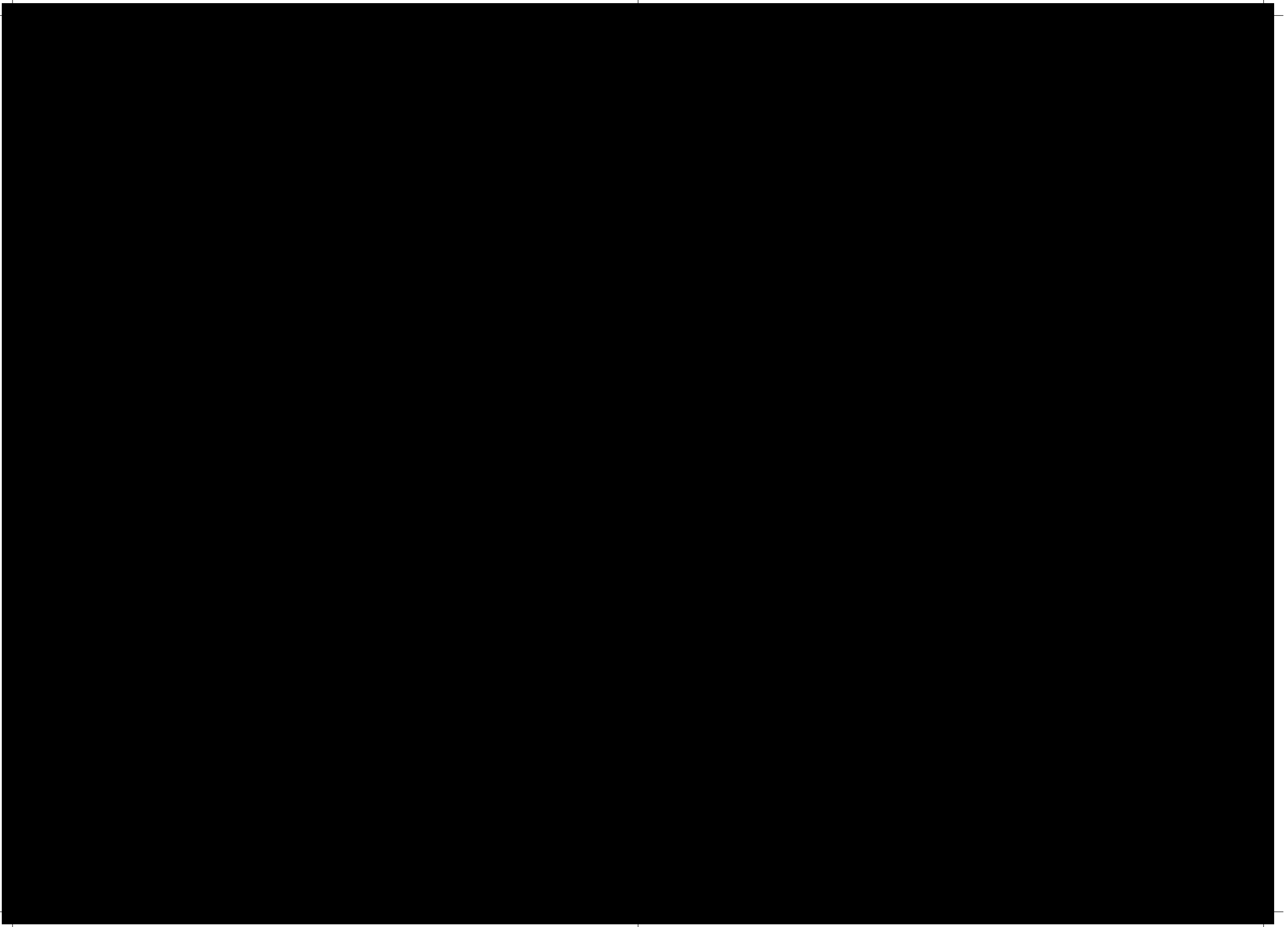
Marking a Prosperous Future



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

Half Yearly Report 2013

SILKBANK 
Yes we can



Marking a Prosperous Future

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

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



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Board of Directors

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

Company Secretary

Uzman Naveed Chaudhary

Chief Financial Officer

Syed Ammar Ali Zaidi

Audit Committee

Humayun Bashir	Chairman
Javed Hamid	Member
Sadeq Sayeed	Member

Risk Committee

Tariq Iqbal Khan, FCA	Chairman
Shamsul Hasan	Member
Mohammad Ahmed Mannan	Member

Human Resource Committee

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

Auditors

M. Yousuf Adil Saleem & Co.
(Deloitte Pakistan)
Chartered Accountants

Legal Advisor

Cornelius, Lane & Mufti

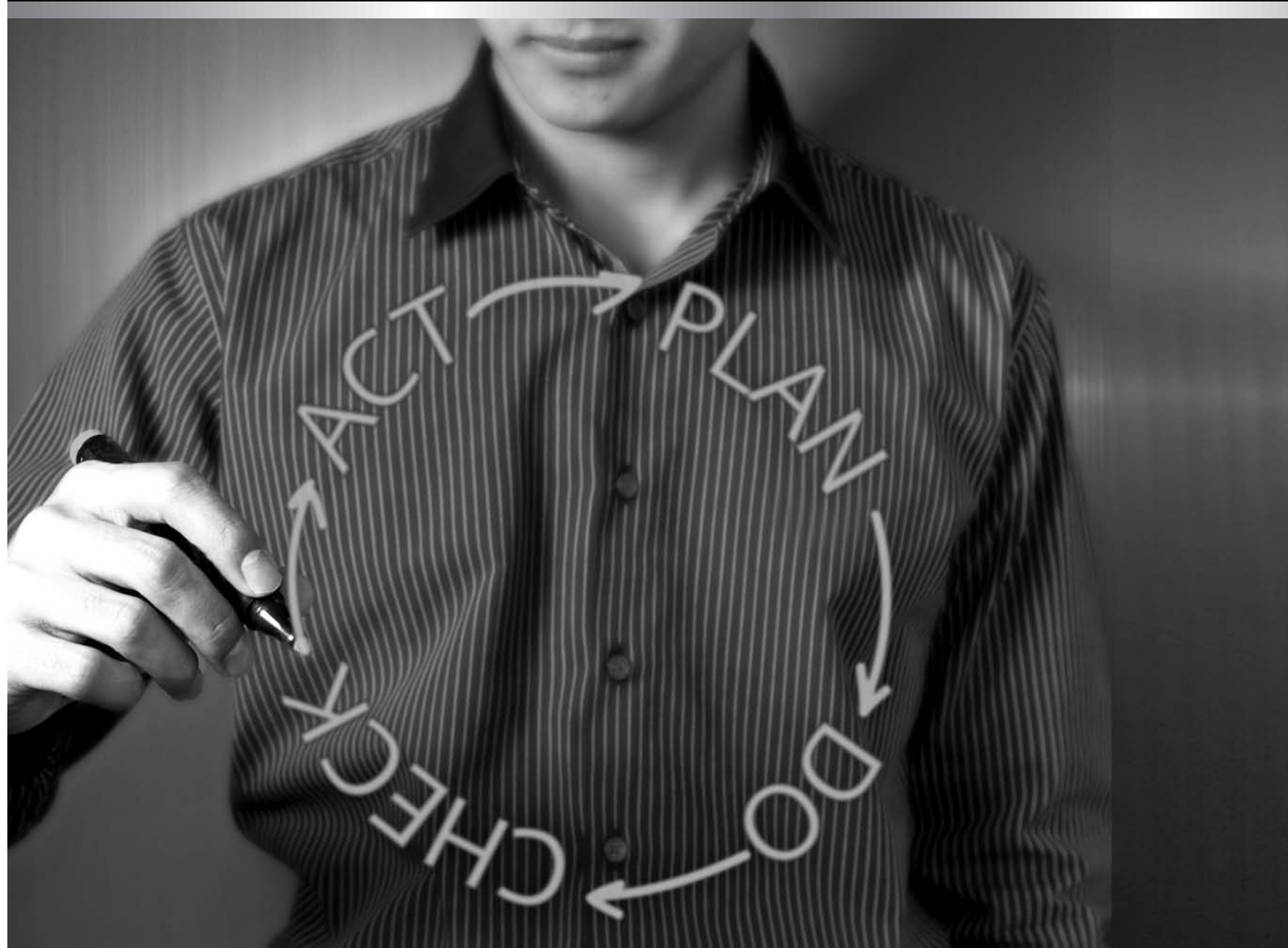
Registered Office

Silkbank Limited
Silkbank Building, I. I. Chundrigar Road, Karachi.
Tel No.: +92 21-111-00-7455 Ext. 413 & 414
Fax No.: +92 21 32460464 & 32462902
Email: companysecretary@silkbank.com.pk
Website: www.silkbank.com.pk

Share Registrar

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

Reports and Statements to the Members
For the Half Year Ended June 30, 2013



Dear Shareholders,

We are pleased to present the un-audited financial statements of Silkbank Limited for the 2nd quarter ended June 30th, 2013.

Economic Review

Pakistan's economy was a mixed bag from January - June 2013. On the negative side, GDP growth was slow at 3.6% versus the Government's target of 4.3%, hampered by acute energy shortages. Expanding fiscal deficit was another troubled spot and the external account also invited concerns. Despite a moderate current account deficit of US \$ 2.3 billion, debt repayments to the IMF resulted in the country's foreign exchange reserves falling from US \$ 13.86 billion as of 31st December, 2012 to US \$ 11.01 billion on June 30th, 2013, and the Pak Rupee depreciated by 1.9% vs. the US Dollar over January - June 2013.

On the positive side inflation averaged at 7.4% year on year, supported by a sharp cut in gas prices in July 2012 and soft international commodity prices. As a result, the State Bank of Pakistan cut the policy rate by 50bps to 9.0% in its Monetary Policy Statement on June 21st, 2013. Looking ahead, the Government has again set ambitious targets for FY-14 with GDP growth targeted at 4.4% and inflation at 8.0%.

Financial Performance

The Bank has posted a loss of Rs. 364 million after tax during the period.

During this period, total deposits of the Bank grew by Rs 2.8 billion to Rs 72 billion and gross advances increased by Rs 1.826 billion. Summarized financial performance of Silkbank Limited for the period ended June 30, 2013 is as follows:

	Rs in Million
Loss before tax	(494)
Tax - Current	-
Prior	-
Deferred	130
loss after tax	<u>(364)</u>
	Rupee
(Loss) per share	(0.14)



The Bank incurred a loss of Rs. 113 million at margin level in Q2 of 2013 while the corresponding loss at margin level for Q1 of 2013 was Rs. 305 million. This improvement was primarily due to focused approach of the Bank to reduce cost of funds by generating more current and saving deposits (CASA), investing in high yielding consumer assets and rationalizing administrative costs through synergies and process re-engineering. The Issuance of Tier 1 capital of Rs 2.2 billion helped the Bank in improving short term credit rating and profitability at margin level.

Despite this improvement, the Bank is still in loss at margin level but by focusing further on replacement of expensive term deposits via low cost current and saving accounts, conversion and sale of OREO assets, reduction in non-performing loans and rationalizing administrative cost, the Bank is expected to continue to improve and become profitable at margin level.

Further, the impact of provisioning on non-performing loans was mostly mitigated by strong recoveries by the Bank and a net charge of only Rs 27 million was accrued in Q2 of 2013 as compared to net charge of Rs 49 million in Q1 of 2013. After taking the impact of provisions, the loss before tax for Q2 is Rs 140 million as compared to Rs 354 million in Q1 of 2013. Total loss before tax for half year ended June 30, 2013 was Rs 494 million.

BUSINESS PERFORMANCE

Branch Banking:

Branch Banking remains one of the most critical businesses for the Bank, and continues to successfully focus on reducing Cost of Funds on deposits. Products such as All-in-One, Business Value Account & Munafa Rozana have ensured that the Bank continues to offer unique products in the market. Branch Banking has also consistently managed to excel in both mystery shopping and internal service measures to show the high level of customer loyalty and satisfaction aimed for by the Bank. Branch Banking continues to focus on creating and implementing prudent controls within branches and also continues to gain momentum based on customer trust and confidence.

Bancassurance, Remittances & ADC Business

Branch Banking also developed other avenues of business growth, including Bancassurance, Remittances & ADC business. Silkbank is emerging as a major player in the growing remittances business, and 2013 growth has been at par with budgeted numbers. Silkbank received remittances of over Rs.5.25 billion during Q2 of 2013 and plan on further increasing remittances by adding additional ties to the already growing list of exchange companies, on our panel. The ADC business continues to be an important tool in Brand imaging, service positioning, customer convenience, loyalty and cost reduction. The Bank's VISA Debit Card continues to demonstrate remarkable growth with its dynamic card design and strategic alliances with leading brands across Pakistan. A historic key milestone of 117,000 cards issuance was achieved this year. Q2 Point of Sales (POS) and ATM usage both showed an increase of 27% and 4%, between Q2 2012 and Q2 2013.

Consumer Assets

The Personal Loan and Ready Line Products remained the centre-point for Consumer Assets business and achieved highest booking numbers during Second Quarter of 2013. Credit Card Balance Transfer booked the highest number of 0% APR Balance Transfers in the quarter. In the Second Quarter of 2013, Consumer Asset Operations continued its endeavors for efficiency through Automation and optimal utilization of resources. Last but not the least, Customer service remained our core-objective and the Bank managed to achieve this objective with an over-all rating of 100% for all ISMs throughout the quarter.

Silkbank VISA Credit Card

Credit Cards Sales force maintained acquisition momentum during the second quarter of 2013 with total approvals standing at 12,380 credit cards. ENR growth was also steady and stood at PKR 410 million on June 30th, 2013. The Silkbank Credit Card offering was further enhanced by allowing customers to meet their respective financial needs through installment plans promoted under the slogan name of Extended Payment Plans (EPP). These initiatives will not just offer value to card customers but will also complement the achievement of ENR and Funded Income targets for the business and ensure that Silkbank's Credit Cards maintain their leading position amongst prominent credit cards in the market in acquisition and ENR growth. It is also pertinent to mention that Silkbank's Credit Cards has also fared better in terms of acquisition and ENR growth in comparison to other prominent credit cards in the market.

Emaan Islamic Banking

Emaan Islamic once again delivered a suitably satisfactory performance by the end of the Second Quarter, of 2013. Quarter on Quarter growth was Rs. 1.2 billion while on YTD basis the growth stood at almost Rs. 1.8 billion, and the cost of funds came down to a low of 5.72%. The 3 newly launched branches have started reasonably well with a cumulative growth of over Rs. 350 million. Subsequent to the approval of SBP, corporate financing was begun from May onwards, reaching a total disbursement currently of Rs. 560 million, and is expected to enhance asset yield.

Credit Rating

The Long Term entity rating of the Bank is A- (Single A Minus) and the Short Term rating has been upgraded from 'A- 3' (A-Three) to 'A-2' (A-Two) by JCR VIS Credit Rating Company Limited. The 'Rating Watch-Developing' status assigned in February 2011, has been removed and outlook on the assigned ratings is now "Stable".

Future Outlook

The funds received from the issuance of preference shares by the Bank have contributed towards meeting the CAR requirements, as stipulated by SBP. As a result the Bank is exploring new business avenues for growth, including Mergers and Acquisitions on a stronger footing. In addition, the Bank will continue to make its cost base increasingly efficient through

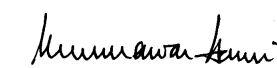
greater synergies and process re-engineering, and rigorously grow existing portfolio including the recently added initiatives of Islamic Banking and the Credit Cards business.

Acknowledgement

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

Karachi, August 23, 2013

For and on Behalf of the Board of
Silkbank Limited


Munnawar Hamid, OBE
Chairman

Introduction

We have reviewed the accompanying condensed interim statement of financial position of Silkbank Limited (the Bank) as at June 30, 2013 and the related condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim cash flow statement and condensed interim statement of changes in equity together with the notes forming parts thereof for the half year then ended (here-in-after referred to as the "interim financial information"). Management is responsible for the preparation and fair presentation of this interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information as of and for the half year ended June 30, 2013 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

Emphasis of Matter**We draw attention to the following matters:**

- a) note 1.3 to the interim financial information which highlights that the Bank has not been able to meet the minimum capital requirement prescribed by the State Bank of Pakistan. The said note also describes the plans of management to deal with the material uncertainties with respect to the capital requirements and Bank's sustainability in the future. The Bank has been allowed extension until December 31, 2013 by State Bank of Pakistan to meet the capital requirement and has also been allowed relaxation from provisioning against investment and loans and advances as explained in notes 7.1.2 (a), 8.4 and 8.5 to the interim financial information.
- b) note 10.1 to the interim financial information relating to deferred tax asset where management has disclosed that the Bank based on three year strategic plan including financial projections for taxable profit, which has been approved by the Board of Directors, will be able to realise the deferred tax asset carried at June 30, 2013. The preparation of projections involve management's assumptions regarding future business and economic conditions and therefore any significant change in such assumptions may have an effect on the realisability of the deferred tax asset in future.

Our conclusion is not qualified in respect of above matters.

Other matters

The figures of the condensed interim profit and loss account and the condensed interim statement of comprehensive income for the quarters ended June 30, 2013 and 2012 have not been reviewed and we do not express a conclusion on them, as we are required to review only the cumulative figures for the half year ended June 30, 2013.

The condensed interim financial information of the Bank for the half year ended June 30, 2012 and the financial statements of the Bank for the year ended December 31, 2012 were reviewed and audited respectively by another firm of chartered accountants who vide their reports dated August 29, 2012 and March 1, 2013 expressed an unqualified conclusion and opinion thereon, respectively.

Karachi, August 23, 2013

M. Yousuf Adil Saleem & Co
Chartered Accountants

Engagement Partner
Syed Asad Ali Shah

Half Yearly Report 2013

Marking Perfection

Financial Statements
For the Half Year Ended June 30, 2013



SILKBANK 
Yes we can

		June 30, 2013 Un-audited	December 31, 2012 Audited (Restated)
		Rupees in ' 000	
ASSETS	Note		
Cash and balances with treasury banks		5,281,827	4,006,569
Balances with other banks		90,241	86,002
Lendings to financial institutions		2,239,216	5,662,423
Investments - net	7	17,253,626	12,734,898
Advances - net	8	50,848,627	49,000,494
Operating fixed assets	9	4,880,895	4,637,334
Deferred tax assets - net	10	3,711,047	3,615,231
Other assets	11	9,342,460	9,347,732
		93,647,939	89,090,683
LIABILITIES			
Bills payable		1,489,992	1,978,549
Borrowings from financial Institutions		11,180,964	11,376,781
Deposits and other accounts	12	71,923,303	69,050,447
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	13	1,773,465	1,302,008
		86,367,724	83,707,785
NET ASSETS		7,280,215	5,382,898
REPRESENTED BY			
Share capital	14	26,716,048	26,716,048
Discount on issue of right shares		(13,284,674)	(13,284,674)
Reserves		162,762	162,762
Convertible Preference Shares	15	2,200,000	-
Accumulated loss		(8,738,039)	(8,371,262)
		7,056,097	5,222,874
Surplus on revaluation of assets - net of tax	16	224,118	160,024
		7,280,215	5,382,898

CONTINGENCIES AND COMMITMENTS

Statement under section 241(2) of the Companies Ordinance, 1984

The President / Chief Executive of the Bank is presently out of the country, therefore, this condensed interim financial information has been signed by four Directors of the Bank duly authorised by the Board of Directors.

The annexed notes 1 to 27 form an integral part of this condensed interim financial information.

M.A. Mannan
Executive Director

Munnawar Hamid, OBE
Chairman

Tariq Iqbal Khan
Director

Humayun Bashir
Director

M.A. Mannan
Executive Director

Munnawar Hamid, OBE
Chairman

Tariq Iqbal Khan
Director

Humayun Bashir
Director

		Quarter ended April 01, 2013 to June 30, 2013	April 01, 2012 to June 30, 2012	Half Year ended Jan 01, 2013 to June 30, 2013	Jan 01, 2012 to June 30, 2012
		Rupees in ' 000			
	Note				
Mark-up / return / interest earned	18	1,964,620	2,287,774	3,786,554	4,503,214
Mark-up / return / interest expensed	19	(1,401,979)	(1,805,386)	(2,801,842)	(3,586,726)
Net Mark-up / Interest Income		562,641	482,388	984,712	916,488
Reversal against non-performing loans and advances - net	8.2	10,767	351,317	10,742	375,496
Provision against Consumer Financing	8.2	(28,662)	(9,987)	(49,846)	(18,955)
Recovery against written off loan		200	21,031	3,434	513,771
Provision / (reversal) for diminution in the value of Investment - net	7.3	-	(4,375)	-	(4,375)
Impairment in the value of investment		(9,627)	(12,000)	(40,851)	-
Bad debts written off directly		-	(2,796)	-	(2,796)
		(27,322)	343,190	(76,521)	863,141
Net Mark-up / Interest Income after provisions		535,319	825,578	908,191	1,779,629
NON MARK-UP / INTEREST INCOME					
Fee, commission and brokerage income		143,362	132,987	272,112	252,376
Dividend Income		7,465	2,763	31,756	26,097
Income from dealing in foreign currencies		41,733	44,546	91,982	102,393
Gain on sale of securities - net		61,591	30,600	133,599	21,165
Unrealized loss on revaluation of investments - held-for-trading		(2,277)	(542)	(2,277)	(542)
Other Income		55,546	52,092	94,504	79,180
Total non-markup / interest Income		307,420	262,446	621,676	480,669
		842,739	1,088,024	1,529,867	2,260,298
NON MARK-UP / INTEREST EXPENSES					
Administrative expenses		(1,102,008)	(1,104,553)	(2,143,468)	(2,083,638)
Other reversal		119,000	114,000	119,000	93,000
Other charges		-	(6,862)	(200)	(6,862)
Total non-markup / interest expenses		(983,008)	(997,415)	(2,024,668)	(1,997,500)
(LOSS) / PROFIT BEFORE TAXATION		(140,269)	90,609	(494,801)	262,798

Note	Quarter ended		Half Year ended	
	April 01, 2013 to June 30, 2013	April 01, 2012 to June 30, 2012	Jan 01, 2013 to June 30, 2013	Jan 01, 2012 to June 30, 2012
	Rupees in ' 000			
Income tax expense				
Taxation - Current	-	(25,502)	-	(49,839)
- Prior	-	-	-	-
- Deferred	(4,785)	(53,631)	130,329	(94,212)
	(4,785)	(79,133)	130,329	(144,051)
(LOSS) / PROFIT AFTER TAXATION	(145,054)	11,476	(364,472)	118,747
	Rupee			
(Loss) / earnings per share - Basic and Diluted	(0.05)	0.00	(0.14)	0.04

Statement under section 241(2) of the Companies Ordinance, 1984

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M.A. Mannan
Executive Director

Munnawar Hamid, OBE
Chairman

Tariq Iqbal Khan
Director

Humayun Bashir
Director

M.A. Mannan
Executive Director

Munnawar Hamid, OBE
Chairman

Tariq Iqbal Khan
Director

Humayun Bashir
Director

Note	Quarter ended		Half year ended	
	April 01, 2013 to June 30, 2013	April 01, 2012 to June 30, 2012 (Restated)	January 01, 2013 to June 30, 2013	January 01, 2012 to June 30, 2012 (Restated)
	Rupees in ' 000			
(Loss) / profit for the period	(145,054)	11,476	(364,472)	118,747
Other comprehensive income				
Items that will not be reclassified to profit and loss				
Effect of retrospective change in accounting policy with respect to accounting for actuarial gains 4.1	-	4,481	-	8,962
Actuarial losses on defined benefit plan for the period	(2,082)	-	(4,165)	-
Total amount that will not be reclassified to profit and loss	(2,082)	4,481	(4,165)	8,962
	(147,136)	15,957	(368,637)	127,709
Components of comprehensive income not reflected in equity				
Surplus / (deficit) on revaluation of assets	59,570	(90,110)	98,607	(103,403)
Deferred tax on revaluation of assets	(20,850)	14,163	(34,513)	18,815
	38,720	(75,947)	64,094	(84,588)
	(108,416)	(59,990)	(304,543)	43,121

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Condensed Interim Statement of Changes in Equity - Unaudited
For the Half Year Ended June 30, 2013

Condensed Interim Cash Flow Statement - Unaudited
For the Half Year Ended June 30, 2013

	Share Capital	Discount on Issue of Shares	Statutory Reserves	Convertible Preference Shares	Accumulated (Loss)	Total Equity
	Rupees in '000					
Balance as at January 01, 2012 as previously reported	26,716,048	(13,284,674)	139,013	-	(8,054,519)	5,515,868
Effect of retrospective change in accounting policy with respect to accounting for actuarial gains	4.1	-	-	-	11,190	11,190
Balance as at January 01, 2012 - restated	26,716,048	(13,284,674)	139,013	-	(8,043,329)	5,527,058
Total comprehensive Income for the half year ended June 30, 2012						
Profit after tax for the half year ended June 30, 2012	-	-	-	-	118,747	118,747
Other comprehensive income	-	-	-	-	8,962	8,962
Total comprehensive Income for half year ended June 30, 2012	-	-	-	-	127,709	127,709
Transfer from surplus on revaluation of fixed assets on account of incremental depreciation	-	-	-	-	1,860	1,860
Transfer from surplus on revaluation of fixed assets on account of sale of assets	-	-	-	-	18,444	18,444
Transfer to statutory reserve	-	-	23,749	-	(23,749)	-
Balance as at June 30, 2012 - restated	26,716,048	(13,284,674)	162,762	-	(7,919,065)	5,675,071
Total comprehensive Income for for the half year ended December 31, 2012						
Loss after tax for the half year ended December 31, 2012	-	-	-	-	(463,018)	(463,018)
Other comprehensive income	-	-	-	-	8,961	8,961
Total comprehensive Income for year ended December 31, 2012	-	-	-	-	(454,057)	(454,057)
Transfer from surplus on revaluation of fixed assets on account of incremental depreciation	-	-	-	-	1,860	1,860
Balance as at December 31, 2012 - restated	26,716,048	(13,284,674)	162,762	-	(8,371,262)	5,222,874
Total comprehensive Income for the half year ended June 30, 2013						
Loss after tax for the half year ended June 30, 2013	-	-	-	-	(364,472)	(364,472)
Other comprehensive income	-	-	-	-	(4,165)	(4,165)
Total comprehensive Income for half year ended June 30, 2013	-	-	-	-	(368,637)	(368,637)
Transfer from surplus on revaluation of fixed assets on account of incremental depreciation	-	-	-	-	1,860	1,860
Convertible Preference Shares issued	-	-	-	2,200,000	-	2,200,000
Balance as at June 30, 2013	26,716,048	(13,284,674)	162,762	2,200,000	(8,738,039)	7,056,097

Statement under section 241(2) of the Companies Ordinance, 1984

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M.A. Mannan
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Tariq Iqbal Khan
Director

Humayun Bashir
Director

M.A. Mannan
Executive Director

Munnawar Hamid, OBE
Chairman

Tariq Iqbal Khan
Director

Humayun Bashir
Director

CASH FLOWS FROM OPERATING ACTIVITIES

Note	June 30, 2013	June 30, 2012
	Rupees in ' 000	
(Loss) / profit before taxation	(494,801)	262,798
Less: Dividend Income	(31,756)	(26,097)
	(526,557)	236,701
Adjustments for non-cash items		
Depreciation	205,374	188,010
Amortization of intangible assets	43,179	33,497
Amortization of premium on investment	8,271	52,852
Reversal of provision against non-performing loans and advances - net	8.2 (10,742)	(375,496)
Provision against consumer financing	8.2 49,846	18,955
Provision for diminution in the value of Investment - net	-	4,375
Impairment in the value of investment	40,851	-
Unrealized loss on revaluation of investments - held for trading	2,277	542
Share of profit from associate	(14,229)	-
Provision for Gratuity	24,933	25,023
Other reversals	(119,000)	(93,000)
Gain on sale of operating fixed assets	(749)	(7,929)
	230,011	(153,171)
	(296,546)	83,530
(Increase) / Decrease in operating assets		
Lendings to financial institutions	3,423,207	1,721,851
Net investments in held-for-trading securities	1,330,454	(5,423)
Advances	(1,890,671)	(1,553,724)
Other assets	(212,970)	(1,232,578)
	2,650,020	(1,069,874)
Increase / (Decrease) in operating liabilities		
Bills payable	(488,557)	(571,744)
Borrowings from financial institutions	(195,817)	(6,190,441)
Deposits	2,872,856	6,833,192
Other liabilities	446,524	133,174
	2,635,006	204,181
	4,988,480	(782,163)
Income tax paid	(48,983)	(53,585)
Net cash flows from operating activities	4,939,497	(835,748)

	Note	June 30, 2013	June 30, 2012
		Rupees in ' 000	
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investment in available-for-sale securities		(5,785,884)	(834,798)
Net investment in held-to-maturity securities		-	1,910,673
Dividend received		31,192	25,145
Proceeds on disposal of operating fixed assets		32,222	72,460
Investment in operating fixed assets		(137,530)	(315,090)
Net cash flows from investing activities		(5,860,000)	858,390
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of Convertible Preference shares		2,200,000	-
Net cash flows from financing activities		2,200,000	-
Increase in cash and cash equivalents		1,279,497	22,642
Cash and cash equivalents at beginning of the half year		4,092,571	4,530,464
Cash and cash equivalents at end of the half year	20	5,372,068	4,553,106

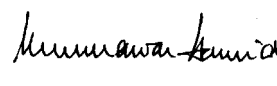
Statement under section 241(2) of the Companies Ordinance, 1984

The President / Chief Executive of the Bank is presently out of the country, therefore, this condensed interim financial information has been signed by four Directors of the Bank duly authorised by the Board of Directors.

The annexed notes 1 to 27 form an integral part of this condensed interim financial information.



M.A. Mannan
Executive Director



Munnawar Hamid, OBE
Chairman



Tariq Iqbal Khan
Director



Humayun Bashir
Director

1. STATUS AND NATURE OF BUSINESS

1.1 Silkbank Limited ("the Bank") was incorporated in Pakistan on April 04, 1994 as a public limited company under the Companies Ordinance, 1984. The Bank commenced commercial operations on May 07, 1995. 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. The bank operates through 88 branches (December 31, 2012: 85) including 10 (December 31, 2012: 7) Islamic banking branches in Pakistan with the registered office located at Silkbank Building, I. I. Chundrigar Road, Karachi. The short term and long term credit rating of the Bank rated by JCR-VIS Credit Rating Company Limited in July 2013 is 'A-2' and 'A-' respectively.

1.2 Majority shareholding (82.17%) in the Bank as on June 30, 2013 is held by a consortium comprising of International Finance Corporation (IFC), Nomura European Investment Limited, Bank Muscat S.A.O.G and executives of the Sinthos Capital Advisors Limited. As a result of possible conversion of convertible preference shares (as described below and in note 15) and unsubscribed rights issue, the majority shareholding in the Bank may change at the time of conversion of preference shares to ordinary shares and / or subscription of right shares.

1.3 The State Bank of Pakistan (SBP) vide BSD Circular No. 7 dated April 15, 2009 set the Minimum Capital Requirement (MCR) for Banks of Rs. 10 billion (net of losses) to be achieved upto December 31, 2013, which was Rs. 9 billion as at December 31, 2012. The Banks are also required to maintain a Capital Adequacy Ratio (CAR) of at least 10% of the risk weighted assets of the Bank. The capital of the Bank (net of losses and discount on shares) as of June 30, 2013 amounted to Rs. 4.693 billion excluding general reserves of Rs.162 million. The shortfall at period end amounted to Rs. 4.307 billion. The Bank had issued right shares at a discount in 2010 to generate net capital of Rs. 7 billion. The right issue had partly remained unsubscribed and at present the Bank has unpaid rights of Rs. 2.572 billion.

In order to meet the above shortfall and improve the financial condition of the Bank, the Bank and Sponsors of the Bank have taken the following steps:

Issuance of Convertible Preference Shares

In March 2013, the Bank issued 880 million convertible preference shares (CPS) amounting to Rs. 2.2 billion subject to conditions as fully disclosed in note 15 to the condensed interim financial information. SBP vide its letter No. BPRD/CS/2900/13 dated March 13, 2013 has allowed the Bank to treat CPS as Tier-1 capital for CAR purpose only. As a result of this issuance, the Bank's credit rating and CAR has improved. Securities and Exchange Commission of Pakistan (SECP) has also granted the Bank a 3 year extension for subscription of the rights, in line with the tenor of the convertible preference shares.

Further, the SBP vide their letter dated August 20, 2013 advised the Bank that, for reporting in financial statements, the Bank may categorise CPS in the "Liabilities Section". However, the SBP again issued a letter on August 21, 2013 on the request of the Bank and deferred the categorization requirement, as discussed above, in the interim financial information for the half year ended June 30, 2013 until the interim financial information for nine months ending September 2013 and onwards. The SBP has also required the Bank to include a specific disclosure in the interim financial information, which is disclosed in note 15.

Strategic Plan

The Bank prepared a three year strategic plan including projections for taxable profits for three years for the purpose of setting future course of action of the bank. These projections were approved by the Board and envisaged additional capital injection through equity and sub-ordinated debt into the Bank and indicated future profitable operations based on various assumptions such as the sale of substantial part of non-banking assets acquired insatisfaction of claim, growth of deposits and advances, investment returns, future loan losses, interest rates, cost of funds etc.

Relaxation by State Bank of Pakistan (SBP)

The SBP has granted extension to the Bank in complying with MCR and CAR requirements until December 31, 2013 vide their letter No. BPRD/CS/2900/13 dated March 13, 2013.

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

2. BASIS OF MEASUREMENT

This condensed interim financial information comprise condensed interim statement of financial position, condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim cash flow statement and condensed interim statement of changes in equity together with explanatory notes 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, derivative financial instruments marked to market and certain staff retirement benefits are carried at present value.

This condensed interim financial information has been prepared following the accrual basis of accounting except for the cash flow information.

3. STATEMENT OF COMPLIANCE

These condensed interim financial information of the Bank for the half year ended June 30, 2013 has been prepared in accordance with the requirements of the International Accounting Standard 34 - Interim Financial Reporting, provisions of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 and directives issued by the SECP and the SBP. In case where requirements differ, the provisions of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and the said directives have been followed.

The disclosures made in these condensed interim financial information are limited based on the format prescribed by the SBP vide BSD circular letter No. 2 dated May 12, 2004 and International Accounting Standard (IAS) 34, 'Interim Financial Reporting' and do not include all the information required in the annual financial statements. Accordingly, these condensed interim financial information should be read in conjunction with the annual financial statements of the Bank for the year ended December 31, 2012.

The State Bank of Pakistan has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for Banking Companies through BSD Circular Letter No. 10 dated August 26, 2002. Further, according to the notification of SECP dated April 28, 2008, the IFRS - 7 "Financial Instruments: Disclosures" has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these financial information. However, investments have been classified and valued in accordance with the requirements of various circulars issued by SBP.

4. ACCOUNTING POLICIES

The accounting policies and methods of computation adopted for preparation of this condensed interim financial information are same as those followed in the preparation of the annual financial statements of the Bank for the year ended December 31, 2012 other than as disclosed in note 4.1 below.

4.1 Change in accounting policy - staff retirement benefits

With effect from January 1, 2013, the Bank has adopted amendments to IAS 19 "Employee Benefits" and changed its accounting policy in respect of post retirement defined benefit plan. The amendments require actuarial gains and losses to be recognised immediately in other comprehensive income; to immediately recognize all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability / asset.

The change in accounting policy has been accounted for retrospectively in accordance with the requirements of IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors' and comparative figures have been restated. The effect of the change in accounting policy on the current and prior periods financial statements have been summarised below:

	As at December 31, 2012			As at December 31, 2011		
	As previously reported	Restated	As Restated	As previously reported	Restated	As Restated
Rupees In '000						
Effect on statement of financial position						
Other assets	9,318,619	29,113	9,347,732	7,229,763	11,190	7,240,953
Accumulated loss	(8,400,375)	29,113	(8,371,262)	(8,054,519)	11,190	(8,043,329)
Effects on statement of comprehensive income						
Other comprehensive income				Half year ended June 30, 2013	Half year ended June 30, 2012	
				(4,165)	8,962	

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The basis and methods used for critical accounting estimates and judgments adopted in this condensed interim financial information are same as those applied in the preparation of the annual financial statements of the Bank for the year ended December 31, 2012.

6. FINANCIAL RISK MANAGEMENT

The Bank's Financial Risk Management objectives and policies are consistent with those disclosed in the annual financial statements of the bank for the year ended December 31, 2012.

7. INVESTMENTS - NET

	Note	Held by bank	Given as collateral	Total
Rupees in '000				
As at June 30, 2013 (Un-audited)	7.1	13,756,871	3,496,755	17,253,626
As at December 31, 2012 - Audited	7.1	6,720,329	6,014,569	12,734,898

7.1 INVESTMENTS BY TYPES:

	Note	June 30, 2013 (Un-audited)			December 31, 2012 - Audited		
		Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
Rupees in '000							
Held-for-trading Securities							
Pakistan Investment Bonds		92,088	-	92,088	1,049,353	413,528	1,462,881
Ordinary Shares of listed companies		40,339	-	40,339	-	-	-
Total Held-for-trading Securities		132,427	-	132,427	1,049,353	413,528	1,462,881
Available-for-Sale Securities							
Market Treasury Bills		4,307,055	3,497,353	7,804,408	123,984	5,601,041	5,725,025
Pakistan Investment Bonds		1,312,927	-	1,312,927	-	-	-
GOP Ijara Sukuks		5,691,817	-	5,691,817	3,137,856	-	3,137,856
Unit of Mutual Fund - Closed ended		5,405	-	5,405	5,405	-	5,405
Preference Shares - Listed		10,000	-	10,000	10,000	-	10,000
Term finance certificates - Listed		187,510	-	187,510	320,174	-	320,174
- Unlisted	7.1.1	604,457	-	604,457	609,475	-	609,475
Sukuks		11,775	-	11,775	11,775	-	11,775
Ordinary Shares - Listed	7.1.2	1,208,565	-	1,208,565	1,300,699	-	1,300,699
- Unlisted		5,680	-	5,680	5,680	-	5,680
Total Available-for-Sale Securities		13,345,191	3,497,353	16,842,544	5,525,048	5,601,041	11,126,089

	June 30, 2013 (Un-audited)			December 31, 2012 - Audited		
	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
Rupees in '000						
Held-to-Maturity Securities						
Shares repurchase (fully provided)	74,910	-	74,910	74,910	-	74,910
Investment in Associate	62,261	-	62,261	48,032	-	48,032
Investments at Cost	13,614,789	3,497,353	17,112,142	6,697,343	6,014,569	12,711,912
Less : Provisions for diminution in the value of Investments	(86,563)	-	(86,563)	(106,871)	-	(106,871)
Investments - net of provision	13,528,226	3,497,353	17,025,579	6,590,472	6,014,569	12,605,041
Unrealized loss on revaluation of investments - held-for-trading	(2,277)	-	(2,277)	-	-	-
Surplus / (Deficit) on revaluation of Available- for-sale securities	230,922	(598)	230,324	129,857	-	129,857
Total Investments	13,756,871	3,496,755	17,253,626	6,720,329	6,014,569	12,734,898

7.1.1 This includes zero coupon Privately Placed TFCs of Azgard Nine Limited acquired against markup settlement of Rs. 8.8 million on the credit facilities of Azgard Nine Limited.

7.1.2 This includes listed ordinary shares of following companies:

a) During the year ended December 31, 2012, 8.7 million shares of Agritech Limited were acquired from Azgard Nine Limited as part of the multiple agreements including Master Restructuring Agreements (MRA). These shares were acquired at an agreed price of Rs. 35 per share. The market value of shares is Rs. 11.58 as at June 30, 2013 resulting in an impairment of Rs. 203.75 million.

The Bank had recorded an impairment of Rs. 20.31 million as on December 31, 2012 as per the initial specific relaxation of SBP vide letter No. BPRD/BRD-(Policy)/2013-1857 dated February 15, 2013. However, as per the revised SBP letter No. BPRD/BRD-(Policy)/2013-11339 dated July 25, 2013, 30% of the required impairment / provision is recorded up to 30 June, 2013 resulting in further provision of Rs. 40.85 million. Remaining provision will be recorded in phased manner up to December 31, 2014. Had this relaxation not been availed, impairment and loss for the period before tax would have been higher by Rs. 142.70 million.

b) As per the Share Purchase Agreement dated September 29, 2011, the Bank acquired 45 million shares of Gharibwal Cement Limited at the rate of Rs. 3.0 per share amounting to Rs. 135 million from the sponsors of Gharibwal Cement Limited in the settlement of their outstanding exposure. As per the agreement, these shares may be bought back by the sponsors after a total period of three years against sale consideration of Rs. 4.44 per share. Management along with its legal counsel contends that these shares can be sold by the Bank on its discretion subject to the conditions of the agreement. Therefore, these shares have been revalued at their market value instead of repurchase price mentioned in the agreement.

	Note	June 30, 2013 Un-audited	December 31, 2012 Audited
Rupees in ' 000			
7.2 INVESTMENTS BY SEGMENTS			
Federal Government Securities			
Market treasury bills	7.2.1	7,804,408	5,725,025
Pakistan investment bonds	7.2.2	1,405,015	1,462,881
GOP Ijara Sukuks		5,691,817	3,137,856
		14,901,240	10,325,762
Fully paid-up ordinary shares			
Listed companies		1,248,904	1,300,699
Unlisted companies		5,680	5,680
		1,254,584	1,306,379
Term finance certificates / Sukuks			
Term finance certificates - Listed		187,510	320,174
- Unlisted		604,457	609,475
Sukuks		11,775	11,775
		803,742	941,424
Other Investments			
Units of Mutual fund - Closed end		5,405	5,405
Preference shares - Listed		10,000	10,000
Investment in associates		62,261	48,032
Shares repurchase (fully provided)		74,910	74,910
		152,576	138,347
Investments at Cost		17,112,142	12,711,912
Provision for diminution in the value of investments	7.3	(86,563)	(106,871)
Investments - net of provision		17,025,579	12,605,041
Unrealized loss on revaluation of held-for-trading investments		(2,277)	-
Surplus on revaluation of available-for-sale investments		230,324	129,857
Total Investments		17,253,626	12,734,898

7.2.1 These include securities having face value of Rs. 292.70 million (December 31, 2012: NIL) pledged with various financial institutions. Out of these, securities having face value of Rs. 47.7 million (December 31, 2012: NIL) have been pledged with SBP and National Bank of Pakistan as security to facilitate T.T discounting facility to branches of the Bank. Furthermore, securities having face value of Rs. 245 million have been pledged with United Bank Limited on account of issuance of Letter of Guarantee (for guarantee commission) favoring Arif Habib Corporation Limited being the guarantor for issuance of Bank's Convertible Preference Shares (refer note 15).

7.2.2 These include securities having face value of Rs. nil (December 31, 2012: Rs. 47.70 Million) pledged with SBP and National Bank of Pakistan as security to facilitate T.T discounting facility to branches of the Bank.

	Note	June 30, 2013 Un-audited	December 31, 2012 Audited
Rupees in ' 000			
7.3 Particulars of provision			
Opening balance		106,871	86,563
Charge for the period / year		-	20,308
Reversals		-	-
		-	20,308
Write off		(20,308)	-
Closing balance		86,563	106,871
8. ADVANCES - NET			
Loans, cash credits, running finances, etc.			
In Pakistan		54,630,239	52,805,286
Outside Pakistan		-	-
		54,630,239	52,805,286
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		162,202	98,094
Payable outside Pakistan		1,052,572	1,115,382
		1,214,774	1,213,476
Advances - gross		55,845,013	54,018,762
Provision against non-performing advances - specific	8.2	(4,788,371)	(4,860,099)
Provision against consumer finance - general	8.2	(208,015)	(158,169)
Advances - net of provision		50,848,627	49,000,494

8.1 Advances include Rs. 10,106.827 million (December 31, 2012: Rs. 10,816.957 million) which have been placed under non-performing status as detailed below:

Category of classification - specific	June 30, 2013 (Un-audited)			December 31, 2012 - Audited		
	Classified Advances	Provision required (Domestic)	Provision held	Classified Advances	Provision required (Domestic)	Provision held
Rupees in '000						
Sub-standard	255,823	26,575	26,575	297,133	12,820	12,820
Doubtful	643,638	119,400	119,400	2,192,178	366,733	366,733
Loss	9,207,366	4,642,396	4,642,396	8,327,646	4,480,546	4,480,546
	10,106,827	4,788,371	4,788,371	10,816,957	4,860,099	4,860,099

8.2 Particulars of provision against non-performing advances:

	June 30, 2013 (Un-audited)			December 31, 2012 - Audited		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
Opening balance	4,860,099	158,169	5,018,268	5,261,835	111,248	5,373,083
Charge for the period	515,727	49,866	565,593	947,672	47,411	995,083
Reversals	(526,469)	(20)	(526,489)	(1,106,151)	(490)	(1,106,641)
Net charge/(reversals) for the period/year	(10,742)	49,846	39,104	(158,479)	46,921	(111,558)
Amounts written off	(60,986)	-	(60,986)	(243,257)	-	(243,257)
Closing balance	4,788,371	208,015	4,996,386	4,860,099	158,169	5,018,268

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

8.4 As per the SBP letter No. BPRD/BRD/-04/Faysal/2013/1695 dated February 13, 2013, SBP allowed the Bank in maintaining a provision of 75% of the required provision as at June 30, 2013 against the outstanding exposure. However, the SBP through its letter No. BPRD/BRD-05/Silk/2013/12434 dated August 21, 2013 has allowed further relaxation to the Bank. According to letter, the provision shortfall of Rs. 490 million as at March 31, 2013 has to be provided in phases of 15% up to June 30, 2013, 20% in the quarter ending September 30, 2013, 30% in the quarter ending December 31, 2013 and remaining 35% in the quarter ending March 31, 2014. As at June 2013, the relaxation allowed in accordance with abovementioned SBP letter has after tax impact of Rs. 148 million.

8.5 As disclosed in note 11.5 to the annual financial statements for the year ended December 31, 2012, SBP vide various circulars has amended Prudential Regulations in respect of provisioning against non performing advances under which the benefit of Forced Sale Value (FSV) has been allowed for plant and machinery under charge, pledged stock and mortgaged residential, commercial and industrial properties held as collateral against non-performing loans and advances for five years from the date of classification.

In case of the Bank, SBP further allowed the Bank to avail FSV benefits on mortgaged residential, commercial and industrial properties upto December 31, 2012 at 100% for 1st and 2nd year, 90% for 3rd year, 75% for the 4th year & 50% for the 5th and 6th year of classification. The Bank has availed the enhanced FSV benefit of Rs. 1,158 million due to special relaxation allowed by SBP against the non-performing loans classified till December 31, 2012, which expires on December 31, 2012.

Subsequent to the period end, in respect of the abovementioned relaxation, SBP through letter No BPRD/BRD-05/Silk/2013/12339 dated August 20, 2013 has allowed the Bank further relaxation, subject to certain conditions. According to the letter, the provision shortfall of Rs. 1,158 million availed under enhanced FSV benefit against classified corporate / commercial and SME loans as of December 31, 2012 has to be provided in phases in the following manner:

- Minimum provision required to be made up to 10% of the enhanced FSV benefit availed in each quarter for next 8 quarters from quarters ending September 30, 2013 to June 30, 2015; and
- The balance 20% of the enhanced FSV benefit is to be provided in the quarter ending September 30, 2015.

As of June 30, 2013, the FSV benefit allowed in accordance with abovementioned SBP letter has an after tax impact of Rs. 753 million on accumulated losses, which shall not be available for payment of cash or stock dividend.

FSV benefit availed on loans and advances classified after December 31, 2012 is calculated under Prudential Regulations R-8.

As of June 30, 2013, total FSV benefit taken against all loans and advances is Rs. 2,307 million - net of tax (December 2012: Rs. 2,221 million), which shall not be available for payment of cash or stock dividend.

9. OPERATING FIXED ASSETS

9.1 Following additions / disposals have been made to / from property and equipment

	Note	June 30, 2013 (Un-audited)		June 30, 2012 (Un-audited)	
		Additions	Disposals	Additions	Disposals
		Rupees in '000			
Freehold Land	9.3	180,000	-	-	21,444
Leasehold Land		-	-	-	13,792
Building- Leasehold	9.3	206,057	-	353	3,000
Leasehold Improvements		29,813	-	-	-
Furniture & Fixture		12,167	-	1,693	88
Other Equipment		11,314	-	2,660	100
Computers		26,265	171	2,870	220
Vehicles		91,762	81,694	82,329	61,292
		557,378	81,865	89,905	99,936
		6,189	-	57,956	-

9.2 Additions to intangible assets

9.3 These represent assets transferred from non-banking assets acquired in satisfaction of claims (note 11 & 25).

	June 30, 2013 Un-audited	December 31, 2012 Audited
	Rupees in '000	

10. DEFERRED TAX ASSETS

Deferred tax debits arising in respect of

Provision for diminution in the value of investments	24,158	14,840
Provision held against other assets	7,350	7,350
Provision against Non-performing advances	1,960,075	1,914,913
Unabsorbed tax depreciation	554,616	474,446
Unused tax losses	1,473,821	1,475,871
	4,020,020	3,887,420

Deferred tax credits arising in respect of

Accelerated tax depreciation	(200,832)	(198,561)
Surplus on revaluation of investments	(80,614)	(45,450)
Surplus on revaluation of property and equipment	(27,527)	(28,178)
	(308,973)	(272,189)
Net deferred tax asset	3,711,047	3,615,231

10.1 The Bank has prepared a three years strategic plan including projections for taxable profits for three years which has been approved by the Board of Directors of the Bank and also submitted to SBP. The projections involve certain key management's assumption underlying the estimation of future taxable profits projected in the projections. The determination of future taxable profits is most sensitive to certain key assumptions such as growth of deposits and advances, investment returns, potential provision against assets, interest rates, cost of funds and expected recoveries (reversal of provision and written off loans). Any significant change in such assumptions may have an effect on the realisability of the deferred tax asset. Management believes that it is probable that the Bank will be able to achieve the profits projected in the projections and consequently the deferred tax asset will be fully realised in future.

		June 30, 2013 Un-audited	December 31, 2012 Audited (Restated)
11. OTHER ASSETS	Note	Rupees in ' 000	
Income / Mark-up accrued in local currency		1,670,340	1,512,591
Income / Mark-up accrued in foreign currencies		1,160	1,250
Advances, deposits, advance rent and other prepayments		519,687	438,277
Advance taxation		190,182	141,199
Non-Banking Assets acquired in satisfaction of claims		5,013,118	5,421,409
Non-Banking Assets acquired in satisfaction of claims with buy back option		1,784,638	1,716,407
		6,797,756	7,137,816
Branch adjustment account		-	53,188
Unrealized gain on forward foreign exchange contracts		31,597	83,849
Others		241,893	208,717
		9,452,615	9,576,887
Less : Provision held against other assets	11.2	(110,155)	(229,155)
		9,342,460	9,347,732
11.1 Aggregate market value of non-banking assets acquired in satisfaction of claims		7,471,295	7,375,124
11.2 Provision held against other assets			
Opening balance		229,155	377,655
Charge for the period / year		-	21,000
Reversals	11.2.1	(119,000)	(169,500)
		(119,000)	(148,500)
Closing balance		110,155	229,155

11.2.1 This represents reversal on account of certain OREO properties which were transferred in the name of the Bank in the current period.

12. DEPOSITS AND OTHER ACCOUNTS

Customers

	June 30, 2013 Un-audited	December 31, 2012 Audited
Fixed deposits	30,135,025	33,368,865
Savings deposits	20,988,056	17,676,899
Current accounts - non - remunerative	18,138,263	15,874,800
Margin accounts - non - remunerative	808,601	736,024
Others	379,194	212,470
	70,449,139	67,869,058

Financial institutions

	June 30, 2013 Un-audited	December 31, 2012 Audited
Remunerative deposits	1,415,460	1,104,391
Non-remunerative deposits	58,704	76,998
	1,474,164	1,181,389
	71,923,303	69,050,447

13. OTHER LIABILITIES

	June 30, 2013 Un-audited	December 31, 2012 Audited
Mark-up / Return / Interest payable in local currency	735,519	788,417
Mark-up / Return / Interest payable in foreign currency	3,209	2,447
Un-earned commission and income on bills discounted	80,783	45,938
Accrued expenses	71,042	54,860
Unrealized loss on forward foreign exchange contracts	61,738	38,715
Branch adjustment account	48,726	-
Provision for Workers' Welfare Fund (WWF)	34,293	34,293
Provision for gratuity	24,933	-
Advance received against future sale of non-banking assets	420,494	96,086
Others	292,728	241,252
	1,773,465	1,302,008

14. SHARE CAPITAL

14.1 Authorised Capital

	June 30, 2013 Un-audited	December 31, 2012 Audited		June 30, 2013 Un-audited	December 31, 2012 Audited
	4,000,000	4,000,000	Ordinary shares of Rs.10 each	40,000,000	40,000,000

14.2 Issued, subscribed and paid up share capital

June 30, 2013 Un-audited No. of shares in '000	December 31, 2012 Audited No. of shares in '000		June 30, 2013 Un-audited Rupees in '000	December 31, 2012 Audited 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
2,671,605	2,671,605		26,716,048	26,716,048

14.3 The SBP requires each commercial bank to: (a) hold the minimum level of the regulatory capital (net of losses) to be raised to Rs. 10 billion by the year ending December 31, 2013 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% (refer note 1.3).

14.4 The Bank has approved issuance of right shares @ 311.00226% on December 2, 2009 at a discount of Rs. 7.5 per share having face value of Rs. 10 each to generate net additional capital of Rs. 7 billion. Out of these right shares, an amount of Rs. 2.572 billion is unsubscribed. SECP has granted three years extension for subscription of the rights, in line with the tenor of convertible preference shares

15. CONVERTIBLE PREFERENCE SHARES

The Bank has issued 880 million convertible preference (CPS) shares in March 2013 at issue price of Rs. 2.50 per share aggregating to paid-up amount of Rs. 2,200 million. The CPS are subordinated to all other liabilities including deposits of the Bank. These CPS have 3 years tenor and are convertible into ordinary shares of the Bank at the conversion ratio of 1:1. There is no voting right and dividend on these CPS. The subscribers will have an option to exercise the put option at the end of the tenor through which they can sell their CPS to Arif Habib Corporation Limited ("the Guarantor") at the strike price of Rs. 3.70 per CPS. The Bank is entitled to exercise Call Option, which is exercisable in full or in parts at any time after one year from the issue date subject to subscription of unsubscribed right shares. Any partial redemption will be on a pro rata basis. The SBP has restricted the utilization of the funds received to investment in papers of Government of Pakistan and the amount will not be counted towards the compliance of applicable statutory liquidity requirement.

SBP has given approval of CPS as Tier-I capital for CAR purpose only. However, the disclosure of CPS on the balance sheet shall be in accordance with the SBP's instructions from the next quarter, September 2013 and onwards. (refer note 1.3)

		June 30, 2013 Un-audited	December 31, 2012 Audited
16. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX			
Surplus on revaluation of securities	16.1	149,710	84,407
Surplus on revaluation of property and equipments	16.2	74,408	75,617
		224,118	160,024
16.1 Surplus on revaluation of securities			
Federal Government securities		4,115	7,272
Quoted Securities		226,209	122,585
	7.1	230,324	129,857
Deferred tax liability		(80,614)	(45,450)
		149,710	84,407

16.2 Surplus on revaluation of property and equipments

	June 30, 2013 Un-audited	December 31, 2012 Audited
Surplus on revaluation of properties	101,935	103,795
Deferred tax liability	(27,527)	(28,178)
	74,408	75,617

17. CONTINGENCIES AND COMMITMENTS

17.1 Transaction-related contingent liabilities

	June 30, 2013 Un-audited	December 31, 2012 Audited
Guarantees favouring		
Government	8,511,449	7,490,282
Banking companies and other financial institutions	478,069	160,531
Others	2,474,709	1,709,467

17.2 Trade-related contingent liabilities

	June 30, 2013 Un-audited	December 31, 2012 Audited
Letters of Credit & Acceptances	4,633,781	4,589,144

17.3 Claims against the Bank not acknowledged as debt

	June 30, 2013 Un-audited	December 31, 2012 Audited
	337,233	337,233

17.4 Claims against the bank by Competition Commission of Pakistan & Others

	June 30, 2013 Un-audited	December 31, 2012 Audited
	35,000	35,000

17.5 Commitments in respect of

	June 30, 2013 Un-audited	December 31, 2012 Audited
Forward Exchange contracts with State Bank of Pakistan, banks and other institutions		
Sale	2,740,320	6,174,393
Purchase	8,392,162	10,523,822

17.6 Commitments in respect of

	June 30, 2013 Un-audited	December 31, 2012 Audited
Property, civil work & equipment	23,632	2,461
Purchase of hardware / software	34,560	85,761
	58,192	88,222

17.7 Commitments to extend credit

The Bank makes commitments to extend credit in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.

17.8 Suits for damages of Rs. 850 billion have been filed against the Bank by borrowers / employee in respect of certain disputes relating to loans and advances. The management of the Bank and its legal counsel considers that the cases are a counterblast in response to the recovery cases filed by the Bank. The Bank and its legal counsel are confident that the case will be dismissed as actual damages have to be proven in such cases. This case has been filed in respect of recovery suit filed by the Bank which stands decreed and the defendants' appeal in respect thereof has been dismissed by the High Court.

	June 30, 2013 Un-audited	June 30, 2012 Un-audited
Rupees in ' 000		
18. MARK-UP / RETURN / INTEREST EARNED		
On loans and advances to:		
Customers	3,019,646	3,555,504
On investments in:		
Held-for-Trading Securities	17,321	52
Available-for-Sale Securities	666,771	742,947
Held-to-Maturity Securities	2,342	110,523
	686,434	853,522
On deposits with financial institutions	65	37
On call money lendings	3,372	6,296
On securities purchased under resale agreements	77,037	87,855
	3,786,554	4,503,214
19. MARK-UP / RETURN / INTEREST EXPENSED		
Deposits	2,137,555	2,641,335
Securities sold under repurchase agreements	208,641	416,399
Call borrowings	135,297	166,526
Borrowing from SBP under export re-finance scheme	134,547	155,761
SWAP money market expense	183,214	204,701
Others	2,588	2,004
	2,801,842	3,586,726
20. CASH AND CASH EQUIVALENTS		
Cash and balance with treasury banks	5,281,827	4,437,354
Balance with other banks	90,241	115,752
	5,372,068	4,553,106
21. TAXATION		

The income tax returns of the Bank have been submitted up to tax year 2012. The Bank has filed appeals before Appellate Tribunal Inland Revenue (ATIR) against certain disallowances amounting to Rs. 1,996 million made by Tax officer for assessment of tax year(s) 2000-2001, 2001-2002, 2002-2003 and 2004. The disallowances amounting to Rs. 682 million in respect of tax year 2003 and 2006 are pending at Commissioner Inland Revenue (Appeal) CIR-A. The management is confident that the outcome of these appeals would be in favour of the Bank.

The Bank's return in respect of AJK operations have been submitted up to and including tax year 2012. Certain appeals were filed before the various appellate forums which are pending for adjudication. The Management is confident that the outcome of these appeals would be in favour of the Bank.

22. 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.

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 letters of credit and guarantee.

Advances for the house building, conveyance and for personal use have also been provided to the staff and executives at the reduced rates in accordance with the employment and pay policy and such advances have not been disclosed in the following schedule. 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 cars.

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

	June 30, 2013 (Un-audited)			December 31, 2012 - Audited		
	Chief Executive and Directors	Key Management Personnel and Others	Associated Companies & Common Directorship	Chief Executive and Directors	Key Management Personnel and Others	Associated Companies & Common Directorship
Rupees in 000						
Balances						
Loans						
Loans at the beginning of the period	1,871	20,560	57,918	21,399	11,849	-
Loans given during the period	129	8,334	950,185	1,871	28,661	3,507,946
Loans repaid during the period	-	(20,701)	(1,007,303)	(21,399)	(19,950)	(3,450,028)
Loans outstanding at the end of the period	2,000	8,193	800	1,871	20,560	57,918
Deposits						
Deposits at the beginning of the period	13,726	178,411	142,790	18,535	78,103	66,925
Deposits received during the period	67,902	574,847	299,742	321,856	1,706,827	971,826
Deposits repaid during the period	(51,799)	(570,826)	(281,297)	(326,665)	(1,606,519)	(895,961)
Deposits at the end of the period	29,829	182,432	161,235	13,726	178,411	142,790

	June 30, 2013 (Un-audited)			June 30, 2012 (Un-audited) (Restated)		
	Chief Executive and Directors	Key Management Personnel and Others	Associated Companies & Common Directorship	Chief Executive and Directors	Key Management Personnel and Others	Associated Companies & Common Directorship
Rupees in 000						
Transactions						
Short term employees benefits	53,917	251,721	-	66,621	203,310	-
Termination benefits	4,683	16,148	-	4,258	11,166	-
Mark-up earned on loans	58	1,408	-	83	308	-
Mark-up paid on deposits	440	5,493	7,948	350	3,225	1,762
Services rendered / goods supplied	12,432	62,407	76,302	8,857	51,576	75,329

23. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

	June 30, 2013 - Un-audited		
	Wholesale Banking	Consumer / SME Banking	Total
	Rupees in 000		
Total income - net	459,223	1,147,165	1,606,388
Total expenses	(310,696)	(1,790,493)	(2,101,189)
Profit / (loss) before taxation	148,527	(643,328)	(494,801)
Segment assets (Gross)	62,797,640	35,933,248	98,730,888
Segment non performing loans	6,549,547	3,557,280	10,106,827
Segment provision	3,668,253	1,414,696	5,082,949
Segment liabilities	21,034,343	65,333,381	86,367,724
Segmented return on net asset (ROA) (%)	0.77%	-4.01%	-15.62%
Segmented cost of fund (COF) (%)	8.03%	6.67%	7.00%

	June 30, 2012 - Un-audited		
	Wholesale Banking	Consumer / SME Banking	Total
	Rupees in 000		
Total income - net	433,672	963,485	1,397,157
Total expenses (including recoveries)	270,999	(1,405,358)	(1,134,359)
Profit / (loss) before taxation	704,671	(441,873)	262,798
Segment assets (Gross)	68,060,534	27,921,416	95,981,950
Segment non performing loans	7,976,729	2,796,749	10,773,478
Segment provision	4,300,675	731,077	5,031,752
Segment liabilities	18,993,904	66,263,324	85,257,228
Segmented return on net asset (ROA) (%)	1.11%	-1.63%	0.29%
Segmented cost of fund (COF) (%)	7.53%	4.82%	6.65%

24. ISLAMIC BANKING BUSINESS

The Bank is operating with 10 (December 31, 2012 : 7) Islamic Banking branches as of June 30, 2013.

	Note	June 30, 2013 Un-audited	December 31, 2012 Audited
		Rupees in ' 000	
A) STATEMENT OF FINANCIAL POSITION			
ASSETS			
Cash and balances with treasury banks		304,592	129,967
Balances with other banks		11,522	1,883
Due from Financial Institutions		1,320,911	1,167,943
Investments		1,565,311	685,670
Islamic Financing and Related Assets	A-2.1	574,096	-
Operating fixed assets		137,699	94,077
Other assets		479,524	379,906
Total Assets		4,393,655	2,459,446
LIABILITIES			
Bills payable		173,072	25,053
Due to Financial Institutions		-	-
Deposits and other accounts		969,293	435,108
-Current Accounts		1,018,790	534,192
-Saving Accounts		1,439,064	842,132
-Term Deposits		-	-
-Others		-	-
-Deposit from Financial Institutions -Remunerative		403,231	170,000
-Deposits from Financial Institutions-Non-Remunerative		1,973	18,153
Due to Head Office		-	-
Other liabilities		49,079	30,584
Total Liabilities		4,054,502	2,055,222
NET ASSETS		339,153	404,224
REPRESENTED BY			
Islamic Banking Fund		425,000	425,000
Reserves		-	-
Accumulated loss		(81,099)	(25,583)
		343,901	399,417
(Deficit) / Surplus on revaluation of assets		(4,748)	4,807
		339,153	404,224
B) REMUNERATION TO SHARIA ADVISOR / BOARD			
		1,182	772
C) During the period no charity credited to Charity Fund Account nor any payment made out of it.			
A-2.1 Islamic Financing And Related Assets			
Murahaba		174,096	-
Musharaka		400,000	-
		574,096	-

	June 30, 2013 Un-audited	June 30, 2012 Un-audited
Rupees in ' 000		
D) PROFIT AND LOSS ACCOUNT		
Profit / return earned on financings, investments and placements	135,020	-
Return on deposits and others dues expensed	(84,420)	-
Net spread earned	50,600	-
Other Income		
Fees, commission and brokerage income	1,038	-
Income from dealing in foreign currencies	3,105	-
Gain on sale of securities	4,024	-
Other income	678	-
Total other income	8,845	-
Other Expenses		
Administrative expenses	114,961	-
(Loss) before tax	(55,516)	-

25. NON CASH TRANSACTIONS

During the period the Bank transferred non-banking assets amounting to Rs. 386.057 million to its operating fixed assets (note 9.3).

26. DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information was authorised for issue on 23rd August, 2013 by the Board of Directors of the Bank.

27. GENERAL

27.1 Following corresponding figures have been reclassified for the purpose of better presentation:

Statement	Component	Reclassification from	Reclassification to	Rupees in '000
Profit and Loss	Non-markup / interest income	Other income	Fee, commission and brokerage income	33,344

27.2 Figures have been rounded off to the nearest thousand rupees.

Statement under section 241(2) of the Companies Ordinance, 1984

The President / Chief Executive of the Bank is presently out of the country, therefore, this condensed interim financial information has been signed by four Directors of the Bank duly authorised by the Board of Directors.

M.A. Mannan
Executive Director

Munnawar Hamid, OBE
Chairman

Tariq Iqbal Khan
Director

Humayun Bashir
Director



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(3) KARACHI REGION B

