

Our core values defining the path to success

Samba Bank Limited  
Annual Report 2011

# Company Information

|  |  |   |
|--|--|---|
| <b>Board of Directors</b>                            | Syed Sajjad Razvi<br>Mr. Zaki Abdulmohsen Al-Mousa<br>Mr. Beji Tak – Tak<br>Dr. Shujaat Nadeem<br>Mr. Farhat Abbas Mirza<br>Mr. Humayun Murad<br>Mr. Javed Iqbal<br>Mr. Zahid Zaheer<br>Mr. Tawfiq A. Husain | Chairman<br>Executive Director<br>Executive Director<br>Executive Director<br>Independent Non Executive Director<br>Independent Non Executive Director<br>Independent Non Executive Director<br>Independent Non Executive Director<br>President & CEO |
| <b>Board Audit Committee</b>                         | Mr. Javed Iqbal<br>Mr. Beji Tak – Tak<br>Mr. Zahid Zaheer  | Chairman<br>Member<br>Member  |
| <b>Board Risk Committee</b>                          | Mr. Beji Tak – Tak<br>Syed Sajjad Razvi<br>Mr. Humayun Murad<br>Mr. Tawfiq A. Husain   | Chairman<br>Member<br>Member<br>Member  |
| <b>Board Nomination &amp; Remuneration Committee</b> | Mr. Beji Tak- Tak<br>Mr. Zaki Abdulmohsen Al-Mousa<br>Mr. Humayun Murad  | Chairman<br>Member<br>Member  |
| <b>President &amp; Chief Executive Officer</b>       | Mr. Tawfiq A. Husain   |   |
| <b>Company Secretary</b>                             | Ms. Saima Kamila Khan  |   |
| <b>Auditors</b>                                      | A. F. Ferguson & Co.   | Chartered Accountants   |
| <b>Legal Advisors</b>                                | Mohsin Tayebaly & Co.  | Advocates & Legal Consultants   |
| <b>Head Office &amp; Registered Office</b>           | 6 <sup>th</sup> Floor, Sidco Avenue Centre, MDM Wafai Road, Karachi  |   |
| <b>Share Registrar</b>                               | Famco Associates (Pvt) Limited<br>1 <sup>st</sup> Floor, State Life Building No. 1-A, I.I Chundrigar Road, Karachi - 74000   |   |
| <b>Help Line</b>                                     | 1111 SAMBA (72622)   |   |
| <b>Website</b>                                       | www.samba.com.pk   |   |
| <b>Credit Rating by JCR-VIS</b>                      | Medium to Long Term<br>Short Term  | A+ (A-Plus)<br>A-1 (A-One)  |

# Chairman's Message

It is a great pleasure for me to present the annual financial performance of Samba Bank Limited (SBL) for the year 2011 and to share my views on the outlook for 2012.

Despite the challenges in 2011, your bank achieved the landmark of turning around into a profit making entity. This is a great achievement and I am sure that your bank will continue this growth momentum to become an increasingly profitable and important member of Samba Financial Group (SFG). The turnaround of SBL demonstrates its team's resolve to succeed, under difficult country conditions, with SFG's commitment and support. This is also a validation of SFG's expertise and ability to acquire a bank, rebrand and stabilize it and to turn it around under a sustainable business model.

When analyzing SBL's performance during 2011 compared to the banking sector's performance, it is extremely encouraging to note that, despite the sector's limited credit off-take, your bank grew its net loan book by 30 percent while the banking sector posted a negative growth of 7 percent over 2010. Similar impressive performance is seen in deposit mobilization where your bank grew its deposit base by 19 percent as against banking sector's growth of 8 percent over 2010. While there is a clear opportunity to

further improve the market share, your bank did slightly increase its market share during 2011, both for loans and for deposits.

I believe that 2012 will be another challenging year for the banking sector because of the various issues facing the economy, the government borrowing crowding out the private sector, increasing cost of doing business and increasing NPLs of the sector. It will, therefore, be necessary for the bank to continue implementing its strategy of identifying new and sustainable revenue streams, increasing its cross sell of various products, mobilizing low cost deposits, especially current accounts, enhancing recovery efforts for legacy bad loans, keeping a close check on its expenses, and improving its operational and service efficiencies, wherever possible. SBL will continue to invest in and grow its core businesses including Corporate and Investment Banking, Retail Banking, and Global Markets to grow its balance sheet size and to increase and widen its earnings - both by deepening existing relationships and by building new ones through robust risk management and diversification. Our strategy has yielded positive results and we are confident that this will sustain and take SBL to a higher level of growth and profitability.

On behalf of the Board of Directors and Management of the bank, I would like to extend our deepest appreciation to our valued clients

for their confidence in the “Samba” brand and for their continuing support in building our franchise and assure them of the highest quality of service for which “Samba” brand is recognized. I know my board members will join me in appreciating the relentless efforts, hard work and commitment of our management and staff and in congratulating the team in turning around your bank. I am confident that the team will achieve the goals which the Board has set for them for 2012. Last but not least, I would like to thank our Board members and my colleagues in SFG for their ongoing support and invaluable contributions in the success transfer to Samba Bank Limited.

Syed Sajjad Razvi  
Chairman

# Six Years' Performance Highlights

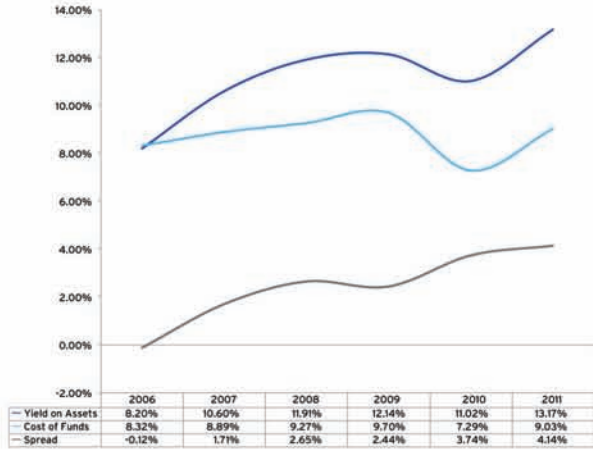
| December 31  | 2006                | 2007    | 2008    | 2009    | 2010    | 2011    |
|--|---------------------|---------|---------|---------|---------|---------|
| Statement of financial position                      | (Rupees in Million) |         |         |         |         |         |
| <b>Assets</b>  |                     |         |         |         |         |         |
| Cash and balances with treasury and other banks      | 915                 | 1,067   | 1,106   | 1,669   | 2,446   | 1,523   |
| Lendings to financial institutions                   | 493                 | 8,566   | 2,313   | 3,123   | 1,389   | 803     |
| Investments - Gross                                  | 2,473               | 4,277   | 4,232   | 6,224   | 11,347  | 9,883   |
| Advances - Gross                                     | 4,013               | 7,105   | 8,606   | 12,343  | 14,747  | 18,375  |
| Operating Fixed assets                               | 846                 | 854     | 1,158   | 1,112   | 1,001   | 904     |
| Other assets - Gross                                 | 1,421               | 1,670   | 2,049   | 2,405   | 2,545   | 2,712   |
| Total assets - Gross                                 | 10,161              | 23,539  | 19,464  | 26,876  | 33,476  | 34,200  |
| Provisions against advances - specific & general     | (1,618)             | (2,413) | (2,443) | (2,620) | (2,610) | (2,544) |
| Provisions against diminution in value of investment | (245)               | (329)   | (402)   | (416)   | (256)   | (219)   |
| Provisions held against bad & doubtful other assets  | (119)               | (142)   | (131)   | (106)   | (99)    | (106)   |
| Total assets - net of provisions                     | 8,179               | 20,655  | 16,488  | 23,734  | 30,511  | 31,331  |
| <b>Liabilities</b>                                   |                     |         |         |         |         |         |
| Customer deposits                                    | 5,578               | 12,645  | 9,860   | 12,521  | 14,872  | 17,669  |
| Borrowings   | 442                 | 183     | 438     | 3,141   | 6,535   | 3,996   |
| Bills payable  | 51                  | 1,057   | 55      | 78      | 116     | 529     |
| Other liabilities                                    | 529                 | 568     | 672     | 918     | 1,063   | 954     |
| Total Liabilities                                    | 6,600               | 14,453  | 11,025  | 16,658  | 22,585  | 23,149  |
| Net Assets / Liabilities                             | 1,579               | 6,202   | 5,463   | 7,076   | 7,926   | 8,182   |
| Share capital  | 2,770               | 8,770   | 8,770   | 8,770   | 14,335  | 14,335  |
| Advance against proposed issue of shares             | -                   | -       | -       | 2,189   | -       | -       |
| Reserves   | 43                  | 43      | 43      | 43      | 43      | 90      |
| Un - appropriated profit / (loss)                    | (1,220)             | (2,594) | (3,336) | (3,929) | (6,442) | (6,252) |
| Equity   | 1,593               | 6,219   | 5,477   | 7,073   | 7,936   | 8,173   |
| (Deficit)/ Surplus on revaluation of assets          | (14)                | (17)    | (14)    | 3       | (11)    | 9       |
| <b>Profit &amp; Loss</b>                             |                     |         |         |         |         |         |
| Markup / Return / Interest earned                    | 483                 | 1,183   | 1,758   | 1,879   | 2,385   | 3,352   |
| Markup / Return / Interest expensed                  | 552                 | 838     | 1,071   | 1,259   | 1,350   | 1,944   |
| Net Markup / Interest income                         | (69)                | 345     | 687     | 620     | 1,034   | 1,408   |
| Fee, Commission, Brokerage and Exchange income       | 21                  | 15      | 61      | 113     | 133     | 82      |
| Capital gain & Dividend income                       | 43                  | 85      | 17      | 4       | 44      | 23      |
| Other income   | 20                  | 28      | 47      | 25      | 144     | 47      |
| Non interest income                                  | 84                  | 128     | 125     | 142     | 321     | 152     |
| Gross income   | 15                  | 473     | 812     | 762     | 1,356   | 1,561   |
| Operating expenses                                   | (681)               | (893)   | (1,510) | (1,456) | (1,462) | (1,397) |
| Profit / (Loss) before provisions                    | (666)               | (420)   | (698)   | (694)   | (107)   | 163     |
| Provisions / direct write offs                       | (183)               | (953)   | (313)   | (374)   | (24)    | 38      |
| Profit / (Loss) before taxation                      | (849)               | (1,373) | (1,011) | (1,068) | (130)   | 201     |
| Taxation   | 261                 | 50      | 269     | 475     | 11      | 36      |
| Profit / (Loss) after taxation                       | (588)               | (1,323) | (742)   | (593)   | (120)   | 237     |

| December 31  |                 | 2006      | 2007        | 2008       | 2009      | 2010      | 2011     |
|--|-----------------|-----------|-------------|------------|-----------|-----------|----------|
| <b>Financial Ratios</b>                                    |                 |           |             |            |           |           |          |
| Return on equity (RoE)                                     | %               | -36.7%    | -33.9%      | -12.7%     | -9.5%     | -1.6%     | 2.9%     |
| Return on assets (RoA)                                     | %               | -6.6%     | -9.2%       | -4.0%      | -2.9%     | -0.4%     | 0.8%     |
| Profit before tax ratio (Profit before tax / Gross Income) | %               | -5449.6%  | -289.9%     | -124.5%    | -140.2%   | -9.6%     | 12.9%    |
| Gross spread ratio   | %               | -14.2%    | 29.2%       | 39.1%      | 33.0%     | 43.4%     | 42.0%    |
| Return on capital employed (ROCE)                          | %               | -36.7%    | -33.9%      | -12.7%     | -9.5%     | -1.6%     | 2.9%     |
| Advances to deposits ratio (ADR)                           | %               | 42.9%     | 37.1%       | 62.5%      | 77.7%     | 81.6%     | *89.6%   |
| Income to expense ratio                                    | Times           | 0.02      | 0.5         | 0.5        | 0.5       | 0.9       | 1.1      |
| Efficiency Ratio (cost to revenue)                         | %               | 4677.8%   | 188.5%      | 185.9%     | 191.1%    | 107.9%    | 89.5%    |
| Growth in gross income                                     | %               | -91.5%    | 2941.6%     | 71.5%      | -6.2%     | 77.9%     | 15.1%    |
| Growth in net profit / (loss) after tax                    | %               | 21.0%     | -125.1%     | 43.9%      | 20.1%     | 79.8%     | 297.8%   |
| Total assets to shareholders' funds                        | Times           | 5.1       | 3.3         | 3.0        | 3.4       | 3.8       | 3.8      |
| Intermediation cost ratio                                  | %               | 11.8%     | 9.8%        | 13.4%      | 13.0%     | 10.7%     | 8.6%     |
| NPL ratio  | %               | 49.5%     | 26.4%       | 22.8%      | 22.1%     | 18.4%     | 14.3%    |
| Net infection ratio  | %               | 20.8%     | 1.7%        | 2.8%       | 1.9%      | 1.1%      | 0.6%     |
| <b>Share Information</b>                                   |                 |           |             |            |           |           |          |
| Earning Per Share (EPS)                                    | Rs.             | (2.21)    | (1.82)      | (0.85)     | (0.68)    | (0.10)    | 0.16     |
| Market value per share - at the end of the year            | Rs.             | 15.10     | 20.95       | 4.94       | 3.31      | 1.96      | 1.45     |
| Market value per share - highest / lowest during the year  | Rs.             | 19.0/7.75 | 25.10/14.60 | 21.50/3.55 | 7.00/2.60 | 3.59/1.73 | 2.2/0.92 |
| Book value per share                                       | Rs.             | 5.7       | 7.1         | 6.2        | 8.1       | 5.5       | 5.7      |
| <b>Other Information</b>                                   |                 |           |             |            |           |           |          |
| Non - performing loans (NPLs)                              | Rs. in Millions | 1,987     | 1,872       | 1,961      | 2,726     | 2,711     | 2,619    |
| Number of employees  | Nos.            | 709       | 1,224       | 1,026      | 787       | 810       | 760      |
| Number of branches   | Nos.            | 18        | 28          | 28         | 28        | 28        | 28       |

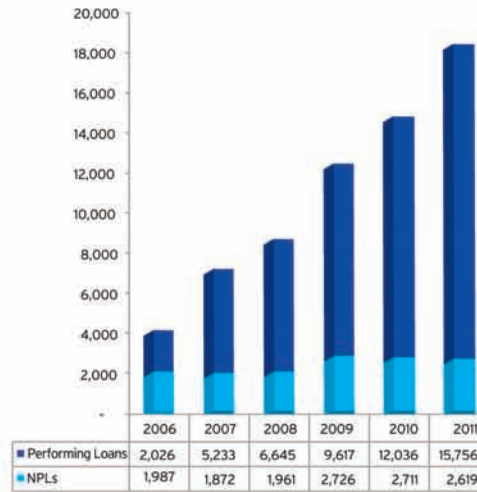
\*ADR as per SBP BSD Circular No. 28 of 2008 dated Oct 26, 2008 is 47.66%

# Six Years' Performance Highlights

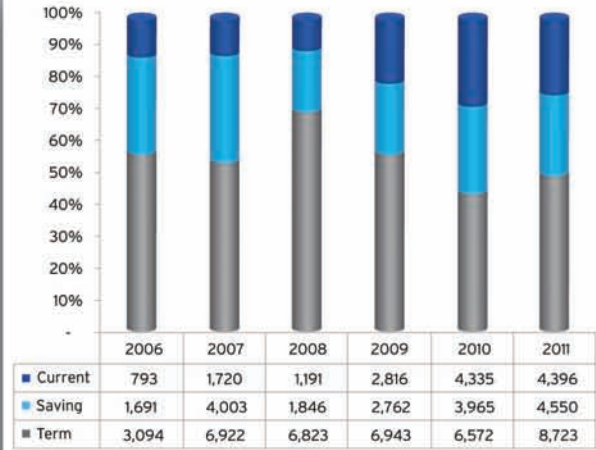
### Yield on Assets, Cost of Funds & Spread



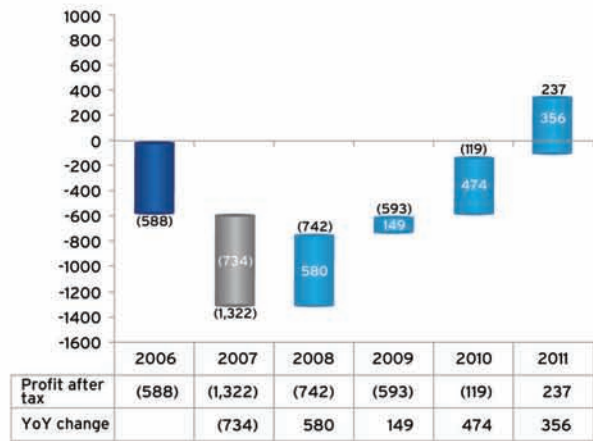
### Performing Loans & NPLs



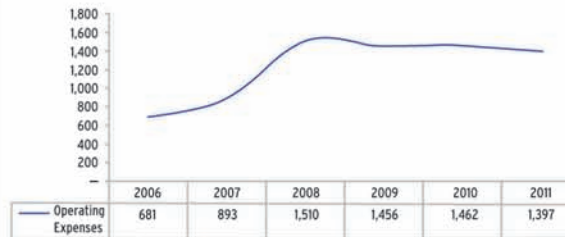
### Deposits Composition



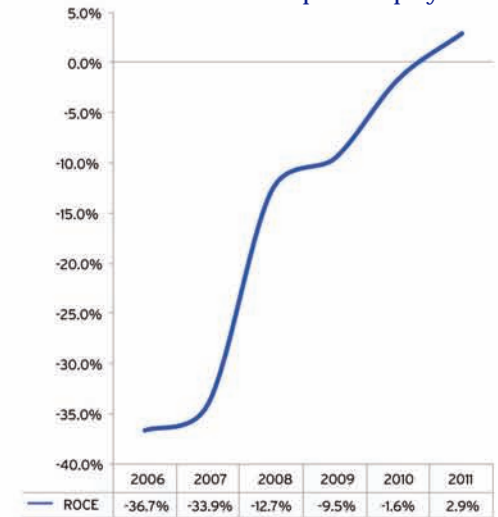
### Profit after Tax Reconciliation



### Operating Expenses



### Return on Capital Employed

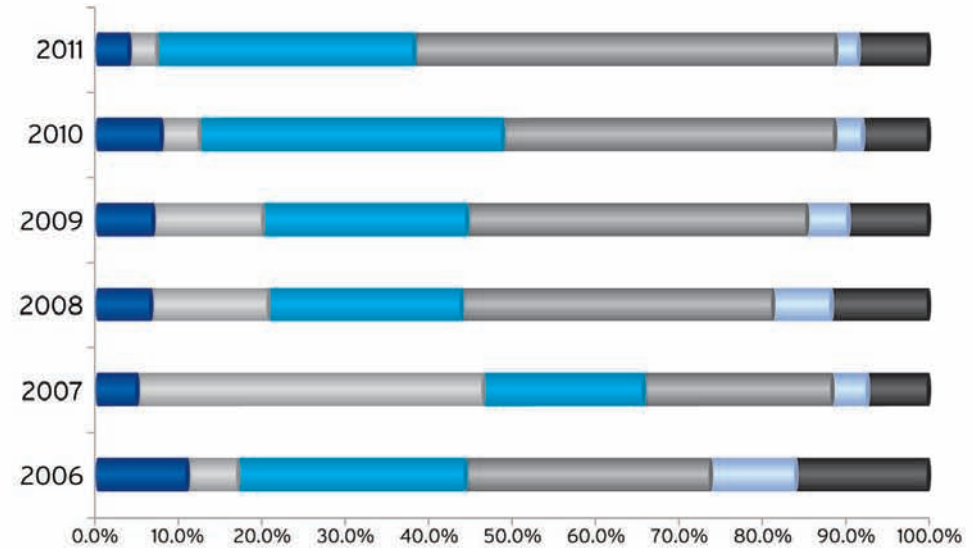


# Vertical Analysis

## Assets

|   | 2009  | 2010  | 2011  |
|---|-------|-------|-------|
| ■ Cash and balances with treasury and other banks | 7.0%  | 8.0%  | 4.9%  |
| ■ Lendings to financial institutions              | 13.2% | 4.6%  | 2.6%  |
| ■ Investments - net                               | 24.5% | 36.4% | 30.8% |
| ■ Advance - net                                   | 41.0% | 39.8% | 50.5% |
| ■ Operating Fixed assets                          | 4.7%  | 3.3%  | 2.9%  |
| ■ Other assets                                    | 9.7%  | 8.0%  | 8.3%  |

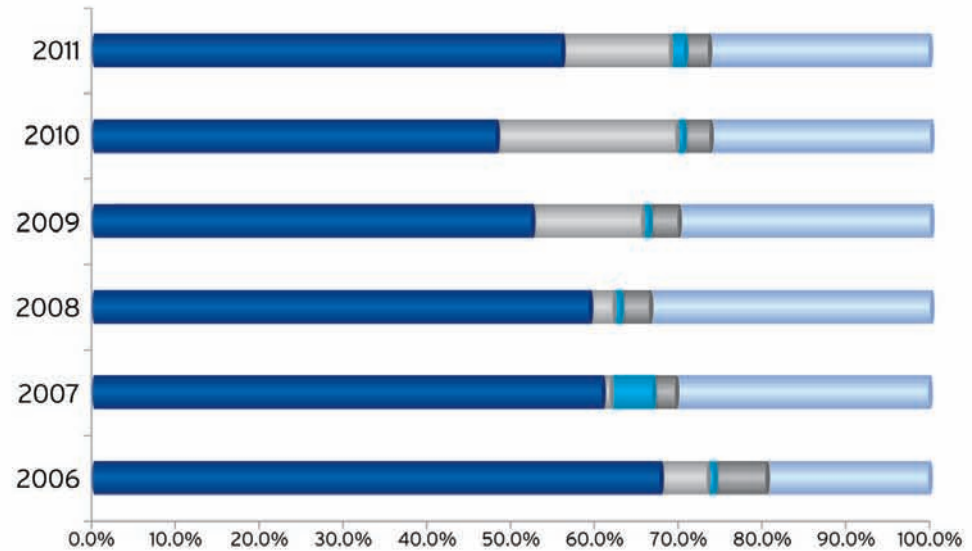
|   | 2006  | 2007  | 2008  |
|---|-------|-------|-------|
| ■ Cash and balances with treasury and other banks | 11.2% | 5.2%  | 6.7%  |
| ■ Lendings to financial institutions              | 6.0%  | 41.5% | 14.0% |
| ■ Investments - net                               | 27.2% | 19.1% | 23.2% |
| ■ Advance - net                                   | 29.3% | 22.7% | 37.4% |
| ■ Operating Fixed assets                          | 10.3% | 4.1%  | 7.0%  |
| ■ Other assets                                    | 15.9% | 7.4%  | 11.6% |



## Liabilities & Equity

|                         | 2009  | 2010  | 2011  |
|-------------------------|-------|-------|-------|
| ■ Customer Deposits     | 52.8% | 48.7% | 56.4% |
| ■ Inter bank Borrowings | 13.2% | 21.4% | 12.8% |
| ■ Bills Payable         | 0.3%  | 0.4%  | 1.7%  |
| ■ Other Liabilities     | 3.9%  | 3.5%  | 3.0%  |
| ■ Share Capital         | 29.8% | 26.0% | 26.1% |

|                         | 2006  | 2007  | 2008  |
|-------------------------|-------|-------|-------|
| ■ Customer Deposits     | 68.2% | 61.2% | 59.8% |
| ■ Inter bank Borrowings | 5.4%  | 0.9%  | 2.7%  |
| ■ Bills Payable         | 0.6%  | 5.1%  | 0.3%  |
| ■ Other Liabilities     | 6.5%  | 2.7%  | 4.1%  |
| ■ Share Capital         | 19.3% | 30.0% | 33.1% |



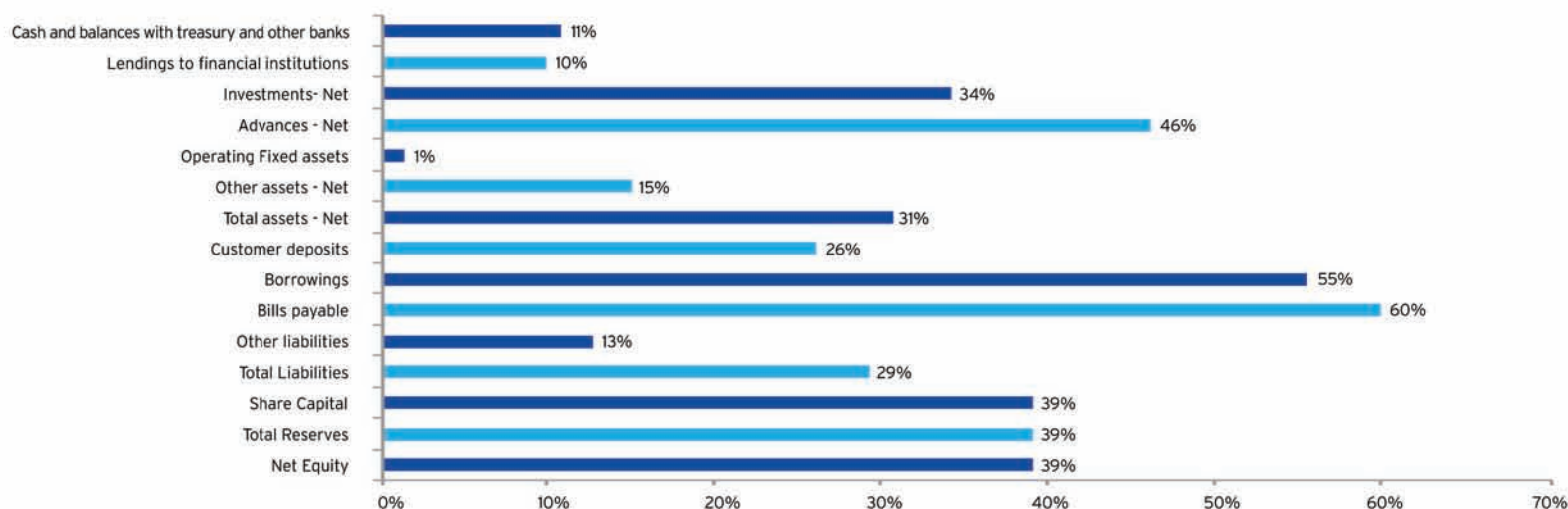


# Horizontal Analysis

## Statement of financial position

|   | 2006   | 2007    | 2008   | 2009   | 2010    | 2011    |
|---|--------|---------|--------|--------|---------|---------|
| <b>Assets</b>                                   |        |         |        |        |         |         |
| Cash and balances with treasury and other banks | 100.0% | 116.6%  | 120.9% | 182.4% | 267.4%  | 166.4%  |
| Lending to financial institutions               | 100.0% | 1735.8% | 468.8% | 632.9% | 281.5%  | 162.8%  |
| Investments - Net                               | 100.0% | 177.2%  | 171.9% | 260.7% | 497.7%  | 433.7%  |
| Advances - Net                                  | 100.0% | 195.9%  | 257.3% | 406.0% | 506.8%  | 661.0%  |
| Operating Fixed assets                          | 100.0% | 100.9%  | 136.8% | 131.4% | 118.3%  | 106.8%  |
| Other assets - Net                              | 100.0% | 117.4%  | 147.3% | 176.6% | 187.9%  | 200.2%  |
| Total assets - Net                              | 100.0% | 252.6%  | 201.6% | 290.2% | 373.1%  | 383.1%  |
| <b>Liabilities</b>                              |        |         |        |        |         |         |
| Customer deposits                               | 100.0% | 226.7%  | 176.8% | 224.5% | 266.6%  | 316.8%  |
| Borrowings                                      | 100.0% | 41.3%   | 99.0%  | 709.9% | 1476.9% | 903.1%  |
| Bills payable                                   | 100.0% | 2087.6% | 109.3% | 154.1% | 228.7%  | 1044.9% |
| Other liabilities                               | 100.0% | 107.3%  | 127.1% | 173.5% | 200.9%  | 180.4%  |
| Total Liabilities                               | 100.0% | 219.0%  | 167.1% | 252.4% | 342.2%  | 350.7%  |
| Share capital                                   | 100.0% | 316.6%  | 316.6% | 395.7% | 517.6%  | 517.6%  |
| Reserves  | 100.0% | 100.0%  | 100.0% | 100%   | 100.0%  | 209.8%  |
| Un - appropriated profit / (loss)               | 100.0% | 212.6%  | 273.5% | 322.0% | 528.0%  | 512.5%  |
| Equity  | 100.0% | 390.5%  | 343.9% | 444.1% | 498.3%  | 513.2%  |
| Surplus on revaluation of assets                | 100.0% | 127.3%  | 103.2% | -21.8% | 77.0%   | -69.2%  |
|   | 100.0% | 392.8%  | 346.0% | 448.2% | 502.0%  | 518.3%  |

## Compound Annual Growth Rate



# Statement of Value Addition

Value added

Income from banking services  
 Cost of services  
 Value added by banking services  
 Non - banking income  
 Provision against non-performing assets

Value Allocated to employees  
 Salaries, allowances and other benefits

to Government  
 Income tax

to providers of capital  
 as dividends

to expansion and growth  
 Depreciation / Amortization  
 Retained in business

|  | 2011                 | 2010      |
|--|----------------------|-----------|
|  | (Rupees in thousand) |           |
|  | 1,515,449            | 1,327,171 |
|  | (553,562)            | (646,835) |
|  | 961,887              | 680,336   |
|  | 45,288               | 28,405    |
|  | 37,625               | (23,565)  |
|  | 1,044,800            | 685,176   |
|  | 692,843              | 655,124   |
|  | (35,621)             | (10,702)  |
|  | -                    | -         |
|  | 151,063              | 160,348   |
|  | 236,515              | (119,594) |
|  | 1,044,800            | 685,176   |

# Directors' Report



On behalf of the Board of Directors, I would like to present the annual report of the bank along with its Audited Financial Statements and Auditors' Report for the year ended December 31, 2011.

## Economic Highlights

The economic conditions continued to post challenges throughout 2011. Continuing energy shortage remains one of the major contributors to the sluggish economic growth, whereas the twin deficits (fiscal and current) and persisting high inflation remained the major concerns for the economy. Furthermore, during 2011, there was an aggressive change in the monetary policy with SBP slashing discount rate by 200 basis points.

During 2011, Pakistan also opted out from IMF loan program, with its accompanying implications, especially as it also scheduled to repay USD 1.1 billion to IMF before June 30, 2012.

The country, which was still recovering from 2010 floods, again faced severe floods in 2011, mainly in Sindh, where cotton, rice and sugarcane crops were badly affected.

Despite challenging conditions, during the first half of fiscal year 2012 (July - December 2011), the country had record exports and consistent growth in overseas workers' remittances. Foreign exchange reserves, which touched a new height of USD 18.29 billion in July 2011, closed at USD 17.03 billion in December 2011. 12-month moving average inflation was 11.9 percent in December 2011, against 12.9 percent in December 2010.

## Bank Operating Results and Financial Review

|  | 2011                 | 2010      |
|--|----------------------|-----------|
|  | (Rupees in thousand) |           |
| Operational Profit / (Loss) before provisions and taxation | 163,269              | (106,731) |
| Reversals / (Provisions) / direct write offs               | 37,625               | (23,565)  |
| Profit / (Loss) before taxation                            | 200,894              | (130,296) |
| Taxation   | 35,621               | 10,702    |
| Profit / (Loss) after taxation                             | 236,515              | (119,594) |
| Earning / (Loss) per share – Rupees                        | 0.16                 | (0.10)    |

During 2011, your bank achieved a historic milestone by turning around and transforming into a profit-making franchise. For the first time since 2003, your bank generated a full year after-tax profit of Rs. 236.5 million against a loss of Rs. 119.6 million in 2010, an impressive growth of almost 300 percent that translates into a positive earnings per share of Rs. 0.16 (2010: Loss per share of Rs. 0.10). This, in itself, was achieved by growing the earning assets, managing cost of deposits and improving operational efficiency, while ensuring asset quality and strong internal controls. The turnaround of SBL is a testament to its team's determination to succeed, under challenging business conditions, with Samba Financial Group's commitment and full support. This is also a validation of the ability of SBL's board and management to rebrand, stabilize and turn around the bank on the basis of a sustainable business model. This was the combined result of growing the top line (revenue) by 15.1 percent, reducing the middle line (expenses) by 4.4 percent and reducing the credit cost by 896 percent over 2010.

The increase in revenue was generated through consistent growth in earning assets through the year. Average earning assets of the bank grew by Rs. 6.6 billion, or almost 34 percent over 2010, which increased the income on earning

assets by Rs. 967.5 million. At the same time, your bank effectively managed its cost of funds and made net recovery of Rs. 46.2 million of legacy bad loans, compared to a charge of Rs. 5.8 million in 2010, demonstrating aggressive and effective remedial management and prudent risk taking in the prevailing lending environment.

To fund the growth of its asset base, your bank increased its deposit base by 19 percent to Rs. 17.67 billion. Your bank also increased net advances to Rs. 15.8 billion in December 2011, compared to Rs. 12.1 billion in December 2010, an increase of 30 percent. The increase in advances was achieved without compromising on asset quality and the infection ratio dropped to 14.26 percent, as compared to 18.39 percent in 2010.

While improving its revenue base, your bank, in spite of continuing high inflation, continued to also aggressively address its expense base by reducing the operating expenses by Rs. 64 million, a reduction of 4 percent over 2010. The reduced expense base improved your bank's cost to income ratio to 89.5 percent, as compared to 107.9 percent in 2010.

### Credit Rating

JCR-VIS Credit Rating Company has upgraded the medium to long term rating of the bank from A to A+ (A to A plus) and reaffirmed its short term rating at A-1 (A-One). The outlook on the above rating has also been confirmed as stable. These short and medium to long term ratings denote low credit risk of the bank due to adequate credit quality with reasonable protection and strong capacity for timely payment of all financial commitments.

The improvement in the rating is a testament to bank's overall financial performance, which continues to improve with sustainable growth in its Corporate & Investment Banking, Consumer Banking & Treasury businesses.

### Statement of Internal Controls

The Board is pleased to endorse the management's statement on the evaluation of internal control which is included in the annual report.

### Risk Management Framework

Effective risk management is fundamental in the banking business to achieve consistency and sustainability in the revenue streams and is thus a central part of the financial and operational management of SBL. Accordingly, your bank has a comprehensive risk management process to monitor, evaluate and manage the principal risks it assumes in conducting its activities. These include credit, market, liquidity and operational risks, which are discussed in more detail in notes 41, 42, 44 and 46 to the annexed financial statements.

Through our risk management framework, we manage enterprise-wide risks, with the objective of maximizing the risk-adjusted returns while remaining within the risk parameters approved by the board. SBL's risk management framework is designed to balance corporate oversight with well-defined independent risk management functions. Enhancements continued to be made in the risk management framework throughout 2011, based on the guiding principles established by Board Risk Management Committee.

### Statement Under Code of Corporate Governance / Corporate and Financial Reporting Framework

The Board of Directors is aware of its responsibilities under the Code of Corporate Governance and is pleased to report and certify that:

- Proper books of accounts of the bank have been maintained;
- The financial statements prepared by the management of the bank fairly present its state of affairs, the result of its operations, comprehensive income, cash flows, and changes in equity;
- Appropriate accounting policies have been consistently applied in the preparation of financial statements, except for the changes as mentioned in note 3.5 of financial statements. Accounting estimates are based on reasonable and prudent judgment;
- International Accounting Standards, as applicable in Pakistan and adopted

by the State Bank of Pakistan, have been followed in preparation of the Bank's financial statements and departures, if any have been adequately disclosed;

- The system of internal control is sound in design and has been effectively implemented and monitored on best efforts basis;
- There are no doubts about 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;
- A summary of key operating and financial data for last six years is included in this Annual Report;
- A statement showing the pattern of shareholding in the bank as at December 31, 2011 is annexed;
- The book value of investments of Staff Provident Fund is Rs. 85.036 million as per the audited accounts of the fund for the year ended December 31, 2009.
- There are no statutory payments on account of taxes, duties, levies and charges which are outstanding as of December 31, 2011 except as disclosed in these financial statements.
- Statement of Compliance with Code of Corporate Governance is annexed;
- To maintain SBP's MCR, the profit for the year is required to be retained and hence, no dividend is proposed to be paid for the year; and
- The financial statements of the bank have been audited without qualification by auditors of the bank, Messrs A. F. Ferguson & Company, Chartered Accountants.

### Share Acquisitions By Directors & Executives

The Pattern of shareholding and additional information regarding pattern of shareholding is attached separately. During the year, no trade in the shares of the bank was carried out by the Directors, CEO, CFO and Company Secretary and their spouses and minor children.

### Meetings of The Board

Four Board meetings were held during the year under review. The Board granted leave of absence to the directors who did not attend the meetings. The number of meetings attended by each director are:

| S.No. | Name                          | Designation     | No. of Meetings Attended |
|-------|-------------------------------|-----------------|--------------------------|
| 1     | Syed Sajjad Razvi             | Chairman        | 4                        |
| 2     | Mr. Zaki Abdulmohsen Al-Mousa | Director        | 2                        |
| 3     | Mr. Beji Tak-Tak              | Director        | 4                        |
| 4     | Dr. Shujaat Nadeem            | Director        | 4                        |
| 5     | Mr. Farhat Abbas Mirza        | Director        | 3                        |
| 6     | Mr. Humayun Murad             | Director        | 4                        |
| 7     | Mr. Javed Iqbal               | Director        | 4                        |
| 8     | Mr. Zahid Zaheer              | Director        | 4                        |
| 9     | Mr. Tawfiq A. Husain          | President & CEO | 4                        |

### Auditors

The present external auditors Messrs A. F. Ferguson & Company, Chartered Accountants retire and, being eligible, offer themselves for re-appointment. The Board of Directors, on the suggestion of the Audit Committee, recommended Messrs A. F. Ferguson & Company, Chartered Accountants (local representative of Price Waterhouse Coopers) for the next term.

### Events after the Balance Sheet date

There have not been any material events that occurred subsequent to the date of the Balance Sheet that require adjustments to the enclosed financial statements.

### Future Outlook

The prevailing economic and business challenges are expected to continue during 2012. In spite of the various challenges being faced by the economy and by the business sector, the management of your bank is confident of maintaining the growth momentum achieved during 2011 by optimizing balance

sheet, improving profitability and effectively managing risk, offering new value-added products, acquiring new to bank customers and deepening the existing relationships. Having achieved a historic turn around to profitability during 2011, your bank hopes to sustain and grow the profitability by continuing to reduce the cost of funding, building good quality and better yielding corporate loan portfolio and improving the overall earning asset base. To further grow and widen the revenue base, your bank will maximize customer revenue by tapping cross-selling opportunities. Concurrently, to constantly improve the business economics, it will continue to effectively manage the expense base and to aggressively recover the legacy bad loans.

### Acknowledgment

I wish to thank our customers for their continuing patronage and support, State Bank of Pakistan and other regulatory authorities for their understanding and guidance, and Samba Financial Group for their commitment and support. I also thank all our staff members for their hard work and dedication which has enabled SBL to achieve a historic and sustainable turnaround and which will keep it on a solid growth trajectory.

In conclusion, the patience, faith and confidence, shown by all external stakeholders in the management of SBL to turn around the bank, is sincerely appreciated and inspires the team to take SBL to the next level, of providing a return to the shareholders.

On behalf of Board,

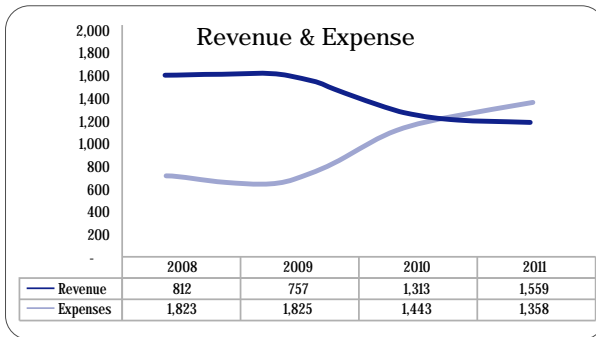
Tawfiq A. Husain  
President and Chief Executive Officer

Dated: February 29, 2012  
Karachi

# Management Discussion & Analysis

## Profit & Loss

For the first time since 2003, the bank recorded profit after tax of Rs. 236.5 million against a loss of Rs. 119.6 million for 2010. This was primarily achieved through targeted deposit mobilization, effective management of the cost of funds, growth in quality loan book, avilment of the fixed income / market risk related opportunities, aggressive recovery of legacy bad loans and improvement in operational efficiencies.



The Profit after tax for the year ended 2011 improved by Rs. 356 million or 300% over 2010. Major factors contributing to the increase in profits were higher net

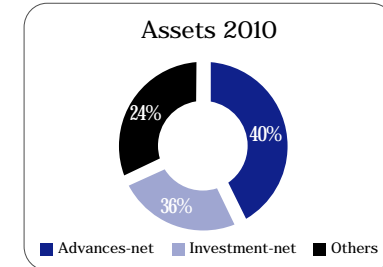
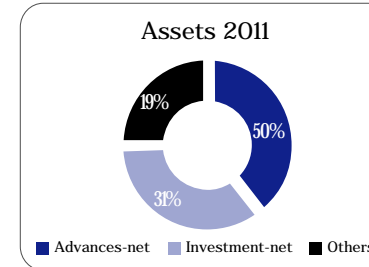
markup income by Rs. 374 million, recoveries of nonperforming legacy loans by Rs. 52 million, lower administrative expenses by Rs. 63 million and reversal of tax provision amounting to Rs. 226 million. During the year, the bank also reversed its deferred tax asset and recorded the expense amounting to Rs. 154 million.

## Net Mark-up Income

The net mark-up income registered an increase of Rs. 374 million or 36 percent over 2010. This was achieved by growing the net loan book by Rs. 3.6 billion or 30 percent over 2010 while maintaining an average yield on loans of 13.13 percent, 0.35 percent basis points more than last year. Concurrently, the bank grew its deposit book over 2010 by 19 percent to Rs. 17.7 billion as at December 31, 2011.

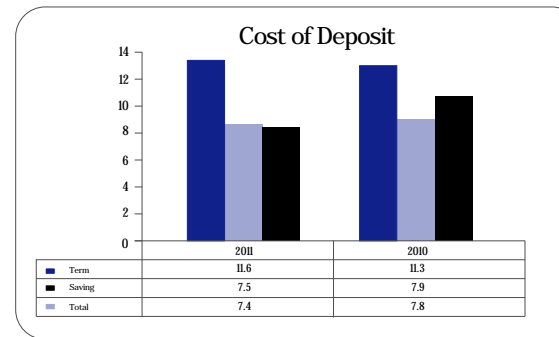
During 2011, mark-up income grew by 41 percent to reach Rs. 3.35 billion.

This was achieved by growth in average earning assets to Rs. 26.2 billion (or 34 percent) along with improved yield by 0.61 percent over 2010.



Markup income on loans increased by Rs. 351 million or 27 percent, whereas markup income on investments significantly increased by Rs. 810 million or 140 percent over 2010.

As for cost of funds, mark-up expense rose to Rs. 1.9 billion or 44 percent over 2010. The major increase was on repo borrowings and SBP

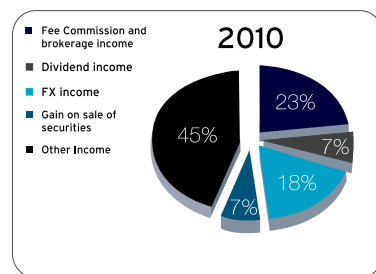
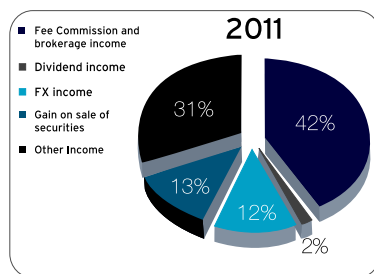


export refinance borrowing, which rose by Rs. 477 million and Rs. 100 million respectively over 2010. In spite the growth in average deposit balance of 16 percent, the overall cost of

deposit reduced by 0.42 percent. The overall cost of deposit was mainly managed by 41 percent increase in average balances of current accounts.

## Non-Markup Income

The non-markup income decreased by Rs.169 million or 53 percent over 2010. Last year's non-markup income included one-off reversal of group



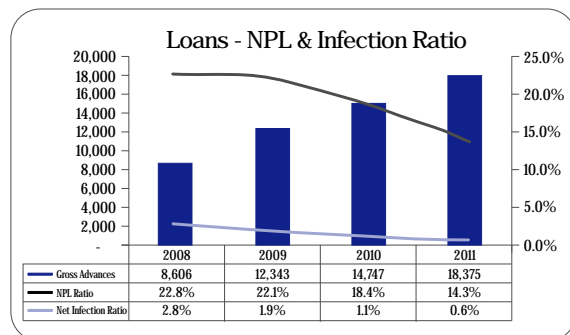
service cost amounting to Rs. 70 million and dividend income/capital gain on sale of some legacy equity investment amounting to Rs. 33 million.

#### Non-Markup Expenses

In spite of the high inflationary environment, non-markup expenses of the bank reduced by Rs. 62 million or 4 percent over 2010. This is consistent with the bank's effective cost management efforts, where operating expenses reduced by Rs. 117 million or approx. 8 percent since 2008, the first full year of Samba taking over the management control of the bank. Optimizing operational and cost efficiencies will continue to be an important area of management's focus.

#### Loan Book & Asset Quality Analysis

Loan portfolio (net) of the bank grew by 30 percent to Rs. 15.8 billion compared to Rs. 12.1 billion in 2010, with corporate loans book growing by 34 percent while contributing 92 percent of the total loan book of the bank. This was achieved by growth in quality loan book, both through



acquisition of new names and deepening of existing corporate relationships, under a rigorous risk management discipline and culture.

In spite of limited quality credit being available in the economy and increasing Non Performing Loans (NPLs) problems being faced by the banking sector, the bank managed to reduce its NPLs by Rs. 92 million over December 2010.

Below are the comparative figures for 2011 and 2010 showing the decrease in NPLs:

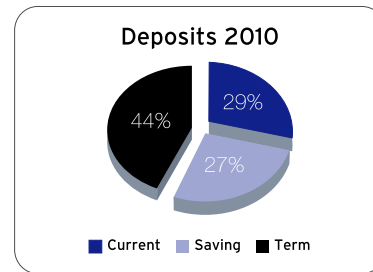
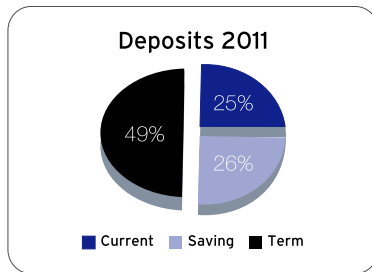
|                      | December 31, 2011  |               | December 31, 2010 |               |
|----------------------|--------------------|---------------|-------------------|---------------|
|                      | Rupees In thousand |               |                   |               |
| Performing Loans     | 15,755,495         | 85.74%        | 12,036,022        | 81.61%        |
| Non-Performing Loans |                    |               |                   |               |
| Substandard          | 37,316             | 0.20%         | 87,352            | 0.59%         |
| Doubtful             | -                  | 0.00%         | 2,098             | 0.01%         |
| Loss                 | 2,582,094          | 14.05%        | 2,621,849         | 17.78%        |
|                      | <u>2,619,410</u>   | <u>14.26%</u> | <u>2,711,299</u>  | <u>18.39%</u> |
|                      | <u>18,374,905</u>  |               | <u>14,747,321</u> |               |

NPL ratio reduced from 18 percent in 2010 to 14 percent in 2011, with net infection ratio improving to 0.55 percent in 2011 from 1.07 percent in 2010. The bank is fully compliant with SBP's provisioning requirements, for its loan portfolio.

#### Deposits

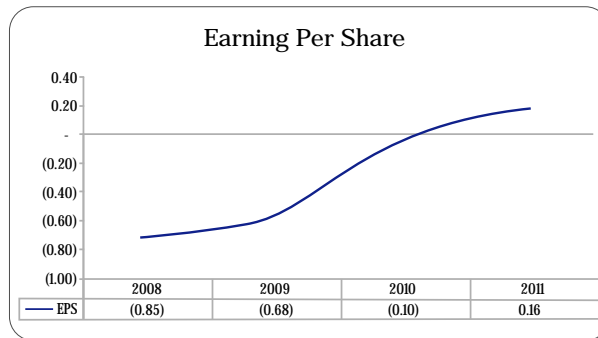
During 2011, the bank registered a growth in deposits to Rs. 17.67 billion, 19 percent over 2010. Fixed deposits grew to Rs. 8.4 billion as against Rs. 6.3 billion; an increase of 33 percent. The bank also registered a growth in Current Account Saving Account (CASA) deposits of Rs. 647 million, an increase of approx. 8 percent over 2010.





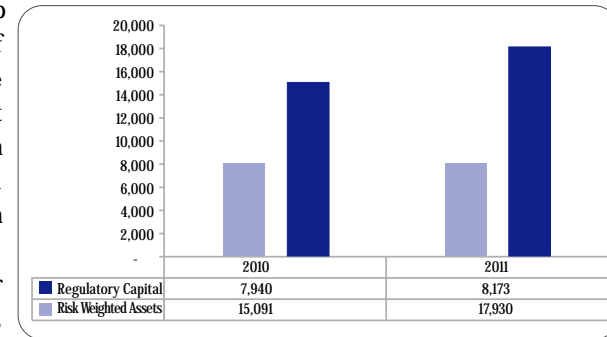
### Earnings per Share (EPS)

The Earnings per share of the bank for the year ended 2011 is Rs. 0.16 per share, showing improvement of 2.6 times from last year's loss per share of Rs 0.10.



### Capital Adequacy

The paid-up capital (net of losses) of the bank stood at Rs. 8.082 billion which is in compliance with the S B P requirement for December 31, 2011 of Rs. 8



8 billion. In addition, banks are required to maintain Capital Adequacy Ratio (CAR) of 10 percent of their risk weighted exposure. For SBL, CAR at December 31, 2011 was approximately 43.41 percent of its risk weighted exposure which is very healthy and which reflects the bank's stability and strength.

# Statement of Ethics and Business Practices

The Organization of Samba Bank Limited will be guided by the following principles in its pursuit of excellence in all activities for attainment of the organizational objectives:

## As Director:

- n Formulate and monitor the objectives, strategies and overall business plan of the Company.
- n Oversee that the affairs of the Company are being carried out prudently within the framework of existing laws & regulations and high business ethics.
- n Ensure compliance of legal and regulatory requirements.
- n Protect the interest and assets of the Company.
- n Maintain organizational effectiveness for the achievement of organizational goals.
- n Foster a conducive environment through responsive policies.
- n Ensure that the Company's interest supersedes all other interest.
- n Transparency in the functioning of the Company.
- n Ensure efficient and effective use of the Company's resources.

## As Executives, Managers and Staff:

- n Follow the policy guidelines strictly adhering to the rules and procedures as approved by the Board including Whistle Blowers Policy, Anti Money Laundering (AML) / Combating Terrorist Financing (CTF) and Customer Due Diligence (CDD) / Know Your Customer (KYC) Policies, Policies & Standard Practices, Fraud Management Policy & Procedures, IT Security Policy, Bond of Secrecy, Employee's Agreement respecting Security and Confidentiality of Information, Conflict of Interest, Patent and Confidential Information Agreement, Samba Bank Employee Information Security Guide, Staff Provident Fund Declaration, Compliance Policy, Employees Trading Policy & Chinese Wall Policy.
- n Strive and work diligently for profitable operations of the Company.
- n Provide direction and leadership for the organization.
- n Ensure client satisfaction through offering quality products and service.
- n Promote a culture of excellence, conservation and continual improvement.
- n Cultivate work ethics and harmony among colleagues and associates.
- n Encourage initiatives and self-realization in employees.

- n Ensure an equitable way of working and reward system.
- n Institute commitment to healthy environment.
- n Productive devotion of time and efforts.
- n Promote and protect the interest of the Company and ensure that the company's interest supersedes all other interest.
- n Exercise prudence in using the Company's resources.
- n Observe cost effective practices in daily activities.
- n Strive for excellence and quality.
- n Avoid making personal gains (other than authorized salary and benefits) at the Company's expense, participating in or assisting activities which compete with those of Samba Bank Limited.
- n Appreciate, encourage and create succession in related area(s) of work.

## Financial Integrity:

- n Compliance with accepted accounting rules and procedures.
- n In addition to being duly authorized, all transactions must be properly and fully recorded. No record entry or document may be false or misleading and no undisclosed and unrecorded account, fund or asset may be established or maintained. No corporate payment may be requested, approved or made with the intention that any part of such payment is to be used for any purpose other than as described in the document supporting it.
- n All Information supplied to the auditors must be complete and not misleading.
- n Samba Bank Limited will not knowingly assist fraudulent activities by others.

# Statement of Internal Controls

Management is responsible for establishing and maintaining adequate controls for providing reasonable assurance on effective and efficient operations, internal financial controls and compliance with laws and regulations. Furthermore, development of internal control systems are an ongoing process. They are designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The responsibility for adherence to controls mainly lies with the business from where the risk arises. For monitoring the effectiveness of internal control systems, the bank has set roles for certain functions such as Audit & Risk Review (ARR), Compliance and the Control & Operations Risk Management Department (CORMD). ARR periodically carries out audits of branches and departments to monitor compliance with the bank's control and processing standards, and regulatory requirements. Likewise, Compliance ensures that the bank complies with regulatory requirements and Know Your Customer / Anti Money Laundering Policy. Also, the CORMD functions within the Risk Management Group and carries out quality assurance reviews of processes and transactions of banking operations, to ensure compliance of policies and fulfillment of regulatory requirements. An accountability process is in place to ensure effectiveness of the overall control environment. Further, management gives due consideration to recommendations made by internal and external auditors and regulators, especially for improvements in internal control systems and processes, and takes timely action to implement their recommendations.

To implement Internal Control Guidelines, as required by State Bank of Pakistan via BSD Circular No. 7 of 2004, the bank has completed a detailed exercise of documenting and benchmarking existing internal processes and controls, relating to financial reporting on the basis of international standards with leading accounting professionals providing consultancy services. This project will assist in further improving internal controls across the bank and ensure compliance with the SBP requirement

for external auditors' opinion and report regarding efficacy of bank's internal control over financial reporting. As required by State Bank of Pakistan, the Long Form report confirming the implementation of Stages 1 and 2 of Internal Control over Financial Reporting (ICFR Project) has been submitted to SBP duly reviewed by Banks' Board Audit Committee. The remaining Stages are underway and they will be completed within the SBP timeline. Furthermore, statutory auditors of the bank will be submitting further report on overall progress being made on ICFR.

The Board of Directors is ultimately responsible for the internal control system and endorses the above evaluation by management.

Tawfiq A. Husain  
President and Chief Executive Officer

Dated: February 29, 2012  
Karachi

# Statement of Compliance with the Code of Corporate Governance for the year ended December 31, 2011

This statement is being presented to comply with the Code of Corporate Governance (Code) contained in Regulation No. 35 of Chapter XI of Listing Regulations of the Karachi Stock Exchange (Guarantee) Limited, Lahore Stock Exchange (Guarantee) Limited and Islamabad Stock Exchange (Guarantee) Limited respectively 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 Code in the following manner:

1. The Bank encourages representation of independent non-executive directors on its Board of Directors. At present, the Board includes four independent non-executive Directors.
2. The Directors have confirmed that none of them are serving as a Director in more than ten listed companies, including this Bank.
3. All the resident Directors of the Bank are registered as taxpayers and none of them have defaulted in payment of any loan to a banking company, a Development Financial Institution or a Non-banking Financial Institution. None of the resident Directors are members of any of the stock exchanges on which the Bank's shares are listed.
4. No casual vacancy occurred on the Board during the period under review.
5. The Bank has prepared a 'Statement of Ethics & Business Practices', which is circulated and signed every year by all the Directors and employees of the Bank.
6. The Board has developed a vision / mission statement, while corporate strategies and significant policies of the Bank have been made with appropriate delegation of authorities and responsibilities to various levels of management. A complete record of particulars of significant policies along with the dates on which they were approved or amended have 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 Chief Executive Officer, have been taken by the Board.
8. All the meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated in time.
9. The Directors of the Bank have given a declaration that they are aware of their duties, powers and responsibilities. An orientation course on Code of Corporate Governance was arranged during 2011.
10. The Directors have been provided with the copies of the Listing regulations of the Stock Exchanges, the Bank's Memorandum and Articles of Association and the Code of Corporate Governance.
11. The Board has approved the appointment of the Chief Financial Officer and Head of Internal Audit including their remuneration and terms and conditions of employment, as determined by the Chief Executive Officer.

12. The Directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
13. The financial statements of the Bank were duly endorsed by the Chief Executive Officer and the Chief Financial Officer, before approval of the Board.
14. The Directors, Chief Executive Officer and executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.
15. The Bank has complied with all the corporate and financial reporting requirements of the Code.
16. The Board has formed an Audit Committee. It comprises of three members. Two of them are non-executive Directors including the Chairman of the Committee.
17. The meetings of the Audit Committee were held at least once every quarter prior to approval of quarterly, half yearly and final results of the Bank and as required by the Code. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
18. The Board has set up an Internal Audit Function. The staff of the Internal Audit Department are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Bank. The Internal Audit Department is involved in the Internal Audit Function of the Bank on a full time basis.
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 Institute of Chartered Accountants of Pakistan, 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 Institute of Chartered Accountants of Pakistan.
20. The related party transactions have been placed before the Audit Committee and approved by the Board of Directors with necessary justifications for non-arm's length transactions, if any and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.
21. 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.
22. We confirm that all other material principles contained in the Code have been complied with.

Syed Sajjad Razvi  
Chairman

# Notice of the Ninth Annual General Meeting

NOTICE IS HEREBY GIVEN that the Ninth Annual General Meeting of Samba Bank Limited will be held on Wednesday, March 28, 2012 at 11:00 a.m. at the Hotel Beach Luxury, Karachi, to transact the following business:

## Ordinary Business

1. To confirm the minutes of the Eighth Annual General Meeting of the Bank held on March 28, 2011.
2. To receive and consider the Balance Sheet (Statement of Financial Position) and Profit & Loss Account together with the Directors' and Auditors' Reports for the year ended December 31, 2011.
3. To appoint Auditors and to fix their remuneration.

## Other Business

To transact any other business of the Bank with the approval of the Chair.

March 7th, 2012  
Karachi

By Order of the Board  
Saima Kamila Khan  
Company Secretary

## Notes:

1. Share Transfer Books of the Bank will remain closed from March 22, 2012 to March 28, 2012 (both days inclusive). Transfer received in order at the Bank's Registrar, M/s Famco Associates (Pvt.) Limited, State Life Building No.1-A, 1st Floor, II Chundrigar Road, Karachi-74000, upto close of business on March 21, 2012, will be considered in time.
2. A member eligible to attend and vote at this meeting may appoint another member as his/her proxy to attend, vote and speak at the meeting instead of him/her. Proxies, in order to be effective, must be received at the Bank's Registered Office, not less than 48 hours before the time for holding the meeting and must be duly stamped, signed and witnessed.
3. An instrument of proxy applicable for the Meeting (in which you can direct the proxy how you wish him to vote) is being provided with the notice sent to Members. Further copies of the instrument of proxy may be obtained from the Registered Office of the Bank during normal office hours.
4. An instrument of proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must, to be valid, be deposited at the Registered Office of the Bank not less than 48 hours before the time of the Meeting.
5. Members are requested to notify immediately changes, if any, in their registered address.
  - A. For Attending the Meeting:
    - (i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the CDC Regulations, shall authenticate his/her identity by showing his/her original Computerized National Identity Card, (CNIC) or original passport at the time of attending the Meeting.
    - (ii) In case of a corporate entity, the board of directors' resolution/power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the Meeting.
  - B. For Appointing Proxies:
    - (i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account, and their registration details are uploaded as per the Regulations, shall submit the proxy form as per the above requirement.
    - (ii) The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.
    - (iii) Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.
    - (iv) The proxy shall produce his/her original CNIC or original passport at the time of the Meeting.
    - (v) In case of corporate entity, the board of directors' resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with the proxy form to the Company.

# 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 contained in the Code of Corporate Governance prepared by the Board of Directors of Samba Bank Limited ('the Bank') to comply with Regulation G-1 of the Prudential Regulations for Corporate / Commercial Banking issued by State Bank of Pakistan, Regulation No. 35 of Chapter XI contained in the Listing Regulations issued by the Karachi Stock Exchange, the Lahore Stock Exchange and the Islamabad Stock Exchange where the Bank is listed.

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

As part of our audit of the financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such controls.

Sub-Regulation (xiii a) of Listing Regulation No. 35 as notified by all the three stock exchanges on which the Bank is listed requires the Bank to place before the board of directors for their consideration and approval,

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 arms' 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 the above 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 prices or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Bank for the year ended December 31, 2011.

A. F. Ferguson & Co.

Chartered Accountants

Dated: March 5, 2012

Karachi

# Financial Statements

for the year ended December 31, 2011





# Auditors' Report To The Members

We have audited the annexed statement of financial position of Samba Bank Limited as at December 31, 2011 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 un-audited certified returns from the branches except for twelve 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 management to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with the 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 sixty percent 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;
  - (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 the 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, 2011, and its true balance of profit, its comprehensive income, its cash flows and changes in equity for the year then ended; and

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

A. F. Ferguson & Co.

Chartered Accountants  
Audit Engagement Partner: Salman Hussain

Dated: March 05, 2012  
Karachi

STATEMENT OF FINANCIAL POSITION  
AS AT DECEMBER 31, 2011

|   | Note | 2011             | 2010             |
|---|------|------------------|------------------|
| (Rupees in thousand)                                      |      |                  |                  |
| <b>ASSETS</b>   |      |                  |                  |
| Cash and balances with treasury banks                     | 6    | 1,463,306        | 1,250,011        |
| Balances with other banks                                 | 7    | 59,384           | 1,195,948        |
| Lendings to financial institutions                        | 8    | 803,459          | 1,389,003        |
| Investments - net   | 9    | 9,663,613        | 11,090,905       |
| Advances - net  | 10   | 15,831,327       | 12,137,786       |
| Operating fixed assets                                    | 11   | 903,608          | 1,001,413        |
| Deferred tax asset - net                                  | 12   | 1,436,135        | 1,601,463        |
| Other assets - net  | 13   | 1,170,140        | 844,591          |
|   |      | 31,330,972       | 30,511,120       |
| <b>LIABILITIES</b>  |      |                  |                  |
| Bills payable   | 14   | 529,005          | 115,759          |
| Borrowings  | 15   | 3,996,032        | 6,534,994        |
| Deposits and other accounts                               | 16   | 17,669,297       | 14,871,806       |
| Sub-ordinated loans                                       |      | -                | -                |
| Liabilities against assets subject to finance lease       |      | -                | 279              |
| Deferred tax liabilities                                  |      | -                | -                |
| Other liabilities   | 17   | 954,371          | 1,062,604        |
|   |      | 23,148,705       | 22,585,442       |
| <b>NET ASSETS</b>   |      | <b>8,182,267</b> | <b>7,925,678</b> |
| <b>REPRESENTED BY:</b>                                    |      |                  |                  |
| Share capital   | 18   | 14,334,734       | 14,334,734       |
| Reserves  |      | 90,383           | 43,080           |
| Accumulated loss  |      | (6,252,347)      | (6,441,559)      |
|   |      | 8,172,770        | 7,936,255        |
| Surplus / (deficit) on revaluation of assets - net of tax | 19   | 9,497            | (10,577)         |
|   |      | 8,182,267        | 7,925,678        |
| <b>CONTINGENCIES AND COMMITMENTS</b>                      |      |                  |                  |
|   | 20   |                  |                  |

The annexed notes 1 to 48 and Annexure 1 form an integral part of these financial statements.

\_\_\_\_\_  
President and Chief Executive Officer

\_\_\_\_\_  
Chairman

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED DECEMBER 31, 2011**

|  | Note | 2011        | 2010        |
|--|------|-------------|-------------|
| (Rupees in thousand)   |      |             |             |
| Mark-up / return / interest earned   | 21   | 3,352,186   | 2,384,653   |
| Mark-up / return / interest expensed   | 22   | 1,943,845   | 1,350,320   |
| Net mark-up / return / interest income                                       |      | 1,408,341   | 1,034,333   |
| (Reversal of provision) / provision against loans and advances - net         | 10.4 | (44,667)    | 9,293       |
| Provision for diminution in the value of investments                         | 9.3  | -           | 11,794      |
| Bad debts written-off directly / (recoveries against debts written-off)      |      | (1,537)     | (3,488)     |
|  |      | (46,204)    | 17,599      |
| Net mark-up / return / interest income after provisions                      |      | 1,454,545   | 1,016,734   |
| <b>Non mark-up / interest income</b>   |      |             |             |
| Fee, commission and brokerage income   |      | 63,726      | 73,829      |
| Dividend income  |      | 2,453       | 22,492      |
| Income from dealing in foreign currencies                                    |      | 18,749      | 58,960      |
| Gain on sale of securities - net   | 23   | 20,114      | 21,952      |
| Unrealised gain on revaluation of investments classified as held for trading |      | -           | -           |
| Other income   | 24   | 47,355      | 144,010     |
| Total non mark-up / interest income  |      | 152,397     | 321,243     |
|  |      | 1,606,942   | 1,337,977   |
| <b>Non mark-up / interest expenses</b>                                       |      |             |             |
| Administrative expenses  | 25   | 1,393,321   | 1,456,873   |
| Other provisions / write-offs - net  | 26   | 8,579       | 5,966       |
| Workers' welfare fund  | 27   | 4,111       | -           |
| Other charges  | 28   | 37          | 5,434       |
| Total non mark-up / interest expenses  |      | 1,406,048   | 1,468,273   |
| <b>Profit / (loss) before taxation</b>                                       |      | 200,894     | (130,296)   |
| Taxation - Current year  | 29   | 36,566      | 27,056      |
| - Prior years  | 29   | (226,493)   | 11,418      |
| - Deferred   | 29   | 154,306     | (49,176)    |
|  |      | (35,621)    | (10,702)    |
| <b>Profit / (loss) after taxation</b>  |      | 236,515     | (119,594)   |
| Accumulated losses brought forward   |      | (4,048,914) | (3,929,320) |
| Accumulated losses carried forward   |      | (3,812,399) | (4,048,914) |
| (Rupees)   |      |             |             |
| <b>Earnings / (loss) per share</b>   | 30   | 0.16        | (0.10)      |

The annexed notes 1 to 48 and Annexure 1 form an integral part of these financial statements.

President and Chief Executive Officer

Chairman

Director

Director

STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2011

|  | 2011                 | 2010      |
|--|----------------------|-----------|
|  | (Rupees in thousand) |           |
| Profit / (loss) for the year   | 236,515              | (119,594) |
| Other comprehensive income   | -                    | -         |
| Total comprehensive income / (loss) for the year transferred to equity                 | 236,515              | (119,594) |
| Components of comprehensive income / (loss) not reflected in equity                    |                      |           |
| Surplus / (deficit) on revaluation of available for sale financial assets - net of tax | 20,074               | (13,520)  |
| Total comprehensive income / (loss) for the year                                       | 256,589              | (133,114) |

The annexed notes 1 to 48 and Annexure 1 form an integral part of these financial statements.

\_\_\_\_\_  
President and Chief Executive Officer

\_\_\_\_\_  
Chairman

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED DECEMBER 31, 2011**

|  | 2011                 | 2010             |
|--|----------------------|------------------|
|  | (Rupees in thousand) |                  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                          |                      |                  |
| Profit / (loss) before taxation                                      | 200,894              | (130,296)        |
| Less: dividend income  | (2,453)              | (22,492)         |
|  | <u>198,441</u>       | <u>(152,788)</u> |
| <b>Adjustments for non-cash charges and other items:</b>             |                      |                  |
| Depreciation   | 145,721              | 154,968          |
| Amortisation of intangible assets                                    | 5,342                | 5,380            |
| (Reversal of provision) / provision against loans and advances - net | (44,667)             | 9,293            |
| Provision for diminution in the value of investments - net           | -                    | 11,794           |
| Gain on sale of securities - net                                     | (20,114)             | (21,952)         |
| Other provisions / write-offs - net                                  | 8,579                | 5,966            |
| Reversal of provision against off balance sheet obligations          | -                    | (21,500)         |
| Reversal of provision against bad and doubtful other assets - net    | (1,978)              | (7,059)          |
| Gain on disposal of property and equipment - net                     | (45,288)             | (28,405)         |
|  | <u>47,595</u>        | <u>108,485</u>   |
|  | <u>246,036</u>       | <u>(44,303)</u>  |
| <b>(Increase) / decrease in operating assets</b>                     |                      |                  |
| Lendings to financial institutions                                   | 585,544              | 1,734,374        |
| Investments - held for trading securities                            | 3,151                | 238              |
| Advances   | (3,648,874)          | (2,423,668)      |
| Other assets (excluding advance taxation)                            | (128,540)            | (127,625)        |
|  | <u>(3,188,719)</u>   | <u>(816,681)</u> |
| <b>Increase / (decrease) in operating liabilities</b>                |                      |                  |
| Bills payable  | 413,246              | 37,632           |
| Borrowings from financial institutions                               | (2,538,962)          | 3,393,710        |
| Deposits and other accounts  | 2,797,491            | 2,351,173        |
| Other liabilities (excluding current taxation)                       | (112,535)            | 165,961          |
|  | <u>559,240</u>       | <u>5,948,476</u> |
|  | <u>(2,383,443)</u>   | <u>5,087,492</u> |
| Income tax paid  | (5,104)              | (241)            |
| Net cash (used in) / generated from operating activities             | <u>(2,388,547)</u>   | <u>5,087,251</u> |

|   | Note | 2011             | 2010             |
|---|------|------------------|------------------|
| (Rupees in thousand)                                      |      |                  |                  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>               |      |                  |                  |
| Net investments in available for sale securities          |      | 1,475,351        | (5,409,597)      |
| Dividend income   |      | 2,453            | 22,492           |
| Investments in operating fixed assets                     |      | (76,282)         | (63,502)         |
| Proceed from sale of investment in associates             |      | -                | 120,642          |
| Sale proceeds from disposal of property and equipment     |      | 64,035           | 36,349           |
| Net cash generated from / (used in) investing activities  |      | 1,465,557        | (5,293,616)      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>               |      |                  |                  |
| Payments of lease obligations                             |      | (279)            | -                |
| Share issue cost  |      | -                | (27,428)         |
| Proceeds from issue of shares                             |      | -                | 1,010,560        |
| Net cash (used in) / generated from financing activities  |      | (279)            | 983,132          |
| <b>(Decrease) / increase in cash and cash equivalents</b> |      | <b>(923,269)</b> | <b>776,767</b>   |
| Cash and cash equivalents at the beginning of the year    |      | 2,445,959        | 1,669,192        |
| <b>Cash and cash equivalents at the end of the year</b>   | 31   | <b>1,522,690</b> | <b>2,445,959</b> |

The annexed notes 1 to 48 and Annexure 1 form an integral part of these financial statements.

\_\_\_\_\_  
President and Chief Executive Officer

\_\_\_\_\_  
Chairman

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2011

|   | Share capital     | Capital reserve | Statutory reserve | Advance share subscription money received against proposed issue of right shares | Accumulated losses | Total            |
|---|-------------------|-----------------|-------------------|--|--------------------|------------------|
| <b>(Rupees in thousand)</b>                                     |                   |                 |                   |  |                    |                  |
| Balance as at December 31, 2009                                 | 8,769,517         | 20,935          | 22,145            | 2,189,440  | (3,929,320)        | 7,072,717        |
| Issue of right shares   | 5,565,217         | -               | -                 | -  | -                  | 5,565,217        |
| Conversion of advance share subscription money to share capital | -                 | -               | -                 | (2,189,440)  | -                  | (2,189,440)      |
| Discount on issue of right shares                               | -                 | -               | -                 | -  | (2,365,217)        | (2,365,217)      |
| Loss after taxation for the year ended December 31, 2010        | -                 | -               | -                 | -  | (119,594)          | (119,594)        |
| Share issue cost  | -                 | -               | -                 | -  | (27,428)           | (27,428)         |
| <b>Balance as at December 31, 2010</b>                          | <b>14,334,734</b> | <b>20,935</b>   | <b>22,145</b>     | <b>-</b>   | <b>(6,441,559)</b> | <b>7,936,255</b> |
| Profit after taxation for the year ended December 31, 2011      | -                 | -               | -                 | -  | 236,515            | 236,515          |
| Transfer to statutory reserve                                   | -                 | -               | 47,303            | -  | (47,303)           | -                |
| <b>Balance as at December 31, 2011</b>                          | <b>14,334,734</b> | <b>20,935</b>   | <b>69,448</b>     | <b>-</b>   | <b>(6,252,347)</b> | <b>8,172,770</b> |

The annexed notes 1 to 48 and Annexure 1 form an integral part of these financial statements.

\_\_\_\_\_  
President and Chief Executive Officer

\_\_\_\_\_  
Chairman

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

1. STATUS AND NATURE OF BUSINESS

- 1.1 Samba Bank Limited (the 'Bank') is a banking company incorporated in Pakistan and is engaged in commercial banking and related services. The Bank is listed on all the stock exchanges of Pakistan. Its principal and registered office is located at 6th Floor, Sidco Avenue Centre, Maulana Deen Muhammad Wafai Road, Karachi. The Bank is a subsidiary of SAMBA Financial Group of Saudi Arabia, which holds 80.68% shares of the Bank as at December 31, 2011 (2010: 80.68%). The Bank operates 28 branches (December 31, 2010: 28 branches) inside Pakistan.
- 1.2 JCR-VIS has determined the Bank's medium to long-term rating as 'A+' and the short-term rating as 'A-1'.

2. BASIS OF PRESENTATION

In accordance with the directives of the Federal Government regarding the shifting of the Banking system to Islamic modes, the State Bank of Pakistan has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by banks 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 utilised and the appropriate portion of mark-up thereon.

3. STATEMENT OF COMPLIANCE

- 3.1 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 (IFRSs) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and the directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP). Wherever the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962, or the directives issued by the SECP and the SBP differ with the requirements of IFRS, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and the requirements of the said directives prevail.
- 3.2 The SBP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for Banking Companies through BSD Circular Letter No. 10 dated August 26, 2002 till further instructions. Further, the SECP has deferred the applicability of International Financial Reporting Standard (IFRS) 7 'Financial Instruments: Disclosures' through its notification S.R.O 411(I)/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 SBP through various circulars.
- 3.3 SBP vide its BSD Circular No. 07 dated April 20, 2010 has clarified that for the purpose of preparation of financial statements in accordance with International Accounting Standard - 1 (Revised) 'Presentation of Financial Statements', two statement approach shall be adopted i.e. separate 'Profit and Loss Account' and 'Statement of Comprehensive Income' shall be presented, and Balance Sheet shall be renamed as 'Statement of Financial Position'. Furthermore, the Surplus / (Deficit) on Revaluation of Available-for-sale Securities (AFS) only, may be included in the 'Statement of Comprehensive Income'. Accordingly, the above requirements have been adopted in the preparation of these financial statements.
- 3.4 IFRS 8 'Operating Segments' is effective for accounting periods 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 SBP.

### 3.5 New and amended standards and interpretations that are effective in the current year:

The following new and amended standards and interpretations have been published and are mandatory for the Bank's accounting period beginning January 1, 2011:

- (a) IAS 1, 'Presentation of financial statements' (effective January 1, 2011). The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

The Bank has adopted the above amendment with effect from January 1, 2011. The Bank's current policy and disclosures are in line with the requirements prescribed by SBP as described in note 3.3 and accordingly, the above amendment does not have any impact on the Bank's financial statements.

- (b) IAS 24 (revised), 'Related party disclosures' issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government - related entities to disclose details of all transactions with the government and other government - related entities. The revised standard does not have any effect on the Bank's financial statements.

There are other new and amended standards and interpretations that are mandatory for the Bank's accounting periods beginning on or after January 1, 2011 but are considered not to be relevant or to have any significant effect on the Bank's operations and are, therefore, not disclosed in these financial statements.

### 3.6 New and amended standards and interpretations issued but not yet effective and not early adopted:

The following standards and amendments to existing standards and interpretations have been published and are mandatory for the Bank's accounting period beginning on or after January 1, 2012 and have not been early adopted by the Bank.

- (a) IAS 1, 'Presentation of financial statements' (effective July 1, 2012). The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. Because of the circumstances described in note 3.3 above, this amendment will not have any impact on the Bank's financial statements.

- (b) IAS 12, 'Income taxes' (effective January 1, 2012), currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes - recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. Since IAS 40 has been deferred as mentioned in note 3.2, therefore, the amendment will not have any impact on the Bank's financial statements.

There are other new and amended standards and interpretations that are mandatory for the Bank's accounting periods beginning on or after January 1, 2012 but are considered not to be relevant or do not have any significant effect on the Bank's operations and are therefore not detailed in these financial statements.

### 3.7 Early adoption of standards

The Bank has not early adopted new or amended standards in 2011.

## 4. BASIS OF MEASUREMENT

### 4.1 Accounting convention

These financial statements have been prepared under the historical cost convention, except that certain investments, foreign currency balances and commitments in respect of foreign exchange contracts and derivative financial instruments have been marked to market and are carried at fair value.

These financial statements are presented in Pakistani Rupees, which is the Bank's functional and presentation currency. The amounts are rounded to the nearest thousand Rupees.

### 4.2 Critical accounting estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards as applicable in Pakistan requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 35 to these financial statements.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These have been consistently applied to all the years presented, unless otherwise specified.

### 5.1 Cash and cash equivalents

Cash and cash equivalents for the purpose of cash flows statement comprise of cash and balances with treasury banks and balances with other banks in current and deposit accounts.

### 5.2 Lendings to / borrowings from financial institutions

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

#### Sale of securities under repurchase agreements

Securities sold subject to a repurchase agreement (repo) are retained in the financial statements as investments and the counter party liability is included in borrowings. The difference between the sale and contracted repurchase price is accrued on a time proportion basis over the period of the contract and recorded as an expense.

#### Purchase of securities under resale agreements

Securities purchased under agreement to resell (reverse repo) are not recognised in the financial statements as investments and the amount extended to the counter party is included in lendings. The difference between the purchase and contracted resale price is accrued on a time proportion basis over the period of the contract and recorded as income.

## 5.3 Investments

### 5.3.1 Classification

The Bank classifies its investments as follows:

(a) Held for trading

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

(b) Held to maturity

These are investments with fixed or determinable payments and fixed maturities and the Bank has the positive intent and ability to hold them till maturity.

(c) Available for sale

These are investments, other than those in associates, if any, that do not fall under the 'held for trading' or 'held to maturity' categories.

(d) Associates

Associates are all entities over which the Bank has significant influence but not control.

### 5.3.2 Regular way contracts

All purchases and sales of investments that require delivery within the time frame established by regulation or market convention are recognised at trade date, which is the date on which the Bank commits to purchase or sell the investments.

### 5.3.3 Initial recognition and measurement

Investments other than those categorised as 'held for trading' are initially recognised at fair value which includes transaction costs associated with the investment. Investments classified as 'held for trading' are initially recognised at fair value while the related transaction costs are expensed out in the profit and loss account.

### 5.3.4 Subsequent measurement

Subsequent to initial recognition investments are valued as follows:

(a) 'Held for trading' and 'available for sale'

In accordance with the requirements specified by the SBP, quoted securities other than those classified as 'held to maturity' and 'investments in associates', are subsequently re-measured to market value, unquoted equity securities are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.

Surplus / deficit arising on revaluation of quoted securities which are classified as 'available for sale', is included in the statement of comprehensive income but is kept in a separate account which is shown in the statement of financial position below equity. Surplus / deficit arising on revaluation of quoted securities which are classified as 'held for trading' is taken to the profit and loss account.

(b) Held to maturity

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

(c) Associates

Investment in associates is carried at cost, less accumulated impairment losses, if any.

5.3.5 Impairment

Impairment loss in respect of investments classified as 'available for sale' (except for term finance certificates) is recognised based on management's assessment of objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of these investments. A significant or prolonged decline in the value of equity securities is also considered as an objective evidence of impairment. Provision for diminution in the value of term finance certificates is made as per the requirement of the Prudential Regulations issued by the SBP. In event of impairment of available for sale securities, the cumulative loss that had been recognised directly in surplus on revaluation of securities on the balance sheet below equity is removed thereof and recognised in the profit and loss account. For investments classified as held to maturity, the impairment loss is recognised in the profit and loss account.

5.3.6 Gain / loss on disposal of investments made during the year is credited / charged to the profit and loss account.

5.4 Advances

Loans and advances

Advances are stated at cost less specific and general provisions. Specific provision for non-performing advances is determined keeping in view the Bank's policy subject to the minimum requirement set out by the Prudential Regulations and other directives issued by the SBP and charged to the profit and loss account. General provision against consumer financing portfolio is maintained as per the requirements set out in the Prudential Regulations issued by the SBP. Advances are written off when there are no realistic prospects of recovery.

Net investment in finance leases

Net investment in finance leases is stated at net of provisions made against non-performing leases.

Leasing arrangements in which the Bank transfers substantially all risks and rewards incidental to the ownership of an asset to the lessee, are classified as finance leases. A receivable is recognised on commencement of the lease term at an amount equal to the present value of minimum lease payments including guaranteed residual value, if any. Unearned finance income is recognised over the term of the lease period so as to produce a constant periodic return on the outstanding net investment in lease.

Unrealised lease income in respect of non-performing finance leases is suspended in accordance with the Prudential Regulations issued by the SBP.

5.5 Operating fixed assets and depreciation

(a) Property and Equipment

Owned Assets

Owned assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any, except for capital work-in-progress and freehold land. Capital work-in-progress and freehold land are stated at cost less accumulated impairment losses.

Depreciation on operating fixed assets (excluding land which is not depreciated) is charged using the straight line method in accordance with the rates specified in note 11.2 to these financial statements after taking into account residual value, if significant. The assets' residual values and useful lives are reviewed and adjusted, if required, at each balance sheet date. Depreciation on additions is charged from the month the assets are available for use. No depreciation is charged in the month of disposal.

Subsequent costs are included in the asset's carrying amount or recognised 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. All other repair and maintenance are charged to the profit and loss account as and when incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains / losses on disposal of fixed assets, if any, are taken to the profit and loss account in the period in which they arise.

#### Leased assets

Leases are classified as finance leases wherever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Lease payments, if any, under operating leases are charged to income on a straight line basis over the lease term. Premium paid at the time of renewal, if any, is amortised over the remaining period of the lease.

Assets held under finance lease are stated at the lower of their fair value or present value of minimum lease payments at inception less accumulated depreciation and accumulated impairment losses, if any. The outstanding obligations under the lease agreements are shown as a liability net of finance charges allocable to the future periods.

The finance charges are allocated to the accounting periods in a manner so as to provide a constant periodic rate of return on the outstanding liability.

Depreciation on assets held under finance lease is charged in a manner consistent with that for depreciable assets which are owned by the Bank.

#### (b) Intangible assets

Intangible assets having definite lives are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation is charged applying the straight-line method over the useful life of the assets. Amortisation is calculated so as to write-off the assets over their expected economic lives at rates specified in note 11.3 to these financial statements. Amortisation is charged from the month in which the asset is available for use. No amortisation is charged for the month in which the asset is disposed off. The residual value, useful life and amortisation method are reviewed and adjusted, if appropriate, at each balance sheet date.

Subsequent costs are included in the asset's carrying amount recognised 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.

Intangible assets having an indefinite useful life are stated at acquisition cost less accumulated impairment losses, if any. Gains and losses on disposals, if any, are taken to the profit and loss account in the period in which they arise.

#### (c) Capital work in progress

Capital work-in-progress is stated at cost less accumulated impairment losses, if any. All expenditure connected with specific assets incurred during installation and construction period are carried under this head. These are transferred to specific assets as and when assets become available for use.

## 5.6 Non-current assets held for sale

The Bank classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

A non-current asset (or disposal group) held for sale is carried at the lower of its carrying amount and the fair value less costs to sell. Impairment losses are recognized through the profit and loss account for any initial or subsequent write down of the non-current asset (or disposal group) to fair value less costs to sell. Subsequent gains in fair value less costs to sell are recognized to the extent they do not exceed the cumulative impairment losses previously recorded. A non-current asset is not depreciated while classified as held for sale or while part of a disposal group classified as held for sale.

## 5.7 Impairment

At each reporting date, the Bank reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss. Recoverable amount is the greater of net selling price and value in use.

If 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. Impairment loss is recognised as an expense immediately in the financial statements.

Where an impairment loss reverses subsequently, the carrying amount of the assets is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

## 5.8 Taxation

### Current

The provision for current taxation is based on taxable income for the year, if any at current rates of taxation, after taking into consideration available tax credits, rebates and tax losses as specified under the seventh schedule to the Income Tax Ordinance, 2001. The charge for current tax also includes adjustments, where considered necessary relating to prior years, which arises from assessments / developments made during the year.

### Deferred

Deferred tax is recognised using the balance sheet liability method on all major temporary differences between the carrying amounts of assets and liabilities used 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 using 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 by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

The carrying amount of the deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised.

The Bank also recognises deferred tax asset / liability on (deficit) / surplus on revaluation of securities which is adjusted against the related (deficit) / surplus in accordance with the requirements of the revised International Accounting Standard (IAS-12) dealing with income taxes.

## 5.9 Provisions

Provision for guarantee claims and other off balance sheet obligations is recognised when identified and reasonable certainty exists for the Bank to settle the obligation. Expected recoveries are recognised by debiting the customer's account. Charge to the profit and loss account is stated net-off expected recoveries.

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

## 5.10 Staff retirement benefits

### (a) Defined contribution plan

The Bank operates a contributory provident fund scheme covering all its permanent employees. Equal monthly contributions are made both by the Bank and the employees in respect of this benefit.

### (b) Compensated absences

The liability in respect of compensated absences of employees is accounted for in the period in which the absences accrue.

## 5.11 Borrowings / deposits and their cost

Borrowings / deposits are recorded at the proceeds received. Borrowing / deposit costs are recognised as an expense in the period in which these are incurred using the effective mark-up / interest rate method to the extent that they are not directly attributable to the acquisition of or construction of qualifying assets. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) is capitalised as part of the cost of that asset.

## 5.12 Proposed dividend and transfers between reserves

Dividends and appropriations to reserves, except appropriations which are required by law, made subsequent to the balance sheet date are considered as non-adjusting events and are recorded in the financial statements in accordance with the requirements of International Accounting Standard (IAS) 10, 'Events after the Balance Sheet Date' in the year in which they are approved / transfers are made.

## 5.13 Revenue recognition

- Mark-up income / interest on advances and returns on investments are recognised on a time proportion basis using the effective interest method except that mark-up / income / return on classified advances and investments is recognised on receipt basis in accordance with the requirements of the Prudential Regulations issued by the SBP. Interest / return / mark-up on rescheduled / restructured advances and investments is recognised as permitted by the Prudential Regulations issued by the SBP, except where, in the opinion of the management, it would not be prudent to do so.
- Fee, commission and brokerage income are accounted for on accrual / time proportion basis.
- Dividend income from investments is recognised when the Bank's right to receive the dividend has been established.



- Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of the leased assets) is deferred and taken to income over the term of the lease so as to produce a constant periodic rate of return on the outstanding net investment in lease.
- Unrealised lease income in respect of non-performing finance leases and markup / return on non-performing advances is held in suspense account.
- Premium or discount on acquisition of debt investments is capitalised and amortised through the profit and loss account over the remaining period till maturity.
- Gains / losses on termination of lease contracts, documentation charges, front end fee and other lease income are recognised as income when realised.

#### 5.14 Foreign currencies

##### Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates. The financial statements are presented in Pakistani Rupees, which is the Bank's functional and presentation currency.

##### Foreign currency transactions

Foreign currency transactions are translated into Pakistani Rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pakistani Rupees at exchange rates prevailing at the reporting date. Foreign bills purchased and forward foreign exchange contracts are valued at the rates applicable to their respective maturities.

##### Translation gains and losses

Translation gains and losses are included in the profit and loss account.

##### Contingencies and commitments

Commitments for outstanding forward foreign exchange contracts are disclosed at contracted rates. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in Pakistani Rupee terms at the exchange rate prevailing at the reporting date.

#### 5.15 Segment reporting

The Bank has structured its key business areas in various segments in a manner that each segment becomes 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 other segments.

##### (a) Business segments

###### Corporate finance

Corporate banking includes services provided in connection with mergers and acquisition, underwriting, privatisation, securitisation, research, debts (government, high yield) and equity syndication, IPO and secondary private placements.

### Trading and sales

It includes fixed income on debt securities, equity, foreign exchanges, commodities, credit, funding, own position securities, lending and repos, brokerage debt and prime brokerage.

### Retail banking

It includes retail / consumer lending and deposits, banking services, trust and estates, private lending and deposits, banking service, trust and estates investment advice, merchant / commercial / corporate cards and private labels and retail.

### Commercial banking

Commercial banking includes project finance, real estate, export finance, trade finance, factoring, leasing, lending, guarantees, bills of exchange and deposits.

### (b) Geographical segment

The operations of the Bank are currently based only in Pakistan.

## 5.16 Acceptances

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be simultaneously settled with the reimbursement from the customers. Acceptances are accounted for as off balance sheet transactions and are disclosed as contingent liabilities and commitments.

## 5.17 Earnings / (loss) per share

The Bank presents basic and diluted earnings per share (EPS) / basic and diluted loss per shares for its shareholders. Basic EPS / basic loss per shares is calculated by dividing the profit or loss, as the case may be, attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS / diluted loss per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

## 5.18 Financial instruments

### 5.18.1 Financial assets and liabilities

All financial assets and liabilities are recognised at the time when the Bank becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the Bank loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognised when they are extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired. Any gain/loss on derecognition of the financial assets and financial liabilities is taken to income directly. Financial instruments carried on the statement of financial position include cash and balances with treasury banks, balances with other banks, lendings to financial institutions, investments, advances, certain other assets, bills payable, borrowings, deposits and certain other liabilities. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with these assets and liabilities.

### 5.18.2 Offsetting of financial instruments

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

### 5.18.3 Derivatives

Derivative financial instruments are recognised at fair value. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the statement of financial position. The resultant gains and losses are taken to income currently.

### 5.19 Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Bank in these financial statements.

|   | Note | 2011      | 2010      |
|---|------|-----------|-----------|
| (Rupees in thousand)  |      |           |           |
| <b>6. CASH AND BALANCES WITH TREASURY BANKS</b>                 |      |           |           |
| In hand   |      |           |           |
| Local currency  |      | 421,089   | 215,971   |
| Foreign currency  |      | 55,756    | 75,966    |
|   |      | 476,845   | 291,937   |
| With State Bank of Pakistan in                                  |      |           |           |
| Local currency current account                                  | 6.1  | 725,967   | 623,692   |
| Foreign currency current account (Cash Reserve Account)         | 6.2  | 64,851    | 82,897    |
| Foreign currency current account (USD Settlement Account )      |      | 3,879     | 5,536     |
| Foreign currency deposit account (Special Cash Reserve Account) | 6.2  | 191,764   | 245,949   |
|   |      | 986,461   | 958,074   |
|   |      | 1,463,306 | 1,250,011 |

6.1 The local currency account is maintained with the State Bank of Pakistan (SBP) as per the requirements of Section 36 of the State Bank of Pakistan Act, 1956. This section requires banking companies to maintain a local currency cash reserve in current account opened with the SBP at a sum not less than such percentage of its time and demand liabilities in Pakistan as may be prescribed by the SBP.

6.2 This mainly represents reserve requirement required to be maintained as per BSD Circular No. 14 dated June 21, 2008, with the SBP at an amount equivalent to at least 20% of the bank's foreign currency deposits mobilised under FE-25 scheme. This foreign currency cash reserve comprises an amount equivalent to at least 5% of the bank's foreign currency deposits mobilised under the FE-25 scheme, which is kept in a non-remunerative account (Cash Reserve Account). The balance reserve equivalent to at least 15% of the bank's foreign currency deposits mobilised under FE-25 scheme is maintained in a remunerative account (Special Cash Reserve Account) on which the bank is entitled to earn a return which is declared by the SBP on a monthly basis. During the year the SBP has not remunerated these deposit accounts (2010: Nil).

7. BALANCES WITH OTHER BANKS

|                      | Note | 2011          | 2010             |
|----------------------|------|---------------|------------------|
| (Rupees in thousand) |      |               |                  |
| In Pakistan          |      |               |                  |
| On current account   |      | 6,432         | 5,891            |
| Outside Pakistan     |      |               |                  |
| On current account   | 71   | 52,952        | 1,190,057        |
|                      |      | <u>59,384</u> | <u>1,195,948</u> |

7.1 The above amount includes balance with SAMBA Financial Group (a related party) amounting Rs. 14.880 million (2010: Rs 9.803 million).

8. LENDINGS TO FINANCIAL INSTITUTIONS

|  | Note | 2011           | 2010             |
|--|------|----------------|------------------|
| (Rupees in thousand)                         |      |                |                  |
| Call money lendings                          | 8.2  | 400,000        | 100,000          |
| Repurchase agreement lendings (reverse repo) | 8.3  | 403,459        | 1,289,003        |
|  |      | <u>803,459</u> | <u>1,389,003</u> |

8.1 All lendings to financial institutions are in local currency.

8.2 These represent lendings to various commercial banks in the inter bank money market. These lendings carry mark-up at rates ranging from 13.05% to 13.15% per annum (2010: 13.35% per annum) and have a maturity period of upto three months (2010: three months) from the date of lending.

8.3 Securities held as collateral against lendings to financial institutions

| Particulars                                     | 2011         |                             |         | 2010         |                             |           |
|---|--------------|-----------------------------|---------|--------------|-----------------------------|-----------|
|   | Held by bank | Further given as collateral | Total   | Held by bank | Further given as collateral | Total     |
| (Rupees in thousand)                            |              |                             |         |              |                             |           |
| Market treasury bills (face value) - note 8.3.1 | 435,000      | -                           | 435,000 | 933,000      | 400,000                     | 1,333,000 |

8.3.1 This represents short-term lending to a financial institution against investment securities. The balance carries mark-up at 12% per annum (2010: rates ranging from 12.90% to 13.50% per annum) and will mature on January 4, 2012 (2010: January 3, 2011).

9. INVESTMENTS - NET

9.1 Investments by type

|   | 2011         |                     |           | 2010         |                     |            |
|---|--------------|---------------------|-----------|--------------|---------------------|------------|
|   | Held by bank | Given as collateral | Total     | Held by bank | Given as collateral | Total      |
| (Rupees in thousand)  |              |                     |           |              |                     |            |
| Held for trading securities   | -            | -                   | -         | -            | -                   | -          |
| Available for sale securities   |              |                     |           |              |                     |            |
| Market Treasury Bills   | 8,123,938    | 683,535             | 8,807,473 | 6,153,707    | 4,486,612           | 10,640,319 |
| Pakistan Investment Bonds   | 506,885      | -                   | 506,885   | 117,117      | -                   | 117,117    |
| Sukuk Bond  | -            | -                   | -         | 10,000       | -                   | 10,000     |
| Ordinary shares and certificates - listed   | 85,818       | -                   | 85,818    | 85,818       | -                   | 85,818     |
| Ordinary shares - unlisted  | 59,356       | -                   | 59,356    | 65,409       | -                   | 65,409     |
| Preference shares - listed  | 10,000       | -                   | 10,000    | 10,000       | -                   | 10,000     |
|   | 8,785,997    | 683,535             | 9,469,532 | 6,442,051    | 4,486,612           | 10,928,663 |
| Held to maturity securities   |              |                     |           |              |                     |            |
| Pakistan Investment Bonds   | 309,747      | -                   | 309,747   | 315,061      | -                   | 315,061    |
| Associates  |              |                     |           |              |                     |            |
| Ordinary shares and certificates - listed   | 103,381      | -                   | 103,381   | 103,381      | -                   | 103,381    |
| Investments at cost   | 9,199,125    | 683,535             | 9,882,660 | 6,860,493    | 4,486,612           | 11,347,105 |
| Less: provision for diminution in the value of investments - note 9.3               | (234,676)    | -                   | (234,676) | (240,729)    | -                   | (240,729)  |
| Investments (net of provisions)   | 8,964,449    | 683,535             | 9,647,984 | 6,619,764    | 4,486,612           | 11,106,376 |
| (Deficit) / surplus on revaluation of available for sale securities - net - note 19 | 14,148       | 1,481               | 15,629    | (13,321)     | (2,150)             | (15,471)   |
| Surplus on revaluation of held for trading securities                               | -            | -                   | -         | -            | -                   | -          |
| Total investments - net of provisions   | 8,978,597    | 685,016             | 9,663,613 | 6,606,443    | 4,484,462           | 11,090,905 |

|   | Note | 2011      | 2010       |
|---|------|-----------|------------|
| (Rupees in thousand)  |      |           |            |
| 9.2 Investments by segment  |      |           |            |
| Federal government securities   | 9.8  |           |            |
| Market Treasury Bills   |      | 8,807,473 | 10,640,319 |
| Pakistan Investment Bonds   |      | 816,632   | 432,178    |
| Sukuk Bond  |      | -         | 10,000     |
|   |      | 9,624,105 | 11,082,497 |
| Fully paid-up ordinary shares   |      |           |            |
| Listed companies  | 9.5  | 189,199   | 189,199    |
| Unlisted companies  | 9.6  | 59,356    | 65,409     |
|   |      | 248,555   | 254,608    |
| Fully paid-up preference shares   |      |           |            |
| Listed companies  | 9.7  | 10,000    | 10,000     |
| Investments at cost   |      | 9,882,660 | 11,347,105 |
| Less: Provision for diminution in the value of investments                | 9.3  | (234,676) | (240,729)  |
| Investments (net of provisions)   |      | 9,647,984 | 11,106,376 |
| Surplus / (deficit) on revaluation of available for sale securities - net | 19   | 15,629    | (15,471)   |
| Surplus on revaluation of held for trading securities                     |      | -         | -          |
| Total investments - net of provisions                                     |      | 9,663,613 | 11,090,905 |
| 9.3 Particulars of provision for diminution in the value of investments   |      |           |            |
| Opening balance   |      | 240,729   | 416,424    |
| Charge for the year   |      | -         | 11,794     |
| Reversals on disposals made during the year                               |      | (6,053)   | (187,489)  |
| Closing balance   |      | 234,676   | 240,729    |

|  | Note        | 2011           | 2010           |
|--|-------------|----------------|----------------|
| (Rupees in thousand)   |             |                |                |
| 9.3.1 Particulars of provision for diminution in the value of investments by type    |             |                |                |
| Available for sale securities  |             |                |                |
| Ordinary shares - listed   | 9.5         | 76,937         | 76,937         |
| Preference shares - listed   | 9.7         | 10,000         | 10,000         |
| Ordinary shares - unlisted   | 9.6         | 49,356         | 55,409         |
|  |             | 136,293        | 142,346        |
| Associates   |             |                |                |
| Ordinary shares and certificates - listed  | 9.5 & 9.5.1 | 98,383         | 98,383         |
|  |             | <u>234,676</u> | <u>240,729</u> |
| 9.3.2 Particulars of provision for diminution in the value of investments by segment |             |                |                |
| Fully paid-up ordinary shares  |             |                |                |
| Listed companies   | 9.5         | 175,320        | 175,320        |
| Unlisted companies   | 9.6         | 49,356         | 55,409         |
| Fully paid-up preference shares  |             |                |                |
| Listed companies   | 9.7         | 10,000         | 10,000         |
|  |             | <u>234,676</u> | <u>240,729</u> |

9.4 Quality of available for sale securities

|                                       | Note  | 2011                           |                                | 2010                           |                                |
|---------------------------------------|-------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
|                                       |       | Market value<br>Rupees in '000 | Rating<br>(where<br>available) | Market value<br>Rupees in '000 | Rating<br>(where<br>available) |
| Market Treasury Bills                 |       | 8,827,804                      | -                              | 10,638,400                     | -                              |
| Pakistan Investment Bonds             |       | 504,072                        | -                              | 105,053                        | -                              |
| Sukuk Bond                            |       | -                              | -                              | 10,000                         | -                              |
| Ordinary shares - listed              |       |                                |                                |                                |                                |
| B.R.R. Guardian Modaraba              | 9.4.1 | 796                            | D                              | 569                            | -                              |
| Bankers Equity Limited                |       | -                              | -                              | -                              | -                              |
| ECOPACK Limited                       |       | 2,013                          | -                              | 1,413                          | -                              |
| Fauji Cement Company Limited          |       | -                              | -                              | -                              | -                              |
| First Dawood Mutual Fund              |       | 71                             | 2 stars                        | 83                             | -                              |
| First Tawakkal Modaraba               | 9.4.1 | -                              | -                              | -                              | -                              |
| Haji Muhammad Ismail Mills Limited    | 9.4.2 | 756                            | -                              | 726                            | -                              |
| Hamid Textile Mills Limited           | 9.4.2 | 1,688                          | -                              | 1,125                          | -                              |
| Islamic Investment Bank Limited       | 9.4.1 | -                              | -                              | -                              | -                              |
| JS Value Fund Limited                 |       | 3,752                          | -                              | 4,162                          | -                              |
| Nazir Cotton Mills Limited            | 9.4.1 | -                              | -                              | -                              | -                              |
| Pakistan PVC Limited                  | 9.4.2 | 4,615                          | -                              | 1,422                          | -                              |
| Tristar Shipping Lines Limited        | 9.4.1 | -                              | -                              | -                              | -                              |
| UTP - Large Capital Fund              |       | -                              | -                              | -                              | -                              |
| WorldCall Telecom Limited             |       | 430                            | A-/A2                          | 1,247                          | A-                             |
| Ordinary shares - unlisted*           |       |                                |                                |                                |                                |
| Crescent Bahuman Limited              |       | -                              | -                              | -                              | -                              |
| Crescent Industrial Chemical Limited  |       | -                              | -                              | -                              | -                              |
| Crescent Powertech Limited            |       | -                              | -                              | -                              | -                              |
| ICEPAC Limited                        |       | -                              | -                              | -                              | -                              |
| Pak Asian Fund Limited                |       | 10,000                         | -                              | 10,000                         | -                              |
| Union Communication (Private) Limited |       | -                              | -                              | -                              | -                              |
| Vision Network Television Limited     |       | -                              | -                              | -                              | -                              |
| Preference shares - listed*           |       |                                |                                |                                |                                |
| Shakarganj Mills Limited              | 9.4.1 | -                              | -                              | -                              | -                              |

\*Represents book value net of provision

9.4.1 These are listed securities for which no market quotation was available at the year end.

9.4.2 Although these securities have a quoted value as at December 31, 2011, these have been fully provided by the Bank on subjective basis.



9.5 Particulars of investments held in listed securities

| 2011                      | 2010       | Paid-up value per share / certificate in Rupees | Name of investee company / modaraba / mutual fund            | 2011    | 2010    |
|---------------------------|------------|---|--|---------|---------|
|                           |            |   | (Rupees in thousand)   |         |         |
| <b>Available for sale</b> |            |   |  |         |         |
| 400                       | 400        | 10  | Bankers Equity Limited                                       | -       | -       |
| 314,500                   | 314,500    | 10  | B.R.R. Guardian Modaraba                                     | 1,906   | 1,906   |
| 872,500                   | 872,500    | 10  | JS Value Fund Limited  | 9,082   | 9,082   |
| 549,910                   | 549,910    | 10  | ECOPACK Limited  | 15,761  | 15,761  |
| -                         | -          | 10  | Fauji Cement Company Limited                                 | -       | -       |
| 41,500                    | 41,500     | 10  | First Dawood Mutual Fund                                     | 341     | 341     |
| 36,500                    | 36,500     | 10  | First Tawakkal Modaraba                                      | 104     | 104     |
| 1,008,225                 | 1,008,225  | 10  | Haji Muhammad Ismail Mills Limited                           | 9,362   | 9,362   |
| 1,125,406                 | 1,125,406  | 10  | Hamid Textile Mills Limited                                  | 2,757   | 2,757   |
| 60,581                    | 60,581     | 10  | Islamic Investment Bank Limited                              | 285     | 285     |
| 4,097,499                 | 4,097,499  | 10  | Nazir Cotton Mills Limited                                   | 29,014  | 29,014  |
| 1,153,725                 | 1,153,725  | 10  | Pakistan PVC Limited   | 12,871  | 12,871  |
| 131,000                   | 131,000    | 10  | Tristar Shipping Lines Limited                               | 12      | 12      |
| -                         | -          | 10  | UTP Large Capital Fund                                       | -       | -       |
| 430,100                   | 430,100    | 10  | World Call Telecom Limited                                   | 4,323   | 4,323   |
|                           |            |   |  | 85,818  | 85,818  |
| <b>Associates</b>         |            |   |  |         |         |
| 17,439,000                | 17,439,000 | 10  | Zahoor Textile Mills Limited [holding 23.36% (2010: 23.36%)] | 103,381 | 103,381 |
|                           |            |   |  | 189,199 | 189,199 |
|                           |            |   | Less: Provision for diminution in the value of investments   |         |         |
|                           |            |   | - associate  | 98,383  | 98,383  |
|                           |            |   | - other than associate                                       | 76,937  | 76,937  |
|                           |            | 9.3.2   |  | 175,320 | 175,320 |
|                           |            | 19  | (Deficit) / surplus on revaluation of listed securities      | (1,890) | (1,488) |
|                           |            |   |  | 11,989  | 12,391  |

9.5.1 Investment in associate of the Bank has been carried at cost less accumulated impairment loss, if any, under the guidelines provided in BSD Circular No. 11 dated August 04, 2004.

9.6 Particulars of investments held in unlisted securities

| 2011                                     | 2010 | 2011                               | 2010 | Based on the latest available financial statements as at | % holding | Name of investee company / fund | 2011                 | 2010 |
|--|------|------------------------------------|------|--|-----------|---------------------------------|----------------------|------|
| Number of ordinary shares / certificates |      | Break-up Value per share in Rupees |      |  |           |                                 | (Rupees in thousand) |      |

Available for Sale

Shareholding upto 10%

|           |           |       |        |           |       |  |        |        |
|-----------|-----------|-------|--------|-----------|-------|--|--------|--------|
| -         | 250,000   | -     | 162.93 | June 2008 | -     | Crescent Powertech Limited<br>(Chief Executive Officer: Mr. Ahsan Bashir)              | -      | 2,500  |
| 1,000,000 | 1,000,000 | 16.38 | 16.32  | June 2011 | 8.89% | Pak Asian Fund Limited<br>(Chief Executive Officer: Mr. Ashfaq Ahmed Berdi)            | 10,000 | 10,000 |
| 50,000    | 50,000    | 8.57  | 11.10  | June 2010 | 0.33% | Union Communication (Private) Limited<br>(Chief Executive Officer: Mr. Khalid Mehmood) | 500    | 500    |
| 700,710   | 700,559   | 1.57  | 1.38   | June 2010 | 0.76% | Vision Network Television Limited<br>(Chief Executive Officer: Mr. Zafar Siddiqui)     | 7,010  | 7,010  |
| 3,184,600 | 3,184,600 | 1.07  | 13.50  | June 2011 | 3.90% | Crescent Bahuman Limited<br>(Chief Executive Officer: Mr. Nasir Shafi)                 | 31,846 | 31,846 |
| 1,000,000 | 1,000,000 | 10.00 | 10.00  | June 2008 | 0.97% | Crescent Industrial Chemicals Limited<br>(Chief Executive Officer: Mr. Tariq Shafi)    | 10,000 | 10,000 |

Shareholding exceeding 10%

|   |         |   |      |           |   |   |          |          |
|---|---------|---|------|-----------|---|---|----------|----------|
| - | 355,330 | - | 4.49 | June 2009 | - | ICEPAC Limited<br>(Chief Executive Officer: Ms. Shala Riza Arifeen) | -        | 3,553    |
|   |         |   |      |           |   |   | 59,356   | 65,409   |
|   |         |   |      |           |   |   | (49,356) | (55,409) |
|   |         |   |      |           |   |   | 10,000   | 10,000   |

Provision for diminution in the value of investments - note 9.3.2

9.7 Particulars of investments held in preference shares - listed

| 2011               | 2010      | 2011                                 | 2010 | Name of investee company                             | Note  | 2011                 | 2010     |
|--------------------|-----------|--------------------------------------|------|--|-------|----------------------|----------|
| Number of shares   |           | Paid up value per share<br>(Rupees ) |      |  |       | (Rupees in thousand) |          |
| Available for Sale |           |                                      |      |  |       |                      |          |
| 1,000,000          | 1,000,000 | 10                                   | 10   | Shakarganj Mills Limited                             | 9.7.1 | 10,000               | 10,000   |
|                    |           |                                      |      | Provision for diminution in the value of investments | 9.3.2 | (10,000)             | (10,000) |
|                    |           |                                      |      |  |       | -                    | -        |

9.7.1 These are redeemable after five years of issuance / allotment, subject to conversion option exercisable by the Bank. These carry preference dividend at the rate of 8.5% per annum on cumulative basis.

9.8 Particulars of Federal government securities

Market Treasury Bills have a tenor of upto one year. The yield on these instruments ranges from 11.86% to 13.86% per annum (2010: 12.34% to 13.23% per annum) with maturities of upto November 01, 2012 (2010: upto April 21, 2011).

Pakistan Investment Bonds are issued by the Government of Pakistan for a period ranging from 3 to 10 years. These securities carry profits ranging from 8% to 11.5% per annum (2010: 8% to 9% per annum) with maturities from June 30, 2013 to July 22, 2015 (2010: June 30, 2013 to April 29, 2014)

9.9 Investments include certain approved / government securities which are held by the Bank to comply with the statutory liquidity requirements determined on the basis of the Bank's demand and time liabilities as set out under the Banking Companies Ordinance, 1962.

## 10. ADVANCES - NET

|  | Note | 2011              | 2010              |
|--|------|-------------------|-------------------|
| (Rupees in thousand)                                       |      |                   |                   |
| Loans, cash credits, running finances, etc.<br>In Pakistan |      | 17,697,032        | 14,160,908        |
| Net investment in finance leases<br>In Pakistan            | 10.2 | 471,753           | 491,583           |
| Bills discounted and purchased (excluding treasury bills)  |      |                   |                   |
| Payable in Pakistan  |      | 175,362           | 46,608            |
| Payable outside Pakistan                                   |      | 30,758            | 48,222            |
| Advances - gross   |      | <u>18,374,905</u> | <u>14,747,321</u> |
| Provision against advances - specific and general          | 10.4 | (2,543,578)       | (2,609,535)       |
| Advances - net of provision                                |      | <u>15,831,327</u> | <u>12,137,786</u> |
| 10.1 Particulars of advances - gross                       |      |                   |                   |
| 10.1.1 In local currency                                   |      | 18,286,212        | 14,569,760        |
| In foreign currency  |      | 88,693            | 177,561           |
|  |      | <u>18,374,905</u> | <u>14,747,321</u> |
| 10.1.2 Short-term (upto one year)                          |      | 11,593,560        | 6,988,805         |
| Long-term (over one year)                                  |      | 6,781,345         | 7,758,516         |
|  |      | <u>18,374,905</u> | <u>14,747,321</u> |

10.2 Net investment in finance leases

|   | 2011                    |  |                 |         | 2010                    |  |                 |         |
|---|-------------------------|--|-----------------|---------|-------------------------|--|-----------------|---------|
|   | Not later than one year | Later than one year and less than five years | Over five years | Total   | Not later than one year | Later than one year and less than five years | Over five years | Total   |
| <b>(Rupees in thousand)</b>             |                         |  |                 |         |                         |  |                 |         |
| Lease rentals receivable                | -                       | -  | 417,995         | 417,995 | -                       | -  | 432,800         | 432,800 |
| Residual value                          | -                       | -  | 58,460          | 58,460  | -                       | -  | 65,231          | 65,231  |
| Minimum lease payments                  | -                       | -  | 476,455         | 476,455 | -                       | -  | 498,031         | 498,031 |
| Finance charge for future periods       | -                       | -  | (4,702)         | (4,702) | -                       | -  | (6,448)         | (6,448) |
| Present value of minimum lease payments | -                       | -  | 471,753         | 471,753 | -                       | -  | 491,583         | 491,583 |

10.2.1 The net investment in finance lease is fully provided by the Bank after taking into account the security deposits and lease key money.

10.3 Advances include Rs. 2,619.410 million (2010: Rs. 2,711.299 million) which have been placed under non-performing status as detailed below:

| Category of classification  | 2011             |          |                  |                    |          |                  |                  |          |                  |
|-----------------------------|------------------|----------|------------------|--------------------|----------|------------------|------------------|----------|------------------|
|                             | Advances         |          |                  | Provision required |          |                  | Provision held   |          |                  |
|                             | Domestic         | Overseas | Total            | Domestic           | Overseas | Total            | Domestic         | Overseas | Total            |
| <b>(Rupees in thousand)</b> |                  |          |                  |                    |          |                  |                  |          |                  |
| Classified portfolio        |                  |          |                  |                    |          |                  |                  |          |                  |
| Substandard                 | 37,316           | -        | 37,316           | 9,248              | -        | 9,248            | 9,248            | -        | 9,248            |
| Doubtful                    | -                | -        | -                | -                  | -        | -                | -                | -        | -                |
| Loss                        | 2,582,094        | -        | 2,582,094        | 2,522,930          | -        | 2,522,930        | 2,522,930        | -        | 2,522,930        |
|                             | <u>2,619,410</u> | <u>-</u> | <u>2,619,410</u> | <u>2,532,178</u>   | <u>-</u> | <u>2,532,178</u> | <u>2,532,178</u> | <u>-</u> | <u>2,532,178</u> |

| Category of classification  | 2010             |          |                  |                    |          |                  |                  |          |                  |
|-----------------------------|------------------|----------|------------------|--------------------|----------|------------------|------------------|----------|------------------|
|                             | Advances         |          |                  | Provision required |          |                  | Provision held   |          |                  |
|                             | Domestic         | Overseas | Total            | Domestic           | Overseas | Total            | Domestic         | Overseas | Total            |
| <b>(Rupees in thousand)</b> |                  |          |                  |                    |          |                  |                  |          |                  |
| Classified portfolio        |                  |          |                  |                    |          |                  |                  |          |                  |
| Substandard                 | 87,352           | -        | 87,352           | 21,087             | -        | 21,087           | 21,087           | -        | 21,087           |
| Doubtful                    | 2,098            | -        | 2,098            | 1,049              | -        | 1,049            | 1,049            | -        | 1,049            |
| Loss                        | 2,621,849        | -        | 2,621,849        | 2,559,298          | -        | 2,559,298        | 2,559,298        | -        | 2,559,298        |
|                             | <u>2,711,299</u> | <u>-</u> | <u>2,711,299</u> | <u>2,581,434</u>   | <u>-</u> | <u>2,581,434</u> | <u>2,581,434</u> | <u>-</u> | <u>2,581,434</u> |

10.3.1 The Bank has availed benefit of forced sale values amounting to Rs. 2.730 million (2010: Rs. 0.751 million) while determining the provisioning requirements against non-performing advances as at December 31, 2011.

10.4 Particulars of provision against advances

|                     | Note | 2011                        |               |                  | 2010             |               |                  |
|---------------------|------|-----------------------------|---------------|------------------|------------------|---------------|------------------|
|                     |      | Specific                    | General       | Total            | Specific         | General       | Total            |
|                     |      | <b>(Rupees in thousand)</b> |               |                  |                  |               |                  |
| Opening balance     |      | 2,581,434                   | 28,101        | 2,609,535        | 2,544,717        | 75,232        | 2,619,949        |
| Charge for the year |      | 9,587                       | -             | 9,587            | 115,184          | 1,833         | 117,017          |
| Reversals           |      | (37,553)                    | (16,701)      | (54,254)         | (58,760)         | (48,964)      | (107,724)        |
|                     |      | (27,966)                    | (16,701)      | (44,667)         | 56,424           | (47,131)      | 9,293            |
| Amounts written off | 10.5 | (21,290)                    | -             | (21,290)         | (19,707)         | -             | (19,707)         |
| Closing balance     |      | <u>2,532,178</u>            | <u>11,400</u> | <u>2,543,578</u> | <u>2,581,434</u> | <u>28,101</u> | <u>2,609,535</u> |

10.4.1 General provision as at December 31, 2011 represents provision against consumer finance portfolio as required by the Prudential Regulations issued by the State Bank of Pakistan.

10.4.2 Particulars of provisions against advances

| 2011                 |         |           | 2010      |         |           |
|----------------------|---------|-----------|-----------|---------|-----------|
| Specific             | General | Total     | Specific  | General | Total     |
| (Rupees in thousand) |         |           |           |         |           |
| 2,532,178            | 11,400  | 2,543,578 | 2,581,434 | 28,101  | 2,609,535 |

In local currency

10.5 Particulars of write-offs

|  | Note | 2011   | 2010   |
|--|------|--------|--------|
| (Rupees in thousand)                                   |      |        |        |
| 10.5.1 Against provisions                              | 10.4 | 21,290 | 19,707 |
| 10.5.2 Write-offs of Rs 500,000 and above              | 10.6 | 3,313  | 3,719  |
| Write-offs of below Rs 500,000                         |      | 17,977 | 15,988 |
|  |      | 21,290 | 19,707 |
| 10.6 Details 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 during the year ended December 31, 2011 is given in Annexure-1 to these financial statements. These loans are written off as a book entry without prejudice to the Bank's right of recovery against the customers.

10.7 Particulars of loans and advances to executives, directors, associated companies, etc.

Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons - note 10.71

Balance at beginning of the year  
Loans granted during the year  
Repayments during the year  
Adjustment during the year  
Balance at end of the year

| 2011                 | 2010     |
|----------------------|----------|
| (Rupees in thousand) |          |
| 316,967              | 270,017  |
| 93,867               | 130,970  |
| (81,581)             | (72,164) |
| (8,574)              | (11,856) |
| 320,679              | 316,967  |

|  | Note  | 2011<br>(Rupees in thousand) | 2010             |
|--|---|------------------------------|------------------|
| Debits due by companies or firms in which the directors of the Bank are interested as directors, partners or in the case of private companies as members |   |                              |                  |
| Balance at beginning of the year   |   | -                            | -                |
| Loans granted during the year  |   | -                            | -                |
| Repayments during the year   |   | -                            | -                |
| Balance at end of the year   |   | -                            | -                |
| Debits due by subsidiary companies, controlled firms, managed modarabas and other related parties - note 10.7.2  |   |                              |                  |
| Balance at beginning of the year   |   | 45,500                       | 45,500           |
| Loans granted during the year  |   | -                            | -                |
| Repayments during the year   |   | (4,000)                      | -                |
| Balance at end of the year   |   | 41,500                       | 45,500           |
|  |   | <u>362,179</u>               | <u>362,467</u>   |
| 10.7.1   | These include loans provided to employees as per the Bank's policy. |                              |                  |
| 10.7.2   | This represents loan provided to Zahoor Textile Mills Limited       |                              |                  |
| <b>11. OPERATING FIXED ASSETS</b>  |   |                              |                  |
| Capital work-in-progress   | 11.1  | 63,548                       | 13,057           |
| Property, plant and equipment  | 11.2  | 825,844                      | 974,206          |
| Intangible assets  | 11.3  | 14,216                       | 14,150           |
|  |   | <u>903,608</u>               | <u>1,001,413</u> |
| 11.1   | Capital work-in-progress  |                              |                  |
| Civil works  |   | 86,312                       | 12,708           |
| Equipment  |   | -                            | 349              |
| Less: Impairment in respect of semi-constructed property   |   | (22,764)                     | -                |
|  |   | <u>63,548</u>                | <u>13,057</u>    |



## 11.2 Property and equipment

| Description                               | 2011                          |           |                         |           |                                 |                               |                     |                         |           |                                 |  | Rate per annum |
|---|-------------------------------|-----------|-------------------------|-----------|---------------------------------|-------------------------------|---------------------|-------------------------|-----------|---------------------------------|--|----------------|
|   | Cost                          |           |                         |           | Accumulated depreciation        |                               |                     |                         |           |                                 | Net book value as at December 31, 2011 |                |
|   | Balance as at January 1, 2011 | Additions | Transfers / adjustments | Disposals | Balance as at December 31, 2011 | Balance as at January 1, 2011 | Charge for the year | Transfers / adjustments | Disposals | Balance as at December 31, 2011 |  |                |
| <b>(Rupees in thousand)</b>               |                               |           |                         |           |                                 |                               |                     |                         |           |                                 | <b>%</b>                               |                |
| <b>Owned:</b>                             |                               |           |                         |           |                                 |                               |                     |                         |           |                                 |  |                |
| Freehold land                             | 456,899                       | 2,179     | -                       | (9,679)   | 449,399                         | -                             | -                   | -                       | -         | -                               | 449,399                                | -              |
| Buildings on freehold land                | 197,473                       | -         | *(56,400)               | -         | 141,073                         | 99,783                        | 8,012               | *(22,764)               | -         | 85,031                          | 56,042                                 | 5              |
| Furniture and fixtures                    | 376,383                       | 17,666    | 2,080                   | (7,108)   | 389,021                         | 131,614                       | 63,244              | 220                     | (2,080)   | 192,998                         | 196,023                                | 10             |
| Electrical, office and computer equipment | 494,890                       | 12,436    | (1,618)                 | (151)     | 505,557                         | 388,138                       | 63,291              | (1,677)                 | (98)      | 449,654                         | 55,903                                 | 20 / 33        |
| Vehicles                                  | 102,409                       | 22,385    | (191)                   | (19,511)  | 105,092                         | 34,954                        | 11,174              | 1,734                   | (11,247)  | 36,615                          | 68,477                                 | 20             |
|   | 1,628,054                     | 54,666    | (56,129)                | (36,449)  | 1,590,142                       | 654,489                       | 145,721             | (22,487)                | (13,425)  | 764,298                         | 825,844                                |                |
| <b>Assets held under finance lease:</b>   |                               |           |                         |           |                                 |                               |                     |                         |           |                                 |  |                |
| Vehicles                                  | 1,938                         | -         | (1,938)                 | -         | -                               | 1,297                         | -                   | (1,297)                 | -         | -                               | -                                      | 20             |
|   | 1,629,992                     | 54,666    | (58,067)                | (36,449)  | 1,590,142                       | 655,786                       | 145,721             | (23,784)                | (13,425)  | 764,298                         | 825,844                                |                |
| Description                               | 2010                          |           |                         |           |                                 |                               |                     |                         |           |                                 |  | Rate per annum |
|   | Cost                          |           |                         |           | Accumulated depreciation        |                               |                     |                         |           |                                 | Net book value as at December 31, 2010 |                |
|   | Balance as at January 1, 2010 | Additions | Transfers / adjustments | Disposals | Balance as at December 31, 2010 | Balance as at January 1, 2010 | Charge for the year | Transfers / adjustments | Disposals | Balance as at December 31, 2010 |  |                |
| <b>(Rupees in thousand)</b>               |                               |           |                         |           |                                 |                               |                     |                         |           |                                 | <b>%</b>                               |                |
| <b>Owned:</b>                             |                               |           |                         |           |                                 |                               |                     |                         |           |                                 |  |                |
| Freehold land                             | 456,899                       | -         | -                       | -         | 456,899                         | -                             | -                   | -                       | -         | -                               | 456,899                                | -              |
| Buildings on freehold land                | 211,263                       | -         | -                       | (13,790)  | 197,473                         | 101,898                       | 8,783               | -                       | (10,898)  | 99,783                          | 97,690                                 | 5              |
| Furniture and fixtures                    | 386,786                       | 10,668    | -                       | (21,071)  | 376,383                         | 109,974                       | 37,881              | -                       | (16,241)  | 131,614                         | 244,769                                | 10             |
| Electrical, office and computer equipment | 484,011                       | 23,558    | -                       | (12,679)  | 494,890                         | 301,120                       | 99,060              | -                       | (12,042)  | 388,138                         | 106,752                                | 20 / 33        |
| Vehicles                                  | 79,840                        | 30,903    | -                       | (8,334)   | 102,409                         | 29,619                        | 9,244               | -                       | (3,909)   | 34,954                          | 67,455                                 | 20             |
|   | 1,618,799                     | 65,129    | -                       | (55,874)  | 1,628,054                       | 542,611                       | 154,968             | -                       | (43,090)  | 654,489                         | 973,565                                |                |
| <b>Assets held under finance lease:</b>   |                               |           |                         |           |                                 |                               |                     |                         |           |                                 |  |                |
| Vehicles                                  | 1,938                         | -         | -                       | -         | 1,938                           | 1,297                         | -                   | -                       | -         | 1,297                           | 641                                    | 20             |
|   | 1,620,737                     | 65,129    | -                       | (55,874)  | 1,629,992                       | 543,908                       | 154,968             | -                       | (43,090)  | 655,786                         | 974,206                                |                |

\* represents partially constructed structure which has been transferred to CWIP.

|  | Note   | 2011   | 2010    |
|--|--------|--------|---------|
| (Rupees in thousand)                           |        |        |         |
| 11.2.1 Book value of temporarily idle property | 11.2.2 | 33,168 | 298,321 |

11.2.2 This comprises of two (2010: four) vacant plots. The market value of these plots is Rs. 126.327 million (2010: Rs. 453.500 million). The valuation of these plots was last carried out in December 2011 by an independent valuer.

### 11.3 Intangible assets

| Description       | 2011                          |           |                         |                                 |                               |                     |                        |                                 |  |                |
|-------------------|-------------------------------|-----------|-------------------------|---------------------------------|-------------------------------|---------------------|------------------------|---------------------------------|--|----------------|
|                   | Cost                          |           |                         |                                 | Accumulated amortization      |                     |                        |                                 | Net book value as at December 31, 2011 | Rate per annum |
|                   | Balance as at January 1, 2011 | Additions | Disposals / adjustments | Balance as at December 31, 2011 | Balance as at January 1, 2011 | Charge for the year | Disposals / adjustment | Balance as at December 31, 2011 |  |                |
|                   | (Rupees in thousand)          |           |                         |                                 |                               |                     |                        |                                 |  | %              |
| Computer software | 48,199                        | 5,395     | 993                     | 54,587                          | 34,049                        | 5,342               | 980                    | 40,371                          | 14,216                                 | 20             |

| Description       | 2010                          |           |                         |                                 |                               |                     |                        |                                 |  |                |
|-------------------|-------------------------------|-----------|-------------------------|---------------------------------|-------------------------------|---------------------|------------------------|---------------------------------|--|----------------|
|                   | Cost                          |           |                         |                                 | Accumulated amortization      |                     |                        |                                 | Net book value as at December 31, 2010 | Rate per annum |
|                   | Balance as at January 1, 2010 | Additions | Disposals / adjustments | Balance as at December 31, 2010 | Balance as at January 1, 2010 | Charge for the year | Disposals / adjustment | Balance as at December 31, 2010 |  |                |
|                   | (Rupees in thousand)          |           |                         |                                 |                               |                     |                        |                                 |  | %              |
| Computer software | 47,074                        | 4,818     | (3,693)                 | 48,199                          | 31,236                        | 5,380               | (2,567)                | 34,049                          | 14,150                                 | 20             |

#### 11.4 Disposal of fixed assets

Disposal of fixed assets with original cost or book value in excess of one million rupees or two hundred and fifty thousand rupees respectively, whichever is lower, are given below:

| Description   | Cost   | Accumulated depreciation | Book value | Sale proceeds | Gain / (loss) | Mode of disposal                                | Particulars of buyers / insurer     |
|---|--------|--------------------------|------------|---------------|---------------|---|-------------------------------------|
| <b>(Rupees in thousand)</b>   |        |                          |            |               |               |   |                                     |
| <b>Owned vehicles</b>   |        |                          |            |               |               |   |                                     |
| Toyota Corolla - GLi, AJL-672   | 1,004  | 663                      | 341        | 341           | -             | As per Policy                                   | Mr. Abdul Razzak Vayyani (Employee) |
| Toyota Corolla - GLi, ANQ-617   | 1,319  | 725                      | 594        | 1,113         | 519           | Through Tender                                  | Mr. Abdul Razzak                    |
| Toyota Corolla - GLi, APC-934   | 1,335  | 690                      | 645        | 1,173         | 528           | Through Tender                                  | M/s. Giaziani Engg Co.              |
| Toyota Corolla - GLi, APF-605   | 1,335  | 676                      | 659        | 1,141         | 482           | Through Tender                                  | M/s. Honda Quaideen                 |
| Honda Civic - LWA-127   | 1,004  | 663                      | 341        | 341           | -             | As per Policy                                   | Mr. Ghulam Ghous (Ex-Employee)      |
| Items having book value of less than Rupees 250,000 and cost less than Rupees 1,000,000 | 13,514 | 7,830                    | 5,684      | 11,732        | 6,048         | Negotiation/<br>Tender                          | Various                             |
|   | 19,511 | 11,247                   | 8,264      | 15,841        | 7,577         |   |                                     |
| <b>Land</b>   |        |                          |            |               |               |   |                                     |
| Plot # W2/31, Port Qasim Authority Karachi  | 9,679  | -                        | 9,679      | 48,000        | 38,321        | Negotiation                                     | National Tent House                 |
| <b>Furniture &amp; fixtures</b>   |        |                          |            |               |               |   |                                     |
| Furniture, table & chairs etc   |        |                          |            |               |               |   |                                     |
| Items having book value of less than Rupees 250,000 and cost less than Rupees 1,000,000 | 7,108  | 2,080                    | 5,028      | 135           | (4,893)       | Write-off /<br>Negotiation                      | Various                             |
| Electrical, office and computer equipment   |        |                          |            |               |               |   |                                     |
| Items having book value of less than Rupees 250,000 and cost less than Rupees 1,000,000 | 151    | 98                       | 53         | 59            | 6             | Write-off /<br>Negotiation /<br>Insurance claim | Various                             |
| 2011  | 36,449 | 13,425                   | 23,024     | 64,035        | 41,011        |   |                                     |
| 2010  | 59,567 | 45,657                   | 13,910     | 36,349        | 22,439        |   |                                     |

11.4.1 During the year no assets were sold to the chief executive, directors, executives or to a shareholder holding not less than ten percent of the voting shares of the Bank, other than disclosed above.

12. DEFERRED TAX ASSET - NET

|  | Note | 2011             | 2010             |
|--|------|------------------|------------------|
| (Rupees in thousand)   |      |                  |                  |
| Taxable temporary differences                                      |      |                  |                  |
| Accelerated tax depreciation                                       |      | (10,564)         | (33,642)         |
| Assets subject to finance lease                                    |      | -                | (165)            |
| Net investment in finance leases                                   |      | (131,230)        | (127,592)        |
| Deductible temporary differences                                   |      |                  |                  |
| Recognised tax losses  | 12.1 | 735,354          | 883,248          |
| Provision against loans and advances, investments and other assets |      | 848,707          | 874,720          |
| Deficit on revaluation of securities                               | 19   | (6,132)          | 4,894            |
| Deferred tax asset recognised                                      |      | <u>1,436,135</u> | <u>1,601,463</u> |

12.1 The Bank has an aggregate amount of Rs 3,573.632 million (2010: Rs 4,400.994 million) in respect of tax losses as at December 31, 2011. The management carries out periodic assessment to assess the benefit of these losses as the Bank would be able to set off the profit earned in future years against these carry forward losses. Based on this assessment the management has recognised deferred tax debit balance on losses amounting to Rs 2,101.011 million (2010: Rs 2,523.565 million) [including on unabsorbed tax depreciation of Rs 1,205.115 million (2010: Rs 1,205.115 million)]. The amount of this benefit has been determined based on the projected financial statements for the future period. The determination of future taxable profit is most sensitive to certain key assumptions such as cost to income ratio of the Bank, deposit composition, kibar rates, growth of deposits and advances, investment returns, product mix of advances, potential provision against assets and branch expansion plan. Any significant change in the key assumptions may have an effect on the realisability of the deferred tax asset.

13. OTHER ASSETS - NET

|  | Note | 2011             | 2010           |
|--|------|------------------|----------------|
| (Rupees in thousand)                                   |      |                  |                |
| Income / mark-up accrued                               |      |                  |                |
| - in local currency                                    |      | 335,811          | 286,401        |
| - in foreign currencies                                |      | 480              | 58             |
| Advances, deposits, prepaid rent and other prepayments |      | 189,323          | 164,164        |
| Taxation (payments less provisions)                    |      | 505,283          | 310,252        |
| Fee and commission receivable                          |      | 51,024           | 50,647         |
| Unrealised gain on forward foreign exchange contracts  |      | 95,669           | 43,535         |
| Others   | 13.1 | 98,632           | 98,379         |
|  |      | <u>1,276,222</u> | <u>953,436</u> |
| Provisions held against bad and doubtful other assets  | 13.2 | (106,082)        | (108,845)      |
| Other assets (net of provisions)                       |      | <u>1,170,140</u> | <u>844,591</u> |

13.1 This includes Rs 22.336 million (2010: Rs 22.336 million) receivable from InterAsia Leasing Limited.

13.2 Provisions held against bad and doubtful other assets

|   | Note         | 2011      | 2010      |
|---|--------------|-----------|-----------|
| (Rupees in thousand)                                  |              |           |           |
| Opening balance                                       |              | 108,845   | 116,141   |
| Charge for the year                                   |              | 30        | 1,000     |
| Reversals   |              | (2,008)   | (8,059)   |
|   | 24           | (1,978)   | (7,059)   |
| Amounts written-off during the year                   |              | (785)     | (237)     |
| Closing balance                                       |              | 106,082   | 108,845   |
| <b>14. BILLS PAYABLE</b>                              |              |           |           |
| In Pakistan   |              | 529,005   | 115,759   |
| <b>15. BORROWINGS</b>                                 |              |           |           |
| In Pakistan   |              | 3,996,032 | 6,534,994 |
| <b>15.1 Particulars of borrowings</b>                 |              |           |           |
| In local currency                                     |              | 3,996,032 | 6,534,994 |
| <b>15.2 Details of borrowings secured / unsecured</b> |              |           |           |
| Secured   |              |           |           |
| Borrowings from SBP under export refinance scheme     | 15.2.1       | 2,345,231 | 1,075,216 |
| Borrowings from SBP under LTFF                        | 15.2.2       | 68,878    | 78,718    |
| Repurchase agreement borrowing                        | 15.2.3 & 9.1 | 684,587   | 4,858,724 |
|   |              | 3,098,696 | 6,012,658 |
| Unsecured   |              |           |           |
| Call money borrowings                                 | 15.2.4       | 875,000   | 500,000   |
| Bankers Equity Limited (Under liquidation)            | 15.2.5       | 22,336    | 22,336    |
|   |              | 897,336   | 522,336   |
|   |              | 3,996,032 | 6,534,994 |

15.2.1 The Bank entered into agreement with the SBP for extending export finance to customers. As per the terms of the agreement, the Bank has granted SBP the right to recover the outstanding amount from the Bank at the time of maturity of finances by directly debiting the current account maintained with SBP. This facility is secured against demand promissory note executed in favour of SBP. These borrowings carry mark-up at the rate of 10 % per annum (2010: 9% per annum) payable on quarterly basis and have a maturity period upto five months.

15.2.2 This represents borrowing from SBP to provide refinance to customers and carries mark-up at 7.2 % (2010: 8.60%) per annum and will mature in January 2015.

15.2.3 This represents borrowing at a rate of 11.85% (2010: 12.71% to 13.90%) per annum having maturity upto January 3, 2012 (2010: upto January 3, 2011).

15.2.4 These represent borrowings at rates ranging from 11% to 11.80% (2010: 13% to 14%) per annum and having maturity upto January 3, 2012 (2010: January 3, 2011).

15.2.5 This represents amount payable to Bankers Equity Limited (under liquidation) on account of counter receivable from InterAsia Leasing Limited (Note 13.1) and carries no mark-up.

## 16. DEPOSITS AND OTHER ACCOUNTS

|  | Note | 2011              | 2010              |
|--|------|-------------------|-------------------|
| (Rupees in thousand)                                   |      |                   |                   |
| <b>Customers</b>                                       |      |                   |                   |
| Fixed deposits   | 16.2 | 8,483,471         | 6,318,286         |
| Savings deposits                                       |      | 4,401,589         | 3,850,144         |
| Current accounts - non-remunerative                    | 16.2 | 4,316,574         | 4,304,634         |
| Others - non-remunerative                              |      | 39,903            | 9,946             |
|  |      | <u>17,241,537</u> | <u>14,483,010</u> |
| <b>Financial Institutions</b>                          |      |                   |                   |
| Remunerative deposits                                  |      | 388,027           | 367,917           |
| Non-remunerative deposits                              | 16.3 | 39,733            | 20,879            |
|  |      | <u>427,760</u>    | <u>388,796</u>    |
|  |      | <u>17,669,297</u> | <u>14,871,806</u> |
| <b>16.1 Particulars of deposits and other accounts</b> |      |                   |                   |
| In local currency                                      |      | 16,390,278        | 13,246,766        |
| In foreign currencies                                  |      | 1,279,019         | 1,625,040         |
|  |      | <u>17,669,297</u> | <u>14,871,806</u> |

16.2 These amounts include deposits held by an associated company in Fixed deposits and Current accounts amounting to Rs 2.927 million and Rs 0.295 million respectively.

16.3 This includes deposits of SAMBA Financial Group amounting Rs 30.970 million (2010: 10.659 million).

17. OTHER LIABILITIES

|   | Note | 2011           | 2010             |
|---|------|----------------|------------------|
| (Rupees in thousand)                            |      |                |                  |
| Mark-up / return / interest payable             |      |                |                  |
| - in local currency                             |      | 230,805        | 170,368          |
| - in foreign currencies                         |      | 143            | 300              |
| Accrued expenses                                |      | 175,318        | 279,953          |
| Unclaimed dividends                             |      | 4,255          | 4,255            |
| Provision against off-balance sheet obligations | 17.2 | 205,336        | 201,034          |
| Lease key money                                 |      | 59,202         | 66,080           |
| Insurance premium payable                       |      | 4,462          | 8,081            |
| Unrealised loss on forward exchange contracts   |      | 42,069         | 120,339          |
| Others  | 17.1 | 232,781        | 212,194          |
|   |      | <u>954,371</u> | <u>1,062,604</u> |

17.1 This includes Rs. 198.661 million (2010: Rs. 168.490 million) payable to SAMBA Financial Group [including Rs. 115.065 million (2010: Rs. 100 million) relating to Group Shared Service costs].

|  | Note   | 2011           | 2010            |
|--|--------|----------------|-----------------|
| (Rupees in thousand)                                 |        |                |                 |
| 17.2 Provision against off-balance sheet obligations |        |                |                 |
| Opening balance                                      |        | 201,034        | 222,534         |
| Charge for the year                                  |        | 4,802          | -               |
| Reversals  |        | (500)          | (21,500)        |
|  |        | <u>4,302</u>   | <u>(21,500)</u> |
| Closing balance                                      | 17.2.1 | <u>205,336</u> | <u>201,034</u>  |

17.2.1 This includes:

- a) A provision of Rs 71.134 million (2010: Rs 71.134 million) made in respect of two counter guarantees aggregating to Rs 71.134 million issued by Crescent Investment Bank Limited, an amalgamated entity of Samba Bank Ltd., on behalf of Mr. Reyaz Shafi favouring Privatization Commission of Pakistan (PC). The PC had invoked/called for payment of both the guarantees prior to their expiry date. However, Mr. Reyaz Shafi had obtained stay order for payments against the guarantees on the grounds that the guarantees were conditional and the conditions had not been met by the beneficiary. Subsequently, the PC filed a suit against Faysal Bank Limited and Al-Baraka Islamic Bank, the guarantees issuing banks, against counter guarantees of the amalgamated entity, in the Lahore High Court under the Privatization Commission Ordinance, 2000 for payment against the guarantees. The case is still pending for decision. As a matter of prudence, full provision of Rs. 71.134 million (2010: Rs. 71.134 million) was made by Crescent Investment Bank Ltd. in respect of this matter, which is being maintained.

- b) A provision of Rs. 14.130 million (2010: Rs. 14.130 million) made in respect of guarantees amounting to Rs. 14.130 million issued by Crescent Investment Bank Limited, an amalgamated entity of Samba Bank Ltd., on behalf of Mohammad Amin Muhammad Bashir Limited (MAMB) favouring the Collector of Customs. The guarantees have been called twice by the Collector of Customs along with mark-up at the rate of 14 percent per annum. MAMB has filed a petition before the Honorable Supreme Court, which is still pending; therefore, no payment has been made in respect of these guarantees. As a matter of prudence, full provision of Rs. 14.130 million (2010: Rs. 14.130 million) was made by Crescent Investment Bank Ltd., which is being maintained.
- c) A 100% provision was made in respect of a guarantee amounting to Rs. 105.525 million (2010: Rs. 105.525 million) issued by the Bank in favour of a gas utility company on behalf of Dewan Cement Limited. The amount of guarantee will be paid by the bank if a call is made by the beneficiary and in case of non-payment by the company. The company is currently facing financial distress and as a matter of prudence, full provisioning of Rs. 105.525 million (2010: Rs. 105.525 million) is being maintained.
- d) A 100% provision in respect of letter of guarantee facilities aggregating Rs. 4.745 million (2010: Rs. 4.745 million) issued on behalf of Farooq Habib Textile Mills and Zahur Textile Mills Limited favoring Ministry of Commerce. The customers pertain to Ex-Doha Bank Portfolio. In 1993, the court decided the writ petitions in favor of the customers. During the course of follow up for reversal of the guarantees, the Ministry of Commerce informed the Bank that they had filed an intra court appeal which has also been decided in favor of the customers. As per the terms of the court decision, the customers were required to file certain documentation with the Ministry prior to release of the guarantees. The customers have provided the Ministry with the required documents however, response from the Ministry is awaited. The provision will be reversed, once the original instruments are received from the Ministry.

## 18. SHARE CAPITAL

### 18.1 Authorised capital

| 2011               |               | 2010 |  |                                |  | 2011                 |            | 2010 |  |
|--------------------|---------------|------|--|--------------------------------|--|----------------------|------------|------|--|
| (Number of Shares) |               |      |  | Ordinary shares of Rs. 10 each |  | (Rupees in thousand) |            |      |  |
| 1,500,000,000      | 1,500,000,000 |      |  |                                |  | 15,000,000           | 15,000,000 |      |  |

### 18.2 Issued, subscribed and paid-up capital

| 2011               |  |               | 2010            |  |               | Ordinary shares of Rs. 10 each | 2011       | 2010       |
|--------------------|--|---------------|-----------------|--|---------------|--------------------------------|------------|------------|
| Issued for cash    | Issued for consideration other than cash | Total         | Issued for cash | Issued for consideration other than cash | Total         |                                |            |            |
| (Number of Shares) |  |               |                 |  |               | (Rupees in thousand)           |            |            |
| 1,211,916,074      | 221,557,340                              | 1,433,473,414 | 655,394,335     | 221,557,340                              | 876,951,675   | At the beginning of the year   | 14,334,734 | 8,769,517  |
| -                  | -  | -             | 556,521,739     | -  | 556,521,739   | During the year                | -          | 5,565,217  |
| 1,211,916,074      | 221,557,340                              | 1,433,473,414 | 1,211,916,074   | 221,557,340                              | 1,433,473,414 | Balance as at December 31      | 14,334,734 | 14,334,734 |



18.2.1 Shares held by the related parties of the Bank

|  | 2011                 | 2010                 |
|--|----------------------|----------------------|
|  | Number of shares     |                      |
| Directors, their spouses and minor children            |                      |                      |
| Mr. Humayun Murad                                      | 500                  | 500                  |
| Mr. Farhat Abbas Mirza                                 | 125,000              | 125,000              |
| Mr. Javed Iqbal  | 5,000                | 5,000                |
| Mr. Zahid Zaheer                                       | 500                  | 500                  |
|  | 131,000              | 131,000              |
| Associated companies, undertakings and related parties |                      |                      |
| Samba Financial Group                                  | 1,156,456,310        | 1,156,456,310        |
|  | <u>1,156,587,310</u> | <u>1,156,587,310</u> |

18.3 The State Bank of Pakistan vide BSD Circular No. 7 dated April 15, 2009 has specified minimum capital requirements for all commercial banks operating in Pakistan. As per these requirements, banks are required to raise their capital in a phased manner to Rs. 10 billion by December 31, 2013 as follows:

- Rs 9 billion (net of losses) by December 31, 2012; and
- Rs 10 billion (net of losses) by December 31, 2013.

The minimum paid-up capital requirements (net of losses) to be achieved by December 31, 2011 is Rs 8 billion (net of accumulated losses). As at December 31, 2011 the regulatory capital (net of losses) amounts to Rs 8.082 billion and the Bank is compliant with the MCR requirement for the current year.

The Bank is committed to ensuring compliance with the guidelines specified by the SBP.

19. SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS - NET OF TAX

|   | Note   | 2011<br>(Rupees in thousand) | 2010      |
|---|--------|------------------------------|-----------|
| Federal government securities   |        | 17,519                       | (13,983)  |
| Quoted  |        |                              |           |
| - Ordinary shares and certificates  | 9.5    | (1,890)                      | (1,488)   |
| Related deferred tax  | 12     | 15,629                       | (15,471)  |
|   |        | (6,132)                      | 4,894     |
|   |        | 9,497                        | (10,577)  |
| <b>20. CONTINGENCIES AND COMMITMENTS</b>  |        |                              |           |
| 20.1 Direct credit substitutes  |        |                              |           |
| Favouring government  |        | 400,000                      | 800,000   |
| Favouring Banks and other financial institutions  |        | 172,654                      | 312,914   |
| Favouring others  |        | 5,391,776                    | 214,502   |
|   |        | 5,964,430                    | 1,327,416 |
| 20.2 Transaction-related contingent liabilities / commitments   |        |                              |           |
| Guarantees in favour of   |        |                              |           |
| Government  | 20.2.1 | 416,050                      | 216,918   |
| Others  |        | 31,046                       | -         |
|   |        | 447,096                      | 216,918   |
| 20.2.1 This includes guarantees amounting to Rs 38.463 million (2010: 38.463 million) given on behalf of SAMBA Financial Group - a related party. |        |                              |           |
| 20.3 Trade-related contingent liabilities   |        |                              |           |
| Favouring others  |        | 4,171,259                    | 184,583   |
| 20.4 Other Contingencies  |        |                              |           |
| Claims against the Bank not acknowledged as debt  |        | 161,733                      | 180,535   |
| 20.5 Contingencies in respect of taxation   |        |                              |           |

The Income tax department has raised a demand of Rs. 426.787 million for the assessment years 1995-96, 1996-97, 1999-00, 2001-02, 2002-03 on account of non-deduction of tax on profit paid under portfolio management scheme, interest paid on foreign currency deposits and certificates of investment. The department has also raised further demand of Rs. 645.337 million for assessment years 1999-00, 2000-01 to assessment year 2002-03 and tax year 2006 on account of taxability of investment banks as banking companies and taxation of dividend income as normal banking income,

lease rentals received or receivable, lease key money and certain other items. The aforementioned relates to pending assessments of the Bank and amalgamated entities namely Crescent Investment Bank Limited, Trust Investment Bank Limited and Pakistan Industrial Leasing Corporation.

Presently, the bank is contesting these issues at various appellate forums. The disallowances in respect of a number of assessment years have been decided / set aside by various appellate authorities for re-assessment while the Bank's appeal in respect of the remaining assessment years are currently pending. Based on the professional advice received from tax advisors, the management is confident that the eventual outcome of the aforementioned matters will be in favour of the bank. Accordingly, no provision has been made in these financial statements in respect of the above mentioned demands of Rs. 1,072.124 million raised by the income tax authorities.

|   | 2011                 | 2010      |
|---|----------------------|-----------|
|   | (Rupees in thousand) |           |
| 20.6 Commitments in respect of forward exchange contracts |                      |           |
| Purchase  | 10,387,618           | 8,097,341 |
| Sale  | 8,846,821            | 7,198,402 |

#### 20.7 Commitments to extend credit

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

#### 20.8 Capital commitments

Commitments for capital expenditure as at December 31, 2011 amounted to Rs 18.799 million (2010: Rs 7.686 million).

#### 20.9 Contingent Assets

There were no contingent assets of the Bank as at December 31, 2011 (2010: Nil).

### 21. MARK-UP / RETURN / INTEREST EARNED

|   | 2011                 | 2010      |
|---|----------------------|-----------|
|   | (Rupees in thousand) |           |
| On loans and advances to:                       |                      |           |
| - Customers                                     | 1,629,669            | 1,278,936 |
| On investments:                                 |                      |           |
| - Held for trading securities                   | 93,394               | 11,116    |
| - Available for sale securities                 | 1,277,263            | 549,482   |
| - Held to maturity securities                   | 19,187               | 19,519    |
|   | 1,389,844            | 580,117   |
| On deposits with financial institutions         | 234                  | 336       |
| On securities purchased under resale agreements | 283,090              | 415,599   |
| On call lendings                                | 49,349               | 109,665   |
|   | 3,352,186            | 2,384,653 |

|   | Note | 2011                 | 2010             |
|---|------|----------------------|------------------|
|   |      | (Rupees in thousand) |                  |
| <b>22. MARK-UP / RETURN / INTEREST EXPENSED</b>                   |      |                      |                  |
| Deposits  |      | 1,096,600            | 995,808          |
| Securities sold under repurchase agreements                       |      | 593,399              | 116,056          |
| Other short-term borrowings                                       |      | 33,004               | 43,850           |
| SBP LTFF refinance  |      | 5,361                | 5,047            |
| SBP export refinance  |      | 185,838              | 85,465           |
| Others  |      | 29,643               | 104,094          |
|   |      | <u>1,943,845</u>     | <u>1,350,320</u> |
| <b>23. GAIN ON SALE OF SECURITIES - NET</b>                       |      |                      |                  |
| Government securities   |      | 16,798               | 2,090            |
| Shares / units - listed   |      | 3,316                | 19,862           |
|   |      | <u>20,114</u>        | <u>21,952</u>    |
| <b>24. OTHER INCOME</b>   |      |                      |                  |
| Gain on disposal of property and equipment - net                  |      | 45,288               | 28,405           |
| Reversal of provision against bad and doubtful other assets - net | 13.2 | 1,978                | 7,059            |
| Reversal of provision against off balance sheet obligations       |      | -                    | 21,500           |
| Others  |      | 89                   | 87,046           |
|   |      | <u>47,355</u>        | <u>144,010</u>   |
| <b>25. ADMINISTRATIVE EXPENSES</b>                                |      |                      |                  |
| Salaries, allowances and benefits                                 |      | 666,088              | 627,717          |
| Contribution to provident fund plan                               | 33   | 20,764               | 18,634           |
| Non-executive directors' fees, allowances and other expenses      |      | 5,991                | 8,773            |
| Rent, taxes, insurance, electricity, etc.                         |      | 259,185              | 232,350          |
| Legal and professional charges                                    |      | 11,032               | 19,321           |
| Communications  |      | 85,129               | 94,908           |
| Group Shared Service Cost   |      | 12,471               | 100,000          |
| Repairs and maintenance   |      | 58,432               | 68,454           |
| Stationery and printing   |      | 21,018               | 20,323           |
| Advertisement and publicity                                       |      | 7,146                | 10,915           |
| Donation  |      | -                    | 500              |
| Auditors' remuneration  | 25.1 | 6,379                | 4,891            |
| Depreciation  | 11.2 | 145,721              | 154,968          |
| Amortisation of intangible assets                                 | 11.3 | 5,342                | 5,380            |
| Travelling and conveyance   |      | 16,617               | 9,542            |
| Charges paid to Central Depository Company of Pakistan Limited    |      | 218                  | 279              |
| Security services   |      | 22,614               | 23,977           |
| Others  |      | 49,174               | 55,941           |
|   |      | <u>1,393,321</u>     | <u>1,456,873</u> |

|   | Note | 2011         | 2010         |
|---|------|--------------|--------------|
| (Rupees in thousand)  |      |              |              |
| 25.1  |      |              |              |
| Auditors' remuneration  |      |              |              |
| Statutory audit fee   |      | 1,365        | 1,210        |
| Fee for quarterly and annual group reporting  |      | 1,650        | 1,650        |
| Fee for the review of the half yearly financial statements                                      |      | 325          | 300          |
| Fee for the review of certificate relating to financial reporting on internal control framework |      | 684          | 500          |
| Special certifications and others   |      | 1,205        | 820          |
| Out-of-pocket expenses  |      | 1,150        | 411          |
|   |      | <u>6,379</u> | <u>4,891</u> |
| 26.   |      |              |              |
| <b>OTHER PROVISIONS / WRITE OFFS - NET</b>  |      |              |              |
| Provision against off balance sheet obligations - net   | 17.2 | 4,302        | -            |
| Fixed assets written-off  |      | 4,277        | 5,966        |
|   |      | <u>8,579</u> | <u>5,966</u> |

27. Under the Worker's Welfare Ordinance (WWF), 1971 the Bank is liable to pay WWF @ 2% of profit before tax as per the accounts or declared income as per the income tax return, whichever is higher,

|   | Note | 2011            | 2010            |
|---|------|-----------------|-----------------|
| (Rupees in thousand)                            |      |                 |                 |
| 28.   |      |                 |                 |
| <b>OTHER CHARGES</b>                            |      |                 |                 |
| Penalties imposed by the State Bank of Pakistan |      | 37              | 5,434           |
| 29.   |      |                 |                 |
| <b>TAXATION</b>                                 |      |                 |                 |
| For the year                                    |      |                 |                 |
| Current   |      | 36,566          | 27,056          |
| Deferred  |      | 154,306         | (49,176)        |
| For prior years                                 |      |                 |                 |
| Current   | 29.1 | (226,493)       | 11,418          |
|   |      | <u>(35,621)</u> | <u>(10,702)</u> |

29.1 This represents reversal of provision based on assessment orders finalised during the year by the taxation authorities.

29.2 Relationship between income tax expense and accounting profit

Numerical reconciliation between the average tax rate and the applicable tax rate has not been presented as the Bank has accumulated losses in prior periods which have been adjusted with the taxable income for the current year. Current tax charge for the year represents minimum tax on turnover as stipulated in the Income Tax Ordinance, 2001.

|  | 2011                 | 2010          |
|--|----------------------|---------------|
|  | (Rupees in thousand) |               |
| <b>30. EARNINGS / (LOSS) PER SHARE</b>     |                      |               |
| Profit / (loss) after taxation             | 236,515              | (119,594)     |
|  | Number of shares     |               |
| Weighted average number of ordinary shares | 1,433,473,414        | 1,226,111,889 |
|  | Rupees               |               |
| Earnings / (loss) per share                | 0.16                 | (0.10)        |

30.1 Diluted earnings / (loss) per share has not been presented as the bank does not have any convertible instruments in issue at December 31, 2010 and 2011 which would have any effect on the earnings / (loss) per share if the option to convert is exercised.

|                                       | Note | 2011                 | 2010      |
|---------------------------------------|------|----------------------|-----------|
|                                       |      | (Rupees in thousand) |           |
| <b>31. CASH AND CASH EQUIVALENTS</b>  |      |                      |           |
| Cash and balances with treasury banks | 6    | 1,463,306            | 1,250,011 |
| Balances with other banks             | 7    | 59,384               | 1,195,948 |
|                                       |      | 1,522,690            | 2,445,959 |

|  |      | 2011     | 2010 |
|--|------|----------|------|
|  |      | (Number) |      |
| <b>32. STAFF STRENGTH</b>                        |      |          |      |
| Permanent  |      | 439      | 432  |
| Temporary / on contractual basis                 |      | -        | -    |
| Bank's own staff strength at the end of the year |      | 439      | 432  |
| Outsourced                                       |      | 321      | 378  |
| Total number of employees at the end of the year | 32.1 | 760      | 810  |

32.1 Outsourced staff includes those employees that are hired by an outside contractor / agency and are assigned to the Bank to perform various tasks / activities of the Bank.

### 33. DEFINED CONTRIBUTION PLAN

The Bank operates a contributory provident fund plan for 389 employees (2010: 375 employees). Both employer and employees contribute 8.33% (2010: 8.33%) of the basic salaries to the fund every month. The expense charged in respect of this benefit is disclosed in note 25 to these financial statements.

### 34. COMPENSATION OF DIRECTORS AND EXECUTIVES

|   | 2011                                  |              |                | 2010                                  |              |                |
|---|---------------------------------------|--------------|----------------|---------------------------------------|--------------|----------------|
|   | President and Chief Executive Officer | Directors    | Executives     | President and Chief Executive Officer | Directors    | Executives     |
|   | (Rupees in thousand)                  |              |                |                                       |              |                |
| Fees                                      | -                                     | 5,991        | -              | -                                     | 8,773        | -              |
| Managerial remuneration                   | 14,843                                | -            | 176,338        | 14,406                                | -            | 163,088        |
| Contribution to defined contribution plan | 1,218                                 | -            | 13,258         | 1,200                                 | -            | 12,176         |
| Rent and house maintenance                | 6,679                                 | -            | 74,591         | 6,483                                 | -            | 67,751         |
| Utilities                                 | 1,484                                 | -            | 17,829         | 1,441                                 | -            | 16,309         |
| Medical                                   | 1,484                                 | -            | 17,829         | 1,441                                 | -            | 16,309         |
| Cash reimbursement                        | -                                     | -            | 14,498         | -                                     | -            | 11,824         |
| Bonus                                     | 5,000                                 | -            | 37,375         | 4,200                                 | -            | 31,882         |
| Conveyance                                | -                                     | -            | 251            | -                                     | -            | 253            |
| Other allowances                          | 1,237                                 | -            | -              | 1,201                                 | -            | -              |
|   | <u>31,945</u>                         | <u>5,991</u> | <u>351,969</u> | <u>30,372</u>                         | <u>8,773</u> | <u>319,592</u> |
| Number of persons                         | <u>1</u>                              | <u>4</u>     | <u>141</u>     | <u>1</u>                              | <u>4</u>     | <u>158</u>     |

34.1 The Chief Executive Officer and certain executives of the Bank are provided with free use of the Bank's maintained cars.

34.2 Executives mean employees, other than the Chief Executive Officer and directors, whose basic salary exceeds five hundred thousand Rupees in a financial year.

### 35. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and income and expenses. It also requires management to exercise judgment in application of its accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Significant accounting estimates and areas where judgements were made by the management in the application of accounting policies are as follows:

- i) classification and provisioning against investments (notes 5.3 and 9)
- ii) classification and provisioning against advances (notes 5.4 and 10)
- iii) determination of useful lives and depreciation / amortisation of operating fixed assets (notes 5.5 and 11)
- iv) income taxes (notes 5.8, 12 and 29)

### 36. FAIR VALUE OF FINANCIAL INSTRUMENTS AND DERIVATIVE INSTRUMENTS

#### 36.1 On-balance sheet financial instruments

The fair value of traded investments is based on quoted market prices, except for tradable securities classified as 'held to maturity'. These securities are carried at amortised cost in order to comply with the requirements of BSD Circular No. 14 dated September 24, 2004. The fair value of these investments amounts to Rs 280.989 million (2010: Rs 260.749 million).

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.

Value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment in respect of loans and advances has been calculated in accordance with the bank's accounting policy as stated in note 5.4 to these financial statements.

The repricing and maturity profile and effective rates are stated in notes 43 and 45 to these financial statements.

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



36.2 Off-balance sheet financial instruments

|                                      | 2011       |            | 2010       |            |
|--------------------------------------|------------|------------|------------|------------|
|                                      | Book value | Fair value | Book value | Fair value |
| (Rupees in thousand)                 |            |            |            |            |
| Forward purchase of foreign exchange | 10,387,618 | 10,456,415 | 8,097,341  | 7,977,207  |
| Forward sale of foreign exchange     | 8,846,821  | 8,862,019  | 7,198,402  | 7,155,072  |

36.3 Derivative instruments

The Bank at present does not offer structured derivative products such as Interest Rate Swaps, Forward Rate Agreements or FX Options. However, the Bank's Treasury buys and sells derivative instruments such as forward foreign exchange contracts.

37. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

The segment analysis with respect to business activity is as follows:

| Particulars   | 2011              |                 |                |                    |             |
|---|-------------------|-----------------|----------------|--------------------|-------------|
|   | Corporate finance | Trading & sales | Retail banking | Commercial banking | Total       |
| (Rupees in thousand)                                  |                   |                 |                |                    |             |
| Total income (net of interest expense and provisions) | 8,000             | 333,008         | 773,670        | 483,685            | 1,598,363   |
| Total operating expenses                              | 11,298            | 130,364         | 964,850        | 290,957            | 1,397,469   |
| Net (loss) / income (before tax)                      | (3,298)           | 202,644         | (191,180)      | 192,728            | 200,894     |
| Segment assets  | 15,660            | 12,734,953      | 2,429,780      | 19,034,915         | 34,215,308  |
| Segment non-performing loans                          | -                 | -               | 706,725        | 1,912,685          | 2,619,410   |
| Segment provision held *                              | -                 | (238,894)       | (669,754)      | (1,975,688)        | (2,884,336) |
| Segment liabilities                                   | 308               | 1,613,426       | 14,760,017     | 6,774,954          | 23,148,705  |
| Segment return on net assets (%)                      | -21.06%           | 1.62%           | -10.86%        | 1.13%              | 0.64%       |
| Segment cost of funds (%)                             | 10.77%            | 11.60%          | 7.63%          | 10.77%             | 8.51%       |

| Particulars   | 2010                 |                 |                |                    |             |
|---|----------------------|-----------------|----------------|--------------------|-------------|
|   | Corporate finance    | Trading & sales | Retail banking | Commercial banking | Total       |
|   | (Rupees in thousand) |                 |                |                    |             |
| Total income (net of interest expense and provisions) | 19,000               | 183,151         | 573,233        | 556,627            | 1,332,011   |
| Total operating expenses                              | 11,392               | 134,330         | 1,059,263      | 257,322            | 1,462,307   |
| Net (loss) / income (before tax)                      | 7,608                | 48,821          | (486,030)      | 299,305            | (130,296)   |
| Segment assets  | 23,511               | 16,196,025      | 2,459,696      | 14,780,997         | 33,460,229  |
| Segment non-performing loans                          | -                    | -               | 762,438        | 1,948,861          | 2,711,299   |
| Segment provision held *                              | -                    | (244,117)       | (703,591)      | (2,001,401)        | (2,949,109) |
| Segment liabilities                                   | 1,368                | 5,599,764       | 12,590,309     | 4,394,001          | 22,585,442  |
| Segment return on net assets (%)                      | 32.36%               | 0.31%           | -27.68%        | 2.34%              | -0.43%      |
| Segment cost of funds (%)                             | 10.60%               | 11.21%          | 8.03%          | 10.60%             | 8.10%       |

\* The provision against each segment represents provision held against advances, investments and other assets.

### 38. TRUST ACTIVITIES

The Bank is currently not engaged in any trust activities.

### 39. RELATED PARTY TRANSACTIONS

The Bank has related party relationship with its holding company, associates, employee contribution plan, its directors and key management personnel.

Banking transactions with the related parties are executed substantially on the same terms, including mark-up rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than a normal risk. Transactions with the executives are undertaken at terms in accordance with employment agreements and services rules and includes disbursement of advances on terms softer than those offered to the customers of the Bank.

Contributions to the contributory provident fund scheme are made in accordance with the terms of the contribution plan. Remuneration to the Chief Executive Officer and directors are disclosed in note 34 to these financial statements and are determined in accordance with the terms of their appointment.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. The Bank considers all members of their management team, including the Chief Executive Officer and Directors to be key management personnel.

Details of transactions with related parties are given below:

|  | 2011                     |                |            |           | 2010                     |                |            |          |
|--|--------------------------|----------------|------------|-----------|--------------------------|----------------|------------|----------|
|  | Key management personnel | Parent Company | Associates | Others    | Key management personnel | Parent Company | Associates | Others   |
| (Rupees in thousand)                                     |                          |                |            |           |                          |                |            |          |
| <b>BALANCES OUTSTANDING- GROSS</b>                       |                          |                |            |           |                          |                |            |          |
| <b>Advances</b>  |                          |                |            |           |                          |                |            |          |
| At January 1   | 62,798                   | -              | 45,500     | -         | 65,129                   | -              | 45,500     | -        |
| Disbursed during the year                                | 16,390                   | -              | -          | -         | 16,287                   | -              | -          | -        |
| Repaid during the year                                   | (6,217)                  | -              | (4,000)    | -         | (8,050)                  | -              | -          | -        |
| Adjustments  | (6,533)                  | -              | -          | -         | (10,568)                 | -              | -          | -        |
| At December 31   | 66,438                   | -              | 41,500     | -         | 62,798                   | -              | 45,500     | -        |
| Provision held against advances                          | -                        | -              | 41,500     | -         | -                        | -              | 45,500     | -        |
| <b>Deposits</b>  |                          |                |            |           |                          |                |            |          |
| At January 1   | 133,707                  | -              | 3,222      | 122,679   | 102,926                  | -              | 3,222      | 92,650   |
| Received during the year                                 | 532,545                  | -              | -          | 247,953   | 440,260                  | -              | -          | 55,759   |
| Withdrawn during the year                                | (538,995)                | -              | -          | (354,483) | (417,465)                | -              | -          | (25,730) |
| Adjustments  | 1,280                    | -              | -          | -         | 7,986                    | -              | -          | -        |
| At December 31   | 128,537                  | -              | 3,222      | 16,149    | 133,707                  | -              | 3,222      | 122,679  |
| <b>Others</b>  |                          |                |            |           |                          |                |            |          |
| Guarantees   | -                        | 38,463         | 3,733      | -         | -                        | 38,463         | 3,733      | -        |
| Provision against guarantees                             | -                        | -              | 3,733      | -         | -                        | -              | 3,733      | -        |
| Balances in nostro accounts                              | -                        | 14,880         | -          | -         | -                        | 9,803          | -          | -        |
| Investment in shares                                     | -                        | -              | 103,381    | -         | -                        | -              | 103,381    | -        |
| Sundry receivables                                       | -                        | -              | 32,791     | -         | -                        | -              | 32,791     | -        |
| Mark-up income suspended                                 | -                        | -              | 32,791     | -         | -                        | -              | 32,791     | -        |
| Sundry payable   | -                        | 198,661        | -          | -         | -                        | 168,490        | -          | -        |
| Group services cost                                      | -                        | 115,065        | -          | -         | -                        | 100,000        | -          | -        |
| Other liabilities  | -                        | -              | 5,000      | -         | -                        | -              | 5,000      | -        |
| Balances in vostro accounts                              | -                        | 30,970         | -          | -         | -                        | 10,659         | -          | -        |
| Provision against diminution in the value of investments | -                        | -              | 98,383     | -         | -                        | -              | 98,383     | -        |
| <b>TRANSACTIONS DURING THE YEAR</b>                      |                          |                |            |           |                          |                |            |          |
| Remuneration and benefits                                | 148,996                  | -              | -          | -         | 135,308                  | -              | -          | -        |
| Directors fee  | 5,991                    | -              | -          | -         | 8,773                    | -              | -          | -        |
| Commission income on guarantees                          | -                        | 94             | -          | -         | -                        | 246            | -          | -        |
| Counter confirmation charges on guarantees               | -                        | 14,307         | -          | -         | -                        | 8,886          | -          | -        |

|  | 2011                     |                |            |        | 2010                     |                |            |        |
|--|--------------------------|----------------|------------|--------|--------------------------|----------------|------------|--------|
|  | Key management personnel | Parent Company | Associates | Others | Key management personnel | Parent Company | Associates | Others |
|  | (Rupees in thousand)     |                |            |        |                          |                |            |        |
| Mark-up / return / interest expensed                         | 9,032                    | -              | -          | 5,151  | 7,656                    | -              | -          | 10,734 |
| Mark-up / return / interest income                           | 2,565                    | -              | -          | -      | 2,447                    | -              | -          | -      |
| Disposal of fixed assets                                     | -                        | -              | -          | -      | 537                      | -              | -          | -      |
| Group Services cost (including exchange loss on revaluation) | -                        | 15,065         | -          | -      | -                        | 30,000         | -          | -      |
| Received against unsubscribed portion of right issue         | -                        | -              | -          | -      | -                        | 1,010,184      | -          | -      |
| Issue of shares at par value                                 | -                        | -              | -          | -      | -                        | 5,564,563      | -          | -      |

39.1 All the above balances outstanding are unsecured, unless otherwise specified.

39.2 Details of loans and advances to the companies or firms in which the directors of the group are interested as directors, partners or in case of private companies as members, are given in note 10.7 to these financial statements. There were no transactions with key management personnel other than those that are entered into with them under the terms of their employment. Details of remuneration to the executives, investment in associates are disclosed in note 34 and note 9.5 to these financial statements.

#### 40. CAPITAL ADEQUACY

##### 40.1 Capital management

The objective of managing capital is to safeguard the Bank's ability to continue as a going concern, so that it could continue to provide adequate returns to shareholders by pricing products and services commensurately with the level of risk. It is the policy of the Bank to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

##### 40.2 Goals of managing capital

The goals of managing capital of the Bank are as follows:

- To be an appropriately capitalised institution, as defined by regulatory authorities and comparable to the peers;
- Maintain strong ratings and to protect the Bank against unexpected events;
- Availability of adequate capital (including the quantum) at a reasonable cost so as to enable the Bank to expand; and
- Achieve low overall cost of capital with appropriate mix of capital elements.

#### 40.3 Statutory minimum capital requirement and management of capital

The State Bank of Pakistan through its BSD Circular No. 7 dated April 15, 2009 requires the minimum paid up capital (net of losses) for Banks / Development Finance Institutions to be raised to Rs 10 billion by the year ending December 31, 2013. The raise is to be achieved in a phased manner requiring Rs 8 billion paid up capital (net of losses) by the end of the financial year 2011. The paid-up capital (net of losses) of the Bank stood at Rs 8.082 billion which is in compliance with the SBP requirement for the current year. Minimum capital requirement applicable to the Bank for the year 2012 and 2013 are noted in note 18.3. In addition, the banks are also required to maintain a minimum Capital Adequacy Ratio (CAR) of 10 percent of the risk weighted exposure of the Bank. The bank's CAR as at December 31, 2011 was approximately 43.41 (2010: 52.61) percent of its risk weighted exposure.

#### 40.4 Bank's regulatory capital analysed into following tiers

Tier 1 capital, includes fully paid up capital (including bonus shares), balance in share premium account, general reserves as per the financial statements, and net un-appropriated profits, etc after deductions for investments in the equity of subsidiaries engaged in banking and financial activities and deficit on revaluation of available for sale investments. Discount on issue of right shares is fully deducted from the calculation of Tier 1 capital.

Tier 2 capital, includes general provisions for loan losses (up to a maximum of 1.25 percent of risk weighted assets), reserves on the revaluation of fixed assets and equity investments (up to a maximum of 45 percent of the balance in the related revaluation reserves net of any deferred tax liability), foreign exchange translation reserves, etc.

Tier 3 supplementary capital, which consists of short term subordinated debt, is solely for the purpose of meeting a proportion of capital requirement for market risks. The Bank currently does not have any Tier 3 capital.

The Capital of the Bank is managed keeping in view the minimum "Capital Adequacy Ratio" required by SBP through BSD Circular No. 7 dated April 15, 2009. The adequacy of the capital is tested with reference to the risk-weighted assets of the Bank.

The required capital adequacy ratio (10 percent of the risk-weighted assets) is achieved by the Bank through improvement in the asset quality at the existing volume level, ensuring better recovery management and striking compromise proposal and settlement and composition of asset mix with low risk. Banking operations are categorised 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 assets and off-balance sheet exposures. The total risk-weighted exposures comprise the credit risk, market risk and operational risk.

The calculation of Capital Adequacy enables the Bank to assess the long-term soundness. As the Bank carries on the business on a wide area network basis, it is critical that the Bank is able to continuously monitor the exposure across the entire organisation and aggregate the risks so as to take an integrated approach / view. The Bank has complied with all externally imposed capital requirements throughout the period.

#### 40.5 Capital adequacy ratio

The capital to risk weighted assets ratio, calculated in accordance with the State Bank of Pakistan's guidelines on capital adequacy using Basel II standardised approach for credit and market risk and basic indicator approach for operational risk is presented below:

|   | 2011                 | 2010             |
|---|----------------------|------------------|
|   | (Rupees in thousand) |                  |
| <b>Regulatory capital base</b>  |                      |                  |
| <b>Tier I capital</b>   |                      |                  |
| Issued, subscribed and paid-up capital  | 14,334,734           | 14,334,734       |
| Advance share subscription money received against proposed issue of right shares                                | -                    | -                |
| Reserves  | 90,383               | 43,080           |
| Accumulated loss  | (6,252,347)          | (6,441,559)      |
| Other deductions:   |                      |                  |
| - Intangible assets   | (14,216)             | (14,150)         |
| - 50% of significant minority interest in financial entities (i.e. Bank's investment in closed-end mutual fund) | -                    | -                |
| - Deficit on revaluation of assets - net of tax   | -                    | (10,577)         |
| <b>Total Tier I Capital</b>   | <b>8,158,554</b>     | <b>7,911,528</b> |
| <b>Tier II Capital</b>  |                      |                  |
| General provisions subject to 1.25% of total risk weighted assets   | 11,400               | 28,101           |
| Surplus on revaluation of assets - net of tax (upto 45%)  | 4,274                | -                |
| Other deductions:   |                      |                  |
| 50% of significant minority interest in financial entities (i.e. Bank's investment in closed-end mutual fund)   | -                    | -                |
| <b>Total Tier II capital</b>  | <b>15,674</b>        | <b>28,101</b>    |
| <b>Eligible Tier III capital</b>  | <b>-</b>             | <b>-</b>         |
| <b>Total regulatory capital</b>   | <b>8,174,228</b>     | <b>7,939,629</b> |

(a)

|  | 2011                 |                     | 2010                |                     |
|--|----------------------|---------------------|---------------------|---------------------|
|  | Capital Requirement  | Risk adjusted Value | Capital Requirement | Risk adjusted Value |
| (Rupees in thousand)   |                      |                     |                     |                     |
| Risk-weighted exposures  |                      |                     |                     |                     |
| Credit risk  |                      |                     |                     |                     |
| Portfolios subject to standardized approach<br>(Simple Approach for CRM) |                      |                     |                     |                     |
| On-Balance Sheet Items:  |                      |                     |                     |                     |
| Public sector entities (PSEs)  | 186,593              | 1,865,926           | 75,513              | 755,132             |
| Banks and securities firms   | 26,353               | 263,533             | 86,233              | 862,325             |
| Corporate portfolio  | 931,181              | 9,311,806           | 656,459             | 6,564,587           |
| Retail non mortgages   | 17,215               | 172,154             | 44,085              | 440,845             |
| Mortgages – residential  | 10,359               | 103,590             | 9,905               | 99,048              |
| Equities   | 2,699                | 26,990              | 2,739               | 27,391              |
| Fixed Assets   | 88,939               | 889,392             | 98,726              | 987,262             |
| Others   | 251,436              | 2,514,362           | 240,406             | 2,404,058           |
| Past due exposures   | 7,153                | 71,528              | 11,529              | 115,290             |
| Market risk  |                      |                     |                     |                     |
| Capital requirement for portfolios subject<br>to standardized approach   |                      |                     |                     |                     |
| Interest rate risk   | 64,426               | 644,263             | 24,450              | 244,500             |
| Foreign exchange risk  | 69,323               | 693,230             | 77,713              | 777,125             |
| Operational risk   |                      |                     |                     |                     |
| Capital requirement for operational risks<br>(basic indicator approach)  | 227,352              | 2,273,519           | 181,313             | 1,813,125           |
| <b>TOTAL</b>   | <b>(b) 1,883,029</b> | <b>18,830,292</b>   | <b>1,509,069</b>    | <b>15,090,688</b>   |
| Capital adequacy ratio   |                      |                     |                     |                     |
| Total eligible regulatory capital held                                   | (a) 8,174,228        |                     | 7,939,629           |                     |
| Total risk weighted assets   | (b) 18,830,292       |                     | 15,090,688          |                     |
| Capital adequacy ratio   | [(a / b) x 100]      | 43.41%              | 52.61%              |                     |

- 40.6 Cash margin and government securities amounting to Rs 59.014 million (2010: Rs 65.784 million) have been deducted from gross advances using simple approach to credit risk mitigation under Basel II. Advances are not net off with general provision amounting to Rs 11.400 million (2010: Rs 28.101 million) which is reported separately in Tier II (supplementary) capital as per BSD circular letter number O3 dated May 20, 2006.
- 40.7 Cash margin and government securities amounting to Rs 15.273 million (2010: Rs 5.304 million) have been deducted from off-balance sheet items.
- 40.8 The capital charge for operational risk is a fixed percentage of average positive annual gross income of the Bank over past three years (including year 2011).

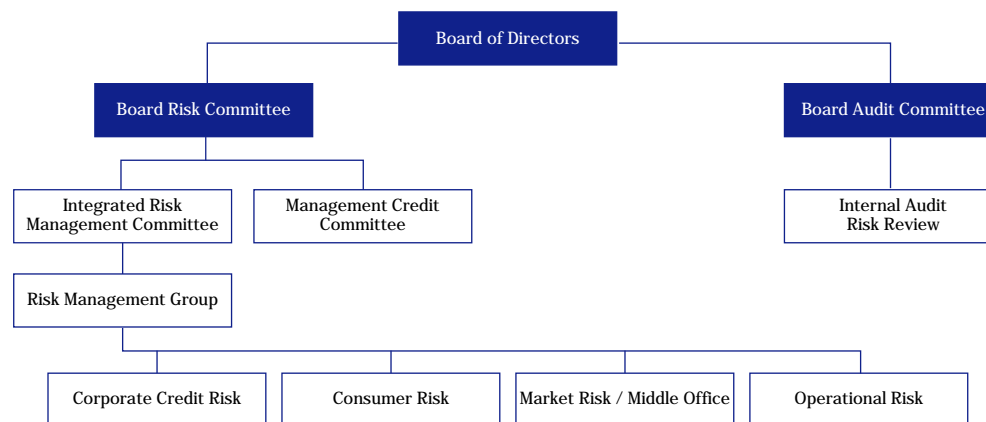
**41. RISK MANAGEMENT**

Risk can be defined as the combination of the probability of an event and its consequences. In all types of undertakings, there is the potential for events and consequences that constitute opportunities for benefit (upside) or threats to success (downside). Risk Management is increasingly recognized as being concerned with both positive and negative aspects of risk. However, as a matter of prudence it is generally recognized that consequences are only negative and therefore the management of safety risk is focused on prevention and mitigation of harm.

The types and degree of risk an organization may be exposed to depend upon its size, complexity in business activities, volume etc. Unless risks are assessed and measured it will not be possible to control risks. Further, an accurate assessment of risk gives management a clear view of the Bank’s standing and helps in deciding future action plans. Management of risk by banks in Pakistan is governed by rules and regulations set by the State Bank of Pakistan in its capacity as a regulator of banks.

SBL maintains a dedicated Risk Management organizational unit, independent from any business and reporting directly to the President & CEO through the Chief Risk Officer.

The Bank is exposed to a number of risks, such as credit, market, operational, liquidity, etc. The Board of Directors is ultimately responsible for the risk management function. In order to find an appropriate balance between risk and the desired level of return, the Board has formed certain specialized committees such as Integrated Risk Management Committee (IRMC), Management Credit Committee (MCC) and Asset and Liability Committee (ALCO) to manage these areas. These committees act within the Bank’s overall policies and Board delegated authorities. Integrated Risk Management Committee is a management committee which reviews and monitors risks associated with activities of specific areas. The Board Risk Committee oversees the risk management function, including credit risks, market risks, liquidity risks, and operational risks that can cause losses to the Bank, to ensure appropriate supervision and governance of the Bank.





#### 41.1 Credit Risk

Credit Risk is the risk of loss as a result of failure by a client or counterparty to meet its contractual obligations. Credit Risk arises from all transactions that give rise to actual, contingent or potential claims against any counterparty, borrower or obligor. The principal source of credit risk arises from loans and advances to Financial Institutions and Corporations.

##### (a) Credit Risk Management (CRM) Objectives & Policies

Specific credit risk management objectives are:

- To gain a clear and accurate understanding and independent assessment of the level of credit risk being undertaken, from the level of individual facilities up to the total portfolio.
- To develop and implement uniform and acceptable credit standards across the Bank.
- To ascertain that the overall risk of the Bank's corporate credit portfolio remains within manageable limits.
- To control and plan the taking of credit risk in conjunction with business, ensuring it is appropriately diversified and avoiding undesirable concentrations.
- To ensure that an effective CRM framework is in place that enables a proactive approach to identifying potential risks.
- To ensure that the balance sheet correctly reflects the value of the Bank's assets.

##### (b) CRM Organization and Structure

Taking credit risk is central to the business therefore it has been ensured that business managers in conjunction with risk managers are responsible for establishing and maintaining appropriate risk limits and risk management procedures.

##### (c) Credit Approval Authorities and Standardized Procedures

A system of checks and balances has been established around the extension of credit which is based on an independent risk management function and multiple credit approvers. Every extension of credit is required to be approved by authorized Credit Officers from business and risk.

The Credit Policy approved by the Board of Directors (BoD) include:

- Setting maximum exposure limits for a single obligor and for a single group of related obligors based upon the obligor risk rating of the customer and the group.
- Defining maximum exposure limit to an individual sector in terms of portfolio composition to avoid excessive concentration.
- Requirement to risk rate every obligor on the basis of a standard and approved internal credit risk rating policy.
- Setting consistent standards to be followed across the Corporate, Financial Institution Group for the origination, documentation and maintenance of extensions of credit. These standards include problem recognition, the classification process of problem credits and remedial action. Quarterly

reporting is made to the BoD on all credit exposures approved during the quarter, all changes in classification, provisions and write-offs taken during the quarter.

(d) Credit Risk Portfolio Management

The bank seeks to manage its credit risk exposure by ensuring that its customers meet the minimum credit standards as defined in the approved Credit Policy. It also seeks diversification of lending activities by ensuring that there is no undue concentration of risks within groups of customers, industry segments and tenor buckets.

The corporate portfolio is monitored through the Integrated Risk Management Committee (IRMC) which includes risk managers and President & CEO. The major functions of the IRMC pertaining to Credit Risk Management include:

- To establish and review the lending policies and standards that conforms to the regulations and the corporate policies.
- Manage and monitor the overall credit risk exposure of the Bank, in terms of the pre-defined limits.
- Develop and implement standards of credit quality.
- Regularly review, monitor and evaluate the quality of credit portfolio in the light of the approved limits.
- Review and approve the overall provisioning of the corporate portfolio.

(e) Risk Rating

The BoD has approved the Internal Credit Risk Rating Policy for the Corporate and Investment Banking Group. Through this policy, an appropriate rating mechanism has been devised for the purpose of identifying and measuring the credit risk against each obligor / transaction. The mechanism considers factors such as management, financial health, overall past performance at industry / country level, etc. and subsequently, the facility structuring / collateral and / or support (if any).

For the purpose of evaluating credit risk and assigning grades that illustrate the credit risk associated with the obligor, an Obligor Risk Rating model named "FARAS" Financial Analysis and Risk Assessment System (copyright of Samba Financial Group and licensed to the Bank for its use) Pakistan Version (modified to suit Pakistani economic environment) has been implemented. The model determines the Obligor Risk Rating (ORR) based on certain quantitative and qualitative information / assessment. It assigns grades from "2" to 7" (under the performing category), with sub-grades to denote a better or worse position than the full grade to a degree that is sufficient to be noted, but not material enough to require a full grade change (upgrade or downgrade). FARAS has been introduced, implemented and in use by the Corporate & Investment Banking Groups and forms an integral part of the Credit Approval process that materially helps in decision making.

The Bank has implemented a maker and checker control process for assigning the Final ORR to an obligor. The business managers are the makers and Independent Risk team is the checker and also approves the final assigned risk rating to an obligor.

ORRs ranging between "8" to "10" are assigned to classified obligors based upon an internal classification and remedial management process.

The Credit limits delegations under the Credit Policy are based on a grid that is driven by the assigned risk rating.

(f) Mitigants

A range of initiatives are used to mitigate credit risk.

Credit Principles and Policy

To ensure consistency and standardization across the Corporate, Financial Institution and Investment Banking Groups, standard credit procedures and policy are implemented through the BoD approved Credit Policy. This ensures clear definition of responsibilities of the business, risk, credit administration and remedial departments and provides a basis for a disciplined environment.

Counter Party Limits and Risk Rating

The maximum permitted per party limits under the credit delegations are derived as a function of the ORR of that obligor or group of obligors and therefore, acts as a check and balance on building up excessive obligor concentrations.

Concentration Risk

The Credit Policy provides limits for industry sector concentrations. Through the regular IRMC meetings on the portfolio composition, exposures are monitored to highlight any concentrations that may occur and future strategy is devised to prevent excessive concentration of risk.

Collateral

One of the mitigants is the collateral held against the credit exposures. The Credit Policy requires that collateral should always be realistically valued, providing margins, duly insured in favour of the Bank and giving the Bank a pari passu status with other lenders for similar transactions / nature of exposure. In case of a weak credit, facility specific support / guarantees are recommended as risk mitigation. To minimize the credit loss, seeking additional collateral from the obligor is recommended, as soon as impairment indicators are noticed in individual loans and advances.

Early Warning Mechanism

The Credit Policy and established procedures prescribe an early warning mechanism which the business managers are required to follow. Due to early problem recognition the business may seek additional collateral and exercise other such measures to stop further deterioration.

Target Market Screens (TM) and Risk Acceptance Criteria (RAC)

Industry Specific and Generic TM Screens & RACs have been approved and put in place as basic guiding rules.

Target Market (TM) Document

A Board approved TM document has been put in place after joint deliberation between Corporate & Investment Banking Group (CIBG) & Credit Risk Management (CRM). This defines the target market and risk appetite for the CIBG business and is reviewed on an annual basis. It serves as a guiding document for the relationship team and also acts as an effective risk management tool.

### Rapid Portfolio Reviews (RPR)

In order to assess the impact of any major event in the country that can have a negative impact on the health of the corporate portfolio, the entire portfolio is stressed through the RPR process. The RPRs conducted during the year related to the impact of the prevailing inter-circular debt, currency devaluation, gas supply curtailment, increase in cotton prices and subsequent fall in cotton prices leading to inventory losses on the financial health of textile sector obligors. The RPR is an effective risk management tool and has helped SBL in assessing the robustness of its portfolio and taking corrective actions in a timely and proactive manner.

#### (g) Remedial management and allowances for impairment

The approved procedures define the Classified Credit process to be followed in order to establish a consistent approach to problem recognition, problem labeling, remedial action, loan loss provisioning and the initiation of credit write-offs. Clear responsibilities are defined pertaining to all processes that are required to be followed, in order to have an effective remedial management set-up in place.

A Remedial Asset Committee comprising remedial, and risk managers and President & CEO, under the initiative of the Institutional Remedial Management Department, conducts regular reviews of the corporate credit classified portfolio and also recommends recovery / work-out plans, waivers and write-offs.

The Bank follows a very stringent loan loss reserve policy and as a result the impaired portfolio of the Bank is almost fully provisioned.

## 42. SEGMENTAL INFORMATION

### 42.1 Segment by class of business

|  | 2011                 |               |                      |               |                               |               |
|--|----------------------|---------------|----------------------|---------------|-------------------------------|---------------|
|  | Gross advances       |               | Deposits             |               | Contingencies and commitments |               |
|  | (Rupees in thousand) | Percent       | (Rupees in thousand) | Percent       | (Rupees in thousand)          | Percent       |
| Chemical and pharmaceuticals                 | 1,247,140            | 6.79          | 14,890               | 0.08          | 187,724                       | 1.00          |
| Agriculture, forestry, hunting and fishing   | 1,729                | 0.01          | 5,471                | 0.03          | -                             | -             |
| Textile                                      | 4,821,329            | 26.24         | 84,367               | 0.48          | 24,697                        | -             |
| Cement                                       | 399,000              | 2.17          | 166                  | -             | -                             | -             |
| Sugar  | 21,236               | 0.12          | 4,007                | 0.02          | -                             | -             |
| Footwear and leather garments                | 557,677              | 3.03          | 7,858                | 0.04          | 72,216                        | -             |
| Automobile and transportation services       | 1,328                | 0.01          | 1,052,227            | 5.96          | 225,295                       | 1.00          |
| Financial                                    | -                    | -             | 388,075              | 2.20          | 40,863                        | -             |
| Insurance                                    | 829                  | -             | 8,713                | 0.05          | -                             | -             |
| Electronics and electrical appliances        | 838,977              | 4.57          | 23,359               | 0.13          | -                             | -             |
| Construction                                 | 1,038,500            | 5.65          | -                    | -             | -                             | -             |
| Power (electricity), gas, water and sanitary | 3,237,600            | 17.62         | 597,778              | 3.38          | 466,110                       | 2.00          |
| Individuals                                  | 1,241,557            | 6.76          | 12,323,256           | 69.74         | -                             | -             |
| Manufacturing                                | 995,000              | 5.41          | -                    | -             | -                             | -             |
| Wholesale and retail trade                   | -                    | -             | -                    | -             | -                             | -             |
| Transport, storage and communication         | -                    | -             | -                    | -             | 1,000                         | -             |
| Services                                     | 4,393                | 0.02          | -                    | -             | -                             | -             |
| Paper and allied                             | 200,000              | 1.09          | -                    | -             | 300                           | -             |
| Oil marketing companies                      | 1,000,000            | 5.44          | -                    | -             | -                             | -             |
| Oil refinery                                 | 1,000,000            | 5.44          | -                    | -             | 5,210,558                     | 17.00         |
| Others                                       | 1,768,610            | 9.63          | 3,159,130            | 17.89         | 23,768,993                    | 79.00         |
|  | <u>18,374,905</u>    | <u>100.00</u> | <u>17,669,297</u>    | <u>100.00</u> | <u>29,997,756</u>             | <u>100.00</u> |

|  | 2010                 |               |                      |               |                               |               |
|--|----------------------|---------------|----------------------|---------------|-------------------------------|---------------|
|  | Gross advances       |               | Deposits             |               | Contingencies and commitments |               |
|  | (Rupees in thousand) | Percent       | (Rupees in thousand) | Percent       | (Rupees in thousand)          | Percent       |
| Chemical and pharmaceuticals                 | 1,003,881            | 6.81          | 19,653               | 0.13          | -                             | -             |
| Agriculture, forestry, hunting and fishing   | 1,729                | 0.01          | 14,987               | 0.10          | -                             | -             |
| Textile spinning                             | 3,862,379            | 26.19         | 68,428               | 0.46          | 10,387                        | 0.60          |
| Cement                                       | 399,855              | 2.71          | 29                   | -             | -                             | -             |
| Sugar  | 21,236               | 0.14          | 4,078                | 0.03          | -                             | -             |
| Footwear and leather garments                | 212,334              | 1.44          | 7,439                | 0.05          | 10,252                        | 0.59          |
| Automobile and transportation services       | 1,328                | 0.01          | 1,248,896            | 8.40          | 214,502                       | 12.41         |
| Financial                                    | -                    | -             | 375,634              | 2.53          | 312,914                       | 18.10         |
| Insurance                                    | 829                  | 0.01          | 13,163               | 0.09          | -                             | -             |
| Electronics and electrical appliances        | 38,977               | 0.26          | 8,108                | 0.05          | -                             | -             |
| Construction                                 | 1,035,500            | 7.02          | -                    | -             | -                             | -             |
| Power (electricity), gas, water and sanitary | 2,867,102            | 19.44         | 399,922              | 2.69          | -                             | -             |
| Individuals                                  | 1,719,713            | 11.66         | 9,063,740            | 60.95         | -                             | -             |
| Manufacturing                                | -                    | -             | -                    | -             | 159,317                       | 9.21          |
| Wholesale and retail trade                   | 511,725              | 3.47          | -                    | -             | -                             | -             |
| Oil refinery                                 | 1,000,000            | 6.78          | -                    | -             | 800,000                       | 46.27         |
| Oil Marketing Companies                      | 999,846              | 6.78          | -                    | -             | -                             | -             |
| Others                                       | 1,070,887            | 7.27          | 3,647,729            | 24.52         | 221,545                       | 12.82         |
|  | <u>14,747,321</u>    | <u>100.00</u> | <u>14,871,806</u>    | <u>100.00</u> | <u>1,728,917</u>              | <u>100.00</u> |

#### 42.2 Segment by sector

|                     | 2011                 |               |                      |               |                               |               |
|---------------------|----------------------|---------------|----------------------|---------------|-------------------------------|---------------|
|                     | Gross advances       |               | Deposits             |               | Contingencies and commitments |               |
|                     | (Rupees in thousand) | Percent       | (Rupees in thousand) | Percent       | (Rupees in thousand)          | Percent       |
| Public / Government | 3,346,220            | 18.21         | 925,435              | 5.24          | 9,251,124                     | 30.84         |
| Private             | 15,028,685           | 81.79         | 16,743,862           | 94.76         | 20,746,632                    | 69.16         |
|                     | <u>18,374,905</u>    | <u>100.00</u> | <u>17,669,297</u>    | <u>100.00</u> | <u>29,997,756</u>             | <u>100.00</u> |

|                     | 2010                 |               |                      |               |                               |               |
|---------------------|----------------------|---------------|----------------------|---------------|-------------------------------|---------------|
|                     | Gross advances       |               | Deposits             |               | Contingencies and commitments |               |
|                     | (Rupees in thousand) | Percent       | (Rupees in thousand) | Percent       | (Rupees in thousand)          | Percent       |
| Public / Government | 3,775,660            | 25.60         | 1,501,408            | 10.10         | -                             | -             |
| Private             | 10,971,661           | 74.40         | 13,370,398           | 89.90         | 1,728,917                     | 100.00        |
|                     | <u>14,747,321</u>    | <u>100.00</u> | <u>14,871,806</u>    | <u>100.00</u> | <u>1,728,917</u>              | <u>100.00</u> |

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

|   | 2011                 |                          | 2010                |                          |
|---|----------------------|--------------------------|---------------------|--------------------------|
|   | Classified advances  | Specific provisions held | Classified advances | Specific provisions held |
|   | (Rupees in thousand) |                          |                     |                          |
| Chemical and pharmaceuticals  | 1,156                | 859                      | 4,544               | 855                      |
| Agriculture, forestry, hunting and fishing                                | 950                  | 585                      | 950                 | 585                      |
| Textile   | 748,624              | 742,758                  | 752,592             | 746,776                  |
| Sugar   | 21,236               | 21,236                   | 21,236              | 21,236                   |
| Footwear and leather garments   | 17,334               | 16,142                   | 17,334              | 16,142                   |
| Automobile and transportation services                                    | 1,328                | 1,228                    | 1,328               | 1,228                    |
| Insurance   | 829                  | 729                      | 829                 | 729                      |
| Electronics and electrical appliances                                     | 38,977               | 38,677                   | 38,977              | 38,677                   |
| Power (electricity), gas, water, sanitary                                 | 591,383              | 591,383                  | 591,383             | 591,383                  |
| Individuals   | 709,404              | 646,968                  | 768,861             | 667,187                  |
| Services  | 4,393                | 3,077                    | -                   | -                        |
| Others  | 483,796              | 468,536                  | 513,265             | 496,636                  |
|   | <u>2,619,410</u>     | <u>2,532,178</u>         | <u>2,711,299</u>    | <u>2,581,434</u>         |
| 42.4 Details of non-performing advances and specific provisions by sector |                      |                          |                     |                          |
| Public / government   | -                    | -                        | -                   | -                        |
| Private   | 2,619,410            | 2,532,178                | 2,711,299           | 2,581,434                |
|   | <u>2,619,410</u>     | <u>2,532,178</u>         | <u>2,711,299</u>    | <u>2,581,434</u>         |

42.5 Geographical segment analysis

|          | 2011                   |                       |                     |                               |
|----------|------------------------|-----------------------|---------------------|-------------------------------|
|          | Profit before taxation | Total assets employed | Net assets employed | Contingencies and commitments |
|          | (Rupees in thousand)   |                       |                     |                               |
| Pakistan | <u>200,894</u>         | <u>31,330,972</u>     | <u>8,182,267</u>    | <u>29,997,756</u>             |

| 2010                 |                       |                     |                               |
|----------------------|-----------------------|---------------------|-------------------------------|
| loss before taxation | Total assets employed | Net assets employed | Contingencies and commitments |
| (Rupees in thousand) |                       |                     |                               |

|          |           |            |           |           |
|----------|-----------|------------|-----------|-----------|
| Pakistan | (130,296) | 30,511,120 | 7,925,678 | 1,728,917 |
|----------|-----------|------------|-----------|-----------|

The bank does not have any overseas operations, therefore its entire geographical dispersion arises inside Pakistan.

#### 42.6 Credit Risk – General Disclosures, Basel II Specific

The bank has adopted Standardized Approach, under Basel II. According to the regulatory statement submitted under the Standardized Approach, the portfolio has been divided into Claims on Public Sector Entities in Pakistan (PSEs), claims on corporate (excluding equity exposure) and claims categorized as retail portfolio. Claims on corporate constitute 75% of the total exposure, 21% represents claims on PSEs, 2% represents retail non-mortgages and the remaining 2% exposure pertains to claims categorized as mortgage residential portfolio.

#### 42.7 Credit Risk: standardized approach

Currently the bank does not have any policy whereby customers have to be rated by a rating agency. Therefore, the Bank uses unsolicited / solicited ratings of JCR-VIS, PACRA and other foreign agencies wherever applicable.

Following are the types of exposure for which each agency is used:

| Exposure    | JCR-VIS | PACRA | Fitch, Moody's & S&P |
|-------------|---------|-------|----------------------|
| Corporate   | ✓       | ✓     | -                    |
| Banks       | ✓       | ✓     | ✓                    |
| Sovereigns  | -       | -     | -                    |
| SME's       | -       | -     | -                    |
| Securitized | -       | -     | -                    |

Most of the Bank's asset base is short or medium term. Therefore, the Bank uses the entity's rating to assess the risk of our exposure without any adjustments.

For exposure amounts after risk mitigation subject to the standardized approach, amount of bank's/DFI's outstanding (rated & unrated) in each risk bucket as well as those that are deducted are as follows:

| Exposure                            | Rating category No. | Amount outstanding | Deduction CRM* | Net Amount        |
|-------------------------------------|---------------------|--------------------|----------------|-------------------|
| Corporate                           | 1-4                 | 14,009,720         | -              | 14,009,720        |
| Banks                               | 1-5                 | 864,043            | -              | 864,043           |
| Sovereigns (local govt. securities) | N/A                 | 9,641,623          | -              | 9,641,623         |
| Unrated                             |                     | 7,882,911          | 37,439         | 7,845,472         |
| <b>Total</b>                        |                     | <b>32,398,298</b>  | <b>37,439</b>  | <b>32,360,859</b> |

\*CRM= Credit Risk Mitigation

Eligible financial collateral and other eligible collateral after the application of haircuts

The Bank has adopted simple approach to credit risk mitigation under Basel II and therefore has not applied any haircuts to the collateral. Moreover eligible collateral only includes cash / liquid securities.

Main types of collateral taken by the bank are:-

- Cash margin
- Lien on deposits / government securities
- Hypothecation on stocks / assets
- Mortgage on properties

#### 42.8 Market risk

The Bank is exposed to market risk which is the risk that the value of on and off-balance sheet exposures of the Bank will be adversely affected by movements in market rates or prices such as interest rates, foreign exchange rates, equity prices, credit spreads and/or commodity prices resulting in a loss to earnings and capital.

##### 42.8.1 Principal sources of Market Risks in both Trading Book and Banking Book

###### Price Risk

Price risk is the risk that there may be financial loss as a result of a change in the level or volatility of interest rates, foreign exchange rates, and commodity or equity prices.

###### Liquidity Risk

Liquidity risk is the risk that any bank, business and its entities, will be unable to meet a financial commitment when due.



## Differentiation between trading and banking book

### Trading Book

- Positions that are assumed to be held for short term
- Securities are to be sold within 90 days from the date of their classification as held for trading under normal circumstances.
- They are marked-to-market (MTM) daily
- Any MTM difference affects the profit and loss (P&L) account

### Banking Book

- Securities holding intention is for long term
- Sale before maturity is permitted
- Positions are MTM periodically
- MTM differences affect the equity
- Interest income / expense affecting profit and loss account

## 42.9 Market Risk Management

### 42.9.1 Objectives

Market risk is the risk to a bank's financial condition resulting from adverse movements in market prices. Accurately measuring a bank's market risk requires timely information about the current market values of its assets, liabilities, and off-balance sheet positions. Market risks arise from factors such as changing interest rates and currency exchange rates, the liquidity of markets for specific commodities or financial instruments, and local or world political and economic events. All of these sources of potential market risk can affect the value of the institution and should be considered in the market risk measurement process.

Management of market risk aims to control related risk exposure while ensuring that earnings commensurate with levels of risk.

The Bank has approved market risk policy encompassing market risk limit framework where all relevant market factors have been identified and taken into consideration in the establishment of the independent market risk limit frameworks. The policy also articulates standards for defining, measuring and communicating market risk.

The Bank has established quantitative limits related to market risk and has also set limits for the maximum amount of losses arising from market activities as under:

#### 42.9.2 Price Risk Management

Trading book is controlled through:

- Factor Sensitivity and associated limits
- Value at Risk (VaR) limits
- Trading – Action Triggers

Banking book is controlled through:

- Factor Sensitivity and associated limits
- DVO1 limits
- Triggers – Simplified Action triggers

#### 42.9.3 Structure and Organization of the market risk management



#### 42.9.4 Market Risk Management Function

- Monitoring compliance with all the market risk management policies and procedures of the treasury function as approved by the Board of Directors.
- Identify and specify all relevant market factors for each risk-taking unit.
- Monitoring the day-to-day dealings of the front office against the pre-determined tolerable limits.
- Ensuring that the following are reflected in the periodic (at least quarterly) profit and loss account:
  - All transactions executed; and
  - Current independent market data used with respect to revaluation.
- Dealer limits monitoring and excess reporting.
- Test-reviews of recorded telephone conversations for Treasury deal confirmations and related telephone recordings through MYNA (computer software) voice recording process.

- As per new Rate Reasonability Review Process document, any transaction outside the agreed tolerance band will be reviewed and highlighted by Market Risk.
- Review the factor sensitivity, VaR and stress testing methodologies and results for reasonableness, consistency and completeness.
- Preparing forecasts (simulations) showing the effect of various possible changes in market conditions relating to risk exposures and ensure their integrity.
- Prepare various maturity GAP reports.
- Prepare market risk dashboard for IRMC and senior management.
- Finalized methodologies to calculate risks under Pillar I & II for ICAAP Framework.
- Jointly develop, with business, standard stress test scenarios and review the standard stress test library at least annually.
- Review the bank's capital adequacy.

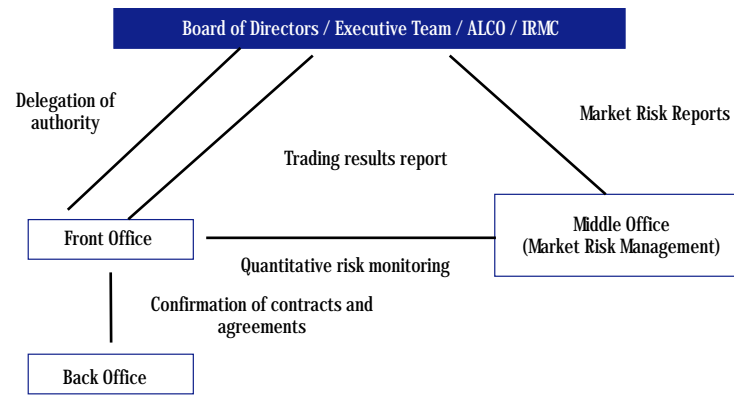
#### 42.9.5 Scope and nature of Risk Reporting

- It is the policy of the bank that a comprehensive set of market risk data, generated through the businesses' risk-taking activities, is identified and communicated throughout the applicable business, IRMC and Senior Management.
- It is the responsibility of Market Risk Management to define, construct and maintain an independent market risk reporting framework that effectively, consistently and meaningfully communicates risks, risk appetite and the quality of earnings.
- At a minimum, market risk reports are produced for each risk-taking unit, consistent with the level at which the independent market risk limit frameworks are established. However, additional market risk reports may be produced if Market Risk Management determine that the level and/or nature of the risk within a business warrant inclusion in the market risk reporting packages.
- The market risk data and other data used to populate the independent market risk reports should be from independent risk systems or other independent support systems (e.g., general ledger). If the information available in the independent systems is not sufficiently comprehensive, any other data used to populate the reports must be subject to a reconciliation process to ensure its integrity.
- It is the responsibility of Market Risk Management and the business to assist in the quality control process by reviewing the reports for reasonableness, consistency and completeness.

#### 42.9.6 Market Risk Management System

The Bank has acquired market risk software to manage the market risks from its trading and non-trading activities.

At each level, checks and balances are maintained through a system in which back and middle offices operate independently from front offices. In addition, ALCO and IRMC meetings are held respectively every month / quarter to deliberate important matters related to market risk and control.



#### 42.10 Market Risk Measurement Model

Since the daily variation in market risk is significantly greater than with other types of risk, the Bank measures and manages market risk using VaR on a daily basis.

Market risk for trading and non-trading activities is measured using a uniformed market risk measurement model. The principle model used for these activities is historical simulation (HS) model (holding period, 10 days; confidence interval, 99%; and observation period, 365 business days). The HS model calculates VaR amount by estimating the profit and loss on the current portfolio by applying actual fluctuations in the market rates and prices over a fixed period in the past. This method is capable of capturing certain statistically infrequent movements, e.g., a fat tail, and accounts for the characteristics of financial instruments with non-linear behaviour. However, the Bank is not using this model to calculate Basel II regulatory capital adequacy ratios.

The Bank is using the following components for measuring market risk factors:

- Factor Sensitivities
- Volatility and Correlation Calculations
- Value-at-Risk (VaR)
- Stress Testing
- Back Testing

#### 42.11 Foreign exchange risk

The foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The risk is managed through State Bank of Pakistan's forward covers and other hedging instruments. Overall foreign exchange risk is managed by dealing in authorized currencies, devising separate authority matrices for different types of foreign currency transactions and assigning the ceilings of exposures to parties. Foreign exchange open and mismatch positions controlled through internal limits and are marked to market on a daily basis to contain forward exposures.

| 2011                 |                   |                   |                         |                               |
|----------------------|-------------------|-------------------|-------------------------|-------------------------------|
|                      | Assets            | Liabilities       | Off-balance sheet items | Net foreign currency exposure |
| (Rupees in thousand) |                   |                   |                         |                               |
| Pakistan Rupee       | 30,871,272        | 21,631,057        | (1,608,220)             | 7,631,995                     |
| United States Dollar | 366,698           | 1,362,276         | 1,667,083               | 671,505                       |
| Great Britain Pound  | 38,372            | 70,434            | (110,896)               | (142,958)                     |
| Japanese Yen         | 4,050             | -                 | -                       | 4,050                         |
| Euro                 | 38,924            | 83,538            | 52,033                  | 7,419                         |
| Other currencies     | 11,656            | 1,400             | -                       | 10,256                        |
|                      | <u>31,330,972</u> | <u>23,148,705</u> | <u>-</u>                | <u>8,182,267</u>              |

| 2010                 |                   |                   |                         |                               |
|----------------------|-------------------|-------------------|-------------------------|-------------------------------|
|                      | Assets            | Liabilities       | Off-balance sheet items | Net foreign currency exposure |
| (Rupees in thousand) |                   |                   |                         |                               |
| Pakistan Rupee       | 28,733,096        | 20,788,036        | (796,504)               | 7,148,556                     |
| United States Dollar | 1,676,431         | 1,624,382         | 708,416                 | 760,465                       |
| Great Britain Pound  | 40,884            | 73,931            | 37,164                  | 4,117                         |
| Japanese Yen         | 5,209             | -                 | -                       | 5,209                         |
| Euro                 | 51,011            | 98,973            | 50,924                  | 2,962                         |
| Other currencies     | 4,489             | 120               | -                       | 4,369                         |
|                      | <u>30,511,120</u> | <u>22,585,442</u> | <u>-</u>                | <u>7,925,678</u>              |

#### 42.12 Equity position risk

Equity position risk in trading book arises due to changes in prices of individual stocks or levels of equity indices. Currently, the Bank's equity investments comprises of Available for Sale (AFS) portfolio only. The AFS portfolio is maintained with a medium-term view of capital gains and dividend income.

#### 43. MISMATCH OF INTEREST RATE SENSITIVE ASSETS AND LIABILITIES

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve. Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in market interest rates. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Bank monitors this risk and manages it by repricing of assets and liabilities with the objective of limiting the potential adverse effects on the profitability of the Bank.

The Bank's interest rate sensitivity position based on the earlier of contractual re-pricing or maturity date is as follows:

| 2011  |                      |                                       |                    |                    |                         |                   |                   |                   |                    |                  |  |                    |
|---|----------------------|---------------------------------------|--------------------|--------------------|-------------------------|-------------------|-------------------|-------------------|--------------------|------------------|--|--------------------|
| Effective yield/<br>interest rate                       | Total                | Exposed to yield / interest rate risk |                    |                    |                         |                   |                   |                   |                    |                  | Non-interest bearing financial instruments |                    |
|   |                      | Upto one 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 thousand) |                                       |                    |                    |                         |                   |                   |                   |                    |                  |  |                    |
| <b>On-balance sheet financial instruments</b>           |                      |                                       |                    |                    |                         |                   |                   |                   |                    |                  |  |                    |
| <b>Assets</b>   |                      |                                       |                    |                    |                         |                   |                   |                   |                    |                  |  |                    |
| Cash and balances with treasury banks                   | -                    | 1,463,306                             | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -                | -  | 1,463,306          |
| Balances with other banks                               | -                    | 59,384                                | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -                | -  | 59,384             |
| Lendings to financial institutions                      | 12.00%               | 803,459                               | 403,459            | 400,000            | -                       | -                 | -                 | -                 | -                  | -                | -  | -                  |
| Investments - net                                       | 12.64%               | 9,663,613                             | -                  | 3,995,402          | 1,625,334               | 3,207,068         | 506,886           | 113,847           | 193,086            | -                | -  | 21,990             |
| Advances - net  | 13.13%               | 15,831,327                            | 6,856,044          | 5,143,958          | 3,189,113               | 120,083           | 122,865           | 28,774            | 106,036            | 80,568           | 122,468                                    | 61,418             |
| Other assets  | -                    | 475,534                               | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -                | -  | 475,534            |
|   |                      | <u>28,296,623</u>                     | <u>7,259,503</u>   | <u>9,539,360</u>   | <u>4,814,447</u>        | <u>3,327,151</u>  | <u>629,751</u>    | <u>142,621</u>    | <u>299,122</u>     | <u>80,568</u>    | <u>122,468</u>                             | <u>2,081,632</u>   |
| <b>Liabilities</b>                                      |                      |                                       |                    |                    |                         |                   |                   |                   |                    |                  |  |                    |
| Bills payable   | -                    | 529,005                               | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -                | -  | 529,005            |
| Borrowings  | 11.84%               | 3,996,032                             | 1,819,426          | 1,775,230          | 320,000                 | 9,840             | 19,680            | 19,680            | 9,840              | -                | -  | 22,336             |
| Deposits and other accounts                             | 7.40%                | 17,669,297                            | 8,832,927          | 2,529,465          | 1,336,604               | 520,033           | 18,980            | 22,300            | -                  | -                | -  | 4,408,988          |
| Other liabilities                                       | -                    | 689,833                               | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -                | -  | 689,833            |
|   |                      | <u>22,884,167</u>                     | <u>10,652,353</u>  | <u>4,304,695</u>   | <u>1,656,604</u>        | <u>529,873</u>    | <u>38,660</u>     | <u>41,980</u>     | <u>9,840</u>       | <u>-</u>         | <u>-</u>                                   | <u>5,650,162</u>   |
| <b>On-balance sheet gap</b>                             |                      | <u>5,412,456</u>                      | <u>(3,392,850)</u> | <u>5,234,665</u>   | <u>3,157,843</u>        | <u>2,797,278</u>  | <u>591,091</u>    | <u>100,641</u>    | <u>289,282</u>     | <u>80,568</u>    | <u>122,468</u>                             | <u>(3,568,530)</u> |
| <b>Cumulative Yield / Interest Risk Sensitivity Gap</b> |                      |                                       | <u>(3,392,850)</u> | <u>1,841,815</u>   | <u>4,999,658</u>        | <u>7,796,936</u>  | <u>8,388,027</u>  | <u>8,488,668</u>  | <u>8,777,950</u>   | <u>8,858,518</u> | <u>8,980,986</u>                           |                    |

| 2010  |                      |                                       |                    |                    |                         |                   |                   |                   |                    |                |  |             |
|---|----------------------|---------------------------------------|--------------------|--------------------|-------------------------|-------------------|-------------------|-------------------|--------------------|----------------|--|-------------|
| Effective yield/<br>interest rate                   | Total                | Exposed to yield / interest rate risk |                    |                    |                         |                   |                   |                   |                    |                | Non-interest bearing financial instruments |             |
|   |                      | Upto one 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 thousand) |                                       |                    |                    |                         |                   |                   |                   |                    |                |  |             |
| <b>On-balance sheet financial instruments</b>       |                      |                                       |                    |                    |                         |                   |                   |                   |                    |                |  |             |
| <b>Assets</b>                                       |                      |                                       |                    |                    |                         |                   |                   |                   |                    |                |  |             |
| Cash and balances with treasury banks               | -                    | 1,250,011                             | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -  | 1,250,011   |
| Balances with other banks                           | -                    | 1,195,426                             | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -  | 1,195,426   |
| Lendings to financial institutions                  | 11.48%               | 1,389,003                             | 1,289,003          | 100,000            | -                       | -                 | -                 | -                 | -                  | -              | -  | -           |
| Investments - net                                   | 11.28%               | 11,090,906                            | 4,276,316          | 5,891,297          | 480,787                 | -                 | -                 | 420,114           | -                  | -              | -  | 22,392      |
| Advances - net                                      | 12.98%               | 12,137,786                            | 1,871,962          | 5,608,230          | 3,694,184               | 21,505            | 391,237           | 211,548           | 52,384             | 73,357         | 146,906                                    | 66,473      |
| Other assets  | -                    | 370,176                               | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -  | 370,176     |
|   |                      | 27,433,308                            | 7,437,281          | 11,599,527         | 4,174,971               | 21,505            | 391,237           | 211,548           | 472,498            | 73,357         | 146,906                                    | 2,904,478   |
| <b>Liabilities</b>                                  |                      |                                       |                    |                    |                         |                   |                   |                   |                    |                |  |             |
| Bills payable                                       | -                    | 115,759                               | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -  | 115,759     |
| Borrowings  | 9.85%                | 6,534,994                             | 5,358,724          | 825,216            | 250,000                 | -                 | -                 | -                 | 78,718             | -              | -  | 22,336      |
| Deposits and other accounts                         | 7.82%                | 14,871,806                            | 7,216,747          | 1,526,358          | 623,480                 | 1,112,342         | 21,830            | 22,300            | -                  | -              | -  | 4,348,749   |
| Liabilities against assets subject to finance lease | -                    | 279                                   | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -  | 279         |
| Other liabilities                                   | -                    | 795,490                               | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -  | 795,490     |
|   |                      | 22,318,328                            | 12,575,471         | 2,351,574          | 873,480                 | 1,112,342         | 21,830            | 22,300            | 78,718             | -              | -  | 5,282,613   |
| On-balance sheet gap                                |                      | 5,114,980                             | (5,138,190)        | 9,247,953          | 3,301,491               | (1,090,837)       | 369,407           | 189,248           | 393,780            | 73,357         | 146,906                                    | (2,378,135) |
| Cumulative Yield / Interest Risk Sensitivity Gap    |                      |                                       | (5,138,190)        | 4,109,763          | 7,411,254               | 6,320,417         | 6,689,824         | 6,879,072         | 7,272,852          | 7,346,209      | 7,493,115                                  |             |

#### 44. LIQUIDITY RISK

##### Liquidity risk management

The objective is to establish standards for defining, measuring and reporting liquidity risk in order to ensure the transparency and comparability of liquidity risk-taking activities.

Liquidity risk is being monitored through the following:

(a) Gap Analysis: Market Access Report (MAR)

Market Access Report is a key tool in monitoring the current liquidity position of the bank and it measures the 'gaps' over various time horizons, based on a business as usual assumption that asset levels remain constant. MAR quantifies the daily and cumulative gap in a business-as-usual environment. The gap for any given tenor bucket represents the borrowings from, or placements to, the markets (internal or external), required to replace maturing liabilities or assets. MAR Limits establish a boundary for how much incremental funding is appropriate, relative to the size of statement of financial position and market capacity.

(b) Stress Scenario

Stress test is intended to quantify the likely impact of an event on the balance sheet and the net potential cumulative gap over a 3-month period, and to ascertain what incremental funding may be required under the defined stress scenario. The scenario is proposed by the Market Risk Management at a minimum on an annual basis, endorsed by the treasurer, and are approved by the board of directors.

(c) Scope and nature of Risk Reporting

- It is the policy of the bank that the comprehensive set of liquidity risk data, generated through the businesses' risk-taking activities, is identified and communicated throughout the applicable business, treasury, and senior management.
- Market Risk is responsible to construct and maintain an independent liquidity risk-reporting framework that effectively, consistently and meaningfully communicates risks and risk appetite.
- Treasurer is responsible to ensure the completeness and integrity of the liquidity risk data, and that the data can be effectively reported into the independent risk systems.
- ALCO, the Treasurer and the market risk managers are responsible for assisting in the quality control process by reviewing the reports for reasonableness, consistency and completeness.

(d) Mitigating Liquidity risk and processes for continuous monitoring

The following tools are being used in order to monitor the liquidity risk

- Market Access Report (MAR)
- Stress Scenario
- Liquidity Ratios
- Significant Funding Sources (large funds providers)
- Contingency Funding Plans



#### 45. MATURITIES OF ASSETS AND LIABILITIES

|                                       | 2011              |                  |                    |                    |                         |                   |                   |                   |                    |                |
|---------------------------------------|-------------------|------------------|--------------------|--------------------|-------------------------|-------------------|-------------------|-------------------|--------------------|----------------|
|                                       | Total             | Upto one month   | Over 1 to 3 months | Over 3 to 6 months | Over 6 months to 1 year | Over 1 to 2 years | Over 2 to 3 years | Over 3 to 5 years | Over 5 to 10 years | Above 10 years |
| <b>(Rupees in thousand)</b>           |                   |                  |                    |                    |                         |                   |                   |                   |                    |                |
| <b>Assets</b>                         |                   |                  |                    |                    |                         |                   |                   |                   |                    |                |
| Cash and balances with treasury banks | 1,463,306         | 770,433          | 156,948            | 122,348            | 153,894                 | 87,495            | 87,584            | 84,604            | -                  | -              |
| Balances with other banks             | 59,384            | 59,384           | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              |
| Lendings to financial institutions    | 803,459           | 403,459          | 400,000            | -                  | -                       | -                 | -                 | -                 | -                  | -              |
| Investments - net                     | 9,663,613         | -                | 3,995,402          | 1,625,334          | 3,229,058               | 506,886           | 113,847           | 193,086           | -                  | -              |
| Advances - net                        | 15,831,327        | 6,977,707        | 2,921,685          | 916,673            | 642,818                 | 823,356           | 84,236            | 760,861           | 2,475,247          | 228,744        |
| Operating fixed assets                | 903,608           | 13,453           | 44,800             | 34,642             | 52,745                  | 116,870           | 69,052            | 61,672            | 50,422             | 459,952        |
| Deferred tax assets                   | 1,436,135         | -                | -                  | -                  | 52,444                  | 60,433            | 69,207            | 74,018            | 1,180,033          | -              |
| Other assets                          | 1,170,140         | 451,174          | 25,853             | 53,284             | 44,157                  | 48,453            | 7,687             | 539,532           | -                  | -              |
|                                       | <b>31,330,972</b> | <b>8,675,610</b> | <b>7,544,688</b>   | <b>2,752,281</b>   | <b>4,175,116</b>        | <b>1,643,493</b>  | <b>431,613</b>    | <b>1,713,773</b>  | <b>3,705,702</b>   | <b>688,696</b> |
| <b>Liabilities</b>                    |                   |                  |                    |                    |                         |                   |                   |                   |                    |                |
| Bills payable                         | 529,005           | 529,005          | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              |
| Borrowings                            | 3,996,032         | 1,819,426        | 1,775,231          | 320,000            | 9,840                   | 19,680            | 19,679            | 32,176            | -                  | -              |
| Deposits and other accounts           | 17,669,297        | 5,479,931        | 3,370,471          | 2,355,977          | 2,347,752               | 1,395,126         | 1,397,368         | 1,322,672         | -                  | -              |
| Other liabilities                     | 954,371           | 195,148          | 43,511             | 22,992             | 413,157                 | 710               | -                 | 278,853           | -                  | -              |
|                                       | <b>23,148,705</b> | <b>8,023,510</b> | <b>5,189,213</b>   | <b>2,698,969</b>   | <b>2,770,749</b>        | <b>1,415,516</b>  | <b>1,417,047</b>  | <b>1,633,701</b>  | <b>-</b>           | <b>-</b>       |
| <b>Net assets</b>                     | <b>8,182,267</b>  | <b>652,100</b>   | <b>2,355,475</b>   | <b>53,312</b>      | <b>1,404,367</b>        | <b>227,977</b>    | <b>(985,434)</b>  | <b>80,072</b>     | <b>3,705,702</b>   | <b>688,696</b> |
| <b>Represented by:</b>                |                   |                  |                    |                    |                         |                   |                   |                   |                    |                |
| Share capital                         | 14,334,734        |                  |                    |                    |                         |                   |                   |                   |                    |                |
| Reserves                              | 90,383            |                  |                    |                    |                         |                   |                   |                   |                    |                |
| Accumulated loss                      | (6,252,347)       |                  |                    |                    |                         |                   |                   |                   |                    |                |
|                                       | 8,172,770         |                  |                    |                    |                         |                   |                   |                   |                    |                |
| Surplus on revaluation of assets      | 9,497             |                  |                    |                    |                         |                   |                   |                   |                    |                |
|                                       | <b>8,182,267</b>  |                  |                    |                    |                         |                   |                   |                   |                    |                |

| 2010  |                |                    |                    |                         |                   |                   |                   |                    |                |
|---|----------------|--------------------|--------------------|-------------------------|-------------------|-------------------|-------------------|--------------------|----------------|
| Total   | Upto one 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 thousand)                                |                |                    |                    |                         |                   |                   |                   |                    |                |
| <b>Assets</b>                                       |                |                    |                    |                         |                   |                   |                   |                    |                |
| Cash and balances with treasury banks               | 1,250,011      | 1,250,011          | -                  | -                       | -                 | -                 | -                 | -                  | -              |
| Balances with other banks                           | 1,195,948      | 1,195,426          | -                  | -                       | -                 | -                 | -                 | -                  | 522            |
| Lendings to financial institutions                  | 1,389,003      | 1,289,003          | 100,000            | -                       | -                 | -                 | -                 | -                  | -              |
| Investments - net                                   | 11,090,905     | 4,276,316          | 5,881,297          | 480,787                 | 10,000            | -                 | 420,114           | -                  | 22,391         |
| Advances - net                                      | 12,137,786     | 1,108,211          | 1,995,757          | 2,160,468               | 1,724,369         | 2,410,826         | 961,386           | 1,525,208          | 229,144        |
| Operating fixed assets                              | 1,001,413      | 20,922             | 25,163             | 42,345                  | 56,420            | 92,974            | 75,014            | 89,059             | 125,009        |
| Deferred tax assets                                 | 1,601,463      | -                  | -                  | -                       | -                 | -                 | -                 | -                  | 1,601,463      |
| Other assets  | 844,591        | 341,021            | 33,681             | 21,782                  | 33,741            | 32,588            | 28,470            | 20,424             | 332,880        |
|   | 30,511,120     | 9,480,910          | 8,035,898          | 2,705,382               | 1,824,530         | 2,536,388         | 1,064,870         | 2,054,805          | 2,288,496      |
|   |                |                    |                    |                         |                   |                   |                   |                    | 519,841        |
| <b>Liabilities</b>                                  |                |                    |                    |                         |                   |                   |                   |                    |                |
| Bills payable                                       | 115,759        | 115,759            | -                  | -                       | -                 | -                 | -                 | -                  | -              |
| Borrowings  | 6,534,994      | 6,183,940          | 250,000            | -                       | -                 | -                 | 78,718            | -                  | 22,336         |
| Deposits and other accounts                         | 14,871,806     | 11,565,495         | 1,526,358          | 623,480                 | 1,112,343         | 21,830            | 22,300            | -                  | -              |
| Liabilities against assets subject to finance lease | 279            | -                  | 279                | -                       | -                 | -                 | -                 | -                  | -              |
| Other liabilities                                   | 1,062,604      | 197,223            | 65,609             | 15,544                  | 500,064           | 388               | 397               | 282,857            | 522            |
|   | 22,585,442     | 18,062,417         | 1,842,246          | 639,024                 | 1,612,407         | 22,218            | 101,415           | 282,857            | 22,336         |
|   | 7,925,678      | (8,581,507)        | 6,193,652          | 2,066,358               | 212,123           | 2,514,170         | 963,455           | 1,771,948          | 2,266,160      |
|   |                |                    |                    |                         |                   |                   |                   |                    | 519,319        |
| <b>Net assets</b>                                   |                |                    |                    |                         |                   |                   |                   |                    |                |
| Represented by:                                     |                |                    |                    |                         |                   |                   |                   |                    |                |
| Share capital                                       | 14,334,734     |                    |                    |                         |                   |                   |                   |                    |                |
| Reserves  | 43,080         |                    |                    |                         |                   |                   |                   |                    |                |
| Accumulated loss                                    | (6,441,559)    |                    |                    |                         |                   |                   |                   |                    |                |
| Surplus on revaluation of assets                    | 7,936,255      |                    |                    |                         |                   |                   |                   |                    |                |
|   | (10,577)       |                    |                    |                         |                   |                   |                   |                    |                |
|   | 7,925,678      |                    |                    |                         |                   |                   |                   |                    |                |

Maturities of assets and liabilities reflect their carrying values at which these are reported in the statement of financial position. The maturities of assets and liabilities having contractual maturities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. Assets and liabilities not having a contractual maturity are assumed to mature on the expected date of realisation / settlement.

#### 46. OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss due to an event or action resulting from the failure of technology, processes, infrastructure, personnel or other risks having an operational risk impact. The Bank seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

The Bank has set up an Operational Risk & Controls Department (CORMD), housed within the Risk Management Group which is entrusted with managing controls and processes in an efficient and effective manner. CORMD also reports to the Bank's Integrated Risk Management Committee (IRMC) that reviews all risk areas of the Bank, on a holistic basis, and its main activities include:

- Operational Risk Management
- Quality Assurance Reviews
- Central Reconciliation
- General Ledger (GL) Proofing and Verification
- Policies & Procedure reviews
- System Audit to ensure Product Versus GL reconciliations
- System Parameters and Users Access Maintenance Management
- Business Continuity Planning and;
- Fraud Risk Management

Furthermore, CORMD's operational framework has been developed keeping in view all applicable regulatory requirements, institutional policies, procedures and best practices instituted by the parent company, Samba Financial Group. For effective operational risk management, the bank has also developed an Operational Risk Policy that outlines the Bank's operational risk management approach including infrastructure and contains business unit level risk mitigation guidelines.

The Bank has also developed its Business Continuity plan in accordance with the best practices developed and implemented by the Samba Financial Group. Department level Business continuity plans have also been developed and are being tested in a modular format.

With respect to Basel-II for operational risk, the Bank currently uses the Basic Indicator Approach (BIA) allowed under the Standardized Approach for determining the operational charge for MCR calculation purposes. Furthermore, the Bank has no immediate plan to move beyond the Standardised Approach.

In order to institutionalise a robust control and risk management culture, Key Risk Indicators (KRIs) for respective control areas have been identified along with tolerance limits. Further, the Bank's KRI inventory is regularly updated to reflect latest trends with breaches being promptly reported. Also, a Risk and Controls Self Assessment (RCSA) regime has been rolled out and will be gradually embedded throughout the Bank.

Furthermore, the Bank is implementing Internal Control over Financial Reporting (ICFR). Stage I and Stage II of this project have already been completed. The Long Form Report confirming this implementation was sent to the SBP. The remaining Stages are underway and they will be completed within the SBP timeline. Once implemented, management will be responsible to conduct control testing, which will then be reviewed by internal and external auditors.

The Bank has well defined policies and procedures in place for each unit duly vetted by CORMD & Country Compliance Departments to ensure that business is executed in a systematic and structured manner. All recent releases of laws and regulations are incorporated into the procedures/ policies of relevant units on a timely basis.

In addition to the above, institution wide risk, fraud and business continuity awareness is being promoted through regular communications and training workshops that are conducted regularly.

#### 47. DATE OF AUTHORISATION

These financial statements were approved and authorised for issue on February 29, 2012 by the Board of Directors of the Bank.

#### 48. GENERAL

48.1 Corresponding figures have been re-arranged and reclassified, wherever necessary, for better presentation. However, there are no material reclassifications to report in these financial statements.

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

\_\_\_\_\_  
President and Chief Executive Officer

\_\_\_\_\_  
Chairman

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

**STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF PROVIDED  
DURING THE YEAR ENDED DECEMBER 31, 2011**

ANNEXURE - 1

| S.No.                       | Name and address of the borrower | Name of the individuals / partners / directors | CNIC No.     | Father's / Husband's name | Outstanding liabilities at the beginning of the year |                    |          |              | Principal written off | Interest / Mark-up written off | Other financial relief provided | Total        |
|-----------------------------|----------------------------------|--|--------------|---------------------------|--|--------------------|----------|--------------|-----------------------|--------------------------------|---------------------------------|--------------|
|                             |                                  |  |              |                           | Principal  | Interest / Mark-up | Others   | Total        |                       |                                |                                 |              |
| <b>(Rupees in thousand)</b> |                                  |  |              |                           |  |                    |          |              |                       |                                |                                 |              |
| 1                           | Nisar Ali Sherazi                | Nisar Ali Sherazi                              | Refer Note 1 | Nawaz Ali Sherazi         | 698  | 155                | -        | 854          | 698                   | 155                            | -                               | 854          |
| 2                           | Muhammed Abid Qureshi            | Muhammed Abid Qureshi                          | Refer Note 1 | Abdul Karim Qureshi       | 663  | 174                | -        | 837          | 663                   | 174                            | -                               | 837          |
| 3                           | Imam Bux                         | Imam Bux                                       | Refer Note 1 | Ahmed Bux                 | 794  | 221                | -        | 1,015        | 794                   | 221                            | -                               | 1,015        |
| 4                           | Shahid Mustafa Khan              | Shahid Mustafa Khan                            | Refer Note 1 | Ghulam Mustafa Khan       | 542  | 137                | -        | 679          | 542                   | 137                            | -                               | 679          |
| 5                           | Baber Zia                        | Baber Zia                                      | Refer Note 1 | Zia Ahmed Khan            | 615  | 165                | -        | 780          | 615                   | 165                            | -                               | 780          |
|                             |                                  |  |              |                           | <b>3,313</b>   | <b>852</b>         | <b>-</b> | <b>4,164</b> | <b>3,313</b>          | <b>852</b>                     | <b>-</b>                        | <b>4,164</b> |

Note 1: These are fraud cases and fictitious names were used for loan disbursement.

**PATTERN OF SHAREHOLDING  
AS AT DECEMBER 31, 2011**

| Number of Shareholders | Shareholding |        | Total Shares held |
|------------------------|--------------|--------|-------------------|
|                        | From         | To     |                   |
| 1,068                  | 1            | 100    | 49,529            |
| 1,900                  | 101          | 500    | 550,950           |
| 994                    | 501          | 1000   | 758,038           |
| 1,616                  | 1001         | 5000   | 3,762,831         |
| 386                    | 5001         | 10000  | 3,007,438         |
| 138                    | 10001        | 15000  | 1,730,066         |
| 84                     | 15001        | 20000  | 1,533,099         |
| 70                     | 20001        | 25000  | 1,635,922         |
| 49                     | 25001        | 30000  | 1,359,901         |
| 28                     | 30001        | 35000  | 919,352           |
| 21                     | 35001        | 40000  | 790,947           |
| 17                     | 40001        | 45000  | 732,355           |
| 30                     | 45001        | 50000  | 1,473,101         |
| 6                      | 50001        | 55000  | 318,096           |
| 11                     | 55001        | 60000  | 644,507           |
| 6                      | 60001        | 65000  | 379,842           |
| 12                     | 65001        | 70000  | 815,226           |
| 11                     | 70001        | 75000  | 804,021           |
| 10                     | 75001        | 80000  | 783,857           |
| 6                      | 80001        | 85000  | 498,334           |
| 2                      | 85001        | 90000  | 175,722           |
| 4                      | 90001        | 95000  | 367,822           |
| 31                     | 95001        | 100000 | 3,088,658         |
| 4                      | 100001       | 105000 | 408,422           |
| 5                      | 105001       | 110000 | 540,230           |
| 3                      | 110001       | 115000 | 337,796           |
| 2                      | 115001       | 120000 | 240,000           |
| 3                      | 120001       | 125000 | 370,486           |
| 3                      | 125001       | 130000 | 383,658           |
| 2                      | 130001       | 135000 | 270,000           |

| Number of Shareholders | Shareholding |        | Total Shares held |
|------------------------|--------------|--------|-------------------|
|                        | From         | To     |                   |
| 3                      | 135001       | 140000 | 415,706           |
| 1                      | 140001       | 145000 | 143,556           |
| 2                      | 145001       | 150000 | 297,000           |
| 1                      | 150001       | 155000 | 155,000           |
| 1                      | 155001       | 160000 | 155,733           |
| 5                      | 160001       | 165000 | 807,409           |
| 4                      | 175001       | 180000 | 714,709           |
| 4                      | 180001       | 185000 | 725,029           |
| 3                      | 185001       | 190000 | 559,586           |
| 12                     | 195001       | 200000 | 2,391,656         |
| 1                      | 200001       | 205000 | 205,000           |
| 3                      | 205001       | 210000 | 621,316           |
| 1                      | 210001       | 215000 | 212,500           |
| 2                      | 215001       | 220000 | 440,000           |
| 4                      | 220001       | 225000 | 896,016           |
| 2                      | 235001       | 240000 | 475,637           |
| 1                      | 245001       | 250000 | 250,000           |
| 2                      | 250001       | 255000 | 500,479           |
| 1                      | 260001       | 265000 | 262,769           |
| 7                      | 295001       | 300000 | 2,092,906         |
| 5                      | 305001       | 310000 | 1,540,774         |
| 3                      | 310001       | 315000 | 941,758           |
| 2                      | 320001       | 325000 | 648,378           |
| 1                      | 325001       | 330000 | 325,641           |
| 1                      | 335001       | 340000 | 339,598           |
| 1                      | 340001       | 345000 | 344,000           |
| 1                      | 345001       | 350000 | 349,143           |
| 2                      | 350001       | 355000 | 704,045           |
| 1                      | 365001       | 370000 | 370,000           |
| 1                      | 370001       | 375000 | 372,803           |

| Number of Shareholders | Shareholding |         | Total Shares held |
|------------------------|--------------|---------|-------------------|
|                        | From         | To      |                   |
| 2                      | 385001       | 390000  | 773,501           |
| 1                      | 405001       | 410000  | 409,201           |
| 1                      | 410001       | 415000  | 412,959           |
| 1                      | 415001       | 420000  | 417,081           |
| 1                      | 420001       | 425000  | 425,000           |
| 1                      | 440001       | 445000  | 444,333           |
| 1                      | 445001       | 450000  | 450,000           |
| 2                      | 450001       | 455000  | 904,493           |
| 1                      | 475001       | 480000  | 479,794           |
| 6                      | 495001       | 500000  | 3,000,000         |
| 1                      | 515001       | 520000  | 515,502           |
| 2                      | 520001       | 525000  | 1,046,865         |
| 1                      | 540001       | 545000  | 544,720           |
| 4                      | 545001       | 550000  | 2,196,934         |
| 1                      | 555001       | 560000  | 557,114           |
| 1                      | 595001       | 600000  | 600,000           |
| 1                      | 605001       | 610000  | 609,975           |
| 1                      | 615001       | 620000  | 619,500           |
| 2                      | 660001       | 665000  | 1,325,098         |
| 1                      | 725001       | 730000  | 726,845           |
| 1                      | 740001       | 745000  | 743,707           |
| 1                      | 760001       | 765000  | 761,080           |
| 1                      | 800001       | 805000  | 801,990           |
| 1                      | 805001       | 810000  | 806,048           |
| 1                      | 850001       | 855000  | 850,855           |
| 2                      | 995001       | 1000000 | 2,000,000         |
| 1                      | 1120001      | 1125000 | 1,123,502         |
| 1                      | 1145001      | 1150000 | 1,149,633         |
| 1                      | 1165001      | 1170000 | 1,165,699         |
| 1                      | 1205001      | 1210000 | 1,209,987         |

| Number of Shareholders | Shareholding |            | Total Shares held |
|------------------------|--------------|------------|-------------------|
|                        | From         | To         |                   |
| 1                      | 1400001      | 1405000    | 1,401,788         |
| 1                      | 1665001      | 1670000    | 1,670,000         |
| 1                      | 1835001      | 1840000    | 1,840,000         |
| 1                      | 1855001      | 1860000    | 1,856,254         |
| 1                      | 1995001      | 2000000    | 1,998,008         |
| 1                      | 2005001      | 2010000    | 2,008,500         |
| 1                      | 2020001      | 2025000    | 2,024,000         |
| 1                      | 2245001      | 2250000    | 2,245,222         |
| 2                      | 2270001      | 2275000    | 4,540,790         |
| 1                      | 2545001      | 2550000    | 2,545,773         |
| 1                      | 2580001      | 2585000    | 2,584,177         |
| 1                      | 2610001      | 2615000    | 2,610,500         |
| 1                      | 2630001      | 2635000    | 2,631,973         |
| 1                      | 2995001      | 3000000    | 2,998,445         |
| 2                      | 3400001      | 3405000    | 6,803,737         |
| 1                      | 3425001      | 3430000    | 3,425,542         |
| 1                      | 4525001      | 4530000    | 4,529,333         |
| 1                      | 4670001      | 4675000    | 4,674,971         |
| 1                      | 4995001      | 5000000    | 5,000,000         |
| 1                      | 6150001      | 6155000    | 6,154,267         |
| 1                      | 10425001     | 10430000   | 10,429,764        |
| 1                      | 12230001     | 12235000   | 12,230,240        |
| 1                      | 21170001     | 21175000   | 21,170,161        |
| 1                      | 27745001     | 27750000   | 27,750,000        |
| 1                      | 30960001     | 30965000   | 30,963,000        |
| 1                      | 36870001     | 36875000   | 36,870,890        |
| 1                      | 1156455001   | 1156460000 | 1,156,456,310     |
| <hr/>                  |              |            | <hr/>             |
| 6,672                  |              |            | 1,433,473,414     |
| <hr/>                  |              |            | <hr/>             |

CATEGORY OF SHAREHOLDING  
AS AT DECEMBER 31, 2011

| S.No. | Shareholders category  | No. of shareholders | No. of shares        | %             |
|-------|--|---------------------|----------------------|---------------|
| 1     | Directors, CEO and their Spouses / Relatives                               | 4                   | 131,000              | 0.01          |
| 2     | Executives   | 2                   | 6,152                | 0.00          |
| 3     | Associated Companies, Undertakings and Related Parties                     | 1                   | 1,156,456,310        | 80.68         |
| 4     | NIF and ICP  | 3                   | 12,275,091           | 0.85          |
| 5     | Public Sector Companies and Corporations                                   | 1                   | 4,674,971            | 0.33          |
| 6     | Banks, Development Finance Institutions, Non-Banking Finance Institutions, | 31                  | 46,147,697           | 3.22          |
| 7     | Insurance Companies  | 7                   | 17,910               | 0.00          |
| 8     | Mudarabas and Mutual Funds   | 19                  | 3,110,784            | 0.22          |
| 9     | Other Companies  | 132                 | 65,594,187           | 4.58          |
| 10    | Non Resident   | 19                  | 66,853,123           | 4.66          |
| 11    | Individuals  | 6,453               | 78,206,189           | 5.46          |
|       | <b>TOTAL</b>   | <b>6,672</b>        | <b>1,433,473,414</b> | <b>100.00</b> |



INFORMATION AS REQUIRED UNDER CODE OF CORPORATE GOVERNANCE  
AS AT DECEMBER 31, 2011

| Shareholders' category  | Number of shares held | %      |
|---|-----------------------|--------|
| Directors, their Spouse and Minor Children                                |                       |        |
| Directors   |                       |        |
| Humayun Murad   | 500                   | 0.00   |
| Farhat Abbas Mirza*   | 125,000               | 0.01   |
| Zahid Zaheer  | 500                   | 0.00   |
| Javed Iqbal**   | 5,000                 | 0.00   |
| Spouse and Minor Children   | -                     | -      |
|   | 131,000               | 0.01   |
| * Joint account with Mrs. Najma Mirza                                     |                       |        |
| ** Joint account with Mrs. Nishat Iqbal                                   |                       |        |
| Executives  | 6,152                 | 0.00   |
| Associated Companies, Undertakings and Related Parties                    |                       |        |
| SAMBA Financial Group   | 1,156,456,310         | 80.68  |
| NIT and ICP (Name wise Detail)  |                       |        |
| M/s. National Bank of Pakistan Trustee Deptt.                             | 12,275,091            | 0.85   |
| Banks, Development Finance Institutions, Non-Banking Finance Institutions | 46,147,697            | 3.22   |
| Public Sector Companies   | 4,674,971             | 0.33   |
| Insurance Companies   | 17,910                | 0.00   |
| Modarabas and Mutual Funds  | 3,110,784             | 0.22   |
| Other Companies   | 65,594,187            | 4.58   |
| Non-Resident  | 66,853,123            | 4.66   |
| General Public  | 78,206,189            | 5.46   |
|   | 1,433,473,414         | 100.00 |
| Shareholders holding 10% or more voting interest                          |                       |        |
| SAMBA Financial Group   | 1,156,456,310         | 80.68  |

## Samba Bank Limited

### Form of Proxy

Ninth Annual General Meeting

I/ We, \_\_\_\_\_ of \_\_\_\_\_ being member(s) of Samba Bank Limited holding \_\_\_\_\_ ordinary shares hereby appoint \_\_\_\_\_ of \_\_\_\_\_ or failing him / her \_\_\_\_\_ who is / are also member(s) of Samba Bank Limited as my / our proxy in my / our absence to attend and vote for me / us and on my / our behalf at the Annual General Meeting of the Bank to be held on Wednesday, March 28th, 2012 and at any adjournment thereof.

As witness my / our hand / seal this \_\_\_\_\_ day of \_\_\_\_\_ 2012.

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

in the presence of 1. \_\_\_\_\_

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

Folio / CDC Account No.

Please affix here Revenue  
Stamp of Rs.5/-

This signature should  
agree with the specimen registered  
with the Bank.

#### Important:

1. This Proxy Form, duly completed and signed, must be received at the Registered Office of the Bank, 6th Floor, Sidco Avenue Centre, Maulana Deen Muhammad Wafai Road, Karachi, not less than 48 hours before the time of holding the meeting.
2. No person shall act as proxy unless he himself is a member of the Bank, except that a corporation may appoint a person who is not a member.
3. If a member appoints more than one proxy and more than one instruments of proxy are deposited by a member with the Bank, all such instruments of proxy shall be rendered invalid.

#### For CDC Account Holders / Corporate Entities:

In addition to the above the following requirements have to be met:

- i) The proxy form shall be witnessed by the persons whose names, addresses and CNIC numbers shall be mentioned on the form.
- ii) Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.
- iii) The proxy shall produce his original CNIC or original passport at the time of the meeting.
- iv) In case of corporate entity, the Board of Directors resolution / power of attorney with specimen signature shall be submitted (unless it has been provided earlier) alongwith proxy form to the company.

**AFFIX  
CORRECT  
POSTAGE**

**The Company Secretary**

**Samba Bank Limited**

6<sup>th</sup> Floor, Sidco Avenue Centre,  
Maulana Deen Muhammad Wafai Road,  
Karachi.

**Samba Bank Limited**

**ADMISSION SLIP**

The Ninth Annual General Meeting of Samba Bank Limited will be held on Wednesday, March 28th, 2012 at 11:00 a.m. at Hotel Beach Luxury, Karachi.

Kindly bring this slip duly signed by you for attending the Meeting.

Company Secretary

Name \_\_\_\_\_

Folio No. / CDC I.D. \_\_\_\_\_ Signature \_\_\_\_\_

No. of Shares held \_\_\_\_\_

Note:

- i) The signature of the shareholder must tally with the specimen signature on the Company's record.
- ii) Shareholders are requested to hand over duly completed admission slips at the counter before entering the Meeting premises.

CDC Account Holders / Proxies / Corporate Entities:

- a) The CDC Account Holder / Proxy shall authenticate his identity by showing his original Computerized National Identity Card (CNIC) or original passport at the time of attending the Meeting.
- b) In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature of the nominee shall be produced at the time of the Meeting (unless it has been provided earlier).

**This Admission Slip is Not Transferable**