The journey continues

Annual Report 2012

samba سامبا

Company Information

Board of Directors

Syed Sajjad Razvi	Chairman/ Non Executive Director
Mr. Zaki Abdulmohsen Al-Mousa	Non Executive Director
Mr. Beji Tak-Tak	Non Executive Director
Dr. Shujaat Nadeem	Non Executive Director
Mr. Farhat Abbas Mirza	Independent Director
Mr. Javed Iqbal	Independent Director
Mr. Humayun Murad	Independent Director
Mr. Zahid Zaheer	Independent Director
Mr. Tawfiq A. Husain	President & CEO/ Executive Director

Board Audit Committee

Mr. Javed Iqbal	Chairman
Mr. Beji Tak - Tak	Member
Mr. Zahid Zaheer	Member

Board Risk Committee

Mr. Beji Tak - Tak	Chairman
Syed Sajjad Razvi	Member
Mr. Humayun Murad	Member
Mr. Tawfiq A. Husain	Member

Board Nomination & Remuneration Committee

Mr. Beji Tak - Tak	Chairman
Dr. Shujaat Nadeem	Member
Mr. Humayun Murad	Member

President & Chief Executive Officer

Mr. Tawfiq A. Husain

Company Secretary

Ms. Saima Kamila Khan

Auditors

A. F. Ferguson & Co.
Chartered Accountants

Legal Advisors

Mohsin Tayebaly & Co.
Advocates & Legal Consultants

Share Registrar

Famco Associates (Pvt.) Limited
1st Floor, State Life Building No. 1-A, I.I. Chundrigar Road, Karachi - 74000

Head Office & Registered Office

6th Floor, Sidco Avenue Centre, M.D.M.Wafai Road, Karachi

Help Line

11 11 SAMBA (72622)

Website

www.samba.com.pk

Credit Rating by JCR-VIS

Medium to Long Term	AA- (AA-Minus)
Short Term	A-1 (A-One)

Chairman's Message

It is with pleasure we present Samba Bank Limited's (SBL) annual financial performance for the year 2012 and share with you our views on the future outlook of the business.

Despite the challenging business environment, including declining interest rates, we continued our journey of sustained profitability while maintaining high asset to lendings ratios and adhering to the highest standards of corporate governance.

When analyzing SBL's performance in 2012, compared to the overall performance of the banking sector, it is encouraging to note that, despite severe competition, the bank outperformed the market by increasing its deposit base by 29%, compared to an average growth for all scheduled banks of 13.8%. However, due to limited credit off-take in the economy, Samba's loan book remained more or less flat in 2012 when compared to 2011. On the profitability side, net income improved by 27% in 2012, over 2011.

One of the significant achievements of 2012 was the second consecutive upgrade of the bank's rating. JCR-VIS Credit Rating Company has upgraded the medium to long term rating of Samba from A+ to AA- (A plus to Double A minus) and reaffirmed its short term rating at A-1 (A-One). This is a testament to the bank's overall financial performance and stability as well as a positive indicator for the long term sustainability of our business.

Although the general outlook for 2013 is better than this time last year, the global economic environment continues to be challenging. At home, continued government borrowing presents ongoing challenges as the private sector is put under pressure and the cost of doing business increases correspondingly. Therefore, our continuing strategy of identifying new and sustainable revenue streams takes on even greater relevance as we move into 2013.

By identifying and launching new products and services that are in line with our overall vision and by ensuring our customers fully understand the value proposition that Samba presents, we will continue to grow our core businesses of Corporate, Retail and Investment banking, as well as effectively developing our franchise in Global Markets. From an operations point of view our focus will continue to be maximizing robust risk management protocols and operational efficiencies in all departments. In practical terms this translates as increasing cross selling activities; maintaining asset quality; mobilizing low cost deposits (especially current accounts); enhancing recovery efforts for any remaining exposure to bad debt and continuing to keep a close check on all expenses.

To achieve the targets for 2013, SFG has extended support to inject up to Rs 2 billion of additional capital which will further strengthen the liquidity position affording us greater flexibility. As our figures show, the strategic direction set by the Board of Directors of the bank has demonstrably yielded positive results and we are confident that this strategy will take SBL to higher levels of growth and profitability in the coming year.

On behalf of the whole team at SBL, we would like to thank all our customers for their continued support and belief in the “Samba” brand. The board members will join us in appreciating the relentless effort, hard work, dedication and commitment of our entire management and staff. With gratitude, it is important to acknowledge our Board members in SBL and the colleagues in SFG to thank them sincerely for their effort and contribution in embedding the culture of success throughout Samba Bank Limited.

Syed Sajjad Razvi
Chairman

Six Years' Performance Highlights

December 31	2007	2008	2009	2010	2011	2012
Statement of Financial Position						
				Rs. in Millions		
Assets						
Cash and balances with treasury and other banks	1,067	1,106	1,669	2,446	1,523	4,342
Lending to financial institutions	8,566	2,313	3,123	1,389	803	2,777
Investments - Gross	4,277	4,232	6,224	11,347	9,883	8,951
Advances - Gross	7,105	8,606	12,343	14,747	18,375	17,843
Operating Fixed assets	854	1,158	1,112	1,001	904	832
Other assets - Gross	1,670	2,049	2,405	2,545	2,712	2,674
Total assets - Gross	23,539	19,464	26,876	33,476	34,200	37,420
Provisions against advances - specific & general	(2,413)	(2,443)	(2,620)	(2,610)	(2,544)	(2,398)
Provisions against diminution in value of investment	(329)	(402)	(416)	(256)	(219)	(56)
Provisions held against bad & doubtful other assets	(142)	(131)	(106)	(99)	(106)	(112)
Total assets - net of provision	20,655	16,488	23,734	30,511	31,331	34,854
Liabilities						
Customer deposits	12,645	9,860	12,521	14,872	17,669	22,754
Borrowings	183	438	3,141	6,535	3,996	2,477
Bills payable	1,057	55	78	116	529	251
Other liabilities	568	672	918	1,063	954	856
Sub-ordinated loans	-	-	-	-	-	-
Total Liabilities	14,453	11,025	16,658	22,585	23,149	26,338
Net Assets / Liabilities	6,202	5,463	7,076	7,926	8,182	8,516
Share capital	8,770	8,770	8,770	14,335	14,335	14,335
Advance against proposed issue of shares	-	-	2,189	-	-	-
Reserves	43	43	43	43	90	151
Un-appropriated profit / (loss)	(2,594)	(3,336)	(3,929)	(6,442)	(6,252)	(6,012)
Equity - Tier I	6,219	5,477	7,073	7,936	8,173	8,474
(Deficit) / Surplus on revaluation of assets	(17)	(14)	3	(11)	9	42
	6,202	5,463	7,076	7,926	8,182	8,516
Profitability						
Markup / Return / Interest earned	1,183	1,758	1,879	2,385	3,352	3,054
Markup / Return / Interest expensed	838	1,071	1,259	1,350	1,944	1,722
Net Markup / Interest income	345	687	620	1,034	1,408	1,332
Fee, Commission, Brokerage and Exchange income	15	61	113	133	82	112
Capital gain & Dividend income	85	17	4	44	23	38
Other income	28	47	25	144	47	4
Non interest income	128	125	142	321	152	155
Gross income	473	812	762	1,356	1,561	1,487
Operating expenses	(893)	(1,510)	(1,456)	(1,462)	(1,397)	(1,459)
Profit / (Loss) before provisions	(420)	(698)	(694)	(107)	163	27
Provisions / direct write offs	(953)	(313)	(374)	(24)	38	137
Profit / (Loss) before taxation	(1,373)	(1,011)	(1,068)	(130)	201	164
Taxation	50	269	475	11	36	137
Profit / (Loss) after taxation	(1,323)	(742)	(593)	(120)	237	301

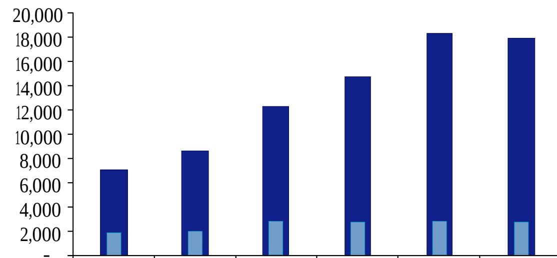
Six Years' Performance Highlights

December 31	2007	2008	2009	2010	2011	2012
				Rs. in Millions		
Financial Ratios						
Return on equity (RoE)	-33.9%	-12.7%	-9.5%	-1.6%	2.9%	3.6%
Return on assets (RoA)	-9.2%	-4.0%	-2.9%	-0.4%	0.8%	0.9%
Profit before tax ratio (Profit before tax / Gross Income)	-289.9%	-124.5%	-140.2%	-9.6%	12.9%	11.0%
Gross spread ratio	29.2%	39.1%	33.0%	43.4%	42.0%	43.6%
Return on capital employed (ROCE)	-33.9%	-12.7%	-9.5%	-1.6%	2.9%	3.6%
Advances to deposits ratio (ADR)	37.1%	62.5%	77.7%	81.6%	89.6%	*67.9%
Income to expense ratio	0.5	0.5	0.5	0.9	1.1	1.0
Efficiency Ratio (cost to revenue)	188.5%	185.9%	191.1%	107.9%	89.5%	98.2%
Growth in gross income	2941.6%	71.5%	-6.2%	77.9%	15.1%	-4.7%
Growth in net profit / (loss) after tax	-125.1%	43.9%	20.1%	79.8%	297.8%	27.2%
Total assets to shareholders' funds	3.3	3.0	3.4	3.8	3.8	4.1
Intermediation cost ratio	9.8%	13.4%	13.0%	10.7%	8.6%	7.2%
NPL ratio	26.4%	22.8%	22.1%	18.4%	14.3%	13.7%
Net infection ratio	1.7%	2.8%	1.9%	1.1%	0.6%	0.4%
Share Information						
Earning Per Share (EPS)	(1.82)	(0.85)	(0.68)	(0.10)	0.16	0.21
Market value per share - at the end of the year	20.95	4.94	3.31	1.96	1.45	2.85
Market value per share - highest / lowest during the year	25.10/14.60	21.50/3.55	7.00/2.60	3.59/1.73	2.20/0.92	3.45/1.01
Book value per share	7.1	6.2	8.1	5.5	5.7	5.9
Other Information						
Non - performing loans (NPLs)	1,872	1,961	2,726	2,711	2,619	2,451
Number of employees	1,224	1,026	787	810	760	732
Number of branches	28	28	28	28	28	28

*ADR as per SBP BSD Circular No. 28 of 2008 dated Oct 26, 2008 is 35.76%.

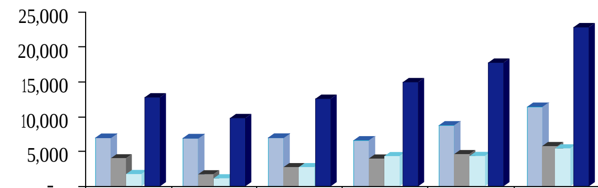
Six Years' Performance Highlights

Loans



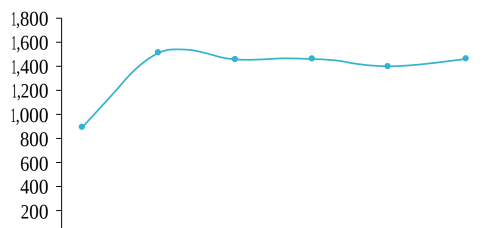
	2007	2008	2009	2010	2011	2012
Gross loans	7,105	8,606	12,343	14,747	18,375	17,843
NPLs	1,872	1,961	2,726	2,711	2,619	2,451

Deposits



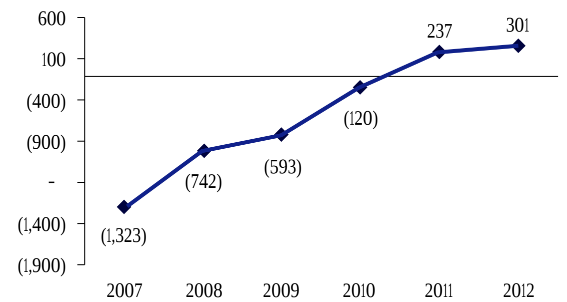
	2007	2008	2009	2010	2011	2012
Term	6,922	6,823	6,943	6,572	8,723	11,467
Saving	4,003	1,846	2,762	3,965	4,550	5,784
Current	1,720	1,191	2,816	4,335	4,396	5,503
Total	12,645	9,860	12,521	14,872	17,669	22,754

Operating expenses

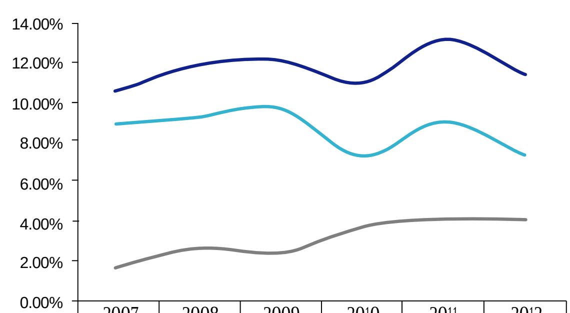


	2007	2008	2009	2010	2011	2012
Operating expenses	893	1,510	1,456	1,462	1,397	1,459

Profit after tax

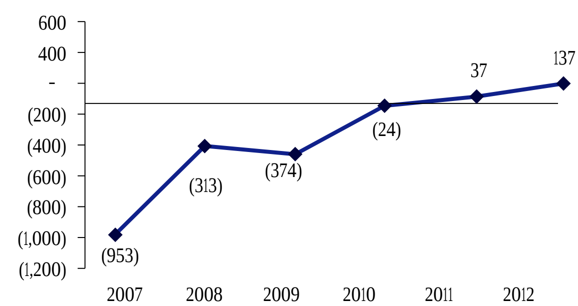


Yield on Assets, Cost of Funds & Spread



	2007	2008	2009	2010	2011	2012
Yield on assets	10.60%	11.91%	12.14%	11.02%	13.17%	11.44%
Cost of funds	8.89%	927%	9.70%	7.29%	9.03%	7.34%
Spread	1.71%	265%	2.44%	3.74%	4.14%	4.09%

Recoveries net of povisions & write-offs



Statement of Value Addition

	2012	2011
	Rupees in '000	
Value Added		
Income from banking services	1,484,147	1,515,450
Cost of services	(622,488)	(553,563)
Value added by banking services	861,569	961,887
Non - banking income	2,567	45,288
Provision against non-performing assets	136,710	37,625
	1,000,936	1,044,800
Value Allocated		
to employees		
Salaries, allowances and other benefits	686,993	692,843
to Government		
Income tax	(136,852)	(35,621)
to providers of capital		
As dividends	-	-
to expansion and growth		
Depreciation / Amortization	149,909	151,063
Retained in business	300,886	236,515
	1,000,936	1,044,800

Vertical and Horizontal Analysis

VERTICAL ANALYSIS

Statement of Financial Position

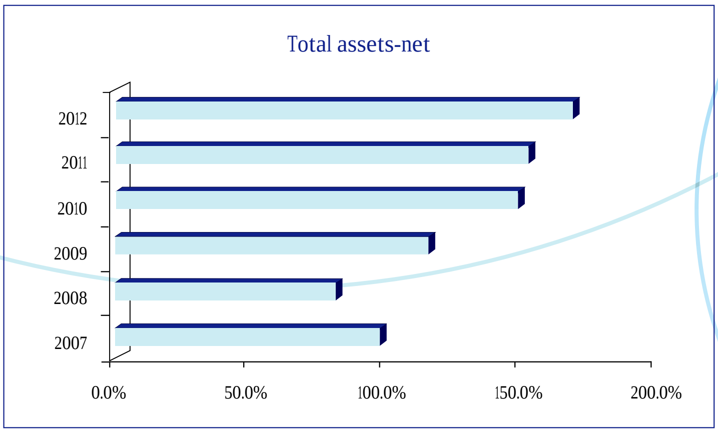
	2007	2008	2009	2010	2011	2012
Assets						
Cash and balances with treasury and other banks	5.2%	6.7%	7.0%	8.0%	4.9%	12.5%
Lending to financial institutions	41.5%	14.0%	13.2%	4.6%	2.6%	8.0%
Investments- Net	19.1%	23.2%	24.5%	36.4%	30.8%	25.5%
Advances - Net	22.7%	37.4%	41.0%	39.8%	50.5%	44.3%
Operating Fixed assets	4.1%	7.0%	4.7%	3.3%	2.9%	2.4%
Other assets - Net	7.4%	11.6%	9.7%	8.0%	8.3%	7.4%
Liabilities & Equity						
Customer deposits	61.2%	59.8%	52.8%	48.7%	56.4%	65.3%
Borrowings	0.9%	2.7%	13.2%	21.4%	12.8%	7.1%
Bills payable	5.1%	0.3%	0.3%	0.4%	1.7%	0.7%
Other liabilities	2.7%	4.1%	3.9%	3.5%	3.0%	2.5%
Equity and revaluation surplus / (deficit)	42.5%	53.2%	46.2%	47.0%	45.8%	41.1%

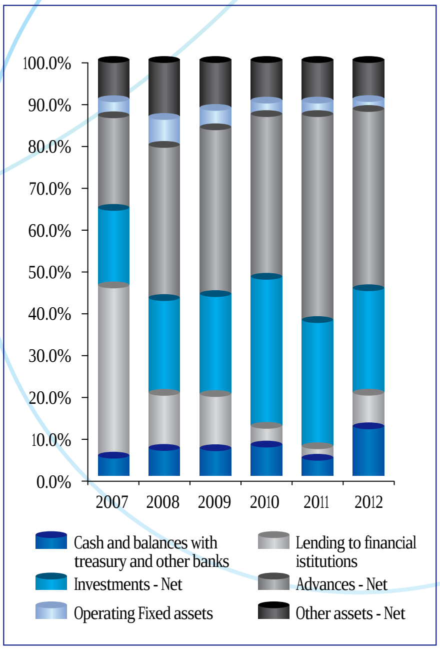
HORIZONTAL ANALYSIS

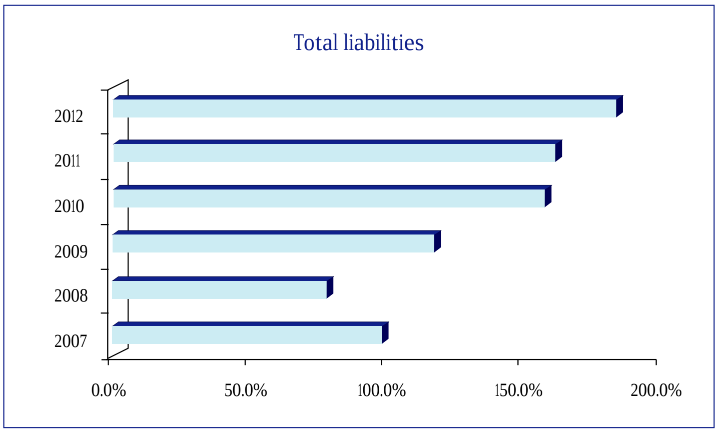
Statement of Financial Position

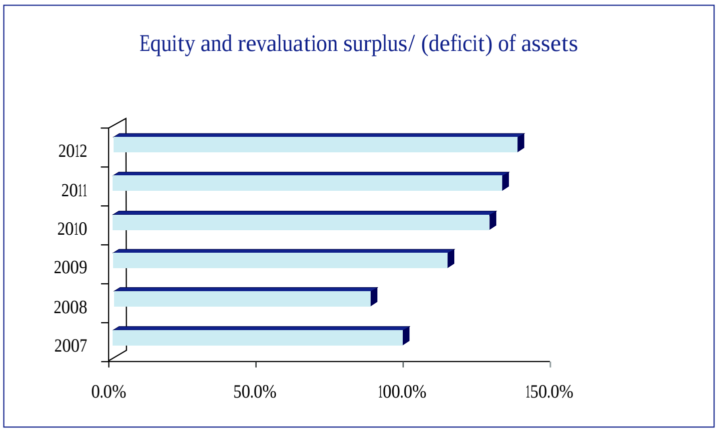
	2007	2008	2009	2010	2011	2012
Assets						
Cash and balances with treasury and other banks	100.0%	103.6%	156.4%	229.2%	142.7%	407.0%
Lending to financial institutions	100.0%	27.0%	36.5%	16.2%	9.4%	32.4%
Investments- net	100.0%	97.0%	147.1%	280.9%	244.8%	225.3%
Advances - net	100.0%	131.3%	207.2%	258.7%	337.4%	329.2%
Operating fixed assets	100.0%	135.5%	130.2%	117.2%	105.8%	97.4%
Other assets - net	100.0%	125.5%	150.4%	160.1%	170.5%	167.7%
Total assets - Net	100.0%	79.8%	114.9%	147.7%	151.7%	168.7%
Liabilities						
Customer deposits	100.0%	78.0%	99.0%	117.6%	139.7%	179.9%
Borrowings	100.0%	239.8%	1720.0%	3578.6%	2188.3%	1356.7%
Bills payable	100.0%	5.2%	7.4%	11.0%	50.1%	23.7%
Other liabilities	100.0%	118.4%	161.7%	187.2%	168.1%	150.8%
Total Liabilities	100.0%	76.3%	115.3%	156.3%	160.2%	182.2%
Share capital	100.0%	100.0%	125.0%	163.5%	163.5%	163.5%
Reserves	100.0%	100.0%	100.0%	100.0%	209.8%	349.5%
Un-appropriated profit / (loss)	100.0%	128.6%	151.5%	248.3%	241.0%	231.8%
Equity	100.0%	88.1%	113.7%	127.6%	131.4%	136.3%
Surplus on revaluation of assets	100.0%	81.1%	-17.2%	60.5%	-54.3%	-241.5%
Equity and revaluation surplus / (deficit) of assets	100.0%	88.1%	114.1%	127.8%	131.9%	137.3%

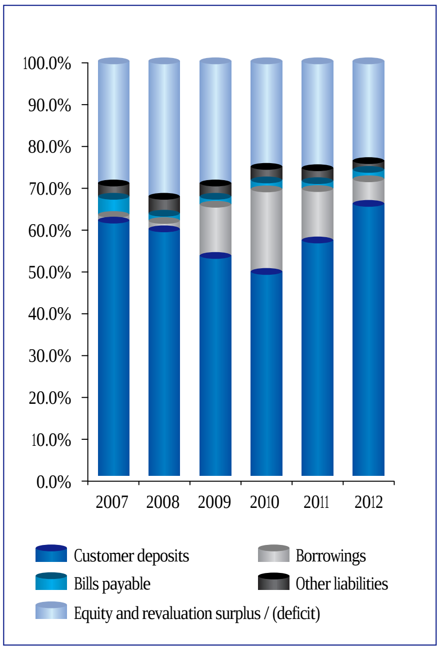
Vertical and Horizontal Analysis

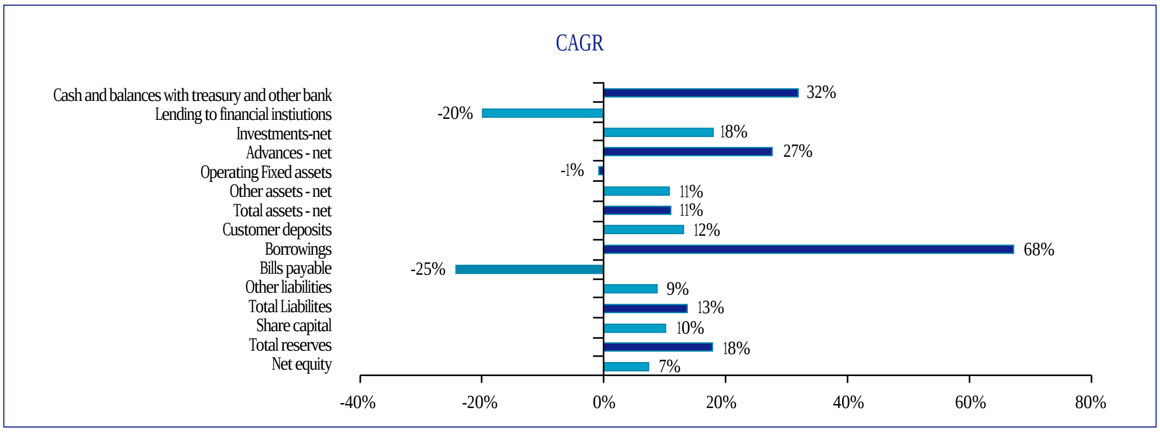












Directors' Report

On behalf of the Board of Directors, I would like to present the annual report of your bank along with its Audited Financial Statements and Auditors' Report for the year ended December 31, 2012.

Economic Highlights

The macro economic situation, rising cost of doing business, power outages and security issues continued to post challenges for the banking industry in 2012. In response to the sharp decline in the CPI inflation, State Bank of Pakistan (SBP) lowered its discount rate by 250 bps in 2012, which has put pressure on interest margins of banks. The high fiscal deficit and decline in FX reserves, due to trade deficit and repayments to IMF, have put pressure on the Pak rupee which devalued by 8% in 2012.

Capital Restructuring Plan

State Bank of Pakistan (SBP) has specified Minimum Capital Requirements (MCR) for all commercial banks operating in Pakistan. All banks are required to attain minimum capital (net of accumulated losses) of Rs. 10 billion by December 31, 2013 in a phased manner. The MCR to be achieved by December 31, 2012 was Rs. 9 billion (net of accumulated losses). However, your bank's regulatory capital (net of accumulated losses) was Rs. 8.32 billion on that date.

The Board of Directors in August 2012 approved the capital restructuring plan for the bank, which includes capital reduction by Rs. 6.25 billion (accumulated losses as at December 31, 2011) through the cancellation of shares and injection of additional capital amounting to Rs. 2 billion through the issuance of right shares. This plan was also approved by the shareholders in the EOGM held on January 17, 2013.

Your bank had requested and got an extension from SBP till January 31, 2013 to comply with the MCR applicable for December 31, 2012. Further, SBP has also allowed your bank to treat the advance money received against the proposed rights issue as part of the regulatory capital for meeting the MCR. To support SBL, our parent, Samba Financial Group (SFG) has, in advance, remitted its share of Rs. 1.6 billion in the proposed rights issue on January 23, 2013. Your bank is, therefore, now fully compliant with the MCR set for December 31, 2012.

Bank Operating Results and Financial Review

	2012	2011
	Rupees in '000	
Net markup / return / interest income after provisions	1,422,809	1,454,545
Non markup / interest income	154,505	152,397
Non markup / interest expenses	1,413,280	1,406,048
Profit before taxation	164,034	200,894
Taxation	136,852	35,621
Profit after taxation	300,886	236,515
Earnings per share – Rupees	0.21	0.16

During the year 2012, your bank generated profit after tax of Rs. 300.9 million, as against Rs. 236.5 million in 2011, thus showing a growth of 27.2%. This translated into earnings per share of Rs. 0.21 (2011: Rs. 0.16).

Despite the increase in the average earning assets of the bank by 1.9%, from Rs. 26.0 billion in 2011 to Rs. 26.5 billion in 2012, the interest income declined by Rs. 298.1 million, from Rs. 3.36 billion in 2011 to Rs. 3.05 billion in 2012, mainly due to declining margins resulting from the discount rate cut of 250 bps in 2012 by the SBP. To fund the growth of its earning asset base, your bank increased its average deposit base by 26.4% to Rs. 18.73 billion. However, the cost of deposits did not go down because of the minimum profit floor rate of 6% on remunerative deposits as required by SBP. This put significant pressure on bank margins and resulted in a 5.4% decline in the net markup / interest income of the bank to Rs. 1.33 billion in 2012. As a result, the net markup / interest income (after provision) marginally declined from Rs. 1.45 billion in 2011 to Rs. 1.42 billion in 2012.

Non markup income of your bank has increased by 1.4% to Rs. 154.51 million from Rs. 152.40 million in 2011.

By rigorous and effective remedial management efforts, your bank recovered legacy bad loans, and reversal of provisioning, totaling Rs. 136.71 million, compared to the recovery of Rs. 37.63 million in 2011.

Despite the high inflationary environment, the operating expenses of the bank were effectively managed and only increased by Rs. 61.92 million in 2012 to Rs. 1.46 billion or 4.4% only. Furthermore, through relentless efforts, your bank was able to realize net tax reversals of Rs. 136.85 million in 2012.

Credit Rating

JCR-VIS Credit Rating Company has upgraded the medium to long term rating of the bank from A+ to AA- (A plus to Double A minus) 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.

This is the second consecutive year where the bank's rating has been upgraded and is a testament to the bank's overall financial performance. This milestone has been achieved as a result of the hard work of the bank's management and employees, and ongoing support of its shareholders and guidance from the regulators.

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 management of SBL. Accordingly, your bank has a comprehensive risk management framework 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 40, 41, 43 and 45 of 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. Refinements continued to be made in the risk management framework throughout 2012, 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 the 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 the last six years is included in this Annual Report;
- A statement showing the pattern of shareholding in the bank as at December 31, 2012 is annexed;
- The book value of investments of Staff Provident Fund is Rs. 143.411 million as per the audited accounts of the fund for the year ended December 31, 2011;
- There are no statutory payments on account of taxes, duties, levies and charges which are outstanding as of December 31, 2012 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, except for one director, Dr. Shujaat Nadeem, who purchased 1,891,338 shares of the bank after meeting all regulatory and disclosure requirements.

Meetings of The Board / Board Committees

Five Board meetings and eight Board Sub Committee 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:

	Board Meetings	Audit Committee Meetings	Risk Committee Meetings	Nomination & Remuneration Committee Meetings
Number of meetings held	5	5	2	1
Number of meetings attended				
Syed Sajjad Razvi	5	-	2	-
Mr. Zaki Abdulmohsen Al-Mousa	2	-	-	-
Mr. Beji Tak - Tak	5	5	2	1
Mr. Farhat Abbas Mirza	5	-	-	-
Mr. Javed Iqbal	5	5	-	-
Mr. Humayun Murad	5	-	1	1
Dr. Shujaat Nadeem	4	-	-	1
Mr. Zahid Zaheer	5	5	-	-
Mr. Tawfiq A. Husain	5	-	2	-

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

Although Pakistan's economic environment and prevailing business challenges are expected to continue in 2013, your bank will continue with its strategy of stable and sustained growth through robust risk management and effective control processes. Management will concentrate on growing deposits, improving the deposit mix, improving service standards and optimizing operational efficiencies. To increase its revenue, the Bank will continue building good quality, better yielding loans and earning assets and also managing the cost of funds. To further grow and widen its revenue base, your bank will focus on value added product offering, cross sell of unfunded business and acquire new to bank customers.

Acknowledgment

On behalf of the Board of Directors and management, I wish to express our sincere gratitude to our customers, business partners and shareholders for their continued patronage and trust. I would also like to thank State Bank of Pakistan and other regulatory authorities for their guidance and support. The Board of Directors sincerely appreciates the significant contribution of all its staff members to the growth of this franchise under challenging business conditions.

On behalf of the Board,

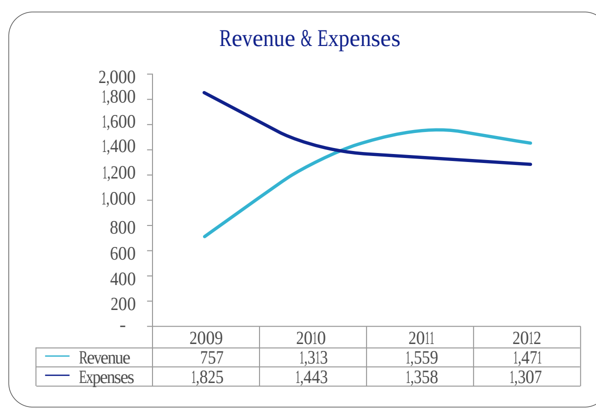
Tawfiq A. Husain
President and Chief Executive Officer

Dated: February 20, 2013
Karachi

Management Discussion & Analysis

Profit & Loss

After the successful turnaround in 2011, the bank, in spite of the double impact of 250 bps cut in discount and minimum regulatory imposed floor of 6 percent, posted profit after tax of Rs. 300.9 million against a profit of Rs. 236.5 million for 2011. The strategic direction of the bank remains the same and the management continued its focus on acquiring and deepening new customer relationships, increasing its quality earning assets, availing market risk related opportunities, mobilizing lower cost customer deposits, managing the cost of funds, aggressively pursuing the recovery of legacy bad loans and improving operational efficiencies.



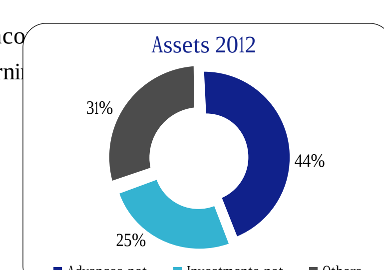
	2009	2010	2011	2012
Revenue	757	1,313	1,559	1,471
Expenses	1,825	1,443	1,358	1,307

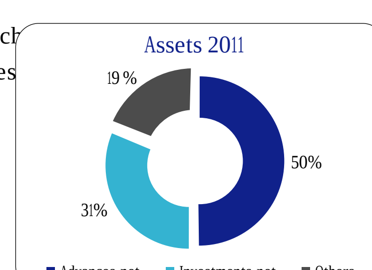
The Profit after tax for the year ended 2012 improved by Rs. 64.4 million or 27 percent over 2011. Major factors contributing to the increase in net profit were steady revenue base, higher recoveries of non-performing legacy loans by Rs. 44 million, almost flat administrative expenses over 2011 and a reversal of tax provision amounting to Rs. 166 million.

Net Mark-up Income

Despite reduction in interest expense of Rs. 222 million, net mark-up income registered a decline of Rs. 76 million or 5 percent over 2011. This resulted from 250 bps cut in the discount rate and the minimum saving rate of 6 percent imposed by State Bank of Pakistan. Although the bank grew its average earning assets by 4.9 percent over 2011, the overall yield reduced by 1.7 percent over 2011 to 11.4 percent. The bank grew its average deposit base by 24.2 percent over 2011 to Rs. 20.2 billion and closed at Rs. 22.7 billion as at December 31, 2012.

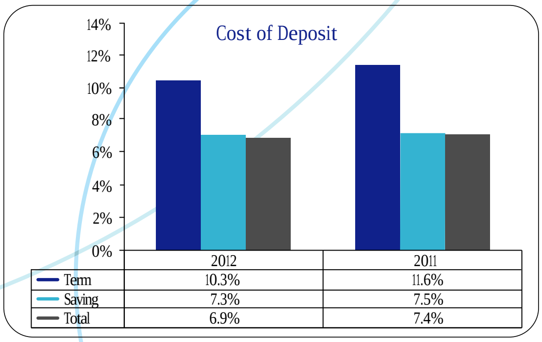
During the current year, mark-up inco ... hich ... This was mainly due to decline in earni ... des ... earning assets. Markup income on





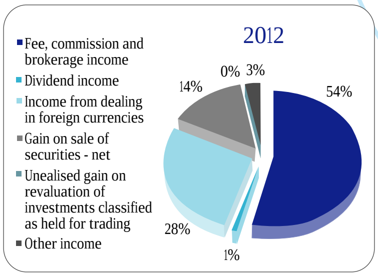
loans increased by Rs. 9.39 million or 0.6 percent over 2011 primarily due to increase in average loan volume by 11.8 percent. However, markup income on investments decreased by Rs. 373 million or 27 percent over 2011 due to decline in the average volume by 10.6 percent.

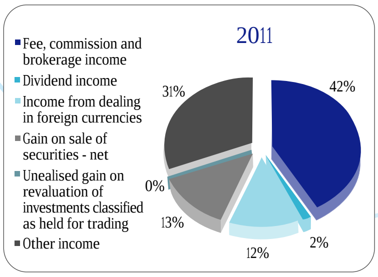
The bank effectively managed its mark-up expense which reduced by Rs. 1.7 billion or 11 percent against 2011. Cost of repo borrowings reduced by Rs. 481 million over 2011. Although cost of deposit increased by Rs. 208 million over 2011, this was due to increase in average deposit volume by 24 percent, whereas overall cost of deposit reduced 45 bps. This was mainly achieved by improving the deposit mix where average volume of non remunerative current accounts increased by 13 percent over 2011.



Non Markup Income

The non markup income registered a decline of Rs. 2 million or 1.4 percent over 2011, which had included a one-off capital gain on sale of a property in 2011 amounting to Rs. 38.3 million. Apart from this one-off item, non markup income registered a significant increase of 35 percent or Rs. 40 million.



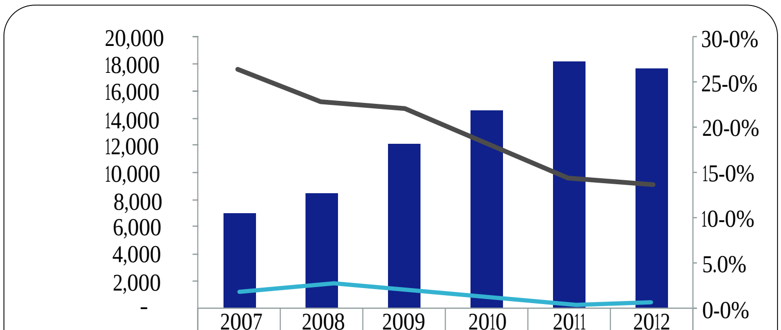


Non Markup Expenses

Non markup expenses of the bank reduced by Rs. 7 million or 0.5 percent over 2011. Operating expenses increased only by 4 percent, or Rs. 62 million, despite the high inflationary environment. This was achieved by the management's relentless efforts to achieve operational efficiencies.

Loan Book & Asset Quality Analysis

Loan portfolio (net) of the bank remained almost flat at Rs. 15.4 billion compared to Rs. 15.8 billion in 2011. With the prevailing credit outlook in the corporate sector the management continued its efforts to maintain a quality loan book by deepening the existing corporate relationships and focusing on its defined target market.



	2007	2008	2009	2010	2011	2012
Gross loans	7,105	8,606	12,343	14,747	18,375	17,843
NPL Ratio	26.4%	22.8%	22.1%	18.4%	14.3%	13.7%
Net Infection ratio	1.7%	2.8%	1.9%	1.1%	0.6%	0.4%

The bank was successful in reducing its NPLs by Rs. 168 million over December 2011.

Below are the comparative figures for 2012 and 2011 showing performing loans and NPLs:

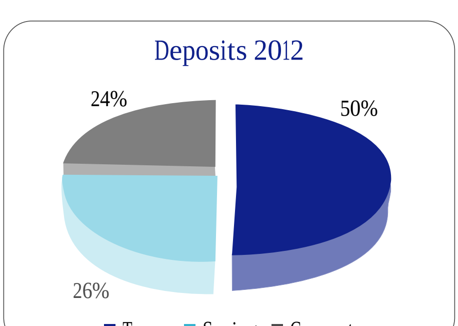
Rupees In Thousands

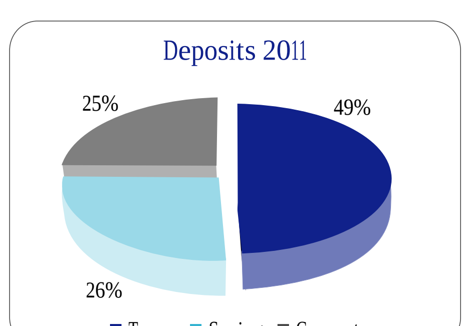
	December 31, 2012		December 31, 2011	
Performing Loans	15,391,454	86.26%	15,755,495	85.74%
Non-Performing Loans				
Substandard	5,046	0.03%	37,316	0.20%
Doubtful	-	0.00%	-	0.00%
Loss	2,446,435	13.71%	2,582,094	14.05%
	2,451,481	13.74%	2,619,410	14.26%
Gross Loans	17,842,935		18,374,905	

NPL ratio reduced from 14.3 percent in 2011 to 13.7 percent in 2012. The bank is fully compliant with SBP's provisioning requirements for its loan portfolio.

Deposits

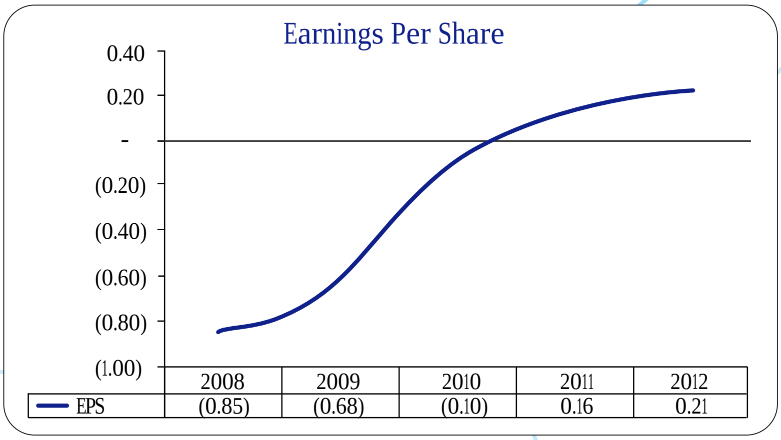
During 2012, the bank grew its deposits by 29 percent to Rs. 22.75 billion. Fixed deposits grew to Rs. 11.5 billion as against Rs. 8.7 billion, an increase of 31 percent. The bank also registered a growth in Current Account Saving Account (CASA) of Rs. 2,341 million, an increase of approx. 26 percent over 2011.





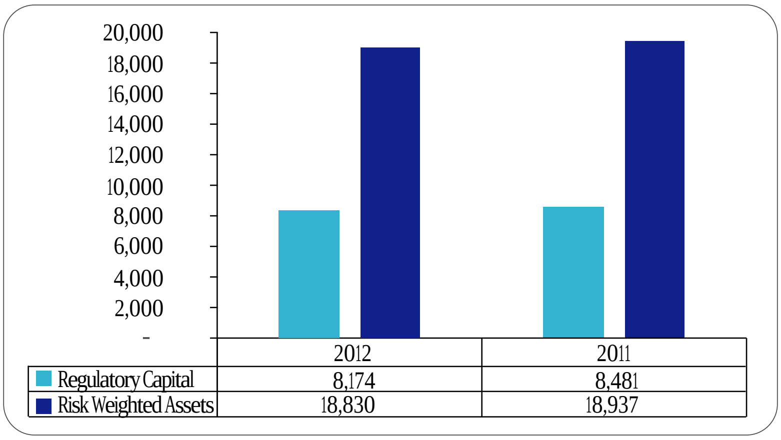
Earnings per Share (EPS)

The Earnings per share of the bank for the year ended 2012 is Rs. 0.21 per share, showing a 31 percent improvement from last year's earnings per share of Rs 0.16.



Capital Adequacy

The paid-up capital (net of losses) of the bank stood at Rs. 8.32 billion against SBP's Minimum Capital Requirement (MCR) of Rs. 9 billion as of December 31, 2012. However, the bank is in the process of capital restructuring which includes capital reduction and capital injection as approved by the Board of Directors on August 8, 2012 and shareholders on January 17, 2013. SBP had given an extension till January 31, 2013, for compliance with the MCR for December 31, 2012 and also allowed the advance money to be received against the proposed right issue to be treated as capital for meeting the MCR.



I am pleased to report that the bank has received on January 23, 2013, the share of its parent, Samba Financial Group, in the proposed right shares issue and thus stands compliant with the MCR of December 31, 2012. As per SBP's requirement, banks are also required to maintain a Capital Adequacy Ratio (CAR) of 10 percent of their risk weighted exposure. For SBL, CAR at December 31, 2012 was approximately 43.92 percent of its risk weighted exposure, which is extremely healthy and reflects the bank's stability and strength.

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 function within the Risk Management Group 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. The project comprises of eight stages. External auditors have been appointed to validate all the stages and provide the Long Form Report for submission to the State Bank of Pakistan. The exercise is underway.

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 20, 2013
Karachi

Statement of Compliance with the Code of Corporate Governance for the year ended December 31, 2012

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 and directors representing minority interests on its Board of Directors. At present the Board includes four Independent Directors, four Non-Executive Directors and an Executive Director:

Category	Names
Independent Directors	Mr. Farhat Abbas Mirza Mr. Humayun Murad Mr. Javed Iqbal Mr. Zahid Zaheer
Executive Director	Mr. Tawfiq A. Husain
Non-Executive Directors	Syed Sajjad Razvi Mr. Zaki Abdulmohsen Al-Mousa Mr. Beji Tak - Tak Dr. Shujaat Nadeem

The independent directors meet the criteria of independence under clause i (b) of the Code.

2. The Directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Bank (excluding the listed subsidiaries of listed holding companies where applicable).

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 or, being member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. The Bank has prepared a 'Code of Conduct' and has ensured that appropriate steps have been taken to disseminate it throughout the Bank along with its supporting policies and procedures.

5. No casual vacancy occurred on the Board during the period under review.

6. The Board has developed a vision / mission statement, overall corporate strategies and significant policies of the Bank. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including determination of remuneration and terms and conditions of employment of the Chief Executive Officer, have been taken by the Board.

8. 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.

9. As required by the code, all the directors of the Bank are required to attend the training program for directors by the year 2016 and at least one director will attend the training program each year during the period from June 30, 2012 to June 30, 2016. However, the directors of the Bank have been provided with the memorandum of changes in Code of Corporate Governance to enable them to effectively manage the affairs of the Bank.

10. The Board has approved remuneration and terms of employment of the Chief Financial Officer and Company Secretary of the Bank.

11. The Directors' report for this year has been prepared in compliance with the requirements of the Code and describes the salient matters required to be disclosed.

12. The financial statements of the Bank were duly endorsed by the Chief Executive Officer and the Chief Financial Officer, before approval of the Board.

13. 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.

14. The Bank has complied with all the corporate and financial reporting requirements of the Code.

15. The Board has formed an Audit Committee. It comprises of three members. One member of the committee is a non-executive director and two are independent directors. The Chairman of the Audit Committee is an independent director.

16. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Bank and as required by the Code. The terms of reference of the Committee have been formed and advised to the Committee for compliance.

17. The Board has formed a Nomination and Remuneration Committee. It comprises of three members, of whom two are non-executive directors and one is an independent director. The Chairman of the Committee is a non-executive director.

18. The Board has set up an effective internal audit function within the Bank. The Head of Internal Audit Function resigned during the year. The management is making efforts to find a suitably qualified person for this position.

19. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review of 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 statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of company's securities, was determined and intimated to directors, employees and stock exchange(s).

22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).

23. We confirm that all other material principles enshrined in the Code have been complied.

Syed Sajjad Razvi
Chairman

Notice of the Tenth Annual General Meeting

NOTICE IS HEREBY GIVEN that the Tenth Annual General Meeting of Samba Bank Limited ("the Bank") will be held at 11:00 a.m. on Wednesday, 27th March 2013, at Hotel Beach Luxury, Karachi, to transact the following business:

Ordinary Business:

1. To confirm the minutes of the Extraordinary General Meeting held on January 17, 2013.

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, 2012.

3. To appoint Auditors and to fix their remuneration.

4. To elect eight directors as fixed by the Board in accordance with the provisions of section 178(1) of the Companies Ordinance 1984, for a period of three years.

The retiring directors are:

1. Syed Sajjad Razvi
2. Mr. Beji Tak - Tak
3. Mr. Farhat Abbas Mirza
4. Mr. Humayun Murad
5. Mr. Javed Iqbal
6. Dr. Shujaat Nadeem
7. Mr. Zahid Zaheer
8. Mr. Zaki Abdulmohsen Al-Mousa

Other Business

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

By Order of the Board

March 06, 2013
Karachi

Saima Kamila Khan
Company Secretary

Notes:

1. Share Transfer Books of the Bank will remain closed from 21-03-2013 to 27-03-2013 (both days inclusive). Transfer received in order at Bank's Registrar, M/s. Famco Associates (Pvt.) Ltd, State Life Building No. 1-A, 1st Floor, I. I. Chundrigar Road, Karachi, 74000 upto close of business on 20-03-2013 will be considered in time for the purpose of Annual General Meeting.

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. CDC account holders will be required to follow the under mentioned guidelines as laid down in Circular number 1 dated January 26, 2000 of the Securities and Exchange Commission of Pakistan for attending the meeting.

4. CDC shareholders, entitled to attend and vote at this meeting, must bring with them their Computerized National Identity Cards (CNIC)/Passport in original along with Participants' ID Numbers and their Account Numbers to prove his/her identity, and in case of Proxy, must enclose an attested copy of his/her CNIC or Passport.

5. In case of a corporate entity the Board of Directors' resolution/ power of attorney with the specimen signature of the nominee shall be submitted with the proxy form to the company, and the same shall be produced in original at the time of the meeting to authenticate the identity of the nominee.

6. Shareholders are requested to notify any change in their addresses to the Bank's Shares Registrar, M/s. Famco Associates (Pvt.) Ltd, State Life Building No. 1-A, 1st Floor, I. I. Chundrigar Road, Karachi, immediately.

Auditors' 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 the 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 internal controls.

Sub-Regulation (x) 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 arms' 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 arms' 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, 2012.

We draw attention to paragraph 18 of the annexed statement which highlights the position of head of internal audit is currently vacant and the bank is taking steps to find a suitably qualified person for this position.

A. F. Ferguson & Co.

Chartered Accountants

Dated: March 04, 2013
Karachi

Financial Statements

For the year ended December 31, 2012

Auditors' Report To The Members

We have audited the annexed statement of financial position of Samba Bank Limited as at December 31, 2012 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, 2012, 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 04, 2013
Karachi

Statement of Financial Position
AS AT DECEMBER 31, 2012

(Rupees in '000)

	Note	2012	2011
ASSETS			
Cash and balances with treasury banks	6	2,052,832	1,463,306
Balances with other banks	7	2,289,653	59,384
Lendings to financial institutions	8	2,777,162	803,459
Investments - net	9	8,894,957	9,663,613
Advances - net	10	15,444,776	15,831,327
Operating fixed assets	11	832,375	903,608
Deferred tax asset - net	12	1,409,372	1,436,135
Other assets - net	13	1,152,710	1,170,140
		34,853,837	31,330,972
LIABILITIES			
Bills payable	14	250,709	529,005
Borrowings	15	2,477,466	3,996,032
Deposits and other accounts	16	22,753,644	17,669,297
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	17	856,135	954,371
		26,337,954	23,148,705
NET ASSETS		8,515,883	8,182,267
REPRESENTED BY:			
Share capital	18	14,334,734	14,334,734
Reserves		150,561	90,383
Accumulated losses		(6,011,639)	(6,252,347)
		8,473,656	8,172,770
Surplus on revaluation of assets - net of tax	19	42,227	9,497
		8,515,883	8,182,267
CONTINGENCIES AND COMMITMENTS	20		

The annexed notes 1 to 47 and Annexure 1 form an integral part of these financial statements.

President and Chief Executive Officer	Chairman	Director	Director

Profit & Loss Account

FOR THE YEAR ENDED DECEMBER 31, 2012

	Note	2012	2011
		(Rupees in '000)	
Mark-up / return / interest earned	21	3,054,034	3,352,186
Mark-up / return / interest expensed	22	1,721,825	1,943,845
Net mark-up / return / interest income		1,332,209	1,408,341
Reversal of provision against loans and advances - net	10.4	(86,607)	(44,667)
Provision for diminution in the value of investments		-	-
Recoveries against debts written-off		(3,993)	(1,537)
		(90,600)	(46,204)
Net mark-up / return / interest income after provisions		1,422,809	1,454,545
Non mark-up / interest income			
Fee, commission and brokerage income		73,851	63,726
Dividend income		1,379	2,453
Income from dealing in foreign currencies		38,235	18,749
Gain on sale of securities - net	23	37,023	20,114
Unrealised gain on revaluation of investments classified as held for trading	9.8	9	-
Other income	24	4,008	47,355
Total non mark-up / interest income		154,505	152,397
		1,577,314	1,606,942
Non mark-up / interest expenses			
Administrative expenses	25	1,458,244	1,397,432
Other provisions / write offs - net	26	(46,110)	8,579
Other charges	27	1,146	37
Total non mark-up / interest expenses		1,413,280	1,406,048
		164,034	200,894
Extraordinary items / unusual items		-	-
Profit before taxation		164,034	200,894
Taxation - Current year	28	16,040	36,566
- Prior years	28	(165,892)	(226,493)
- Deferred	28	13,000	154,306
		(136,852)	(35,621)
Profit after taxation		300,886	236,515
Accumulated losses brought forward		(6,252,347)	(6,441,559)
Transfer to statutory reserve		(60,178)	(47,303)
Accumulated losses carried forward		(6,011,639)	(6,252,347)
		(Rupees)	
Earnings per share	29	0.21	0.16

The annexed notes 1 to 47 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, 2012

(Rupees in '000)

	2012	2011
Profit for the year	300,886	236,515
Other comprehensive income	-	-
Total comprehensive income for the year transferred to equity	300,886	236,515
Components of comprehensive income not reflected in equity		
Surplus on revaluation of available for sale financial assets - net of tax	32,730	20,074
Total comprehensive income for the year	333,616	256,589

The annexed notes 1 to 47 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, 2012

(Rupees in '000)

	Note	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		164,034	200,894
Less: dividend income		(1,379)	(2,453)
		162,655	198,441
Adjustments for non-cash charges and other items			
Depreciation / impairment		143,824	145,721
Amortisation of intangible assets		6,085	5,342
Reversal of provision against loans and advances - net		(86,607)	(44,667)
Gain on sale of securities - net		(37,023)	(20,114)
Other provisions / write offs - net		(46,110)	8,579
Reversal of provision against bad and doubtful other assets - net		-	(1,978)
Gain on disposal of property and equipment - net		(2,567)	(45,288)
		(22,398)	47,595
		140,257	246,036
(Increase) / decrease in operating assets			
Lendings to financial institutions		(1,973,703)	585,544
Investments - held for trading securities		(18,202)	3,151
Advances		473,158	(3,648,874)
Other assets (excluding advance taxation)		169,909	(128,540)
		(1,348,838)	(3,188,719)
Increase / (decrease) in operating liabilities			
Bills payable		(278,296)	413,246
Borrowings from financial institutions		(1,518,566)	(2,538,962)
Deposits and other accounts		5,084,347	2,797,491
Other liabilities (excluding current taxation)		(42,271)	(112,535)
		3,245,214	559,240
		2,036,633	(2,383,443)
Income tax paid		(8,747)	(5,104)
Net cash generated from / (used in) operating activities		2,027,886	(2,388,547)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available for sale securities		863,368	1,475,351
Dividend income		1,379	2,453
Investments in operating fixed assets		(85,999)	(76,282)
Proceed from sale of investment in associates		6,998	-
Sale proceeds from disposal of property and equipment		6,163	64,035
Net cash generated from investing activities		791,909	1,465,557
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of lease obligations		-	(279)
Net cash used in financing activities		-	(279)
Increase/ (decrease) in cash and cash equivalents		2,819,795	(923,269)
Cash and cash equivalents at the beginning of the year		1,522,690	2,445,959
Cash and cash equivalents at the end of the year	30	4,342,485	1,522,690

The annexed notes 1 to 47 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, 2012

(Rupees in '000)

	Share capital	Capital reserve	Statutory reserve	Accumulated losses	Total
Balance as at December 31, 2010	14,334,734	20,935	22,145	(6,441,559)	7,936,255
Profit after taxation for the year ended December 31, 2011	-	-	-	236,515	236,515
Transfer to statutory reserve	-	-	47,303	(47,303)	-
Balance as at December 31, 2011	14,334,734	20,935	69,448	(6,252,347)	8,172,770
Profit after taxation for the year ended December 31, 2012	-	-	-	300,886	300,886
Transfer to statutory reserve	-	-	60,178	(60,178)	-
Balance as at December 31, 2012	14,334,734	20,935	129,626	(6,011,639)	8,473,656

The annexed notes 1 to 47 and Annexure 1 form an integral part of these financial statements.

President and Chief Executive Officer	Chairman	Director	Director

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, 2012 (2011: 80.68%). The Bank operates 28 branches (December 31, 2011: 28 branches) inside Pakistan.

1.2 JCR-VIS has determined the Bank's medium to long-term rating as 'AA-' with stable outlook 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, Banking Companies Ordinance, 1962 or the directives issued by the SECP and SBP differ with the requirements of IFRSs, 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 the 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 the 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 (AFS) securities, 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 the 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 standards and amendments to existing standards and interpretations have been published and are mandatory for the accounting period beginning on January 1, 2012:

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. IAS 40 has been deferred as mentioned in note 3.2. Accordingly, 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 accounting periods beginning on or after

January 1, 2012 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 that are not yet effective and not early adopted:

The following standards and amendments to existing standards and interpretations have been published and are mandatory for accounting periods beginning on or after January 1, 2013 and have not been early adopted by the Bank.

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. This amendment is not expected to have any impact on the Bank's financial statements.

There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2013 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 any new or amended standards in 2012.

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 presentational 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 34 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:

(a) 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.

(b) 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 amortised cost using the effective profit rate method, less any impairment loss recognised 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. The Prudential Regulations specify that investments in unlisted equity securities are required to be carried at cost. However, in cases where the breakup value of such equity securities is less than the cost, the difference between the cost and breakup value should be charged to the profit and loss account as impairment charge. In the case

b) Intangible assets

Intangible assets having definite useful 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 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.

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 recognised 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 recognised 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 asset 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 recognised as income immediately.

5.8 Taxation

(a) 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.

(b) 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-of 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 when the proceeds are 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 an 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 the lease.

- Unrealised lease income in respect of non-performing finance leases and markup / return on non-performing advances is held in the 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

(a) Functional and presentational 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 presentational currency.

(b) 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.

(c) Translation gains and losses

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

(d) 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 rupees 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

(i) Corporate finance

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

(ii) 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.

(iii) 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.

(iv) Commercial banking

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

(b) Geographical segments

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 share 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 after including 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 Off-setting of financial instruments

Financial assets and financial liabilities are off set and the net amount is 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.

6. CASH AND BALANCES WITH TREASURY BANKS

	Note	2012	2011
		(Rupees in '000)	
In hand			
Local currency		319,658	421,089
Foreign currency		137,662	55,756
		457,320	476,845
With State Bank of Pakistan in			
Local currency current account	6.1	1,135,337	725,967
Foreign currency current account (Cash Reserve Account)	6.2	111,722	64,851
Foreign currency deposit account (USD Settlement Account)		16,298	3,879
Foreign currency deposit account (Special Cash Reserve Account)	6.2	332,155	191,764
		1,595,512	986,461
		2,052,832	1,463,306

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 atleast 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 (2011: Nil).

7. BALANCES WITH OTHER BANKS

	Note	2012	2011
		(Rupees in '000)	
In Pakistan			
On current account		13,334	6,420
On saving account		12	12
Outside Pakistan			
On current account	7.1	2,276,307	52,952
		2,289,653	59,384

7.1 The above amount includes balance with SAMBA Financial Group (a related party) amounting to Rs. 12.097 million (2011: Rs. 14.880 million).

8. LENDINGS TO FINANCIAL INSTITUTIONS

	Note	2012	2011
		(Rupees in '000)	
Call money lendings	8.2	1,300,000	400,000
Repurchase agreement lendings (reverse repo)	8.3	1,477,162	403,459
		2,777,162	803,459

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 8.50% to 9.75% per annum (2011: 13.05% to 13.15% per annum) and will mature on various dates, latest by April 04, 2013 (2011: maturity period of upto three months from the date of lending).

8.3 Securities held as collateral against lendings to financial institutions

(Rupees in '000)

Particulars	2012 Held by bank	2012 Further given as collateral	2012 Total	2011 Held by bank	2011 Further given as collateral	2011 Total
Market treasury bills (face value) - note 8.3.1	1,500,000	-	1,500,000	435,000	-	435,000

8.3.1 These represent short-term lendings to financial institutions against investment securities. These carry mark-up at rate of 9.25% per annum (2011: 12% per annum) and will mature by January 04, 2013 (2011: January 04, 2012).

9. INVESTMENTS - NET

(Rupees in '000)

	2012			2011		
	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
9.1 Investments by type						
Held for trading securities						
Market Treasury Bills	33,803	-	33,803	-	-	-
Available for sale securities						
Market Treasury Bills	6,766,775	-	6,766,775	8,123,938	683,535	8,807,473
Pakistan Investment Bonds	1,709,277	-	1,709,277	506,885	-	506,885
Ordinary shares - listed	84,612	-	84,612	85,818	-	85,818
Ordinary shares - unlisted	52,346	-	52,346	59,356	-	59,356
Preference shares - listed	-	-	-	10,000	-	10,000
	8,613,010	-	8,613,010	8,785,997	683,535	9,469,532
Held to maturity securities						
Pakistan Investment Bonds	304,094	-	304,094	309,747	-	309,747
Associates						
Ordinary shares - listed	-	-	-	103,381	-	103,381
Investments at cost	8,950,907	-	8,950,907	9,199,125	683,535	9,882,660
Less: provision for diminution in the value of investments - note 9.3	(118,078)	-	(118,078)	(234,676)	-	(234,676)
Investments (net of provisions)	8,832,829	-	8,832,829	8,964,449	683,535	9,647,984
Surplus on revaluation of available for sale securities - net - note 19	62,119	-	62,119	14,148	1,481	15,629
Surplus on revaluation of held for trading securities - note 9.8	9	-	9	-	-	-
Total investments - net of provisions	8,894,957	-	8,894,957	8,978,597	685,016	9,663,613

9.2 Investments by segment

	Note	2012	2011
		(Rupees in '000)	
Federal government securities	9.9		
Market Treasury Bills		6,800,578	8,807,473
Pakistan Investment Bonds		2,013,371	816,632
		8,813,949	9,624,105
Fully paid-up ordinary shares			
Listed companies	9.5	84,612	189,199
Unlisted companies	9.6	52,346	59,356
		136,958	248,555
Fully paid-up preference shares			
Listed companies	9.7	-	10,000
Investments at cost		8,950,907	9,882,660
Less: Provision for diminution in the value of investments	9.3	(118,078)	(234,676)
Investments (net of provisions)		8,832,829	9,647,984
Surplus on revaluation of available for sale securities - net	19	62,119	15,629
Surplus on revaluation of held for trading securities	9.8	9	-
Total investments - net of provisions		8,894,957	9,663,613

9.3 Particulars of provision for diminution in the value of investments

	2012	2011
Opening balance	234,676	240,729
Reversals on disposals made during the year	-	(6,053)
Amounts written off	(116,598)	-
Closing balance	118,078	234,676

9.3.1 Particulars of provision for diminution in the value of investments by type

	Note	2012	2011
Available for sale securities			
Ordinary shares - listed	9.5	75,732	76,937
Preference shares - listed	9.7	-	10,000
Ordinary shares - unlisted	9.6	42,346	49,356
		118,078	136,293
Associates			
Ordinary shares and certificates - listed	9.5	-	98,383
		118,078	234,676

9.3.2 Particulars of provision for diminution in the value of investments by segment

	Note	2012	2011
Fully paid-up ordinary shares			
Listed companies	9.5	75,732	175,320
Unlisted companies	9.6	42,346	49,356
Fully paid-up preference shares			
Listed companies	9.7	-	10,000
		118,078	234,676

9.4 Quality of available for sale securities

	Note	2012 Market value Rupees in '000	2012 Rating (where available)	2011 Market value Rupees in '000	2011 Rating (where available)
Market Treasury Bills		6,803,849	-	8,827,804	-
Pakistan Investment Bonds		1,729,038	-	504,072	-
Ordinary shares - listed					
B.R.R. Guardian Modaraba		962	-	796	D
JS Value Fund Limited		7,853	AA+	3,752	-
ECOPACK Limited		4,262	-	2,013	-
First Dawood Mutual Fund	9.4.2	266	2 star	71	2 star
Haji Muhammad Ismail Mills Limited	9.4.2	3,075	-	756	-
Nazir Cotton Mills Limited	9.4.1	-	-	-	-
Pakistan PVC Limited	9.4.2	6,536	-	4,615	-
World Call Telecom Limited		1,088	D	430	A- / A2
First Tawakkal Modaraba	9.4.1	-	-	-	-
Hamid Textile Mills Limited	9.4.1	-	-	1,688	-
Islamic Investment Bank Limited	9.4.1	-	-	-	-
Tristar Shipping Lines Limited	9.4.1	-	-	-	-
Ordinary shares - unlisted*					
Crescent Bahuman Limited		-	-	-	-
Crescent Industrial Chemical Limited		-	-	-	-
Pak Asian Fund Limited		10,000	-	10,000	-
Union Communication (Private) Limited		-	-	-	-
Vision Network Television Limited		-	-	-	-
Preference shares - listed*					
Shakarganj Mills Limited		-	-	-	-

* 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 market value as at December 31, 2012, they have been fully provided by the Bank on subjective basis.

9.5 Particulars of investments held in listed securities

Number of ordinary shares / certificates 2012	Number of ordinary shares / certificates 2011	Paid-up value per share / certificate in Rupees	Name of investee company / modaraba / mutual fund	2012 (Rupees in '000)	2011 (Rupees in '000)
Available for sale					
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
41,500	41,500	10	First Dawood Mutual Fund	341	341
1,008,225	1,008,225	10	Haji Muhammad Ismail Mills Limited	9,362	9,362
4,097,499	4,097,499	10	Nazir Cotton Mills Limited	29,014	29,014
1,045,725	1,153,725	10	Pakistan PVC Limited	11,665	12,871
430,100	430,100	10	World Call Telecom Limited	4,323	4,323
36,500	36,500	10	First Tawakkal Modaraba	104	104
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
131,000	131,000	10	Tristar Shipping Lines Limited	12	12
				84,612	85,818
Associates					
-	17,439,000	10	Zahoor Textile Mills Limited [holding Nil (2011: 23.36%)]	-	103,381
				84,612	189,199
			Less: Provision for diminution in the value of investments		
			- associate	-	98,383
			- other than associate	75,732	76,937
			9.3.2	75,732	175,320
			Surplus / (deficit) on revaluation of listed securities 19	5,285	(1,890)
				14,165	11,989

9.6 Particulars of investments held in unlisted securities

Number of ordinary shares / certificates 2012	Number of ordinary shares / certificates 2011	Break-up value per share in Rupees 2012	Break-up value per share in Rupees 2011	Based on the latest available financial statements as at	% holding	Name of investee company / fund	2012 (Rupees in '000)	2011 (Rupees in '000)
Available for Sales								
Shareholding upto 10%								
1,000,000	1,000,000	16.87	16.38	Jun-12	8.89%	Pak Asian Fund Limited (Chief Executive Officer: Mr. Ashfaq Ahmed Berdi)	10,000	10,000
50,000	50,000	8.57	8.57	Jun-10	0.33%	Union Communication (Private) Limited (Chief Executive Officer: Mr. Khalid Mehmood)	500	500
-	700,710	-	1.57	-	0.00%	Vision Network Television Limited (Chief Executive Officer: Mr. Zafar Siddiqui)	-	7,010
3,184,600	3,184,600	1.07	1.07	Jun-11	3.90%	Crescent Bahuman Limited (Chief Executive Officer: Mr. Nasir Shafi)	31,846	31,846
1,000,000	1,000,000	10.00	10.00	Jun-08	0.97%	Crescent Industrial Chemicals Limited (Chief Executive Officer: Mr. Tariq Shafi)	10,000	10,000
							52,346	59,356
						Provision for diminution in the value of investments - note 9.3.2	(42,346)	(49,356)
							10,000	10,000

9.7 Particulars of investments held in preference shares - listed

Number of shares 2012	Number of shares 2011	Paid up value per share in Rupees 2012	Paid up value per share in Rupees 2011	Name of investee company	2012 (Rupees in '000)	2011 (Rupees in '000)
Available for Sales						
-	1,000,000	-	10	Shakarganj Mills Limited	-	10,000
				Provision for diminution in the value of investments	-	(10,000)
					-	-

9.8 Unrealised gain on revaluation of investments classified as held for trading

	2012	2011
Federal government securities		
Market Treasury Bills	9	-

9.9 Particulars of Federal government securities

Market Treasury Bills have a tenor of upto one year. The yield on these instruments ranges from 9.25% to 11.88 % per annum (2011: 11.86% to 13.86% per annum) with maturities of upto September 19, 2013 (2011: upto November 01, 2012).

Pakistan Investment Bonds are issued by the Government of Pakistan for a period ranging from 3 to 10 years. These securities carry profit at rates ranging from 8% to 12% per annum (2011: 8% to 11.5% per annum) with maturities from June 30, 2013 to August 18, 2021 (2011: June 30, 2013 to July 22, 2015).

9.10 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	2012 (Rupees in '000)	2011 (Rupees in '000)
Loans, cash credits, running finances, etc.			
In Pakistan		17,232,494	17,697,032
Net investment in finance leases			
In Pakistan	10.2	461,122	471,753
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		128,429	175,362
Payable outside Pakistan		20,890	30,758
Advances - gross		17,842,935	18,374,905
Provision against advances - specific and general	10.4	(2,398,159)	(2,543,578)
Advances - net of provision		15,444,776	15,831,327

10.1 Particulars of advances - gross

		2012	2011
10.1.1	In local currency	17,773,233	18,286,212
	In foreign currency	69,702	88,693
		17,842,935	18,374,905
10.1.2	Short-term (upto one year)	11,585,541	11,593,560
	Long-term (over one year)	6,257,394	6,781,345
		17,842,935	18,374,905

10.2 Net investment in finance leases

(Rupees in '000)

	2012				2011			
	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
Lease rentals receivable	409,311	-	-	409,311	417,995	-	-	417,995
Residual value	56,188	-	-	56,188	58,460	-	-	58,460
Minimum lease payments	465,499	-	-	465,499	476,455	-	-	476,455
Finance charge for future periods	(4,377)	-	-	(4,377)	(4,702)	-	-	(4,702)
Present value of minimum lease payments	461,122	-	-	461,122	471,753	-	-	471,753

10.3 Advances include Rs 2,451.481 million (2011: Rs 2,619.410 million) which have been placed under non-performing status as detailed below:

(Rupees in '000)

Catetory of classification	2012								
	Advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Classified portfolio									
Substandard	5,046	-	5,046	1,182	-	1,182	1,182	-	1,182
Doubtful	-	-	-	-	-	-	-	-	-
Loss	2,446,435	-	2,446,435	2,392,283	-	2,392,283	2,392,283	-	2,392,283
	2,451,481	-	2,451,481	2,393,465	-	2,393,465	2,393,465	-	2,393,465
	2,451,481	-	2,451,481	2,393,465	-	2,393,465	2,393,465	-	2,393,465

(Rupees in '000)

Catetory of classification	2011								
	Advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
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
	2,619,410	-	2,619,410	2,532,178	-	2,532,178	2,532,178	-	2,532,178
	2,619,410	-	2,619,410	2,532,178	-	2,532,178	2,532,178	-	2,532,178

10.3.1 The Bank has availed benefit of forced sale values amounting to Rs 0.077 million (2011: Rs 2.73 million) while determining the provisioning requirements against non-performing advances as at December 31, 2012.

10.4 Particulars of provision against advances

(Rupees in '000)

	Note	2012			2011		
		Specific	General	Total	Specific	General	Total
Opening balance		2,532,178	11,400	2,543,578	2,581,434	28,101	2,609,535
Charge for the year		39,283	-	39,283	9,587	-	9,587
Reversals		(119,184)	(6,706)	(125,890)	(37,553)	(16,701)	(54,254)
		(79,901)	(6,706)	(86,607)	(27,966)	(16,701)	(44,667)
Amounts written off	10.5	(58,812)	-	(58,812)	(21,290)	-	(21,290)
Closing balance		2,393,465	4,694	2,398,159	2,532,178	11,400	2,543,578

10.4.1 General provision as at December 31, 2012 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

(Rupees in '000)

	2012			2011		
	Specific	General	Total	Specific	General	Total
In local currency	2,393,465	4,694	2,398,159	2,532,178	11,400	2,543,578

10.5 Particulars of write-offs

(Rupees in '000)

	Note	2012	2011
10.5.1 Against provisions	10.4	58,812	21,290
10.5.2 Write-offs of Rs 500,000 and above	10.6	44,377	3,313
Write-offs of below Rs 500,000		14,435	17,977
		58,812	21,290

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, 2012 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.

(Rupees in '000)

	2012	2011
Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons - note 10.7.1		
Balance at beginning of the year	329,153	316,967
Loans granted during the year	37,029	93,867
Repayments during the year	(96,551)	(81,681)
Balance at end of the year	269,631	329,153
Debts 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	-	-
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties		
Balance at beginning of the year	41,500	45,500
Loans granted during the year	-	-
Repayments during the year	(23,000)	(4,000)
Written off during the year	(18,500)	-
Balance at end of the year	-	41,500

11. OPERATING FIXED ASSETS

	Note	2012	2011
		(Rupees in '000)	
Capital work-in-progress	11.1	21,215	63,548
Property, plant and equipment	11.2	543,510	825,844
Intangible assets	11.3	15,895	14,216
		580,620	903,608
Non-current assets held for sale	11.5	251,755	-
		832,375	903,608

11.1 Capital work-in-progress

	Note	2012	2011
Civil works		21,215	86,312
Equipment		-	-
Less: Impairment in respect of semi-constructed property	11.1.1	-	(22,764)
		21,215	63,548

11.1.1

	2012	2011
Accumulated impairment as at January 01	(22,764)	-
Charge for the year	(15,249)	(22,764)
Transfer out	38,013	-
Accumulated impairment as at December 31	-	(22,764)

11.1.2 Impairment relates to semi constructed building having a cost of Rs 56.400 million and net book value of Rs 18.387 million (after accounting for impairment of Rs 38.013 million). This building has been classified as non-current assets held for sale as detailed in note 11.5.

11.2 Property and equipment

(Rupees in '000)

Description	2012 Cost: Balance as at January 1, 2012	Cost: Additions	Cost: Transfers to asset held for sale (Note 11.5)	Cost: Disposals	Cost: Balance as at December 31, 2012	Accumulated depreciation / impairment: Balance as at January 1, 2012	Charge for the year	Transfers to asset held for sale (Note 11.5)	Disposals	Balance as at December 31, 2012	Net book value as at December 31, 2012	Rate per annum %
Owned												
Freehold land	449,399	-	(254,564)	-	194,835	-	21,196*	(21,196)	-	-	194,835	-
Buildings on freehold land	141,073	-	-	-	141,073	85,031	5,458		-	90,489	50,584	5
Furniture and fixtures	389,021	27,726	-	(9,555)	407,192	192,998	59,451	-	(4,883)	247,566	159,626	10
Electrical, office and computer equipment	505,557	36,472	-	(8,748)	533,281	449,654	32,357	-	(8,551)	473,460	59,821	20 / 33
Vehicles	105,092	22,734	-	(6,648)	121,178	36,615	10,113	-	(4,194)	42,534	78,644	20
	1,590,142	86,932	(254,564)	(24,951)	1,397,559	764,298	128,575	(21,196)	(17,628)	854,049	543,510	

(Rupees in '000)

Description	2011 Cost: Balance as at January 1, 2011	Cost: Additions	Cost: Transfers	Cost: Disposals	Cost: Balance as at December 31, 2011	Accumulated depreciation / impairment: Balance as at January 1, 2011	Charge for the year	Transfers	Disposals	Balance as at December 31, 2011	Net book value as at December 31, 2011	Rate per annum %
Owned												
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	
Assets held under finance lease												
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	

* Represents impairment on land transferred to non-current assets held for sale

11.3 Intangible assets

(Rupees in '000)

Description	2012									
	Cost				Accumulated amortisation				Net book value as at December 31, 2012	Rate per annum %
	Balance as at January 1, 2012	Additions	Disposals	Balance as at December 31, 2012	Balance as at January 1, 2012	Charge for the year	Disposals	Balance as at December 31, 2012		
Computer software	54,587	7,764	-	62,351	40,371	6,085	-	46,456	15,895	20

(Rupees in '000)

Description	2011									
	Cost				Accumulated amortisation				Net book value as at December 31, 2011	Rate per annum %
	Balance as at January 1, 2011	Additions	Disposals	Balance as at December 31, 2011	Balance as at January 1, 2011	Charge for the year	Disposals	Balance as at December 31, 2011		
Computer software	48,199	5,395	993	54,587	34,049	5,342	980	40,371	14,216	20

11.4 Disposal of fixed assets

Details of disposal of fixed assets to executives and other persons are given below:

(Rupees in '000)

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain / (loss)	Mode of disposal	Particulars of buyers /insurer
Owned vehicles							
Toyota Corolla - GLi, AQD-534	1,370	738	632	1,100	468	As per Policy	Mr. Syed Murtaza Gilani (Ex-Employee)
Toyota Corolla - GLi, ALK-114	1,309	864	445	1,006	561	Through Tender	Mr. Syed Riaz Ahmed
Toyota Corolla - GLi, APV-014	1,245	794	451	1,025	574	Insurance Claim	
Items having book value less than Rupees 250,000 and cost less than Rupees 1,000,000	2,724	1,797	927	2,112	1,185	Negotiation/Tender	Various
	6,648	4,193	2,455	5,243	2,788		
Furniture and fixtures							
Furniture, table & chairs etc	3,418	1,416	2,002	-	(2,002)	Write-off	
Items having book value less than Rupees 250,000 and cost less than Rupees 1,000,000	6,137	3,468	2,669	782	(1,887)	Write-off / Negotiation	Various
	9,555	4,884	4,671	782	(3,889)		
Electrical, office and computer equipment							
Items having book value less than Rupees 250,000 and cost less than Rupees 1,000,000	8,748	8,551	197	138	(59)	Write-off / Negotiation / Insurance claim	Various
2012	24,951	17,628	7,323	6,163	(1,160)		
2011	36,449	13,425	23,024	64,035	41,011		

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.

11.5 Non-current assets held for sale

This includes two properties (vacant land) having carrying value of Rs 33.168 million and a property with semi-constructed building with a carrying value of Rs 218.587 million which have been reclassified to 'Non-current assets held for sale' as at December 31, 2012. A formal plan to dispose of these properties is in place and initial contacts with the potential buyers have been established. It is expected that the process of sale of these properties will be completed in the near future.

12. DEFERRED TAX ASSET - NET

	Note	2012	2011
		(Rupees in '000)	
Taxable temporary differences			
Net investment in finance leases		(133,422)	(131,230)
Deficit on revaluation of securities	19	(19,892)	(6,132)
Accelerated tax depreciation		(5,303)	(10,564)
Deductible temporary differences			
Recognised tax losses	12.1	788,460	735,354
Provision against loans and advances, investments and other assets		779,529	848,707
Deferred tax asset recognised		1,409,372	1,436,135

12.1 The Bank has an aggregate amount of Rs 3,224.513 million (2011: Rs 3,573.632 million) in respect of tax losses as at December 31, 2012. The management carries out periodic reviews 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 2,252.753 million (2011: Rs 2,101.011 million) [including on unabsorbed tax depreciation of Rs 1,282.994 million (2011: Rs 1,205.115 million)]. The amount of this benefit has been determined based on the projected financial statements for the future periods. The determination of future taxable profit is most sensitive to certain key assumptions such as cost to income ratio of the Bank, deposit composition, kibor 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 realisibility of the deferred tax asset.

13. OTHER ASSETS - NET

	Note	2012	2011
		(Rupees in '000)	
Income / mark-up accrued			
- in local currency		280,315	335,811
- in foreign currencies		286	480
Advances, deposits, prepaid rent and other prepayments		143,425	189,323
Taxation (payments less provisions)		663,882	505,283
Fee and commission receivable		50,647	51,024
Unrealised gain on forward foreign exchange contracts		20,215	95,669
Others	13.1	106,142	98,632
		1,264,912	1,276,222
Provisions held against bad and doubtful other assets	13.2	(112,202)	(106,082)
Other assets (net of provisions)		1,152,710	1,170,140

13.1 This includes an amount of Rs 32.389 million (2011: Rs 32.389 million) receivable from InterAsia Leasing Limited.

13.2 Provisions held against bad and doubtful other assets

	Note	2012	2011
Opening balance		106,082	108,845
Charge for the year		6,120	30
Reversals		-	(2,008)
	26	6,120	(1,978)
Amounts written-off during the year		-	(785)
Closing balance		112,202	106,082

14. BILLS PAYABLE

	Note	2012	2011
		(Rupees in '000)	
In Pakistan		250,709	529,005

15. BORROWINGS

	Note	2012	2011
In Pakistan		2,477,466	3,996,032
15.1 Particulars of borrowings			
In local currency		2,477,466	3,996,032
15.2 Details of borrowings secured / unsecured			
Secured			
Borrowings from SBP under export refinance scheme	15.2.1	2,405,931	2,345,231
Borrowings from SBP under LTFF	15.2.2	49,199	68,878
Repurchase agreement borrowings		-	684,587
		2,455,130	3,098,696
Unsecured			
Call money borrowings		-	875,000
Bankers Equity Limited (Under liquidation)	15.2.3	22,336	22,336
		22,336	897,336
		2,477,466	3,996,032

15.2.1 The Bank enters into agreements with the SBP for extending export finance to customers. As per the terms of the agreements, 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 8.5% per annum (2011: 10% per annum), are payable on a quarterly basis and have a maturity period of upto six months.

15.2.2 This represents borrowing from SBP to provide refinance to customers and carries markup at 7.2% (2011:7.2%) per annum and will mature on January 27, 2015.

15.2.3 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.

	Note	2012	2011
		(Rupees in '000)	
16. DEPOSITS AND OTHER ACCOUNTS			
Customers			
Fixed deposits		10,904,220	8,483,471
Savings deposits		5,706,431	4,401,589
Current accounts - non-remunerative		5,333,684	4,316,574
Others - non-remunerative		49,731	39,903
		21,994,066	17,241,537
Financial Institutions			
Remunerative deposits		639,842	388,027
Non-remunerative deposits		119,736	39,733
	16.2	759,578	427,760
		22,753,644	17,669,297

		(Rupees in '000)	
		2012	2011
16.1	Particulars of deposits and other accounts		
	In local currency	20,458,414	16,390,278
	In foreign currencies	2,295,230	1,279,019
		22,753,644	17,669,297

16.2 These accounts include deposits of SAMBA Financial Group amounting to Rs 94.727 million (2011: Rs 30.970 million).

17. OTHER LIABILITIES

	Note	2012 (Rupees in '000)	2011 (Rupees in '000)
Mark-up / return / interest payable			
- in local currency		226,166	230,805
- in foreign currencies		247	143
Accrued expenses		182,225	175,318
Unclaimed dividends		4,255	4,255
Provision against off-balance sheet obligations	17.2	148,621	205,336
Lease key money		56,754	59,202
Insurance premium payable		-	4,462
Unrealised loss on forward exchange contracts		12,635	42,069
Others	17.1	225,232	232,781
		856,135	954,371

17.1 This includes Rs 185.719 million (2011: Rs 198.661 million) net payable to SAMBA Financial Group.

17.2 Provision against off-balance sheet obligations

	Note	2012	2011
Opening balance		205,336	201,034
Charge for the year		-	4,802
Reversals		(55,965)	(500)
		(55,965)	4,302
Payments made during the year		(750)	-
Closing balance	17.2.1	148,621	205,336

17.2.1 This includes:

a) A provision of Rs 71.134 million (2011: Rs 71.134 million) made in respect of two counter guarantees amounting to Rs 71.134 million issued by Crescent Investment Bank Limited, an amalgamated entity of Samba Bank Limited, 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 (2011: Rs 71.134 million) was made by Crescent Investment Bank Limited in respect of this matter, which is being maintained.

b) A provision of Rs 14.130 million (2011: 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 Limited, 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% per annum. MAMB has filed a petition before the Honourable 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 (2011: Rs 14.130 million) was made in respect of this by Crescent Investment Bank Limited, which is being maintained.

c) A provision is maintained in respect of a guarantee amounting to Rs 105.525 million (2011: 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 payable by the Bank if and when a call is made upon the Bank by the beneficiary and in case of a default by the company. The company has shown gradual and visible improvement in its business affairs, hence, after obtaining necessary approval from SBP, the account was upgraded from Loss to Doubtful. Accordingly, 50% of the provisioning was reversed. Currently, a provision of Rs 52.76 million (2011: Rs 105.525 million) is being maintained.

d) A provision is being maintained in respect of letter of guarantee facilities aggregating Rs 4.745 million (2011: Rs 4.745 million) issued on behalf of Farooq Habib Textile Mills and Zahoor 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 customers. During the course of follow up for reversal of the guarantees, Ministry of Commerce informed the Bank that they had filed an intra court appeal which has also been decided in favor of customers. As per the terms of the court decision, the customers were required to file certain documentations 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

Number of Shares 2012	Number of Shares 2011		(Rupees in '000) 2012	(Rupees in '000) 2011
1,500,000,000	1,500,000,000	Ordinary shares of Rs 10 each	15,000,000	15,000,000

18.2 Issued, subscribed and paid-up capital

Number of shares 2012: Issued for cash	2012: Issued for consideration other than cash	2012: Total	2011: Issued for cash	2011: Issued for consideration other than cash	2011: Total	Ordinary shares of Rs 10 each	(Rupees in '000) 2012	2011
1,211,916,074	221,557,340	1,433,473,414	1,211,916,074	221,557,340	1,433,473,414	At the beginning of the year	14,334,734	14,334,734
-	-	-	-	-	-	Issued during the year	-	-
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

	Number of shares 2012	2011
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
Dr. Shujaat Nadeem	1,891,338	-
	2,022,338	131,000
Associated Companies, undertakings and related parties		
Samba Financial Group (SFG)	1,156,456,310	1,156,456,310
	1,158,478,648	1,156,587,310

18.3 The State Bank of Pakistan vide BSD Circular No. 7 dated April 15, 2009 has specified minimum capital requirements (MCR) for all commercial banks operating in Pakistan. As per these requirements, banks are required to raise their capital to Rs 10 billion (net of accumulated losses), to be achieved in a phased manner by December 31, 2013. The minimum paid-up capital requirements to be achieved by December 31, 2012 is Rs 9 billion (net of accumulated losses). As at December 31, 2012, the regulatory capital (net of accumulated losses) of the Bank amounts to Rs 8.323 billion.

The Board of Directors of the Bank in their meeting held in August 2012 approved the plan for capital restructuring which includes capital reduction (through cancellation of shares having face value of Rs 6,252.347 million against accumulated losses) and issuance of further capital by way of right shares amounting to Rs 2 billion in order to comply with the MCR. This was also approved by the shareholders in their meeting held on January 17, 2013. The share of SFG in the proposed right issue (based on its share holding) amounts to Rs 1.614 billion. The State Bank of Pakistan granted an extension of one month till January 31, 2013 to the Bank in meeting the MCR requirement of Rs 9 billion for December 31, 2012 and also allowed the Bank to consider the advance subscription money received from SFG against right shares as part of paid up capital for the purpose of MCR when the funds have been received. Share of SFG in the proposed right issue has been subsequently received by the Bank on January 23, 2013 and accordingly, the Bank stands compliant with the MCR requirement of Rs 9 billion for December 31, 2012.

19. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX

(Rupees in '000)

	Note	2012	2011
Available for sale			
Federal government securities		56,834	17,519
Ordinary shares - listed	9.5	5,285	(1,890)
	9.1	62,119	15,629
Related deferred tax	12	(19,892)	(6,132)
		42,227	9,497

20. CONTINGENCIES AND COMMITMENTS

	Note	2012	2011
20.1 Direct credit substitutes			
Favouring government		-	400,000
Favouring Banks and other financial institutions		190,666	172,654
Favouring others		245,076	5,391,776
		435,742	5,964,430
20.2 Transaction-related contingent liabilities / commitments			
Guarantees in favour of			
Government	20.2.1	2,272,022	416,050
Others		29,145	31,046
		2,301,167	447,096

20.2.1 This includes guarantees amounting to Rs 15.385 million (2011: 38.463 million) given on behalf of SAMBA Financial Group - a related party.

		2012	2011
20.3 Trade-related contingent liabilities			
Favouring others		4,712,774	4,171,259
20.4 Other contingencies			
Claims against the Bank not acknowledged as debt		161,733	161,733

These represent various cases filed against the Bank for recovery of damages / settlement of deposit balances by various parties. Based on the legal advice, management believes that the possibility of any outcome against the Bank is remote and accordingly no provision has been made in these financial statements.

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 1999-2000, 2000-2001 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. Additionally, the tax department has raised demands of Rs 29.052 million for the assessment years 2009, 2010 and 2011 mainly on account of Federal Excise Duty.

Presently, the Bank is contesting these issues at various 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 its 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 1,101.176 million (2011: Rs 1,072.124 million) raised by the income tax authorities.

20.6 Commitments in respect of forward exchange contracts

	2012	2011
	(Rupees in '000)	
Purchase	3,224,067	10,387,618
Sale	3,723,994	8,846,821

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, 2012 amounted to Rs 15.082 million (2011: Rs 18.799 million).

21. MARK-UP / RETURN / INTEREST EARNED

	2012	2011
	(Rupees in '000)	
On loans and advances to:		
- Customers	1,639,060	1,629,669
On investments:		
- Held for trading securities	197,958	93,394
- Available for sale securities	800,246	1,277,263
- Held to maturity securities	18,947	19,187
	1,017,151	1,389,844
On deposits with financial institutions	152	234
On securities purchased under resale agreements	333,906	283,090
On call lendings	63,765	49,349
	3,054,034	3,352,186

22. MARK-UP / RETURN / INTEREST EXPENSED

	2012	2011
Deposits	1,305,017	1,096,600
Securities sold under repurchase agreements	112,265	593,399
Other short-term borrowings	7,267	33,004
SBP LTFF Refinance	3,995	5,361
SBP export refinance	212,438	185,838
Others	80,843	29,643
	1,721,825	1,943,845

23. GAIN ON SALE OF SECURITIES - NET

(Rupees in '000)

	Note	2012	2011
Government securities		19,778	16,798
Ordinary shares - listed		12,690	3,316
Ordinary shares - unlisted		4,555	-
		37,023	20,114

24. OTHER INCOME

	Note	2012	2011
Gain on disposal of property and equipment - net		2,567	45,288
Reversal of provision against bad and doubtful other assets - net		-	1,978
Others	24.1	1,441	89
		4,008	47,355

24.1 This includes an amount of Rs 1 million recovered from customer being a loan penalty, Rs 0.406 million from a vendor as a compensation for late delivery of vehicles and Rs 0.035 million from a vendor for not fulfilling commitments.

25. ADMINISTRATIVE EXPENSES

(Rupees in '000)

	Note	2012	2011
Salaries, allowances and benefits		656,425	666,088
Contribution to provident fund plan	32	21,746	20,764
Non-executive directors' fees, allowances and other expenses		8,822	5,991
Rent, taxes, insurance, electricity, etc.		255,061	259,185
Legal and professional charges		14,345	11,032
Communications		97,454	85,129
Group shared service cost		66,658	12,471
Repairs and maintenance		62,186	58,432
Stationery and printing		24,724	21,018
Advertisement and publicity		15,330	7,146
Auditors' remuneration	25.1	7,624	6,379
Depreciation / impairment	11.2 & 11.1.1	143,824	145,721
Amortisation of intangible assets	11.3	6,085	5,342
Travelling and conveyance		19,799	16,617
Charges paid to Central Depository Company of Pakistan Limited		169	218
Security services		23,536	22,614
Workers' welfare fund	25.2	3,345	4,111
Others		31,111	49,174
		1,458,244	1,397,432

25.1 Auditors' remuneration

		2012	2011
Statutory audit fee		1,550	1,365
Fee for quarterly and annual group reporting		1,760	1,650
Fee for the review of the half yearly financial statements		350	325
Fee for the review carried out in connection with reporting on internal control on financial reporting framework		2,000	684
Special certifications and others		1,230	1,205
Out-of-pocket expenses		734	1,150
		7,624	6,379

25.2 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.

26. OTHER PROVISIONS / WRITE OFFS - NET

	Note	2012	2011
		(Rupees in '000)	
Provision against bad and doubtful other assets - net	13.2	6,120	-
(Reversal) / provision against off balance sheet obligations	17.2	(55,965)	4,302
Fixed assets written-off		3,727	4,277
Others		8	-
		(46,110)	8,579

27. OTHER CHARGES

	2012	2011
Penalties imposed by the State Bank of Pakistan	1,146	37
	1,146	37

28. TAXATION

	Note	2012	2011
For the year			
Current		16,040	36,566
Deferred		13,000	154,306
For prior years			
Current	28.1	(165,892)	(226,493)
		(136,852)	(35,621)

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

28.2 Relationship between 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.

29. EARNINGS PER SHARE

	2012	2011
	(Rupees in '000)	
Profit after taxation	300,886	236,515
	Number of shares	
Weighted average number of ordinary shares	1,433,473,414	1,433,473,414
	Rupees	
Earnings per share	0.21	0.16

29.1 Diluted earnings per share has not been presented as the Bank does not have any convertible instruments in issue at December 31, 2012 and 2011 which would have any effect on the earnings per share if the option to convert is exercised.

30. CASH AND CASH EQUIVALENTS

	Note	2012	2011
		(Rupees in '000)	
Cash and balances with treasury banks	6	2,052,832	1,463,306
Balances with other banks	7	2,289,653	59,384
		4,342,485	1,522,690

31. STAFF STRENGTH

	Note	2012	2011
		(Number)	
Permanent		450	439
Temporary / on contractual basis		-	-
Bank's own staff strength at the end of the year		450	439
Outsourced	31.1	282	321
Total number of employees at the end of the year		732	760

31.1 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.

32. DEFINED CONTRIBUTION PLAN

The Bank operates a contributory provident fund plan for 389 employees (2011: 389 employees). Both employer and employees contribute 8.33% (2011: 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.

33. COMPENSATION OF DIRECTORS AND EXECUTIVES

Rupees in '000

	2012			2011		
	President and Chief Executive Officer	Directors	Executives	President and Chief Executive Officer	Directors	Executives
Fees	-	8,822	-	-	5,991	-
Managerial remuneration	15,288	-	171,357	14,843	-	176,338
Contribution to defined contribution plan	1,274	-	13,585	1,218	-	13,258
Rent and house maintenance	6,880	-	77,111	6,679	-	74,591
Utilities	1,529	-	17,136	1,484	-	17,829
Medical	1,529	-	17,136	1,484	-	17,829
Cash reimbursement	-	-	14,720	-	-	14,498
Bonus	5,500	-	36,560	5,000	-	37,375
Conveyance	-	-	240	-	-	251
Other allowances	1,274	-	-	1,237	-	-
	33,274	8,822	347,845	31,945	5,991	351,969
Number of persons	1	4	140	1	4	141

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

33.2 Executives include employees, other than the Chief Executive Officer and directors, whose basic salary exceeds five hundred thousand rupees in a financial year.

34. 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 judgments 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 28).

35. FAIR VALUE OF FINANCIAL INSTRUMENTS AND DERIVATIVE INSTRUMENTS

35.1 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'. Held to maturity securities are carried at amortised cost in order to comply with the requirements specified by the State Bank of Pakistan. The fair value of these investments amounts to Rs 297.621 million (2011: Rs 280.989 million).

Fair value of unquoted equity investments is determined on the basis of break up value of these investments as per the latest available audited financial statements.

Fair 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 42 and 44 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.

35.2 Off-balance sheet financial instruments

(Rupees in '000)

	2012		2011	
	Book value	Fair value	Book value	Fair value
Forward purchase of foreign exchange	3,224,067	3,213,782	10,387,618	10,456,415
Forward sale of foreign exchange	3,723,994	3,706,129	8,846,821	8,862,019

35.3 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 contract.

36. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

(Rupees in '000)

Particulars	2012				
	Corporate finance	Trading & sales	Retail banking	Commercial banking	Total
Total income (net of interest expense and provisions)	8,586	210,268	810,174	594,396	1,623,424
Total operating expenses	13,851	116,601	1,036,671	292,267	1,459,390
Net (loss) / income (before tax)	(5,265)	93,667	(226,497)	302,129	164,034
Segment assets (gross)	15,221	16,787,764	2,227,454	18,511,045	37,541,484
Segment non-performing loans	-	-	647,434	1,804,047	2,451,481
Segment provision held *	-	(123,123)	(647,268)	(1,917,256)	(2,687,647)
Segment liabilities	641	12,990	18,798,196	7,526,127	26,337,954
Segment return on net assets (%)	-34.59%	0.56%	-14.33%	1.82%	0.47%
Segment cost of funds (%)	9.71%	10.17%	6.87%	9.71%	7.37%

(Rupees in '000)

Particulars	2011				
	Corporate finance	Trading & sales	Retail banking	Commercial banking	Total
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 (gross)	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%

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

37. TRUST ACTIVITIES

The Bank is currently not engaged in any trust activities.

38. 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 related parties are entered in the normal course of business. Remuneration to key management personnel is in accordance with employee agreements and services rules. These agreements also provide for 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 33 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:

(Rupees in '000)

	2012				2011			
	Key management personnel	Parent Company	Associates	Others	Key management personnel	Parent Company	Associates	Others
BALANCES OUTSTANDING- GROSS								
Advances								
At January 1	66,438	-	41,500	-	62,798	-	45,500	-
Disbursed during the year	3,109	-	-	-	16,390	-	-	-
Repaid during the year	(29,808)	-	(23,000)	-	(6,217)	-	(4,000)	-
Adjustments	(13,534)	-	-	-	(6,533)	-	-	-
Written off during the year	-	-	(18,500)	-	-	-	-	-
At December 31	26,205	-	-	-	66,438	-	41,500	-
Provision held against advances	-	-	-	-	-	-	41,500	-
Deposits								
At January 1	128,537	-	3,222	16,149	133,707	-	3,222	122,679
Received during the year	632,660	-	-	713,845	532,545	-	-	247,953
Withdrawn during the year	(643,700)	-	-	(723,143)	(538,995)	-	-	(354,483)
Adjustments	1,236	-	(3,222)	-	1,280	-	-	-
At December 31	118,733	-	-	6,851	128,537	-	3,222	16,149
Others								
Guarantees	-	15,385	-	-	-	38,463	3,733	-
Provision against guarantees	-	-	-	-	-	-	3,733	-
Balances in nostro accounts	-	12,097	-	-	-	14,880	-	-
Investment in shares	-	-	-	-	-	-	103,381	-
Reversal of provision against investments	-	-	98,383	-	-	-	-	-
Proceeds from sale of investments	-	-	7,000	-	-	-	-	-
Sundry receivables	-	-	-	-	-	-	32,791	-
Mark-up income suspended	-	-	-	-	-	-	32,791	-
Sundry payable (including Group Shared Service cost)	-	185,719	-	-	-	198,661	-	-
Other Liabilities	-	-	-	-	-	-	5,000	-
Balances in vostro accounts	-	94,727	-	-	-	30,970	-	-
Provision held against diminution in the value of investments	-	-	-	-	-	-	98,383	-
TRANSACTIONS DURING THE YEAR								
Remuneration and benefits	135,006	-	-	-	148,996	-	-	-
Directors fee	8,822	-	-	-	5,991	-	-	-
Commission income on guarantees	-	253	-	-	-	94	-	-
Counter confirmation charges on guarantees	-	5,055	-	-	-	14,307	-	-
Mark-up / return / interest expensed	5,670	-	-	496	9,032	-	-	5,151
Mark-up / return / interest income	1,562	-	-	-	2,565	-	-	-
Disposal of fixed assets	1,100	-	-	-	-	-	-	-
Group Services cost	-	66,658	-	-	-	12,471	-	-
Sale of government securities	222,500	-	-	-	-	-	-	-
Purchase of government securities	222,500	-	-	-	-	-	-	-
Mark-up written off	-	-	32,791	-	-	-	-	-

Forex transactions during the year - Samba Financial Group

(Currency in '000)

CURRENCY	READY / SPOT / TOM		FORWARD	
	BUY	SELL	BUY	SELL
AED	850	-	-	-
AUD	510	-	20	-
CAD	1,558	6,049	-	-
CHF	15	-	-	-
EUR	44,240	4,420	27,355	900
GBP	13,173	710	11,265	-
JPY	-	-	-	500,448
SAR	2,800	-	-	-
SEK	40	-	-	-
USD	59,984	80,572	7,562	52,665

Forex deals outstanding as at the year end - Samba Financial Group

(Currency in '000)

CURRENCY	READY / SPOT / TOM		FORWARD	
	BUY	SELL	BUY	SELL
EUR	-	-	100	-
GBP	-	-	300	-
SAR	-	1,000	-	-
USD	267	-	-	618

38.1 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. Details of remuneration to the executives, investment in associates are disclosed in note 33 and note 9.5 to these financial statements.

39. CAPITAL ADEQUACY

39.1 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.

39.2 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.

39.3 Statutory minimum capital requirement and management of capital

The Banks are required to maintain Minimum Capital Requirement (MCR) as prescribed by the State Bank of Pakistan through its BSD Circular No. 7 dated April 15, 2009 which requires the minimum paid up capital (net of accumulated losses) to be raised to Rs 10 billion by the year ending December 31, 2013. Subsequent to the year end the shareholders of the Bank have approved the issue of right shares and the Bank is currently in the process of issuing these shares for the purpose of meeting minimum regulatory capital as explained in note 18.3 of the financial statements. 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, 2012 is approximately 43.92 percent (2011: 43.41 percent) of its risk weighted exposure.

39.4 Bank's regulatory capital analysed into following tiers

Tier 1 capital, includes fully paid up capital (including the 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 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" specified by the SBP. 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.

39.5 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:

		2012	2011
		(Rupees in '000)	
Regulatory capital base			
Tier I capital			
Issued, subscribed and paid-up capital		14,334,734	14,334,734
Advance share subscription money received against proposed issue of right shares		-	-
Reserves		150,561	90,383
Accumulated loss		(6,011,639)	(6,252,347)
Other deductions:			
- Intangible assets		(15,895)	(14,216)
- 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		-	-
Total Tier I Capital		8,457,761	8,158,554
Tier II Capital			
General provisions subject to 1.25% of total risk weighted assets		4,694	11,400
Surplus on revaluation of assets - net of tax (upto 45%)		19,002	4,274
Other deductions:		-	-
50% of significant minority interest in financial entities (i.e. bank's investment in closed-end mutual fund)		-	-
Total Tier II capital		23,696	15,674
Eligible Tier III capital		-	-
Total regulatory capital	(a)	8,481,457	8,174,228

(Rupees in '000)

		2012		2011	
		Capital Requirement	Risk adjusted value	Capital Requirement	Risk adjusted value
Risk-weighted exposures					
Credit risk					
Portfolios subject to Standardised approach (Simple Approach for CRM)					
On-Balance Sheet Items:					
Public sector entities (PSEs)		78,572	785,716	186,593	1,865,926
Banks and securities firms		173,954	1,739,540	26,353	263,533
Corporate portfolio		966,684	9,666,842	931,181	9,311,806
Retail non mortgages		6,093	60,932	17,215	172,154
Mortgages – residential		8,411	84,114	10,359	103,590
Equities		2,917	29,165	2,699	26,990
Fixed assets		81,648	816,480	88,939	889,392
Other assets		254,488	2,544,883	251,436	2,514,362
Past due exposures		4,176	41,763	7,153	71,528
Market risk					
Capital requirement for portfolios subject to Standardised approach					
Interest rate risk		74,893	748,925	64,426	644,263
Foreign exchange risk		7,840	78,400	69,323	693,230
Operational risk					
Capital requirement for operational risks (basic indicator approach)		271,434	2,714,337	227,352	2,273,519
TOTAL	(b)	1,931,110	19,311,097	1,883,029	18,830,293
Capital adequacy ratio					
Total eligible regulatory capital held	(a)	8,481,457		8,174,228	
Total risk weighted assets	(b)	19,311,097		18,830,293	
Capital adequacy ratio	[(a / b) x 100]	43.92%		43.41%	

39.6 Cash margin and government securities amounting to Rs 56.742 million (2011: Rs 59.014 million) have been deducted from gross advances using simple approach to credit risk mitigation under Basel II. Advances are not netted off with general provision amounting to Rs 4.694 million (2011: Rs 11.400 million) which is reported separately in Tier II (supplementary) capital as per BSD circular letter number 03 dated May 20, 2006.

39.7 Cash margin and government securities amounting to Rs 15.276 million (2011: Rs 15.273 million) have been deducted from off-balance sheet items.

39.8 The capital charge for operational risk is a fixed percentage of average positive annual gross income of the Bank over the past three years (including year 2012).

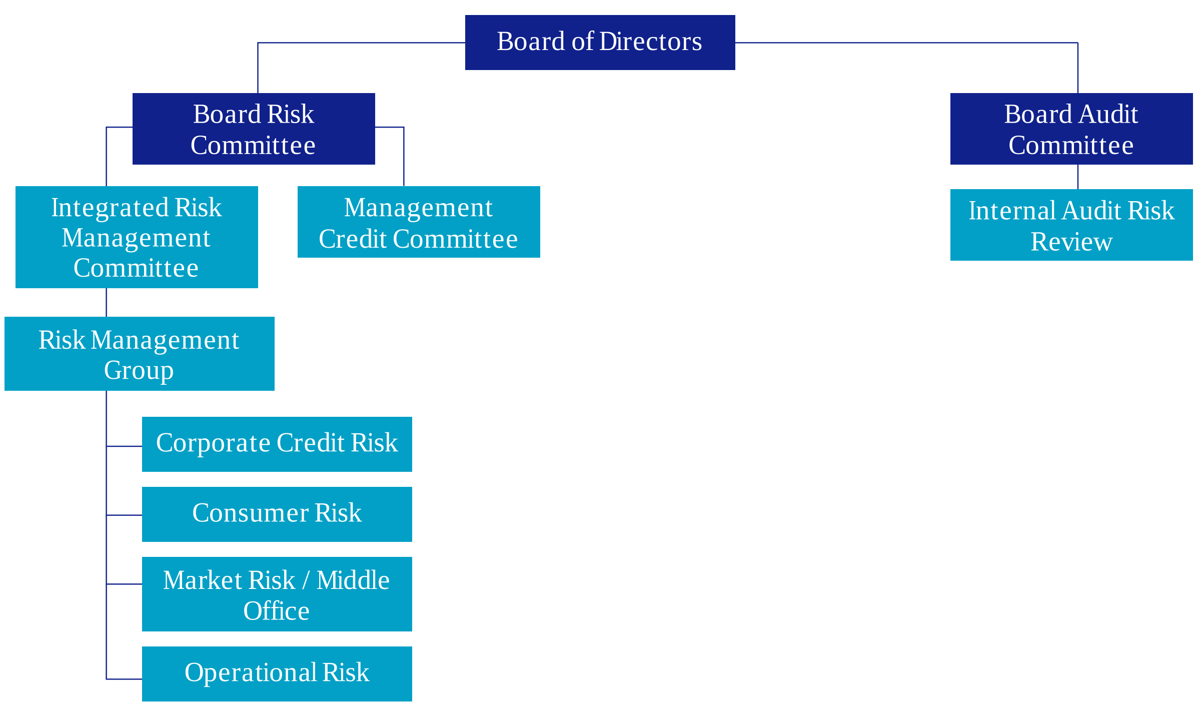
40. RISK MANAGEMENT

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 recognised as being concerned with both positive and negative aspects of risk. However, as a matter of prudence it is generally recognised 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 the 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.



40.1 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 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 our 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 Standardised 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 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 a need 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.

41. SEGMENTAL INFORMATION

41.1 Segment by class of business

	2012					
	Gross advances		Deposits		Contingencies & commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Chemical and pharmaceuticals	2,288,880	12.83	412,368	1.81	421,416	2.89
Agriculture, forestry, hunting and fishing	1,729	0.01	65,227	0.29	-	-
Textile	4,116,667	23.07	33,934	0.15	160,058	1.10
Cement	398,000	2.23	69	0.00	52,763	0.36
Sugar	21,236	0.12	60	0.00	-	-
Footwear and leather garments	552,081	3.09	6,540	0.03	34,532	0.24
Automobile and transportation services	1,328	0.01	2,683,881	11.80	243,339	1.67
Financial	-	-	749,637	3.29	21,777	0.15
Insurance	829	0.00	9,941	0.04	-	-
Electronics and electrical appliances	38,977	0.22	26,693	0.12	550	0.00
Power (electricity), gas, water and sanitary	3,683,864	20.65	237,646	1.04	-	-
Individuals	1,275,946	7.15	15,381,424	67.60	-	-
Manufacturing	995,000	5.58	-	-	-	-
Transport, storage and communication	24,038	0.13	-	-	11,000	0.08
Services	251,759	1.41	-	-	-	-
Paper and allied	574	0.00	-	-	300	0.00
Oil Marketing Companies	1,000,000	5.60	-	-	4,273,789	29.32
Others	3,192,027	17.89	3,146,224	13.83	9,355,035	64.19
	17,842,935	100.00	22,753,644	100.00	14,574,559	100.00

	2011					
	Gross advances		Deposits		Contingencies & commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Chemical and pharmaceuticals	1,247,140	6.79	14,890	0.08	187,724	0.63
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	0.08
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	0.24
Automobile and transportation services	1,328	0.01	1,052,227	5.96	225,295	0.75
Financial	-	-	388,075	2.20	40,863	0.14
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	1.55
Individuals	1,241,561	6.76	12,323,256	69.74	-	-
Manufacturing	995,000	5.41	-	-	-	-
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	17.37
Others	1,768,606	9.63	3,159,130	17.89	23,768,993	79.24
	18,374,905	100.00	17,669,297	100.00	29,997,756	100.00

41.2 Segment by sector

	2012					
	Gross advances		Deposits		Contingencies & commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	3,792,333	21.25	438,833	1.93	6,186,269	42.45
Private	14,050,602	78.75	22,314,811	98.07	8,388,290	57.55
	17,842,935	100.00	22,753,644	100.00	14,574,559	100.00

	2011					
	Gross advances		Deposits		Contingencies & commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	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
	18,374,905	100.00	17,669,297	100.00	29,997,756	100.00

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

(Rupees in '000)

	2012		2011	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
Chemical and pharmaceuticals	1,155	855	1,156	859
Agriculture, forestry, hunting and fishing	950	585	950	585
Textile	687,435	681,569	748,624	742,758
Sugar	21,236	21,236	21,236	21,236
Footwear and leather garments	4,301	3,109	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	647,063	613,844	709,404	646,968
Services	4,293	2,977	4,393	3,077
Others	452,531	437,273	483,796	468,536
	2,451,481	2,393,465	2,619,410	2,532,178

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

	2012		2011	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
Public / government	-	-	-	-
Private	2,451,481	2,393,465	2,619,410	2,532,178
	2,451,481	2,393,465	2,619,410	2,532,178

41.5 Geographical segment analysis

(Rupees in '000)

	2012			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
Pakistan	164,034	34,853,837	8,515,883	14,574,559

(Rupees in '000)

	2011			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
Pakistan	200,894	31,330,972	8,182,267	29,997,756

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

41.6 Credit Risk – General Disclosures, Basel II Specific

The Bank has adopted Standardised approach, under Basel II. According to the regulatory statement submitted under the standardised approach, the portfolio has been divided into Claims on Public Sector Entities in Pakistan (PSEs), claims on corporate (excluding equity exposure) and claims categorised as retail portfolio. Claims on corporate constitute 73% of the total exposure, 24% represents claims on PSEs, 1% represents retail non-mortgages and the remaining 2% exposure pertains to claims categorised as mortgage residential portfolio.

41.7 Credit Risk: Standardised 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	-	-	-
Securitizations	-	-	-

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 exposure without any adjustments.

For exposure amounts after risk mitigation subject to the standardised 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	8,637,505	-	8,637,505
Banks	1-5	5,070,011	-	5,070,011
Sovereigns (local govt. securities)	N/A	8,870,791	-	8,870,791
Unrated		8,139,783	37,439	8,102,344
Total		30,718,090	37,439	30,680,651

* 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

41.8 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.

41.8.1 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

41.9 Market Risk Management

41.9.1 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:

41.9.2 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
- DV01 limits
- Triggers – Simplified Action triggers

41.9.3 Structure and Organization of the market risk management

41.9.4 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.

- Identifying and specifying 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.

- Preparing MAR, maturity and interest rate risk GAP reports.

- Preparing market risk dashboard for IRMC, BRC and senior management.

- Preparing GAP analysis report and reviewing methodologies to calculate risk under Pillar I and II of ICAAP Framework.

- Preparing Business Continuity Programme (BCP) for market risk.

- Finalising methodologies to calculate risks under Pillar I & II for ICAAP Framework.

- Jointly developing, with business, standard stress test scenarios and reviewing the standard stress test library at least annually.

- Reviewing the Bank's capital adequacy.

41.9.5 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.

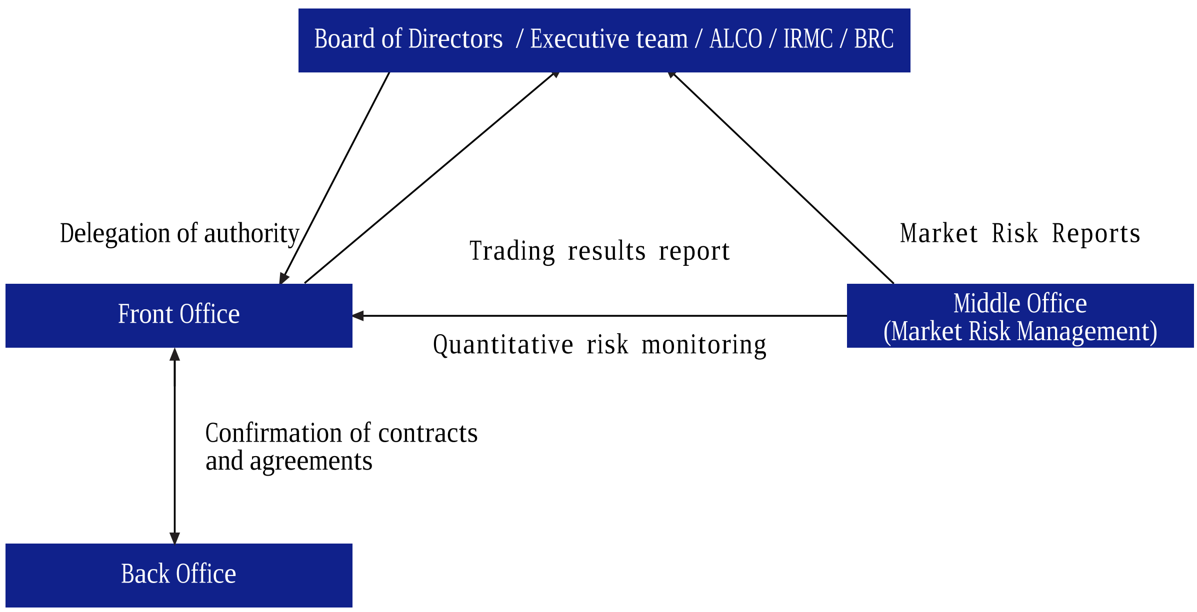
- The market risk data and other data used to populate the independent market risk reports should be from independent risk systems or other independent support systems (e.g., general ledger). If the information available in the independent systems is not sufficiently comprehensive, any other data used to populate the reports must be subject to a reconcilement 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.

41.9.6 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, IRMC and BRC meetings are held respectively every month / quarter to deliberate important matters related to market risk and control.



41.10 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 principal 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

41.11 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 authorised 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.

(Rupees in '000)

	2012			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
Pakistan Rupee	31,909,706	23,813,032	492,347	8,589,021
United States Dollar	2,851,664	2,346,373	(578,523)	(73,232)
Great Britain Pound	47,391	94,116	47,369	644
Japanese Yen	959	-	-	959
Euro	33,345	84,296	38,807	(12,144)
Other currencies	10,772	137	-	10,635
	34,853,837	26,337,954	-	8,515,883

(Rupees in '000)

	2011			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
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
	31,330,972	23,148,705	-	8,182,267

41.12 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.

42. 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:

(Rupees in '000)

2012

	Effective yield/ interest rate %	Total	Exposed to yield / interest rate risk									Non-interest bearing financial instruments
			Upto one months	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	
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	-	2,052,832	-	-	-	-	-	-	-	-	-	2,052,832
Balances with other banks	0.05%	2,289,653	836,280	-	-	-	-	-	-	-	-	1,453,373
Lendings to financial institutions	9.36%	2,777,162	2,677,162	-	100,000	-	-	-	-	-	-	-
Investments - net	10.74%	8,894,957	33,812	3,964,036	-	3,346,081	652,453	205,760	511,079	157,571	-	24,165
Advances - net	10.37%	15,444,776	8,724,028	3,120,632	2,188,401	1,020,631	91,001	81,520	114,736	60,959	12,180	30,688
Other assets	-	345,403	-	-	-	-	-	-	-	-	-	345,403
		31,804,783	12,271,282	7,084,668	2,288,401	4,366,712	743,454	287,280	625,815	218,530	12,180	3,906,461
Liabilities												
Bills payable	-	250,709	-	-	-	-	-	-	-	-	-	250,709
Borrowings	11.31%	2,477,466	9,839	862,231	1,543,700	9,840	19,680	9,840	-	-	-	22,336
Deposits and other accounts	6.33%	22,753,644	5,520,591	2,927,290	7,381,025	759,445	22,300	-	-	-	-	6,142,993
Other liabilities	-	650,760	-	-	-	-	-	-	-	-	-	650,760
		26,132,579	5,530,430	3,789,521	8,924,725	769,285	41,980	9,840	-	-	-	7,066,798
On-balance sheet gap		5,672,204	6,740,852	3,295,147	(6,636,324)	3,597,427	701,474	277,440	625,815	218,530	12,180	(3,160,337)
Cumulative Yield / Interest Risk Sensitivity Gap			6,740,852	10,035,999	3,399,675	6,997,102	7,698,576	7,976,016	8,601,831	8,820,361	8,832,541	

(Rupees in '000)

2011

	Effective yield/ interest rate %	Total	Exposed to yield / interest rate risk									Non-interest bearing financial instruments
			Upto one months	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	
On-balance sheet financial instruments												
Assets												
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
		28,296,623	7,259,503	9,539,360	4,814,447	3,327,151	629,751	142,621	299,122	80,568	122,468	2,081,632
Liabilities												
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
		22,884,167	10,652,353	4,304,695	1,656,604	529,873	38,660	41,980	9,840	-	-	5,650,162
On-balance sheet gap		5,412,456	(3,392,850)	5,234,665	3,157,843	2,797,278	591,091	100,641	289,282	80,568	122,468	(3,568,530)
Cumulative Yield / Interest Risk Sensitivity Gap			(3,392,850)	1,841,815	4,999,658	7,796,936	8,388,027	8,488,668	8,777,950	8,858,518	8,980,986	

43. 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 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

44. MATURITIES OF ASSETS AND LIABILITIES

44.1 Maturities of assets and liabilities based on expected maturities

(Rupees in '000)

2012

	Total	Upto one months	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
Assets										
Cash and balances with treasury banks	2,052,832	910,570	248,741	211,268	248,222	145,411	144,310	144,310	-	-
Balances with other banks	2,289,653	2,289,653	-	-	-	-	-	-	-	-
Lendings to financial institutions	2,777,162	2,677,162	-	100,000	-	-	-	-	-	-
Investments - net	8,894,957	33,812	3,964,036	-	3,370,246	652,453	205,760	511,079	157,571	-
Advances - net	15,444,776	6,440,271	1,827,189	2,434,717	765,371	290,972	101,633	3,477,937	94,522	12,164
Operating fixed assets	832,375	12,306	37,761	34,987	308,829	83,739	55,643	55,038	42,336	201,736
Deferred tax assets	1,409,372	-	-	-	79,197	102,097	121,667	36,455	1,069,956	-
Other assets	1,152,710	318,910	123,646	20,587	91	165	80	689,231	-	-
	34,853,837	12,682,684	6,201,373	2,801,559	4,771,956	1,274,837	629,093	4,914,050	1,364,385	213,900
Liabilities										
Bills payable	250,709	250,709	-	-	-	-	-	-	-	-
Borrowings	2,477,466	9,839	862,231	1,543,700	9,840	19,680	9,840	22,336	-	-
Deposits and other accounts	22,753,644	7,230,015	4,042,459	3,147,622	3,070,056	1,769,364	1,747,064	1,747,064	-	-
Other liabilities	856,135	460,250	536	-	185,719	-	-	209,630	-	-
	26,337,954	7,950,813	4,905,226	4,691,322	3,265,615	1,789,044	1,756,904	1,979,030	-	-
Net assets	8,515,883	4,731,871	1,296,147	(1,889,763)	1,506,341	(514,207)	(1,127,811)	2,935,020	1,364,385	213,900
Represented by:										
Share capital	14,334,734									
Reserves	150,561									
Accumulated losses	(6,011,639)									
	8,473,656									
Surplus on revaluation of assets	42,227									
	8,515,883									

(Rupees in '000)

2011

	Total	Upto one months	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
Assets										
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	-	-
	31,330,972	8,675,610	7,544,688	2,752,281	4,175,116	1,643,493	431,613	1,713,773	3,705,702	688,696
Liabilities										
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	-	-
	23,148,705	8,023,510	5,189,213	2,698,969	2,770,749	1,415,516	1,417,047	1,633,701	-	-
Net assets	8,182,267	652,100	2,355,475	53,312	1,404,367	227,977	(985,434)	80,072	3,705,702	688,696
Represented by:										
Share capital	14,334,734									
Reserves	90,383									
Accumulated losses	(6,252,347)									
	8,172,770									
Surplus on revaluation of assets	9,497									
	8,182,267									

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.

44.2 Maturities of assets and liabilities based on contractual maturities

(Rupees in '000)

2012	Total	Upto one months	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
Assets										
Cash and balances with treasury banks	2,052,832	2,052,832	-	-	-	-	-	-	-	-
Balances with other banks	2,289,653	2,289,653	-	-	-	-	-	-	-	-
Lendings to financial institutions	2,777,162	2,677,162	-	100,000	-	-	-	-	-	-
Investments - net	8,894,957	33,812	3,964,036	-	3,370,246	652,453	205,760	511,079	157,571	-
Advances - net	15,444,776	8,093,117	1,620,583	1,608,294	145,554	290,972	101,633	3,477,937	94,522	12,164
Operating fixed assets	832,375	12,306	37,761	34,987	308,829	83,739	55,643	55,038	42,336	201,736
Deferred tax assets	1,409,372	-	-	-	79,197	102,097	121,667	36,455	1,069,956	-
Other assets	1,152,710	318,910	123,646	20,587	91	165	80	689,231	-	-
	34,853,837	15,477,792	5,746,026	1,763,868	3,903,917	1,129,426	484,783	4,769,740	1,364,385	213,900
Liabilities										
Bills payable	250,709	250,709	-	-	-	-	-	-	-	-
Borrowings	2,477,466	9,840	862,230	1,543,700	9,840	19,680	9,840	22,336	-	-
Deposits and other accounts	22,753,644	17,370,015	2,927,290	1,674,594	759,445	22,300	-	-	-	-
Other liabilities	856,135	460,250	536	-	185,719	-	-	209,630	-	-
	26,337,954	18,090,814	3,790,056	3,218,294	955,004	41,980	9,840	231,966	-	-
Net assets	8,515,883	(2,613,022)	1,955,970	(1,454,426)	2,948,913	1,087,446	474,943	4,537,774	1,364,385	213,900
Represented by:										
Share capital	14,334,734									
Reserves	150,561									
Accumulated losses	(6,011,639)									
	8,473,656									
Surplus on revaluation of assets	42,227									
	8,515,883									

(Rupees in '000)

2011	Total	Upto one months	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
Assets										
Cash and balances with treasury banks	1,463,306	1,463,306	-	-	-	-	-	-	-	-
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	7,945,797	2,800,674	432,628	279,784	823,356	84,236	760,861	2,475,248	228,743
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	-	-
	31,330,972	10,336,573	7,266,729	2,145,888	3,658,188	1,555,998	344,029	1,629,169	3,705,703	688,695
Liabilities										
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	13,142,983	2,521,497	1,241,757	615,912	72,453	74,695	-	-	-
Other liabilities	954,371	195,148	43,511	22,992	413,157	710	-	278,853	-	-
	23,148,705	15,686,562	4,340,239	1,584,749	1,038,909	92,843	94,374	311,029	-	-
Net assets	8,182,267	(5,349,989)	2,926,490	561,139	2,619,279	1,463,155	249,655	1,318,140	3,705,703	688,695
Represented by:										
Share capital	14,334,734									
Reserves	90,383									
Accumulated losses	(6,252,347)									
	8,172,770									
Surplus on revaluation of assets	9,497									
	8,182,267									

Current and Saving deposits have been classified under maturity upto one month as these do not have any contractual maturity. Further, the Bank estimates that these deposits are a core part of its liquid resources and will not fall below the current year's level.

45. 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 standardised 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). The project includes eight stages of which one to seven have already been completed. The external auditors have been appointed by the management to validate all the stages completed by the Bank and to give the Long Form Report for onward submission to the SBP. The Long Form Report confirming this implementation is underway and will be submitted within the SBP timeline.

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.

46. DATE OF AUTHORISATION

These financial statements were approved and authorised for issue on February 20, 2013 by the Board of Directors of the Bank.

47. GENERAL

47.1 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.

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

President and Chief Executive Officer	Chairman	Director	Director

ANNEXURE - 1

STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF PROVIDED

DURING THE YEAR ENDED DECEMBER 31, 2012

(Rupees in '000)

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				
1	Bashir Tanneries (Pvt.) Ltd G.T. Road, Muridke, Distt. Sheikhupura	Sheikh Muhammad Jamil Muhammad Aftab Jamil Sheikh Muhammad Naeem Sheikh Tahir Jamil	35202-7328626-1 35202-5635615-1 295-89-493224 35401-1852293-5	Sh. Muhammad Bashir Sh. Muhammad Jamil Sh. Muhammad Shafique Sh. Muhammad Jamil	23,053	-	-	23,053	23,053	-	-	23,053
2	Secco Pak (Pvt) Limited 18-KM, Sheikhura Road Lahore	Mr. Sikandar Hamid Khan Mr. Khalid Hamid Khan	35201-9191086-1 35201-1292590-7	Abdul Hamid Khan Abdul Hamid Khan	4,229	-	-	4,229	2,824	-	-	2,824
3	Zahur Textile Mills Ltd 49-KM, Multan Road, near Bhai Pehru. The. Pattoki Distt. Kasur.	Arif Zahur Tahir Saeed Mirza Muhammad Riaz Muhammad Rafique Khalid Mehmood Muhammad Idress Rana Mubarik	35201-1656433-5 35202-4959590-5 35202-3882132-5 35201-1608762-3 35202-8397439-5 35201-8701501-1 34601-0786821-7	Mian Zahur Ul Haq Saeed Ahmed Mian Idress Ahmed Muhammad Shafi Hakim Ali Muhammad Tufail Nazir Ahmed	41,500	32,791	-	74,291	18,500	32,791	-	51,291
				Grand Total	68,782	32,791	-	101,573	44,377	32,791	-	77,168

Pattern of Shareholding

As at December 31, 2012

Number of Shareholders	Shareholdings		Total Shares Held
	From	To	
1,079	1	100	49,172
1,853	101	500	536,341
978	501	1,000	744,733
1,568	1,001	5,000	3,661,292
404	5,001	10,000	3,185,600
115	10,001	15,000	1,458,896
95	15,001	20,000	1,756,859
73	20,001	25,000	1,708,404
47	25,001	30,000	1,316,910
31	30,001	35,000	1,025,644
27	35,001	40,000	1,030,539
15	40,001	45,000	649,050
46	45,001	50,000	2,280,487
10	50,001	55,000	525,602
11	55,001	60,000	644,007
9	60,001	65,000	565,725
8	65,001	70,000	544,309
14	70,001	75,000	1,022,306
10	75,001	80,000	781,935
5	80,001	85,000	415,884
3	85,001	90,000	263,500
3	90,001	95,000	272,822
33	95,001	100,000	3,290,618
2	100,001	105,000	204,525
3	105,001	110,000	322,730
3	110,001	115,000	340,500
3	115,001	120,000	359,500
4	120,001	125,000	499,800
3	125,001	130,000	386,489
1	130,001	135,000	131,500
2	135,001	140,000	275,706

Number of Shareholders	Shareholdings		Total Shares Held
	From	To	
2	145,001	150,000	300,000
1	150,001	155,000	155,000
2	155,001	160,000	311,760
4	160,001	165,000	643,410
4	175,001	180,000	714,709
3	180,001	185,000	542,741
2	185,001	190,000	375,390
14	195,001	200,000	2,800,000
3	200,001	205,000	608,895
2	205,001	210,000	415,997
1	210,001	215,000	212,500
2	215,001	220,000	437,500
2	220,001	225,000	442,051
2	235,001	240,000	477,637
4	245,001	250,000	992,000
2	250,001	255,000	500,479
1	255,001	260,000	258,000
1	260,001	265,000	262,769
2	270,001	275,000	547,323
1	290,001	295,000	291,500
9	295,001	300,000	2,692,906
1	305,001	310,000	308,333
2	310,001	315,000	626,758
1	315,001	320,000	318,500
1	320,001	325,000	324,000
2	330,001	335,000	660,819
1	335,001	340,000	339,598
1	345,001	350,000	349,143
2	350,001	355,000	704,045
2	370,001	375,000	748,576
2	385,001	390,000	773,501
2	395,001	400,000	800,000
1	405,001	410,000	409,201
1	410,001	415,000	412,959

Number of Shareholders	Shareholdings		Total Shares Held
	From	To	
1	415,001	420,000	417,081
3	420,001	425,000	1,269,282
1	440,001	445,000	444,333
1	445,001	450,000	450,000
1	450,001	455,000	450,211
6	495,001	500,000	3,000,000
1	520,001	525,000	524,384
4	545,001	550,000	2,196,934
1	550,001	555,000	551,818
1	555,001	560,000	557,114
1	605,001	610,000	609,975
1	615,001	620,000	619,500
1	620,001	625,000	623,502
1	660,001	665,000	660,098
1	725,001	730,000	726,845
1	730,001	735,000	733,200
1	740,001	745,000	743,707
1	760,001	765,000	761,080
1	805,001	810,000	806,048
1	835,001	840,000	837,868
1	850,001	855,000	850,855
1	865,001	870,000	870,000
1	915,001	920,000	918,500
2	995,001	1,000,000	2,000,000
1	1,145,001	1,150,000	1,149,633
1	1,155,001	1,160,000	1,159,298
1	1,665,001	1,670,000	1,670,000
1	1,710,001	1,715,000	1,714,838
1	1,835,001	1,840,000	1,840,000
1	1,890,001	1,895,000	1,891,338
1	1,995,001	2,000,000	1,998,008
1	2,020,001	2,025,000	2,024,000
1	2,245,001	2,250,000	2,245,222
2	2,270,001	2,275,000	4,540,790

Number of Shareholders	Shareholdings		Total Shares Held
	From	To	
1	2,610,001	2,615,000	2,610,273
1	2,630,001	2,635,000	2,631,973
1	2,730,001	2,735,000	2,734,493
1	2,995,001	3,000,000	2,998,445
1	3,140,001	3,145,000	3,142,000
1	3,400,001	3,405,000	3,400,737
1	4,525,001	4,530,000	4,529,333
1	4,670,001	4,675,000	4,674,971
1	6,150,001	6,155,000	6,154,267
1	7,740,001	7,745,000	7,742,500
1	8,325,001	8,330,000	8,329,764
1	12,025,001	12,030,000	12,026,500
1	12,230,001	12,235,000	12,230,240
1	21,170,001	21,175,000	21,170,161
1	25,155,001	25,160,000	25,155,710
1	27,745,001	27,750,000	27,750,000
1	36,870,001	36,875,000	36,870,890
1	1,156,455,001	1,156,460,000	1,156,456,310
6,605			1,433,473,414

Category of Shareholding

As at December 31, 2012

S.No.	Shareholders' category	No. of Shareholders	No. of Shares held	%
1	Directors, Chief Executive Officer, and their spouse and minor children	5	2,022,338	0.14
2	Executive	1	552	0.00
3	Associated Companies, Undertaking and Related Parties	1	1,156,456,310	80.68
4	NIT and ICP	3	12,275,091	0.86
5	Banks Development Financial Institutions, Non Banking Financial Institutions	30	41,399,004	2.89
6	Insurance Companies	8	4,692,881	0.33
7	Modarabas and Mutual Funds	19	14,335,294	1.00
8	Shareholders holding 10% (excluding associated companies, undertakings and related parties)	-	-	-
9	General Public :			
	a. Local	6,387	73,021,831	5.09
	b. Foreign	4	87,299	0.01
10	Other Companies	147	129,182,814	9.00
	TOTALS	6,605	1,433,473,414	100.00

Information as required under Code of Corporate Governance

As at December 31, 2012

Shareholders' category	Number of Shares held	%
Associated Companies, Undertakings and Related Parties		
SAMBA Financial Group	1,156,456,310	80.68
Mutual Funds		
M/S. Safeway Fund Limited	468	0.00
MCBFSL - Trustee NAMCO Balanced Fund	12,026,500	0.84
National Bank of Pakistan- Trustee Department NI(U)T Fund	12,230,240	0.85
Safeway Mutual Fund Limited	2,245,222	0.16
	26,502,430	1.85
Directors and their Spouse(s) and minor children		
Humayun Murad	500	0.00
Farhat Abbas Mirza*	125,000	0.01
Javed Iqbal**	5,000	0.00
Shujaat Nadeem	1,891,338	0.13
Zahid Zaheer	500	0.00
	2,022,338	0.14
Spouse and Minor Children		
*Joint account with Mrs. Najma Mirza		
**Joint account with Mrs. Nishat Iqbal		
Executives	552	0.00
Public Sector Companies and Corporations	4,674,971	0.33
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Takaful, Modaraba and Pension Funds	41,480,018	2.90
NIT	44,851	0.00
General Public		
a. Local	73,021,831	5.09
b. Foreign	87,299	0.01
Other Companies	129,182,814	9.00
	1,433,473,414	100.00
Shareholders Holding five percent or more Voting Rights		
SAMBA Financial Group	1,156,456,310	80.68

Note: During the year, Mr. Shujaat Nadeem (Director) purchased 1,891,338 shares and Mr. Ranjeet Kumar (Executive) sold 5,600 Shares

Samba Bank Limited

Form of Proxy

10th Annual General Meeting

I / We, ____________________ of ____________________ being member(s) of Samba Bank Limited holding ____________ ordinary shares hereby appoint ____________ of ____________________ or failing him / her ____________________ of ____________________ 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 at 11:00 a.m. on Wednesday, the 27th March, 2013 at Hotel Beach Luxury, Karachi and at any adjournment thereof.

As witness my / our hand / seal this ________ day of ________ 2013.

Signed by the said ____________________

in the presence of 1. ____________________

____

2. ____________________

____

Folio / CDC Account No.

Signature on Revenue Stamp of Rs.5/-

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

6th Floor, Sidco Avenue Centre,
Maulana Deen Muhammad Wafai Road,
Karachi.