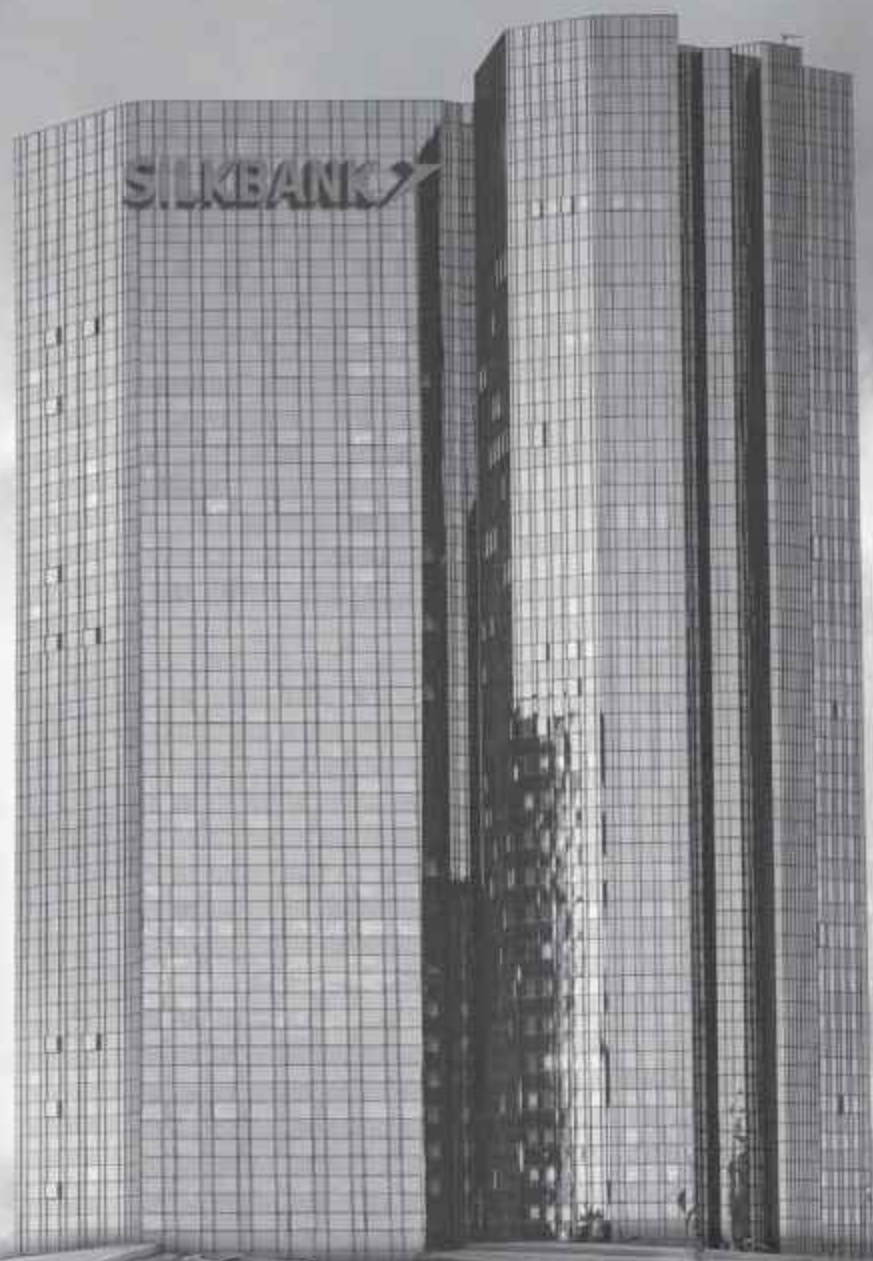


Annual Report | 2013



*A Look into Brilliance*

**SILKBANK**   
Yes we can

# Brilliance

*Curiosity is the seed of discovery, the desire to explore on unfamiliar territory. As a growingly innovative financial institution, Silkbank never hesitates to bring out the 'extraordinary' from its people. Treading on paths others only dare to pass through is a day's objective of the Silkbanker. Our growing customer-base is testament to the excellence we aim to lay out every day. This year's annual report gives you a glimpse at a day in the life of our ambitious Silkbankers – taking you through our approach to brilliance in various capacities of our institution.*



# Customer Franchise

*At Silkbank, we focus on delivering nothing less than 'value' in the commitment towards our customers. This is cascaded throughout every functional area of the Silkbank network. Striving for customer satisfaction & loyalty, as well as quality in our products & services portfolio strengthen competence, professionalism and responsiveness in each and every one of us.*







# Risk Management

*The analysis or mitigation of uncertainty in investment decision-making requires a foolproof Risk Management system. Silkbank encourages an environment that revolves around achieving a culture for understanding and managing risk with strict compliance to rules and regulations.*



- Commodities
- Fixed-Income & Cash
- Private Equity
- Real Estate
- International Equity
- Domestic Equity



## Business Pro

Show business  
trans

Works  
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# People Management

*We often choose to create brilliance rather than hire it. Our People Management agenda shelters the development of the perfect dream team - from building an effective and deeper management criterion that encompasses employee satisfaction and pure meritocracy, to getting the right person for the right job. At Silkbank, we unfailingly promote 'teamwork' and continue to reap its benefits at every turn.*







# Cost Management

*We're constantly monitoring, amending and re-engineering. At Silkbank, Cost Management comes with a sheer focus on improving cost effectiveness. We believe that a good part of success comes from making the right choices, the right way. We aim to constantly upgrade our predictability and forecasting capabilities focusing our expenditures primarily on innovation, smart marketing and adequate training.*







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## Vision

*Benchmark of Excellence in Premier Banking*

## Mission

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

## Core Values

### **Customer Focus**

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

### **Integrity**

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

### **Teamwork**

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

### **Creativity**

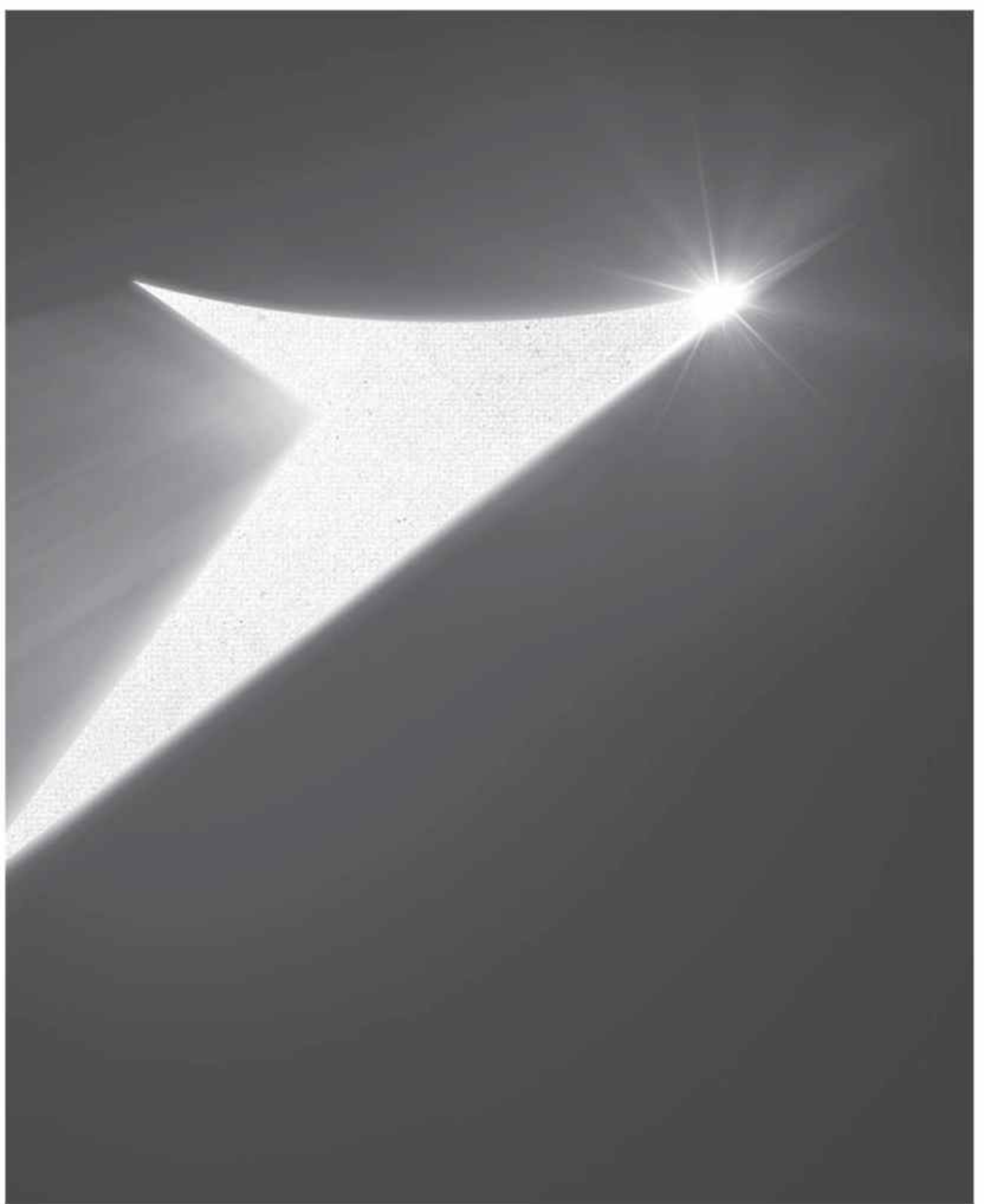
*Out-of-the-box thinking is the enabling factor for us to be recognized as an innovative organization.*

### **Meritocracy**

*Merit remains our key primary criteria for rewarding performance.*

### **Humility**

*Humility remains at the core of all our relationships.*



# *Products and Services*





**BUSINESS VALUE  
ACCOUNT**

**ALL-IN-ONE  
ACCOUNT**

**MAHANA  
MUNAFI**

**CREDIT  
CARDS**

**VISA  
DEBIT  
CARD**

**EMAAN**  
ISLAMIC BANKING

**MUNAFI  
ROZANA**

**READY LINE**

## Products and Services

### Branch Banking

#### SILKBANK CURRENT ACCOUNTS

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

##### ■ ALL-IN-ONE ACCOUNT:

Provides ultimate protection and security to customers with amazing banking and transactional benefits.

##### ■ BUSINESS VALUE ACCOUNT:

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

##### ■ ONLINE EXPRESS:

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

##### ■ SALARY PREMIUM ACCOUNT:

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

#### SILKBANK SAVINGS ACCOUNTS

Silkbank's Savings offers attractive features and competitive returns along with flexibility of current accounts.

##### ■ MUNAFA ROZANA:

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

##### ■ PLS SAVINGS ACCOUNT:

Provides the benefits of a Savings Account with the convenience of a Current Account.

##### ■ SUPER SAVER ACCOUNT:

Provides the customer with the highest monthly returns on higher deposits and profit calculation on a daily profit basis with a monthly payout.

#### SILKBANK TERM DEPOSIT ACCOUNTS

##### ■ SALANA MUNAFA ACCOUNT:

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

##### ■ SILKBANK MAHANA MUNAFA ACCOUNT:

Offers the highest profit with monthly payout. It provides customers with an overdraft facility of up to 90% with other transactional benefits.

#### BANCASSURANCE

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



### Alternate Delivery Channels

#### DIRECT INTERNET BANKING

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

#### SILKBANK PHONE BANKING

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







#### **SILKBANK VISA DEBIT CARD**

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

#### **UTILITY BILLS PAYMENT SERVICE**

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

### **Corporate and Investment Banking**

#### **CORPORATE BANKING**

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

#### **INVESTMENT BANKING**

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

#### **MIDDLE MARKETS**

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

### **Consumer Banking**

#### **PERSONAL LOAN**

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

#### **SILKBANK READY LINE**

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

#### **SILKBANK CREDIT CARDS**

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

### **Small and Medium Enterprises**

#### **M'POWER**

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

#### **SME CASH EASE**

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

### **Emaan Islamic Banking**

Emaan Islamic Banking was inaugurated by conversion of seven conventional banking branches into dedicated Islamic Banking branches in 2012 and is geared towards providing Shariah-compliant banking products along with high level of customer satisfaction. Emaan Islamic Banking offers an array of products to meet the financial needs of the customers, including current accounts, savings accounts, term deposits, takaful and saving plans.



## Chairman's Message

*During the year the Bank issued preference shares of Rs. 2,200 million which were successfully subscribed to, by a diverse group of institutional and retail investors, including top-tier names of the financial industry. The funds so received further supported tier-1 capital and the CAR requirements, and also helped the Bank in exploring new business avenues for growth. In line with the strategic direction of the Board, the Bank reduced cost of funds during the year, by generating more current and saving deposits (CASA), investing in high-yielding consumer assets and rationalizing administrative costs. The Bank also focused on making its cost base increasingly efficient through greater synergies and process re-engineering, and on rigorously growing its existing portfolio as well as the newly launched Islamic Banking and Credit Cara business. Simultaneously, the Bank registered a significant reduction in non-performing loans (NPLs) through the conversion and sale of OREO assets.*

*The year 2013 however, was not without its challenges. The unrelenting and crippling energy shortages, ever deteriorating law & order situation, persistent structural weaknesses, which continued to hamper economic growth, and generally pessimistic business sentiment were a few major factors in a long list. Reduced interest rates scenario together with the linkage of the Minimum Deposit Rate (MDR) with the Repo Rate proved to be a constraining factor on banking spreads. As a consequence spreads reached a 9-year low of 6.01% in Dec-2013 and overall receded to an average of 6.24% versus 7.02% last year. All these factors unfortunately kept the Bank from making a profit in the year.*

*Going forward in 2014, the Board has set significant goals to improve earnings and the Bank is also making headway in being capital-compliant through the induction of strategic / non-strategic investor(s). I join the Board in wishing the management every success.*



Munnawar Hamid, OBE  
Chairman





# President's Review

*Dear Shareholders,*

*The year 2013 was a challenging year for Pakistan both on the political as well as the economic front. The pre and post elections turbulence led to uncertain business conditions. The security situation worsened during 2013 with increasing terrorist attacks. The continuing energy crisis further dampened the business environment. The hardest hit was the SME sector as their limited resources made it difficult for them to sustain uncertainty over a protracted period. The Pak Rupee also witnessed a significant depreciation against the US Dollar. This placed greater pressure on trade and businesses relying on imports. The positive, during the year under review, was the smooth transition of the elected governments both at the Centre as well as the provinces. There was also a fair amount of unanimity in the political parties on the handling of the terrorism threat, which is expected to bear fruit in due course.*

*In these challenging times, Silkbank embarked upon a six-point plan to make your Bank margin positive by the end of the year. Foremost was the need to be capital-compliant. In this connection, I am proud to announce that in March 2013, we successfully raised Rs. 2.2 billion through issuance of Privately Placed, Non-cumulative and Convertible Preference Shares ("PNCPS") to investors. The proceeds from the PNCPS issue contributed towards Tier-I Capital of the Bank. This has been a landmark transaction, not only for your Bank, but is also a first of its kind financial instrument launched in Pakistan. It was exceptionally well received by the market. The investors include many of blue chip names in the financial industry. The PNCPS issue will help in implementing the growth strategy of the Bank by injecting the much needed funds to expand our distribution network. Further initiatives are actively being pursued to bring in strategic investors to infuse additional capital into the Bank.*

*Reduction in the cost of funds was another key initiative of 2013 to make your Bank profitable. In line with this direction, the year witnessed a reduction of Rs. 6 billion in expensive term deposits. Simultaneously, the low-cost CASA deposits grew noticeably over 2012. This two-pronged strategy towards increasing low-cost accounts, while curtailing high-cost deposits, led to a significant cost of funds reduction amounting to 150 bps for the year 2013. Silkbank's CASA deposit mix also improved by 4% during the year whereas term deposits reflected a 7.64% reduction versus 2012. This noticeable COF reduction will continue to improve your Bank's margins, as our CASA centric policy will continue in the coming years.*

*Another 2013 strategic initiative was a focus on booking high-yielding consumer assets. Of the total Rs. 2.5 billion in consumer loans booked during the year, Rs. 1.9 billion (76%) comprised high-margin Personal Instalment Loans and Ready Line advances. Another milestone achievement during the year was surpassing the coveted mark of Rs. 1 billion in credit cards ending net receivables (ENR). Our strategic focus will continue to be on the high-margin consumer asset products for increased spreads.*





## President's Review

Our road to profitability also included a strong recovery of non-performing advances. Your Bank's Special Asset Management (SAM) team continues to reflect robust recovery, totalling Rs. 1.820 billion during 2013. The SAM team was able to reduce NPL by Rs. 1.96 billion, which had a P&L impact of Rs. 1.8 billion.

Closely linked to NPL reduction was the disposal of Real Estate assets. Your Bank successfully reduced non-earning Real Estate assets from a high of Rs. 7.14 billion in January 2013 to Rs. 3.86 billion by December 2013.

Our sixth critical initiative to steer the bank towards profitability was to rationalize our expenses. In 2013 our expense rationalization initiatives covered staff, premises as well as other operating costs of the Bank. Synergies were created through position mergers by consolidation of units as well as review of each unit's organizational structure. A pool of surplus resource was thus created which was utilized for internal hiring wherever gaps emerged in the organization. The above initiative led to a reduction in Head Count expense by Rs. 213 million in 2013 versus December 2012. Costs were also rationalized through review of commission structures. On the premises side, your Bank renegotiated rentals and undertook relocation of premises to reduce costs. Major utility saves were realized through adoption of energy-efficient practices as well as stringent monitoring. Other operating cost saves included telecom and hardware optimization and a constant review of major expense lines.

Your Bank also maintained a resolute focus on customer service during the year. Surveys were conducted to measure service quality through both in-house resources as well external research agencies. Our "Mystery Shopping Results" conducted by a leading independent marketing research consultancy has reflected continued improvement in our service quality results, with a score of 91% customer satisfaction. It gives me immense pleasure to advise you that the Overall High Satisfaction score in 2013 improved a full 400 basis points over 2012. This is a manifestation of our staff's commitment to service quality and their continued efforts to uphold the service standards of the institution. Our endeavour will be to continue the Service Leadership in the Banking Industry.

Our strong portfolio of alliances with popular merchants across Pakistan has been a vital pull in the increase of our VDC customer base by 22,691 during the year 2013. SilkBank Visa Debit Cards reflected a growth of 36% over last year with a spend volume of Rs. 641.16 million. Our high ATM availability and the upscale look and feel of our vestibules have contributed significantly to the enhanced usage of our ATM's, with an impressive average of cash dispensed of over Rs. 1 billion a month.

The Alternative Delivery Channels (ADC) business continues to be an important tool in cost reduction, customer loyalty and the Bank's innovative positioning. Your Bank now provides SMS alerts to 76,800 customers. Internet Banking is now being used by over 24,199 customers while e-statement usage has jumped to 46,995 customers, ensuring timely delivery and reduction in courier costs. We are now working towards enhancement of Mobile Banking Service, with introduction of push SMS's, GPRS-based mobile-site and creative mobile applications. This will allow our customers to pay their bills, transfer funds, request chequebooks, besides many other services. These ongoing developments aim at further strengthening your Bank's innovative positioning while greatly reducing customer touch point costs. ADC segment recorded an income of Rs. 78.63 million during 2013.

Your Bank has continued to be a major player in the Bancassurance business offering simultaneous Investment & health insurance with an annual revenue of Rs. 48.9 million.



During the year, a strong focus was maintained to build non-funded trade business from our Middle Market branches along with emphasis on low-cost deposit generation. The Corporate Banking Group formed a dedicated liability team that will not only target corporate deposits but will also spearhead cash management to generate funds.

In just one and a half year since inception, Emaan Islamic Banking, the Islamic arm of Silkbank, has built a deposit portfolio of Rs. 7.8 billion and also booked Rs. 1.1 billion in corporate assets comprising both Murabaha and Musharaka transactions. The unit also converted Rs. 2.5 billion OREO assets into Islamic Musharaka Financing. In order to offer more product options to customers, your Bank entered into a strategic Banca Takaful Alliance with Pak Qatar Family Takaful. In the year 2013, Emaan Islamic Banking extended its branch network to 10, opening 3 new branches at Quetta, Abbottabad and Mardan.

Your Bank manages its liquidity with stringent risk management and prudent liquidity management techniques. Silkbank's Treasury department continued its exceptional performance in contributing towards profitability. Your Bank made FX Income of over Rs. 150 million, where interbank desk generated trading profit of Rs. 16 million in a very difficult and volatile market with PKR/USD spot and swap rates in a constant tailspin and upheaval. The FX corporate desk posted a profit of Rs. 139 million despite constant trade volumes and shrinking spreads. Equity desk's performance was exceptional, registering a profit of Rs. 215 million, which translated into a total return of more than 50 percent.

Your Bank continued to enhance its risk management capability in the Corporate, Middle Market, SME and Consumer businesses. Assessment of the Risk Acceptance Criteria (RACs) is an ongoing exercise, which enables the Bank to keep its risk appetite at acceptable levels. The Internal Control and Compliance Team continued their vigilance of branches and other support functions of your Bank, which included sharing of guidelines to educate and guide staff to ensure better control standards.

The Bank's Asset and Cards Operations now manage a loan book of Rs. 46 billion for Consumer, SME, Commercial as well as staff loan portfolios.

I am pleased to advise you that the IBM team's review of Silkbank IT assets concluded that Silkbank's IT infrastructure is optimal and the consolidation level achieved is in line with best practices.

Our Silkbank team has always been the most prized asset. Silkbank dedicated more than 28,000 hours of training while revamping its Learning and Development Curriculum to introduce need-based programmes focusing on personal and professional development. The HR team also participated in Banking Forum's Compensation & Benefits Survey to align the Bank's compensation structure with the industry.

In coming years, your Bank will build on its strengths and reflect strong revenue growth momentum. Silkbank has ambitious growth plans to accelerate our revenue momentum. We will continue to optimize expenses through greater synergies and re-engineering of processes for greater efficiency and productivity. Our forthcoming initiatives will aim to augment our revenue momentum to ensure that we close the next year on stronger footings.

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

Yes we can,



AZMAT TARIN  
President & CEO

*Annual Report | 2013*

# *Corporate Information*

*For the year ended  
December 31, 2013*



## Corporate Information

### *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, FCA	Director
Azmat Tarin	President & CEO
Shaukat Tarin	Advisor to the Chairman

### *Company Secretary*

Uzman Naveed Chaudhary

### *Chief Financial Officer*

Syed Ali Azfar Naqvi

### *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 Resources 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.  
Telephone No.: +92-21-111-00-7455 Ext. 413 & 414  
Fax No.: +92-21-32460464 & 32462902  
Email: [companysecretary@silkbank.com.pk](mailto:companysecretary@silkbank.com.pk)  
Website: [www.silkbank.com.pk](http://www.silkbank.com.pk)

### *Share Registrar*

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

*Mohammad Ahmed Mannan*  
Director

*Tariq Iqbal Khan*  
Director

*Humayun Bashir*  
Director

*Azmat Tarin*  
President & CEO

*Shaukat Tarin*  
Advisor to the Chairman



# Board of Directors

*Munnawar Hamid, OBE*  
Chairman

*Faisal Anis Sherwani*  
Director

*Shamsul Hasan*  
Director

*Sadeq Sayeed*  
Director

*Javed Hamid*  
Director





# Profile of Board of Directors

## Mr. Munnawar Hamid, OBE – Chairman

Mr. Hamid was elected Director and Chairman of the Board, in March 2008 and was re-elected as a Director by the shareholders of the Bank and Chairman by the Board in August 2011. He is also Chairman of the HR Committee of the Board. Mr. Hamid gained extensive experience of commerce and industry while serving in a major chemicals company, ICI Pakistan Limited, as Chief Executive, as well as Chairman of a number of subsidiary companies of Global Corporations in Pakistan, which include ICI Pakistan and Pakistan PTA (now Lottree Pakistan PTA Ltd.). He has also served in London as a Global Senior Corporate Planner ICI Plc for its Pharmaceuticals, Agrochemicals and Seeds, and especially Chemical Businesses. Subsequently, he was the Advisor to the CEO of ICI Plc London, for South Asia. In addition to the Corporate sector, Mr. Hamid has been associated with a number of Boards, high-level consultative bodies, Public Sector Organizations, leading Advanced Educational Institutions and the Financial Sector of Pakistan. In October 1997, he was appointed Officer in the Most Excellent Order of the British Empire (OBE) by HM the Queen, for services to ICI and Economic Development in Pakistan. Mr. Hamid is a graduate from Punjab University, and also holds BA (Hons) and a Master's degree from Cambridge University (Gonville & Caius College), UK. He has over 45 years of experience in the fields of business & corporate management and operations. Mr. Hamid is also currently associated with the following organizations:

- Linde Pakistan Ltd.  
(formerly BOC Pakistan Ltd.)
- The Agha Khan University, Karachi
- The Aga Khan University - Gratuity Fund
- The Aga Khan University - Provident Fund

Chairman  
Member Board  
of Trustee  
Trustee  
Trustee

## Mr. Humayun Bashir – Director

Mr. Humayun Bashir was elected as an Independent Director on the Board of the Bank in March 2008, and has held this position since then. He was re-elected by the shareholders in August 2011. He is also Chairman of the Audit Committee of the Board, and a member of the HR Committee. Mr. Humayun is a certified director under the IFC Corporate Governance programme since 2009. He has 35 years experience of working with IBM in Pakistan and Middle East. He is currently the Country General Manager of IBM Pakistan for 15 years, and has also served in Dubai with IBM, as Middle East Africa Business Development Executive. Mr. Humayun's experience includes deep interaction with Banking and Telecom sectors in Pakistan, and has participated in advising banks to deploy innovative solutions to improve controls, enhance customer experience, and reduce costs. He has participated in advising banks to deploy innovative solutions to improve controls, enhance customer experience, and reduce costs. He has served on the boards of Export Processing Zone Authority, Linde Pakistan, and Karachi Port Trust. He was elected as President of Overseas Investors Chamber of Commerce & Industry (OICCI) in January 2012, and was elected President of American Business Council (ABC) in 2011.

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

## Mr. Tariq Iqbal Khan – Director

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

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

- |                             |          |
|-----------------------------|----------|
| ■ Gillette Pakistan Ltd.    | Director |
| ■ International Steels Ltd. | Director |
| ■ Lucky Cement Ltd.         | Director |
| ■ National Refinery Ltd.    | Director |
| ■ Packages Ltd.             | Director |
| ■ PICIC Insurance Company   | Director |
| ■ FFC Energy Ltd.           | Director |

## Mr. Javed Hamid – Director

Mr. Javed Hamid was elected as a Non-Executive Director on the Board of the Bank in March 2008, and has held this position since then. He is also member of the Audit Committee and the Human Resource Committee of the Board. Mr. Javed Hamid is a senior finance executive with extensive international banking, investment and development experience. He has a strong background in investing in emerging markets, negotiating investment agreements between governments and institutional investors, managing international investment portfolios, and providing technical assistance to developing countries. Mr. Hamid has worked for nearly 30 years in the International Finance Corporation (IFC) of the World Bank Group. He was Director for the East Asia & Pacific Region, and a member of the Management Committee of IFC. He is a well-known authority and speaker on international banking, investment and development issues, and has been frequently interviewed by the press.

He has a keen interest in sustainable development and corporate governance issues. Mr. Javed Hamid is a graduate from Cambridge University, UK, and an MBA from Harvard University, USA. His published works have appeared in the Asian Wall Street Journal, Far Eastern Economic Review and various academic journals. Mr. Hamid is also currently serving in the following organizations:

- |   |                   |
|---|-------------------|
| ■ Asia Research & Capital Management Hong Kong      | Director          |
| ■ Asia Pacific Medical Group, China                 | Director          |
| ■ International Executive Services Corporation, USA | Senior<br>Adviser |
| ■ World Bank Group, USA                             | Consultant        |

## Mr. Sadeq Sayeed – Director

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

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



of both the European Management Committee, and the European Capital Commitments Committee at Nomura. In 2010, Mr. Sayeed retired as CEO of Nomura. Previously Mr. Sayeed had been responsible for a number of key strategic projects globally, including the creation of Terra Firma Capital Partners, a £2 billion private equity fund. He was also responsible for creating the joint venture between Rothschild and Nomura, in respect of their global investment banking activities. Mr. Sayeed has over 30 years of experience in investment banking, including arbitrage trading, structured finance, fund management and financial advice. He has previously served as Managing Director of Credit Suisse First Boston, where he spent 15 years, and served as a member of the Operating Committee. Prior to his global investment banking career, he was Consultant to the World Bank in Washington, DC. Mr. Sayeed holds an under-graduate degree in economics with concentration in electrical engineering, from Massachusetts Institute of Technology (MIT), as well as a Master's degree in finance from MIT's Sloan School. Mr Sayeed is a visiting Associate Scholar at Pembroke College, Cambridge. He is also an Adjunct Professor at Imperial College Business School, in London. He currently holds the following positions:

- |                                |          |
|--------------------------------|----------|
| ■ Metage Capital Ltd.          | Chairman |
| ■ Sinthos Capital Advisors LLP | Partner  |

### **Mr. Shamsul Hasan – Director**

Mr. Shamsul Hasan was appointed by the Board as a Non-Executive Director on the Board of the Bank in November 2012. Mr. Hasan is a senior investment and corporate banker. Prior to his joining the Bank, Mr. Hasan was the Managing Director and Chief Executive Officer of Pakistan Kuwait Investment Company (Pvt.) Ltd., a joint venture of Governments of Pakistan and Kuwait, from November 2008 till August 2011. Through his dynamic leadership, he completely turned around the company into a profitable organization. In 2011, Pakistan Kuwait Investment Company was given a Credit Rating of "AAA" by two independent credit rating agencies; it also achieved a very high Corporate Governance Rating. Mr. Hasan has also worked as the Country Head of Corporate & Investment Banking Group of the then Saudi Pak Commercial Bank Limited. He has over 33 years of banking experience with other local and international banks, and has a proven track record of over 20 years experience in senior management.

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

### **Mr. Faisal Anis Sherwani – Director**

Mr. Faisal Anis Sherwani is a nominee Director of M/s. Nomura International Plc.

Mr. Faisal has a Master's in Business Administration (MBA) with a major in Finance from the Institute of Business Administration (IBA), Karachi, Pakistan. He is an experienced professional with a proven track record established over last 10 years within the institutional client base in the Gulf.

Mr. Faisal is currently working as an Executive Director in Nomura International Plc. based in Dubai International Financial Centre.

Prior to joining Nomura, Mr. Faisal was working with Lehman Brothers Europe International, Dubai Branch, as Director - Middle East Capital Markets. At Lehman Brothers, he established Credit Sales and Securities Financing business in the Gulf Region.

Mr. Faisal also worked for Standard Chartered Bank for a decade in the Middle East and Pakistan. During his stay at Standard Chartered he performed various roles in Institutional Sales, Trading and Asset Liability Management.

### **Mr. Mohammad Ahmed Mannan – Director**

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

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

He has served as CEO of Dubai Islamic Bank (DIB) from 2005 to 2010. He was responsible for launching the franchise in Pakistan. He led it to its current status of being one of the largest Islamic Banks in Pakistan.

Prior to joining DIB, Mr. Mannan served from 2003 to 2005, as Deputy CEO of UBL, the country's third largest bank. In less than 3 years, he helped turn around the bank from a loss-making institution to Rs. 7 billion in profit. He conceived and developed the Consumer Banking at UBL.

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

He is also the chairman of the task force on Remittance to Pakistan. He envisioned and created Pakistan Remittance Initiative (PRI), a joint initiative of the State Bank of Pakistan, Ministry of Overseas Pakistanis and Ministry of Finance, increasing the remittances from \$7 billion in 2008 to \$13 billion in 2011.

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

### **Mr. Azmat Tarin – President & CEO**

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

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

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

Mr. Tarin is also serving as a Director of Sinthos Capital Holding Ltd.

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

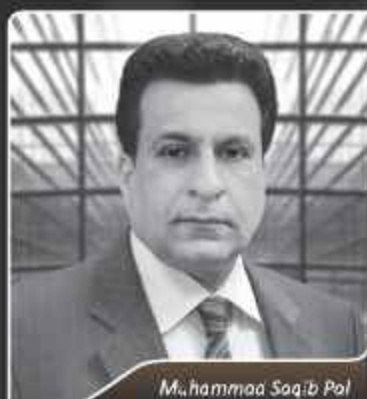
## Senior Management Committee



Azmat Tarin



M. A. Mannan



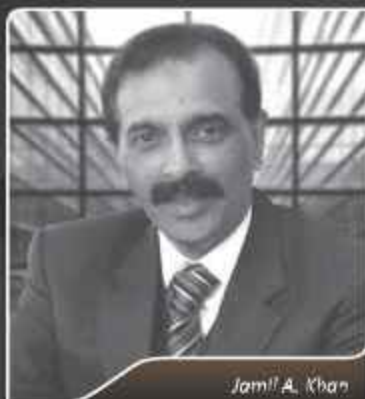
Muhammad Saqib Pal



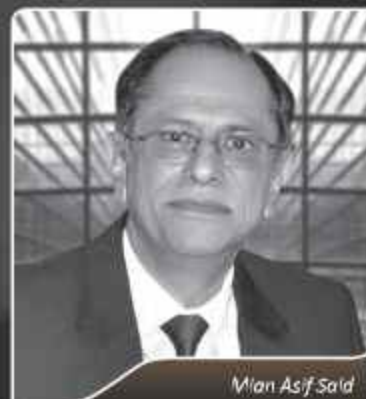
Azfar Naqvi



Goharulayn Afzal



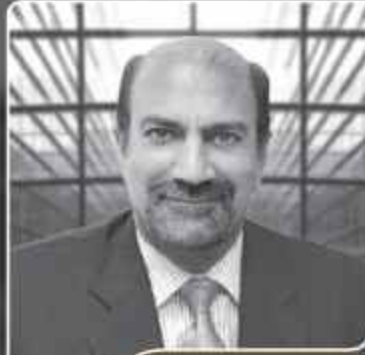
Jamil A. Khan



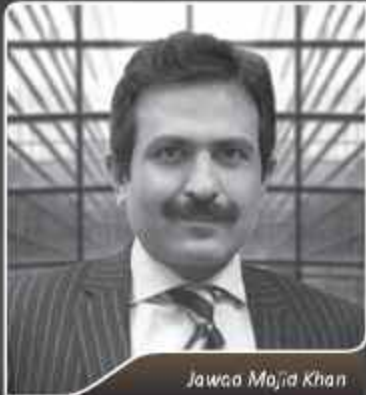
Mian Asif Said



*Kasim Feroze Khan*



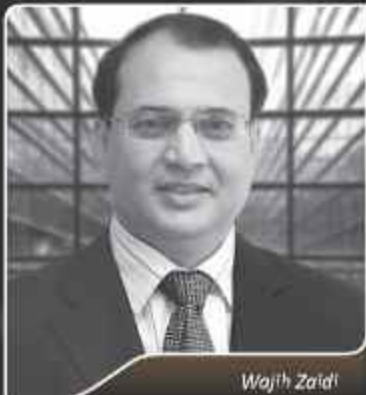
*Talha Saeed*



*Jawad Majid Khan*



*Romana Khokhar*



*Wajih Zaidi*



## The Management

Mr. Azmat Tarin	President & CEO
M. A. Mannan	Executive Director
Goharulayn Afzal	Group Head Operations, Technology & Productivity
Jamil A. Khan	Group Head Compliance, Legal & Internal Control Division
Kasim Feroze Khan	Group Head Special Assets Management and Other Real Estate Owned (OREO) Properties
Mian Asif Said	Group Head Wholesale Banking
Talha Saeed	Group Head Retail Banking
Jawad Majid Khan	Group Head Islamic Banking
Romana Khokhar	Group Head Human Resources
Syed Ali Azfar Naqvi	Chief Financial Officer
Muhammad Saqib Pal	Chief Risk Officer
Ali Kashif Rizvi	Head Treasury and Financial Institutions
Aman Kotak	Head Customer Satisfaction & Quality
Farooq Nasim Butt	Head Corporate Banking Group
Javed Yousuf Edhi	Head Information Technology
Junaed Rayaz Chaudhry	Head Consumer Risk
Kamran Bashir	Head Other Real Estate Owned (OREO) Properties
Nadeem Qureshi	Head Internal Control Unit (ICU)
Naiyar Manzoor Saifi	Head Marketing and Public Relations
Mansoor Mukhtar	Head Small & Medium Enterprises (SME)
Shahram Raza Bakhtiari	Head Consumer Assets
Shuja Ahmed Alvi	Head Investment Banking Group
Syed Salman Hasan	Business Head Cards
Uzman Naveed Chaudhary	Company Secretary and Head of Investor Relations & Legal Affairs
Wajih Zaidi	Head Internal Audit

# Corporate Profile

## Background:

Silkbank is a scheduled commercial bank listed on all stock exchanges in Pakistan with its Central Office located in Karachi. On September 15, 2001, under the supervision of SBP, the institution then known as Prudential Commercial Bank Limited was acquired by Saudi Pak Industrial and Agricultural Investment Company (Pvt). Limited and renamed as Saudi Pak Commercial Bank Limited.

On March 31, 2008, a Consortium comprising International Finance Corporation, Bank Muscat S.A.O.G, Nomura European Investment Ltd. and Sinthos Capital Advisors (led by Mr. Shaukat Tarin and Mr. Sadeq Sayeed) acquired a majority stake in Saudi Pak Commercial Bank Ltd, which was subsequently rebranded as Silkbank Limited on June 01, 2009.

The Consortium holds over 82% equity stake in Silkbank, and has an enviable track record of creating shareholders value by implementing proven business models and forming strategic business alliances around the world.

The Bank is engaged in providing financial services via 88 branches located in 33 cities throughout the country and offers a range of retail, consumer, corporate and islamic products.

## Consortium Partners



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



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

## NOMURA

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



# *Reports and Statements to the Members*

*For the year ended  
December 31, 2013*







## Director's Report for the year ended December 31, 2013

### Dear Shareholders,

The Directors are pleased to present the 20th Annual Report and the audited financial statements for the year ended December 31, 2013.

### Economic Review

Macro economically, the year 2013 was a year of two halves.

In the first half of the year, CPI inflation continued to decline (reaching a 9-year low of 5.1% in May-13), and averaged at 6.5%. The currency also remained fairly stable with the PKR depreciating by 2.6% against the USD and in response, the SBP reduced the discount rate (DR) to a low of 9% by Jun-13.

However, significant deterioration in the macro-economic parameters was witnessed in the second half, in which inflationary pressures resurfaced and CPI inflation rose to an average of 8.9%. One of significant contributors to this was the increase in power and gas tariffs, which were raised by up to 50% for industrial and commercial users and 30% for residential customers. A higher currency devaluation of 6% also added to this pressure. As a result, the SBP reversed its monetary policy, and raised the discount rate by 50 bps on two occasions (Sep-13 and Nov-13), taking it up to 10% and there seems to be room for a further discount rate increase, given that the 10-year PIB is currently trading at 12.8%.

Pakistan officially entered another IMF programme in Sep-13. This Extended Fund Facility (EFF) is different from the 2008 Standby Arrangement in a number of ways. The most crucial difference is in the terms of disbursement, as the current EFF makes equal quarterly disbursements of approx USD 550 million each, in contrast to the previous programme which was front-loaded with an initial disbursement of USD 3.1 billion. As a consequence, as large loan repayments are made to the IMF the PKR has been weakening and FX reserves have continued to slide with the country's total liquid FX reserves falling dramatically from USD 13.9 billion in Dec-12 to USD 8.1 billion in Dec-13.



However, the most tangible Reform made by the Government has been the significant increase in electricity tariffs in 2013, which has reduced the subsidy burden of the government considerably. Additionally, some taxation measures, including a 1% increase in GST, have also helped increase revenue collection and fiscal deficit is consequently on track to meet the IMF target of 5.8% of GDP for FY13, a considerable improvement from more than 8% in the first half of the year. Large Scale Manufacturing growth in July-Oct 2013 has also been 5.1%, compared to 1.1% in the same period last year, showing initial signs of an economic improvement.

### Banking Sector

The year 2013 was equally challenging for the Banking sector. With the discount rate falling as low as 9% during the year, spreads reduced to an average of 6.24% in 2013 from 7.02% in 2012. Though the SBP in the last quarter of the year has increased discount rates by 100 bps to 10% in its last two monetary policies, one of the factors, which continues to impact spreads, is the increase in minimum deposit rates (MDR) on saving deposits. During the year there were two changes to the MDR regulation as announced by the SBP. In the month of April, the SBP made the MDR applicable on average monthly balances, rather than minimum balances previously. Then, in the month of September, it linked MDR on PLS saving accounts with the interest rate corridor-floor (Repo rate) and consequently, effective October 1, 2013, banks were liable to pay at least 50 bps below the SBP Repo rate (which was 7%), effectively increasing the minimum return on saving deposits by 50 bps to 6.5%.



On the lending front, advances increased by Rs. 198 billion during the year as textile and power sector lending increased significantly. Provisioning pressures also abated significantly with a number of banks witnessing a reversal in NPLs.

### Silkbank's Performance During 2013 and Future Strategy

#### OVERALL FINANCIAL PERFORMANCE

In the first quarter of 2013, the Bank issued preference shares of Rs. 2,200 million which were successfully subscribed to by a diverse group of institutional and retail investors, including top-tier names of the financial industry. The funds so received further supported the CAR requirements, as stipulated by the Central Bank, and also helped in exploring new business avenues for growth. The Bank reduced cost of funds by generating more current and saving deposits (CASA), investing in high-yielding consumer assets and rationalizing administrative costs.





It also focused on making its cost base increasingly efficient through greater synergies and process re-engineering and on rigorously growing its existing portfolio as well as the newly launched Islamic Banking and Credit Card business. Conversion and sale of OREO assets continued as well registering a significant reduction in non-performing loans (NPLs).

However, the very significant economic and political challenges coupled with the sharp reduction of spreads prevented profitability, hence the Bank is not in a position to declare any dividend for the year. The comparative financial performance for 2012 and 2013 is given below:

Financial Performance - 2013	Rs. In million	
	2013	2012
Net mark-up income	2,160	1,902
(Provisions) / Reversal, impairment and others	(633)	580
Non mark-up income	1,325	1,065
Non mark-up expense	(4,379)	(4,077)
	<b>(1,528)</b>	<b>(529)</b>
Tax / (Reversal) of tax	372	185
	<b>(1,157)</b>	<b>(344)</b>
	Rupee	
(Loss) / Earning per share	(0.43)	(0.13)

## Future Strategy

There have been significant improvements made by the Bank to decrease the loss at margin level and with a clear strategy in place, the Bank shall continue to pursue its goals to be the top service provider in the banking industry, become capital-compliant and improve profitability. To achieve these goals, a clear three-year strategy (inclusive of tax projections) has been devised. This will significantly enable focus on further available growth opportunities, supported by a continued reduction in cost of funds, increase in high-margin consumer assets, further sale of OREO, a strict monitoring of the credit portfolio and a strong revenue stream from the new businesses. Resultantly the Bank is definitely expected to improve profitability in the coming years. Further, the Bank is making headway in discussions with various strategic and non-strategic investors to improve the MCR and CAR of the Bank before June 30, 2014.

## Operations

### RETAIL BANKING GROUP

#### ■ BRANCH BANKING

Branch Banking remains one of the most critical businesses for the Bank, accounting for over 118,000 customers and approx 72% of the Bank's deposit base. Strategy during the year continued to focus on reducing cost of funds, by replacing high-cost deposits with low-cost CASA deposits, and favourably modifying its deposit mix. The Bank's unique products such as All-in-One, Business Value Account & Munafa Rozana achieved a high level of customer loyalty and satisfaction as indicated by the mystery shopping and internal service measures.

The Business also developed new avenues for growth which included Bancassurance, and the Remittances & Alternate Delivery Channel business and emerged as a major player in the growing remittances business. Remittances of over Rs. 12.9 billion were received and further expansion is planned through partnerships with more Exchange Companies. The Bancassurance business recorded a total revenue of Rs. 48.85 million.

#### ■ SILKBANK VISA DEBIT CARD

The VISA Debit Card continued to show strong growth and more than 22,000 cards were issued during the year. Full year Point of Sales (POS) and ATM usage during 2013 showed an increase of 14% and 10% respectively as compared to 2012. SMS Alerts, E-statements & Silkbank Direct Internet Banking add significant value to the Silkbank product line, enhancing the business stream at the same time.

#### ■ CONSUMER ASSETS

Consumer Asset Operations continued to support Consumer loans, programme-based SMEs and Commercial and Staff loan portfolios with an aggregate portfolio size of Rs. 48 billion. Personal Loan, Ready Line, M<sup>+</sup> Power & Credit Cards remained the core focus with 47,000 customers having aggregate limits exceeding Rs. 19 billion.

## Silkbank Visa Credit Card

The Silkbank VISA Credit Card business witnessed a phenomenal growth during the year 2013 in terms of number of cards and ENR. Silkbank Credit Cards turned out to be the top performer in cards acquisition closing off 2013 with a total base of 19,580 cards. In addition, the business was able to reach the coveted milestone of Rs. 1 billion in receivables on December 31, 2013. The recently introduced Extended Payment Plan (EPP) continued to add value and strength to the card's competitive position in the market and will form a key cornerstone of the strategy to further enhance future ENR / revenue streams.





# Director's Report

for the year ended December 31, 2013

## Emaan Islamic Banking

Emaan Islamic Banking completed its first year of operation in 2013 and added three new branches making the total number of branches ten in eight cities across Pakistan. The three new branches performed well and contributed deposits of Rs. 896 million in nine months of operation. The total deposit book increased by Rs. 1.9 billion during the year and reached Rs 3.9 billion. Murabaha and Musharaka products were approved by SBP and assets amounting to Rs 3.68 billion were deployed in three products with an average yield of 14.3%, which is expected to impact overall profitability very favourably. BancaTakaful with three product variants was launched in alliance with Pak Qatar Family Takaful, which will be one of the key NFI drivers in 2014. Emaan Islamic Banking remained in sync with the Bank's overall strategy on customer service and demonstrated outstanding performance in the area.



## Wholesale Banking Group

### CORPORATE BANKING & MIDDLE MARKET

During the year, Corporate Banking focused on building corporate deposits with an emphasis on Current Accounts. In order to have better synergies and efficiencies, the middle market segment was merged with Corporate Banking and the four branches located in Lahore and Karachi played an important role in building Current Accounts and generating trade business. Going forward, this focus will continue and the target is to fund 40% of the Bank assets by the end of year 2014. To achieve this, a dedicated liability team of Corporate Banking has been formed to target corporate liabilities and also spearhead cash management to generate deposits as well as Current Accounts.

### FINANCIAL INSTITUTION (FI)

FI enhanced correspondent banking network by providing access to more than 400 banks worldwide, enabling smooth and seamless trade, treasury and payment businesses. FI also facilitated Corporate, Middle market & SME clients by arranging import LC confirmations worth USD 40 million by selling bank risk and cross border risk to various top-ranked correspondents across the globe.



### INVESTMENT BANKING (IBG)

The IBG worked on a number of debt raising and restructuring assignments. IBG also enhanced the yield on its Debt Portfolio by recomposing the Debt Capital Market portfolio. IBG led the capital-raising initiative for the Bank through the issuance of preference shares, which was an innovative product, and the transaction was successfully concluded in March 2013, adding Rs. 2.20 billion to the Bank's equity. In addition, IBG has been working on various other capital-raising opportunities for the Bank.

### TREASURY & SWIFT OPERATIONS

Treasury and SWIFT Operations are processing conventional as well as Islamic products. Various initiatives covering printing and documents courier were undertaken during the year to create efficiencies and save costs. Also, centralized posting of transfer pricing was implemented, and substitution of manual dispatch of inter-branch FX confirmations by a system-based email communication resulted in improved process and cost efficiency. Automation was completed in the FE 25 Reserve requirement report to eliminate chances of human error. Automation initiatives also included FX Islamic Ready/Forward deals as well as FX Mark to Market report of the Islamic Treasury. Treasury back office team also established the Disaster Recovery Site set-up as part of regulatory compliance.

## Technology

Information Technology (IT) engaged in a number of technology initiatives during the year. The launch of Silk Cash Manager (Corporate Internet Banking Portal), and as per the SBP mandate, implementation of International Bank Account Number (IBAN) in core banking system were the highlights. Various other technology-based initiatives and multiple integrated information systems were also implemented to facilitate and support the business.



## Human Resource

The Bank took significant initiatives to enhance both professional and personal development through Management Development Programmes and relevant need-based learning interventions, and revamped its Learning & Development approach as well. Learning & Development introduced need-based specific programmes to enhance productivity and efficiency in various business segments, as well as leadership development of senior management.

Going forward, the Human Resource Group, will continue to strengthen its strategic partnership with the businesses to support the Bank and its people to reach the next level.



## Centralized Operations Division (COD)

During the year 2013, the focus of the COD was on improving productivity and efficiency through automation and process re-engineering. The highlights include implementation of digitizing archival documents to provide ready access to archived material and other initiatives to automate day-to-day activities leading to a paperless & error-free environment with greater controls. COD took the leadership role in implementing IBAN by providing necessary training, guidance and coordination between internal stakeholders. COD also played a pivotal role in streamlining the new account opening process together with a bank-wide training initiative to eliminate errors and discrepancies in the account opening process.



## Special Asset Management Group (SAMG)

The SAMG of the Bank has always been able to surpass its allocated targets despite the economic conditions, acute liquidity shortage, energy crisis and the deteriorating law and order situation in the country. As such it once again exceeded its objectives during the year, and contributed a net Rs. 1,842 million to P&L with a total NPL reduction and mark-up recovery of Rs. 2,430 million. It also recovered written off loans of Rs. 5 million and rescheduled NPLs of Rs. 845 million. The Real Estate Asset Management team (REAM) also effectively supported the SAMG by selling off OREO (Other Real Estate Owned) assets of Rs. 4,172 million during the year.

## Service & Quality

True to our core values, the Bank's staff maintained an unwavering customer focus. Mystery Shopping conducted by a leading independent marketing research consultancy indicated a score of 91% customer satisfaction, the highest amongst peer banks.



## Corporate Social Responsibility

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



# Director's Report

for the year ended December 31, 2013

## Board of Directors

In the month of April 2013 the nominee Director of M/s. Nomura International plc, Mr. Arshad Ghafur resigned from the Board. The Board extends its appreciation to Mr. Arshad Ghafur for his very valuable contribution to the Board. To fill the casual vacancy, M/s. Nomura International plc nominated Mr. Faisal Anis Sherwani to replace Mr. Arshad Ghafur and the Board appointed him as Director on April 27, 2013. The Board warmly welcomes Mr. Sherwani and looks forward to benefit from his experience. The current composition of the Board is as under:

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



## Directors' Training

During the year 2013, one of our Directors, Mr. Mohammad Ahmed Mannan completed the Corporate Governance Leadership Skills (CGLS) Programme of the Pakistan Institute of Corporate Governance.

## Corporate and Financial Reporting Framework

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

- The financial statements prepared by the management of the Bank, present fairly its state of affairs, the result of its operation, cash flow and changes in equity.
- Proper books of account of the Bank have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Financial Reporting Standards as applicable in Pakistan have been followed in preparation of financial statements and any departure therefrom has been adequately disclosed.

- The system of internal control is sound in design and has been effectively implemented and monitored. Management's statement on internal control is enclosed herewith which is endorsed by the Board as required by the State Bank of Pakistan. The Board is ultimately responsible for the Bank's system of internal control and reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve objectives and by its nature can provide only reasonable and not absolute assurance against material misstatement or loss.

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

- An audit committee has been formed which has written terms of reference and reports to the Board. It reviews the approach adopted by the Bank's internal audit department, as well as the scope of and its relationship with the external auditors. It also receives reports from the internal audit, and any material control weakness that is identified is discussed and agreed actions are taken in areas of concern.
- An organization structure has been established that supports clear lines of communication and tiered levels of authority with the delegation of appropriate responsibility and accountability.
- Business strategies agreed at divisional level are approved by the Board. In addition, there is an annual budgeting and strategic planning process. These strategies are reviewed during the year to reflect any significant changes in the business environment.
- The principal features of control framework include:
  - Evaluation and approvals procedures for major capital expenditure and other transactions.
  - Regular reporting and monitoring of financial performance using operating statistics and monthly management accounts which highlight key performance indicators and variance from budget and quarterly forecasts.
  - Review of the health, safety, environment and contingency management processes and other significant policies.





- Further, reviews of the system of internal control are also carried out by the internal audit department and management conclusions on internal control are confirmed by divisional management to the Board.
- There are no significant doubts upon the Bank's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.

## Risk Management Framework

Concerted efforts for the improvement of the Risk Management Functions have been carried out over the years, which have resulted in better control & risk environment plus creating an overall "Risk Culture" within the Bank. The following are some important aspects of the Risk Management Function at Silkbank Limited:



### CREDIT RISK

Independent Risk Management Units catering to the Corporate / Commercial / SME and Consumer segments are fully operational, clearly following laid-out Policies and Procedures formulated in the form of Policies / Manuals and Product Programmes. Credit Risk is thus continuously monitored by the respective sanctioning units. Broad-based Credit Approval authority has also been delegated to various approvers for credit sign-off. Credit Administration units are in place for all segments of the Bank, effectively handling all documentation and safe keeping. The Bank has its own Obligor Risk Rating (ORR) models / systems for Corporate, Commercial and SMEs, which are regularly reviewed / updated. Besides, RMG also has a robust EWS reporting system in place. These processes are capable of identifying problem loans at an early stage for timely remedial actions. Results for establishing these systems are now beginning to reflect in the management letter issued by the external auditors and the annual reports compiled by the SBP inspection teams through reduced instances of system and procedure failures.

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

efficient manner. Besides various management committees of the bank, Credit Risk is also overviewed by the Risk Committee of the Board on an ongoing basis. Regular guidance is sought from the Board on credit-related matters and the findings implemented in letter and spirit. Marked reduction in NPL portfolio has ensued resultantly.

### MARKET RISK

A Middle Office function (Independent of the Treasury) has been established within the Bank with the primary responsibility of monitoring the market risk function and reporting to the Head of Risk Management Group. Investment Committee (IC), Market Risk Policy Committee (MRPC) and Asset and Liabilities Committee (ALCO) are also functioning to supervise and approve Market Risk exposures. At Silk Bank, we have a well-defined Liquidity Policy, duly approved by the Board. Presently, various Excel-based tools are in use to generate MIS on Market Risk and reporting to the senior management and regulators. We are also in the process of setting up the "T-Risk Module" that is capable of generating sophisticated modelling reports.

### OPERATIONAL RISK

Under Operational Risk, appropriate Operational Policies and Procedures have been documented and disseminated for managing operational risk. An Internal Control Unit is also operational with the primary task of over-viewing and ensuring implementation of various operational guidelines and monitoring proofs and reconciliation across the Bank. Additionally, an independent Internal Audit function is also in place within the Bank, reporting to the Audit Committee of the Board. A Proper Compliance Department is also functional, inter alia, to ensure that all legal and regulatory requirements are properly addressed in addition to the implementation of Anti-Money Laundering and Know your Customer (AML/KYC) Policies.

In this respect, appropriate training to relevant staff has been imparted, including training on strict monitoring of transactions and AML/KYC. Business Continuity Plan (BCP) is also in place to deal with any eventuality. Self-Assessment of Key Risk Indicators (KRI's) and compliance of standards, codes and guidelines is regularly carried out and documented.



# Director's Report

for the year ended December 31, 2013

## Board of Director's Meetings

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

Name of Attendants	Board Meetings		Audit Committee Meetings		Human Resource Committee Meetings		Risk Committee Meetings	
	Held during directorship	Attended	Held during directorship	Attended	Held during directorship	Attended	Held during directorship	Attended
Mr. Munnawar Hamid, DBE	06	06			04	04		
Mr. Humayun Bashir	06	05	04	04	04	04		
Mr. Javed Hamid	06	06	04	04	04	04		
Mr. Sadeq Sayeed	06	06	04	04				
Mr. Tariq Iqbal Khan	06	06					04	04
Mr. Shamsul Hasan	06	05					04	03
Mr. Arshad Ghafur	03	00						
Mr. Faisal Anis Sherwani	03	03						
Mr. Mohammad Ahmed Mannan	06	06					04	04
Mr. Azmat Tarin	06	05			04			03

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

## Pattern of Shareholding

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

### Combined Pattern of CDC & Physical Share Holdings as at December 31, 2013

S. No.	Categories of Shareholders	Number of Shareholders	Shares held	Percentage
01	Directors and their spouse(s) and minor children	9	123,044,032	4.61
02	Associated Companies, Undertakings and Related Parties*	4	1,976,735,553	73.99
03	Executives	15	7,689,542	0.29
04	Public sector companies and corporations	7	22,112,652	0.83
05	Banks, Development Finance Institutions, Non-Banking Finance Companies, Insurance Companies, Takaful, Modarabas and Pension Funds	7	1,849,540	0.07
06	Mutual Funds	3	28,636,930	1.07
07	Foreign Companies	4	27,607,372	1.03
08	General Public - Foreign	5	4,093,690	0.15
09	General Public - Local	6,636	266,037,651	9.96
10	Others	87	213,797,865	8.00
	<b>Total</b>	<b>6,777</b>	<b>2,671,604,827</b>	<b>100.00</b>

\*This does not include, one hundred and two million (102,000,000) shares of Mr. Shaikat Tarin, kept in repo transaction.



**The aggregate shares held by the Directors, Chief Executive and their spouse and minor children along with Associated Companies, Undertakings and Related Parties  
As at December 31, 2013**

S. No.	Categories of Shareholders	Number of Shares held	Category-wise No. of Folios / CDC Acs.	Category-wise Shares held	Percentage
<b>S. No.</b>	<b>Directors, Chief Executive Officer and their Spouse and Minor Children</b>		<b>9</b>	<b>123,044,032</b>	<b>4.61%</b>
01	Munnawar Hamid, OBE	3,699			
02	Humayun Bashir	3,699			
03	Javed Hamid	500			
04	Sadeq Sayeed	102,817,019			
05	Tariq Iqbal Khan	5,000			
06	Shamsul Hasan	500			
07	Mohammad Ahmed Mannan	500			
08	Azmat Tarin	20,013,115			
09	Farah Naz Tarin w/o Mr. Azmat Tarin	200,000			
<b>S. No.</b>	<b>Associated Companies, Undertakings and Related Parties. (5% &amp; above shareholding).</b>		<b>4</b>	<b>1,976,735,553</b>	<b>73.99%</b>
01	International Finance Corporation	702,689,067			26.30%
02	Shaukat Fayyaz Ahmad Tarin*	601,593,175			22.52%
03	Nomura European Investment Limited	356,676,342			13.35%
04	Bank Muscat S.A.O.G	315,776,969			11.82%
<b>S. No.</b>	<b>Mutual Funds</b>		<b>4</b>	<b>28,636,930</b>	<b>1.07%</b>
01	Prudential Stock Fund Ltd.	1,542	0.00		
02	National Bank of Pakistan-Trustee Department NI(UT) Fund	27,908,004	1.04		
03	CDC - Trustee Nit-Equity Market Opportunity Fund	727,384	0.03		

\*This does not include one hundred and two million (102,000,000) shares of Mr. Shaukat Tarin, kept in repo transaction.

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

#### AUDITORS

The retiring auditors, being eligible, offer themselves for re-appointment till the conclusion of the next Annual General Meeting. The Audit Committee of the Board has recommended M/s. M. Yousuf Adil Saleem & Co., Chartered Accountants (Deloitte Pakistan), the retiring auditors, as the statutory auditors of the Bank for the financial year 2014.

#### CREDIT RATING

The long term entity rating of the Bank is A- (Single A Minus) and the short-term rating is A-2 (A-Two) as determined by "JCR VIS" Credit Rating Company Limited. The outlook on the assigned rating is "Stable".

#### FUTURE OUTLOOK


There have been significant improvements by the Bank to decrease the loss at margin level and with a clear strategy in place explained above and in previous reports, the Bank is definitely expected to improve profitability. Further, the Bank is making headway in discussions with various strategic and non-strategic investors to improve the MCR and CAR of the Bank before June 30, 2014.

#### ACKNOWLEDGEMENT

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

For and on Behalf of the Board of  
Silkbank Limited

Karachi, February 27, 2014

  
Munnawar Hamid, OBE  
Chairman



# Statement of Compliance with the Code of Corporate Governance for the year ended December 31, 2013

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

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

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

Category	Names
Independent Directors	Mr. Munnawar Hamid, OBE Mr. Humayun Bashir Mr. Tariq Iqbal Khan, FCA
Non-Executive Directors	Mr. Javed Hamid Mr. Sadeq Sayeed Mr. Shamsul Hasan Mr. Faisal Anis Sherwani
Executive Directors	Mr. Mohammad Ahmed Manian Mr. Azmat Tarin

The Independent directors meet the criteria of independence under clause 1 (b) of the CCG.

2. The Directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Bank.
3. All the resident Directors of the Bank are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. A casual vacancy occurring on the Board on April 27, 2013 was filled up by the directors on the same day.
5. The Bank has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Bank along with its supporting policies and procedures.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Bank. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a Director elected by the Board for this purpose, and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers were appropriately recorded and circulated.

09. The Board has been provided with the revised Code along with briefings on various stages in order for them to properly manage the affairs of the Bank as representatives of members of the Bank. Two Directors of the Bank have been certified from Pakistan Institute of Corporate Governance (PICG). Further, four Directors of the Bank stand exempted, under the criteria given in Clause (xi) of the Code, from Director's Training Programme. The rest of the Directors will obtain required certification within the prescribed time up to June 30, 2016. All the directors on the Board are fully conversant with their duties and responsibilities as directors of the Bank.
10. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.
11. The Directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Bank were duly endorsed by the CEO and CFO, before approval of the Board.
13. The Directors, CEO and executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.
14. The Bank has complied with all the corporate and financial reporting requirements of the CCG.
15. The Board has formed an Audit Committee. It comprises three members, of whom two are non-executive directors and the chairman of the committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Bank and as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has formed Human Resource Committee. It comprises four members, majority of whom are non-executive directors, including two independent directors. The chairman of the committee is an also independent director.
18. The Board has set up an effective internal audit function with qualified and experienced professionals, for the purpose duly conversant with the policies and procedures of the Bank.
19. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review programme of the ICAP, that they, or any of the partners of the firm, their spouses and minor children, do not hold shares of the Bank and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Bank's securities, was determined and intimated to directors, employees and stock exchange(s).
22. Material/price sensitive information has been disseminated among all market participants at once, through stock exchange(s).
23. We confirm that all other material principles enshrined in the CCG have been complied with.

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



Azmat Tarin  
President & CEO

Karachi, February 27, 2014



Munnawar Hamid OBE  
Chairman



## Management's Statement on Internal Control as of December 31, 2013

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

Maintaining effective controls is an integral part of the management and accountability function in Silkbank. The focus of internal control both as a concept and a management tool has evolved over the years to a broad-based risk assessment and mitigation system covering all areas of operations in the Bank.

As part of the strategy to ensure effective monitoring and improvement of internal controls, the Bank has implemented the COSO framework of internal controls, in line with regulatory guidelines (ICFR) and COSO implementation (BSD-7). With regular monitoring and improvement of the defined controls, the overall control environment in the Bank is now geared to provide reasonable assurance to the Bank's management, and other stakeholders, which will continue to improve with time.

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

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

- In order to meet the SBP requirements on internal control, the Bank has acquired the services of a reputable consultancy firm for guidance and documenting the existing controls. Based on their recommendations, the Bank has implemented the COSO framework of internal controls.
- The Bank has adopted a statement of ethics and business practices that is signed by all directors and employees. Further, the compliance function also ensures Bank's compliance with all applicable laws, regulations and code of ethics.
- An organization structure has been established which supports clear lines of communication and tiered levels of authority and segregation of duties commensurate with accountability.
- The Bank has established an effective Internal Audit structure, reporting directly to the Audit Committee of the Board.
- An Internal Control Department is established to proactively monitor and validate Controls in line with Regulatory guidelines (ICFR) and COSO implementation (BSD-7).
- The management has established evaluation and approval procedures for all major capital expenditures and other activities/transactions.
- The Bank has implemented various key policies and procedure guidelines/manuals covering all the areas of management and operations, including those related to Branch Banking Operations, Centralized Operations, Trade Business, Treasury, Credit Risk, HR, Finance, Compliance and Administration.



- Management gives due consideration to the recommendations made by the internal and external auditors for improvements in the internal control system and takes action to implement such recommendations.
- The management has established evaluation and approval procedures for all major capital expenditure and other transactions.
- There is an annual budgeting and strategic planning process in the Bank. Financial forecasts are reviewed on a periodical basis to reflect significant change in the business environment. Regular reporting and monitoring of financial performance of the departments and the Bank as a whole has been implemented, using statistics and monthly management accounts to highlight key performance indicators and variance from budgets and forecasts.
- The Bank has implemented various significant policies covering all the areas of operations, including those relating to employees welfare and contingency management processes. The policies are reviewed periodically.
- Management also emphasizes on imparting of training to enhance knowledge and understanding of the Bank's internal policies and procedures and prudential regulations. This has resulted in the strengthening of the control environment.

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

Karachi, February 27, 2014



Azmat Tarin  
President & CEO

## Notice of the 20<sup>th</sup> Annual General Meeting

Notice is hereby given that the Twentieth Annual General Meeting of Silkbank Limited will be held on Thursday, March 27, 2014 at 10:30 am at the Beach Luxury Hotel, Karachi, to transact the following business:

### Ordinary Business:

1. To confirm the minutes of Nineteenth Annual General Meeting held on March 28, 2013.
2. To receive, consider and adopt the audited financial statements of the Bank for the year ended December 31, 2013 together with the Directors' and Auditors' reports thereon.
3. To appoint auditors to hold office till the conclusion of the next Annual General Meeting and to fix their remuneration.

### Any Other Business

To transact any other business with the permission of the Chair.

By the Order of the Board

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

Karachi, March 05, 2014

### Notes:

- The Share Transfer Book of the Bank will remain closed from **March 21, 2014 to March 27, 2014** (both days inclusive).
- A member entitled to attend and vote at this meeting may appoint another member as his/her proxy to attend and vote. Proxies in order to be effective must be received at the registered office of the Bank duly stamped and signed not less than 48 hours before the meeting.
- Members whose shares are deposited with the Central Depository Company of Pakistan Limited are requested to bring Original Computerized National Identity Card along with the participant's I.D. number and their account number in Central Depository Company of Pakistan Limited to facilitate identification at the time of Annual General Meeting. In case of proxy, an attested copy of proxy's Identity Card, Account and Participant's I.D. number be enclosed. In case of corporate entity, the Board of Directors' resolution/power of attorney with the specimen signature of the nominee shall be produced at the time of the meeting (unless it has been provided earlier or the corporate entity has appointed a proxy).
- Members are requested to promptly notify the Bank of any change in their addresses.

# Auditor's Review

# Deloitte.

M. Yousuf Adil Saleem & Co.  
Chartered Accountants  
Cavish Court, A-35, Block 7 & 8 KCHSU,  
Shara-e Faisal, Karachi-75350, Pakistan

Telephone +92 (21) 1234 5678  
Fax +92 (21) 1234 5678  
Internet [www.deloitte.com](http://www.deloitte.com)

## ***Review Report to the Members on Statement of Compliance with the Best Practices of the Code of Corporate Governance***

We have reviewed the Statement of Compliance with the best practices (the Statement) contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of Silkbank Limited (the Bank) to comply with the Regulation G - 1 of the Prudential Regulations for Corporate / Commercial Banking issued by the State Bank of Pakistan and Listing Regulation No. 35 of the Karachi, Lahore and Islamabad Stock Exchanges, where the Bank is listed.

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

As part of our audit of financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Bank's corporate governance procedures and risks.

Further, Listing Regulation of Karachi, Lahore and Islamabad Stock Exchanges require the Bank to place before the Board of Directors for their consideration and approval of related party transactions, distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price, recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code as applicable to the Bank for the year ended December 31, 2013.

Chartered Accountants

Karachi, February 27, 2014



# Independent Auditors' Report to the Members

# Deloitte.

M. Yousuf Adil Saleem & Co.  
Chartered Accountants  
Cavish Court, A-35, Block 7 & 8 KCHSU,  
Sharae Faisal, Karachi-75350, Pakistan

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Fax +92 (21) 1234 5678  
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## Auditors' Report to the Members

We have audited the annexed statement of financial position of **Silkbank Limited** (the Bank) as at December 31, 2013 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for seven branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- a) in our opinion, proper books of account have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984), and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- b) in our opinion:
  - i) the statement of financial position and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except as disclosed in note 4.1 to the accompanying financial statements with which we concur;
  - ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
  - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;
- c) in our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at December 31, 2013 and its true balance of loss, its comprehensive income, its cash flows and changes in equity for the year then ended; and

# Independent Auditors' Report to the Members

- d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

## ***We draw attention to the following matters:***

- i. Note 1.3 to the financial statements which highlights that the Bank has not been able to meet the minimum capital requirement and the capital adequacy ratio requirement prescribed by the State Bank of Pakistan (SBP). 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 SBP to meet the capital requirement and has also been allowed relaxation from provisioning against investment and loans and advances as explained in notes 10.11.1, 11.3.1, 11.3.2 and 11.3.3 to the financial statements.
- ii. Note 13 to the financial statements relating to deferred tax asset where management has disclosed that the Bank based on financial projections for taxable profits for five years, which have been approved by the Board of Directors, will be able to realise the deferred tax asset of Rs. 3,839 million. The preparation of projections involve management's assumptions regarding future business and economic conditions and capital injection and therefore any significant change in such assumptions or actual outcome that is different from assumptions, may have an effect on the realisability of the deferred tax asset in future.

Our opinion is not qualified with respect to above matters.

The financial statements of the Bank for the year ended December 31, 2012 were audited by another firm of chartered accountants who through their report dated March 01, 2013 expressed an unqualified opinion thereon. However, their report contained the above-mentioned emphasis of matter paragraphs. In addition, their report emphasized on matters relating to acquisition of various properties in satisfaction of claim, payments made to parties for certain non-banking asset acquisitions and subjectivities involved in valuation of undeveloped properties.

Karachi, February 27, 2014

Chartered Accountants

Engagement Partner:  
Asad Ali Shah

# *Shari'a Advisor's Report Emaan Islamic Banking, Silkbank Ltd. for the year ended December 31, 2013*



February 17, 2014

The Shari'a Advisor confirms that, for the year ended 31st December 2013, he has:

- In collaboration with different departments within the Bank and in line with the expansion of Islamic banking business, reviewed and approved different Shari'a-compliant products. Furthermore, the Shari'a Advisor reviewed and endorsed all relevant documents and material that were submitted to him for approval, in addition to the review of the proposed amendments made in the liability product papers etc., in compliance with SBP instructions and guidelines.
- Received various queries and requests from different quarters in the Bank, and responded in an adequate manner, issuing numerous Fatawa in the process.
- Reviewed the schedules of charges (SOCs) that were periodically submitted for his approval, made necessary amendments, and vetted those charges that were in compliance with principles of Shari'a.
- Reviewed, amended where appropriate, and approved all the profits distributed on a monthly basis till date, and is of the view that the allocation of funds, weightages, profit sharing ratios, and the monthly distribution of profits amongst the shareholders and remunerative account holders has been made in line with the principles of Shari'a.



- Designed an extensive programme for the training of the Bank's staff in areas of Islamic Banking and Finance, and conducted a series of comprehensive training sessions on Islamic Orientation, The Fundamentals of Islamic Banking, Islamic Financial Contracts, Mudaraba and Profit Distribution Mechanism and Misconceptions about Islamic Banking in Islamabad, Lahore and Karachi.
- Studied the financial statements of the Bank for the year 2013 in detail, and is of the opinion that the financial statements for 2013 are in order.
- Adequately expressed his opinion on all queries and matters posed by the State Bank of Pakistan.
- Supervised an extensive Shari'a Audit of the Bank's branches conducted by the Shari'a Department staff of the bank in September - October 2013, reviewed the consequent Shari'a audit report, and issued appropriate instructions with respect to all areas that were found to be lacking, providing specific timelines for compliance with the same by the management of the Bank.

Moreover, The management of the Bank has undertaken to convert the existing conventional staff finance into Shari'a-compliant facilities, and to bring health insurance, car insurance, etc. for the Bank's staff under the umbrella of Takaful, by the end of the first quarter of 2014 In Sha Allah, after previous efforts failed to bear fruit.

The responsibility to ensure compliance with Shari'a tenets and principles that outline permissible activities and prohibitions lies principally on the management of the Bank. Nevertheless, based on the above, the findings of the Shari'a Audit, and review of all relevant documents and procedures conducted till date, the Shari'a Advisor confirms that the Bank adequately conforms to the rules and principles of Shari'a, the rules, regulations and guidelines for Shari'a compliance and other rules issued by SBP, and the Fatawa issued by the Shari'a Advisor.

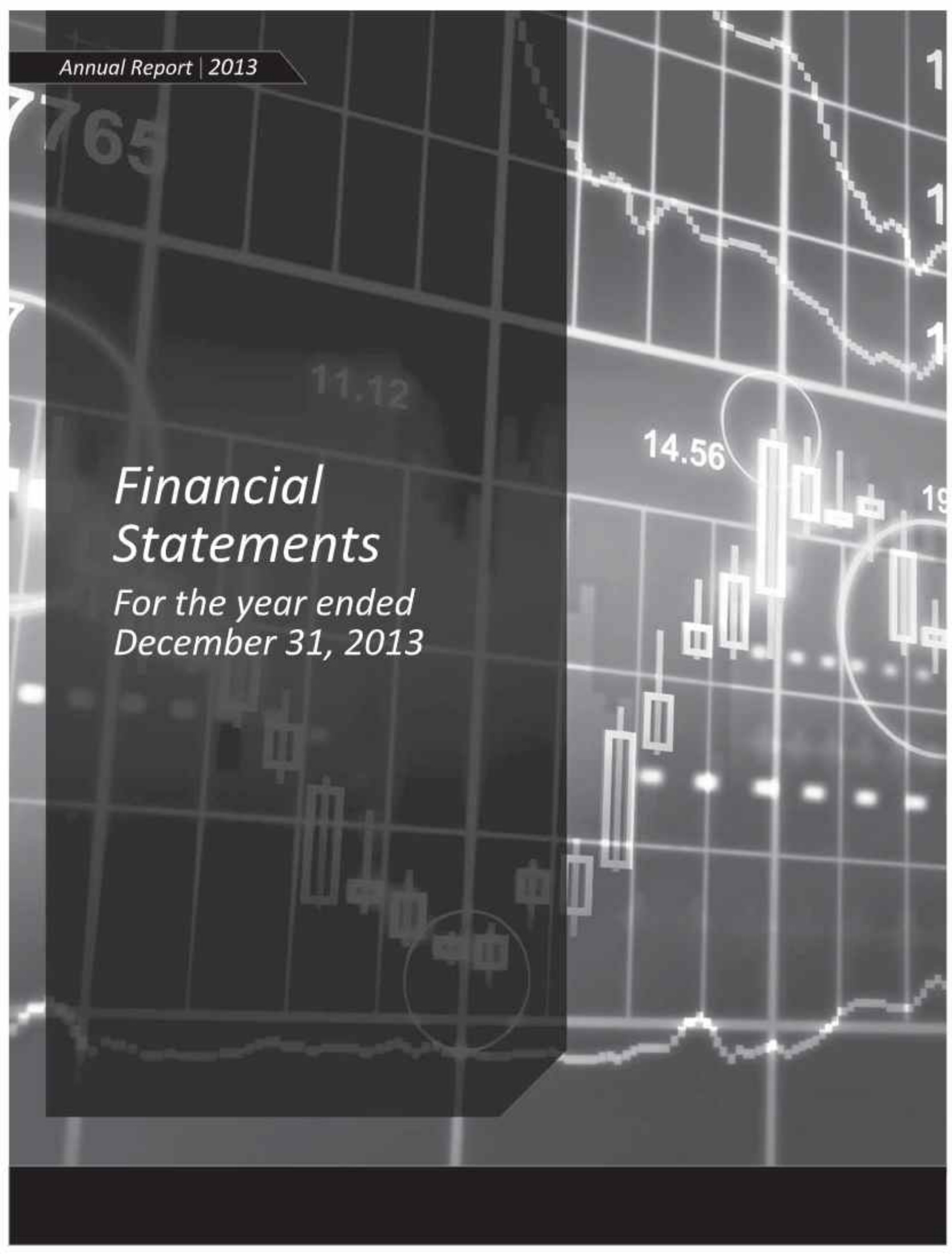


**Mufti Syed Adnan Kakakhail**  
**Shari'a Advisor**  
**Emaan Islamic Banking**  
**(Division of Silkbank)**  
**Islamabad**

Mufti Syed Adnan Kakakhail  
 Shari'a Advisor  
 Emaan Islamic Banking, Silkbank Ltd.

# *Financial Statements*

*For the year ended  
December 31, 2013*







## Six Years Financial Highlights

Rupees in million

	2013	2012	2011	2010	2009	2008	
<b>BALANCE SHEET</b>							
Share capital	13,431	13,431	13,431	13,431	9,003	9,003	
Reserves	163	163	139	-	225	219	
Deposits and other accounts	69,433	69,050	64,072	55,706	49,610	41,057	
Sub-ordinated loan	-	-	-	-	-	-	
Borrowings from financial institutions	11,382	11,377	17,782	9,871	15,088	8,739	
Total Assets	91,800	89,080	90,670	72,669	68,664	55,645	
Gross Advances	61,521	54,079	55,309	52,925	40,592	38,187	
Advances-Net of provisions	56,088	49,060	49,936	44,354	32,097	31,087	
Non performing Advances	9,872	10,817	11,023	12,360	11,891	12,845	
Investments - net of provisions	14,853	12,735	17,548	13,190	20,179	12,012	
Equity	6,675	5,373	5,639	4,834	1,763	4,391	
Provision Held	5,432	5,018	5,373	8,570	8,495	7,100	
Provision Held / NPL	55.03%	46.39%	48.74%	69.34%	71.43%	55.27%	
Provision Held / Total Advances	8.83%	9.28%	9.71%	16.19%	20.93%	18.59%	
<b>PROFIT AND LOSS ACCOUNT</b>							
Mark-up/return/interest earned	7,622	8,584	8,386	6,776	5,913	4,588	
Mark-up/return/interest expensed	(5,463)	(6,681)	(6,515)	(5,927)	(5,856)	(4,219)	
Net mark-up/ interest earned	2,160	1,902	1,871	849	58	369	
Provisions and Write off	(633)	580	2,630	(228)	(2,309)	(1,642)	
Net mark-up / interest income/(loss) after provisions	1,526	2,483	4,501	621	(2,252)	(1,273)	
Non-markup/interest income	1,325	1,065	847	1,185	662	385	
Non-markup/interest expenses	(4,379)	(4,077)	(3,988)	(3,041)	(2,663)	(1,946)	
(Loss)/Profit before Taxation	(1,528)	(529)	1,359	(1,236)	(4,252)	(2,834)	
(Loss)/Profit After Taxation	(1,157)	(344)	695	(1,131)	(2,903)	(2,014)	
<b>FINANCIAL RATIOS</b>							
Income / Expense Ratio	Times	0.796	0.728	0.681	0.669	0.270	0.387
Return on average Equity (ROE)	%	(19.20)	(6.25)	13.27	(34.29)	(94.34)	(61.30)
Return on average Assets (ROA)	%	(1.28)	(0.38)	0.85	(1.60)	(4.67)	(3.69)
NPLs to Gross Advances ratio	%	16.05	20.00	19.93	23.35	29.29	33.64
Earning assets to Total Assets ratio	%	77.77	75.66	77.85	80.63	77.69	79.93
Earnings per share	Rs	(0.43)	(0.13)	0.26	(0.49)	(2.52)	(2.83)
Gross spread ratio (NIM/Gross interest income)	%	28.33	22.16	22.31	12.53	0.98	8.05
<b>NON FINANCIAL INFORMATION</b>							
Number of branches		88	85	85	82	65	55
Number of employees		2886	2750	2564	2179	1959	1721

# Value Added Statement

	2013		2012	
	Rs '000	%	Rs '000	%
<b>STATEMENT OF VALUE ADDED</b>				
<b>Value Added</b>				
Net Interest Income	2,159,756	188	1,902,228	87
Non Interest Income	1,324,580	115	1,064,666	49
Operating Expenses excluding staff costs, depreciation and amortization	(1,699,887)	(148)	(1,360,498)	(62)
Provision against advances, investments & others	(633,475)	(55)	580,489	27
<b>Value added for distribution</b>	<b>1,150,974</b>	<b>100</b>	<b>2,186,885</b>	<b>100</b>
To employees				
Remuneration, provident fund and other benefits	2,186,478	190	2,253,052	103
To government				
Income tax	(371,516)	(32)	(184,998)	(8)
To expansion and growth				
Depreciation	407,075		387,419	
Amortization	85,499		75,683	
Retained Earnings	(1,156,562)		(344,271)	
	(663,988)	(58)	118,831	5
	<b>1,150,974</b>	<b>100</b>	<b>2,186,885</b>	<b>100</b>

## Horizontal Analysis

	2013 Rs M	13 Vs 12 %	2012 Rs M	12 Vs 11 %	2011 Rs M	11 Vs 10 %	2010 Rs M	10 Vs 09 %	2009 Rs M	09 Vs 08 %	2008 Rs M	08 Vs 07 %
<b>Balance sheet</b>												
<b>ASSETS</b>												
Cash and balances with treasury banks	5,362	34%	4,007	-10%	4,436	30%	3,415	9%	3,121	2%	3,070	-5%
Balances with other banks	226	163%	85	-9%	94	6%	89	-41%	151	-21%	190	47%
Lending to financial institutions	447	-92%	5,602	81%	3,101	195%	1,051	-2%	1,068	-22%	1,377	64%
Investments	14,853	17%	12,735	-27%	17,548	33%	13,190	-35%	20,179	-68%	12,012	-33%
Advances	56,088	14%	49,060	-2%	49,936	13%	44,354	38%	32,097	3%	31,087	20%
Operating fixed assets	4,692	1%	4,637	-2%	4,756	95%	2,444	-34%	3,721	24%	3,002	27%
Deferred tax assets (net)	3,839	6%	3,605	1%	3,569	-15%	4,193	5%	3,976	52%	2,614	48%
Other assets	6,293	-33%	9,348	29%	7,230	84%	3,933	-10%	4,351	90%	2,292	43%
<b>TOTAL ASSETS</b>	<b>91,800</b>	<b>3%</b>	<b>89,080</b>	<b>-2%</b>	<b>90,670</b>	<b>25%</b>	<b>72,669</b>	<b>6%</b>	<b>68,664</b>	<b>23%</b>	<b>55,645</b>	<b>4%</b>
<b>LIABILITIES</b>												
Bills payable	2,747	39%	1,979	18%	1,679	101%	837	31%	638	48%	432	-24%
Borrowings from financial institutions	11,382	0%	11,377	-36%	17,782	80%	9,871	-35%	15,088	73%	8,739	27%
Deposits and other accounts	69,433	1%	69,050	8%	64,072	15%	55,706	12%	49,610	21%	41,057	-3%
Sub-ordinated loan	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	100%	10	-74%	40	-50%
Other liabilities	1,562	20%	1,302	-13%	1,499	5%	1,421	-9%	1,555	57%	987	7%
<b>TOTAL LIABILITIES</b>	<b>85,125</b>	<b>2%</b>	<b>83,708</b>	<b>-2%</b>	<b>85,032</b>	<b>25%</b>	<b>67,855</b>	<b>1%</b>	<b>66,901</b>	<b>31%</b>	<b>51,254</b>	<b>0%</b>
<b>NET ASSETS</b>	<b>6,675</b>	<b>24%</b>	<b>5,373</b>	<b>-5%</b>	<b>5,639</b>	<b>17%</b>	<b>4,834</b>	<b>174%</b>	<b>1,763</b>	<b>-60%</b>	<b>4,391</b>	<b>101%</b>
<b>REPRESENTED BY</b>												
Share capital	26,716	-	26,716	-	26,716	-	26,716	197%	9,003	0%	9,003	80%
Reserves	163	-	163	17%	139	-	-	-100%	225	3%	219	0%
Discount on issue of rights shares	(13,285)	-	(13,285)	-	(13,285)	-	(13,285)	-	-	-	-	-
Accumulated loss	(9,527)	-14%	(8,381)	-4%	(8,055)	6%	(8,614)	5%	(9,031)	-47%	(6,132)	-49%
Surplus on revaluation of assets (net of tax)	408	155%	160	30%	123	627%	17	-99%	1,566	20%	1,301	21%
Convertible preference shares	2,200	-	-	-	-	-	-	-	-	-	-	-
	<b>6,675</b>	<b>24%</b>	<b>5,373</b>	<b>-5%</b>	<b>5,639</b>	<b>17%</b>	<b>4,834</b>	<b>174%</b>	<b>1,763</b>	<b>-60%</b>	<b>4,391</b>	<b>101%</b>
<b>PROFIT AND LOSS ACCOUNT</b>												
Mark-up/return/interest earned	7,622	-11%	8,584	2%	8,386	24%	6,776	15%	5,913	29%	4,588	-4%
Mark-up/return/interest expensed	(5,463)	-18%	(6,681)	3%	(6,515)	10%	(5,927)	1%	(5,856)	39%	(4,219)	-5%
Net mark-up/ interest earned	2,160	14%	1,902	2%	1,871	120%	849	1369%	58	-84%	369	3%
Provisions and Write off	(633)	-209%	580	-78%	2,630	-1253%	(228)	-90%	(2,309)	41%	(1,642)	-48%
Net mark-up / interest income/(loss) after provisions	1,526	-39%	2,483	-45%	4,501	625%	621	-72%	2,252	-277%	(1,273)	-54%
Non-markup/interest income	1,325	24%	1,065	26%	847	-29%	1,185	79%	662	72%	385	-51%
Non-markup/interest expenses	(4,379)	7%	(4,077)	2%	(3,988)	31%	(3,041)	14%	(2,663)	37%	(1,946)	47%
(Loss)/Profit before Taxation	(1,528)	189%	(529)	-139%	1,359	-210%	(1,236)	-71%	(4,252)	50%	(2,834)	-15%
Taxation	372	101%	185	-128%	(664)	-736%	104	-92%	1,350	65%	820	194%
<b>(Loss)/Profit After Taxation</b>	<b>(1,157)</b>	<b>236%</b>	<b>(344)</b>	<b>-150%</b>	<b>695</b>	<b>-161%</b>	<b>(1,131)</b>	<b>-61%</b>	<b>(2,902)</b>	<b>44%</b>	<b>(2,014)</b>	<b>-34%</b>

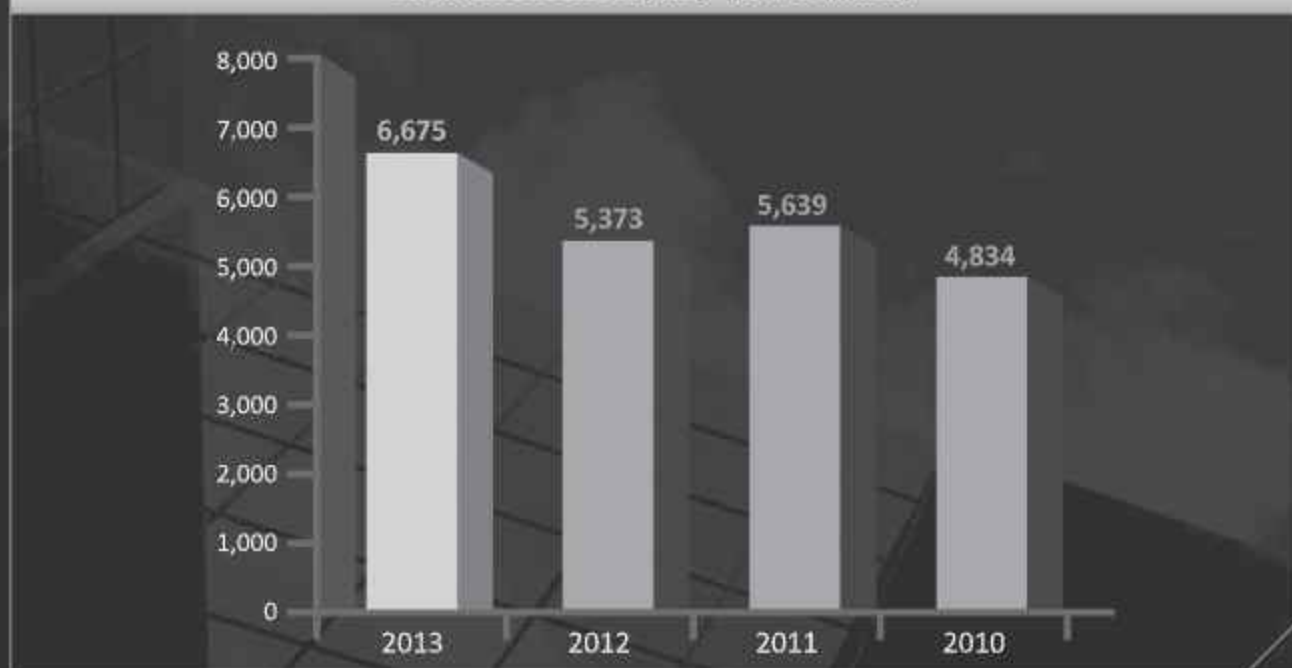


# Vertical Analysis

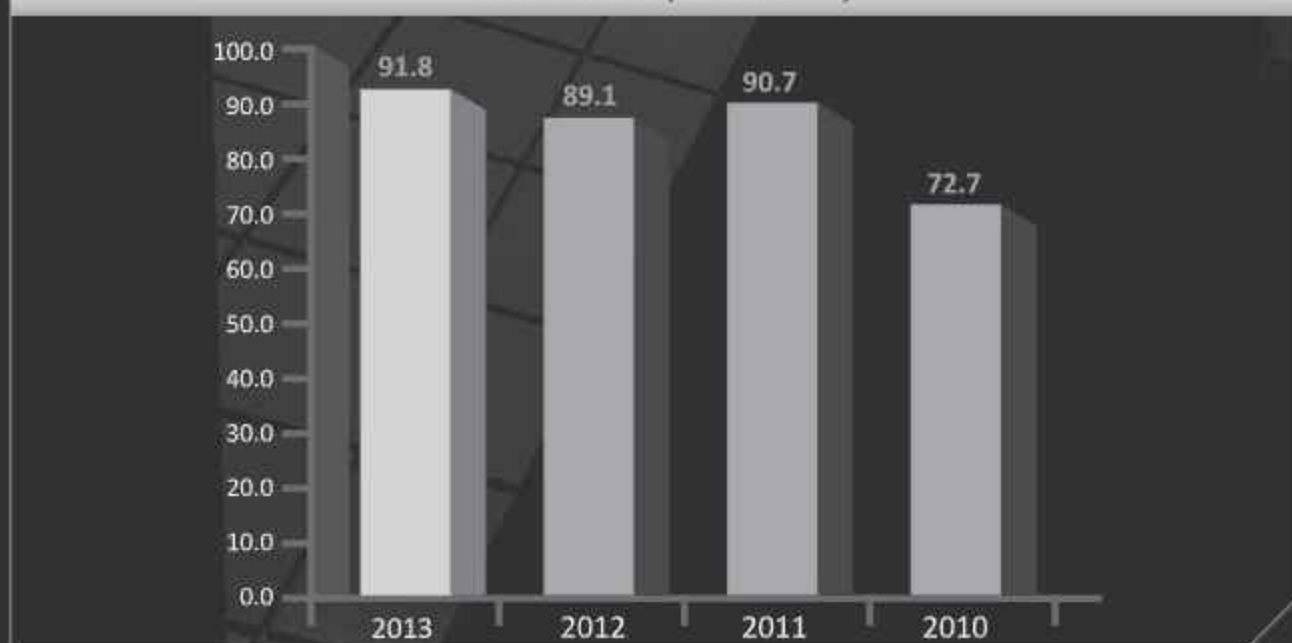
	2013	13 Vs 12	2012	12 Vs 11	2011	11 Vs 10	2010	10 Vs 09	2009	09 Vs 08	2008	08 Vs 07
	Rs M	%	Rs M	%	Rs M	%	Rs M	%	Rs M	%	Rs M	%
<b>Balance sheet</b>												
<b>ASSETS</b>												
Cash and balances with treasury banks	5,362	6%	4,007	4%	4,436	5%	3,415	5%	3,121	5%	3,070	6%
Balances with other banks	226	0%	86	0%	94	0%	89	0%	151	0%	190	0%
Lending to financial institutions	447	0%	5,602	6%	3,101	3%	1,051	1%	1,068	2%	1,377	2%
Investments	14,853	16%	12,735	14%	17,548	19%	13,190	18%	20,179	29%	12,012	22%
Advances	56,088	61%	49,060	55%	49,936	55%	44,354	61%	32,097	47%	31,087	56%
Operating fixed assets	4,692	5%	4,637	5%	4,756	5%	2,444	3%	3,721	5%	3,002	5%
Deferred tax assets (net)	3,839	4%	3,605	4%	3,569	4%	4,193	6%	3,976	6%	2,614	5%
Other assets	6,293	7%	9,348	10%	7,230	8%	3,933	5%	4,351	6%	2,292	4%
<b>TOTAL ASSETS</b>	<b>91,800</b>	<b>100%</b>	<b>89,080</b>	<b>100%</b>	<b>90,670</b>	<b>100%</b>	<b>72,669</b>	<b>100%</b>	<b>68,664</b>	<b>100%</b>	<b>55,645</b>	<b>100%</b>
<b>LIABILITIES</b>												
Bills payable	2,747	3%	1,979	2%	1,679	2%	837	1%	638	1%	432	1%
Borrowings from financial institutions	11,382	12%	11,377	13%	17,782	20%	9,871	14%	15,088	22%	8,739	16%
Deposits and other accounts	69,433	76%	69,050	78%	64,072	71%	55,706	77%	49,610	72%	41,057	74%
Sub-ordinated loan	-	-	-	-	-	-	-	-	10	0%	40	0%
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	10	0%	40	0%
Other liabilities	1,562	2%	1,302	1%	1,499	2%	1,421	2%	1,555	2%	987	2%
<b>TOTAL LIABILITIES</b>	<b>85,125</b>	<b>93%</b>	<b>83,708</b>	<b>94%</b>	<b>85,032</b>	<b>94%</b>	<b>67,835</b>	<b>93%</b>	<b>66,901</b>	<b>97%</b>	<b>51,254</b>	<b>92%</b>
<b>NET ASSETS</b>	<b>6,675</b>	<b>7%</b>	<b>5,373</b>	<b>6%</b>	<b>5,639</b>	<b>6%</b>	<b>4,834</b>	<b>7%</b>	<b>1,763</b>	<b>3%</b>	<b>4,391</b>	<b>8%</b>
<b>REPRESENTED BY</b>												
Share capital	26,716	29%	26,716	30%	26,716	29%	26,716	37%	9,003	13%	9,003	16%
Reserves	163	0%	163	0%	139	0%	-	0%	225	0%	219	0%
Discount on issue of rights shares	(13,285)	-14%	(13,285)	-15%	(13,285)	-15%	(13,285)	-18%	-	0%	-	0%
Accumulated loss	(9,527)	-10%	(8,381)	-9%	(8,055)	-9%	(8,614)	-12%	(9,031)	-13%	(6,132)	-11%
Surplus on revaluation of assets (net of tax)	408	0%	160	0%	123	0%	17	0%	1,566	2%	1,301	2%
Convertible preference shares	2,200	2%	-	-	-	-	-	-	-	-	-	-
	<b>6,675</b>	<b>7%</b>	<b>5,373</b>	<b>6%</b>	<b>5,639</b>	<b>6%</b>	<b>4,834</b>	<b>7%</b>	<b>1,763</b>	<b>3%</b>	<b>4,391</b>	<b>8%</b>
<b>PROFIT AND LOSS ACCOUNT</b>												
Mark-up/return/interest earned	7,622	85%	8,584	89%	8,386	91%	6,776	85%	5,913	90%	4,588	92%
Mark-up/return/interest expensed	(5,463)	-61%	(6,681)	-69%	(6,515)	-71%	(5,927)	-74%	(5,856)	-89%	(4,219)	-85%
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Provisions and Write off	(633)	-7%	580	6%	2,630	28%	(228)	-3%	(2,309)	-35%	(1,642)	-33%
Net mark-up/interest income/(loss) after provisions	1,526	17%	2,483	26%	4,501	49%	621	8%	(2,252)	-34%	(1,273)	-26%
Non-markup/interest income	1,325	15%	1,065	11%	847	9%	1,185	15%	662	10%	385	8%
Non-markup/interest expenses	(4,379)	-49%	(4,077)	-42%	(3,988)	-43%	(3,041)	-38%	(2,663)	-41%	(1,946)	-39%
(Loss)/Profit before Taxation	(1,528)	-17%	(529)	-5%	1,359	15%	(1,236)	-16%	(4,252)	-65%	(2,834)	-57%
Taxation	372	4%	185	2%	(664)	-7%	104	1%	1,350	21%	820	16%
<b>(Loss)/Profit After Taxation</b>	<b>(1,157)</b>	<b>-13%</b>	<b>(344)</b>	<b>-4%</b>	<b>695</b>	<b>8%</b>	<b>(1,131)</b>	<b>-14%</b>	<b>(2,903)</b>	<b>-44%</b>	<b>(2,014)</b>	<b>-41%</b>

## Graphical Presentation of Financial Progress

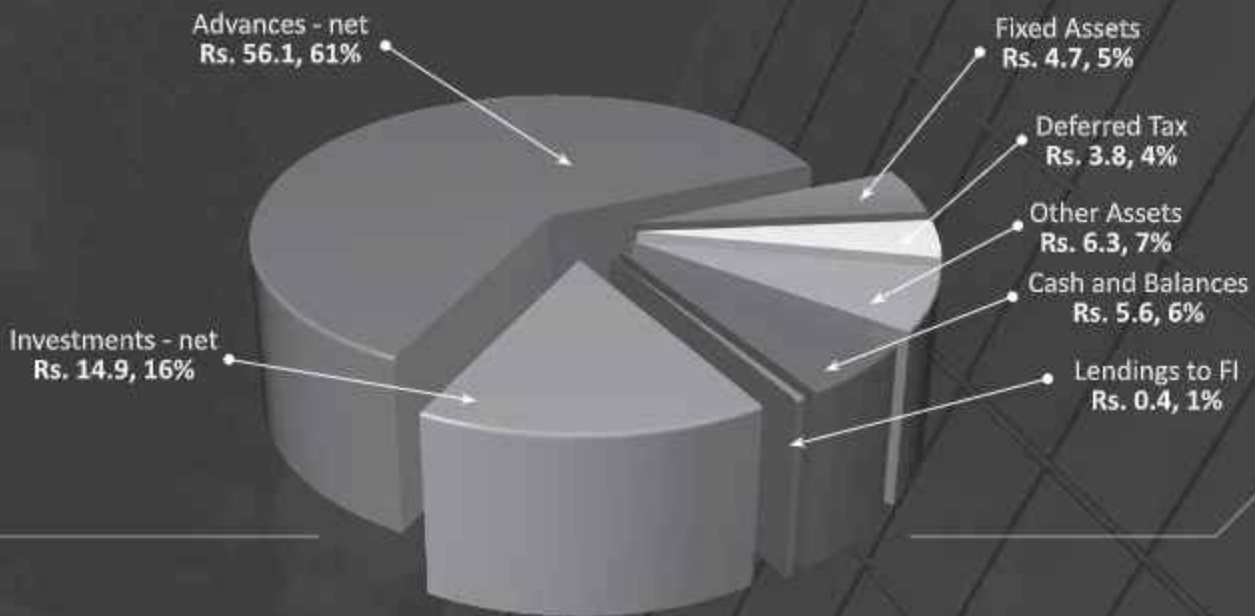
**Shareholders Equity** (Rs. in million)



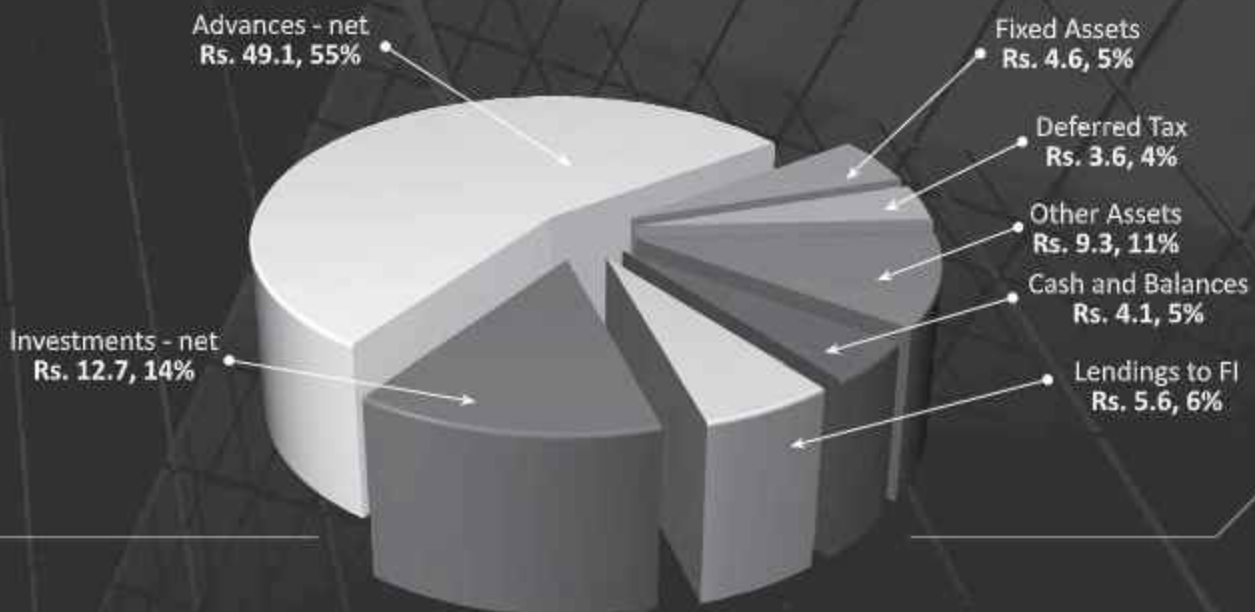
**Total Assets** (Rs. in billion)



### Total Assets - 2013 (Rs. in billion)



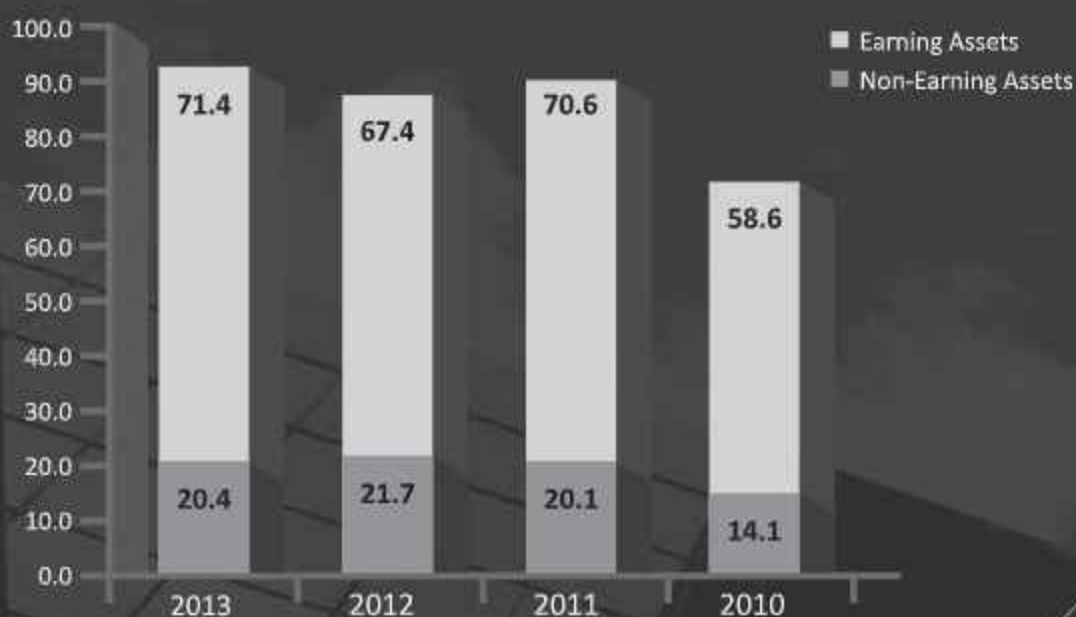
### Total Assets - 2012 (Rs. in billion)



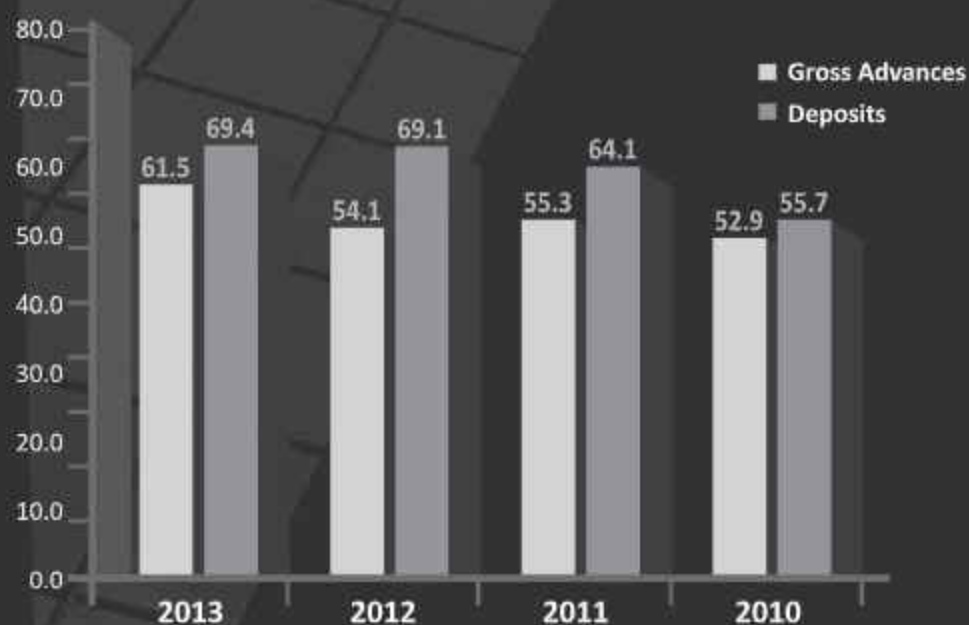


# Graphical Presentation of Financial Progress

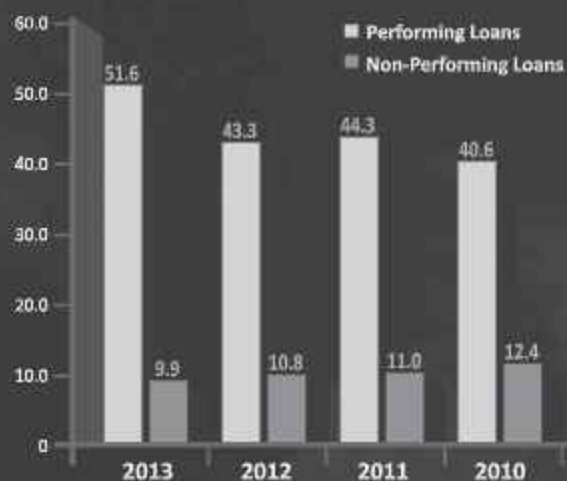
**Earning Assets Vs. Non-Earning Assets (Rs. in billion)**



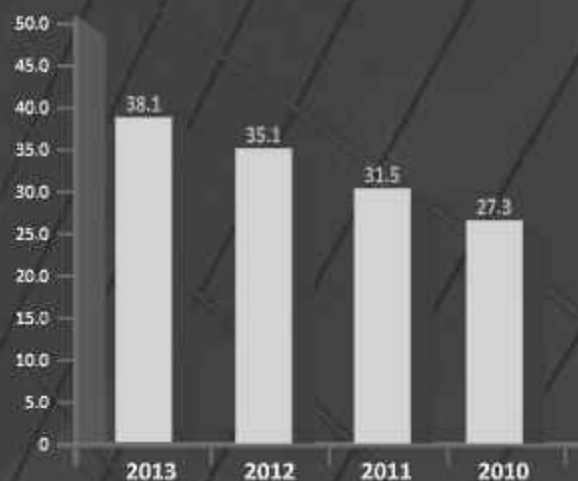
**Gross Advances & Deposits (Rs. in billion)**



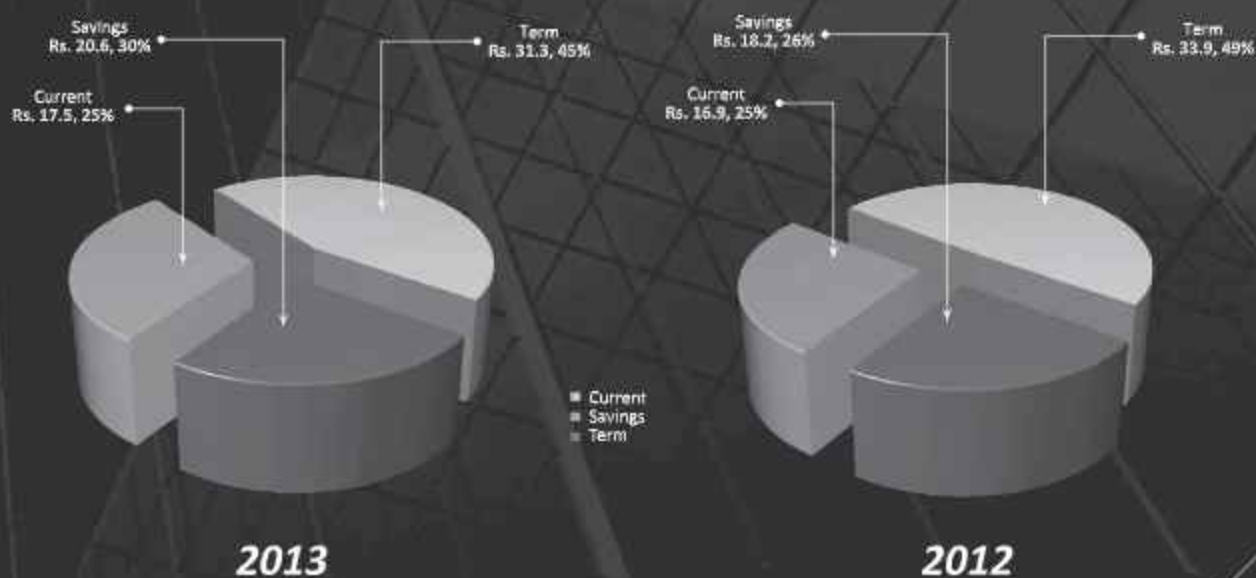
### Performing Vs. Non Performing Loans (Rs. in billion)



### CASA (Current & Saving Deposits) (Rs. in billion)

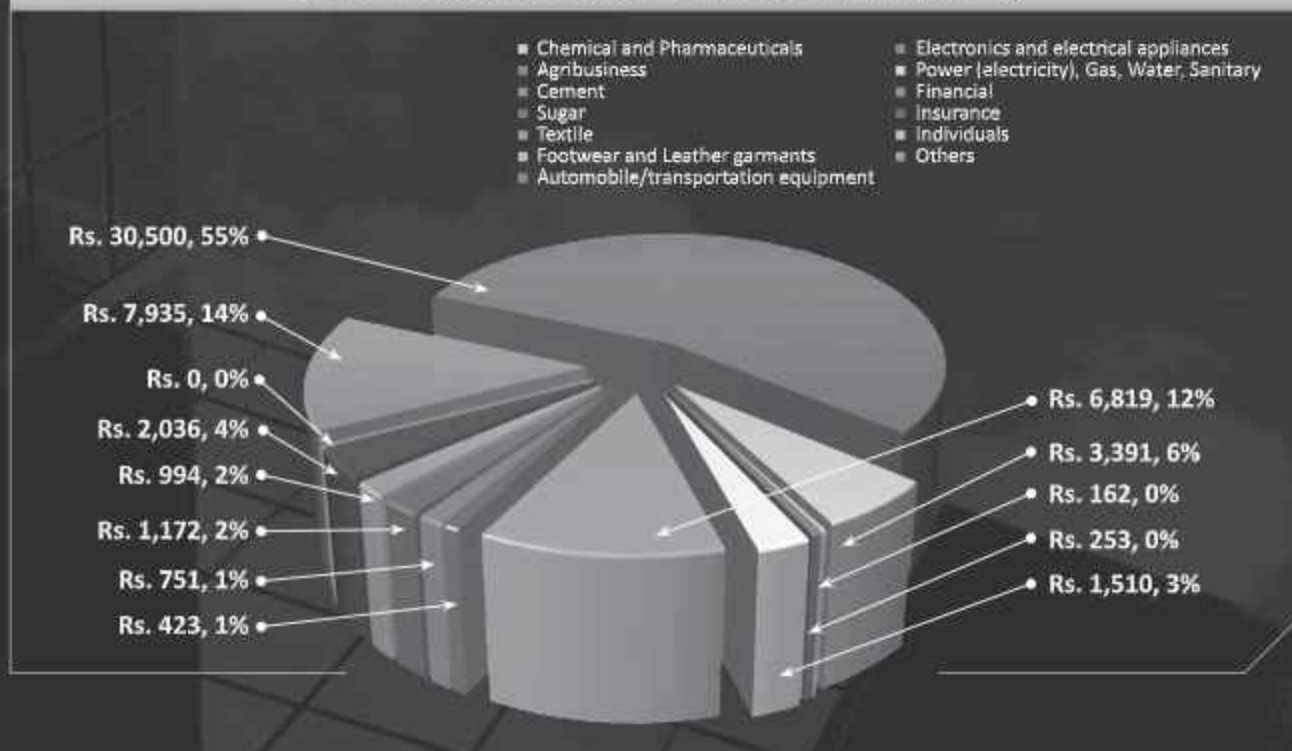


### Deposit Mix (Rs. in billion)

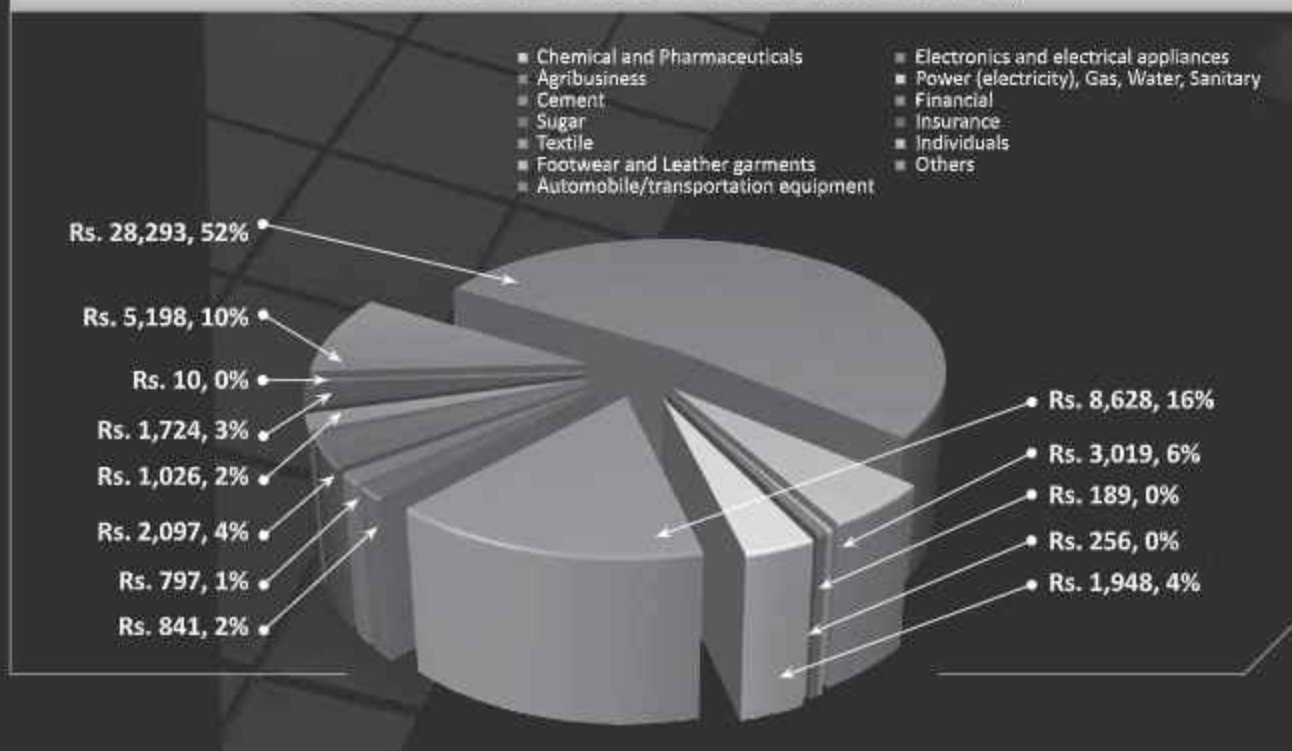


# Graphical Presentation of Financial Progress

## Sector Wise Advances - FY 2013 (Rs. in million)

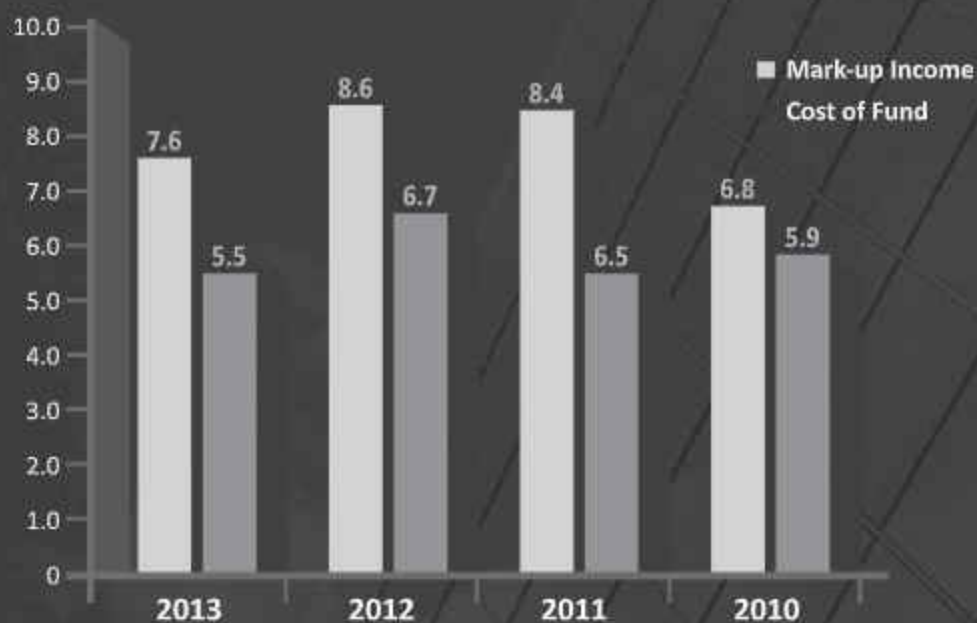


## Sector Wise Advances - FY 2012 (Rs. in million)

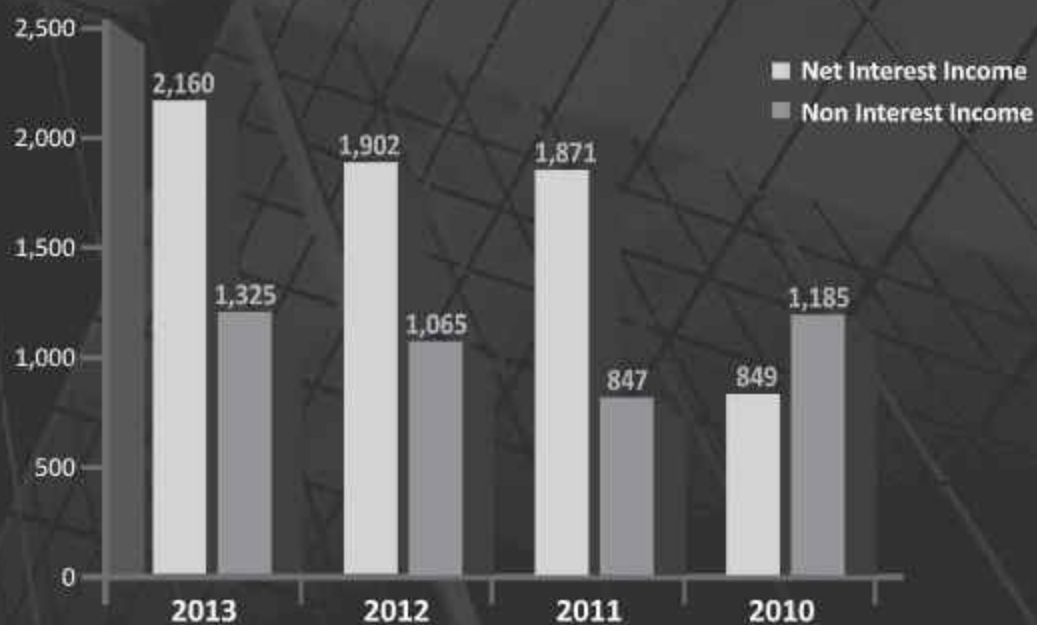




### Mark-up Income Vs. Cost of Fund (Rs. in billion)



### Revenue Composition (Rs. in million)



# Statement of Financial Position

## as at December 31, 2013

		December 31, 2013	December 31, 2012 (Restated)
	Note	Rupees in '000	
<b>ASSETS</b>			
Cash and balances with treasury banks	7	5,361,695	4,006,569
Balances with other banks	8	226,184	86,002
Lendings to financial institutions	9	446,859	5,602,423
Investments - net	10	14,853,257	12,734,898
Advances - net	11	56,088,439	49,060,494
Operating fixed assets	12	4,691,552	4,637,334
Deferred tax assets - net	13	3,839,078	3,605,041
Other assets	14	6,293,252	9,347,733
		<b>91,800,316</b>	<b>89,080,494</b>
<b>LIABILITIES</b>			
Bills payable	15	2,747,400	1,978,549
Borrowings	16	11,381,975	11,376,781
Deposits and other accounts	17	69,433,452	69,050,447
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	18	1,562,301	1,302,908
		<b>85,125,128</b>	<b>83,707,785</b>
<b>NET ASSETS</b>		<b>6,675,188</b>	<b>5,372,709</b>
<b>REPRESENTED BY</b>			
Share capital	19	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	20	2,200,000	-
Accumulated loss		(9,526,849)	(8,381,451)
		<b>6,267,287</b>	<b>5,212,685</b>
Surplus on revaluation of assets - net of tax	21	407,901	160,024
		<b>6,675,188</b>	<b>5,372,709</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	22		

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



Azmat Tarin  
President & CEO



Munnawar Hamid, OBE  
Chairman



Tariq Iqbal Khan  
Director



Humayun Bashir  
Director

# Profit and Loss Account

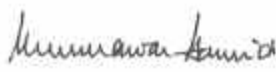
## for the year ended December 31, 2013

		December 31, 2013	December 31, 2012
		Rupees in '000	
	Note		
Mark-up / return / interest earned	24	7,622,425	8,583,566
Mark-up / return / interest expensed	25	(5,462,669)	(6,681,338)
<b>Net Mark-up / Interest Income</b>		<b>2,159,756</b>	<b>1,902,228</b>
(Provision) / reversal against non-performing loans and advances - net	11.3	(420,346)	158,479
Provision against consumer financing - net	11.3	(142,041)	(46,921)
Recovery against written off loan		6,214	514,721
Provision for diminution in the value of investments - net	10.14	-	(20,308)
Impairment in the value of investment	10.11.1	(76,879)	(22,093)
Bad debts written off directly	11.6	(423)	(3,389)
		(633,475)	580,489
<b>Net mark-up / interest income after provisions</b>		<b>1,526,281</b>	<b>2,482,717</b>
<b>NON MARK-UP / INTEREST INCOME</b>			
Fee, commission and brokerage income		593,494	500,427
Dividend income		63,401	53,767
Income from dealing in foreign currencies		219,589	209,941
Gain on sale of securities - net	26	169,917	84,381
Unrealized (loss) / gain on revaluation of investments - held-for-trading	10.1	(1,431)	50,346
Other income	27	279,610	165,804
<b>Total non-mark-up / interest income</b>		<b>1,324,580</b>	<b>1,064,666</b>
		<b>2,850,861</b>	<b>3,547,383</b>
<b>NON MARK-UP / INTEREST EXPENSES</b>			
Administrative expenses	28	(4,407,927)	(4,213,559)
Other reversal / (provision) / (write offs) - net	29	112,449	148,500
Other charges	30	(83,461)	(11,593)
<b>Total non-mark-up / interest expenses</b>		<b>(4,378,939)</b>	<b>(4,076,652)</b>
		<b>(1,528,078)</b>	<b>(529,269)</b>
Extra ordinary / unusual items		-	-
<b>LOSS BEFORE TAXATION</b>		<b>(1,528,078)</b>	<b>(529,269)</b>
Taxation - Current		-	-
- Prior		-	92,322
- Deferred		371,516	92,676
	31	371,516	184,998
<b>LOSS AFTER TAXATION</b>		<b>(1,156,562)</b>	<b>(344,271)</b>
		<b>Rupees</b>	
Loss per share - Basic and Diluted	32	(0.43)	(0.13)

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



Azmat Tarin  
President & CEO



Munnawar Hamid, OBE  
Chairman



Tariq Iqbal Khan  
Director



Humayun Bashir  
Director



# Statement of Comprehensive Income

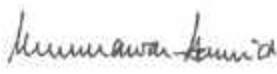
## for the year ended December 31, 2013

		December 31, 2013	December 31, 2012 (Restated)
	Note	Rupees in '000	
<b>Loss after taxation</b>		<b>(1,156,562)</b>	<b>(344,271)</b>
Other comprehensive income			
Items that will not be reclassified to profit and loss account			
Remeasurement of defined benefit plan - net of tax	35.1.2	11,452	17,923
Related deferred tax	4.1.2	(4,008)	(6,273)
		7,444	11,650
<b>Comprehensive income transferred to equity</b>		<b>(1,149,118)</b>	<b>(332,621)</b>
<b>Components of comprehensive income not reflected in equity</b>			
Surplus on revaluation of assets - net		381,348	84,248
Deferred tax liability on revaluation of assets		(133,471)	(46,863)
		<b>247,877</b>	<b>37,385</b>

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Azmat Tarin  
President & CEO



Munnawar Hamid, OBE  
Chairman



Tariq Iqbal Khan  
Director



Humayun Bashir  
Director

# Statement of Changes In Equity

## for the year ended December 31, 2013

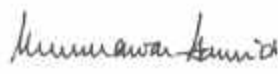
		Share Capital	Discount on Issue of Shares	*Statutory Reserves	Convertible Preference Shares	Accumulated Loss	Total Equity
	Note	Rupees in '000					
Balance as at January 01, 2012 as previously reported		26,716,048	(13,284,674)	139,013	-	(8,054,519)	5,515,868
Effect of change in accounting policy	4.1.2	-	-	-	-	7,274	7,274
Balance as at January 01, 2012 - Restated		26,716,048	(13,284,674)	139,013	-	(8,047,245)	5,523,142
Total comprehensive income for the year 2012							
Loss after tax for the year ended December 31, 2012		-	-	-	-	(344,271)	(344,271)
Other comprehensive income - Restated	4.1.2	-	-	-	-	11,650	11,650
Total comprehensive income for the year 2012		-	-	-	-	(332,621)	(332,621)
Transfer from surplus on revaluation of fixed assets on account of incremental depreciation - net of tax	21.3	-	-	-	-	3,720	3,720
Transfer from surplus on revaluation of fixed assets on account of disposal of assets		-	-	-	-	18,444	18,444
Transfer to statutory reserve		-	-	23,749	-	(23,749)	-
Balance as at December 31, 2012 - Restated		26,716,048	(13,284,674)	162,762	-	(8,381,451)	5,212,685
Total comprehensive income for the year 2013							
Loss after tax for the year ended December 31, 2013		-	-	-	-	(1,156,562)	(1,156,562)
Other comprehensive income		-	-	-	-	7,444	7,444
Total comprehensive income for the year 2013		-	-	-	-	(1,149,118)	(1,149,118)
Transfer from surplus on revaluation of fixed assets on account of incremental depreciation - net of tax	21.3	-	-	-	-	3,720	3,720
Convertible preference shares issued	20	-	-	-	2,200,000	-	2,200,000
		-	-	-	2,200,000	3,720	2,203,720
Balance as at December 31, 2013		26,716,048	(13,284,674)	162,762	2,200,000	(9,526,849)	6,267,287

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

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



Azmat Tarin  
President & CEO



Munnawar Hamid, OBE  
Chairman



Tariq Iqbal Khan  
Director



Humayun Bashir  
Director

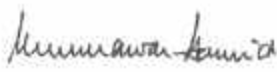
# Cash Flow Statement

## for the year ended December 31, 2013

		December 31, 2013	December 31, 2012
	Note	Rupees in '000	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before taxation		(1,528,078)	(529,269)
Less : Dividend Income		(63,401)	(53,767)
		(1,591,479)	(583,036)
<b>Adjustments for non-cash items</b>			
Depreciation	12.2	407,075	387,419
Amortization of intangible assets	12.3	85,499	75,683
Amortization of premium on investment		16,305	81,136
Provision / (Reversal) against non-performing loans and advances - net	11.3	420,346	(158,479)
Provision against consumer financing - net	11.3	142,041	46,921
Provision for diminution in the value of investment	10.14	-	20,308
Impairment in the value of investment		76,879	22,093
Unrealized (gain) / loss on revaluation of investments - held-for-trading	10.1	1,431	(50,346)
Other reversals	29	(112,449)	(148,500)
Gain on sale of operating fixed assets	27	(56,276)	(22,884)
		980,851	253,351
		(610,628)	(329,685)
<b>Decrease / (Increase) in operating assets</b>			
Lendings to financial institutions		5,155,564	(2,561,620)
Net investments in held-for-trading securities		(994,643)	(1,412,535)
Advances		(5,083,185)	532,622
Other assets (excluding advance taxation)		387,611	(1,285,256)
		(534,653)	(4,726,789)
<b>Decrease in operating liabilities</b>			
Bills payable		768,851	299,093
Borrowings		5,194	(6,404,905)
Deposits		383,005	4,978,539
Other liabilities		260,293	(152,636)
		1,417,343	(1,279,909)
		272,062	(6,336,383)
Income tax paid		(100,578)	(92,953)
<b>Net cash flows from operating activities</b>		<b>171,484</b>	<b>(6,429,336)</b>



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Director



# Cash Flow Statement

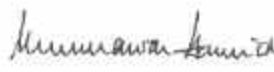
## for the year ended December 31, 2013

		December 31, 2013	December 31, 2012 (Restated)
		Rupees in '000	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>Note</b>		
Net investment in available-for-sale securities		(833,263)	2,922,125
Net investment in held-to-maturity securities		-	3,367,571
Dividend received		61,546	54,588
Investments in operating fixed assets - net		(257,338)	(462,902)
Proceeds on disposal of operating fixed assets	12.5	152,879	110,061
<b>Net cash flows from investing activities</b>		<b>(876,176)</b>	<b>5,991,443</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issuance of convertible preference shares		2,200,000	-
<b>Net cash flows from financing activities</b>		<b>2,200,000</b>	<b>-</b>
<b>Increase / (Decrease) in cash and cash equivalents</b>		<b>1,495,308</b>	<b>(437,893)</b>
Cash and cash equivalents at the beginning of the year		4,092,571	4,530,464
<b>Cash and cash equivalents at the end of the year</b>	33	<b>5,587,879</b>	<b>4,092,571</b>

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



Azmat Tarin  
President & CEO



Munnawar Hamid, OBE  
Chairman



Tariq Iqbal Khan  
Director



Humayun Bashir  
Director

# Notes to the Financial Statements

## for the year ended December 31, 2013

### 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. The Bank'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 (2012: 85 branches) including 10 (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 (82.406%) in the Bank as on December 31, 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 20) 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 by December 31, 2013. 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 December 31, 2013 amounted to Rs. 3.9 billion excluding general reserves of Rs.163 million and convertible preference share of Rs.2.2 billion. The shortfall at year end amounted to Rs. 6.1 billion. The Bank had issued right shares at a discount in 2010 to generate net capital of Rs. 7 billion, however, 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 20 to the financial statements. SBP vide its letter No. BBRD/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 three year extension for subscription of the rights, in line with the tenor of the Convertible Preference Shares.

#### Financial Projections

The Bank has prepared five years financial projections for the purpose of setting future course of action. These projections envisaged additional capital injection through equity and sub-ordinated debt into the Bank and reflect future profitable operations based on various core assumptions such as the sale of non-banking assets acquired in satisfaction of claims, Musharaka transactions, growth of deposits and consumer 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. The Bank vide letter No. CS-375 has requested SBP for further extension of relaxation to meet the CAR and MCR requirements till March 31, 2014 and June 30, 2014 respectively. Management is confident that appropriate extension / approval in meeting the aforementioned requirements in MCR and CAR will be received shortly from SBP.

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

### 2 BASIS OF PRESENTATION

- 2.1** 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 mark-up 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.
- 2.2** These financial statements have been prepared in Pakistani Rupee which is the reporting and functional currency.



# Notes to the Financial Statements

## for the year ended December 31, 2013

- 2.3** The financial results of the Islamic Banking branches have been consolidated in these financial statements for reporting purposes, after eliminating material inter-branch transactions / balances. Key financial figures of the Islamic Banking branches are disclosed in Annexure II to these financial statements.

### **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 (IASB) and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan (ICAP) 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 State Bank of Pakistan has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and IAS 40, 'Investment Property' for Banking Companies through BSD Circular No. 10 dated August 26, 2002. The Securities and Exchange Commission of Pakistan (SECP) has deferred applicability of IFRS-7 "Financial Instruments: Disclosures" on banks through S.R.O 411(1) /2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

IFRS 8, 'Operating Segments' is effective for the Bank's accounting period beginning on or after January 1, 2009. All banking companies in Pakistan are required to prepare their annual financial statements in line with the format prescribed under BSD Circular No. 4 dated February 17, 2006, 'Revised Forms of Annual Financial Statements', effective from the accounting year ended December 31, 2006. The management of the Bank believes that as the SBP has defined the segment categorisation in the above mentioned circular, the SBP requirements prevail over the requirements specified in IFRS 8. Accordingly, segment information disclosed in these financial statements is based on the requirements laid down by the State Bank of Pakistan.

### **4 STANDARDS, AMENDMENTS AND INTERPRETATIONS OF APPROVED ACCOUNTING STANDARDS**

#### **4.1 Standards, amendments and interpretations to published approved accounting standards that are effective in the current year**

The following standards, amendments and interpretations are effective for the accounting periods beginning on or after January 1, 2013. However, these are either not relevant to the Bank's operations or are not expected to have significant impact on the Bank's financial statements other than certain additional disclosures.

- Amendments to IAS 1 - Presentation of Financial Statements - Clarification of Requirements for Comparative information.
- Amendments to IAS 16 - Property, Plant and Equipment - Classification of servicing equipment.
- Amendments to IAS 32 - Financial Instruments: Presentation - Tax effects of distributions to holders of an equity instrument, and transaction costs of an equity transaction.
- Amendments to IAS 34 - Interim Financial Reporting - Interim reporting of segment information for total assets and total liabilities.
- IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine.

In addition to above, following amendments to following standards are also effective from accounting period beginning on or after January 01, 2013 that have an impact on the Bank's financial statements for the year as discussed in the ensuing paragraphs. These changes are considered as change in accounting policy.

#### **4.1.1 IAS 1 - Presentation of Financial Statements - Presentation of items of Other Comprehensive Income**

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gains on hedges of net investments, exchange differences on translation of foreign operations, net movements on cash flow hedges and net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans). Income tax on items of other comprehensive income is required to be allocated on the same basis, i.e., the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments require retrospective application. The Bank has modified the presentation of the item of OCI in its Statement of Comprehensive Income.

#### **4.1.2 IAS 19 - Employee Benefits (as revised in 2011)**

The Bank has applied IAS 19 Employee Benefits and the related consequential amendments for the first time. IAS 19 changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligation and plan assets. The amendments require the recognition of changes in defined benefit obligations



# Notes to the Financial Statements

## for the year ended December 31, 2013

and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through Other Comprehensive Income in order for the net pension asset or liability recognised in the statement of financial position to reflect the full value of plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset. These changes have an impact on the amounts recognised in profit or loss and other comprehensive income in prior years. In addition, IAS 19 introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures.

Specific transitional provisions are applicable to first-time application of IAS 19. The Bank has applied the relevant transitional provisions and restated the comparatives on the retrospective basis in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The Bank has not presented third year statement of financial position due to above changes as the impact on third year is immaterial. The Effect of retrospective application of change in accounting policy is as follows:

	As at December 31, 2012			As at December 31, 2011		
	As previously Reported	Adjust- ment	As Restated	As previously Reported	Adjust- ment	As Restated
	Rupees in '000			Rupees in '000		
<b>Effect on statement of financial position</b>						
Other assets	9,318,620	29,113	9,347,733	7,229,763	11,190	7,240,953
Decrease in deferred tax asset	3,615,231	(10,190)	3,605,041	3,569,417	(3,917)	3,565,500
Accumulated loss	(8,400,375)	18,924	(8,381,451)	(8,054,519)	7,274	(8,047,245)
				<b>Year ended December 31, 2013</b>		<b>Year ended December 31, 2012</b>
				<b>Rupees in '000</b>		
<b>Effects on statement of comprehensive income</b>						
Actuarial gains reclassified to other comprehensive income - net of tax				7,444		11,650

#### 4.2 Standards, amendments and interpretations to published approved accounting standards that are relevant and not yet effective

The following standards, amendments and interpretations of approved accounting standards are effective for accounting periods beginning on or after January 01, 2014. However, these are either not relevant to the Bank's operations or are not expected to have significant impact on the Bank's financial statements other than certain additional disclosures.

- Amendments to IAS 32 Financial Instruments: Presentation - Offsetting financial assets and financial liabilities
- IAS 36 Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets
- IAS 3 - Profit and Loss Sharing on Deposits
- IFRIC 21 - Levies

Other than the aforesaid standards, interpretations and amendments, the International Accounting Standards Board (IASB) has also issued the following standards which have not been adopted locally by the Securities and Exchange Commission of Pakistan:

- IFRS 1 - First Time Adoption of International Financial Reporting Standards
- IFRS 9 - Financial Instruments
- IFRS 10 - Consolidated Financial Statements
- IFRS 11 - Joint Arrangements
- IFRS 12 - Disclosure of Interests in Other Entities
- IFRS 13 - Fair Value Measurement
- IAS 27 (Revised 2011) - Separate Financial Statements due to non-adoption of IFRS 10 and IFRS 11
- IAS 28 (Revised 2011) - Investments in Associates and Joint Ventures due to non-adoption of IFRS 10 and IFRS 11

# Notes to the Financial Statements

## for the year ended December 31, 2013

### 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 and certain investments and derivative financial instruments have been marked to market and are carried at fair value.

#### 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, 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 areas where various assumptions and estimates are significant to the Bank's financial statements or where judgment was exercised in application of accounting policies are as follows:

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

The Bank reviews its loan portfolio and debt securities classified as investments to assess the amount of non-performing loans and advances and debt securities and provision required there-against on regular basis. While assessing this requirement, various factors including the delinquency in the account, financial position of the borrower, the forced sale value of securities and requirements of the Prudential Regulations are considered. For portfolio impairment provision on consumer advances, the Bank follows the general provision requirement set out in Prudential Regulations issued by the 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 reporting date and the rates contracted.

##### 5.1.3 Classification of investments

In classifying investments the Bank follows the guidance provided in SBP circulars:

- Investments classified as 'held for trading', are securities which are acquired with an intention to trade by taking advantage of short term market / interest rate movements and are to be sold within 90 days of acquisition.
- Investments classified as 'held to maturity' are non-derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investment to maturity.
- The investments which are not classified as 'held for trading' or 'held to maturity' are classified as 'available for sale'.

##### 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 requires 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

The liability of the defined benefit plan (gratuity) is determined using actuarial advice using the Projected Unit Credit Method. The actuarial valuation involves making assumptions about discount rates, expected rates of returns on assets and future salary increases, which have been disclosed in note 35. 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 the plan in those years.



# Notes to the Financial Statements

## for the year ended December 31, 2013

### 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 Depreciation, amortization and revaluation of operating fixed assets

In making estimates of the depreciation / amortization method, management uses the 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 is changed to reflect the change in pattern. Such change is accounted for as change in accounting estimates in accordance with International Accounting Standard - 8, "Accounting Policies, Changes in Accounting Estimates and Errors". Further, the Bank estimates the revalued amount of land and building on a regular basis. The estimates are based on valuations carried out by independent professional valuers under the market conditions.

## 6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements are consistent with those applied in the preparation of the financial statements of the Bank for the year ended December 31, 2012 except as stated in note 4.1 Significant accounting policies are enumerated as follows:

### 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.

### 6.2 Lendings to / borrowings from financial institutions

The Bank enters into transactions of borrowing (re-purchase) from and lending (reverse re-purchase) to financial institutions, 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 investments 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.

#### 6.2.3 Other lendings

Other lendings include term lendings and unsecured lendings to financial institutions.

All lendings are stated net of provision. Mark-up / interest income on such lendings is recorded on time proportion basis using effective interest rate method except mark-up on impaired/delinquent lendings, which are recognized on receipt basis.

#### 6.2.4 Other borrowings

Other borrowings including borrowings from SBP are recorded at proceeds received. Mark-up expense on such borrowings is charged to the profit and loss account on time proportion basis using effective interest method.

### 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.



# Notes to the Financial Statements

## for the year ended December 31, 2013

### 6.4 Investments

The Bank classifies its investments as follows:

#### a) Held-for-trading

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

#### b) Held-to-maturity

These are securities with fixed or determinable payments and fixed maturity in respect of which the Bank has the positive intent and ability to hold to maturity.

#### c) Available-for-sale

These are investments, other than those in associates that do not fall under the "held-for-trading" or "held-to-maturity" categories

#### 6.4.1 Initial measurement

Investments are initially recognized at acquisition cost, which in the case of investment other than "held for trading", includes transaction cost associated with the investment.

#### 6.4.2 Subsequent measurement

##### Held-for-trading

These are measured at subsequent reporting dates at fair value. Gains and losses on re-measurement are included in the profit and loss account.

##### Held-to-maturity

These are measured at amortized cost using the effective interest rate method, less any impairment loss recognized to reflect irrecoverable amounts.

##### Available-for-sale

Quoted-securities classified as available-for-sale investments are measured at subsequent reporting dates at fair value. Any surplus / deficit arising thereon is kept in a separate account shown in the statement of financial position below equity and taken to the profit and loss account when actually realized upon disposal or when the investment is considered to be impaired.

Unquoted equity securities are valued at the lower of cost and break-up value. Subsequent increases or decreases in the carrying value are credited or charged to profit and loss account. The break-up value of these 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.

#### 6.4.3 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.

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

#### 6.4.5 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. Impairment is recognized when there is an objective evidence of significant and prolonged decline in the value of such securities. 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 and general provision against advances is determined on the basis of Prudential Regulations and other directives issued by the 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 realistic prospects of recovery.

# Notes to the Financial Statements

## for the year ended December 31, 2013

### 6.5.1 Murabaha

Funds disbursed for purchase of goods are recorded as 'Advance for Murabaha'. On culmination of murabaha, i.e., sale of goods to customers, murabaha financings are recorded at the deferred sale price net of profit. Goods that have been purchased but remained unsold are recorded as inventories. Profit is recorded at the time of sale of goods under murabaha as deferred income and is included in the amount of murabaha financing. Profit is taken to the profit and loss account over the period of the murabaha.

### 6.5.2 Musharaka

This is a partnership whereby two or more persons commingle either their money or work or obligations to earn a profit or a yield or appreciation in value according to a mutually agreed profit sharing formula and to share the loss, if any, according to their proportionate shares in the Musharaka. One or more partner(s) may be assigned the responsibility of management of the Musharaka, against a higher share in the profits.

### 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 (if any). Cost includes expenditure that is directly attributable to the acquisition of fixed assets.

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

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. 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.

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 / 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.

Useful lives and residual values of assets are reviewed at each reporting date, and adjusted if impact on depreciation is significant.

#### 6.6.4 Capital work-in-progress

Capital work-in-progress is stated at cost less accumulated impairment losses (if any). Capital work-in-progress is transferred to relevant category of property and equipment as and when the assets become available for use.

#### 6.6.5 Intangible assets

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

These are amortized over their finite useful lives and amortization is charged to income using the straight line method. Amortization is charged from the month of acquisition. The useful lives and amortization method are reviewed and adjusted, if appropriate, at each reporting date.

Costs associated with maintaining computer software are recognized as an expense when incurred.



# Notes to the Financial Statements

## for the year ended December 31, 2013

### 6.7 Income tax

Income tax expense comprises of current and deferred tax. Income tax expense is recognized in the profit and loss account except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

#### 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 date of statement of financial position.

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 of non-financial assets

At each reporting date the Bank reviews the carrying amounts of its non-financial 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 a reliable estimate of the amount can be made. Provisions are reviewed at each reporting date and are adjusted to reflect the current best estimates.

Provision against identified non-funded losses is recognized when identified and reasonable certainty exists for the Bank to settle the obligation. The loss is charged to profit and loss account net-off expected recovery and is classified under 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% 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 Actuarial Cost Method has been used for actuarial valuation.

Re-measurement component, which is the net of actuarial gains and losses, is immediately recognized in other comprehensive income, whereas, service costs and net interest income/expense are charged to profit and loss account.



# Notes to the Financial Statements

## for the year ended December 31, 2013

### 6.11 Revenue recognition

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

Profit on sukuk is recognised on accrual basis.

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

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

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

### 6.12 Murabaha

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

### 6.13 Ijara

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

### 6.14 Musharaka

Musharaka is a form of partnership in business with distribution of profit in agreed ratio and distribution of loss in the ratio of capital invested.

### 6.15 Non-Banking Assets acquired in satisfaction of claims (OREO)

At the time of loan settlement non-banking assets are recognised at lowest market value (including transfer charges). The market value is determined after obtaining three valuations from the professional valuers included in the approved panel of Pakistan Banking Association (PBA).

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

Subsequent to initial recognition, these are stated at lower of the carrying value or current fair value / agreed price of such assets.

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

### 6.16 Foreign currencies

#### 6.16.1 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 reporting 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.

Translation gains and losses are included in income currently.

#### 6.16.2 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 at the date of the statement of financial position.

### 6.17 Financial instrument

#### 6.17.1 Financial assets and liabilities

Financial instruments carried on the statement of financial position include cash and bank balances with treasury banks, balances with other banks, lendings to financial institutions, investments (excluding investment in associate), advances, certain other assets, borrowings from

# Notes to the Financial Statements

## for the year ended December 31, 2013

financial institutions, deposits, bills payable, and other liabilities. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them.

### 6.17.2 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 using valuation techniques. 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.

### 6.18 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.

### 6.19 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:

#### 6.19.1 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).

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

#### 6.19.2 Geographical segment

The Bank conducts all its operations in Pakistan.

### 6.20 Fiduciary assets

Assets held in fiduciary capacity are not treated as assets of the Bank in the statement of financial position.

# Notes to the Financial Statements

## for the year ended December 31, 2013

			December 31, 2013	December 31, 2012				
			Rupees in '000					
<b>7</b>	<b>CASH AND BALANCES WITH TREASURY BANKS</b>	<b>Note</b>						
	<b>In hand</b>							
	Local currency		890,875	660,754				
	Foreign currencies		422,495	391,810				
	National prize bonds		2,033	2,311				
	<b>With State Bank of Pakistan (SBP) in</b>	<b>7.1</b>						
	Local currency - current account		2,418,403	1,824,435				
	Foreign currency - current account		402,812	281,724				
	- deposit account		1,165,017	784,727				
	<b>With National Bank of Pakistan (NBP) in</b>							
	Local currency - current account		60,060	60,807				
			<u>5,361,695</u>	<u>4,006,569</u>				
<b>7.1</b>	Deposits with SBP are maintained to comply with the statutory requirements of SBP issued from time to time.							
<b>8</b>	<b>BALANCES WITH OTHER BANKS</b>							
	<b>In Pakistan</b>							
	On Current accounts		37,058	25,384				
	<b>Outside Pakistan</b>							
	On Current accounts		189,126	60,618				
			<u>226,184</u>	<u>86,002</u>				
<b>9</b>	<b>LENDINGS TO FINANCIAL INSTITUTIONS</b>							
	Call money lendings	9.2	-	200,000				
	Repurchase agreement lendings (Reverse repo)	9.3	446,859	5,402,423				
			<u>446,859</u>	<u>5,602,423</u>				
<b>9.1</b>	<b>PARTICULARS OF LENDING</b>							
	In local currency		446,859	5,602,423				
	In foreign currencies		-	-				
			<u>446,859</u>	<u>5,602,423</u>				
<b>9.2</b>	These carry mark-up rates Nil (2012: 9.50% per annum).							
<b>9.3</b>	<b>Securities held as collateral against lendings to financial institutions</b>							
			2013		2012			
			<b>Held by Bank</b>	<b>Further given as collateral</b>	<b>Total</b>	<b>Held by Bank</b>	<b>Further given as collateral</b>	<b>Total</b>
			<b>Rupees in '000</b>					
	Market Treasury Bills	9.3.1	-	-	-	3,672,067	295,894	3,967,961
	Pakistan Investment Bonds	9.3.2	446,859	-	446,859	1,028,361	406,101	1,434,462
			<u>446,859</u>	-	<u>446,859</u>	<u>4,700,428</u>	<u>701,995</u>	<u>5,402,423</u>
<b>9.3.1</b>	These have been purchased under the resale agreements at mark-up rates Nil (2012: 7.46% to 9.85%) per annum .							
<b>9.3.2</b>	These have been purchased under the resale agreements at the mark-up rates ranging from 10% to 10.05% (2012: 9.40% to 11.15% ) per annum with maturities in January 2014.							



# Notes to the Financial Statements

## for the year ended December 31, 2013

9.3.3 The market value of collateral held against reverse repurchase agreement lendings as of December 31, 2013 is Rs. 448 million.

### 10 INVESTMENTS - NET

Note	December 31, 2013			December 31, 2012		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
	Rupees in '000					
<b>10.1 INVESTMENTS BY TYPES:</b>						
<b>Held-for-Trading Securities</b>						
Pakistan Investment Bonds	-	-	-	1,049,353	413,528	1,462,881
Market Treasury Bills	2,457,524	-	2,457,524	-	-	-
	2,457,524	-	2,457,524	1,049,353	413,528	1,462,881
<b>Available-for-Sale Securities</b>						
Market Treasury Bills	6,079,584	1,178,797	7,258,381	123,984	5,601,041	5,725,025
Pakistan Investment Bonds	833,018	-	833,018	-	-	-
GOP Ijara Sukuks	2,074,627	-	2,074,627	3,137,856	-	3,137,856
Units of Mutual fund - Closed end	5,405	-	5,405	5,405	-	5,405
Preference Shares - Listed	5,000	-	5,000	10,000	-	10,000
Term Finance Certificates - Listed	169,695	-	169,695	320,174	-	320,174
- Unlisted	316,716	-	316,716	609,475	-	609,475
Sukuks	11,775	-	11,775	11,775	-	11,775
Ordinary Shares - Listed	1,151,015	-	1,151,015	1,300,699	-	1,300,699
- Unlisted	5,680	-	5,680	5,680	-	5,680
	10,652,515	1,178,797	11,831,312	5,525,048	5,601,041	11,126,089
<b>Held-to-Maturity Securities</b>						
Shares repurchase (fully provided)	74,910	-	74,910	74,910	-	74,910
Investment in associate	62,580	-	62,580	48,032	-	48,032
<b>Investments at cost</b>	13,247,529	1,178,797	14,426,326	6,697,343	6,014,569	12,711,912
Less : Provisions for diminution in value of Investments	(86,563)	-	(86,563)	(106,871)	-	(106,871)
<b>Investments - net of provision</b>	13,160,966	1,178,797	14,339,763	6,590,472	6,014,569	12,605,041
Unrealized loss on revaluation of investments - held-for-trading	(1,431)	-	(1,431)	-	-	-
Surplus on revaluation of Available- for-sale securities	514,925	-	514,925	129,857	-	129,857
<b>Total Investments at market value</b>	13,674,460	1,178,797	14,853,257	6,720,329	6,014,569	12,734,898

# Notes to the Financial Statements

## for the year ended December 31, 2013

	Note	December 31, 2013	December 31, 2012
		Rupees in '000	
<b>10.2 INVESTMENTS BY SEGMENTS</b>			
<b>Federal Government Securities</b>			
Market Treasury Bills	10.3	9,715,905	5,725,025
Pakistan Investment Bonds	10.4	833,018	1,462,881
GOP Ijara Sukuks	10.5	2,074,627	3,137,856
		<b>12,623,550</b>	<b>10,325,762</b>
<b>Fully paid-up ordinary shares</b>			
Listed companies		1,151,015	1,300,699
Unlisted companies	10.12	5,680	5,680
		<b>1,156,695</b>	<b>1,306,379</b>
<b>Term Finance Certificate, Debentures,</b>			
<b>Bonds and Participation Term Certificates</b>			
Term Finance certificates - Listed	10.8	169,695	320,174
- Unlisted	10.9	316,716	609,475
Sukuks	10.10	11,775	11,775
		<b>498,186</b>	<b>941,424</b>
<b>Other Investments</b>			
Units of Mutual fund - closed end	10.6	5,405	5,405
Preference shares - Listed	10.7	5,000	10,000
Investment in associate	10.13	62,580	48,032
Shares repurchase (fully provided)		74,910	74,910
		<b>147,895</b>	<b>138,347</b>
<b>Investments at Cost</b>		<b>14,426,326</b>	<b>12,711,912</b>
Less : Provision for diminution in the value of investments	10.14	(86,563)	(106,871)
<b>Investments - net of provision</b>		<b>14,339,763</b>	<b>12,605,041</b>
Unrealized loss on revaluation of Held-for-trading investments		(1,431)	-
Surplus on revaluation of Available-for-sale securities	21.1	514,925	129,857
<b>Total Investments at market value</b>		<b>14,853,257</b>	<b>12,734,898</b>
<b>10.2.1 Strategic Investment</b>			
<b>Available-for-sale securities</b>			
Preference shares - listed	10.7	5,000	10,000
Ordinary shares - Unlisted	10.12	5,680	5,680
<b>Associate</b>	10.13	<b>62,580</b>	<b>48,032</b>
		<b>73,260</b>	<b>63,712</b>

	Name of investment	Maturity period	Principal payment	Coupon rate	Coupon mark-up / payment
10.3	Market Treasury Bills	January 2014 to May 2014	On maturity	6.08% to 9.95%	At maturity
10.3.1	These include securities having face value of Rs. 245.20 million (2012: Rs. nil) pledged with various financial institutions. Securities having face value of Rs. 47.70 million (2012: Rs. 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. 197.5 million (December 31, 2012: Rs. nil) have been pledged with United Bank Limited on account of issuance of letter of guarantee (for guarantee commission)				

# Notes to the Financial Statements

## for the year ended December 31, 2013

favoring Arif Habib Corporation Limited being the guarantor for issuance of Bank's convertible preference shares (refer note 20).

	Name of investment	Maturity period	Principal payment	Coupon rate	Coupon mark-up / payment
10.4	Pakistan Investment Bonds	August 2018 to July 2022	On maturity	12%	Semi-annually
10.4.1	These include securities having face value of Rs. nil (2012: Rs. 47.70 million) pledge with SBP and National Bank of Pakistan as security to facilitate T.T. discounting facility to branches of the Bank.				

	Name of investment	Maturity period	Principal payment	Coupon rate	Coupon mark-up / payment
10.5	GOP Ijara Sukuks	May 2014 to March 2016	On maturity	9.12% to 9.98%	Semi-annually

	Note	December 31, 2013		December 31, 2012	
		Credit rating	Amount	Credit rating	Amount
		Rupees in '000		Rupees in '000	
10.6	<b>Units of Mutual fund - Closed end</b>				
	Asian Stock Fund Limited	Unrated	5,405	Unrated	5,405
10.7	<b>Preference Shares - Listed</b>				
	Masood Textile Mills Limited	10.2.1 Unrated	5,000	Unrated	10,000
10.8	<b>Term Finance Certificates - Listed</b>				
	Escort Investment Bank Limited *	BB	999	BB	1,998
	Jahangir Siddiqui Company Limited	AA+	37,500	AA+	50,000
	Pakistan Mobile Communication Limited	AA-	62,400	AA-	192,850
	Engro Fertilizer Limited	A+	68,796	A+	75,326
			169,695		320,174

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

### 10.8.1 Particulars of Listed Term Finance Certificates

Particulars	Redemption Terms	Profit Rate per annum	Profit Payment	Maturity
Escort Investment Bank Limited	*In 6 equal semi annual instalments starting from March 2012	8%	Semi - annually	15-Sep-14
Jahangir Siddiqui & Co. Ltd.	In 8 semi annual instalments starting from April 2013*	6M Kibor + 2.4%	Semi - annually	30-Oct-16
Pakistan Mobile Communication Limited	16 unequal quaterly instalments	3M Kibor + 2.65%	Quarterly	18-Apr-16
Engro Fertilizer Limited	14 semi annual instalments comprising principal of 0.2% (four instalments), 3.98% (next four instalments), 6% (next four instalments) and 30% (last two instalments)	6M Kibor + 2.4%	Semi - annually	17-Dec-16



# Notes to the Financial Statements

## for the year ended December 31, 2013

	Note	December 31, 2013		December 31, 2012	
		Credit rating	Amount	Credit rating	Amount
		Rupees in '000		Rupees in '000	
<b>10.9 Term Finance Certificates-Unlisted</b>					
Avari Hotels		A-	210,349	A-	479,767
Gharibwal Cement Limited (fully provided) *		D	5,973	D	5,973
Faysal Bank Limited		AA-	-	AA-	4,995
Azgard Nine Limited	10.9.1	D	8,780	D	8,780
Pak Libya Holding Company		AA	91,614	AA	109,959
			<b>316,716</b>		<b>609,475</b>

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

**10.9.1** 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.

### 10.9.2 Particulars of Unlisted Term Finance Certificates

Particulars	Redemption Terms	Profit Rate per annum	Profit Payment	Maturity
Avari Hotels	3 unequal instalments as per restructured schedule commencing from June 30, 2013	1 year Kibor + 2.5%	Semi annually	1-Nov-14
Azgard Nine Limited (note 10.9.1)	7 semi annual instalments commencing from the 24th month ending after March 31, 2012	Zero coupon	Semi annually	31-Mar-17
Pak Libya Holding Company	10 equal instalments	6 Month Kibor + 1.6%	Semi annually	7-Feb-16

	Note	December 31, 2013		December 31, 2012	
		Credit rating	Amount	Credit rating	Amount
		Rupees in '000		Rupees in '000	
<b>10.10 Sukuks</b>					
Engro Fertilizer Limited TFC Sukuk		A-	11,775	A-	11,775

### 10.10.1 Particulars of listed Sukuk

Particulars	Redemption Terms	Profit Rate per annum	Profit Payment	Maturity
Engro Fertilizer Limited	2 equal instalments commencing from March 6th, 2015	6 Month Kibor + 1.50%	Quarterly	6-Sep-15

# Notes to the Financial Statements

## for the year ended December 31, 2013

### 10.11 Quality of 'available-for-sale' securities

Note	December 31, 2013		December 31, 2012	
	Credit rating	Market value	Credit rating	Market value
	Rupees in '000		Rupees in '000	
<b>Market Treasury Bills</b>	Unrated	7,254,046	Unrated	5,726,311
<b>Pakistan Investment Bonds</b>	Unrated	783,276	Unrated	-
<b>GOP Ijara Sukuk</b>	Unrated	2,089,554	Unrated	3,143,842
<b>Closed Ended Mutual Funds</b>				
Asian Stock Fund Limited	Unrated	12,540	Unrated	7,027
<b>Listed Term Finance Certificates</b>				
Engro Fertilizer Limited	A+	69,795	A+	68,498
Escort Investment Bank Limited	Unrated	737	BB	1,474
Pakistan Mobile Communication Limited	AA-	62,959	AA-	188,568
Jahangir Siddiqui Company Limited	AA+	38,275	AA+	50,000
		171,766		308,540
<b>Sukuk Bond</b>				
Engro Fertilizer Limited-TFC Sukuk	A-	11,690	A-	11,633
<b>Unlisted Term Finance Certificates</b>				
Avari Hotel	Unrated	210,164	A-	453,084
Gharibwal Cement Limited	D	5,973	D	5,973
Pak Libya Holding Company Limited	AA	91,419	AA	110,814
Faysal Bank Limited	-	-	AA-	5,116
Azgard Nine Limited	Unrated	6,692	D	8,780
		314,248		593,767
<b>Shares in Listed Company</b>				
Adamjee Insurance Co. Limited	AA	-	AA	13,628
AgriTech Limited	D	110,288	D	121,891
AKD Capital Limited	AM3 -	16,927	Unrated	15,022
Arif Habib Corporation Limited	AA	12,238	-	-
Askari Bank Limited	AA	-	AA/A1+	27,552
Bank Alfalah Limited	AA	62,192	Unrated	45,414
Bank Al-Habib Limited	AA+	9,318	-	-
BIAFO Chemical Industries Limited	Unrated	47,750	Unrated	44,625
D.G.Khan Cement	Unrated	-	Unrated	10,916
Fatima Fertilizer Co. Limited	A+	-	AA/A1+	13,200
Fauji Fertilizer Bin Qasim Limited	Unrated	32,858	Unrated	46,308
Fauji Fertilizer Co. Limited	Unrated	64,377	Unrated	15,404
Gharibwal Cement Limited	Unrated	796,950	Unrated	401,850
Hub Power Company Limited	AA+	42,504	AA+/A1+	54,288
Habib Metro Bank Limited	AA+	10,028	-	-
JS Bank Limited	A+	7,875	-	-
Javedan Corporation Limited	Unrated	124,433	Unrated	181,812
MCB Bank Limited	AAA	16,870	-	-
National Bank of Pakistan	AAA	8,709	AAA/A-1+	48,155
Next Capital Limited	Unrated	-	Unrated	3,628
NIB Bank Limited	AA-	2,768	AA-/A1+	5,260
Nishat Chunian Limited	A-	20,339	A-/A-2	29,660
Nishat Chunian Power Limited	A+	23,303	A-/A-2	33,109
Nishat Mills Limited	AA-	12,724	AA-/A1+	12,770

# Notes to the Financial Statements

## for the year ended December 31, 2013

	Note	December 31, 2013		December 31, 2012	
		Credit rating	Market value	Credit rating	Market value
		Rupees in '000		Rupees in '000	
Nishat Power Limited		A+	25,551	A+/A1	70,200
National Refinery Limited		AA+	10,776	AAA/A1+	4,742
Oil and Gas Development Company Limited		AAA	17,190	-	-
Pakgen Power Limited		AA/A1+	25,509	AA/A1+	16,832
Pakistan Oil fields Limited		Unrated	21,650	Unrated	5,032
Pakistan Petroleum Limited		Unrated	-	Unrated	3,094
Pakistan State Oil Limited		AA+	-	AA+/A1+	11,611
QUICE Foods Industries Limited		Unrated	-	Unrated	8,879
Shakarganj Mills Limited		Unrated	1,785	Unrated	1,071
Singer Pakistan Limited		Unrated	7,106	Unrated	5,794
Sui Northern Gas Co. Limited		AA	66,623	AA/A1+	66,111
Sui Southern Gas Co. Limited		AA-	6,388	AA-/A1+	5,445
Summit Bank Limited		A-	55,255	A-/A-2	76,329
TPL Trakker Limited		A-	-	A-/A2	9,040
TRI-PACK Films Limited		A+	-	A+/A1	3,878
United Bank Limited		AA+	27,703	AA+/A-1+	31,346
Masood Textile Mills Limited		Unrated	5,000	Unrated	10,000
Chenab Limited		Unrated	10,450	Unrated	5,250
			1,703,437		1,459,146
<b>Shares in Unlisted Companies</b>					
Pakistan Export Finance Guarantee Limited	10.12	Unrated	5,680	Unrated	5,680
			12,346,237		11,255,946

**10.11.1** During the year ended December 31, 2012, 8,704,640 shares of Agritech Limited were acquired from Azgard Nine Limited as part of multiple agreements including Master Restructuring Agreements (MRA). These shares were acquired at an agreed price of Rs. 35 per share. The market value of these shares is Rs. 12.67 per share as at December 31, 2013 resulting in an impairment loss of Rs. 194.375 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, 50% of the required impairment / provision is recorded up to December 31, 2013 resulting in further impairment of Rs. 76.88 million. Remaining provision will be recorded in phased manner up to December 31, 2014. Had this relaxation not been availed, impairment and loss before tax for the year would have been higher by Rs. 97.188 million.

**10.11.2** As per the Share Purchase Agreement dated September 29, 2011, the Bank acquired 45 million shares of Gharibwal Cement Limited (GCL) at the rate of Rs. 3.0 per share amounting to Rs. 135 million from the sponsors of GCL in the settlement of GCL's outstanding loans. As per the agreement, these shares may be bought back by the sponsors after a 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.

		December 31, 2013		December 31, 2012	
		Name of CEO	Credit rating	Amount	Credit rating
		Rupees in '000			
10.12	Ordinary Shares-Unlisted - 10.2.1				
	Pakistan Export Finance Guarantee Limited (fully provided)	Mr. S.M. Zaeem	Unrated	5,680	Unrated
				5,680	



# Notes to the Financial Statements

## for the year ended December 31, 2013

### 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% (2012: 23.07%)	Pakistan	General Insurance

Summarized financial information in respect of associate based on latest available financial statements as at September 30, 2013 is set out below:

	September 30, 2013	September 30, 2012
	Rupees in '000	
Total assets	540,540	473,299
Total liabilities	269,363	265,161
Net assets	271,177	208,138
Net premium revenue	210,948	59,394
Profit for the period / year (after tax)	13,688	25,594

	December 31, 2013	December 31, 2012
	Rupees in '000	
<b>Movement of investment in associate for the year</b>		
Balance as at January, 01	59,421	42,126
Share of profit for the year - net of tax @ 23.07%	3,159	17,295
Dividend received during the year	-	-
Balance as at December, 31	62,580	59,421

Note

### 10.14 Particulars of provision

Opening balance	106,871	86,563
Charge for the year	-	20,308
Reversals	-	-
Write off	(20,308)	20,308
Closing balance	86,563	106,871

10.14.1

#### 10.14.1 Particulars of provision in respect of Type and Segment

##### Available-for-Sale Securities

Ordinary shares - listed	-	20,308
Ordinary shares - unlisted	5,680	5,680
Term Finance Certificates - unlisted	5,973	5,973

##### Held-to-Maturity Securities

Shares repo	74,910	74,910
	86,563	106,871

# Notes to the Financial Statements

## for the year ended December 31, 2013

### 10.15 Investment in Un-listed Shares, Term Finance Certificates and Bonds.

#### 10.15.1 Investment in fully paid up ordinary shares - unlisted

December 31, 2013 No. of ordinary shares	December 31, 2012	Paid up value per share Rupees	Name of investee	December 31, 2013 Rupees in '000	December 31, 2012
568,000	568,000	10	Pakistan Export Finance Guarantee Chief Executive Mr. S.M. Zaeem	5,680	5,680

#### 10.15.2 Term Finance Certificates - listed

Name of investee	No. of certificates held	Paid up value per certificate (Rupees)	December 31, 2013 Rupees in '000	December 31, 2012
Escort Investment Bank Limited	2,000	5,000	999	1,998
Jahangir Siddiqui Company Limited	10,000	5,000	37,500	50,000
Pakistan Mobile Communication Limited	780	100,000	62,400	192,850
Engro Fertilizer Limited	16,374	5,000	68,796	75,326
			169,695	320,174

#### 10.15.3 Term Finance Certificates - unlisted

Name of investee	No. of certificates held	Paid up value per certificate (Rupees)	December 31, 2013 Rupees in '000	December 31, 2012
Avani Hotels	113,000	5,000	210,349	479,767
Gharbwal Cement Limited (fully provided)	1,195	5,000	5,973	5,973
Faysal Bank Limited	-	-	-	4,996
Azgard Nine Limited	1,756	5,000	8,780	8,780
Pak Libya Holding Co.	22,005	5,000	91,614	109,959
			316,716	609,475

### 11 ADVANCES - NET

	Note	December 31, 2013 Rupees in '000	December 31, 2012
Loans, cash credits, running finances, etc.			
In Pakistan		57,117,990	52,865,286
Outside Pakistan		-	-
		57,117,990	52,865,286
Islamic Financing and related assets	11.1.3	3,687,999	-
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		92,246	98,094
Payable outside Pakistan		622,411	1,115,382
		714,657	1,213,476
<b>Advances - gross</b>		<b>61,520,646</b>	<b>54,078,762</b>
Provision against non-performing advances - specific	11.3	(5,131,997)	(4,860,099)
Provision against consumer finance - general	11.3	(300,210)	(158,169)
<b>Advances net of provision</b>		<b>56,088,439</b>	<b>49,060,494</b>

# Notes to the Financial Statements

## for the year ended December 31, 2013

	Note	December 31, 2013	December 31, 2012
		Rupees in '000	
<b>11.1 Particulars of advances (Gross)</b>			
<b>11.1.1</b> In local currency		<b>61,520,646</b>	53,924,805
In foreign currencies		-	153,957
		<b>61,520,646</b>	54,078,762
<b>11.1.2</b> Short Term (for upto one year)		<b>29,447,302</b>	24,995,067
Long Term (for over one year)		<b>32,073,344</b>	29,083,695
		<b>61,520,646</b>	54,078,762
<b>11.1.3 Islamic Financing and related assets</b>	Annexure -II		
Murabaha financing		<b>505,852</b>	-
Musharaka financing	11.1.3.1	<b>3,182,147</b>	-
		<b>3,687,999</b>	-

**11.1.3.1** It includes Musharaka financing arrangements amounting to Rs. 2,524 million entered into by the Bank against which Bank's equity contribution in Musharaka is in the form of land transferred from non-banking assets, which the Bank had previously received against settlement of loans and advances (note 14). Further, Musharaka arrangements amounting to Rs. 675 million represents those arrangements in which the Bank's equity contribution in Musharaka is in the form of land which was externally purchased by the Bank solely for entering into such Musharaka arrangement. The Islamic Banking Department (IBD) of SBP approved these Musharaka transactions through its letter no. IBD-SD-15(18) / 11347 / 2013 dated July 25, 2013.

The Bank has also obtained irrevocable undertaking from Musharaka Partners whereby the principal and estimated profits thereon have been guaranteed by such partners. Accordingly, the Bank has recognized profit of Rs. 113 million in these financial statements.

**11.2** Advances include Rs. 9,872 (2012: Rs. 10,817) million which have been placed under non-performing status as detailed below:

Category of classification specific	2013			2012		
	Classified Advances	Provision required (Domestic)	Provision held	Classified Advances	Provision required (Domestic)	Provision held
	Rupees in '000					
Sub-standard	247,811	25,751	25,751	297,133	12,820	12,820
Doubtful	1,047,890	152,394	125,394	2,192,178	366,733	366,733
Loss	8,576,285	4,953,852	4,953,852	8,327,646	4,480,546	4,480,546
	<b>9,871,986</b>	<b>5,131,997</b>	<b>5,131,997</b>	<b>10,816,957</b>	<b>4,860,099</b>	<b>4,860,099</b>

**11.3 Particulars of provision against non-performing advances**

	Note	2013			2012		
		Specific	General	Total	Specific	General	Total
		Rupees in '000					
<b>Opening balance</b>		<b>4,860,099</b>	<b>158,169</b>	<b>5,018,268</b>	<b>5,251,835</b>	<b>111,248</b>	<b>5,373,083</b>
Charge for the year		<b>1,434,974</b>	<b>142,653</b>	<b>1,577,627</b>	<b>947,672</b>	<b>47,411</b>	<b>995,083</b>
Reversals		<b>(1,014,628)</b>	<b>(612)</b>	<b>(1,015,240)</b>	<b>(1,106,151)</b>	<b>(490)</b>	<b>(1,106,641)</b>
Net (reversals) / charge		<b>420,346</b>	<b>142,041</b>	<b>562,387</b>	<b>(158,479)</b>	<b>46,921</b>	<b>(111,558)</b>
Amounts written off	11.6	<b>(148,448)</b>	<b>-</b>	<b>(148,448)</b>	<b>(243,257)</b>	<b>-</b>	<b>(243,257)</b>
<b>Closing balance</b>		<b>5,131,997</b>	<b>300,210</b>	<b>5,432,207</b>	<b>4,860,099</b>	<b>158,169</b>	<b>5,018,268</b>



# Notes to the Financial Statements

## for the year ended December 31, 2013

**11.3.1** The State Bank of Pakistan through its various circulars / letters has allowed relaxation to the Bank in maintaining provisioning against exposure of Dewan Group till December 31, 2013. The relaxation resulted in reduction of Rs. 224 million (2012: 606 million) in provision against loans and advances.

**11.3.2** The SBP through its letter No. BPRD/BRD-05/Silk/2013/12434 dated August 21, 2013 has allowed further relaxation to the Bank in maintaining provision against exposure of Gullistan Textile Mills, Gulistan Spinning Mills, Paramount Spinning Mills and Gulshan Spinning Mills. This has resulted in relief of Rs. 178.4 million as at December 31, 2013.

**11.3.3** 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 and 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.

During the year, 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.

FSV benefit availed on loans and advances classified after December 31, 2013 is calculated under Prudential Regulations R-8.

As of December 31, 2013, enhanced FSV benefit allowed in accordance with abovementioned SBP letter has an after tax impact of Rs. 602 million on accumulated losses, which shall not be available for payment of cash or stock dividend.

As of December 31, 2013, total FSV benefit taken against all loans and advances including enhanced FSV benefit is Rs. 1,967 million - net of tax (2012: Rs. 2,221 million), which shall not be available for payment of cash or stock dividend.

**11.4** General provision represents provision made equal to 1.5% of the consumer secured performing portfolio, 5% of the consumer unsecured performing portfolio and 1% on small enterprises performing portfolio as required by the Prudential Regulations issued by the State Bank of Pakistan for Consumer and Small Enterprises Financing.

	Note	December 31, 2013	December 31, 2012
		Rupees in '000	
<b>11.5</b> Particulars of provision for consumer financing - general			
Opening balance		158,169	111,248
Charge for the year		142,653	47,411
Reversals		(612)	(490)
Closing balance		300,210	158,169
<b>11.6</b> Particulars Of Write Offs			
<b>11.6.1</b> Against provision		148,448	243,257
Directly charged to profit and loss account		423	3,389
		148,871	246,646
<b>11.6.2</b> Write offs of Rs. 500,000 and above	Annexure I	145,611	244,896
Write offs of Below Rs. 500,000		3,260	1,750
		148,871	246,646
<b>11.6.3</b> 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, 2013 is given in Annexure - I. However, this write-off does not affect the Bank's right to recover the debts from these customers.

# Notes to the Financial Statements

## for the year ended December 31, 2013

		December 31, 2013	December 31, 2012
	Note	Rupees in '000	
<b>11.7</b>	<b>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		1,070,247	505,596
Loans granted during the year		134,531	1,150,690
Repayments		(91,273)	(586,039)
Balance at end of the year		1,113,505	1,070,247
	<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		57,918	-
Loans granted during the year		3,361,797	3,507,946
Repayments		(3,123,648)	(3,450,028)
Balance at end of the year		296,067	57,918
	<b>Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties</b>		
Balance at beginning of the year		-	-
Loans granted during the year		-	-
Repayments		-	-
Balance at end of the year		-	-
	Details of loans and advances to associates, subsidiary and other related parties are given in note 39.		
<b>12</b>	<b>OPERATING FIXED ASSETS</b>		
Capital work-in-progress	12.1	35,112	47,941
Property and equipment	12.2	4,248,589	4,110,672
Intangible assets	12.3	407,851	478,721
		4,691,552	4,637,334
<b>12.1</b>	<b>Capital work-in-progress</b>		
Civil works		9,086	11,223
Advances to suppliers and contractors		26,026	36,718
		35,112	47,941
<b>12.1.1</b>	<b>Movement in capital work-in-progress</b>		
Opening balance		47,941	34,772
Additions during the year		282,380	143,152
Transferred to property and equipment		(295,209)	(129,983)
Closing balance		35,112	47,941

# Notes to the Financial Statements

## for the year ended December 31, 2013

### 12.2 Property and equipment

Property and equipment	Cost / Revaluation				2013							Net Book value as at December 31, 2013	Rate of depreciation
	As at January 01, 2013	Adjustment	Additions	Disposals	As at December 31, 2013	As at January 01, 2013	Adjustment	Charge for the year	Accumulated Depreciation				
									(Deletions)	As at December 31, 2013			
	Rupees in '000												
Freehold Land - 12.2.1 & 12.2.2	146,484	-	180,000	-	326,484	-	-	-	-	-	326,484	-	
Leasehold Land - 12.2.2	1,907,321	-	-	-	1,907,321	-	-	-	-	-	1,907,321	-	
Buildings on leasehold land - 12.2.1	773,259	-	206,057	-	979,316	71,236	8,894	47,264	-	127,394	851,922	5%	
Buildings on freehold land	81,373	-	-	(70,397)	10,976	23,087	-	2,881	(25,127)	2,841	6,135	5%	
Leasehold improvements	862,201	(22,166)	37,293	-	877,328	882,429	(16,226)	82,127	-	646,326	429,002	10%	
Furniture and fixture	250,839	-	18,037	-	268,876	112,278	-	23,316	-	135,794	133,082	10%	
Other equipment	391,837	-	17,454	-	409,291	203,246	(5,087)	52,281	-	310,442	98,849	20%	
Computers and MIS equipment	805,374	-	67,619	(487)	872,506	533,889	3,087	107,038	(487)	665,527	206,979	20%-33.33%	
Vehicles	492,511	-	129,969	(133,549)	488,931	192,364	-	91,968	(82,214)	202,118	286,813	20%	
December 31, 2013	3,711,199	(22,166)	616,429	(204,433)	4,141,025	1,600,827	(7,332)	407,076	(107,830)	1,892,440	4,248,569		

**12.2.1** The additions to freehold land and leasehold building include four properties amounting Rs. 386 million transferred from non-banking assets to property and equipment during the year.

**12.2.2** These include land and building revalued in 2008 by Habib Associates, an independent valuer. The revaluation resulted in a surplus of Rs.138.67 million. Had there been no revaluation, the carrying value of the revalued land and building would have been lower Rs. 100.07 million (2012 : Rs.103.79 million). The Bank's land and buildings were again revalued on various dates from June 25, 2010 to September 26, 2013. However, no revaluation surplus or deficit was recorded as the revalued amounts were not materially different from carrying values.

	Cost / Revaluation				2012							Net Book value at at December 31, 2012	Rate of depreciation
	As at January 01, 2012	Adjustment	Additions	Disposals	As at December 31, 2012	Accumulated Depreciation							
						As at January 01, 2012	Adjustment	Charge for the year	(Deletions)	As at December 31, 2012			
	Rupees in '000												
Freehold land - 12.2.1	146,484	-	-	(21,444)	146,484	-	-	-	-	-	-	146,484	-
Leasehold land - 12.2.2	1,952,313	-	-	(44,992)	1,907,321	-	-	-	-	-	-	1,907,321	-
Buildings on leasehold land	779,569	-	-	(63,100)	773,259	33,297	-	38,932	(993)	71,236	702,023	5%	-
Buildings on freehold land	81,373	-	-	-	81,373	21,052	-	4,035	-	25,087	56,286	5%	-
Leasehold improvements	849,728	-	12,473	-	862,201	301,166	-	81,259	-	382,425	479,776	10%	-
Furniture and fixture	246,814	-	4,112	(87)	250,839	88,269	-	24,031	(22)	112,278	138,561	10%	-
Other equipment	379,273	-	12,664	(100)	391,837	217,188	-	46,133	(73)	263,348	126,509	20%	-
Computers and MIS equipment	730,378	60	75,196	(220)	805,374	446,883	-	107,226	(220)	553,889	251,485	20% - 33.33%	-
Vehicles	414,202	-	194,628	(116,319)	492,511	176,350	-	85,803	(69,789)	192,364	300,147	20%	-
December 31, 2012	5,601,578	60	299,033	(189,472)	5,711,199	1,284,205	-	387,419	(71,097)	1,600,527	4,110,672		

### 12.3 Intangible assets

Intangible assets

	Cost					2013								
						Accumulated Amortization								
	As at January 01, 2013	Adjustment	Additions	Disposals	As at December 31, 2013	As at January 01, 2013	Adjustment	Amortization for the year	(Deletions)	As at December 31, 2013	Net Book value as at December 31, 2013	Rate of Amortiza- tion		
	Rupees in '000													
Computer software														
December 31, 2013	726,222	-	14,638	-	740,861	247,901	-	83,499	-	331,400	407,051	14.38%-25%		

	Cost					2012								
						Accumulated Amortization								
	As at January 01, 2012	Adjustment	Additions	Disposals	As at December 31, 2012	As at January 01, 2012	Adjustment	Amortization for the year	(Deletions)	As at December 31, 2012	Net Book value as at December 31, 2012	Rate of Amortiza- tion		
	Rupees in '000													
Computer software														
December 31, 2012	575,584	-	150,638	-	726,222	171,818	-	73,683	-	247,501	478,721	14.38%-25%		



# Notes to the Financial Statements

## for the year ended December 31, 2013

December 31,  
2013  
December 31,  
2012  
Rupees in '000

### 12.4 The gross carrying amount of fully depreciated assets that are still in use is as follows:

Furniture, electrical, office, computer equipment and others  
Leasehold improvements  
Vehicles  
Intangible assets

537,212	401,307
84,833	45,712
40,011	30,908
65,521	47,259
<b>727,577</b>	<b>525,186</b>

### 12.5 Details of disposal of fixed assets - By negotiations / Bank policy

Description	Date of capitalization	Date of disposal	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain / (Loss)	Particulars of purchaser
Rupees in '000								
Mall Road property	10-Aug-06	30-Sep-13	70,397	25,127	45,270	100,000	54,730	External Kingcrete Associates (Pvt) Ltd.
Suzuki Mehran VXR	01-Dec-10	29-Jan-13	544	236	308	317	9	Bank employee Ms Ayesha Hameed
Toyota Corolla GLI	31-Dec-08	31-Jan-13	1,122	917	205	205	-	Bank employee Muhammad Ghufri
Range Rover Armoured Reg # BF-4000	02-Aug-08	15-Feb-13	24,600	21,738	2,862	2,862	-	Bank President Azmat Tarin
Mercedes Benz C-200, Reg # AXU-900	30-Jul-12	28-Feb-13	2,176	254	1,922	1,958	36	Bank employee Sohail Bashir
Suzuki Cultus VXR	03-Jan-12	13-Feb-13	910	197	713	758	45	Bank employee Badar Mohiuddin
Honda Civic 1.8 iVtec, Reg # LEE-08-3360	05-Aug-08	01-Feb-13	1,718	1,604	114	114	-	Bank employee Sardar Kamran Khan Nakai
Suzuki Cultus VXR Reg # ANB-016	15-Oct-10	25-Feb-13	600	300	300	300	-	Bank employee Muhammad Rafique
Daihatsu Cuore	14-Mar-09	25-Feb-13	600	470	130	130	-	Bank employee Niaz Ahmed
Honda Civic VTI Oriel, Reg # AXR-060	26-Jun-12	26-Mar-13	2,013	302	1,711	1,745	34	Bank employee Omar Bin Javid
Honda Civic VTI Reg # ARJ-211	29-Jun-12	13-Mar-13	1,176	176	1,000	1,000	-	Bank employee Aman Gul
Toyota Corolla GLI, Reg # AXF-026	23-Apr-12	05-Mar-13	1,773	325	1,448	1,477	29	Bank employee Ms Asma Shaikh
Honda City VTI, Reg # AYL-460	29-Nov-12	05-Mar-13	2,332	155	2,177	2,215	38	Bank employee Ms Asma Shaikh
Suzuki Cultus VXR	29-Jun-12	07-Mar-13	950	143	807	808	1	Bank employee Haseeb Iqbal
Toyota Corolla XLI, Reg # APL-340	09-Jun-12	27-Mar-13	950	143	807	808	1	Bank employee Saeed Ahmed Khan
Honda City, Reg # ASB-952	28-Aug-11	22-Mar-13	1,000	317	683	683	-	Bank employee Helder Karim
Suzuki Swift DLX	04-Sep-12	15-Apr-13	1,211	141	1,070	1,090	20	Bank employee Ashar Seim Farooqui
Honda City, Reg # ALY-924	04-Mar-11	03-Apr-13	1,400	584	816	816	-	Bank employee Fareedullah Shaikh
Honda City Aspire Manual	10-Sep-12	26-Apr-13	1,627	190	1,437	1,455	18	Bank employee Syed Latifat Hussain
Toyota Corolla XLI, Reg # AWL-659	29-Jun-12	04-Apr-13	970	162	808	825	17	Bank employee Faizal Bin Ammer
Toyota Corolla XLI, Reg # QJ-466	15-May-10	22-Apr-13	962	562	400	401	1	Bank employee Prince Salman Khan
Honda Civic, Reg # AQX-084	23-Jun-11	04-Apr-13	1,400	513	887	910	23	Bank employee Asim Balg
Toyota Corolla GLI	26-Jun-12	17-Apr-13	1,608	268	1,340	1,393	53	Bank employee Majid Khan
Honda Civic VTI Oriel Prosmatec, Reg # ARP-319	14-Jan-09	16-Apr-13	1,859	1,581	278	278	-	Bank employee Jamil A Khan
Toyota Corolla GLI	01-Sep-08	22-Apr-13	1,014	930	84	101	17	Bank employee Qasab Hussain
Honda Accord 2.4 iVtec, Reg # ARF-343	01-Sep-08	08-Apr-13	3,616	3,316	300	360	60	Bank employee Ms. Sumbul Munir
Honda Civic VTI Prosmatec Oriel, Reg # ANM-381	14-Dec-08	30-Apr-13	1,859	1,643	216	216	-	Bank employee Ms. Muniza Sheikh
Toyota Prado, Reg # NAV-246	31-Oct-08	15-Apr-13	4,650	4183	465	541	76	Bank employee Muhammad Saqib Pal
Toyota Corolla GLI	11-Nov-10	16-Apr-13	1,400	677	723	723	-	Bank employee Anwar Ul Haque
Toyota Corolla XLI	24-Jun-11	10-May-13	1,000	383	617	633	16	Bank employee Tanveer Hussain
Toyota Corolla GLI, Reg # LEB-08-6899	14-Apr-08	09-May-13	894	694	-	-	-	Bank employee Anjum Rafiq
Honda Civic, Reg # LED-11-4937	12-Dec-11	09-May-13	1,000	283	717	750	33	Bank employee Mohammad Behan Nagi
Toyota Vitz, Reg # AWL-418	17-Jan-12	24-May-13	910	243	667	683	16	Bank employee Imran Ali Bajwa
Toyota Corolla XLI	19-Oct-11	29-May-13	1,000	317	683	717	34	Bank employee Ms Rozwana Khaja
Honda Civic 1.8 iVtec, Reg # ARD-109	05-Aug-08	08-Apr-13	1,725	1,611	114	114	-	Bank employee Muneed Hussain
Honda Civic, Reg # ARB-044	24-Jun-11	09-May-13	1,000	383	617	650	33	Bank employee Syed Yaseem Ahmed
Toyota Corolla GLI, Reg # SZ-317	01-Apr-11	10-May-13	1,400	583	817	840	23	Bank employee Syed Abrar Hussain
Suzuki Cultus VXR, Reg # AXV-446	09-Aug-12	17-Jun-13	965	161	804	852	48	Bank employee Nabeel Alam
Toyota Corolla XLI	11-Nov-09	18-Jun-13	1,000	717	283	300	17	Bank employee Ishfaq Ahmed Qazi
Suzuki Swift DLX	09-Jan-12	04-Jun-13	1,131	320	811	829	18	Bank employee Arbaz Zarek Khan
Toyota Corolla Altis	20-Jul-12	10-Jun-13	970	178	792	808	16	Bank employee Muhammad Fahad Munawar Khan
Honda Civic VTI Prosmatec Oriel, Reg # LEB-09-9465	10-Jun-09	13-Jun-13	1,860	1,468	392	372	-	Bank employee Anjum Saeed
Toyota Corolla GLI, Reg # ARY-942	14-Apr-09	25-Jun-13	1,000	834	166	166	-	Bank employee Muhammad Tariq
Honda Accord, Reg # ANC-925	28-Jul-11	23-Jul-13	2,500	1,042	1,458	1,458	-	Bank employee Syed Ammar Ali Zaidi
Honda City Vario, Reg # LEE-08-5457	01-Aug-08	12-Jul-13	1,718	1,689	29	29	-	Bank employee Asad Hamayun
Toyota Camry, Reg # AQV-710	08-Jul-08	22-Aug-13	3,250	3,250	-	53	53	Bank employee Ms. Shafiq Rahid
Chevrolet Joy	14-Apr-09	22-Aug-13	600	520	80	100	20	Bank employee Malik Tahir Saeed
Suzuki Swift DLX, Reg # LEA-10-8950	01-Apr-10	31-Aug-13	999	666	333	383	50	Bank employee Iqbal Musarat
Corolla Altis	23-Jun-11	22-Aug-13	1,899	823	1,076	1,108	32	Bank employee Aurangzeb Afridi
Honda Civic, Reg # ALN-506	13-Jul-11	28-Aug-13	1,200	500	700	720	20	Bank employee Imtiaz Tejani
Toyota Corolla Altis	01-Dec-11	22-Aug-13	1,400	467	933	1,003	70	Bank employee Sameen Ghani
Toyota Corolla	29-Jun-12	26-Aug-13	1,176	274	902	941	39	Bank employee Imran Roshan
Honda Civic Vtec, Reg # AXW-648	23-Jul-12	05-Aug-13	1,971	427	1,544	1,544	-	Bank employee M. Atther Kamal
Toyota Belta, Reg # AXZ-627	27-Aug-12	22-Aug-13	970	194	776	841	65	Bank employee Hassan Tahir
Honda City Vario	05-Sep-08	06-Sep-13	1,053	1,053	-	-	-	Bank employee Afzal Chaudhry
Honda City Vario, Reg # LEE-08-5459	05-Sep-08	09-Sep-13	779	779	-	-	-	Bank employee Sohail Anwer
Daihatsu Cuore, Reg # ARE-823	05-Sep-08	05-Sep-13	584	584	-	-	-	Bank employee Muhammad Tahir Ali
Toyota Prado, Reg # KS-444	20-Sep-08	09-Sep-13	1,724	1,724	-	-	-	Bank employee Sohail Ahmed Awan

# Notes to the Financial Statements

## for the year ended December 31, 2013

Description	Date of capitalisation	Date of disposal	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain / (Loss)	Particulars of purchaser
Rupees in '000								
Toyota Hilux Surf, Reg # JAO-122	13-Jul-11	05-Sep-13	1,000	433	567	567	-	Bank employee - Salman Shahid
Daihatsu Coure, Reg # OA-378	10-Jan-12	23-Sep-13	700	233	467	467	-	Bank employee - Sana Bessit
Toyota Prado	09-Jul-08	03-Oct-13	3,000	3,000	-	-	-	Bank employee - Kasim Farooq
Toyota Corolla GLI	30-Jul-12	23-Oct-13	1,176	294	882	920	38	Bank employee - Inayat Ali
Honda City, Reg # LED-12-2626	19-Jun-12	29-Oct-13	1,176	314	862	883	20	Bank employee - Usman Kardar
Honda City, Reg # LEC-12-560	19-Jun-12	29-Oct-13	1,176	314	862	883	20	Bank employee - Asad Ali
Toyota Corolla GLI, Reg # AMU-567	14-Oct-08	14-Oct-13	1,060	1,060	-	-	-	Bank employee - Imtiaz Ahmed
Honda City, Reg # Lee-08-3124	15-Jul-08	14-Oct-13	961	961	-	-	-	Bank employee - Muhammad Usman
Honda City, Reg # LEB-08-4348	14-Oct-08	03-Oct-13	858	858	-	-	-	Bank employee - Habib ur Rehman
Suzuki Cultus VXR, Reg # LEF-08-1159	14-Oct-08	03-Oct-13	774	774	-	-	-	Bank employee - Manzoor Kamar
Honda City, Reg # LEA-07-4865	13-Jul-11	22-Oct-13	600	270	330	370	40	Bank employee - Tahir Jamil
Suzuki Cultus VXR	26-Jan-12	20-Nov-13	910	334	576	592	16	Bank employee - Abdul Hameed
Corolla GLI	24-Feb-12	20-Nov-13	1,156	405	751	828	77	Bank employee - Ghulam Fareed
Toyota Camry	24-Feb-12	04-Nov-13	1,986	695	1,291	1,291	-	Bank employee - Syed Fahim
Honda Civic i-VTEC	19-Jun-13	20-Nov-13	2,093	174	1,919	1,953	34	Bank employee - Anjum Saeed
Toyota Corolla GLI	12-Dec-11	28-Nov-13	1,554	596	958	1,010	52	Bank employee - Ms Atia Alam
Toyota Corolla GLI	04-Mar-11	27-Dec-13	600	330	270	270	-	Bank employee - Mrs Behana Nisar
Suzuki Alto VXR	13-Aug-09	09-Dec-13	600	520	80	80	-	Bank employee - Syed Murtaz Ali Haqvi
Suzuki Cultus VXR, Reg # ARL-339	03-Dec-08	03-Dec-13	829	829	-	-	-	Bank employee - Fasih Haider
Suzuki Cultus VXR	29-Jun-12	18-Dec-13	950	285	665	713	48	Bank employee - Syed Nauman Sajid
Toyota Vitz	27-Sep-12	13-Dec-13	970	242	728	744	16	Bank employee - Akber Munawwar
Honda Civic Vtec Prosmatec	05-Sep-08	27-Dec-13	1,053	1,053	-	-	-	Bank employee - Nadeem Faisal
Honda Civic VTI, Reg # LWA-2990	21-Jun-12	09-Dec-13	1,176	353	823	882	59	Bank employee - Seftain Gillani
Toyota Corolla Altis, Reg # LEH-08-3501	10-Nov-08	18-Dec-13	1,822	1,822	-	-	-	Bank employee - Talha Saeed
Honda Civic VTI Prosmatec, Ortel	14-Dec-08	23-Dec-13	1,852	1,852	-	-	-	Bank employee - Waith Zaidi
<b>Total</b>			<b>203,947</b>	<b>107,844</b>	<b>96,603</b>	<b>152,834</b>	<b>56,231</b>	
Others								
Toshiba Laptop Satellite L-300-P502	13-Aug-09	13-Feb-13	65	65	-	7	7	Bank employee - Omar Bin Javid
Toshiba Tecra M9 Laptop	2-Jun-08	25-Feb-13	106	106	-	10	10	Bank employee - Sohail Bashir
Toshiba Laptop Satellite L-310-A450	31-Dec-08	12-Jul-13	84	84	-	7	7	Bank employee - Ata-Ul-Rab Rana
Toshiba Laptop Satellite L-300-N-806	9-Sep-08	12-Jul-13	60	60	-	7	7	Bank employee - Ghulam Fard
Sony Vaio Laptop VGN-CR34GN, Serial # 7003946	2-Jul-08	20-Nov-13	93	93	-	7	7	Bank employee - Mujib ur Rehman
Toshiba Laptop Satellite L-300-S502	14-Nov-09	20-Nov-13	78	78	-	7	7	Bank employee - Syed Qasim Rizvi
<b>Total</b>			<b>486</b>	<b>486</b>	<b>-</b>	<b>45</b>	<b>45</b>	
<b>Grand Total</b>			<b>204,433</b>	<b>107,830</b>	<b>96,603</b>	<b>152,879</b>	<b>56,276</b>	

**12.5.1** Disposals to Bank's employees are made as per their term of employment. Disposals during the year have been made to the Chief Executive, other Executives (as defined in note 36) and other staff.

		December 31, 2013	December 31, 2012 (Restated)
<b>13 DEFERRED TAX ASSETS - NET</b>	<b>Note</b>	<b>Rupees in '000</b>	
<b>Deferred tax debits arising in respect of</b>			
Provision for diminution in the value of investments		41,748	14,840
Provision held against other assets		-	7,350
Provision against non-performing advances		2,104,316	1,914,913
Unabsorbed tax depreciation		818,567	474,445
Unused tax losses		1,340,549	1,475,871
		<b>4,305,180</b>	<b>3,887,420</b>
<b>Deferred tax credits arising due to</b>			
Accelerated tax depreciation		(244,805)	(198,561)
Surplus on revaluation of investments	21.1	(180,223)	(45,450)
Surplus on revaluation of property	21.2	(26,876)	(28,178)
Remeasurement of defined benefit plan		(14,198)	(10,190)
		<b>(466,102)</b>	<b>(282,379)</b>
<b>Net Deferred tax Asset</b>		<b>3,839,078</b>	<b>3,605,041</b>



# Notes to the Financial Statements

## for the year ended December 31, 2013

### 13.1 Movement in temporary differences

	Balance as at January 01, 2012	Recognised in profit and loss	Recognised in equity	Balance as at December 31, 2012	Recognised in profit and loss	Recognised in equity	Balance as at December 31, 2013
Rupees in '000							
Deductible / (taxable) temporary differences are:							
Provision against non-performing advances	1,803,521	111,392	-	1,914,913	189,403	-	2,104,316
Provision for diminution in value of investments	-	14,840	-	14,840	26,908	-	41,748
Unused tax losses	1,446,211	29,654	-	1,475,871	(135,322)	-	1,340,549
Provision held against other assets	-	7,350	-	7,350	(7,350)	-	-
Unabsorbed tax depreciation	474,446	-	-	474,446	344,121	-	818,567
Accelerated tax depreciation	(128,002)	(70,559)	-	(198,561)	(46,244)	-	(244,805)
Surplus on revaluation of investments	2,714	-	(48,164)	(45,450)	-	(134,773)	(180,223)
Surplus on revaluation of property	(29,479)	-	1,301	(28,178)	-	1,302	(26,876)
Remeasurement of defined benefit plan	(3,917)	-	(6,273)	(10,190)	-	(4,008)	(14,198)
Deferred Tax	3,565,500	92,677	(53,136)	3,605,041	371,516	(137,479)	3,839,078

- 13.2** The Bank has an aggregate amount of deferred tax asset of Rs. 3,839 million which represents management's best estimate of the probable benefits expected to be realised in future years in the form of reduced tax liability as the Bank would be able to set off the profits earned in those years against losses carried forward and other taxable temporary differences relating to prior years. The Bank has prepared five years financial projections for future taxable profits, which have been approved by the Board of Directors, to assess the recoverability of deferred tax assets. The projections involve certain key management assumptions 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 capital injection, growth of low cost deposits, growth in high yield consumer advances, real estate musharaka financing transactions, investment returns, potential provision against assets, interest rates, cost of funds and expected recoveries of classified loans. Any significant change in such assumptions may have an effect on the recoverability 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.

- 13.3** Status of tax and other details are disclosed in note 31.2 and 31.3 of the financial statements.

	Note	December 31, 2013	December 31, 2012 (Restated)
		Rupees in '000	
<b>14 OTHER ASSETS</b>			
Income / Mark-up accrued in local currency		1,616,019	1,512,591
Income / Mark-up accrued in foreign currencies		2	1,250
Advances, deposits, advance rent and other prepayments		420,929	438,277
Advance taxation		241,777	141,199
Non-banking assets acquired in satisfaction of claims	14.2	2,931,946	5,421,409
Non-banking assets acquired in satisfaction of claims with buy back option	14.2	926,831	1,716,407
		3,858,777	7,137,816
Branch adjustment account		30,303	53,188
Unrealized gain on forward foreign exchange contracts	14.4	29,471	83,849
Others		206,129	208,718
		6,403,407	9,576,888
Less: Provision held against other assets	14.3	(110,155)	(229,155)
<b>Other Assets (Net of Provision)</b>		<b>6,293,252</b>	<b>9,347,733</b>
<b>14.1</b> Aggregate Market value of non-banking assets acquired in satisfaction of claims		<b>4,401,449</b>	<b>7,375,124</b>

- 14.2** This includes un-developed properties which have been evaluated based on valuation reports from valuers on Pakistan Banks Association's list of approved valuers.



# Notes to the Financial Statements

## for the year ended December 31, 2013

		December 31, 2013	December 31, 2012
	Note	Rupees in '000	
<b>14.3 Provisions against other assets</b>			
Opening balance		229,155	377,655
Charge for the year		-	21,000
Reversals	14.3.1	(119,000)	(169,500)
Net reversal for the year	29	(119,000)	(148,500)
Amount written off		-	-
Closing balance		110,155	229,155
<b>14.3.1</b>	This represents reversal on account of certain OREO properties which were transferred in the name of the Bank in the current year.		
<b>14.4 Unrealized gain on forward foreign exchange contracts</b>			
		<b>Contract / Notional amount</b>	<b>Unrealised gain</b>
		<b>2013</b>	<b>2012</b>
		Rupees in '000	
Unrealised gain		3,105,208	83,849
		<b>December 31, 2013</b>	<b>December 31, 2012</b>
	Note	Rupees in '000	
<b>15 BILLS PAYABLE</b>			
In Pakistan		2,747,400	1,978,549
Outside Pakistan		-	-
		2,747,400	1,978,549
<b>16 BORROWINGS</b>			
In Pakistan		10,624,954	10,791,390
Outside Pakistan		757,021	585,391
		11,381,975	11,376,781
<b>16.1 Particulars of borrowings with respect to currencies</b>			
In local currency		10,624,954	10,791,390
In foreign currencies		757,021	585,391
		11,381,975	11,376,781
<b>16.2 Details of borrowings secured / unsecured</b>			
<b>Secured</b>			
Borrowings from State Bank of Pakistan (re-finance)			
Export refinance scheme	16.2.1	3,384,177	3,199,348
Long term finance - export oriented projects	16.2.1	4,652	12,316
Long term financing facility	16.2.1	20,466	55,012
Refinance facility for modernization of SMEs	16.2.1	-	8,150
Repurchase agreement borrowings	16.2.2	1,178,797	6,716,564
		4,588,092	9,991,390

# Notes to the Financial Statements

## for the year ended December 31, 2013

	Note	December 31, 2013	December 31, 2012
		Rupees in '000	
<b>Unsecured</b>			
Call borrowings	16.2.3	6,030,000	800,000
Borrowing from other financial institutions	16.2.4	441,915	10,133
Overdrawn Nostro accounts		315,106	575,258
Overdrawn local bank accounts		6,862	-
		<u>6,793,883</u>	<u>1,385,391</u>
		<u>11,381,975</u>	<u>11,376,781</u>
<b>16.2.1</b>	These borrowings carry mark-up at the rate ranging from 5% to 8.40% (2012: 5% to 10%) per annum.		
<b>16.2.2</b>	These represent funds borrowed from the local interbank money market against government securities carrying interest rate of 10% (2012: 8.79% to 8.82%) per annum with maturities up to January 2014.		
<b>16.2.3</b>	These represent unsecured borrowings from the local money market carrying interest rate ranging from 10% to 12% (2012: 9.40% to 9.90%) per annum with maturities up to March 2014.		
<b>16.2.4</b>	These represent borrowing in foreign currency and carry interest rate ranging from 2.75% to 2.87% (2012: 2.87%) per annum.		
<b>17</b>	<b>DEPOSITS AND OTHER ACCOUNTS</b>		
<b>Customers</b>			
Fixed deposits		30,051,389	33,368,865
Savings deposits		20,028,542	17,676,899
Current accounts - non - remunerative		16,499,952	15,874,800
Margin accounts - non - remunerative		713,559	736,024
Others		203,581	212,470
		<u>67,497,023</u>	<u>67,869,058</u>
<b>Financial institutions</b>			
Remunerative deposits		1,849,745	1,104,391
Non-remunerative deposits		86,684	76,998
		<u>1,936,429</u>	<u>1,181,389</u>
		<u>69,433,452</u>	<u>69,050,447</u>
<b>17.1</b>	<b>Particulars of deposits</b>		
In local currency		61,637,212	63,769,246
In foreign currencies		7,796,240	5,281,201
		<u>69,433,452</u>	<u>69,050,447</u>
<b>18</b>	<b>OTHER LIABILITIES</b>		
Mark-up/ Return/ Interest payable in local currency		639,522	788,417
Mark-up/ Return/ Interest payable in foreign currencies		7,929	2,447
Un-earned commission and income on bills discounted		58,974	45,938
Accrued expenses		99,679	54,860
Unrealized loss on forward foreign exchange contracts	18.1	198,505	38,715
Workers' Welfare Fund (WWF)		34,293	34,293
Advance received against future sale of Non Banking Assets		225,016	96,086
Others		298,383	241,252
		<u>1,562,301</u>	<u>1,302,008</u>
<b>18.1</b>	<b>Unrealized loss on forward foreign exchange contracts</b>		
	<b>Contract / Notional amount</b>	<b>Unrealised loss</b>	
	<b>2013</b>	<b>2012</b>	<b>2012</b>
	Rupees in '000		
Unrealised loss	<u>9,864,818</u>	<u>6,718,886</u>	<u>198,505</u>
			<u>38,715</u>

# Notes to the Financial Statements

## for the year ended December 31, 2013

### 19 SHARE CAPITAL

#### 19.1 Authorised capital

December 31, 2013	December 31, 2012		December 31, 2013	December 31, 2012
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 capital

December 31, 2013	December 31, 2012		December 31, 2013	December 31, 2012
No. of shares in '000				
<u>800,315</u>	<u>800,315</u>	Ordinary shares of Rs.10 each Fully paid in cash	<u>8,003,150</u>	<u>8,003,150</u>
<u>100,000</u>	<u>100,000</u>	Ordinary shares of Rs.10 each Fully paid in cash and issued at a discount of Rs. 2.5 per share	<u>1,000,000</u>	<u>1,000,000</u>
<u>1,771,290</u>	<u>1,771,290</u>	Ordinary shares of Rs.10 each Fully paid in cash and issued at a discount of Rs.7.5 per share	<u>17,712,898</u>	<u>17,712,898</u>
<u>2,671,605</u>	<u>2,671,605</u>		<u>26,716,048</u>	<u>26,716,048</u>

19.3 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 (net of loss and share discount) by 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)

19.4 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 tenor of convertible preference shares.

	December 31, 2013	December 31, 2012
19.5 CAPITAL ADEQUACY		
Total Capital Adequacy Ratio	<u>6.93%</u>	<u>5.69%</u>

#### 20 CONVERTIBLE PREFERENCE SHARES

The Bank has issued 880 million Convertible Preference Shares (CPS) 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 three 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 considered towards the compliance of applicable statutory liquidity requirement.

SBP has given approval of CPS as Tier-I capital for Capital Adequacy Ratio (CAR) purpose only. Further, the SBP vide their letter no.BPRD/BA&CP-04/15690/2013 dated October 24, 2013 allowed the Bank to disclose CPS in the "Capital Section" of its financial statements till the remaining maturity or earlier redemption, whichever is earlier.



# Notes to the Financial Statements

## for the year ended December 31, 2013

		December 31, 2013	December 31, 2012
	Note	Rupees in '000	
<b>21 SURPLUS ON REVALUATION OF ASSETS - NET OF TAX</b>			
Surplus on revaluation of securities	21.1	334,702	84,407
Surplus on revaluation of properties	21.2	73,199	75,617
		<b>407,901</b>	<b>160,024</b>
<b>21.1 Surplus / (Deficit) on revaluation of securities</b>			
<b>Federal Government Securities</b>			
Market Treasury Bills		(4,283)	1,286
Pakistan Investment Bonds		(49,742)	-
GOP Ijara Sukuks		14,926	5,986
<b>Fully paid-up ordinary shares</b>			
Listed companies		547,422	148,477
<b>Term Finance Certificate, Debentures, Bonds and Participation Term Certificates</b>			
Term Finance certificates - Listed		2,098	(11,593)
- Unlisted		(2,546)	(15,708)
Sukuks		(85)	(213)
<b>Other Investments</b>			
Units of Mutual fund - closed end		7,135	1,622
Deferred tax liability recognised	10.1 13	514,925 (180,223)	129,857 (45,450)
		<b>334,702</b>	<b>84,407</b>
<b>21.2 Surplus on revaluation of properties</b>			
Surplus on revaluation of properties	21.3	100,075	103,795
Deferred tax liability recognised	13	(26,876)	(28,178)
		<b>73,199</b>	<b>75,617</b>
<b>21.3 Reconciliation of surplus on revaluation of properties</b>			
At beginning of the year		103,795	157,157
Surplus realized on account of incremental depreciation - net of tax		(3,720)	(3,720)
Surplus realized on disposal of properties		-	(49,642)
At end of the year	12.1.1	<b>100,075</b>	<b>103,795</b>
<b>22 CONTINGENCIES AND COMMITMENTS</b>			
<b>22.1 Direct credit substitutes</b>		-	-
<b>22.2 Transaction-related contingent liabilities</b>			
Guarantees favouring			
Government		7,897,923	7,490,282
Banking companies and other financial institutions		484,069	160,531
Others		2,262,787	1,709,467
<b>22.3 Trade-related contingent liabilities</b>			
Letters of Credit and Acceptances		3,015,850	4,589,144
<b>22.4 Claims against the bank not acknowledged as debt</b>		<b>267,532</b>	<b>337,233</b>

# Notes to the Financial Statements

## for the year ended December 31, 2013

**22.4.1** These represent recovery suits filed by various parties in which the Bank is a direct or indirect defendant

**22.4.2** Suits for damages of Rs. 872 billion (2012: Rs. 850 billion) have been filed against the Bank by various borrowers / employees in respect of certain disputes relating to loans and advances. The management of the Bank and its legal counsel consider that the suits are a counterblast in response to the recovery suits filed by the Bank. The Bank and its legal counsel are confident that the cases will be dismissed as actual damages have to be proven in such suits.

Out of these, two suits amounting to Rs. 847.5 billion filed in response to recovery suits previously filed by the Bank stood decreed in favour of the Bank and the defendants' appeal in respect thereof was dismissed by the High Court. Thereafter the defendants filed appeal in the Honorable Supreme Court which was subsequently withdrawn by the defendants themselves. As the date of the financial statements, execution proceedings initiated by the Bank are in progress in the High Court.

	December 31, 2013	December 31, 2012
	Rupees in '000	
<b>22.5 Commitments in respect of forward contracts</b>		
Forward Exchange contracts with State Bank of Pakistan, banks and other institutions		
Sale	3,134,530	6,174,393
Purchase	9,623,107	10,523,822
<b>22.6 Claims against the bank by Competition Commission of Pakistan and Others</b>	35,000	35,000
<b>22.7 Commitments in respect of</b>		
Property, civil work & equipment	8,510	2,461
Purchase of Hardware / Software	36,772	85,761
	45,282	88,222

**22.8** 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.

### 23 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 Foreign Exchange Options.

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

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

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

The details of commitments under forward foreign exchange contracts outstanding at year-end have been given in note 22.5. There was no equity futures position at the year end.

# Notes to the Financial Statements

## for the year ended December 31, 2013

		December 31, 2013	December 31, 2012
	Note	Rupees in '000	
<b>24</b>	<b>MARK-UP / RETURN / INTEREST EARNED</b>		
	<b>On loans and advances to:</b>		
	i) Customers	6,160,622	6,852,585
	ii) Financial Institutions	-	-
	<b>On investments in:</b>		
	i) Held-for-Trading Securities	37,939	-
	ii) Available-for-Sale Securities	1,303,095	1,382,222
	iii) Held-to-Maturity Securities	116	153,808
		1,341,150	1,536,030
	On deposits with financial institutions	578	390
	On call money lendings	3,861	16,202
	On securities purchased under resale agreements	116,214	178,359
		<b>7,622,425</b>	<b>8,583,566</b>
<b>25</b>	<b>MARK-UP / RETURN / INTEREST EXPENSED</b>		
	Deposits	4,196,462	5,099,507
	Securities sold under repurchase agreements	295,213	633,803
	Call borrowings	365,493	302,236
	Borrowing from State Bank of Pakistan under export refinance scheme	264,313	291,686
	SWAP money market expense	330,487	345,592
	Others	10,701	8,514
		<b>5,462,669</b>	<b>6,681,338</b>
<b>26</b>	<b>GAIN / (LOSS) ON SALE OF SECURITIES - NET</b>		
	Federal government securities		
	Market treasury bills	15,702	10,948
	Pakistan Investment bonds	(24,533)	(8,058)
	GOP Ijara Sukuk Bonds	25,059	19,823
	Shares - Listed	151,618	58,305
	Term finance certificates	1,384	3,441
	Mutual funds	687	(78)
		<b>169,917</b>	<b>84,381</b>
<b>27</b>	<b>OTHER INCOME</b>		
	Rent on property	15,074	12,027
	Gain on sale of property and equipment - net	12.5 56,276	22,884
	Income from non-banking assets and profit from sale of or dealing with such assets	27.1 44,475	28,455
	Postage, telex and other service charges recovered	38,349	29,503
	Trade business rebate	49,221	47,338
	Pakistan remittance initiatives income	30,002	6,753
	Others	46,213	18,444
		<b>279,610</b>	<b>165,804</b>
<b>27.1</b>	In the current year, the Bank sold properties having book value of Rs. 1,066 million for Rs. 1,111 million.		



# Notes to the Financial Statements

## for the year ended December 31, 2013

		December 31, 2013	December 31, 2012
		Rupees in '000	
<b>28 ADMINISTRATIVE EXPENSES</b>	<b>Note</b>		
Salaries, allowances and other benefits		2,049,788	2,115,439
Charge for defined benefit plan	35.1.3/28.2	50,445	50,046
Contribution to defined contribution plan	35.2	59,960	63,043
Non-executives directors' fees, allowances and other expenses		26,285	23,990
Rent, taxes, insurance, electricity, etc.		610,504	564,585
Legal and professional charges		285,056	227,219
Communications		162,772	129,012
Repairs and maintenance		215,120	166,706
Stationery and printing		52,309	36,569
Security charges		66,744	56,794
Advertisement and publicity		64,902	81,323
Donation		-	200
Depreciation	12.2	407,075	387,419
Amortization of intangible assets	12.3	85,499	75,683
Auditors' remuneration	28.1	7,611	5,110
Fuel and travelling expenses		133,478	101,551
Brokerage and commission		8,106	7,091
Subscriptions and newspapers		10,971	9,562
Entertainment		34,509	24,710
Others		76,793	87,507
		<b>4,407,927</b>	<b>4,213,559</b>
<b>28.1 Auditors' remuneration</b>			
Annual audit fee		2,090	1,900
Half yearly review		880	800
Special certifications		3,865	2,000
Out-of-pocket expenses		776	410
		<b>7,611</b>	<b>5,110</b>
<b>28.2</b>	It includes gratuity paid in respect of outsourced staff amounting to Rs. 0.579 million.		
<b>29 OTHER (REVERSAL) / PROVISIONS / WRITE OFFS</b>			
Reversal of Provision - net write offs	14.3	(119,000)	(148,500)
		6,551	-
		<b>(112,449)</b>	<b>(148,500)</b>
<b>30 OTHER CHARGES</b>			
Penalties imposed by SBP	30.1	62,483	1,021
Operational loss		709	4,012
Worker's Welfare Fund		-	6,560
Impairment in value of Non-Banking Assets		20,269	-
		<b>83,461</b>	<b>11,593</b>
<b>30.1</b>	This represents penalties imposed by SBP on various non-compliances related to rules and regulations		
<b>31 TAXATION</b>			
<b>Current</b>			
- for the year		-	-
- prior year		-	92,322
		-	92,322

# Notes to the Financial Statements

## for the year ended December 31, 2013

		December 31, 2013	December 31, 2012
		Rupees in '000	
<b>Deferred</b>	<b>Note</b>		
- for the year	31.3	371,516	184,885
- prior year		-	(92,209)
		371,516	92,676
		371,516	184,998
<b>31.1 Relationship between tax expense and accounting profit</b>			
Loss before tax		(1,528,078)	(529,269)
Tax rate		35%	35%
Tax at applicable rate		(534,827)	(185,244)
Minimum tax		-	(92,322)
Permanent difference		28,963	359
Deferred tax asset written off / adjusted		119,542	92,209
Others		14,806	-
		(371,516)	(184,998)
<b>31.2</b>	The income tax returns of the Bank have been submitted up to tax year 2013. The Bank has filed appeals before (ATIR) against certain disallowances amounting to Rs. 1,996 million made by Tax officer for assessment / tax year(s) 2000-2001, 2001-2002, 2002-2003 and 2004. The disallowances amounting to Rs. 682 million in respect of tax year 2003 and 2006 are pending at CIR (A). The management is confident that the outcome of these appeals would be in favour of the Bank.		
<b>31.3</b>	The Bank's return in respect of AJK operations have been submitted up to and including tax year 2013. 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.		
		December 31, 2013	December 31, 2012
		Rupees in '000	
<b>32 LOSS PER SHARE - BASIC AND DILUTED</b>	<b>Note</b>		
Loss after taxation for the year (Rupees in '000)		1,156,562	344,271
Weighted average number of ordinary shares (in '000)		2,671,605	2,671,605
Loss per share - Basic and Diluted (Rupee)		(0.43)	(0.13)
<b>33 CASH AND CASH EQUIVALENTS</b>			
Cash and balances with treasury banks	7	5,361,695	4,006,569
Balances with other banks	8	226,184	86,002
		5,587,879	4,092,571
		December 31, 2013	December 31, 2012
		Number of persons	
<b>34 STAFF STRENGTH</b>	<b>Note</b>		
Permanent		1,211	1,260
Temporary/ Contractual basis		28	35
Bank's own staff strength at the end of the year		1,239	1,295
Outsourced	34.1	1,647	1,455
Total staff strength		2,886	2,750
<b>34.1</b>	This excludes outsourced security guards and commission based agents.		

# Notes to the Financial Statements

## for the year ended December 31, 2013

### 35 STAFF RETIREMENT BENEFITS

#### 35.1 Defined benefit plan

As disclosed in notes 4.1.2 and 6.10.2, the Bank operates an approved gratuity scheme for all its regular employees. The entitlement of the employees will start on completion of five years with the Bank beginning from January 01, 2005. Projected Unit Credit Actuarial Cost Method has been used for actuarial valuation dated December 31, 2013. The financial statements of the fund are separately prepared and audited and are not included as part of these financial statements. Contribution funds are placed with bank account maintained with Silkbank in super profit scheme at a rate of 15%.

	Note	December 31, 2013	December 31, 2012 (Restated)
		Rupees in '000	
<b>35.1.1 Amount recognized in the balance sheet:</b>			
Present value of the defined benefit obligation	35.1.2	251,241	233,640
Less: Fair value of the plan assets	35.1.2	(291,806)	(262,753)
Asset		(40,565)	(29,113)

#### 35.1.2 Movement of present value of defined benefit obligation and fair value of plan assets

	2013		
	Present value of defined benefit obligation	Fair value of plan assets	Total
	Rupees in '000		
<b>As at January 1, 2013</b>	233,640	(262,753)	(29,113)
Current service cost	53,162	-	53,162
Interest cost / (income)	30,024	(33,320)	(3,296)
Company contributions	-	(49,866)	(49,866)
Benefits paid	(33,227)	33,227	-
Remeasurements recognised in other comprehensive income:			
Loss due to change in financial assumptions	940	-	940
Loss due to change in demographic assumptions	687	-	687
Gain due to changes in experience adjustment	(33,985)	-	(33,985)
Return on plan assets excluding amounts included in interest income	-	20,906	20,906
	(32,358)	20,906	(11,452)
<b>As at December 31, 2013</b>	<b>251,241</b>	<b>(291,806)</b>	<b>(40,565)</b>
	2012 (Restated)		
	Present value of defined benefit obligation	Fair value of plan assets	Total
	Rupees in '000		
<b>As at January 1, 2012</b>	175,179	(190,365)	(11,150)
Current service cost	51,412	-	51,412
Interest cost / (income)	25,735	(27,101)	(1,366)
Company contributions	-	(50,046)	(50,046)
Benefits paid	(18,737)	18,737	-
Remeasurements recognised in other comprehensive income:			
Gain on obligations	(3,949)	-	(3,949)
Return on plan assets over interest income gain	-	(13,974)	(13,974)
	(3,949)	(13,974)	(17,923)
<b>As at December 31, 2012</b>	<b>233,640</b>	<b>(262,753)</b>	<b>(29,113)</b>



# Notes to the Financial Statements

## for the year ended December 31, 2013

		December 31, 2013	December 31, 2012
		Rupees in '000	
<b>35.1.3 Amount recognised in profit and loss:</b>	<b>Note</b>		
Current service cost		53,162	51,412
Net interest		(3,296)	(1,366)
	28	49,866	50,046
<b>35.1.4 Movement in liability:</b>			
Net defined benefit asset at the beginning of the year		(29,113)	(11,190)
Charge for the year	35.1.3	49,866	50,046
Remeasurements - gains recognized in OCI during the year	35.1.2	(11,452)	(17,923)
Contribution by bank	35.1.3	(49,866)	(50,046)
Net defined benefit asset at the end of the year		(40,565)	(29,113)
<b>35.1.5 Actual return on plan assets</b>		12,414	41,075
<b>35.1.6 Principal actuarial assumption</b>			
Discount factor used (% per annum)		12.75%	12.00%
Expected increase in eligible pay (% per annum)*		11.75%	11.00%
Normal retirement age (years)		60 years	60 years

\*Salary increments were assumed to be given on 1st March each year

**35.1.7** The discount rate of 12.75% (per annum compound) is representative of yields on Pakistan Investment Bonds and high quality term finance certificates.

**35.1.8** The expected charge for the year 2014 is Rs. 45.82 million.

**35.1.9** The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
	Rupees in '000		
Discount rate	1%	237,777	266,221
Salary growth rate	1%	267,410	236,482

The above sensitivity analysis are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the Projected Unit Credit Actuarial Cost Method at the end of the reporting period) has been applied as when calculating net defined benefit asset recognised within the statement of financial position.

	December 31, 2013	December 31, 2012
	Rupees in '000	
<b>35.1.10 Composition of fair value of plan assets</b>		
Pakistan Investment Bonds	204,592	184,259
Term Finance Certificate	37,773	25,158
Cash and cash equivalents	40,842	45,792
National Investment Trust Units	8,599	7,541
	291,806	262,750

### 35.2 Defined contribution plan

The Bank operates an approved funded contributory provident fund for all its permanent employees to which equal monthly contributions are made both by the Bank and the employees at the rate of 8.33% of basic salary. The financial statements of the fund are separately prepared and audited and are not included as part of these financial statements. Contribution funds are placed with bank account maintained with Silkbank in super profit scheme at a rate of 10%.

# Notes to the Financial Statements

## for the year ended December 31, 2013

	Note	December 31, 2013	December 31, 2012
		Rupees in '000	
Bank's contribution	28	59,960	63,043

### 36 COMPENSATION OF DIRECTORS AND EXECUTIVES

	2013	2012	2013	2012	2013	2012
	President / Chief Executive		Executive Directors		Executives	
	Rupees in '000					
Managerial remuneration	30,556	29,861	25,667	25,083	497,451	543,219
Charge for defined benefit plan	2,545	2,487	2,138	2,089	41,438	39,686
Contribution to defined contribution plan	2,545	2,487	2,138	2,089	41,438	39,686
Rent and house maintenance	15,278	14,931	12,833	12,542	248,727	268,611
Medical	3,056	2,986	2,567	2,539	49,745	53,722
Others	8,590	18,772	7,057	14,115	195,440	261,737
	62,570	71,524	52,400	58,457	1,074,239	1,206,561
Number of persons remained during the year	1	1	1	1	370	382

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

### 37 FAIR VALUE OF FINANCIAL INSTRUMENTS

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, less impairment (if any).

The fair value of fixed term loans and advances, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for similar assets and liabilities. Loans and advances are reduced for any impairment against non-performing advances determined in accordance with the Bank's accounting policy and Prudential Regulations detailed in notes 6.5 and 11.3.

The effective yield / interest rates, maturity and repricing profile are stated in notes 41.2.3 and 41.3.1 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.

### 38 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 balance sheet items and items of income and expense are distributed in primary segments in accordance with the core functions performed by the business groups.

# Notes to the Financial Statements

## for the year ended December 31, 2013

### 2013

	Wholesale Banking	Consumer / SME Banking	Total
	Rupees in '000		
Total income - net:	822,456	2,661,880	3,484,336
Total expenses	(1,101,986)	(3,910,428)	(5,012,414)
Net loss	(279,530)	(1,248,548)	(1,528,078)
Segment Assets (Gross)	60,802,789	36,516,297	97,319,086
Segment Non Performing Loans	6,236,754	3,635,232	9,871,986
Segment Provision Required	3,615,511	1,903,259	5,518,770
Segment Liabilities	22,792,819	62,332,309	85,125,128
Segment Return on net Assets (ROA) (%)	-0.73%	-3.93%	
Segment Cost of funds (%)	9.67%	5.92%	

### 2012 (Restated)

Total income - net:	844,573	2,122,321	2,966,894
Total expenses	(464,601)	(3,031,562)	(3,496,163)
Net income / (loss)	379,972	(909,241)	(529,269)
Segment Assets (Gross)	60,998,196	33,207,437	94,205,633
Segment Non Performing Loans	7,366,746	3,450,211	10,816,957
Segment Provision Required	3,863,817	1,261,322	5,125,139
Segment Liabilities	20,206,996	63,500,789	83,707,785
Segment Return on net Assets (ROA) (%)	1.00%	-2.81%	
Segment Cost of fund (%)	11.41%	7.42%	

\* These include Islamic banking business (for details refer Annexure II).

### 39

#### RELATED PARTY TRANSACTIONS

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

Transactions with related parties are carried out in the normal course of business at agreed terms other than those transactions which are made under the terms of employment, the majority of the transactions with related parties comprise of loans and advance, deposits, issuance of letter of credits and guarantees.

Advances for the house building, conveyance and for personal use have also been provided to the staff and executives at the reduced rates in accordance with the employment and pay policy.

Transactions with associate and key management are also executed substantially on the same terms or as per the employment terms (note 12.5.1).

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



# Notes to the Financial Statements

## for the year ended December 31, 2013

	December 31, 2013			December 31, 2012		
	Directors & Others	Key manage- ment personnel directorship	Associated companies & common common	Directors & Others	Key manage- ment personnel directorship	Associated companies & common common
	Rupees in '000					
<b>Balances</b>						
<b>Loans</b>						
Loans outstanding at beginning	1,871	20,560	57,918	21,399	11,849	-
Loans given during the year	250	29,393	3,361,797	1,871	28,661	3,507,946
Loans repaid during the year	(125)	(45,944)	(3,123,648)	(21,399)	(19,950)	(3,450,028)
<b>Loans outstanding at the end of the year</b>	<b>1,996</b>	<b>4,009</b>	<b>296,067</b>	<b>1,871</b>	<b>20,560</b>	<b>57,918</b>
<b>Deposits</b>						
Deposits at beginning	13,726	178,411	142,790	18,535	78,103	66,925
Deposit received during the year	509,817	1,647,050	1,268,140	321,856	1,706,827	971,826
Deposit repaid during the year	(485,521)	(1,577,122)	(1,301,362)	(326,665)	(1,606,519)	(895,961)
<b>Deposits at the end of the year</b>	<b>38,022</b>	<b>248,339</b>	<b>109,568</b>	<b>13,726</b>	<b>178,411</b>	<b>142,790</b>
<b>Investments - Shares</b>						
At the beginning of the year	-	-	-	-	-	-
Investment made during the year	-	-	284,354	-	-	-
Redeemed / Impaired during the year	-	-	(76,879)	-	-	-
<b>Investments at the end of the year</b>	<b>-</b>	<b>-</b>	<b>207,475</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Transactions</b>						
Short term employment benefits	105,532	372,771	-	120,829	571,849	-
Termination benefits	9,367	28,360	-	9,154	38,544	-
Mark-up earned	250	1,754	105,256	344	3,102	27,442
Mark-up paid on deposits	2,155	5,945	7,823	452	7,202	11,851
Services rendered / goods supplied	26,818	124,815	138,410	25,314	126,932	121,646

- 39.1 Deposits of employees Provident Fund and employees Gratuity Fund - Rs.84 million (2012: 98 million) carries mark-up at the rates ranging from 10% to 15% (2012: 10% to 15%).

#### 40 CAPITAL ASSESSMENT AND ADEQUACY

##### 40.1 Scope of Applications

State Bank of Pakistan vide circular # BPRD 6 dated August 15, 2013 revised and updated Basel II Framework in accordance with Basel-III capital reforms and clarifications to further strengthen capital related rules.

The Basel-III Framework is applicable to the Bank on a stand alone basis and the Bank has adopted the Standardized approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk while using the simple approach for Credit Risk Mitigation as per SBP guidelines. Saudi Pak Insurance Company Limited (SPICL) is an associate of Silkbank limited which has not been considered for consolidation both under accounting and regulatory scope of consolidation. Silkbank limited owns 23.07% investment in shares of SPICL due to which the Bank has acquired significant influence, but not control, over financial and operating policies of SPICL.

##### 40.2 Capital Management

###### Objective of capital management:

The Bank manages its capital to attain following objectives and goals:

- To comply with statutory capital requirements set by regulators and comparable with peers;
- Ensuring sufficient liquidity to support its financial obligations and execute its operating and strategic plans;

# Notes to the Financial Statements

## for the year ended December 31, 2013

- Maintaining healthy liquidity reserves and access to capital;
- To mitigate all expected and unexpected losses to keep institution a going concern so it can continue to provide adequate return to share holders; and
- To extend credit to support growth even in adverse and stressed economic environment.

### Statutory Minimum Capital Requirement and Capital Adequacy Ratio

The State Bank of Pakistan (SBP) vide BSD Circular No. 7 dated April 15, 2009 has set the Minimum Capital Requirement (MCR) for Banks of Rs. 10 billion (net of losses) for all locally incorporated banks to be achieved up to December 31, 2013. 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 December 31, 2013 amounted to Rs. 3.90 billion excluding general reserves of Rs.162 million and convertible preference share of Rs.2.2 billion. The CAR of the Bank as at December 31, 2013 is 6.93%.

In order to meet the shortfall from required CAR of 10% and MCR of Rs. 10 billion and improve the financial condition of the Bank, the Bank and Sponsors of the Bank have proposed to take steps as mentioned in note 1.3.

The capital adequacy ratio of the Bank was subject to the Basel III capital adequacy guidelines stipulated by the State Bank of Pakistan through its circular BPRD Circular No. 06 of 2013 dated August 15, 2013. These Instructions are effective from December 31, 2013 in a phased manner with full implementation intended by December 31, 2019. Under Basel III guidelines banks are required to maintain the following ratios on an ongoing basis.

### Phase-in arrangement and full implementation of the minimum capital requirements:

Ratio	Year						As on Dec 31
	2013	2014	2015	2016	2017	2018	2019
CET I	5.00%	5.50%	6.00%	6.00%	6.00%	6.00%	6.00%
ADT I	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Tier 1	6.50%	7.00%	7.50%	7.50%	7.50%	7.50%	7.50%
Total Capital	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
*CCB	-	-	0.25%	0.65%	1.275%	1.90%	2.50%
<b>Total Capital plus CCB</b>	<b>10.00%</b>	<b>10.00%</b>	<b>10.25%</b>	<b>10.65%</b>	<b>11.28%</b>	<b>11.90%</b>	<b>12.50%</b>

\*(Consisting of CET1 only)

Bank's regulatory capital is analyzed into following tiers.

Common Equity Tier 1 capital (CET1), which includes fully paid up capital, balance in share premium account / discount on issue of right shares, general reserves, statutory reserves as per the financial statements and net unappropriated profits after all regulatory adjustments applicable on CET1 (refer to note 40.3).

Additional Tier 1 Capital (AT1), which includes perpetual non-cumulative preference shares (which are allowed to be included in Tier 1 Capital as per BPRD/CS/2900/13 dated March 13th, 2013) after all regulatory adjustments applicable on AT1 (refer to note 40.3).

Tier 2 capital, which includes Subordinated debt/ Instruments; general provisions for loan losses (up to a maximum of 1.25 % of credit risk weighted assets); gross reserves on revaluation of fixed assets and equity investments up to a maximum of 45% of the balance and foreign exchange translation reserves after all regulatory adjustments applicable on Tier-2 (refer to note 40.3).

Banking operations are categorized as either trading book or banking book and risk-weighted assets are determined according to specified requirements of the State Bank of Pakistan that seek to reflect the varying levels of risk attached to on-balance sheet and off-balance sheet exposures. The total risk-weighted exposures comprise of the credit risk, market risk and operational risk.

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.

For domestic claims, External Credit Assessment Institutions (ECAIs) recommended by the State Bank of Pakistan (SBP), namely Pakistan Credit Rating Agency Limited (PACRA) and JCR-VIS Credit Rating Company Limited (JCR-VIS) are used. For claims on foreign entities, ratings assigned by Standard and Poor's, Fitch and Moody's are used. Foreign exposures not rated by any of the aforementioned rating agencies were categorized as unrated.

# Notes to the Financial Statements

## for the year ended December 31, 2013

Exposures	2013				
	JCR	PACRA	S&P	FITCH	Moody's
Corporate	✓	✓	-	-	-
Banks	✓	✓	✓	✓	✓

SBP indicative mapping process as instructed in SBP circular "Minimum Capital Requirements for Banks and DFIs" (indicated in table below) was used to map alphanumeric ratings of PACRA, JCR-VIS, S&P's, Moody's, Fitch Ratings, and numeric scores of ECAs, to SBP rating grades.

### Mapping to SBP Rating Grades

#### Long-term rating grade mapping

SBP Rating Grade	PACRA	JCR-VIS	FITCH	S&P	MOODY'S	ECA Scores
1	AAA	AAA	AAA	AAA	Aaa	0,1
	AA+	AA+	AA+	AA+	Aa1	
	AA	AA	AA	AA	Aa2	
	AA-	AA-	AA-	AA-	Aa3	
2	A+	A+	A+	A+	A1	2
	A	A	A	A	A2	
	A-	A-	A-	A-	A3	
3	BBB+	BBB+	BBB+	BBB+	Baa1	3
	BBB	BBB	BBB	BBB	Baa2	
	BBB-	BBB-	BBB-	BBB-	Baa3	
4	BB+	BB+	BB+	BB+	Ba1	4
	BB	BB	BB	BB	Ba2	
	BB-	BB-	BB-	BB-	Ba3	
5	B+	B+	B+	B+	B1	5,6
	B	B	B	B	B2	
	B-	B-	B-	B-	B3	
6	CCC+ and Below	CCC+ and Below	CCC+ and Below	CCC+ and Below	Caa1 and Below	7

#### Short-term rating grade mapping

SBP Rating Grade	PACRA	JCR-VIS	FITCH	S&P	MOODY'S
S1	A-1	A-1	F1	A-1+, A-1	P-1
S2	A-2	A-2	F2	A-2	P-2
S3	A-3	A-3	F3	A-3	P-3
S4	Others	Others	Others	Others	Others



# Notes to the Financial Statements

## for the year ended December 31, 2013

### 40.3 Capital Structure

Capital Structure		December 31, 2013	December 31, 2012
	Note	Rupees in '000	
		Amount	Amount subject to Pre - Basel III treatment*
Common Equity Tier 1 capital (CET1): Instruments and reserves			
1 Fully Paid-up Capital/ Capital deposited with SBP		26,716,048	26,716,048
2 Balance in Share Premium Account		(13,284,674)	(13,284,674)
3 Reserve for issue of Bonus Shares			
4 General/ Statutory Reserves		162,762	162,762
5 Gain/(Losses) on derivatives held as Cash Flow Hedge			
6 Unappropriated/unremitted profits/ (losses)	40.3.1	(10,404,786)	(9,278,313)
7 Minority Interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)		-	-
8 CET 1 before Regulatory Adjustments		3,189,350	4,315,823
Common Equity Tier 1 capital: Regulatory adjustments			
9 Goodwill (net of related deferred tax liability)		-	-
10 All other intangibles (net of any associated deferred tax liability)		(407,851)	(478,721)
11 Shortfall of provisions against classified assets		(178,356)	(210,706)
12 Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		-	1,340,549
13 Defined-benefit pension fund net assets		-	-
14 Reciprocal cross holdings in CET1 capital instruments		-	-
15 Cash flow hedge reserve		-	-
16 Investment in own shares/ CET1 instruments		-	-
17 Securitization gain on sale		-	-
18 Capital shortfall of regulated subsidiaries		-	-
19 Deficit on account of revaluation from bank's holdings of property/ AFS		-	-
20 Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)		-	190,710
21 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)		-	(24,016)
22 Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)		-	2,385,969
23 Amount exceeding 15% threshold		-	175,140
24 of which: significant investments in the common stocks of financial entities		-	-
25 of which: deferred tax assets arising from temporary differences		-	-
26 National specific regulatory adjustments applied to CET1 capital		-	-
27 Investment in TFCs of other banks exceeding the prescribed limit		-	-
28 Any other deduction specified by SBP (mention details)		-	-
29 Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions		-	-
30 Total regulatory adjustments applied to CET1 (sum of 9 to 25)		(586,207)	(713,443)
Common Equity Tier 1	(a)	2,603,143	3,602,380

# Notes to the Financial Statements

## for the year ended December 31, 2013

		December 31, 2013	December 31, 2012	
	Note	Rupees in '000		
		Amount	Amount subject to Pre - Basel III treatment*	Amount
<b>Additional Tier 1 (AT 1) Capital</b>				
31	Qualifying Additional Tier-1 Instruments plus any related share premium	-		-
32	of which: Classified as equity	2,200,000		-
33	of which: Classified as liabilities	-		-
34	Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1)	-		-
35	of which: instrument issued by subsidiaries subject to phase out	-		-
36	AT1 before regulatory adjustments	2,200,000		-
<b>Additional Tier 1 Capital: regulatory adjustments</b>				
37	Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)	-		-
38	Investment in own AT1 capital instruments	-		-
39	Reciprocal cross holdings in Additional Tier 1 capital instruments	-		-
40	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-		-
41	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-		-
42	Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-1 capital	(31,290)		-
43	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-		-
44	Total of Regulatory Adjustment applied to AT1 capital	(31,290)		-
45	Additional Tier 1 capital	2,168,710		-
46	Additional Tier 1 capital recognized for capital adequacy	(b) 780,943	-	-
	<b>Tier 1 Capital (CET1 + admissible AT1)</b>	(c=a+b) <b>3,384,086</b>		<b>3,602,380</b>
<b>Tier 2 Capital</b>				
47	Qualifying Tier 2 capital instruments under Basel III	-		-
48	Capital instruments subject to phase out arrangement from tier 2 (Pre-Basel III instruments)	-		-
49	Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2)	-		-
50	of which: instruments issued by subsidiaries subject to phase out	-		-
51	General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	300,210		158,169
52	Revaluation Reserves	-		-
53	of which: Revaluation reserves on Property	40,3.1 440,105		441,779
54	of which: Unrealized Gains/Losses on AFS	231,716		58,436
55	Foreign Exchange Translation Reserves	-		-
56	Undisclosed/Other Reserves (if any)	-		-
57	T2 before regulatory adjustments	<b>972,031</b>		<b>658,384</b>

# Notes to the Financial Statements

## for the year ended December 31, 2013

		December 31, 2013	December 31, 2012
	Note	Rupees in ' 000	
		Amount	Amount subject to Pre - Basel III treatment* Amount
<b>Tier 2 Capital: regulatory adjustments</b>			
58 Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital		(31,290)	(24,016)
59 Reciprocal cross holdings in Tier 2 instruments		-	-
60 Investment in own Tier 2 capital instrument		-	-
61 Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)		-	-
62 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation		-	-
63 Amount of Regulatory Adjustment applied to T2 capital		(31,290)	(24,016)
64 Tier 2 capital (T2)		-	-
65 Tier 2 capital recognized for capital adequacy		940,741	-
66 Excess Additional Tier 1 capital recognized in Tier 2 capital		881,459	-
67 Total Tier 2 capital admissible for capital adequacy	(d)	<b>1,822,200</b>	634,368
<b>TOTAL CAPITAL (T1 + admissible T2)</b>	(e=c+d)	<b>5,206,286</b>	4,236,748
<b>Total Risk Weighted Assets</b>	(i=f+g+h)	<b>75,175,172</b>	74,516,312
68 Total Credit Risk Weighted Assets	(f)	65,651,837	64,788,426
69 Risk weighted assets in respect of amounts subject to Pre-Basel III Treatment		-	-
70 of which: recognized portion of investment in capital of banking, financial and insurance entities where holding is more than 10% of the issued common share capital of the entity		-	-
71 of which: deferred tax assets		-	-
72 of which: Defined-benefit pension fund net assets		-	-
73 of which: [insert name of adjustment]		-	-
74 Total Market Risk Weighted Assets	(g)	3,977,081	4,991,815
75 Total Operational Risk Weighted Assets	(h)	5,546,254	4,736,071



# Notes to the Financial Statements

## for the year ended December 31, 2013

	Note	(Current Year)		(Prior Year)	
		Rupees in ' 000			
		Amount	Amount subject to Pre - Basel III treatment*		
<b>Capital Ratios and buffers (in percentage of risk weighted assets)</b>					
76 CET1 to total RWA	(a/i)	3.46%		-	
77 Tier-1 capital to total RWA	(c/i)	4.50%		4.83%	
78 Total capital to RWA	(e/i)	6.93%		5.69%	
79 Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)		-		-	
80 of which: capital conservation buffer requirement		-		-	
81 of which: countercyclical buffer requirement		-		-	
82 of which: D-SIB or G-SIB buffer requirement		-		-	
83 CET1 available to meet buffers (as a percentage of risk weighted assets)		-		-	
<b>National minimum capital requirements prescribed by SBP</b>					
84 CET1 minimum ratio		5.00%		-	
85 Tier 1 minimum ratio		6.50%		-	
86 Total capital minimum ratio		10.00%		10.00%	
<b>Amounts below the thresholds for deduction (before risk weighting)</b>					
87 Non-significant investments in the capital of other financial entities		-		-	
88 Significant investments in the common stock of financial entities		-		-	
89 Deferred tax assets arising from temporary differences (net of related tax liability)		-		-	
<b>Applicable caps on the inclusion of provisions in Tier 2</b>					
90 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)		300,210		158,169	
91 Cap on inclusion of provisions in Tier 2 under standardized approach		-		-	
92 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)		-		-	
93 Cap for inclusion of provisions in Tier 2 under internal ratings-based approach		-		-	

**40.3.1** In 2011, the Bank acquired the Central Office Karachi Property for Rs. 2.48 billion from M/s Arif Habib Equity (Private) Limited. The said property was sold to Arif Habib Equity (Private) Limited for Rs. 2 billion through an agreement to sell dated 29 June 2010. The transaction was necessitated due to long term needs of the Bank for such property and plans of Arif Habib Equity (Private) Limited for the said Property.

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 calculation. Total Capital Adequacy Ratio at 31 December 2012 has been adjusted accordingly.

# Notes to the Financial Statements

## for the year ended December 31, 2013

	Balance sheet as in published of Financial statements As at period end	Under regulatory scope of consolidation As at period end	Ref
<b>40.4 Capital Structure Reconciliation</b>	<b>Rupees in '000</b>		
Table: 40.4.1			
<b>Assets</b>			
Cash and balances with treasury banks	5,361,695	5,361,695	
Balanced with other banks	226,184	226,184	
Lending to financial institutions	446,859	446,859	
Investments	14,853,257	14,853,257	
Advances	56,088,439	56,088,439	
Operating fixed assets	4,691,552	4,691,552	
Deferred tax assets	3,839,078	3,839,078	
Other assets	6,293,252	6,293,252	
<b>Total assets</b>	<b>91,800,316</b>	<b>91,800,316</b>	
<b>Liabilities &amp; Equity</b>			
Bills payable	2,747,400	2,747,400	
Borrowings	11,381,975	11,381,975	
Deposits and other accounts	69,433,452	69,433,452	
Sub-ordinated loans	-	-	
Liabilities against assets subject to finance lease	-	-	
Deferred tax liabilities	-	-	
Other liabilities	1,562,301	1,562,301	
<b>Total liabilities</b>	<b>85,125,128</b>	<b>85,125,128</b>	
Share capital/ Head office capital account	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	2,200,000	2,200,000	
Unappropriated/ Unremitted profit/ (losses)	(9,526,849)	(9,526,849)	
Surplus on revaluation of assets	407,901	407,901	
<b>Total liabilities &amp; equity</b>	<b>6,675,188</b>	<b>6,675,188</b>	
Table: 40.4.2			
<b>Assets</b>			
Cash and balances with treasury banks	5,361,695	5,361,695	
Balanced with other banks	226,184	226,184	
Lending to financial institutions	446,859	446,859	
Investments	14,853,257	14,853,257	
of which: Non-significant capital investments in capital of other financial institutions exceeding 10% threshold	-	-	a
of which: significant capital investments in financial sector entities exceeding regulatory threshold	-	-	b
of which: Mutual Funds exceeding regulatory threshold	-	-	c
of which: reciprocal crossholding of capital instrument	-	-	d
of which: others (CAP 2 deductions under Basel II (50% from Tier-1 and 50% from Tier-2) )	62,580	62,580	e
Advances	56,088,439	56,088,439	
shortfall in provisions/ excess of total EL amount over eligible provisions under IRB	-	-	f
general provisions reflected in Tier 2 capital	300,210	300,210	g

# Notes to the Financial Statements

## for the year ended December 31, 2013

	Balance sheet as in published of Financial statements As at period end	Under regulatory scope of consolidation As at period end	Ref
	Rupees in '000		
Fixed Assets	4,691,552	4,691,552	
Deferred Tax Assets	3,839,078	3,839,078	
of which: DTAs excluding those arising from temporary difference	-	-	h
of which: DTAs arising from temporary differences exceeding regulatory threshold	-	-	i
Other assets	6,293,252	6,293,252	
of which: Goodwill	-	-	j
of which: Intangibles	-	-	k
of which: Defined-benefit pension fund net asset	-	-	l
<b>Total assets</b>	<b>91,800,316</b>	<b>91,800,316</b>	
<b>Liabilities &amp; Equity</b>			
Bills payable	2,747,400	2,747,400	
Borrowings	11,381,975	11,381,975	
Deposits and other accounts	69,433,452	69,433,452	
Sub-ordinated loans	-	-	
of which: eligible for inclusion in AT1	-	-	m
of which: eligible for inclusion in Tier 2	-	-	n
Liabilities against assets subject to finance lease	-	-	
Deferred tax liabilities	-	-	
of which: DTLs related to goodwill	-	-	o
of which: DTLs related to intangible assets	-	-	p
of which: DTLs related to defined pension fund net assets	-	-	q
of which: other deferred tax liabilities	-	-	r
Other liabilities	1,562,301	1,562,301	
<b>Total liabilities</b>	<b>85,125,128</b>	<b>85,125,128</b>	
Share capital	26,716,048	26,716,048	
of which: amount eligible for CET1	26,716,048	26,716,048	s
of which: amount eligible for AT1	-	-	t
Discount on issue of right shares	(13,284,674)	(13,284,674)	
Reserves	162,762	162,762	
of which: portion eligible for inclusion in CET1 (provide breakup)	162,762	162,762	u
of which: portion eligible for inclusion in Tier 2	-	-	v
Convertible preference shares	2,200,000	2,200,000	
Unappropriated profit/ (losses)	(9,526,849)	(9,526,849)	w
Minority Interest	-	-	
of which: portion eligible for inclusion in CET1	-	-	x
of which: portion eligible for inclusion in AT1	-	-	y
of which: portion eligible for inclusion in Tier 2	-	-	z
Surplus on revaluation of assets	407,901	407,901	
of which: Revaluation reserves on Property	334,701	334,701	aa
of which: Unrealized Gains/Losses on AFS	73,199	73,199	
In case of Deficit on revaluation (deduction from CET1)	-	-	ab
<b>Total Liabilities &amp; Equity</b>	<b>91,800,316</b>	<b>91,800,316</b>	



# Notes to the Financial Statements

## for the year ended December 31, 2013

Table: 40.4.3

Common Equity Tier 1 capital (CET1): Instruments and reserves	Component of regulatory capital reported by bank	Source based on reference number from step 2
	Rupees in '000	
1 Fully Paid-up Capital/ Capital deposited with SBP	26,716,048	(s)
2 Balance in Share Premium Account	(13,284,674)	
3 Reserve for issue of Bonus Shares		
4 General/ Statutory Reserves	162,762	(u)
5 Gain/(Losses) on derivatives held as Cash Flow Hedge		
6 Unappropriated/unremitted profits/(losses)	(10,404,786)	(w)
7 Minority Interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	-	(x)
8 CET 1 before Regulatory Adjustments	3,189,350	
Common Equity Tier 1 capital: Regulatory adjustments		
9 Goodwill (net of related deferred tax liability)	-	(j) - (o)
10 All other intangibles (net of any associated deferred tax liability)	(407,851)	(k) - (p)
11 Shortfall of provisions against classified assets	(178,356)	(f)
12 Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	((h) - (r)) * x%
13 Defined-benefit pension fund net assets	-	((l) - (q)) * x%
14 Reciprocal cross holdings in CET1 capital instruments	-	(d)
15 Cash flow hedge reserve	-	
16 Investment in own shares/ CET1 instruments	-	
17 Securitization gain on sale	-	
18 Capital shortfall of regulated subsidiaries	-	
19 Deficit on account of revaluation from bank's holdings of property/ AFS	-	(ab)
20 Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(a) - (ac) - (ae)
21 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	(b) - (ad) - (af)
22 Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	(l)
23 Amount exceeding 15% threshold	-	
24 of which: significant investments in the common stocks of financial entities	-	
25 of which: deferred tax assets arising from temporary differences	-	
26 National specific regulatory adjustments applied to CET1 capital	-	
27 Investment in TFCs of other banks exceeding the prescribed limit	-	-
28 Any other deduction specified by SBP (mention details)	-	
29 Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions	-	
30 Total regulatory adjustments applied to CET1 (sum of 9 to 25)	(586,207)	
Common Equity Tier 1	2,603,143	

# Notes to the Financial Statements

## for the year ended December 31, 2013

	Component of regulatory capital reported by bank	Source based on reference number from step 2
	Rupees in '000	
Additional Tier 1 (AT 1) Capital		
31 Qualifying Additional Tier-1 instruments plus any related share premium	2,200,000	(t)
32 of which: Classified as equity	-	(m)
33 of which: Classified as liabilities	-	(y)
34 Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1)	-	
35 of which: instrument issued by subsidiaries subject to phase out	-	
36 AT1 before regulatory adjustments	2,200,000	
Additional Tier 1 Capital: regulatory adjustments		
37 Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)	-	
38 Investment in own AT1 capital instruments	-	
39 Reciprocal cross holdings in Additional Tier 1 capital instruments	-	
40 Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(ac)
41 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	(ad)
42 Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from Tier-1 capital	(31,290)	
43 Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
44 Total of Regulatory Adjustment applied to AT1 capital	(31,290)	
45 Additional Tier 1 capital	2,231,290	
46 <b>Additional Tier 1 capital recognized for capital adequacy</b>	<b>780,943</b>	
<b>Tier 1 Capital (CET1 + admissible AT1)</b>	<b>3,384,086</b>	
<b>Tier 2 Capital</b>		
47 Qualifying Tier 2 capital instruments under Basel III	-	
48 Capital Instruments subject to phase out arrangement from Tier 2 (Pre-Basel III instruments)	-	(n)
49 Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group Tier 2)	-	(z)
50 of which: instruments issued by subsidiaries subject to phase out	-	-
51 General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	300,210	(g)
52 Revaluation Reserves eligible for Tier 2	440,105	portion of (aa)
53 of which: portion pertaining to Property	231,716	
54 of which: portion pertaining to AFS securities	-	(v)
55 Foreign Exchange Translation Reserves	-	
56 Undisclosed/Other Reserves (if any)	-	
57 <b>T2 before regulatory adjustments</b>	<b>972,031</b>	

# Notes to the Financial Statements

## for the year ended December 31, 2013

	Component of regulatory capital reported by bank	Source based on reference number from step 2
	Rupees in '000	
<b>Tier 2 Capital: regulatory adjustments</b>		
58 Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from Tier-2 capital	(31,290)	
59 Reciprocal cross holdings in Tier 2 instruments	-	
60 Investment in own Tier 2 capital instrument	-	
61 Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(ae)
62 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	(af)
63 Amount of Regulatory Adjustment applied to T2 capital	(31,290)	
64 Tier 2 capital (T2)	-	
65 Tier 2 capital recognized for capital adequacy	940,741	
66 Excess Additional Tier 1 capital recognized in Tier 2 capital	881,459	
67 Total Tier 2 capital admissible for capital adequacy	<b>1,822,200</b>	
<b>TOTAL CAPITAL (T1 + admissible T2)</b>	<b>5,206,286</b>	

### 40.5 Main Features Template of Regulatory Capital Instruments

Main Features	Common Shares	Instrument - 2
1 Issuer	Silk Bank	Silk Bank
2 Unique identifier (eg KSE Symbol or Bloomberg identifier etc.)	SILK	-
3 Governing law(s) of the instrument Regulatory treatment	Pakistan -	Pakistan -
4 Transitional Basel III rules	Common Equity Tier I	Additional Tier-1
5 Post-transitional Basel III rules	Common Equity Tier I	Additional Tier-1
6 Eligible at solo/ group/ group&solo	-	-
7 Instrument type	Ordinary Shares	PNCPS
8 Amount recognized in regulatory capital (Currency in PKR thousands, as of reporting date)	Rs. (Thousand) 26,716,048 PKR 10	Rs. (Thousand) 2,200,000 PKR 2.5
9 Par value of instrument		
10 Accounting classification	Shareholders' Equity	Shareholders' Equity



# Notes to the Financial Statements

## for the year ended December 31, 2013

11	Original date of issuance	1994	28-Mar-13
12	Perpetual or dated	-	-
13	Original maturity date	-	3 years after issuance
14	Issuer call subject to prior supervisory approval	-	Yes
15	Optional call date, contingent call dates and redemption amount	-	After one year
16	Subsequent call dates, if applicable	-	-
	Coupons / dividends	-	-
17	Fixed or floating dividend/ coupon	-	Fixed
18	coupon rate and any related index/ benchmark	-	-
19	Existence of a dividend stopper	-	-
20	Fully discretionary, partially discretionary or mandatory	-	-
21	Existence of step up or other incentive to redeem	-	-
22	Noncumulative or cumulative	-	Noncumulative
23	Convertible or non-convertible	-	Convertible
24	If convertible, conversion trigger (s)	-	Upon expiry of 3 years
25	If convertible, fully or partially	-	-
26	If convertible, conversion rate	-	3.7
27	If convertible, mandatory or optional conversion	-	Optional
28	If convertible, specify instrument type convertible into	-	Common Equity
29	If convertible, specify issuer of instrument it converts into	-	-
30	Write-down feature	-	-
31	If write-down, write-down trigger(s)	-	-
32	If write-down, full or partial	-	-
33	If write-down, permanent or temporary	-	-
34	If temporary write-down, description of write-up mechanism	-	-
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	-	-
36	Non-compliant transitioned features	-	-
37	If yes, specify non-compliant features	-	-

### 40.6 Capital Adequacy

The risk weighted assets to capital ratio, calculated in accordance with the State Bank of Pakistan's guidelines on capital adequacy was as follows:

	Capital Requirements		Risk Weighted Assets	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
	Rupees in '000			
<b>Credit Risk</b>				
Portfolios subject to standardized approach (Simple or Comprehensive)				
Cash and Cash Equivalents	-	-	-	-
Claims on Government of Pakistan (Federal or Provincial Governments) and SBP, denominated in PKR	-	-	-	-
Foreign Currency claims on SBP arising out of statutory obligations of banks in Pakistan	-	-	-	-
Claims on other sovereigns and on Government of Pakistan or provincial governments or SBP denominated in currencies other than PKR	-	1,408	-	14,077
Claims on Bank for International Settlements, International Monetary Fund, European Central Bank, and European Community	-	-	-	-
Claims on Multilateral Development Banks	-	-	-	-
Claims on Public Sector Entities in Pakistan	-	-	-	-
Claims on Banks	6,735	6,660	67,353	66,601

# Notes to the Financial Statements

## for the year ended December 31, 2013

	Capital Requirements		Risk Weighted Assets	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
	Rupees in '000			
Claims, denominated in foreign currency, on banks with original maturity of 3 months or less	19,924	15,304	199,235	153,041
Claims on banks with original maturity of 3 months or less denominated in PKR and funded in PKR	3,562	25,762	35,617	257,616
Claims on Corporates (excluding equity exposures)	3,018,818	2,565,429	30,188,183	25,654,295
Claims categorized as retail portfolio	1,114,361	871,271	11,143,607	8,712,711
Claims fully secured by residential property (Residential Mortgage Finance as defined in Section 2.1)	57,660	56,360	576,598	563,602
<b>Past Due loans:</b>	550,342	776,079	5,503,419	7,760,791
Listed Equity investments and regulatory capital instruments issued by other banks (other than those deducted from capital) held in the banking book	1,545	1,525	15,450	15,250
Unlisted equity investments (other than that deducted from capital) held in banking book	-	-	-	-
Investments in venture capital	-	-	-	-
Investments in premises, plant and equipment and all other fixed assets	428,370	415,861	4,283,701	4,158,613
Claims on all fixed assets under operating lease	-	-	-	-
All other assets	1,013,233	1,293,385	10,132,331	12,933,848
	<b>6,214,550</b>	<b>6,029,043</b>	<b>62,145,494</b>	<b>60,290,445</b>
Off- Balance Sheet - Non Market related Exposures				
Direct Credit Substitutes/ Lending of securities of securities as collateral	30,230	66,315	302,300	663,151
Performance related contingencies	278,376	265,933	2,783,757	2,659,333
Trade Related contingencies	37,307	107,852	373,074	1,078,524
Off- Balance Sheet - Market related Exposures	4,721	969,747	47,212	96,975
Total Credit Risk (A)	<b>6,565,184</b>	<b>7,438,890</b>	<b>65,651,837</b>	<b>64,788,428</b>
Market Risk				
Capital Requirement for portfolios subject to Standardized Approach				
Interest rate risk	53,712	213,051	534,954	2,130,515
Equity position risk	340,105	286,130	3,401,051	2,861,300
Foreign Exchange risk	4,108	-	41,076	-
Operational Risk	554,625	473,607	5,546,254	4,736,071
<b>TOTAL</b>	<b>7,517,734</b>	<b>8,411,678</b>	<b>75,175,172</b>	<b>74,516,314</b>
Capital Adequacy Ratio	<b>Current Year</b>		<b>Prior Year</b>	
Total eligible regulatory capital held	5,750,410		4,236,748	
Total Risk Weighted Assets	75,175,172		74,516,312	
Capital Adequacy Ratio	7.65%		5.69%	

The Capital Adequacy Ratio of prior year is based on BASEL II framework as applicable on that date.

# Notes to the Financial Statements

## for the year ended December 31, 2013

### 41 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 III 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.

The Bank's approach to liquidity risk management is to ensure as far as possible that it will always have sufficient liquidity to meet



# Notes to the Financial Statements

## for the year ended December 31, 2013

its liabilities when due. The Fund Management Policy is formulated keeping in view SBP's guidelines on risk management and Basel III 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.

### 41.1 Credit Risk

#### 41.1.1 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 and Management group (CRP&MG) is structured to effectively analyze, monitor & manage credit risk through its policy and procedures that are closely aligned with the Bank's business plan, State Bank of Pakistan's Prudential Regulations & Basel III 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.

#### 41.1.2 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 III 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 criteria of Basel III.

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.

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

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

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

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

# Notes to the Financial Statements

## for the year ended December 31, 2013

### 41.1.4 Segmental information

#### 41.1.4.1 Segments by class of business

	December 31, 2013					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
	(Note 11)		(Note 17)		(Note 21)	
Chemical and Pharmaceuticals	3,391,110	5.5%	1,255,933	1.8%	223,015	1.6%
Agribusiness	161,593	0.3%	22,525	0.0%	14,778	0.1%
Cement	253,180	0.4%	773,252	1.1%	287,099	2.1%
Sugar	1,509,782	2.5%	2,577	0.0%	235,186	1.7%
Textile	6,819,295	11.1%	278,338	0.4%	539,003	3.9%
Footwear and Leather garments	423,023	0.7%	291,871	0.4%	38,829	0.3%
Automobile/transportation equipment	751,265	1.2%	13,867	0.0%	199,111	1.5%
Electronics and electrical appliances	1,172,063	1.9%	21,887	0.0%	354,058	2.6%
Power (electricity), Gas, Water, Sanitary	994,226	1.6%	98,690	0.1%	445,384	3.3%
Financial	2,036,306	3.3%	1,538,091	2.2%	484,069	3.5%
Insurance	-	0.0%	398,816	0.6%	-	0.0%
Individuals	7,935,064	12.9%	37,013,455	53.3%	-	0.0%
Exports / Imports & Trading	3,440,163	5.6%	451,300	0.6%	604,218	4.4%
Hotel & Resorts	1,450,441	2.4%	365,496	0.5%	74,868	0.5%
Telecommunications	683,240	1.1%	583,229	0.8%	355,521	2.6%
Real Estate	3,687,999	6.0%	-	0.0%	-	0.0%
Others	26,811,896	49.6%	26,324,125	37.9%	9,805,490	71.8%
	<b>61,520,646</b>	<b>100%</b>	<b>69,433,452</b>	<b>100%</b>	<b>13,660,629</b>	<b>100%</b>

	December 31, 2012 (Restated)					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
	(Note 11)		(Note 17)		(Note 21)	
Chemical and Pharmaceuticals	3,018,822	5.6%	1,304,274	1.9%	625,221	4.5%
Agribusiness	188,722	0.3%	59,894	0.1%	-	0.0%
Cement	256,357	0.5%	169,579	0.2%	295,854	2.1%
Sugar	1,948,404	3.6%	24,936	0.0%	2,000	0.0%
Textile	8,628,222	16.0%	267,760	0.4%	1,943,805	13.9%
Footwear and Leather garments	841,404	1.6%	40,583	0.1%	132,714	1.0%
Automobile/transportation equipment	797,335	1.5%	65,877	0.1%	4,031	0.0%
Electronics and electrical appliances	2,097,241	3.9%	62,262	0.1%	502,596	3.6%
Power (electricity), Gas, Water, Sanitary	1,026,499	1.9%	967,181	1.4%	800,644	5.7%
Financial	1,784,346	3.3%	826,739	1.2%	1,326,871	9.5%
Insurance	-	0.0%	354,647	0.5%	-	0.0%
Individuals	5,198,253	9.6%	36,198,358	52.4%	-	0.0%
Exports / Imports & Trading	2,665,114	4.9%	398,387	0.6%	-	0.0%
Hotel & Resorts	1,140,691	2.1%	229,949	0.3%	75,347	0.5%
Telecommunications	1,160,979	2.1%	280,388	0.4%	436,797	3.1%
Real Estate	-	0.0%	-	0.0%	-	0.0%
Others	23,326,373	43.1%	27,799,633	40.3%	7,803,544	55.9%
	<b>54,078,762</b>	<b>100%</b>	<b>69,050,447</b>	<b>100%</b>	<b>13,949,424</b>	<b>100%</b>

# Notes to the Financial Statements

## for the year ended December 31, 2013

### 41.1.2 Segment by sector

	December 31, 2013					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public/Government	-	0%	10,434,405	15%	7,897,923	58%
Private	61,520,646	100%	58,999,047	85%	5,762,706	42%
	61,520,646	100%	69,433,452	100%	13,660,629	100%

	December 31, 2012 (Restated)					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public/Government	114,055	0.2%	13,272,823	19%	7,490,282	54%
Private	53,964,707	99.8%	55,777,624	81%	6,459,142	46%
	54,078,762	100%	69,050,447	100%	13,949,424	100%

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

	December 31, 2013		December 31, 2012	
	Classified Advances	Specific Provisions held	Classified Advances	Specific Provisions held
	Rupees in ' 000			
Agri business	190,916	134,759	196,542	124,526
Textile	2,449,761	1,354,349	3,727,504	1,878,244
Chemical and pharmaceuticals	624,364	396,723	504,748	292,914
Cement	54,289	48,860	139,289	48,860
Sugar	-	-	167,747	121,518
Footwear and leather garments	150,302	109,361	90,644	84,747
Automobile and transportation equipment	1,079,091	519,031	706,879	388,633
Electronics and electrical appliances	817,352	719,071	662,866	523,640
Exports / Imports	703,213	292,136	686,855	381,662
Financial	89,520	89,520	91,761	91,761
Services	544,851	221,040	640,727	115,935
Individuals	1,155,793	488,159	982,518	306,597
Others	2,012,534	758,988	2,218,877	501,062
	9,871,986	5,131,997	10,816,957	4,860,099

### 41.1.4.4 Details of non-performing advances and specific provisions by sector

	December 31, 2013		December 31, 2012	
	Classified Advances	Specific Provisions	Classified Advances	Specific Provisions
	Rupees in '000			
Public/Government	-	-	-	-
Private	9,871,986	5,131,997	10,816,957	4,860,099
	9,871,986	5,131,997	10,816,957	4,860,099



# Notes to the Financial Statements

## for the year ended December 31, 2013

### 41.1.4.5 Geographical segment analysis

	December 31, 2013			
	Loss before taxation	Total assets employed	Net asset employed	Contingencies and commitments
	Rupees in '000			
Pakistan	1,528,078	91,800,316	6,675,188	13,660,629
	December 31, 2012 (Restated)			
	Rupees in '000			
Pakistan	(529,269)	89,080,494	5,372,709	13,949,424

### 41.2 Market Risk

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

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

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

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

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

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

#### 41.2.1 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. The 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 the Bank has Foreign Exchange Stop Loss Limit based on Daily Value-at-Risk (VaR) to manage the loss absorption capacity of the Bank.

# Notes to the Financial Statements

## for the year ended December 31, 2013

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

December 31, 2013			
Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
Rupees in '000			
89,619,931	76,546,347	(6,440,428)	6,633,156
1,853,136	6,958,576	5,121,350	15,910
195,213	844,011	664,074	15,276
-	1,135	2,006	871
126,986	775,059	652,998	4,925
5,050	-	-	5,050
91,800,316	85,125,128	-	6,675,188

Pakistan rupee  
United States dollar  
Great Britain pound  
Japanese yen  
Euro  
Other currencies

December 31, 2012 (Restated)			
Rupees in '000			
87,407,821	77,821,872	(4,261,530)	5,324,419
1,396,247	4,646,581	3,259,267	8,933
211,630	739,133	522,464	(5,039)
1,957	14	-	1,953
53,560	500,185	479,795	33,574
8,869	-	-	8,869
89,080,494	83,707,785	-	5,372,709

### 41.2.2 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.

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

December 31, 2013											
Effective Yield / Interest rate	Total	Exposed to Yield / Interest risk									Not exposed to yield / interest risk
		Up to 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	
Rupees in '000											
On-balance sheet financial instruments											
Assets											
Cash and balances with treasury banks	0.00%	5,591,893	1,140,817	-	-	-	-	-	-	-	4,196,679
Balances with other banks		236,194	-	-	-	-	-	-	-	-	236,194
Lendings to financial institutions	9.67%	656,839	446,809	-	-	-	-	-	-	-	-
Investments - net	8.63%	14,833,257	1,192,495	9,386,345	2,122,544	228,860	289,493	472,419	146,443	166,231	1,856,356
Advances - net	10.92%	56,098,439	5,477,136	7,713,158	3,897,085	6,694,313	16,266,834	3,071,838	6,865,701	4,276,043	546,304
Other assets		1,648,948	-	-	-	-	-	-	-	-	1,648,948
		70,675,382	8,275,417	16,899,503	6,009,639	6,923,119	16,556,457	3,544,653	7,086,143	4,440,274	1,293,327
Liabilities											
Bills payable		2,747,460	-	-	-	-	-	-	-	-	2,747,460
Borrowings	9.00%	11,381,975	5,285,593	5,389,622	699,867	26,032	-	-	-	-	-
Deposits and other accounts	5.94%	49,631,481	7,992,088	6,919,708	7,366,274	12,957,477	137,938	3,106,748	4,637,181	3,299,007	17,391,779
Other liabilities		706,425	-	-	-	-	-	-	-	-	706,425
		64,265,271	13,278,381	12,325,330	8,066,281	12,964,330	137,938	3,106,748	4,637,181	3,299,007	20,957,601
On-balance sheet gap		(5,643,669)	(5,002,964)	(3,776,173)	(2,056,642)	(6,041,211)	(16,418,922)	(341,395)	(348,982)	(1,141,367)	(12,480,141)
Total Yield / Interest Risk Sensitivity Gap		(5,643,669)	(5,002,964)	(3,776,173)	(2,056,642)	(6,041,211)	(16,418,922)	(341,395)	(348,982)	(1,141,367)	(12,480,141)
Cumulative Yield / Interest Risk Sensitivity gap		(5,003,814)	(1,232,041)	(9,386,313)	(9,338,326)	(7,288,336)	(7,331,703)	(7,702,683)	(8,801,952)	(6,836,372)	(5,448,969)

# Notes to the Financial Statements

## for the year ended December 31, 2013

December 31, 2012 (Restated)

Effective Yield / Interest rate	Total	Exposed to Yield / Interest risk									Net exposed to yield / interest risk
		Up to 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	
Rupees in '000											
On-balance sheet financial instruments											
Assets											
Cash and balances with treasury banks	0.00%	4,006,569	784,727	-	-	-	-	-	-	-	3,221,842
Balances with other banks		86,002	-	-	-	-	-	-	-	-	86,002
Lendings to financial institutions	11.19%	5,601,423	5,400,141	202,282	42,542	-	-	-	-	-	1,339,067
Investments - net	10.50%	12,734,898	1,563,639	-	1,938,077	6,756,971	629,197	311,076	132,293	-	3,956,858
Advances - net	12.28%	49,060,494	299,391	25,107,048	12,761,270	3,054,826	43,630	104,900	120,704	154,125	3,516,331
Other assets		1,514,581	-	-	-	-	-	-	-	-	-
		73,004,917	8,048,098	25,351,845	10,692,547	9,851,797	674,827	415,976	253,177	154,125	12,108,295
Liabilities											
Bills payable		1,878,549	-	-	-	-	-	-	-	-	1,878,549
Borrowings	10.70%	11,376,781	8,101,955	2,199,449	1,073,377	-	-	-	-	-	16,164,368
Deposits and other accounts	7.40%	69,010,447	33,930,381	5,961,413	5,983,004	7,038,207	-	-	992	-	806,802
Other liabilities		836,802	-	-	-	-	-	-	-	-	-
		83,342,139	42,032,516	8,160,864	7,056,781	7,038,207	-	-	992	-	18,976,169
On-balance sheet gap		(10,237,662)	(33,984,418)	(17,191,001)	(7,631,066)	(2,843,590)	(674,827)	(415,976)	(253,185)	(1,454,470)	(6,871,324)
Total Yield / Interest Risk Sensitivity Gap		(10,237,662)	(33,984,418)	(17,191,001)	(7,631,066)	(2,843,590)	(674,827)	(415,976)	(253,185)	(1,454,470)	(6,871,324)
Contingent Yield / Interest Risk Sensitivity gap		(33,984,418)	(16,793,817)	(19,161,451)	(6,317,861)	(5,641,054)	(5,227,118)	(4,974,983)	(4,800,808)	(3,366,338)	(10,237,662)

### 41.3 Liquidity Risk

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

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

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

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

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

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

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



# Notes to the Financial Statements

## for the year ended December 31, 2013

### Assets

Cash and balances with treasury banks
Balance with other banks
Lending to financial institutions
Investments - net
Advances - net
Operating fixed assets
Deferred tax assets - net
Other assets
Liabilities
Bills payable
Borrowings
Deposits and other accounts
Other liabilities
Net assets
Share capital
Discount on issue of shares
Reserves
Convertible preference shares
Accumulated loss
Surplus on revaluation of assets - net of deferred tax

December 31, 2013

Total	Up to 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
Rupees in '000									
5,361,695	1,033,320	32,121	302,161	4,104,083	-	-	-	-	-
226,184	226,184	-	-	-	-	-	-	-	-
446,859	446,859	-	-	-	-	-	-	-	-
14,853,257	5,051,188	4,409,732	2,120,638	289,669	281,265	466,287	136,491	557,997	1,292,329
56,088,439	5,580,288	7,778,775	2,953,060	4,759,551	16,394,207	3,140,110	7,003,047	4,376,063	-
4,097,552	536,444	536,444	536,444	536,444	536,444	536,444	1,172,888	1,919,548	-
3,039,078	-	-	-	-	-	-	-	-	-
6,293,252	1,881,297	704,932	1,509,382	476,591	-	-	-	-	-
91,800,318	12,717,388	17,187,184	10,371,624	12,416,540	18,131,685	3,132,810	10,281,946	6,434,060	1,292,329
2,747,400	2,747,400	-	-	-	-	-	-	-	-
11,381,875	5,385,593	3,369,632	693,967	26,853	-	-	-	-	-
68,433,452	9,619,734	7,510,792	7,830,944	13,613,586	2,396,584	3,726,319	11,488,301	5,734,258	5,722,932
1,562,301	931,651	585,661	97,856	48,028	-	-	-	-	-
85,123,118	18,384,518	13,266,015	8,610,707	13,889,367	2,251,512	3,753,399	11,488,301	5,734,258	5,722,932
6,673,186	15,866,590	3,865,019	1,792,817	11,553,671	15,879,119	167,138	11,256,337	1,296,118	16,429,605
36,716,048	-	-	-	-	-	-	-	-	-
(13,284,674)	-	-	-	-	-	-	-	-	-
162,762	-	-	-	-	-	-	-	-	-
2,000,000	-	-	-	-	-	-	-	-	-
(9,576,849)	-	-	-	-	-	-	-	-	-
407,501	-	-	-	-	-	-	-	-	-
6,673,186	-	-	-	-	-	-	-	-	-

### Assets

Cash and balances with treasury banks
Balance with other banks
Lending to financial institutions
Investments - net
Advances - net
Operating fixed assets
Deferred tax assets - net
Other assets
Liabilities
Bills payable
Borrowings
Deposits and other accounts
Other liabilities
Net assets
Share capital
Discount on issue of shares
Reserves
Convertible preference shares
Accumulated loss
Surplus on revaluation of assets - net of deferred tax

December 31, 2012 (Restated)

Total	Up to 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
Rupees in '000									
4,096,569	766,631	23,913	(51,895)	3,066,152	-	-	-	-	-
86,002	86,002	-	-	-	-	-	-	-	-
5,602,423	5,400,741	202,282	-	-	-	-	-	-	-
12,754,808	2,455,354	3,036,532	1,653,767	1,538	3,755,677	783,719	490,906	545,805	-
49,066,494	5,400,204	7,179,767	3,551,000	2,333,081	14,474,818	3,221,660	6,511,310	3,141,772	1,042,841
6,637,594	579,667	579,667	579,667	579,667	579,667	579,667	1,159,582	1,797,425	-
3,005,041	-	-	-	-	-	-	-	-	-
9,347,733	2,040,558	366,539	6,573,531	367,083	-	-	-	-	-
89,088,494	16,728,357	11,438,740	14,715,870	6,345,503	19,713,970	5,488,854	8,918,875	3,687,178	1,042,841
1,978,549	1,978,549	-	-	-	-	-	-	-	-
11,378,781	8,362,480	1,654,632	1,794,413	8,158	57,108	-	-	-	-
69,050,447	8,809,311	7,971,396	9,111,750	14,838,925	2,138,923	5,256,118	10,487,833	3,244,737	3,242,934
1,302,000	658,449	203,824	43,034	71,517	-	-	-	-	-
85,107,785	19,808,759	9,867,852	10,549,197	14,918,592	2,267,446	5,256,805	10,487,833	3,244,737	3,242,934
5,372,709	(5,088,252)	13,116,886	4,164,681	(8,573,089)	17,446,324	162,849	(588,960)	1,557,659	(4,100,093)
26,716,048	-	-	-	-	-	-	-	-	-
(13,284,674)	-	-	-	-	-	-	-	-	-
162,762	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
8,301,451	-	-	-	-	-	-	-	-	-
168,024	-	-	-	-	-	-	-	-	-
5,372,709	-	-	-	-	-	-	-	-	-

# Notes to the Financial Statements

## for the year ended December 31, 2013

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

December 31, 2013									
Total	Up to 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
Rupees in '000									
<b>Assets</b>									
Cash and balances with treasury banks	5,361,695	5,361,695	-	-	-	-	-	-	-
Balances with other banks	236,194	236,194	-	-	-	-	-	-	-
Lending to financial institutions	446,859	446,859	-	-	-	-	-	-	-
Investments - net	16,853,257	3,051,388	8,429,732	2,120,628	209,669	381,263	466,287	136,491	137,997
Advances - net	56,088,439	5,160,288	7,778,775	3,953,089	8,759,531	16,304,207	3,140,711	7,003,047	4,276,043
Operating fixed assets	4,891,532	386,444	586,444	586,444	586,444	586,444	586,444	1,172,888	-
Deferred tax assets - net	3,839,078	-	-	-	-	959,769	1,919,540	-	-
Other assets	6,293,252	1,803,297	304,662	3,528,302	676,591	-	-	-	-
<b>Liabilities</b>									
Bills payable	2,747,400	2,747,400	-	-	-	-	-	-	-
Borrowings	11,381,975	3,785,593	5,369,622	699,007	76,853	-	-	-	-
Deposits and other accounts	60,433,452	44,495,981	6,084,932	6,736,700	12,013,186	65,325	3,895	43,335	-
Other liabilities	1,562,301	951,851	385,661	97,056	48,978	-	-	-	-
<b>Net assets</b>	<b>85,123,128</b>	<b>33,460,823</b>	<b>11,849,315</b>	<b>7,524,561</b>	<b>12,868,967</b>	<b>14,253</b>	<b>52,972</b>	<b>43,335</b>	<b>1,293,338</b>
Share capital	26,716,048	-	-	-	-	-	-	-	-
Discount on issue of shares	(13,284,674)	-	-	-	-	-	-	-	-
Reserves	162,762	-	-	-	-	-	-	-	-
Convertible preference shares	2,000,000	-	-	-	-	-	-	-	-
Accumulated loss	9,526,849	-	-	-	-	-	-	-	-
Surplus on revaluation of assets - net of deferred tax	407,901	-	-	-	-	-	-	-	-
	<b>6,675,189</b>								

December 31, 2013 (Restated)									
Total	Up to 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
Rupees in '000									
<b>Assets</b>									
Cash and balances with treasury banks	4,006,569	4,006,569	-	-	-	-	-	-	-
Balances with other banks	86,002	86,002	-	-	-	-	-	-	-
Lending to financial institutions	5,602,423	5,400,141	202,282	-	-	-	-	-	-
Investments - net	12,754,898	2,455,154	3,086,352	1,635,747	1,538	3,735,677	783,719	450,906	545,405
Advances - net	49,060,494	5,400,104	7,179,767	5,735,040	3,333,061	14,674,818	3,221,660	6,511,010	3,141,773
Operating fixed assets	4,637,334	579,467	579,667	579,667	579,667	579,667	579,667	1,158,332	-
Deferred tax assets - net	3,605,041	-	-	-	-	903,808	993,808	1,787,425	-
Other assets	9,347,733	2,041,538	366,599	4,575,371	367,085	-	-	-	-
<b>Liabilities</b>									
Bills payable	1,978,549	1,978,549	-	-	-	-	-	-	-
Borrowings	1,376,781	8,362,400	1,654,632	1,294,413	8,150	57,394	-	-	-
Deposits and other accounts	69,050,447	40,912,396	6,669,461	8,103,456	13,360,149	49,722	12,519	2,086	60
Other liabilities	1,302,098	658,449	385,824	143,034	71,517	71,517	-	-	-
<b>Net assets</b>	<b>83,167,781</b>	<b>51,911,816</b>	<b>8,549,917</b>	<b>9,540,903</b>	<b>15,499,816</b>	<b>178,345</b>	<b>2,086</b>	<b>60</b>	<b>1,642,841</b>
Share capital	26,716,048	-	-	-	-	-	-	-	-
Discount on issue of shares	(13,284,674)	-	-	-	-	-	-	-	-
Reserves	162,762	-	-	-	-	-	-	-	-
Convertible preference shares	-	-	-	-	-	-	-	-	-
Accumulated loss	(8,381,451)	-	-	-	-	-	-	-	-
Surplus on revaluation of assets - net of deferred tax	160,024	-	-	-	-	-	-	-	-
	<b>5,372,799</b>								

### 41.4 Operational risk

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

The Bank has in place robust, duly approved various policies, procedures and a Business Continuity Plan.

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

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

# Notes to the Financial Statements

## for the year ended December 31, 2013

### 42 TRUST ACTIVITIES

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

### 43 ISLAMIC BANKING BUSINESS (IBB)

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

### 44 DATE OF AUTHORIZATION FOR ISSUE

The financial statements were authorized for issue on **February 27, 2014** by the Board of Directors of the Bank.

### 45 GENERAL

45.1 These financial statements have been prepared in accordance with the revised format for financial statements of banks issued by the SBP through BSD circular letter No.3 dated February 22, 2011.

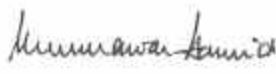
45.2 Captions in respect of which no amounts exist may not be reproduced in the financial statements except in case of financial position and profit and loss account.

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

45.4 Corresponding figures have been rearranged and reclassified, wherever necessary, for better presentation and disclosure and this has been disclosed in relevant notes.



Azmat Tarin  
President & CEO



Munnawar Hamid, OBE  
Chairman



Tariq Iqbal Khan  
Director



Humayun Bashir  
Director



# Statement Of Written-off Loan for the year ended December 31, 2013

SILKBANK LIMITED

ANNEXURE - I

STATEMENT OF WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF FIVE HUNDRED THOUSAND RUPEES OR ABOVE PROVIDED DURING THE YEAR ENDED DECEMBER 31, 2013

Rupees in '000

Date	Party Name	Address	Name of the individual / Partners / Directors (with C.I.D.C. No.)	Father's / Husband's Name	Amount Outstanding at the beginning of the year				Principal Written-off	Interest / Mark-up written-off	Other Financial Relief Provided	Total (5+6+7+8+9+10+11)
					Principal	Interest / Mark-up	Other	Total 5+6+7+8				
1	2	3	3	4	5	6	7	8	9	10	11	12
Wrote Off of Rs. 500, 000 and above												
15-Mar-2013	Competitive Business	Network INT. Room No. 601, Uni Centre, I.I. Chundrigar Road, Karachi	Hamid Saeed Shah CNIC 42201-67010675 Nasir Hussain Shah CNIC 211-92-293677 Kishwer Ayesha CNIC 210-65-277430	Saeed Ahmed Shah  Nisar Hussain Shah  w/o Hamid Hussain Shah	12,895	846	-	13,741	5,205	846	-	6,051
29-Mar-2013	Muhammad Nighman Sohail	Flat # B-404, 4th Floor, Block B/P lot # 5A-9, Block-12, Gulistan-e-Johar, Karachi	Nighman Sohail CNIC 42101-3370462-6	Muhammad Sohail Sadiq	1,538	48	-	1,586	488	48	-	536
24-May-2013	Farooq Habib Textile	Address: 64-B/2, Gulberg III, Lahore  Registered Address: 74-B/3, Gulberg III, Lahore	Habib Ullah Khan CNIC 35201-2921528-3 Zafar Ullah Khan CNIC 35202-3010280-3 Yasmin Zafar CNIC 35202-2022457-2 Rishat Habib CNIC 35201-1238068-3 Sehina Farooq CNIC 35201-1197311-6 Rehan Zafar CNIC 35202-5749269-5	Mian Akbar Ali  Mian Akbar Ali  Zafar Ullah Khan  Habib Ullah Khan  Farooq Habib  Zafar Ullah Khan	36,038	24,865	-	60,903	27,538	24,865	-	52,403
28-Jun-2013	Shenshan Knitwear (Pvt.) Ltd.	Mouza Sundar, Sundar Adda, Sundar Lalwala Road, 31 Lahore	Nouman Sarosh Ali CNIC 35201-1638501-9 Imran Zafar CNIC 35202-2006724-3 Sohail Zafar CNIC 35202-6795391-9 Amjed Siddique CNIC 35202-8539499-1	Sarosh Rauf Ali Sheikh Zafar Iqbal  Sheikh Zafar Iqbal  Muhammad Siddique	47,385	11,772	-	59,157	20,385	11,771	-	32,156
05-Jun-13	Iqbal Enterprises	11/24, Allah Bachaye Street Jodia Bazar, Karachi	Haji Muhammad Iqbal CNIC 42101-1548402-9	Haider Khan	2,140	880	-	3,020	-	880	-	880
31-May-2013	Noor Alam Contractor	Plot No. 34, Mumtaz Colony, Unit No. 2, Latifabad, Hyderabad	Noor Alam CNIC 41904-5786978-3	Haider Khan	19,466	3,263	-	22,729	-	3,263	-	3,263
18-Jun-2013	Pak Free (Pvt) Ltd	75/11 Araf Jan Road, Lahore Cantt.	M. Ali Raza CNIC 35201-1561893-5 Hassan Ali Khan CNIC 317-75-061468 Syed Ali Qadir Ghani CNIC 277-63-424608 Mrs. Zebe Ali Raza CNIC 270-66-507947 Asim Shehzad CNIC 35201-1594310-7	Raza Kazam  Qasim Ali Khan  M. Fareed  Syed M. Ali Raza  M. Sharif	-	5,111	-	5,111	-	1,111	-	1,111
09-Apr-2013	Prime Packages	Prime Height, 4 Sainte Merry Park, Lahore	Abdul Rahim Chaudhry CNIC 35202-5523103-1 Shahreen Rahim CNIC 35202-4407294-2 Jamal Rahim CNIC 35202-5407153-1	Chaudhry Abdul Rashid  W/o Abdul Rahim  Abdul Rahim Chaudhry	3,988	671	-	4,659	-	671	-	671
06-May-2013	Rohmen Residency	107-B, Gulberg III, Lahore	Serdar Dilger Cheema CNIC 35202-3738260-7	Serdar Haizur Rehman Cheema	24,997	4,006	-	29,003	-	4,006	-	4,006
26-Aug-2013	Globe Corporation	43 KM, Ferozpur road, Darbar stop, Tehsil & District Kasur.	Sh. Nadeem Mehnob CNIC 47301-1092508-3 Sh. Faisal Jamil Magoon CNIC 35202-6148186-6	Sh. Mehnob Bani Magoon  Mehnoob Magoon Sh. Jamil	35,100	7,248	-	42,348	9,599	7,248	-	16,847
25-Apr-2013	Maqbool Motors	D-55A, SITE, KARACHI	Abbas Sarfuddin CNIC 42901-3851490-9	Sarfuddin	61,699	2,125	-	63,824	-	1,881	-	1,881
23-May-2013	Circuit City	131/2 Temple Road, Lahore	Muhammad Akif CNIC 35202-0635623-5	Sh. Basil Waheed	17,500	10,059	-	27,559	-	8,136	-	8,136
24-Jan-2013	Z. A. Malik Tin Traders	40-41 Trunk Market, Landa Bazar, Lahore	Mr. Zaher A. Malik CNIC 35201-1203659-3	Rashed Ahmed Malik	26,748	2,140	-	22,888	2,791	1,453	-	4,244
14-Mar-2013	United Traders	M/R, 4/13-40, Maqbool Floor, Parsha Building, Ali Akbar Street, Near Achi Rabar, Jodia Bazar, Karachi	Imran Nadeem CNIC 42201-1248384-1	Syed Farooq Ahmed Wars	3,106	4,394	-	7,500	3,106	4,394	-	7,500

Contd.

# Statement Of Written-off Loan for the year ended December 31, 2013

SILKBANK LIMITED

ANNEXURE - I

STATEMENT OF WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF FIVE HUNDRED THOUSAND RUPEES OR ABOVE PROVIDED DURING THE YEAR ENDED DECEMBER 31, 2013

Rupees in '000

Date	Party Name	Address	Name of the individual / Partners/Directors (with C.N.I.C. No.)	Father's / Husband Name	Amount Outstanding at the beginning of the year				Principal Written-off	Interest / Work-up written-off	Other Financial Relief Provided	Total (9+10+11+12)
					Principal	Interest / Work-up	Other	Total 5+6+7+8				
1	2	3	4	5	6	7	8	9	10	11	12	
Write Off of Rs.500, 000 and above												
13-Mar-2013	Muhammad Annes	House # 16, A/B, Model, Gujranwala	Muhammad Annes CNIC: 34101-8107493-7	Muhammad Siddique	8,896	3,152	-	11,848	-	3,153	-	3,153
13-Mar-2013	Muhammad Riaz	House # 826, Near, Janakia Railway, Phatik, Gujranwala	Muhammad Riaz CNIC: 34104-2365683-1	Mohammad Iqbal	2,555	957	-	3,512	-	957	-	957
12-Jun-2013	Qasir Sohail	Maqura More Park Town, Saeed Park, Opp. Wase Tube Well, Lahore	Qasir Sohail CNIC: 35202-5880864-7	Noor Alam	-	8,153	-	8,153	-	8,153	-	8,153
30-Sep-2013	Zahid Sajid	House # 5-J, Emd. Housing Society (Dha Emd Sector), Multan Road	Zahid Sajid CNIC: 35202-6339391-4	Syed Anwar Sajid Ali	-	616	-	616	-	616	-	616
16-Sep-2013	Junaid Junaid	House No. D-24, Block 5, Clifton Karachi	Junaid Junaid CNIC: 42301-6786103-3	Abdul Latif	-	2,073	-	2,073	-	2,073	-	2,073
28-Jun-13	Muhammad Shafi Nigri	House # 4 #, 504-K Block #, 5th Floor Al Foor Center Renda Street, Area Road, Sadar Town Nearest Land Mark, Uncle Surya Hospital City, Karachi	Muhammad Shafi Nigri CNIC: 44107-5754406-3	Ghulam Mustafa Nigori	1,156	230	-	1,386	356	208	-	564
05-Jul-2013	Sheikh Muhammad Anshad	House #, Rinc. 35, N Block #, Street Area, Sarwar Road Cantt, Nearest Land Mark City, Lahore	Sheikh Muhammad Anshad CNIC: 35201-3532462-5	Sheikh Laidin	1,349	460	-	1,809	199	428	-	627
29-Aug-2013	Mian Muhammad Saleem Khan	House # H # 422 Block #, 02 Street Area, Sector C-1 Township, Nearest Land Mark City, Lahore	Mian Muhammad Saleem Khan CNIC: 35202-2737005-3	Mian Abdul Rehman	1,009	314	-	1,323	1,009	314	-	1,323
29-Aug-2013	Babu Arshad	House #, Flat No 30 Block #, Park Plaza Street, Area G-9 /Arkaat Nearest Land Mark, City, Islamabad	Babu Arshad CNIC: 61101-5608393-1	Gul Hassan	494	107	-	601	494	107	-	601
31-Dec-2013	Astex (Pvt) Ltd	09 Km Sheikhupura Road, Khaki Stop, Lahore	Muhammad Saleem Ashraf NIC: 35701-4637386-9 Ms Shamsa Ashraf NIC: 35201-7996440-8	Muhammad Ashraf W/o Muhammad ashraf	110,400	11,154	-	121,554	63,500	11,155	-	74,655
04-Oct-2013	Forster Sport	324 Murry College Road Sialkot	Naqibul Ahmad Janjua CNIC: 34603-343707-3 Anshad Mahmood Janjua CNIC: 34603-7692759-7 Mrs. Magsooda Munir NIC: 300-56-293167	Ghulam Nabi Janjua Ghulam Nabi Janjua Munir Ahmad	500	34	-	534	500	34	-	534
24-Oct-13	Syed Azeemushan	Plot # R-11, Capital Cooperative Housing Society, Karachi Dozen Deh, Sec. 35-A, Kda Scheme No. 33, Karachi	Syed Azeemushan CNIC: 42201-2318295-3	Syed Sultan Jamil Ahmed	3,977	169	-	4,146	997	169	-	1,166
12-Nov-13	Delite Appliances Pvt Ltd	Business Address, Yous Building, 16 Shahrah E-Quaid-E-Azam, Lahore	Mr. Aftab Inam NIC: 270-69-353087 Mr. Farooq Inam CNIC: 35202-0155127-7 Mrs. Inam Eshah CNIC: 35202-5615985-2	Mr. Inam Eshah Sheikh Mr. Inam Eshah Sheikh W/O Mr. Inam Eshah Sheikh	20,517	4,098	-	24,615	8,517	4,098	-	12,615
04-Oct-13	Impe Industries	Kaurpur Kullowal Road Sialkot	Mr. Imran Akhtar NIC: 300-74-496840	Mr. A.D. Akhtar	541	32	-	573	541	32	-	573
25-Oct-13	Venus Systems	25-First Floor, Hafsa Centre, Main Boulevard, Gulberg, Lahore	Imran Akbar CNIC: 35202-8005925-3	Sheikh Muhammad Akbar	1,453	2,054	-	3,507	-	2,053	-	2,053
31-Dec-13	AJT International	46/A-2, Johar Town, Lahore	Abdul Raheed CNIC: 35200-7331709-7	Haji Ghulam Muhammad	10	1	-	11	-	1,944	-	1,944
31-Dec-13	Fahad & Company	Office No.24, 3rd Floor, Taj Mehral Arcade, F-10 Markaz, Islamabad	Muhammad Nawaz CNIC: 22401-0260739-5	Muhammad Umar	12	5	-	17	-	4,709	-	4,709
20-Mar-2013	Muhammad Amir	House #, 465 Block #, A-3 Street Area, Gulberg III Nearest Land Mark City, Lahore	Muhammad Amir CNIC: 35202-2681865-3	Fazal Hussain	1,751	342	-	2,093	226	342	-	568
31-Oct-2013 Bagi	Muhammad Saleem Wali Sdk, 4 Moh Data City	House #, Gilt Ch Beshir Block #, Jati Street Park Mohallah Abad Nearest Land Mark, Mola Baksh Noshara Road City, Gujranwala	Muhammad Saleem Bagi CNIC: 34101-1832582-9	Abdul Rehman Bagi	1,192	327	-	1,719	160	487	-	647

442,212 112,506 - 554,718 145,611 112,205 - 257,816

# Emaan Islamic Banking Business

## for the year ended December 31, 2013

### Islamic Banking Business (EMAAN)

### Annexure - II

The Bank is operating 10 Islamic Banking branches at the end of 2013 (2012 : 7)

	Note	December 31, 2013	December 31, 2012
		Rupees in '000	
<b>A) STATEMENT OF FINANCIAL POSITION</b>			
<b>ASSETS</b>			
Cash and balances with treasury banks		267,001	129,967
Balances with other banks		5,447	1,883
Due from Financial Institutions		1,480,133	1,167,943
Investments		740,697	685,670
Islamic Financing and Related Assets	A-2.1	3,687,999	-
Operating fixed assets		127,745	94,077
Other assets		685,809	379,906
<b>Total Assets</b>		<b>6,994,831</b>	<b>2,459,446</b>
<b>LIABILITIES</b>			
Bills payable		72,091	25,053
Due to Financial Institutions		-	-
Deposits and other accounts			
-Current Accounts		923,636	435,108
-Saving Accounts		822,502	534,192
-Term Deposits		1,824,708	842,132
-Others		-	-
-Deposit from Financial Institutions - Remunerative		379,876	170,000
-Deposits from Financial Institutions - Non - Remunerative		3,069	18,153
Due to Head Office		2,507,147	-
Other liabilities		95,029	30,584
<b>Total Liabilities</b>		<b>6,628,058</b>	<b>2,055,222</b>
<b>NET ASSETS</b>		<b>366,773</b>	<b>404,224</b>
<b>REPRESENTED BY</b>			
Islamic Banking Fund		425,000	425,000
Reserves		-	-
Accumulated loss		(62,525)	(25,583)
Surplus on revaluation of assets		362,475	399,417
		4,298	4,807
		<b>366,773</b>	<b>404,224</b>
<b>B) REMUNERATION TO SHARIA ADVISOR / BOARD</b>		<b>2,420</b>	<b>772</b>
<b>C) During the year no charity was credited to Charity Fund Account nor any payment made out of it.</b>			
<b>A-2.1 Islamic Financing And Related Assets</b>			
Financing / Investment Receivables			
Murahaba		505,852	-
Musharaka		3,182,147	-
		<b>3,687,999</b>	<b>-</b>
<b>D) PROFIT AND LOSS ACCOUNT</b>			
Profit / return earned on financings, investments and placements		417,503	43,642
Return on deposits and others dues expensed		(222,959)	(23,770)
Net spread earned		194,544	19,872
<b>Other Income</b>			
Fees, commission and brokerage income		1,778	72
(Loss) / Income from dealing in foreign currencies		(3,372)	13
Gain on sale of securities		4,978	5,465
Other income		2,172	282
<b>Total other income</b>		<b>5,556</b>	<b>5,832</b>
<b>Other Expenses</b>		<b>200,100</b>	<b>25,704</b>
Administrative expenses		(237,042)	(51,287)
<b>Loss before taxation</b>		<b>(36,942)</b>	<b>(25,583)</b>



# Emaan Islamic Banking Business

## for the year ended December 31, 2013



Annexure - II

### E) DISCLOSURES

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

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

#### **Key Features**

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

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

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

#### **Risk and Rewards Characteristics**

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

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

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

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

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

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

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

Brief description of major components:

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

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

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

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

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

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

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

# *Highlights and Achievements*

*For the year ended  
December 31, 2013*







## Achievements at a Glance



### Business Growth

- Silkbank's CASA deposit mix increased by 4% while reducing expensive term deposits
- Cost of Fund for the year 2013 reduced by 150 bps
- Bancassurance business recorded annual revenue of Rs. 48.9 million



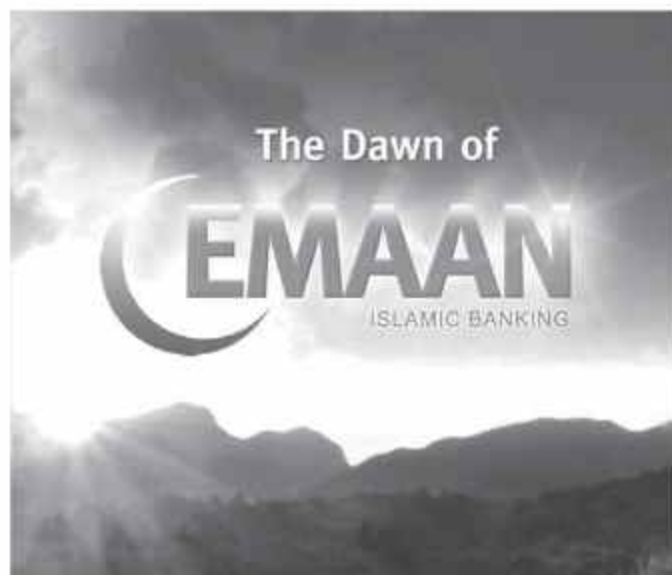
### CONSUMER BANKING

- Posted a remarkable ENR growth of over Rs. 2.5 billion in year 2013 by booking over 12,000 net customers
- 76% (1.9 billion) of ENR growth has come from high-yielding products: Personal Loan and Ready Line

### CREDIT CARDS

- Established as the top performer in terms of cards acquisition within the banking industry, surpassing accomplished credit card players in the market
- Significant increase in ENR throughout the year and was able to surpass the coveted mark of Rs. 1 billion as of December 31st 2013





### EMAAN ISLAMIC BANKING

- Built a deposit portfolio of Rs. 7.8 billion, with Rs. 1 billion deposits growth
- Booked Rs. 1.1 billion in Corporate Assets comprising Murabaha and Musharaka transactions
- Total Islamic Assets / Advance portfolio reached Rs. 3.6 billion with an average yield of 14.29%
- Launched three new branches in Quetta, Abbottabad and Mardan taking the total number of branches to 10
- BancaTakaful successfully launched in December 2013

### Alternate Delivery Channels

- Increase of VDC customer-base by 22,691 for the year 2013
- Highest POS spent recorded during 2013, having a volume of Rs. 641.16 million with 36% growth over 2012
- Average cash dispensed through ATMs of over Rs. 1 billion a month
- ADC Services Enrolments for the year:
  - ▶ SMS Enrolments: 9,367
  - ▶ E-statement Enrolments: 5,384
  - ▶ Internet Banking Enrolments: 2,545
- ADC segment recorded an income of Rs. 64.39 million

### Investment Banking

- Launched first of its kind financial instrument by raising Rs. 2.2 billion through issuance of Privately Placed, Non-cumulative and Convertible Preference Shares ("PNCPS") to investors contributing towards Tier-I Capital of the Bank



### Special Assets Management

- Reflected strong recovery of non-performing advances totalling Rs. 1.820 billion during 2013. The SAM team was able to reduce NPL by Rs. 1.96 billion, which had a P&L impact of Rs. 1.8 billion
- Successfully reduced non-earning OREO assets from a high of Rs. 7.14 billion in January 2013 to Rs. 3.88 billion

### People Management

- Dedicated approximately 28,000 hours of training
- Revamped the Learning and Development curriculum to introduce needs-specific programmes
- Participated in Banking Forum's Compensation & Benefits Survey to align Bank's compensation and grading structure with the industry

### Customer Service & Quality

- The Mystery Shopping Programme score, a nationwide independent survey of customer frontline experience in top banks of Pakistan, stands at 91 percent



### Productivity

- Reduction in headcount expense by Rs. 213 million
- Renegotiated rentals and undertook relocation of premises to rationalize costs
- Other operating cost saves included telecom and hardware optimization

### Operations and Technology

- Manage a loan book of Rs. 46 billion for Consumer, SME, Commercial as well as staff loan portfolios
- IBM team's review of Silkbank IT assets concluded that Silkbank's IT infrastructure is optimal & the consolidation level achieved is in line with best practices



## Serving the Community

### TCF Career Counselling Session

At Silkbank, we recognize our social responsibilities and aim to play a leading role in making a genuine and tangible difference in people's lives. Silkbank gives special attention to the Education front, helping the unprivileged children of Pakistan reach their full potential. In collaboration with The Citizens Foundation (TCF), which is a professionally managed, non-profit organization working to improve education in Pakistan, Silkbank participated in its Career Counselling Sessions. It was heartening to see



that more than 22 Silkbank staff members volunteered for the same and made this a decent success.



### The Children Cancer Hospital

Silkbank has been an adamant supporter of the cause against Cancer. In the spirit of acknowledging the World Cancer Day, International Children Cancer Day and Survival Day, Silkbank participated in a Family Carnival on Sunday, the 17th of February 2013 at PAF Museum, Sharah-e-Faisal in Karachi.



DEPARTMENT OF PHARMACY SERVICES  
CHILDREN CANCER HOSPITAL  
KARACHI



### Marie Adelaide Leprosy Centre

Silkbank in collaboration with Marie Adelaide Leprosy Centre (MALC) supported a Fund Raiser Gala on 30th November 2013 for curing leprosy, blindness, TB, and community development.



### Cadet College Larkana

Silkbank joined hands with the prestigious Cadet College Larkana to honour their top performing 70 students. Silkbank ensured all the cadets had the time of their lives by arranging an event of fun and dinner at Port Grand.



### Lahore Grammar School - Annual Play

The Lahore Grammar School's Main Dramatics Society continuously amalgamates different styles of theatre, teaching its members fresh, innovative styles to execute their plays of the unconventional nature. Silkbank took part in supporting the Annual Play "He Who Gets Slapped", that was held on the 9th and 10th of March 2013.



### Lahore Garrison Golf & Country Club

Silkbank has also been an avid supporter of promoting sports across the country. Silkbank participated in the 22nd Corps Commander's Cup Golf Tournament at the Lahore Garrison Golf & Country Club where Shahid Afridi graced the occasion as the Chief Guest.



### Children Health & Education Foundation

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





## Kids Day at Work

Silkbank organized a special day combining entertainment and knowledge to bring a unique experience to the kids of employees and customers alike. On 13th August 2013 the Bank celebrated "Kids Day at Work" throughout the branch network, where kids not only participated



in fun and games, but also got exposure to the professional environment and counselling from the senior management to help them better shape their own careers in the future.

The day was themed "Pakistan Zindabad" to keep up the spirit of patriotism and kids participated in the "Best Dressed Kid" competition, which was awarded to the child dressed in the true reflection of Pakistan's ethnicity and culture. The event was a huge



## AIESEC Leadership Conference

AIESEC is a global, non-political, independent, not-for-profit organization run by students and recent graduates from institutions of higher education. Silkbank is proud to have worked with AIESEC for addressing world issues through exemplary leadership and management of its members. Together, AIESEC and Silkbank have helped the youth turn theory into practical experience and develop a global network of like-minded people.



**AIESEC**

## The Patients Aid Foundation

The Patients Aid Foundation hopes to institutionalize its efforts so as to provide a committed structure within the largest government hospital, aiming towards restoring and revamping wards and medical equipment. They aim to create channels through which affordable and free tests, scans and medicines are made available to the less-privileged. We supported their charity musical event in 2013.



## The Kidney Centre

Silkbank continued its role of a torch-bearer for good health by partnering with the Kidney Centre to raise awareness against nephron-urolological diseases.



## Rotary Club Spring Festival

Rotary Club Karsaz Karachi arranged a Spring Festival at Port Grand on the 10th of March 2013. Silkbank took the initiative of contributing to the event.



## Pakistan Foundation Fighting Blindness

PFFB, founded in 1988, is a registered national, non-government organization working in the field of medical research and humanitarian services for the visually impaired. This year, we contributed to their fund-raiser GALA.

## Breast Cancer Awareness Programme

Breast Cancer is the most common cancer in women, worldwide. Pakistan has the highest incidence of breast cancer in all of Asia. Silkbank openly supported the Breast Cancer Awareness Campaign of 2013 held by SKMCH & RC.



## Wellness Programmes

To promote one of the world's most powerful tools for health, i.e. Vaccines, HR made arrangements with GSK through which they will extend the facility of vaccination at discounted prices to all Silkbank employees and their families. As per WHO (World Health Organization), immunization is one of the most successful and cost-effective health interventions and prevents between 2 and 3 million deaths every year. To promote this endeavour, GSK team visited branches of Karachi Region A and B and made presentations on Vaccines Awareness and their importance.



## 4th Financial Services and Consumers Conference

Silkbank participated in the '4th Financial Services and Consumers Conference', at Sheraton Hotel, Karachi, on 31st January 2013. Stakeholders, including policymakers, researchers, academics, financial service providers, along with members of the Chamber of Commerce, attended the conference, where Azmat Tarin spoke in detail about the issues of consumer financing and how it impacts us.



## Shalamar Institute of Health Sciences

Silkbank regularly contributes to the Shalamar Hospital, an organization that aims to re-define health care delivery in Pakistan.

## British Women's Association

Silkbank participated in this year's annual charity bazaar giving its proceeds to KASHIF THALASSEMIA CARE CENTRE to enhance public awareness towards eradicating thalassemia.



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# *Shareholding Information*

*For the year ended  
December 31, 2013*





# Additional Shareholders' Information as at December 31, 2013

## COMBINED PATTERN OF CDC & PHYSICAL SHAREHOLDINGS AS AT DECEMBER 31, 2013

No.	Categories/Sub-Categories of Shareholders	Number of Shares Held	Category-Wise No. of Folios/ CDC	Category-Wise Shares Held	Percentage
01	<b>DIRECTORS AND THEIR SPOUSE(S) AND MINOR CHILDREN</b>		9	123,044,032	4.61
	Munawar Hamid, OBE	3,699			
	Humayun Bashir	3,699			
	Javed Hamid	500			
	Sadeq Sayeed	102,817,019			
	Tariq Iqbal Khan	5,000			
	Shamsul Hasan	500			
	Mohammad Ahmed Mannan	500			
	Azmat Tarin	20,013,115			
	Farah Naz Tarin w/o Mr. Azmat Tarin	200,000			
02	<b>ASSOCIATED COMPANIES, UNDERTAKING AND RELATED PARTIES</b>		4	1,976,735,553	73.99
	*SHAUKAT FAYAZ AHMAD TARIN	601,593,175			
	INTERNATIONAL FINANCE CORPORATION	702,689,067			
	NOMURA EUROPEAN INVESTMENT LIMITED	356,676,342			
	BANK MUSCAT S.A.O.G.	315,776,969			
03	<b>EXECUTIVES</b>		15	7,689,542	0.29
04	<b>PUBLIC SECTOR COMPANIES AND CORPORATIONS</b>		7	22,112,652	0.83
05	<b>BANKS, DEVELOPMENT FINANCE INSTITUTIONS, NON-BANKING FINANCE COMPANIES, INSURANCE COMPANIES, TAKAFUL, MODARABAS AND PENSION FUNDS</b>		7	1,849,540	0.07
06	<b>MUTUAL FUNDS</b>		3	28,636,930	1.07
07	<b>FOREIGN COMPANIES</b>		4	27,607,372	1.03
08	<b>OTHERS</b>		87	213,797,865	8.00
09	<b>GENERAL PUBLIC - Local</b>		6,636	266,037,651	9.96
10	<b>GENERAL PUBLIC - Foreign</b>		5	4,093,690	0.15
	<b>TOTAL</b>		6,777	2,671,604,827	100
	<b>SHAREHOLDERS HOLDING TEN PERCENT OR MORE VOTING INTEREST IN THE BANK</b>				
	<b>TOTAL PAID-UP CAPITAL OF THE BANK</b>	2,671,604,827 shares			
	<b>10% OF THE PAID-UP CAPITAL OF THE BANK</b>	267,160,483 shares			
	<b>NAME(S) OF SHAREHOLDER(S)</b>	<b>NO. OF SHARES HELD</b>		<b>PERCENTAGE</b>	
	*SHAUKAT FAYAZ AHMAD TARIN	601,593,175		22.52%	
	INTERNATIONAL FINANCE CORPORATION	702,689,067		26.30%	
	NOMURA EUROPEAN INVESTMENT LIMITED	356,676,342		13.35%	
	BANK MUSCAT S.A.O.G.	315,776,969		11.82%	

\*This does not include one hundred and two million (102,000,000) shares of Mr. Shaukat Tarin, kept in repo transaction.

# Pattern of Shareholding as at December 31, 2013

No. of Shareholders	Shareholdings' Slab			Total Shares Held
437	1	to	100	15,351
665	101	to	500	256,136
687	501	to	1000	633,656
1835	1001	to	5000	5,771,479
954	5001	to	10000	8,011,100
360	10001	to	15000	4,677,900
281	15001	to	20000	5,308,746
239	20001	to	25000	5,676,376
123	25001	to	30000	3,535,450
82	30001	to	35000	2,743,836
88	35001	to	40000	3,418,629
60	40001	to	45000	2,566,466
186	45001	to	50000	9,229,342
37	50001	to	55000	1,959,209
44	55001	to	60000	2,603,016
25	60001	to	65000	1,586,383
25	65001	to	70000	1,711,540
32	70001	to	75000	2,361,785
16	75001	to	80000	1,258,179
26	80001	to	85000	2,158,673
22	85001	to	90000	1,952,204
6	90001	to	95000	555,105
119	95001	to	100000	11,874,198
22	100001	to	105000	2,253,624
9	105001	to	110000	985,890
9	110001	to	115000	1,024,169
11	115001	to	120000	1,305,812
17	120001	to	125000	2,109,791
11	125001	to	130000	1,420,000
6	130001	to	135000	801,591
12	135001	to	140000	1,657,309
7	140001	to	145000	1,007,073
25	145001	to	150000	3,715,647

No. of Shareholders	Shareholdings' Slab			Total Shares Held
3	150001	to	155000	461,232
9	160001	to	165000	1,470,443
3	165001	to	170000	503,544
7	170001	to	175000	1,211,568
6	175001	to	180000	1,059,971
3	180001	to	185000	548,774
5	185001	to	190000	947,149
1	190001	to	195000	192,000
27	195001	to	200000	5,394,324
6	200001	to	205000	1,219,685
7	205001	to	210000	1,454,502
4	210001	to	215000	860,000
1	215001	to	220000	216,800
1	220001	to	225000	223,083
1	225001	to	230000	228,000
1	230001	to	235000	231,000
4	235001	to	240000	956,000
7	245001	to	250000	1,749,000
1	250001	to	255000	250,095
1	255001	to	260000	256,500
2	265001	to	270000	537,100
4	270001	to	275000	1,097,164
1	275001	to	280000	279,951
1	280001	to	285000	282,000
2	285001	to	290000	574,930
21	295001	to	300000	6,300,000
3	300001	to	305000	907,469
1	305001	to	310000	309,000
4	310001	to	315000	1,258,500
1	320001	to	325000	325,000
1	325001	to	330000	327,809
1	335001	to	340000	337,500
3	345001	to	350000	1,050,000

# Pattern of Shareholding as at December 31, 2013

No. of Shareholders	Shareholdings' Slab		Total Shares Held
1	355001	to 360000	360,000
1	365001	to 370000	369,902
2	370001	to 375000	750,000
1	375001	to 380000	375,500
2	385001	to 390000	775,973
9	395001	to 400000	3,600,000
2	400001	to 405000	801,961
1	405001	to 410000	406,892
2	410001	to 415000	822,002
1	415001	to 420000	416,244
1	430001	to 435000	435,000
3	445001	to 450000	1,350,000
1	450001	to 455000	454,059
2	460001	to 465000	925,082
1	470001	to 475000	475,000
2	475001	to 480000	956,500
1	485001	to 490000	487,047
15	495001	to 500000	7,498,000
2	500001	to 505000	1,003,292
1	515001	to 520000	516,441
1	535001	to 540000	536,000
1	545001	to 550000	550,000
1	550001	to 555000	552,608
2	555001	to 560000	1,118,000
1	565001	to 570000	570,000
1	570001	to 575000	575,000
1	575001	to 580000	575,601
3	595001	to 600000	1,797,520
1	605001	to 610000	609,833
1	635001	to 640000	640,000
2	650001	to 655000	1,304,056
1	655001	to 660000	657,500
3	665001	to 670000	2,009,005

No. of Shareholders	Shareholdings' Slab		Total Shares Held
1	670001	to 675000	671,308
3	695001	to 700000	2,097,965
4	700001	to 705000	2,814,644
1	725001	to 730000	727,384
3	745001	to 750000	2,249,000
1	760001	to 765000	760,500
1	790001	to 795000	795,000
2	795001	to 800000	1,600,000
1	820001	to 825000	825,000
1	845001	to 850000	850,000
1	860001	to 865000	861,781
1	875001	to 880000	876,000
2	895001	to 900000	1,800,000
1	965001	to 970000	970,000
4	995001	to 1000000	4,000,000
1	1000001	to 1005000	1,001,500
1	1005001	to 1010000	1,009,971
1	1020001	to 1025000	1,025,000
1	1075001	to 1080000	1,076,041
1	1125001	to 1130000	1,128,477
1	1200001	to 1205000	1,200,475
1	1320001	to 1325000	1,324,943
1	1335001	to 1340000	1,338,000
2	1395001	to 1400000	2,800,000
1	1405001	to 1410000	1,410,000
1	1445001	to 1450000	1,446,905
1	1480001	to 1485000	1,480,282
1	1495001	to 1500000	1,500,000
1	1510001	to 1515000	1,512,000
1	1515001	to 1520000	1,516,727
1	1530001	to 1535000	1,532,000
1	1550001	to 1555000	1,552,921
1	1570001	to 1575000	1,573,445



# Pattern of Shareholding as at December 31, 2013

No. of Shareholders	Shareholdings' Slab		Total Shares Held
1	1610001	to 1615000	1,611,559
1	1645001	to 1650000	1,650,000
1	1745001	to 1750000	1,747,116
1	1810001	to 1815000	1,810,788
1	1910001	to 1915000	1,915,000
1	1950001	to 1955000	1,953,819
1	1995001	to 2000000	2,000,000
1	2135001	to 2140000	2,136,000
1	2285001	to 2290000	2,287,756
1	2370001	to 2375000	2,374,752
1	2795001	to 2800000	2,796,181
1	2920001	to 2925000	2,924,000
1	2990001	to 2995000	2,991,000
1	3105001	to 3110000	3,108,500
1	3135001	to 3140000	3,139,482
1	3230001	to 3235000	3,234,500
1	3310001	to 3315000	3,314,733
1	3560001	to 3565000	3,565,000
1	3720001	to 3725000	3,722,728
1	4065001	to 4070000	4,065,500
1	4295001	to 4300000	4,300,000
1	5510001	to 5515000	5,511,500
1	5995001	to 6000000	6,000,000
1	6280001	to 6285000	6,283,209
1	6835001	to 6840000	6,838,154
1	6890001	to 6895000	6,891,540
1	6935001	to 6940000	6,935,500
1	6995001	to 7000000	7,000,000
1	7295001	to 7300000	7,300,000
1	9225001	to 9230000	9,229,500
1	9295001	to 9300000	9,296,500
2	9995001	to 10000000	20,000,000
1	13170001	to 13175000	13,174,061

No. of Shareholders	Shareholdings' Slab		Total Shares Held
1	16465001	to 16470000	16,467,577
1	19215001	to 19220000	19,216,691
1	27905001	to 27910000	27,908,004
1	36225001	to 36230000	36,228,668
1	53020001	to 53025000	53,020,288
1	77335001	to 77340000	77,335,346
1	86345001	to 86350000	86,349,442
1	101995001	to 102000000	102,000,000
1	252060001	to 252065000	252,061,010
1	253995001	to 254000000	254,000,000
1	315775001	to 315780000	315,776,969
1	356675001	to 356680000	356,676,342
1	702685001	to 702690000	702,689,067
<b>6784</b>			<b>2,671,604,827</b>

# Branch Network

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## LAHORE EAST

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Branch Manager  
Sargodha Branch,  
Khayyam Chowk, Gulberg Park,  
Sargodha.  
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Fax: (048) 3768103

**Waseem Ahmad**  
Branch Manager  
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Block 15, M. A. Johar Town, Lahore.  
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**Aqeel Mirza**  
Branch Manager  
Shah Alam Market Branch,  
15-B, Shah Alam Market, Lahore.  
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Fax: (042) 37375183

**Ghulam Rasool**  
Branch Manager  
Railwind Branch,  
Railway Road, Adjacent Red Chili  
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**Ishaq Ali**  
Branch Manager  
Puli-111 Branch,  
Puli-111, Sargodha/Faisalabad Road,  
Sargodha.  
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**Mahmood A. Shelli**  
Branch Manager  
WAPDA Town Branch,  
11-G, PIA Housing Society,  
WAPDA Town Roundabout, Lahore.  
Tel.: (042) 35188525, 35188520  
Fax: (042) 35188527

## LAHORE WEST

**Sander Xamran Nadeem**  
Regional General Manager  
R. G. M. Office, 57-A/D-1, PEC Building,  
Liberty Market, Gulberg, Lahore.  
Tel.: (042) 35878010-11, 35784402  
Fax: (042) 35878012

**Nawaz Ali Hashmi**  
Branch Manager  
Guljarwala Branch,  
B-13/7, 5-147, Shaukat Centre,  
G. T. Road, Guljarwala.  
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**Nadeem Khurshid**  
Branch Operation Manager  
Sialkot Branch,  
70, Para Road, Sialkot.  
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Fax: (0521) 4598002

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Branch Manager  
Gulzar Branch,  
B-17/533-R-R, Near Edgah Masjid,  
G. T. Road, Gulzar.  
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**Ayesha Hameed**  
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87-A/D-1, P.E.C. Building, Liberty  
Roundabout, Gulberg-III, Lahore.  
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**Taufiq Hameed**  
Area/Branch Manager  
Garden Town,  
Flat 1-4, Umman Block, New Garden  
Town, Lahore.  
Tel.: (042) 35940305-9, 35940300  
Fax: (042) 35940301

**Sajjad Ahmed Qureshi**  
Area/Branch Manager  
Defence Branch,  
320, Block 2, Commercial Area,  
Phase-III, Lahore.  
Tel.: (042) 35693080, 35692930-33  
Fax: (042) 35693010

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

**Tausief Ul Islam**  
Branch Manager  
Mandi Behaoudin Branch,  
7/40, Sultan Plaza, Chowk Bab-e-Farooq,  
Mandi Bahauddin.  
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**Ramiz Haseem Farooqui**  
Branch Manager  
Fortress Stadium Branch,  
13, Bridge Shop, Fortress Stadium,  
Lahore Cantt., Lahore.  
Tel.: (042) 36623384-86, 36623380  
Fax: (042) 36623143

**Naveed Ahmed Tariq**  
Branch Manager  
I. Block Gulberg Branch,  
52-L, Gulberg-III, Kalma Chowk, Lahore.  
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Fax: (042) 35857262

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

**Imran Ejaz**  
Branch Manager  
Bataour Branch,  
Main G. T. Road, Bataour, Lahore Linas.  
Tel.: (042) 36580385-7  
Direct: (042) 36580387  
Fax: (042) 36580384

## MULTAN REGION

**Muhammad Raza Ali**  
Regional General Manager  
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Fax: (061) 6750253

**Ahmed Altaf**  
Branch Manager  
Bahawalpur Branch,  
Near Fawwara Chowk, Off Ahmedpur  
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**Ahshan Nooreen**  
Acting Branch Manager  
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Block 13, Hospital Chowk, Opp. DHQ  
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Multan Branch,  
10-A, Bosen Road, Gulgesht, Multan.  
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**Muhammad Iqbalullah**  
Branch Manager  
Sialkot Branch,  
Khawra No. 498, Khawra No. 07,  
Khawra No. 07, Jali Road,  
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**Adil Jatoi**  
Branch Manager  
Sukkur Branch,  
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Fax: (071) 5819151

**Malik Rashid Farooq**  
Acting Branch Manager  
Rahim Yar Khan Branch,  
26-Shahi Road, Rahim Yar Khan.  
Tel.: (068) 5884345, 5881302  
Fax: (068) 5879408

**Muhammad Arif Irfan**  
Area Manager  
Larkana Branch,  
Pakistan Chowk, Larkana.  
Tel.: (074) 4059499  
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**Muhsina Haider**  
Branch Manager  
Qasim Branch, (Multan)  
S. P. Chowk, Multan.  
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Fax: (061) 4568880

## ISLAMIC BANKING BRANCHES

**Syed Ahsan Ali**  
Acting Branch Manager  
Shahrah-e-Faisal Branch,  
47-A, Dar-ul-Aman Housing Society,  
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Karachi.  
Mobile: 0300-9255251  
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Mobile: 0321-2460600  
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6C-2 101, Susan Road,  
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**Muhammad Kaleem Sabir**  
Area Manager  
T-Block, D.H.A.,  
88 Sector CCA, Block T, Phase-II C,  
D.H.A., Lahore.  
Mobile: 0332-4420230  
Tel.: (042) 35748849, 35748850  
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**Onimiah Sohail**  
Area Manager  
Gulberg Mini Market, Q-Block,  
5-Q-Block, Gulberg-II, Lahore.  
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Fax: (051) 2287458

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Plot No. 46, Commercial Area, Chakala  
Scheme-III, Rawalpindi.  
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Branch Manager  
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Abbottabad, KPK.  
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PABX: (0992) 385976-79  
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Fax: (0837) 867556



# Foreign Correspondents



## Afghanistan

Habib Bank Ltd.

## Algeria

Banque Al Baraka d'Algerie

## Argentina

The Royal Bank of Scotland  
Deutsche Bank AG

## Australia

JP Morgan  
Westpac Banking Corp.  
Deutsche Bank AG

## Austria

The Royal Bank of Scotland  
Raiffeisen Zentralbank Osterreich  
Unicredit Bank Austria  
Deutsche Bank AG

## Bahrain

Arab Investment Bank  
Al Baraka Islamic Bank  
BMI Bank Bsc  
Habib Bank Ltd.  
United Bank Ltd.  
National Bank of Pakistan  
Kuwait Turkish Participation Bank Inc.

## Bangladesh

Habib Bank Ltd.  
Bank Al Falah

## Belgium

Habib Bank Ltd.  
Commerzbank AG  
KBC Bank NV  
Fortis Bank SA/NV  
The Royal Bank of Scotland  
Deutsche Bank AG

## Brazil

Deutsche Bank AG

## Bulgaria

Citibank  
United Bulgarian Bank

## Canada

Habib Canadian Bank  
The Royal Bank of Scotland

## China

Agricultural Bank of China  
Commerzbank AG  
Bank of Jiangsu Co. Ltd.  
The Royal Bank of Scotland  
Bank of China  
Bank of Beijing  
Bank of Communication  
Deutsche Bank AG  
China Construction Bank  
China Ever Bright Bank  
Industrial and Comm'l Bank of China  
Laishang Bank Co. Ltd.

JP Morgan  
Shenzhen Development Bank  
Bank of New York Mellon  
Wells Fargo Bank  
West LB AG

## Czech Republic

Commerzbank AG  
The Royal Bank of Scotland

## Denmark

Danske Bank A/S  
Nordea Bank Denmark A/S

## Egypt

Mashreqbank PSC  
Al Baraka Bank

## Finland

Nordea Bank Finland PLC  
Skandinaviska Enskilda Banken

## France

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

## Germany

Commerzbank AG  
Danske Bank

Deutsche Bank AG  
National Bank of Pakistan  
SEB AG  
Landesbank Baden-Württemberg  
Norddeutsche Landesbank  
Suedwestbank AG  
Unicredit  
JP Morgan

## Hungary

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

## Hong Kong

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

**India**

Mashreqbank  
The Royal Bank of Scotland  
Deutsche Bank AG  
JP Morgan

**Indonesia**

The Royal Bank of Scotland  
JP Morgan  
Deutsche Bank AG

**Ireland**

National Irish Bank

**Italy**

Commerzbank AG  
The Royal Bank of Scotland  
Banca Di Roma S.P.A.  
Banca Di Napoli S.P.A.  
Banca Popolare SOC  
Banca Popolare Di Bari S.C.P.A.  
Banca Popolare Di Novara S.P.A.  
Banca Popolare Di Verona S.G.S.P.  
Banca Monte Parma  
Banca Monte Dei Paschi Di Siena S.P.A.  
Banca UBAE  
Iccrea Banca  
Deutsche Bank AG  
Intesa Sanpaolo  
Mizuho Corporate Bank Ltd.  
Unicredit Banca S.P.A.  
Unicredit Corporate Banking S.P.A.  
UBI Banca  
Cassa di Risparmio In Bologna

**Japan**

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

**Kazakhstan**

BTA Bank JSC

**Kuwait**

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

**Korea**

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

**Lebanon**

Habib Bank Ltd.

**Malaysia**

Citibank N.A.  
The Royal Bank of Scotland  
JP Morgan

**Mexico**

Banco Del Bajío S.A.

**Mauritius**

Habib Bank Ltd.  
Mauritius Commercial Bank Ltd.

**Morocco**

Astijarwafa Bank

**Nepal**

Himalayan Bank Ltd.

**Netherlands**

Commerzbank AG  
The Royal Bank of Scotland  
Deutsche Bank AG  
Habib Bank Ltd.  
ING Bank NV

**Norway**

Nordea Bank Norge ASA  
DNB Nor Bank ASA

**New Zealand**

Westpac Banking Corporation

**Oman**

Habib Bank Ltd.  
Bank Muscat

**Poland**

Nordea Bank Polska S.A.  
The Royal Bank of Scotland  
Deutsche Bank AG

**Philippines**

JP Morgan  
Mizuho Corporate Bank

**Portugal**

Banco BPI S.A.  
Deutsche Bank AG

**Qatar**

United Bank Ltd.  
Doha Bank  
BNP Paribas Fortis  
Mashreqbank PSC

**Romania**

Piraeus Bank

**Russia**

Citibank  
Commerzbank AG

**Saudi Arabia**

JP Morgan  
National Commercial Bank  
Saudi Hollandi Bank  
Deutsche Bank AG  
Bank Muscat  
National Bank of Pakistan  
Saudi British Bank

**Singapore**

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

**South Africa**

Habib Overseas Bank Ltd.  
HBZ Bank Ltd.  
First Rand Bank

**Serbia**

Unicredit Bank  
Raiffeisen Bank

**Spain**

Commerzbank AG  
Fortis Bank S.A.  
Banco Popular Espanol, S.A.  
Bankinter S.A.  
Caja de Ahorros del Mediterraneo  
Caja Espana de Inversiones  
Caja D'estalvis i Pensions de Barcelona

**Sri Lanka**

Muslim Commercial Bank Ltd.  
Habib Bank Ltd.  
Deutsche Bank AG  
Hutton National Bank

**Sweden**

Nordea Bank  
Scandinaviska Enskilda Banken  
Svenska Handelsbanken  
The Royal Bank of Scotland  
Danske Bank

**Switzerland**

Banque Cantonale Vaudoise  
Habib Bank AG Zurich  
BNP Paribas Fortis Bank  
Credit Agricole (Suisse) S.A.  
Habibsons Bank  
Deutsche Bank AG  
The Royal Bank of Scotland  
United Bank AG  
Citibank N.A.

**Taiwan**

Bank of New York  
Bank of America  
Deutsche Bank AG  
JP Morgan  
Wells Fargo

**Thailand**

Bank of Ayudhya Public Company Ltd.  
Export Import Bank of Thailand  
The Royal Bank of Scotland  
Citibank N.A.  
Deutsche Bank AG  
JP Morgan

**Turkey**

The Royal Bank of Scotland  
Habib Bank Ltd.  
Deutsche Bank AG  
Al Baraka Turk Participation Bank  
Turkiye Vakıflar Bankası T.A.O.  
Turkiye Garanti Bankası AS  
Turk Ekonomi Bankası AS

**U.A.E.**

Citibank N.A.  
Dubai Islamic Bank  
Deutsche Bank AG  
Emirates NBD Bank  
Emirates Islamic Bank  
United Bank Ltd.  
Habib Bank Ltd.  
Mashreqbank PSC  
The Royal Bank of Scotland  
National Bank of Fujairah  
Habib Bank AG Zurich  
Noor Islamic Bank

**U.K.**

ABC International Bank PLC  
Bank of America  
Clydesdale Bank  
Deutsche Bank AG  
Habib Bank AG Zurich  
Habib Allied PLC  
Fortis Bank  
Commerzbank AG  
Mashreqbank PSC  
Northern Bank  
JP Morgan  
Nordea Bank Finland  
The Royal Bank of Scotland  
Habibsons Bank  
Bank Leumi PLC

Merrill Lynch International Bank Ltd.  
Citibank N.A.  
United National Bank

**U.S.A.**

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

**Ukraine**

PJSC Deutsche Bank DBU

**Vietnam**

JP Morgan  
Deutsche Bank AG

## Notes



**Form of Proxy**  
Annual General Meeting

**SILKBANK** ➤

I/We \_\_\_\_\_  
of \_\_\_\_\_  
being member(s) of Silkbank Limited holding \_\_\_\_\_  
ordinary shares hereby appoint \_\_\_\_\_  
of \_\_\_\_\_ or failing him/her \_\_\_\_\_  
of \_\_\_\_\_ as my/our proxy in my/our absence to attend and vote for me/us and on my/our behalf at Annual General Meeting of the Bank to be held on March 27, 2014 and/or adjournment thereof.

As witness my/our hand(s) seal this on the \_\_\_\_\_ day of \_\_\_\_\_ 2014.

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

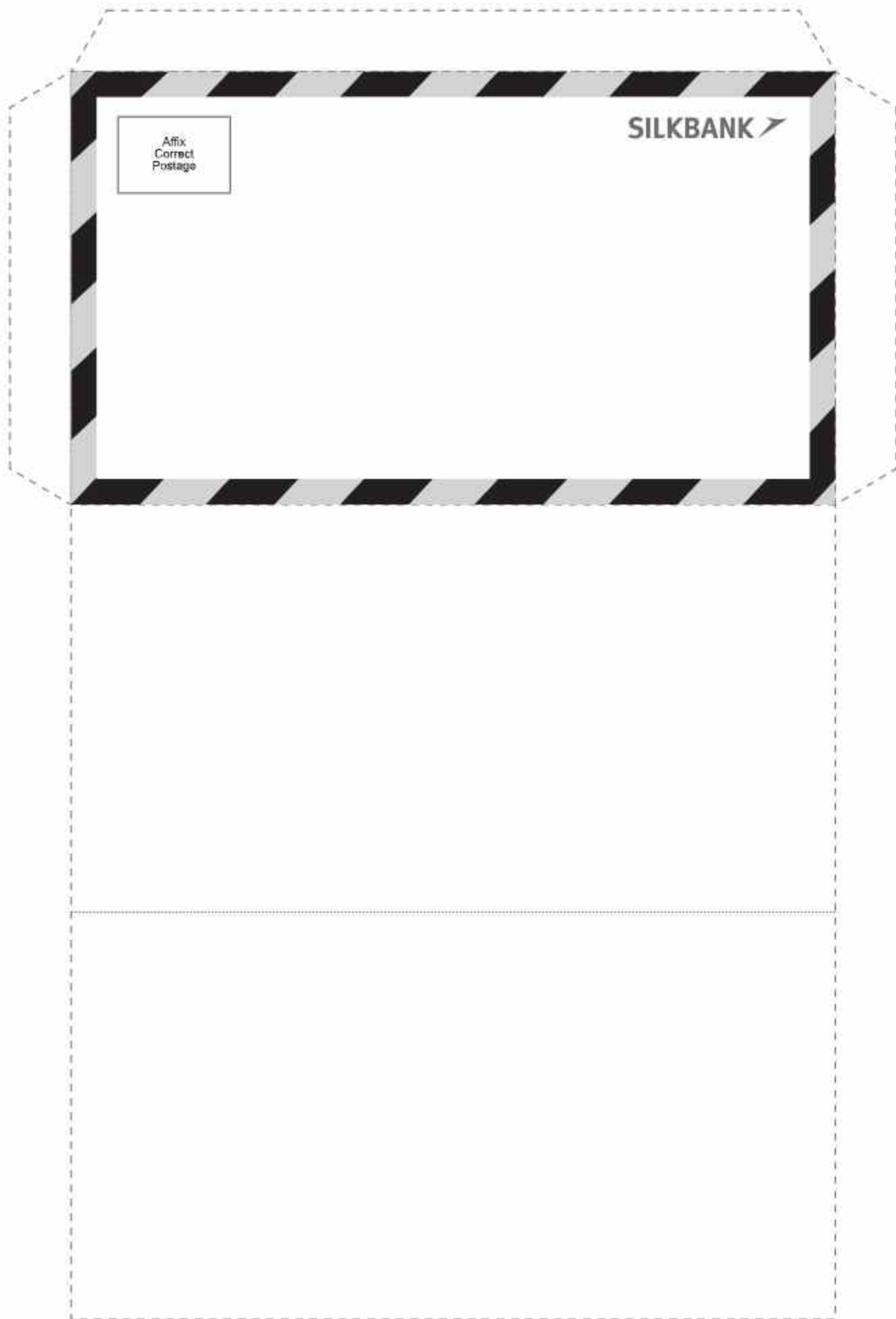
In presence of 1. \_\_\_\_\_  
\_\_\_\_\_  
2. \_\_\_\_\_  
\_\_\_\_\_

Folio No. CDC Account No.

Signature on  
Revenue Stamp  
of Appropriate Value

**Important:**

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









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www.silkbank.com.pk ☎ 111-007-455