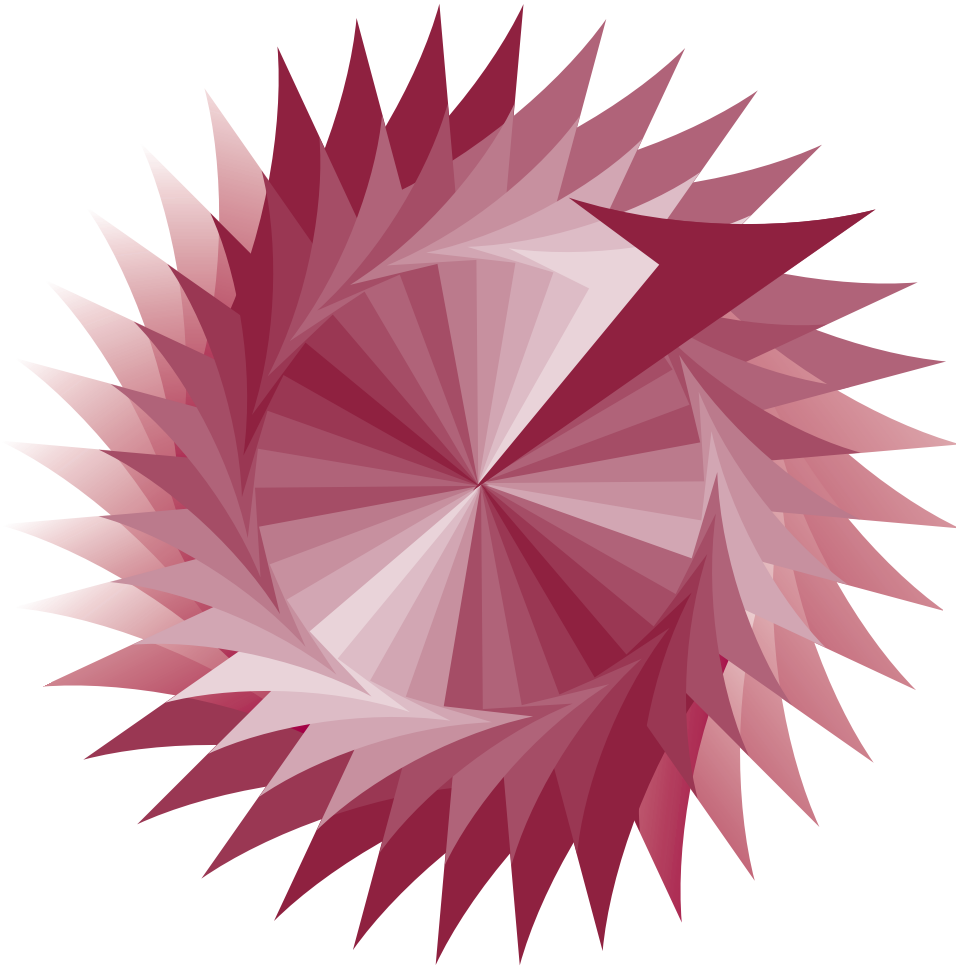


# Contents

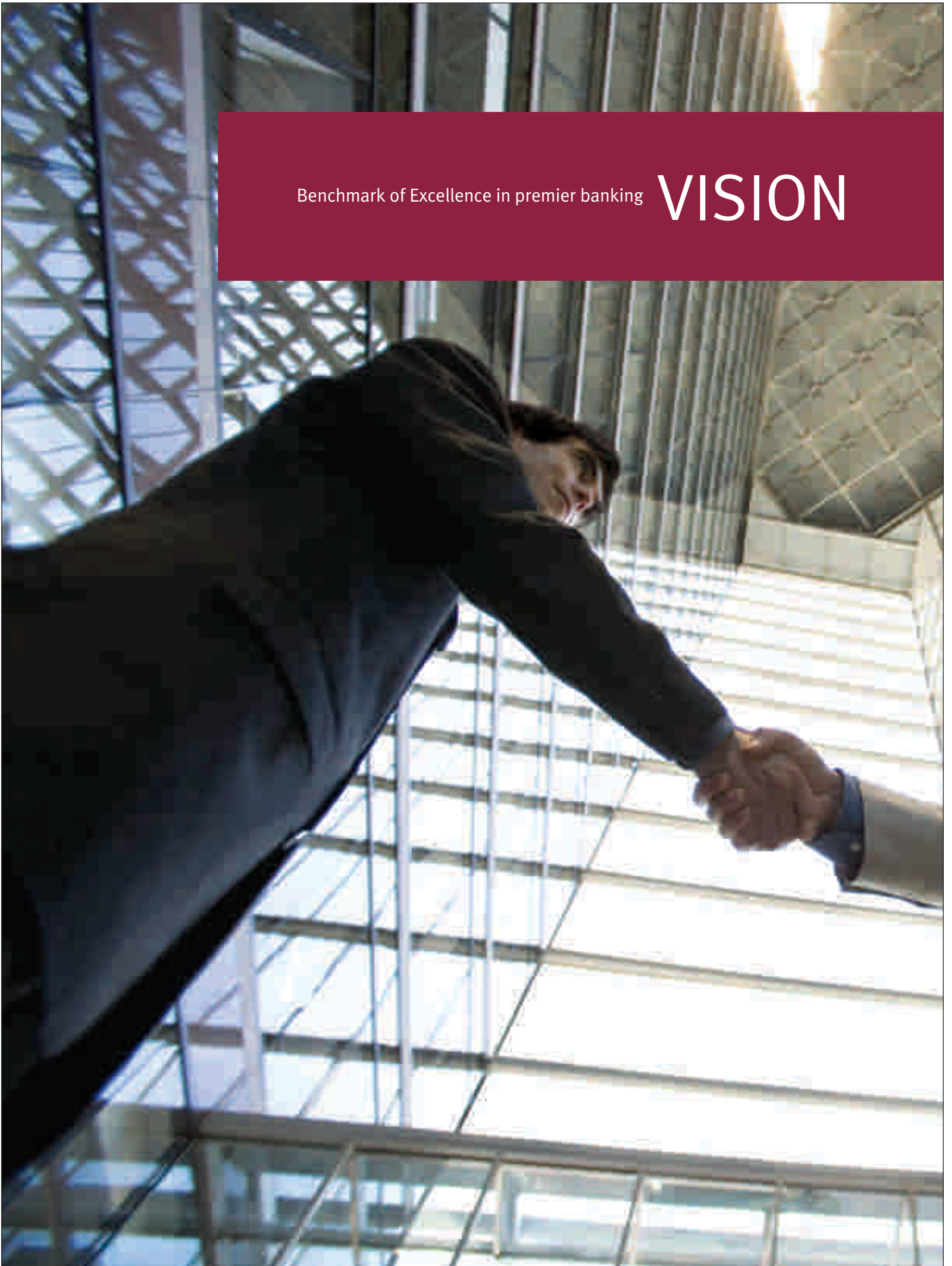


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Benchmark of Excellence in premier banking

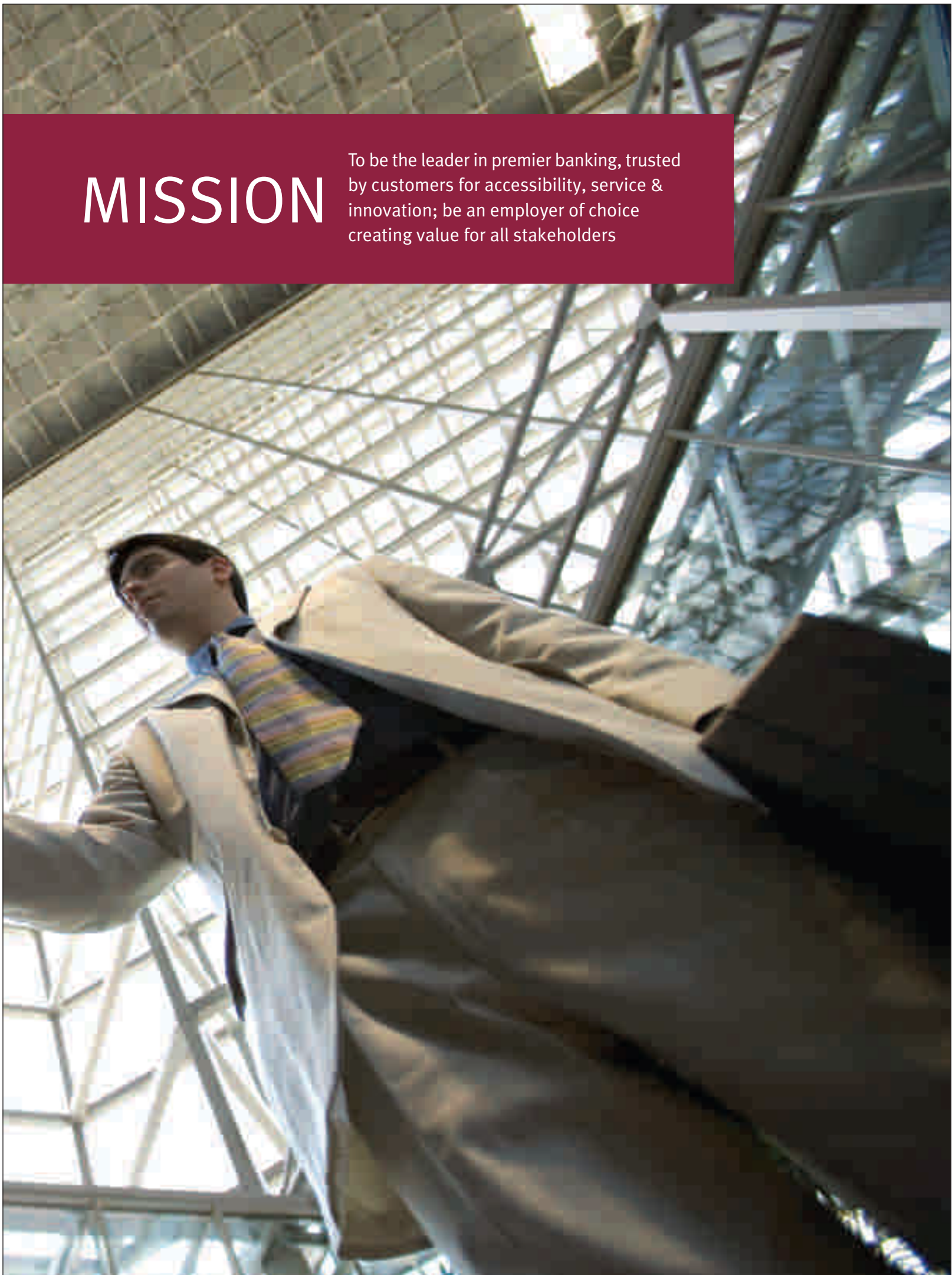
# VISION



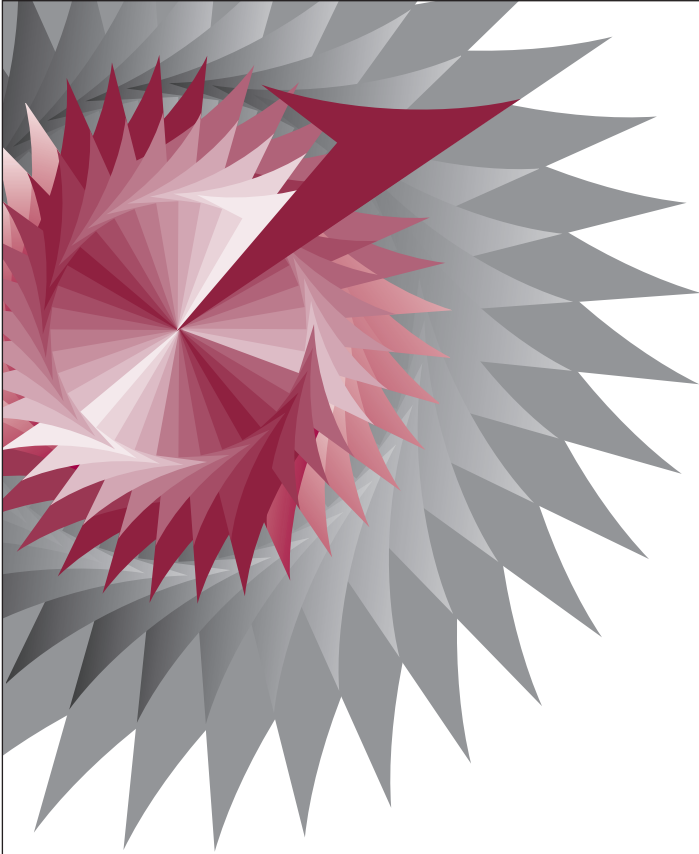


# MISSION

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







## Chairman's Message

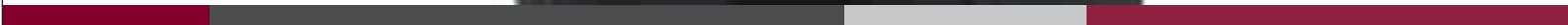
The Bank's performance has improved significantly during 2010, which is evident from the financial results.

I would like to highlight the following:

- The most important ingredient of Silkbank's success is its people. To ensure the strategic fit of our people, the management continues to inculcate a culture of high performance through merit-based recruitment and employee development.
- To ensure that the Bank provides premier banking services to its customers which makes its brands successful, Silkbank has invested heavily in systems and infrastructure. This has enabled Silkbank to swiftly graduate to a healthy banking standard. To ensure a technological edge in a highly competitive environment, all its branches are now fully integrated with the T - 24 system.
- Silkbank is now on a solid footing. It is imperative that, to offer products which cater to its customers' changing needs, Silkbank continues to bring innovation and value-addition into its product offerings, which it plans to do.
- The Bank has improved its balance sheet and has plans to focus on further improvement. This coupled with a strong improvement in recoveries from non-performing loans will further strengthen performance.

As further progress in these areas takes increasing effect and the Bank implements additional plans to fulfill its strategic intent particularly with the expected inclusion of new major investors, I expect strong performance in 2011 and beyond. Please join me in wishing the Management every success towards this end.

**Munnawar Hamid, OBE**  
Chairman







## President & CEO's Message

The year 2010 marks the completion of our first full year under the Silkbank brand. Within the past year, we have achieved many milestones and overcome many obstacles, but our greatest achievement in my opinion has been the development of a culture of service excellence, customer focus, meritocracy and teamwork.

We have strengthened our controls through ongoing measurement and monitoring. We have successfully deployed T-24, our core banking system, which will positively impact our productivity and efficiency. We proactively worked on reducing cost of funds on our liability portfolio despite increasing KIBOR and SBP Policy rates in 2010; Silkbank average cost of deposits decreased by 123bps, despite an increase of 150bps in the SBP Discount Rate and 104bps increase in KIBOR in 2010. We focused on higher spread asset products and generated greater ancillary income in Corporate and SMCG businesses. This has effectively improved our balance sheet spread and put us on the road to improved profitability as we move into the next year.

I can say it with confidence that Silkbank led the banking industry in Service Quality focus. We continued to dedicate greater resources on service. This has demonstrated wave after wave of service quality improvement validated by independent surveys; branches rated as "excellent" have moved from a low of 5% to 75%, and there has been a significant improvement in the Internal Service Measurement scores for all departments. This will continue to translate into greater confidence by our customers in the Silkbank's ability to meet their needs.

People have always been the core of our focus. We have dedicated almost 20,000 hours of staff training both in product and service disciplines. We have also put in place a productivity initiative to reallocate resources for greater synergies and increased efficiency.

We have successively improved on top of mind recall and brand awareness amongst our target audience through investment in our corporate brand, launch of innovative products and improvement in branch look and feel. Silkbank's brand name awareness has increased to 57% in our target market segments, as opposed to 23% in a similar research conducted in 2009. Within the local private banks, we were ranked amongst the highest by our customers in top of mind recall.

The year also witnessed the strengthening of our product menus & portfolios. Silkbank's deposit grew by Rs. 6.1bn in 2010. Current Accounts grew by a substantial Rs. 2.4bn (39% of total deposit growth). CASA growth was an impressive Rs. 5.5bn representing 90% growth. Attributed to the untiring efforts of our Special Assets Management team, our recoveries in 2010 were recorded at over Rs. 1 bn.

We successfully launched our Consumer Asset products through the roll out of Silkbank Personal Loans. We further strengthened our current account product menu by launching Business Value Account; our flagship current account product for businessmen. We also introduced a market-leading Debit Card loyalty program, offering unprecedented discounts to our customers. Our Debit Card spending has almost doubled over the last year.

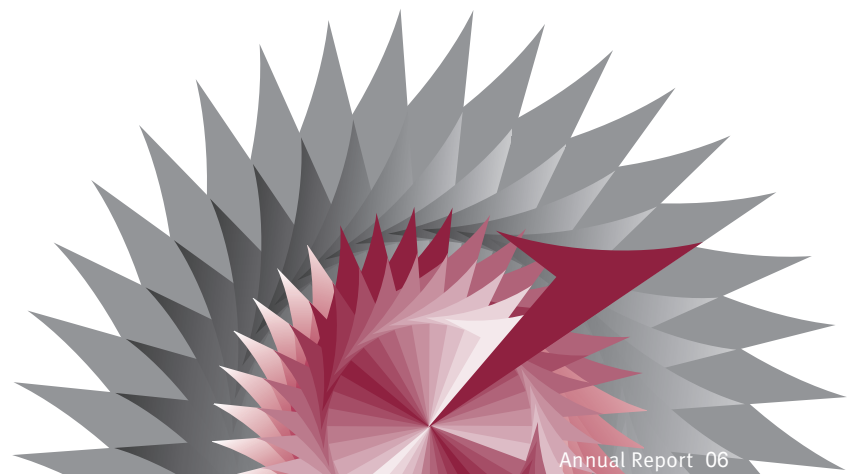
Our growth plans for 2011 and beyond remain aggressive, to be achieved through organic growth as well as strategic acquisitions. Our challenges will be to manage the expectations of our customers by developing winning products and services, always ensuring that service remains our key differentiator, which will set us apart.

I would like to personally thank every member of the team for their commitment and dedication during 2010. I would also like to thank our Sponsors and Directors for their continued guidance, support and patronage.

Yes we can!



**Azmat Tarin**  
President & CEO



## Senior Management Committee

**Muhammad Saqib Pal**  
Head of Credit Risk Division

**Zahid Aftab**  
Country Credit Head

**Mian Asif Said**  
Head of Wholesale Banking

**Javed Yousuf Edhi**  
Head of Information Technology

**Abdul Mateen Khan**  
Head of SME

**Syed Jawaid Akhter**  
Head of Internal Audit

**Shafaq Rahid**  
Head of Customer Satisfaction & Quality

**Goharulayn Afzal**  
Group Head Marketing and Strategic Planning

**Talha Saeed**  
Group Head Retail Banking

**Aneeq Khawar**  
Chief Operating Officer

## Profiles of Silkbank Board of Directors

### 1. **Mr. Munnawar Hamid OBE, Chairman**

Mr. Hamid's experience of commerce and industry was gained while serving a major chemical's company as the Chief Executive and Chairman of a number of subsidiary companies of global corporations in Pakistan which includes ICI Pakistan and Pakistan PTA (now Lottee PTA Pakistan), as well as overseas in London where he served as a Global Senior Corporate Planner for the Pharmaceutical, Agrochemicals and Seeds, specially Chemical Business and the American region of the ICI Group, and subsequently as Advisor to the CEO of ICI Plc London for South Asia. In addition to the Corporate Sector, he was associated with a number of Boards, high level consultative bodies, Public Sector Organizations, leading Advanced Educational Institutions, and the Financial Sector of Pakistan. He was appointed (Officer in the Most Excellent Order of the British Empire) OBE by HM the Queen for services to British interests and Economic Development in Pakistan in 1997. Mr. Hamid is a graduate from Punjab University and holds a Masters degree from Cambridge University, (Gonville & Caius College) UK, and now has over 40 years of experience in the fields of business & corporate management and operations. Mr. Hamid is also currently serving on the Board of the following organizations:

- British Oxygen Co. of Pakistan                      Chairman
- The Agha Khan University, Karachi              Member Board of Trustee
- Civil Aviation Authority of Pakistan              Member Board

### 2. **Mr. Humayun Bashir - Director**

Humayun is a certified Director under the IFC + PICG board development program. Thirty four years of diversified experience with IBM Pakistan and IBM Middle East (Dubai) in Sales, Technology Services, Financial Sector, Government Sector Projects & General Management. Mr. Bashir served last 11 years as CEO & Country General Manager IBM Pakistan and grew IBM business four fold in past 5-6 years alone. He has served on boards like Export Processing Zone Authority, he is President of Amcham (American Business Council) Pakistan in 2011, Member Managing Committee of Overseas Chamber OICCI and serves on Institute of Business Administration (IBA) advisory Council. Humayun holds a Degree in Engineering and MBA/ Business qualifications from IBA/Insead France. Humayun is currently serving in the following organization:

- IBM Pakistan & Afghanistan                      Country General Manager

### 3. **Mr. Javed Hamid – Director**

Mr. Javed Hamid is a Senior Finance Executive with extensive international banking, investment and development experience. He has a strong background in investing in emerging markets, negotiating investment agreements between governments and institutional investors, managing international investment portfolios, and providing technical assistance to developing countries. Mr. Hamid worked for nearly 30 years in the International Finance Corporation (IFC) of The World Bank Group. He was Director for the East Asia & Pacific Region and a member of the Management Committee of IFC. He is a well-known authority and speaker on international banking, investment and development issues, frequently interviewed by the press. He has keen interest in sustainable development and corporate governance issues. Mr. Javed Hamid is a graduate from Cambridge University UK and MBA from Harvard University USA. His published works have appeared in the Asian Wall Street Journal, Far Eastern Economic Review and various other academic journals. Mr. Hamid is also currently serving in the following organizations:

- International Executive Services Corps, USA              Senior Advisor
- IGI Funds Limited, Pakistan                      Chairman
- IGI Insurance Limited, Pakistan                      Advisor





**Azmat Tarin**  
President & CEO

**Aurangzeb Afridi**  
Group Head Human Resource & Service Quality

**Jamil A. Khan**  
Group Head Compliance, Legal & ICD

**Syed Liaquat Ali**  
CFO & Company Secretary

**Sumbul Munir**  
Head of Corporate & Investment Banking

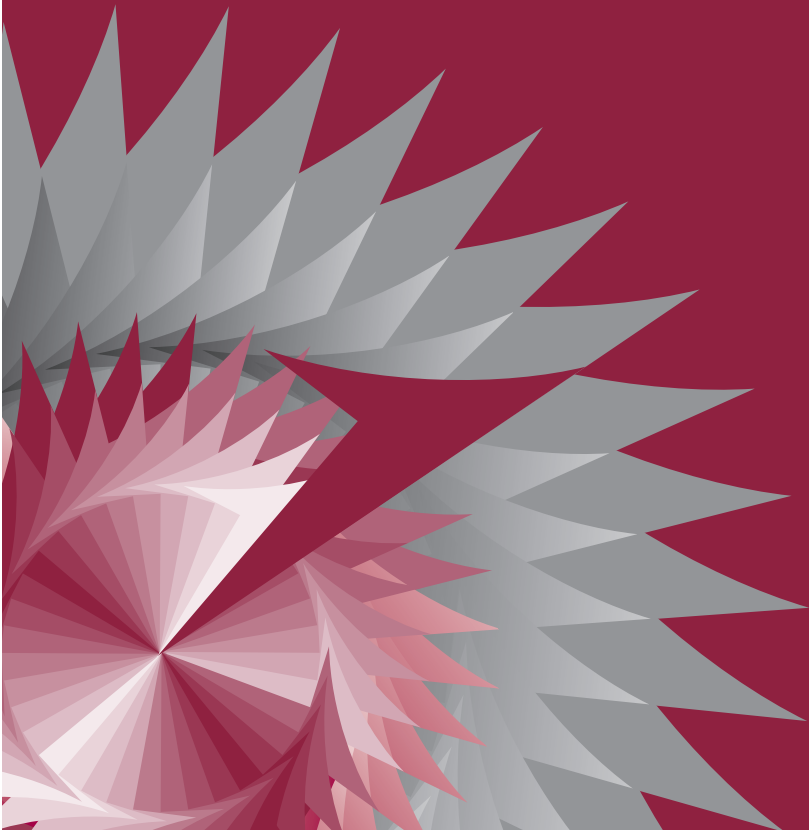
**Sohail Bashir**  
Head of Branch Banking

**Kasim Feroze Khan**  
Group Head Special Assets Management

**Shahram Raza Bakhtiari**  
Head of Equity Unlock & Personal Loan

**Kamran Bashir**  
Country Head - Commercial

# Silkbank Board of Directors





Arshad Ghafur  
Director

Javed Hamid  
Director

Sadeq Sayeed  
Director

Shaukat Tarin  
Director





Munnawar Hamid, OBE  
Chairman

Azmat Tarin  
President & CEO

Humayun Bashir  
Director

Tariq Iqbal Khan  
Director - FCA

## Profiles of Silkbank Board of Directors

### 4. Mr. Sadeq Sayeed – Director

Mr. Sayeed was appointed CEO of Nomura Europe in 2008 having joined the company in 2000 as Special Advisor. This appointment followed the acquisition of the Lehman Brothers businesses in EMEA and Asia in which Mr. Sayeed played a key role. In addition, he was Chairman of both the European Management Committee and the European Capital Commitments Committee at Nomura.

Previously Mr. Sayeed had been responsible for a number of key strategic projects globally including the creation of Terra Firma Capital Partners, a £32 bn private equity fund. He was also responsible for creating the joint venture between Rothschild and Nomura in respect of their global investment banking activities. Mr. Sayeed has over 30 years of experience in investment banking including arbitrage trading, structured finance, fund management and financial advice. He previously served as Managing Director of Credit Suisse First Boston where he spent 15 years and served as a member of the Operating Committee. Prior to his global investment banking career he was Consultant to the World Bank in Washington DC. In 2010, Mr. Sayeed retired as CEO of Nomura.

Mr. Sayeed holds an undergraduate degree in economics with a major in electrical engineering from Massachusetts Institute of Technology (MIT), as well as a Master's degree in Finance from MIT's Sloan School. He is also Adjunct Professor at Imperial College Business School in London. He currently serves in the following organizations:

- Sinthos Capital Advisors LLP. Partner
- Jahangir Siddiqui Investment Non-Executive Director

### 5. Mr. Arshad Ghafur – Director

Mr. Ghafur is a Managing Director in Nomura International's Investment Banking Division, where he currently serves as Head of Global Finance for the Middle East & Africa. He joined Lehman Brothers in 1998 and moved to Nomura International following their acquisition of the Lehman Brothers' businesses in 2008. In his role as Head of Global Finance, he is responsible for Equity Capital Markets, Debt Capital Markets, and Cross-Asset Derivative Solutions. He also sits on the Global Executive Committees for Global Finance and the Middle East. Prior to his current role in the Middle East, Mr. Ghafur ran Lehman Brothers' Capital Advisory Group for Europe, the Middle East & Africa. Mr. Ghafur has over 15 years of Investment Banking experience in securities trading, capital raising, structured funding, and risk mitigation and has executed over 150 transactions for Sovereigns, Sovereign Wealth Funds and Financial Institutions around the world. Mr. Ghafur holds a Bachelor of Science from the University of Pennsylvania, a Master of Science from the Lahore School of Economics and a Master of Science from the London School of Economics.

### 6. Mr. Tariq Iqbal Khan – Director

Tariq Iqbal Khan is the Ex-Chairman of National Investment Trust Limited. He has also served on various positions at FBR and SECP. Mr. Khan has also played a significant role at Pakistan Banks Association as Chairman. He is a Chartered Accountant by qualification and has over 30 years of experience. He has served at the boards of various other banks and companies. Currently he holds directorship in the following companies:

- Attock Refinery Limited Director
- Fauji Energy Limited Director
- Sui Northern Gas Pipelines Limited Director
- International Steels Limited Director
- Gadoon Textile Mills Limited Director
- Interstate Gas System Limited Director
- Pakistan Electric Agency (Pvt.) Limited Director

## Profiles of Silkbank Board of Directors

### 7. **Mr. Shaukat Tarin – Director**

A senior banker with 35 plus years of international banking experience, Mr. Tarin, after 22 years with Citibank N.A., was responsible for turning around Habib Bank Limited from a USD 230 m loss making entity into an entity earning an operating profit of USD 30 m in three years. He was also Chairman and CEO of Union Bank in his last position. He built this bank from a balance sheet of USD 250 m to USD 2.2 bn and Profit after Tax from breakeven to USD 30 m in 6 years. From October 2008 to February 2010 he remained the Minister for Finance, Economic Affairs and Planning of the Government of Pakistan and helped the country prevent an imminent default. His efforts stabilized the economy of Pakistan and growth rate was restored. His effort and conduct in the government has drawn wide spread appreciation from both the international as well as domestic stakeholders/audience. Mr. Shaukat is also currently serving in the following organization:

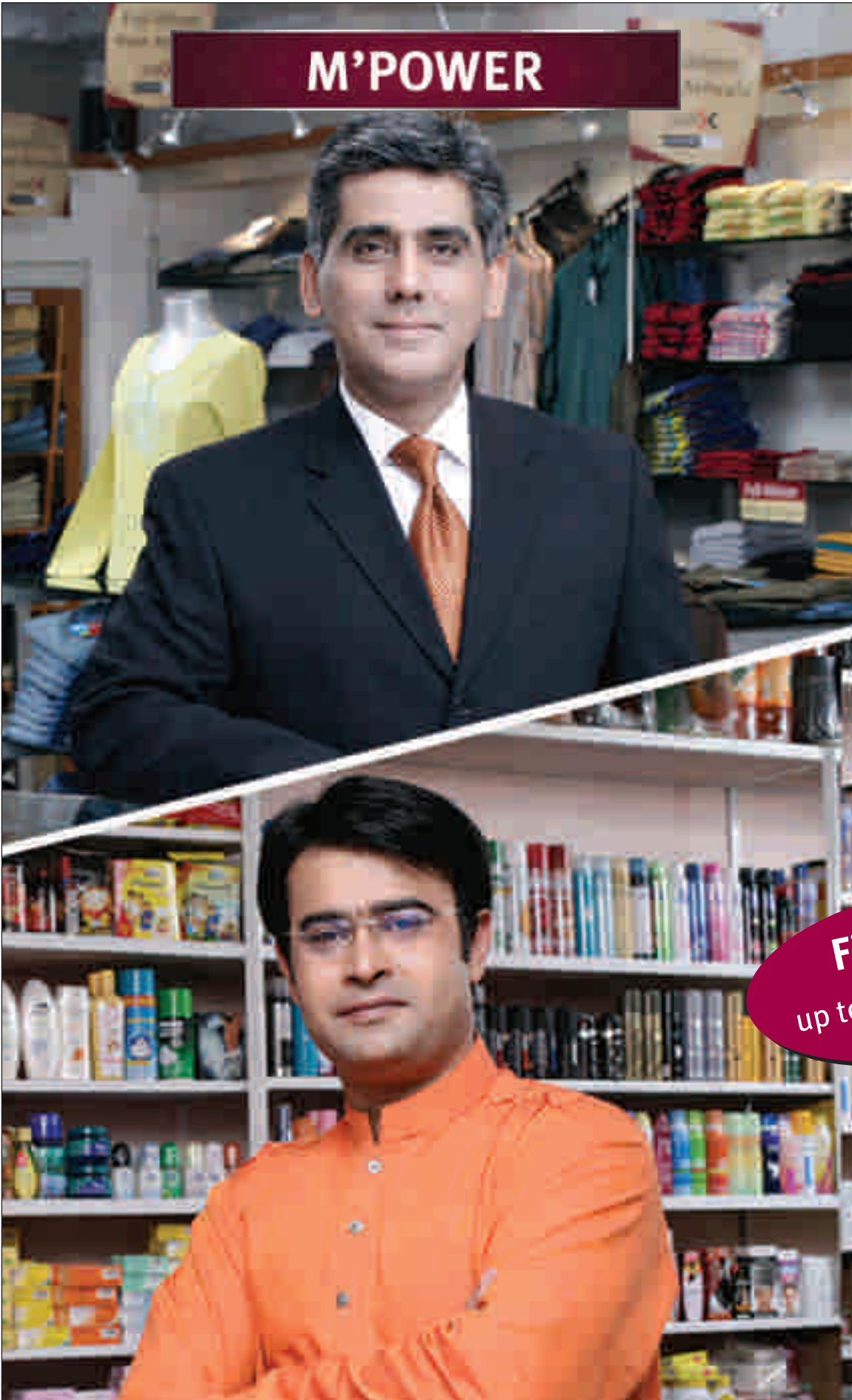
- Sinthos Capital Holding Limited (Mauritius) Chairman

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

Mr. Tarin is currently President & CEO of Silkbank, previously he was Executive Director and Director, Retail Banking Group of Union Bank Limited. His responsibilities included managing Branch Banking Business, Small and Medium Enterprises Group, and the Special Assets Management Group. As Director Branch Banking Group, his responsibilities were managing entire branch network of Union Bank, bifurcated under 4 Regional Heads as well as ensuring expansion of network by opening new branches in new and existing cities. Mr. Tarin holds an MBA in Management Sciences from Pepperdine University Los Angeles, California, USA. He has over 20 years of experience in banking and finance and business operations. Mr. Tarin is also currently serving in the following organization:

- Sinthos Capital Holding Limited (Mauritius) Director

**M'POWER**

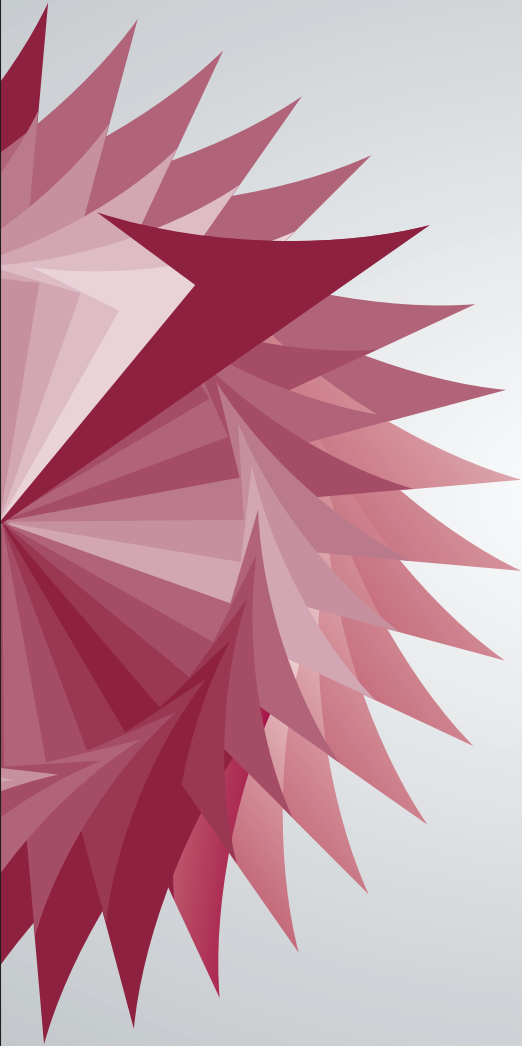


**Empower  
Your  
Business**

**Financing**  
up to Rs. **30** Million

**SILKBANK**   
Yes we can

**Corporate Information**  
For the year ended December 31, 2010  
Silkbank Limited





## Corporate Information

### Board of Directors

Munnawar Hamid, OBE  
Humayun Bashir  
Javed Hamid  
Tariq Iqbal Khan  
Sadeq Sayeed  
Arshad Ghafur  
Shaukat Tarin  
Azmat Tarin

Chairman  
Director  
Director  
Director - FCA  
Director  
Director  
Director  
President & CEO

### Company Secretary

Syed Liaquat Ali, FCA

### Audit Committee

Humayun Bashir  
Sadeq Sayeed  
Arshad Ghafur  
Tariq Iqbal Khan

Chairman  
Member  
Member  
Member

### Risk Committee

Tariq Iqbal Khan  
Arshad Ghafur  
Shaukat Tarin

Chairman  
Member  
Member

### Human Resources Committee

Munnawar Hamid, OBE  
Javed Hamid  
Azmat Tarin

Chairman  
Member  
Member

### Auditors

Anjum Asim Shahid Rahman  
Chartered Accountants

### Legal Advisor

Cornelius, Lane & Mufti

**Registered Office**

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

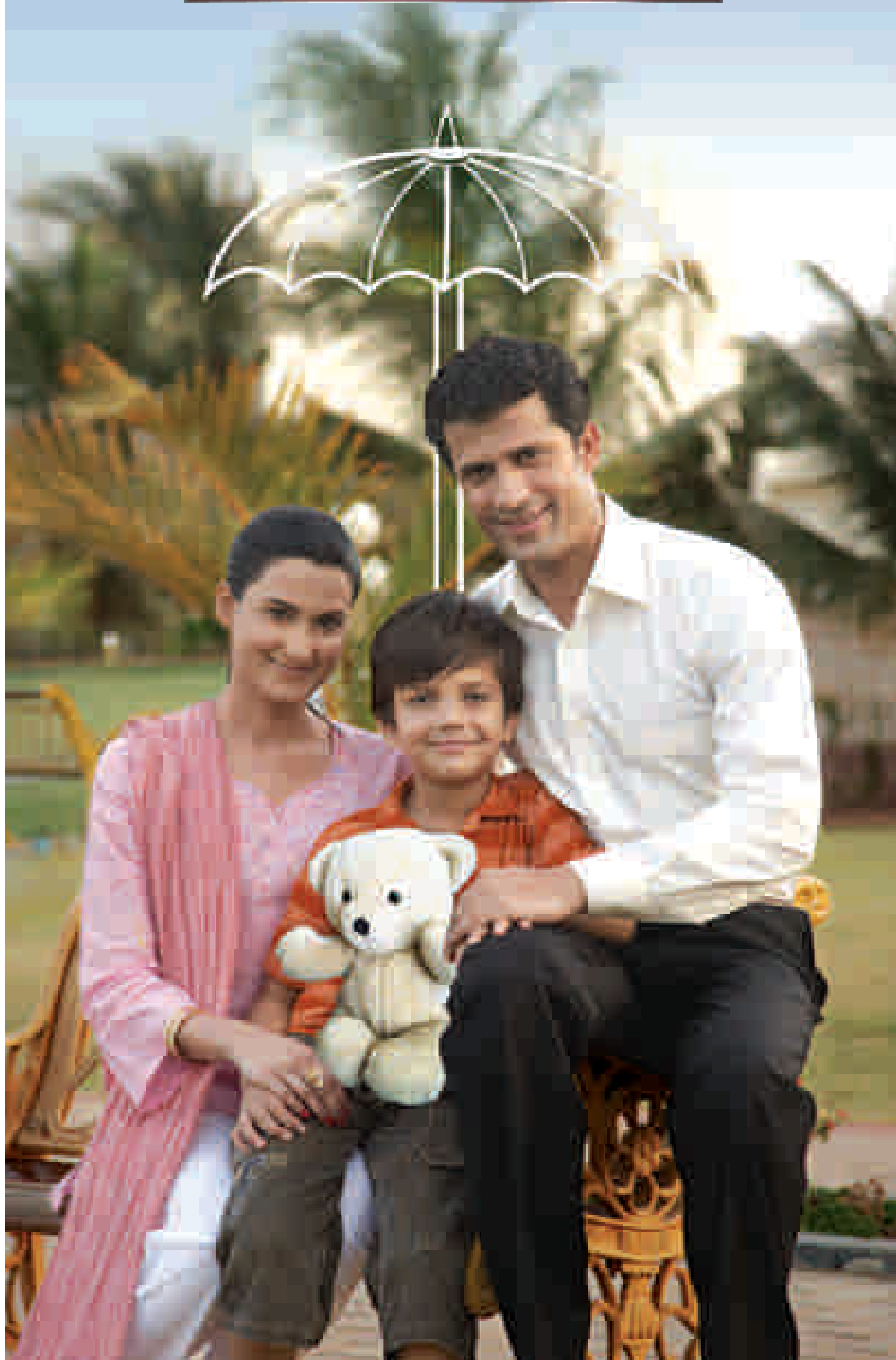
**Share Registrar**

Noble Computer Services (Pvt.) Limited  
Mezzanine Floor, House of Habib Building (Siddiqsons Tower)  
3-Jinnah Cooperative Housing Society, Main Shahrah-e-Faisal  
Karachi - 75350  
Phone: + 92 21 34325482-87  
Fax: + 92 21 34325442  
E-mail: ncsl@noble-computers.com  
Website: www.noble-computers.com

**Senior Management Committee (SMC)**

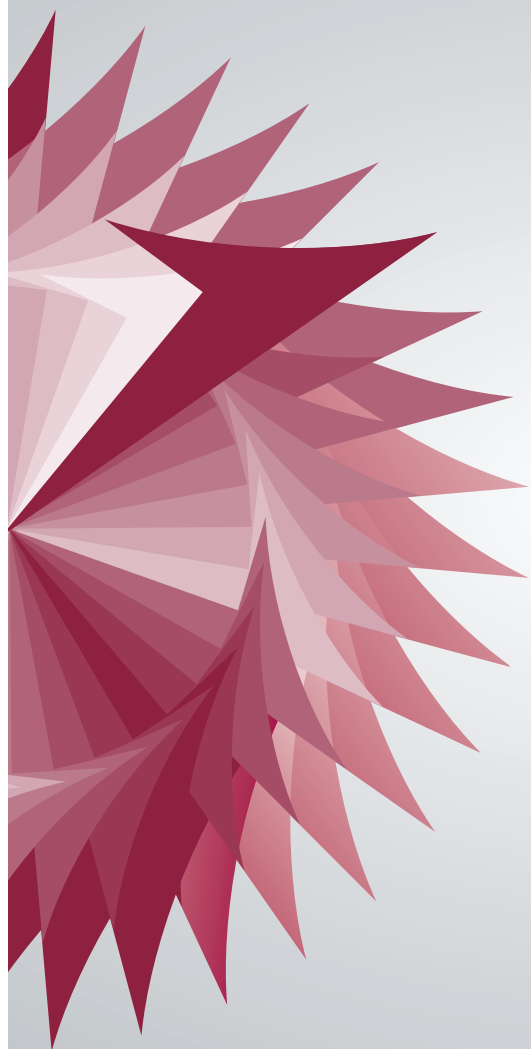
Azmat Tarin	President & CEO
Aneeq Khawar	Chief Operating Officer
Jamil A. Khan	Group Head Compliance, Legal & ICD
Kasim Feroze Khan	Group Head Special Assets Management
Goharulayn Afzal	Group Head Marketing and Strategic Planning
Talha Saeed	Group Head Retail Banking
Syed Liaquat Ali	CFO & Company Secretary
Syed Jawaid Akhter	Head of Internal Audit
Sumbul Munir	Head of Corporate & Investment Banking
Shafaq Rahid	Head of Customer Satisfaction & Quality
Aurangzeb Afridi	Group Head Human Resource & Service Quality
Javed Yousuf Edhi	Head of Information Technology
Sohail Bashir	Head of Branch Banking
Zahid Aftab	Country Credit Head
Mian Asif Said	Head of Wholesale Banking
Abdul Mateen Khan	Head of SME
Kamran Bashir	Country Head - Commercial
Muhammad Saqib Pal	Head of Credit Risk Division
Shahram Raza Bakhtiari	Head of Equity Unlock & Personal Loan

# MEHFOOZ HAR PAL



Protect  
those you  
cherish  
the most

**SILKBANK**   
Yes we can



# Financial Statements

For the year ended December 31, 2010  
Silkbank Limited

## Statement Of Financial Position As At December 31, 2010

	Note	December 31, 2010	December 31, 2009
Rupees in '000			
<b>ASSETS</b>			
Cash and balances with treasury banks	7	3,414,524	3,120,880
Balances with other banks	8	89,355	151,068
Lendings to financial institutions	9	1,050,754	1,067,708
Investments - net	10	12,964,526	20,179,329
Advances - net	11	44,354,406	32,097,490
Operating fixed assets	12	2,443,805	3,720,695
Deferred tax assets - net	13	4,192,954	3,976,149
Other assets	14	4,093,084	4,351,022
		<b>72,603,408</b>	<b>68,664,341</b>
<b>LIABILITIES</b>			
Bills payable	15	836,931	637,602
Borrowings	16	9,871,141	15,088,332
Deposits and other accounts	17	55,706,188	49,610,034
Liabilities against assets subject to finance lease	18	-	10,476
Deferred tax liabilities		-	-
Other liabilities	19	1,355,201	1,554,808
		<b>67,769,461</b>	<b>66,901,252</b>
<b>NET ASSETS</b>			
		<b>4,833,947</b>	<b>1,763,089</b>
<b>REPRESENTED BY</b>			
<b>Shareholders' equity</b>			
Share capital	20	26,716,048	9,003,150
Reserves		-	224,649
Discount on issuance of right shares		(13,284,674)	-
Accumulated losses	21	(8,614,289)	(9,030,894)
		<b>4,817,085</b>	<b>196,905</b>
Surplus on revaluation of assets - net of deferred tax	22	16,862	1,566,184
		<b>4,833,947</b>	<b>1,763,089</b>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	23		

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



Azmat Tarin  
President & CEO



Munnawar Hamid, OBE  
Chairman



Tariq Iqbal Khan  
Director



Humayun Bashir  
Director



## Profit And Loss Account For The Year Ended December 31, 2010

	Note	December 31, 2010	December 31, 2009
		Rupees in '000	
Mark-up / return / interest earned	25	6,775,565	5,913,317
Mark-up / return / interest expensed	26	5,926,528	5,855,517
<b>Net mark-up / interest income</b>		<b>849,037</b>	57,800
Provision against non-performing loans and advances - net	11.3.2	151,739	2,170,738
Provision / (Reversal) against consumer finance	11.3	8,736	(5,803)
(Reversal) / Provision for diminution in the value of investments - net	10.3	(1,559)	6,144
Impairment of strategic investments		69,198	-
Impairment of available-for-sale securities		-	138,276
		<b>228,114</b>	<b>2,309,355</b>
<b>Net mark-up / interest income / (loss) after provisions</b>		<b>620,923</b>	<b>(2,251,555)</b>
<b>NON MARK-UP / INTEREST INCOME</b>			
Fee, commission and brokerage income		322,162	327,949
Dividend income		29,316	27,921
(Loss) / Gain from dealing in foreign currencies		130,944	113,733
(Loss) / Gain on sale of securities - net	27	(71,345)	58,640
Unrealized (loss) / gain on revaluation of investment classified as held for trading	10.4	(94)	69
Other income	28	773,821	133,875
<b>Total non-markup / interest income</b>		<b>1,184,804</b>	<b>662,187</b>
		<b>1,805,727</b>	<b>(1,589,368)</b>
<b>NON MARK-UP / INTEREST EXPENSES</b>			
Administrative expenses	29	3,153,601	2,747,856
Other (reversal) / provisions / impairment / write offs - net	30	(136,945)	(102,246)
Other charges	31	24,617	17,481
<b>Total non-markup/interest expenses</b>		<b>3,041,273</b>	<b>2,663,091</b>
		<b>(1,235,546)</b>	<b>(4,252,459)</b>
Extra ordinary items		-	-
<b>LOSS BEFORE TAXATION</b>		<b>(1,235,546)</b>	<b>(4,252,459)</b>
Income tax expense			
- Current	32	85,608	8,414
- Prior year(s)		-	34,616
- Deferred		(190,000)	(1,392,584)
		<b>(104,392)</b>	<b>(1,349,554)</b>
<b>LOSS AFTER TAXATION</b>		<b>(1,131,154)</b>	<b>(2,902,905)</b>
		Rupees	
<b>Loss per share - Basic and Diluted</b>	33	<b>(0.49)</b>	<b>(2.52)</b>

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



Azmat Tarin  
President & CEO



Munnawar Hamid, OBE  
Chairman



Tariq Iqbal Khan  
Director



Humayun Bashir  
Director

## Statement Of Comprehensive Income For The Year Ended December 31, 2010

	Note	2010	2009
		Rupees in '000	
<b>Loss for the year</b>		<b>(1,131,154)</b>	(2,902,905)
<b>Other comprehensive income</b>			
Reversal of provision against upgraded rescheduled advances	11.3.2	<b>(6,093)</b>	6,093
<b>Total comprehensive loss transferred to equity</b>		<b>(1,137,247)</b>	<b>(2,896,812)</b>
<b>Other comprehensive income (not transferred to equity)</b>			
Surplus on revaluation of securities		<b>(69,818)</b>	298,915
Deferred tax (liability) on Government Securities		<b>25,507</b>	(31,674)
		<b>(44,311)</b>	<b>267,241</b>

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



Azmat Tarin  
President & CEO



Munnawar Hamid, OBE  
Chairman



Tariq Iqbal Khan  
Director



Humayun Bashir  
Director

## Cash Flow Statement For The Year Ended December 31, 2010

	Note	2010	2009
		Rupees in '000	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before taxation		(1,235,546)	(4,252,459)
Add: Dividend income		(29,316)	(27,921)
		<b>(1,264,862)</b>	<b>(4,280,380)</b>
<b>Adjustment for:</b>			
Depreciation	12.2	289,671	216,437
Amortization of intangible assets	12.3	49,940	6,635
Provision against non-performing advances	11.3.2	151,739	2,176,831
Provision/(Reversal) against consumer financing	11.3	8,736	(5,803)
Provision for diminution in the value of investments / other assets	10.3	(1,559)	6,144
Impairment of strategic investments		69,198	-
Unrealized gain on revaluation of investment classified as held-for-trading	10.4	94	(69)
Gain on sale of operating fixed assets	12.2.1	567,653	(9,387)
Financial charges on leased assets		1,884	4,375
Other (reversals) / provisions / write offs	30	(136,945)	(102,246)
Provision for gratuity	36.5	45,143	34,960
		<b>1,045,554</b>	<b>2,327,877</b>
		<b>(219,308)</b>	<b>(1,952,503)</b>
<b>(Increase) / Decrease in operating assets</b>			
Lendings to financial institutions		(163,046)	(242,208)
Advances - net		(12,424,854)	(3,175,052)
Held-for-trading securities		1,789,235	(1,782,703)
Other assets - net		258,613	(1,935,733)
		<b>(10,540,052)</b>	<b>(7,135,696)</b>
<b>Increase / (Decrease) in operating liabilities</b>			
Bills payable		199,329	206,065
Borrowings		(5,217,191)	6,349,716
Deposits		6,096,154	8,553,404
Other liabilities - net		(247,533)	511,727
		<b>830,759</b>	<b>15,620,912</b>
		<b>(9,928,601)</b>	<b>6,532,713</b>
		<b>(82,823)</b>	<b>(22,303)</b>
Income tax paid			
		<b>(10,011,424)</b>	<b>6,510,410</b>
<b>Net cash (used in) / from operating activities</b>			
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net investment in available-for-sale securities		5,018,922	(6,343,789)
Net investment in held-to-maturity securities		267,443	252,236
Dividend income received		29,316	27,921
Investment in operating fixed assets		(1,967,343)	(993,235)
Sale proceeds from operating fixed assets disposed off		2,476,261	40,620
		<b>5,824,599</b>	<b>(7,016,247)</b>
<b>Net cash from / (used in) investing activities</b>			
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payments of sub-ordinated loan		-	-
Payments of lease obligations		(12,360)	(33,630)
Issue of share capital		4,428,224	-
Expenses incurred on issuance of right shares		(177,108)	-
		<b>4,238,756</b>	<b>(33,630)</b>
<b>Net cash from / (used in) financing activities</b>			
		<b>51,931</b>	<b>(539,467)</b>
<b>Increase / (Decrease) in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of the year		4,021,948	4,561,415
<b>Cash and cash equivalents at end of the year</b>	34	<b>4,073,879</b>	<b>4,021,948</b>

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



Azmat Tarin  
President & CEO



Munnawar Hamid, OBE  
Chairman



Tariq Iqbal Khan  
Director



Humayun Bashir  
Director

## Statement Of Changes In Equity For The Year Ended December 31, 2010

	Share capital	Discount on issue of shares	Share deposit money	*Statutory reserves	Other (refer note 11.3.1)	Accumulated losses	Net Equity
	Rupees in '000						
<b>Balance as at January 01, 2009</b>	9,003,150	-	-	218,556	-	(6,131,709)	3,089,997
Total comprehensive loss for the year ended December 31, 2009	-	-	-	-	6,093	(2,902,905)	(2,896,812)
Transfer from surplus on revaluation of fixed assets on account of incremental depreciation- net of deferred tax	-	-	-	-	-	3,720	3,720
<b>Balance as at December 31, 2009</b>	9,003,150	-	-	218,556	6,093	(9,030,894)	196,905
Total comprehensive loss for the year ended December 31, 2010	-	-	-	-	(6,093)	(1,131,154)	(1,137,247)
Share deposit money	-	-	4,428,224	-	-	-	4,428,224
Issuance of right shares	17,712,898	(13,284,674)	(4,428,224)	-	-	-	-
Transfer from surplus on revaluation of fixed assets on account of incremental depreciation- net of deferred tax	-	-	-	-	-	3,720	3,720
Transfer from Statutory Reserve to Retained Earnings	-	-	-	(218,556)	-	218,556	-
Expenses incurred on issuance of right shares	-	-	-	-	-	(177,108)	(177,108)
Transfer from surplus on revaluation of fixed assets on disposal of assets	-	-	-	-	-	1,502,591	1,502,591
<b>Balance as at December 31, 2010</b>	<b>26,716,048</b>	<b>(13,284,674)</b>	-	-	-	<b>(8,614,289)</b>	<b>4,817,085</b>

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

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- 1.3** The Bank had a short fall of Rs. 2.183 billion as on December 31, 2010 in meeting the minimum capital requirement of Rs. 7 billion (net of losses), as required under BSD circular No. 7 of 2009. In addition, as on December 31, 2010, the Capital Adequacy Ratio (CAR) of the Bank is also lower by 3.24% as against minimum required CAR of 10% (refer note 41). The Bank, had issued rights shares at a discount in 2010 to generate net capital of Rs. 7 billion. The rights issue had partly remained unsubscribed and at present the Bank has unpaid rights of Rs. 2.572 billion. SECP has granted approval to complete subscription of unpaid rights till March 31, 2011. The Bank is negotiating with various investors for subscription towards the unpaid rights and it is expected that the shares shall be subscribed by April 2011. The Bank would be fully compliant of the capital requirement and the capital adequacy ratio once the shares are fully subscribed. However, the Bank has applied for extension to meet regulatory capital requirements till March 31, 2011 through a letter dated February 17, 2011.

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

### 3. STATEMENT OF COMPLIANCE

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

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

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# Notes to the Financial Statements for the year ended December 31, 2010

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## Notes to the Financial Statements for the year ended December 31, 2010

IAS 12 Deferred Tax: Tax Recovery of Underlying Assets (Amendments to IAS 12). The amendment to IAS 12 is effective for annual periods beginning on or after January 01, 2012. Earlier application is permitted. The limited scope amendments are relevant only when an entity elects to use the fair value model for measurement in IAS 40 Investment Property. The amendments introduce a rebuttable presumption that in such circumstances, an investment property is recovered entirely through sale.

IAS 24 (Revised), 'Related party disclosures' (effective for annual periods beginning on or after January 01, 2011) - The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. This amendment will result in some changes in disclosures.

IAS 32 (Amendment) 'Financial Instruments: Presentation' (effective for annual periods beginning on or after February 01, 2010) – 'Classification of rights issues' - The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities.

IFRIC 13 (Amendment) 'Customer Loyalty Programmes' (effective from annual periods on or after January 01, 2011). The amendment clarifies that the fair value of award credits take into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. This amendment will have no impact on the Bank's financial statement.

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Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 01, 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment is not likely to have any impact on the bank's financial statements.

Improvements to IFRSs 2010 – In May 2010, the IASB issued improvements to IFRSs 2010, which comprise of 11 amendments to 7 standards. Effective dates, early application and transitional requirements are addressed on a standard by standard basis. The majority of amendments are effective for annual periods beginning on or after January 01, 2011. The amendments include list of events or transactions that require disclosure in the financial statements and fair value of award credits under the customer loyalty programmes to take into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. Certain of these amendments will result in increased disclosures in the financial statements.

### 5. BASIS OF MEASUREMENT

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

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#### 5.1 Use of critical accounting estimates and judgments

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

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

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

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

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

##### 5.1.2 Fair value of derivatives

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

##### 5.1.3 Held-to-maturity investments

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

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#### 5.1 Use of critical accounting estimates and judgments

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

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

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

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

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

##### 5.1.2 Fair value of derivatives

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

##### 5.1.3 Held-to-maturity investments

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



# Notes to the Financial Statements for the year ended December 31, 2010

## 1. STATUS AND NATURE OF BUSINESS

- 1.1** Silkbank Limited ("the Bank") was incorporated in Pakistan on April 04, 1994 as a public limited company under the Companies Ordinance, 1984. The Bank commenced commercial operations on May 07, 1995. Its shares are quoted on all the Stock Exchanges in Pakistan. The Bank is engaged in banking services as described in the Banking Companies Ordinance, 1962. It operates through 85 branches (2009: 82) in Pakistan with the registered office located at Silkbank Building, I. I. Chundrigar Road, Karachi. The short term and long term credit rating of the Bank rated by JCR-VIS Credit Rating Company Limited in July 2009 is 'A-2' and 'A-' respectively.
- 1.2** Majority shareholding 84.2% (December 31, 2009: 86.69%) in the Bank as on December 31, 2010 hold by a consortium comprising of Bank Muscat S.A.O.G, Nomura European Investment Limited, International Finance Corporation (IFC) and executives of the Sinthos Capital Advisors Limited. As a result of a rights issue which is in process of subscription, the majority shareholding in the Bank may change upon full subscription towards the rights.
- 1.3** The Bank had a short fall of Rs. 2.183 billion as on December 31, 2010 in meeting the minimum capital requirement of Rs. 7 billion (net of losses), as required under BSD circular No. 7 of 2009. In addition, as on December 31, 2010, the Capital Adequacy Ratio (CAR) of the Bank is also lower by 3.24% as against minimum required CAR of 10% (refer note 41). The Bank, had issued rights shares at a discount in 2010 to generate net capital of Rs. 7 billion. The rights issue had partly remained unsubscribed and at present the Bank has unpaid rights of Rs. 2.572 billion. SECP has granted approval to complete subscription of unpaid rights till March 31, 2011. The Bank is negotiating with various investors for subscription towards the unpaid rights and it is expected that the shares shall be subscribed by April 2011. The Bank would be fully compliant of the capital requirement and the capital adequacy ratio once the shares are fully subscribed. However, the Bank has applied for extension to meet regulatory capital requirements till March 31, 2011 through a letter dated February 17, 2011.

## 2. BASIS OF PRESENTATION

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

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

## 3. STATEMENT OF COMPLIANCE

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

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

## 4. INITIAL APPLICATION OF STANDARDS, AMENDMENTS OR AN INTERPRETATION TO EXISTING STANDARDS

### 4.1 New / revised standards and interpretations to existing standards effective from current period or early adopted but not relevant to the Bank

The following standards (revised or amended) and interpretations became effective for the current financial period or early adopted, but are either not relevant or do not have any material effect on the financial statements of the Bank

- IFRS 2 - (Amendments) "Share-based Payments - Group cash-settled share-based payment transactions"
- IFRS 5 - (Amendments) "Non-current Assets Held for Sale and Discontinued Operations"
- Amendments to IAS 1 - "Presentation of Financial Statements"
- Amendments to IAS 7 - "Statement of Cash Flows"
- IAS 27 (Amended) - "Consolidated and Separate Financial Statements"
- IAS 27 (as revised in 2008) - "Consolidated and Separate Financial Statements"
- IAS 28 (as revised in 2008) - "Investments in Associates"
- IFRIC 15 - "Agreement for Construction of Real Estate"
- IFRIC 17 - "Distributions of Non-cash Assets to Owners"

The application of improvements to IFRSs issued in 2009 has not had any material effect on amounts reported in these financial statements.

### 4.2 The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after January 01, 2011 or later:

IFRS 9 'Financial instruments' introduces new requirements for the classification and measurement of financial assets and financial liabilities and for their derecognition. While the International Accounting Standards Board has prescribed the effective date period beginning on or after January 1, 2013 with earlier application permitted, the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan have still not notified its effective date for adoption locally. As a result, there will be no impact on the bank's financial statement till IFRS 9 is notified.



## Notes to the Financial Statements for the year ended December 31, 2010

### 6.18 Transfer pricing and related parties

Related parties include the Bank's associates, directors, key management personnel, retirement benefit plans and companies under common directorship. All transactions involving related parties arising in the normal course of business are conducted at arm's length at normal commercial rates on the same terms and conditions as third party transactions using valuation modes, as admissible, except in extremely rare circumstances where, subject to the approval of the Board of Directors, it is in the interest of the Bank to conduct related party transactions at a price other than the arm's length price.

	Note	2010	2009
		Rupees in '000	
<b>7 CASH AND BALANCES WITH TREASURY BANKS</b>			
<b>In hand</b>			
Local currency		<b>584,962</b>	402,550
Foreign currencies		<b>189,569</b>	166,576
<b>With State Bank of Pakistan (SBP) in:</b>	7.1		
Local currency account		<b>1,735,325</b>	1,725,068
Foreign currency - Current account		<b>196,964</b>	176,897
- Deposit account		<b>593,837</b>	570,174
<b>With National Bank of Pakistan (NBP) in:</b>			
Local currency current account		<b>113,867</b>	79,615
		<b>3,414,524</b>	3,120,880
<b>7.1</b>	Deposits with SBP are maintained to comply with the statutory requirements issued from time to time.		
<b>8 BALANCES WITH OTHER BANKS</b>			
<b>In Pakistan</b>			
Current accounts		<b>46,319</b>	53,075
<b>Outside Pakistan</b>			
Current accounts	8.1	<b>43,036</b>	97,993
		<b>89,355</b>	151,068

**8.1** This includes Rs. 25.615 million (2009: Rs. 82.67 million) held in Automated Investment Plans. The balance is current by nature and on increase in the balance to specified limit, interest is received from the correspondent banks at various prescribed scale of rates.

	Note	2010	2009
		Rupees in '000	
<b>9 LENDINGS TO FINANCIAL INSTITUTIONS</b>			
<b>In local currency</b>			
Call money lendings	9.1	<b>570,000</b>	750,000
Repurchase agreement lendings (Reverse repo)	9.2	<b>480,754</b>	275,457
<b>In foreign currency</b>			
Placement	9.3	-	42,251
		<b>1,050,754</b>	1,067,708

**9.1** These carry mark-up at rates ranging from 14.25% to 15% (2009: 12.25% to 13.5%) per annum with maturity upto January 2011.

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## ALL-IN-ONE ACCOUNT

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- Free Intercity Transactions
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**SILKBANK**   
Yes we can

**Directors' Report**  
For the year ended December 31, 2010  
Silkbank Limited



## Directors' Report for the Year ended December 31, 2010

The Board of Directors is pleased to present the 17<sup>th</sup> Annual Report and the audited financial statements for the year ended December 31, 2010.

### 2010 Review: Economy:

The macroeconomic indicators and the annual development program targets suffered a serious setback early in the year as large areas of the country were devastated by widespread rains and unprecedented floods. Large parts of the country's agricultural heartland were particularly hit hard by these floods, with significant damages to standing crops, livestock, infrastructure as well as resulting in large scale displacement of people. The economy will take a long time to recover from this wide scale damage.

The GDP growth is projected to slump to 2-3% as a result of these floods. Inflation remained high with food related inflation at 20% on year to year basis. SBP increased the discount rate from 12.5% to 14% during 2010, but following reduction in Government borrowings and improvement in external account position no further increase was made in January 2011. FX Reserves have remained stable at around US\$ 17 billion, and current account deficit is expected to be around 3% of GDP. Worker's remittances and exports have recorded good increases.

We anticipate that the interest rates will stabilize, and the increasingly strong external and internal push for a meaningful implementation of the planned economic reforms will make a positive impact on the economy, in 2011.

### Financial Results 2010

	2010	2009
	Rs. in million	Rs. in million
Operating loss before provisions and interest suspense	(405)	(1,723)
Interest on non-performing loans taken to suspense account	(603)	(220)
	(1,008)	(1,943)
Provision against non-performing loans/direct write offs	(985)	(3,279)
Impairment of AFS securities, strategic investment, diminution in value of investments etc.	(68)	(144)
Recoveries of non-performing loans	825	1,114
Net Provision against non-performing advances/impairments	(228)	(2,309)
Loss before tax	(1,236)	(4,252)

The total revenue during the year 2010 increased from Rs. 719 million to Rs. 1,524 million a growth of 112% after excluding one off items. This increase was achieved mainly due to launch of new products and increase in volumes. On the other hand, the cost of deposits decreased during the year as a result of increase in the current and saving bank deposits. Non-fund based income increased largely resulting from disposal of properties amounting to Rs.562 million. The net credit losses and impairment decreased significantly from Rs. 2.3 billion in 2009 to Rs. 228 million in 2010 due to the fact that most of the credit losses have already been accounted for. As a result losses for the year have significantly reduced establishing a very positive trend.

Deposits grew from Rs. 49.6 Billion in 2009 to Rs. 55.7 Billion in 2010 whereas performing advances increased from Rs. 28.7 billion to Rs. 40.5 billion recording a growth of 41%, and net equity increased from Rs. 1.7 Billion to Rs. 4.8 Billion as a result of the rights shares.

The focus remained on high yielding assets during the year and consequently funds in GoP Securities were diverted towards better yields. Continued emphasis remained on growing Current and Saving Accounts (CASA) which increased by Rs. 5.5 billion (90% of the total growth in deposits). Cost of funds recorded a reduction and the overall yield on earning advances increased, resulting in an improved net balance sheet spread during the year.

In view of a net loss in the year no dividend is proposed to be given for the year.

## Directors' Report for the Year ended December 31, 2010

### Minimum Capital Requirement (MCR)

To meet the MCR of the Bank as well as the Capital Adequacy Ratio (CAR), the Bank after completion of all the regulatory requirements had issued 311% Rights Shares at a discount of Rs. 7.5 per share to generate a net capital of Rs. 7 Billion. The issue was supported by all the sponsor shareholders, except Bank Muscat who were unable to subscribe due to constraints of the Central Bank of Oman leaving an unpaid balance of Rs.2.57 billion. However, with the sale of two buildings the Bank was able to comply with MCR as at June end, but unfortunately due to subsequent new losses and an additional capital requirement of Rs. 1 billion as at December 31, 2010 the Bank once again has fallen below MCR by Rs.2.1 billion. The Bank is now actively engaged with new investors to make up for the unpaid balance of the rights issue and expects to be successful in doing so by end of Q1 2011, at which time the Bank will once again be not only compliant but above MCR and CAR.

### New Products:

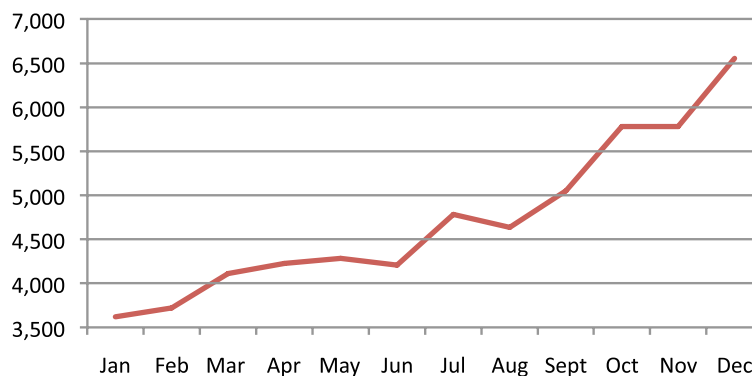
- **Silkbank Advantage Personal Loan:** This product was launched in November 2010 and total of 775 loans have been booked, with a volume of Rs.233 million against a plan of Rs. 27 million during the year.
- **Business Value Current Account:** This product targeted towards Business persons was launched in October 2010 and by the year end December 31, 2010 registered a total volume of Rs. 659 million with 1684 new customer accounts opened during the period.

Silkbank will continue to offer innovative products to meet the growing needs of its customers and currently the Bank is working on launching a running finance facility for individuals which will further boost its high yielding consumer asset portfolios. The products which had been launched in 2009 sustained an impressive growth during 2010 as well:

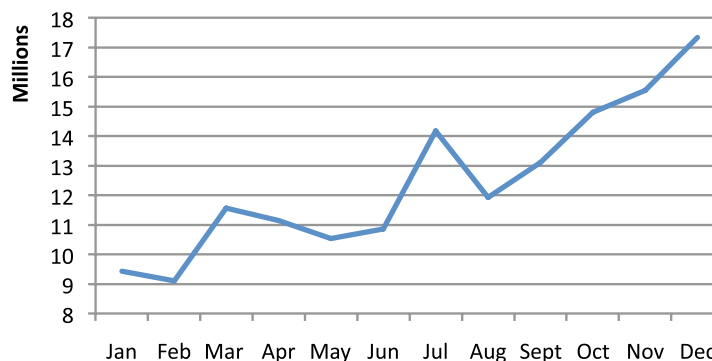
- **M Power:** A Running finance product for SMEs' launched in Oct 09 recorded a net utilization of Rs.2.4 billion, which was 41% ahead of budget. A margin of Rs. 5.6 million was achieved for the year against a budgeted loss of Rs.15.5 million, registering a growth of 145% against budget.
- **All-in-One Current Account:** New accounts opened in 2010 have contributed Rs.791 million, with an overall product portfolio size sustained at Rs.1.36 billion at the year end.

**Visa Debit Card:** VISA Debit Cards issued up to Dec 10 were 58,653, and there has been a 97% increase in spend volume over Dec 09 and a 95% increase in number of transactions in the same period.

**Visa Debit Card  
2010 number of Transactions**



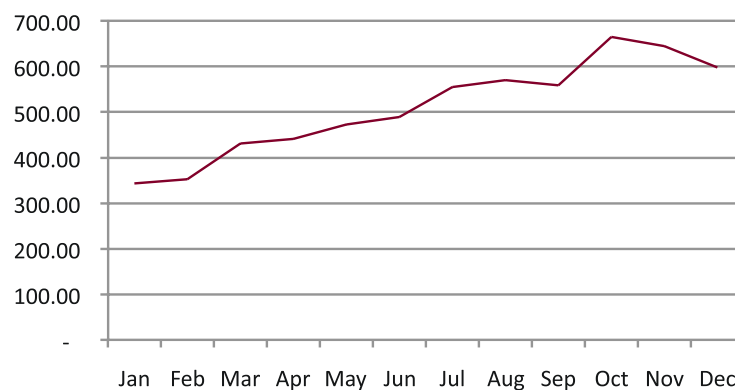
**Visa Debit Card  
2010 Volume of Transactions**



## Directors' Report for the Year ended December 31, 2010

- **ATMs:** Branches with ATMs increased to 69 in 2010. The monthly ATM transactions stand at 79,156; up from 25,305 (Mar 09) with a monthly Volume of Rs.598.4 million, up from Rs.162.5 million (Mar 09).

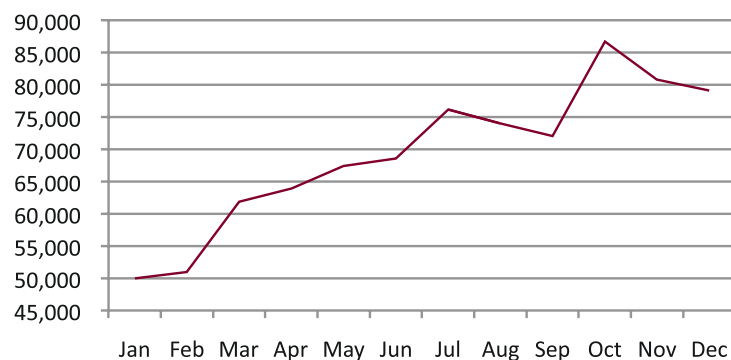
### ATM 2010. No of Transactions



No of Trans  
86%



### ATM 2010. Volume of Transactions



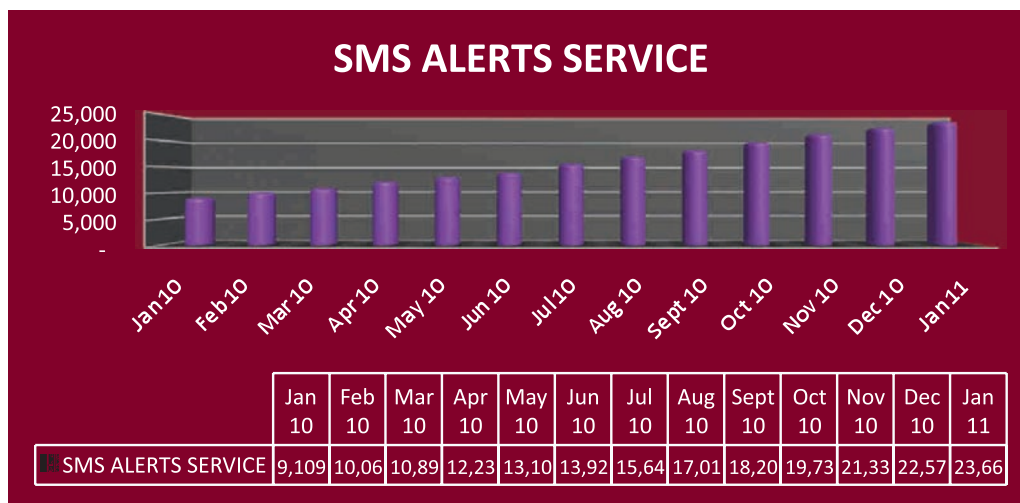
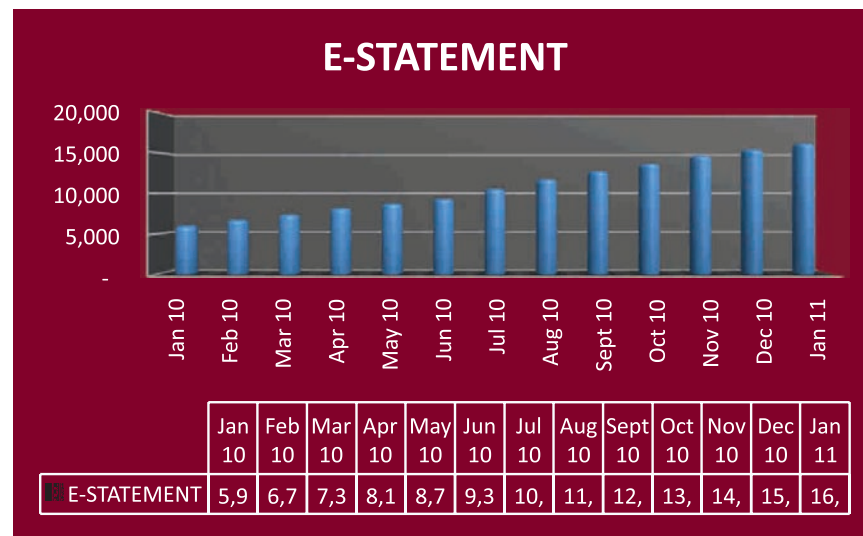
Total Amount  
106%





## Directors' Report for the Year ended December 31, 2010

**E-Statements:** E-Statement and SMS Alerts enrollment was introduced through Phone Banking and E-Statement facility was also introduced for Foreign Currency Accounts. A total of 15,262 customers enrolled for E-Statements, which will offset statement courier costs significantly for these customers.



## Directors' Report for the Year ended December 31, 2010

### Bancassurance

Bancassurance products offering investment and insurance solutions to its customers earned gross commissions of Rs.83.9 million in 2010, and the Bank also launched the Silk Health Plan which has been very well received by customers.

### Branch Network

Total branches aggregate 85 (eighty five) and the Bank relocated 4 branches in Lahore and Karachi during 2010 to improve customer service.

### Technology

Silkbank has successfully completed migration to T-24, the new Core Banking System. Several enhancements were successfully made in the T-24 infrastructure which included Personal Loan application and integration with T-24, auto ATM alerts functionality for sending downtime alerts to the concerned personnel as per a defined escalation matrix, upgradation in the existing call center software, a FRMS-Fraud and Risk Management System for Visa Debit Cards and evaluation of collection System CWX.

Silkbank has also prepared a comprehensive DR site as part of the Business Continuity Plan (BCP). Bank-wide systems have been categorized based on criticality level and real time replication with auto switch over of most critical identified systems. There have also been major upgrades in the network infrastructure to cater to redundancy of network equipment and links at the branches.

All Silkbank branches are now connected via the Wide Area Network (WAN), providing real time online connectivity.

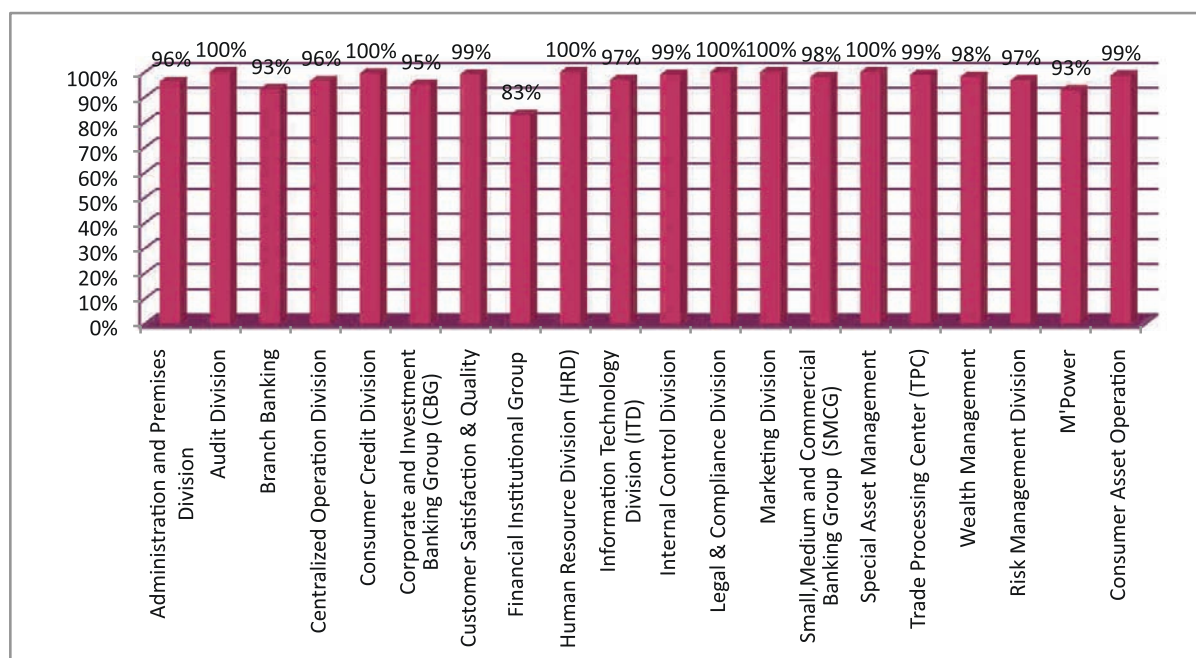
Silkbank has also procured the Oracle Financials System as the corporate ERP Solution. The Oracle ERP would be implemented as a Corporate GL, and implementation of its modules which include Fixed Assets, Procurement, Inventory and Business Intelligence is under process.

Silkbank has acquired Work-stream Developer, a Quality Track Automation tool to ensure business process automation in various areas across the Bank. This will enable the Bank to develop efficient workflows with minimum development time, besides achieving significant cost saves and efficiencies.

### Service Quality

We have witnessed an across-the-board improvement in Service Quality. In the last eight mystery-shopping waves, we have moved from 5% to 75% branches in the "excellent" category. There has been a significant improvement in Internal Service Measurement scores across all units, based on measurement of 135 ISMs (Internal Service Measurements) across 20 segments.

### ISM Performance – 2010



## Directors' Report for the Year ended December 31, 2010

### Silkbank Brand Awareness

We have successively improved on "top of mind" recall and brand awareness amongst our target audience, through investment in our corporate brand, launch of innovative products and branch look and feel. Silkbank's brand name awareness has increased to 57% amongst our target market, as opposed to 23% in a similar research conducted in 2009. Within the local private banks we were ranked amongst the highest by our customers in "top of mind" recall.

### Risk Management

The Bank continued to enhance risk management capability in Corporate, Consumer and SME Businesses. Corporate and SME & Commercial reviewed their target market and also revised the Credit Application (CA) format. An assessment of the Risk Acceptance criteria (RACs) for SME products would enable a better control over the rapid portfolio growth in this segment. During 2010, Risk Management team has defined procedures for annual reviews, temporary extensions, revision of per party and group limits, as well as, introduction of a revised Prudential Regulations checklist for Corporate, SME and Commercial customers.

### Special Assets Management Group

The Special Asset Management Group has continued its good performance by recovering over Rs. 1 billion during the year. As part of our strategy, we expect the SAMG unit to contribute significantly towards the performance of the Bank going forward despite the current economic difficulties and legal constraints.

### Human Resource

We believe that our people are our primary assets and training and development of the existing and new staff has always remained a priority. Continuous efforts were made during the year to provide multi dimensional training, with a special emphasis on refreshers courses/training in Service Excellence, Anti Money Laundering, Know Your Customers practices and requirements, Customer Due Diligence, and creating greater awareness of the Prudential Regulations in order to improve the overall control environment.

Trainings were also conducted on the new systems implemented during the year.

### Corporate Social Responsibility

As part of Social Corporate Responsibility the staff contributed for the Flood Relief Fund and an equal amount was contributed by the Bank. As a result, a total of Rs. 5.3 million was donated by the staff and Bank of which Rs. 4 million has already been disbursed.

### Board of Directors

In the month of May 2010 two of our nominee Directors of Bank Muscat, Mr. Ahmed Al- Abri and Mr. Arif Mehmood Ali resigned from the Board. To be compliant with the legal requirement of having seven directors on the board of the Bank, the Board had appointed Mr. Shaukat Tarin as an Executive Director in place of Mr. Ahmed Al-Abri in June 2010. Subsequently Mr. Tariq Iqbal Khan was appointed as an independent Director, in place of Mr. Arif Mehmood Ali in October 2010. The composition of the Board is as under:

Types of Director	No of Directors
Independent Director	3
Non Executive Director	1
Executive Director	2
Nominee/Sponsor Director	2

The Board extends its appreciation to Mr. Ahmed Al- Abri and Mr. Arif Mehmood Ali for their very valuable contribution to the Board, particularly in the very critical early days of the acquisition of the Bank, and wishes them every success in the future. It also welcomes Mr. Shaukat Tarin and Mr. Tariq Iqbal Khan to the Board and looks forward to their support and guidance in strengthening the Bank.

## Directors' Report for the Year ended December 31, 2010

### Corporate and Financial Reporting Framework

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

- a) The financial statements prepared by the management of the Bank, present fairly its state of affairs, the result of its operation, cash flow and changes in equity.
- b) Proper books of account of the Bank have been maintained.
- c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d) International Financial Reporting Standards as applicable in Pakistan have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
- e) The system of internal control is sound in design and has been effectively implemented and monitored. Management's statement on internal control is enclosed herewith which is endorsed by the Board as required by the State Bank of Pakistan. The Board is ultimately responsible for the Bank's system of internal control and reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve objectives and by its nature can provide only reasonable and not absolute assurance against material misstatement or loss.

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

- An audit committee has been formed which has written terms of reference and reports to the Board. It reviews the approach adopted by the Bank's internal audit department, as well as the scope of and its relationship with the external auditors. It also receives reports from the internal audit and any material control weaknesses that have been identified, and discusses and agrees action to be taken in areas of concern.
- An organization structure has been established which supports clear lines of communication and tiered levels of authority with the delegation of appropriate responsibility and accountability.
- Business strategies agreed at divisional level are approved by the Board. In addition there is an annual budgeting and strategic planning process. These strategies are reviewed during the year to reflect any significant changes in the business environment.

The principal features of control frame work includes:

- Evaluation and approvals procedures for major capital expenditure and other transactions.
- Regular reporting and monitoring of financial performance using operating statistics and monthly management accounts which highlight key performance indicators and variance from budget and quarterly forecasts.
- Review of the health, safety, environment and contingency management processes and other significant polices.

Further, reviews of the system of internal control are also carried out by the internal audit department and management conclusions on internal control are confirmed by divisional management level to the Board.

- f) There are no significant doubts upon the Bank's ability to continue as a going concern.
- g) There has been no material departure from the best practices of corporate governance,as detailed in the listing regulations.

### Risk Management Framework

Silkbank Limited was taken over by the present management and the Board on March 31, 2008. Since then the risk management function has continuously been improved, and we are pleased to report that the Bank is continuously progressing to be compliant with the guidelines issued by the State Bank of Pakistan (SBP) on risk management. The following are the important aspects of the risk management function within the Bank:

## Directors' Report for the Year ended December 31, 2010

**a. Credit Risk**

Credit risk is overviewed by the Board's Risk Committee, in addition to which there are committees of the management. Authorities have been appropriately delegated, and separate risk management units operate for the corporate/SME and consumer business, with properly laid down policies and procedures formulated in the form of Manuals and Product Programs.

Credit Administration units have also been established in the various aforesaid segments of the Bank. The Bank has its own credit rating system for corporate, commercial and relationship SME, which is being further revamped, and the established review process is capable of identifying problem loans at an early stage.

In consumer banking separate collection units operate for recovery whereas a centralized Special Assets Management unit is responsible for the classified Corporate/SME portfolio and its recovery.

**b. Market Risk**

A middle office function, independent of the Treasury has been setup. In addition an Asset and Liabilities Committee (ALCO) and a market risk policy committee has been established, and a liquidity policy has been approved by the Board. Various excel based tools are currently in use, and a T-Risk system (from Temenos) with a sophisticated modeling capability is expected to be implemented in 2011.

**c. Operational Risk**

Appropriate policies and procedures have been documented and disseminated, and an Internal Control Unit is in operation which is continuously being strengthened. An independent Audit function has been established by the Bank, reporting to the Audit committee of the Board, and a Compliance department has been established as well, to ensure that all legal and regulatory risks are properly addressed in addition to the implementation of Anti Money Laundry and Know Your Customer (AML/KYC) policies. Appropriate training plans have been implemented including training in strict monitoring of transaction and AML/KYC. Contingency plans are in place and have been tested, and testing will be an ongoing process. Self Assessment of Key Risk Indicators (KRI's) and compliance of standards, codes and guidelines is regularly carried out and documented. A new system on AML monitoring is expected to be implemented during 2011.

A control and compliance committee actively reviews all control related matters and ensures implementation of recommendation of internal/external auditors, SBP inspectors and ICU team. An Internal Control Unit (ICU) has been effectively monitoring proofs and reconciliation across the Bank.

## Directors' Report for the Year ended December 31, 2010

### Key Operating and Financial Data of Last Six Years

Fiscal year ending December 31,	<i>Rupees in Million</i>					
	2010	2009	2008	2007	2006	2005
Share holders equity including revaluation	4,834	1,763	4,391	2,180	3,998	3,807
Deposits	55,706	49,610	41,057	42,374	49,015	37,136
Advances	44,354	32,097	31,087	25,875	29,022	19,514
Investments	12,965	20,179	12,012	17,859	15,829	12,465
Assets	72,603	68,664	55,645	53,661	59,201	47,749
Profit (loss) before taxation	(1,236)	(4,252)	(2,834)	(3,320)	(409)	141
Profit (loss) after taxation	(1,131)	(2,903)	(2,014)	(3,041)	(304)	65

Value of investments (including accrued mark-up) in Employees' Provident and Gratuity Funds was as under:

	2010 (Rupees in million)	2009
• Provident Fund Rs.	295	171
• Gratuity Fund Rs.	115	39

During the year six meetings of the Board of Directors were held. Attendances by the Directors were as follows:

	Number of the Meetings	
	Held During Directorship	Attended
Mr. Munnawar Hamid OBE	6	6
Mr. Ahmed Al-Abri	2	2
Mr. Humayun Bashir	6	6
Mr. Javed Hamid	6	5
Mr. Sadeq Sayeed	6	4
Mr. Arif Mahmood Ali	2	2
Mr. Arshad Ghafur	4	3
Mr. Tariq Iqbal Khan	1	-
Mr. Shaukat Tarin	3	3
Mr. Azmat Tarin	6	5

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



## Directors' Report for the Year ended December 31, 2010

**Pattern of Shareholding**

The pattern of shareholding as required by the SECP Code of Corporate Governance is attached with this report.

**Credit Rating**

The JCR-VIS Credit Rating Agency has maintained the long term entity rating of the Bank as A- (Single A Minus) and the short term rating as A-2 (A-Two) and the rating has been put under a rating watch as 'Developing'.

**External Auditors**

The present auditors, M/s. Anjum Asim Shahid Rahman & Co. Chartered Accountants have completed the maximum period of five years and are not eligible for reappointment in accordance with the Code of Corporate Governance. The Audit Committee of the Board recommend that KPMG Taseer Hadi & Co, Chartered Accountants, who have consented to act as auditors be appointed in their place.

**Future Outlook**

Having remained intensively engaged in rebuilding the entire franchise over last 2 1/2 years the Bank is now fully geared to make a turn around. This statement is based on the overall improvements and other achievements as outlined in following areas:

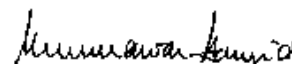
1. Technology and Human Resource,
2. New Products offering,
3. Improvement in Branch Network and infrastructure,
4. Improvement in Service Quality Assessment,
5. Enhancement of Risk Management,
6. Branch Quality,
7. Strong Control Environment, and
8. Special Asset Performance

As the impact of progress in these areas takes effect over time, overall performance is expected to become stronger.

**Appreciation and Acknowledgement**

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

For and on Behalf of the Board of  
Silkbank Limited



Munnawar Hamid, OBE  
Chairman

Karachi, March 2, 2011

**Your Respect, Your Recognition**

**BUSINESS VALUE ACCOUNT**

**SILKBANK** 



**Free Cheque Books**

**Free Intercity Transactions**

**Free Pay Orders/Demand Drafts**

**Free Business Inventory Insurance**

**Dedicated Relationship Manager**

**SILKBANK**   
Yes we can



**Statement of Compliance with  
the Code of Corporate Governance  
&  
Statement of Internal Control**

For the year ended December 31, 2010  
Silkbank Limited

## Statement of Compliance with the Code of Corporate Governance as at December 31, 2010

The Board of Silkbank Limited extends full support and commitment towards the implementation of the highest standards of Corporate Governance.

This statement is being presented to comply with the requirement of regulations G-1 of the Prudential Regulations for Corporate/Commercial Banking issued by the State Bank of Pakistan (SBP) and the Code of Corporate Governance issued by the Securities and Exchange Commission of Pakistan (SECP).

The Bank has complied with the requirements in the following manner:

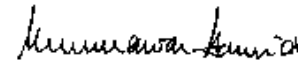
1. The Bank encourages representation of independent non-executive directors. At present, the Board consists of three independent, one non executive, two executive and two nominee/sponsor directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies.
3. All the resident directors of the Bank are registered taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or NBFIs or being member of a stock exchange has been declared as a defaulter by that stock exchange.
4. Casual vacancies arising during the year were filled in by the Board within the time allowed by the Securities and Exchange Commission of Pakistan (SECP).
5. The Bank has prepared "Statements of Ethics and Business Practices" which has been signed by the all directors and employees of the Bank.
6. The Board has developed and approved a vision and mission statement and an overall corporate strategy and significant policies of the Bank. A complete record of particulars of the 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 decision on material transactions including appointment and the determination of remuneration and terms and conditions of the employment of the Chief Executive have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman.
9. Related party transactions carried out on "Arm's Length Basis" in accordance with the Related Party Transaction Policy were placed before Audit Committee of the Board and Board of Directors.
10. The Board has met six times during the year. Notices of the Board meetings, along with agenda and working papers were circulated at least seven days before the meeting except in cases where an emergent meeting was held. The minutes of the meeting were appropriately recorded and circulated.
11. The Directors of the Bank are well conversant with their duties and responsibilities as described by clause (xiv) of the Code of Corporate Governance.
12. The Board approved appointments of the Chief Financial Officer / Company Secretary and the Head of Internal Audit including their remuneration and terms of conditions of employment as determined by the Chief Executive.
13. The Directors' Report for the year has been prepared in compliance with the requirement of the Code and fully describes the salient matters required to be disclosed.
14. The financial statements of the Bank were duly endorsed by the CEO and CFO before the approval of the Board.
15. The Directors, Chief Executive and executives do not hold any interest in the shares of the Bank, other than that disclosed in the pattern of shareholding.
16. The bank has complied with all corporate and financial reporting requirements.
17. The Board has formed Audit Committee comprising of four members. The Chairman of the committee is an independent director.
18. Five meetings of the audit committee were held during the year prior to approval of interim and final results of the Bank as required by the Code. The terms of reference of the Committee have been approved by the Board and advised to the Committee for compliance.
19. The Board has setup an effective internal audit function, the members of which are considered suitably qualified and experienced for the purpose. The Audit department reports to the Audit Committee.
20. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review program 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 its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on the code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.

21. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
22. The quarterly un-audited financial statements of the Bank are circulated along with the review of Directors. Half yearly financial statements were subject to the limited review by the statutory auditors. The financial statements for the year ended December 31, 2010 have been audited and will be circulated in accordance with the clause (xxii) of the Code.
23. All material information as described in clause (xxiii) of the Code is disseminated to the stock exchanges and Securities & Exchange Commission of Pakistan in a timely manner.
24. We confirm that all other material principles contained in the Code have been complied with.

For and on Behalf of the Board of  
Silkbank Limited



Azmat Tarin  
President & CEO



Munnawar Hamid OBE  
Chairman

Karachi, March 02, 2011

## Management's Statement on Internal Control as of December 31, 2010

The following statements are made by the management, to meet the requirements of the State Bank of Pakistan (SBP) BSD Circular # 07 of 2004.

Management of Silkbank Limited (the Bank) is responsible for establishing and maintaining an adequate and effective system of internal control aimed at achieving the following objectives of the Bank:

- Efficiency and effectiveness of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

Internal control is the process designed to manage rather than eliminate the risk of failure to achieve the bank's business strategies and policies and to provide reasonable assurance in relation to the above mentioned objectives.

An Internal Control System comprises of various interrelated components which include a control environment, a risk assessment process, control activities, creation of relevant information and its communication, and finally a monitoring process.

The Management has adopted different strategies to ensure effective monitoring and improvement of internal controls. These include the following:

1. In order to meet the SBP requirements on internal control, the Bank had acquired the services of a reputable consultancy firm for guidance and documenting the existing controls. Based on their recommendations, the Bank has implemented the COSO (Committee of Sponsoring Organization of Treadway Commission) Framework of Internal Controls.
2. The Bank has adopted a statement of ethics and business practices that is signed by all directors and employees. Further, the compliance function also ensures Bank's compliance with all applicable laws, regulations and code of ethics.
3. A new vision/mission statement of the bank along with the core values has been adopted by the Bank.
4. An organization structure has been established which supports clear lines of communication and tiered levels of authority and segregation of duties commensurate with accountability.
5. The Bank has established an effective Internal Audit Department, which reports directly to the Audit Committee of the Board. This department carries out periodical audits of all branches, Head Office and its departments and business risk reviews to monitor compliance of the Bank's policies and procedures, based on an audit plan approved by the Audit Committee of the Board.



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

With the implementation of COSO framework and regular monitoring of the defined controls, the overall control environment in the bank is geared to provide reasonable assurance to the bank's Management and Board of Directors, which we believe will further improve with time.



Azmat Tarin  
President & CEO

Karachi, March 02, 2011

# SUPER SAVER

“Profit  
everyday and  
easy access to  
funds... Now  
that’s what I  
call a super  
solution!”

**SILKBANK**   
Yes we can



**Notice of AGM  
&  
Auditors' Review**  
For the year ended December 31, 2010  
Silkbank Limited

## Notice of the 17<sup>th</sup> Annual General Meeting

Notice is hereby given that the seventeenth Annual General Meeting of Silkbank Limited will be held on Wednesday, March 30, 2011 at 11:30 am at the Beach Luxury Hotel, Karachi, to transact the following business:

### Ordinary Business

1. To confirm the minutes of Annual General Meeting held on May 27, 2010.
2. To receive, consider and adopt the audited financial statements of the Bank for the year ended December 31, 2010 together with the Directors' and Auditors' reports thereon.
3. To appoint auditors of the Bank for the year ending December 31, 2011 and to fix their remuneration. KPMG Taseer Hadi and Co, Chartered Accountants have consented to act as auditors. The present auditors, Messrs Anjum Asim Shahid Rahman & Co, Chartered Accountants have completed the maximum period of five years and are not eligible for reappointment in accordance with the clause 41 (a) of the Code of Corporate Governance.

### Any Other Business

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

By the Order of the Board

Syed Liaquat Ali  
Company Secretary

Karachi, March 2, 2011

### Notes:

- The Share Transfer Book of the Bank will remain closed from March 24, 2011 to March 30, 2011 (both days inclusive).
- A member entitled to attend and vote at this meeting may appoint another member as his/her proxy to attend and vote. Proxies in order to be effective must be received at the registered office of the Bank duly stamped and signed not less than 48 hours before the meeting.
- Members whose share are deposited with the Central Depository Company of Pakistan Limited are requested to bring Original Computerized National Identity Card along with the participant's I.D number and their account number in Central Depository Company of Pakistan Limited to facilitate identification at the time of Annual General Meeting. In case of proxy, an attested copy of proxy's Identity Card, Account and Participant ID number be enclosed. In case of corporate entity, the Board of Directors' resolution/power of attorney with the specimen signature of the nominee shall be produced at the time of the meeting (unless it has been provided earlier or the corporate entity has appointed a proxy).
- Members are requested to promptly notify the Bank of any change in their addresses.



## Auditors' Review Report To The Members On Statement Of Compliance With The Best Practices Of Code Of Corporate Governance

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

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

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

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

Based on our review, nothing has come to our attention, which causes us to believe that the Statement does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code as applicable to the Bank, for the year ended December 31, 2010.

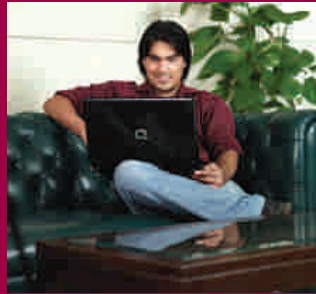
Karachi, March 02, 2011

Anjum Asim Shahid Rahman  
Chartered Accountants

VISA DEBIT CARD



E-STATEMENT



SMS ALERTS



SILKBANK-DIRECT



MOBILE BANKING



# Technology Products

Unmatched Services Offered by Silkbank

**SILKBANK**   
Yes we can





**Independent  
Auditors' Report**  
For the year ended December 31, 2010  
Silkbank Limited



## Independent Auditors' Report to the Members of Silkbank Limited

We have audited the annexed statement of financial position of Silkbank Limited (the Bank) as at December 31, 2010 and the related profit and loss account, statement of comprehensive income, statement of changes in equity and cash flow statement together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for seven branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief were necessary for the purposes of our audit.

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

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

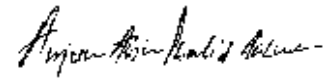
- (a) in our opinion, proper books of accounts have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984), and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- (b) in our opinion:
  - (i) the statement of financial 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, statement of changes in equity and cash flow statement together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962) and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at December 31, 2010, and its true balance of loss, its comprehensive loss, changes in equity and its cash flows 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.

Without qualifying our opinion, we draw attention to following matters as disclosed in:

- 1) note 1.3 to the financial statements which highlights that the Bank has not been able to meet the minimum capital requirement (net of losses) of Rs. 7 billion and the capital adequacy ratio of 10% as applicable to the Bank for the current year. The Bank has applied to the State Bank of Pakistan for extension in meeting the minimum capital requirement till March 31, 2011; and
- 2) note 13 to the financial statements which states that the Bank will be able to recover the deferred tax asset carried as at December 31, 2010 from future taxable profits as projected in the business plan as approved by the Board of Directors of the Bank.

Karachi, March 02, 2011



Anjum Asim Shahid Rahman  
Chartered Accountants  
Muhammad Shaukat Naseeb

## Notes to the Financial Statements for the year ended December 31, 2010

### 9.2 Securities held as collateral against lendings to financial institutions

		2010			2009		
		Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
Rupees in '000							
Market treasury bills	9.2.1	-	-	-	275,457	-	275,457
Pakistan investment bonds	9.2.2	<b>480,754</b>	-	<b>480,754</b>	-	-	-
		<b>480,754</b>	-	<b>480,754</b>	275,457	-	275,457

**9.2.1** These have been purchased under the resale agreements at markup rates of Nil (2009: 12.2%) per annum with maturities upto January 2010.

**9.2.2** These have been purchased under the resale agreements at the markup rate 13.55% (2009: Nil) per annum with maturities upto March 2011.

**9.3** This represents Nil (2009: Rs. 0.5 million) placed with Mashreq Bank Hong Kong, which carry interest at the rate Nil (2009: 0.25%) per annum.

## Notes to the Financial Statements for the year ended December 31, 2010

10 INVESTMENTS - net	2010			2009		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
Rupees in '000						
<b>10.1 Investments by type</b>						
<b>Held-for-trading securities</b>						
Listed shares	20,535	-	20,535	15,547	-	15,547
Market treasury bills	-	-	-	1,622,640	-	1,622,640
Pakistan investment bonds	-	-	-	144,516	-	144,516
	<b>20,535</b>	<b>-</b>	<b>20,535</b>	<b>1,782,703</b>	<b>-</b>	<b>1,782,703</b>
<b>Available-for-sale securities</b>						
Market treasury bills	2,485,580	1,181,497	3,667,077	657,951	6,749,264	7,407,215
Pakistan investment bonds	2,135,838	-	2,135,838	2,431,303	1,012,636	3,443,939
Mutual fund units	8,388	-	8,388	54,543	-	54,543
Commercial papers	67,014	-	67,014	46,504	-	46,504
Preference shares - Listed	29,769	-	29,769	44,538	-	44,538
Term finance certificates						
Listed	146,732	-	146,732	197,890	-	197,890
Unlisted	1,709,126	-	1,709,126	1,786,911	-	1,786,911
Ordinary shares						
Listed	343,117	-	343,117	159,211	-	159,211
Unlisted	39,900	-	39,900	65,680	-	65,680
	<b>6,965,464</b>	<b>1,181,497</b>	<b>8,146,961</b>	<b>5,444,531</b>	<b>7,761,900</b>	<b>13,206,431</b>
<b>Held-to-maturity securities</b>						
Pakistan investment bonds	1,403,429	3,477,838	4,881,267	1,410,998	3,759,550	5,170,548
Term finance certificates - Listed	47,428	-	47,428	54,240	-	54,240
Shares repo	74,910	-	74,910	74,910	-	74,910
	<b>1,525,767</b>	<b>3,477,838</b>	<b>5,003,605</b>	<b>1,540,148</b>	<b>3,759,550</b>	<b>5,299,698</b>
Investment in associate	46,350	-	46,350	75,000	-	75,000
<b>Investments at cost / Impaired value</b>	<b>8,558,116</b>	<b>4,659,335</b>	<b>13,217,451</b>	<b>8,842,382</b>	<b>11,521,450</b>	<b>20,363,832</b>
Less: Provisions for diminution in value of investments	(83,578)	-	(83,578)	(85,137)	-	(85,137)
<b>Investments-net of provision</b>	<b>8,474,538</b>	<b>4,659,335</b>	<b>13,133,873</b>	<b>8,757,245</b>	<b>11,521,450</b>	<b>20,278,695</b>
(Deficit)/Surplus on revaluation of held-for-trading investments	(94)	-	(94)	69	-	69
(Deficit) on revaluation of available-for-sale investments	(169,253)	-	(169,253)	(99,435)	-	(99,435)
<b>Total investments at market value</b>	<b>8,305,191</b>	<b>4,659,335</b>	<b>12,964,526</b>	<b>8,657,879</b>	<b>11,521,450</b>	<b>20,179,329</b>

## Notes to the Financial Statements for the year ended December 31, 2010

	Note	2010	2009
		Rupees in '000	
<b>10.2 Investments by segments</b>			
<b>Federal Government Securities</b>			
Market treasury bills	10.2.1	3,667,077	9,029,855
Pakistan investment bonds	10.2.2	7,017,105	8,759,003
		<b>10,684,182</b>	<b>17,788,858</b>
<b>Fully paid-up ordinary shares</b>			
Listed companies	10.6	363,652	174,758
Unlisted companies	10.7	39,900	65,680
		<b>403,552</b>	<b>240,438</b>
<b>Term Finance Certificates, Debentures, Bonds and Participation Term Certificates</b>			
Term finance certificates - Listed	10.8.1	194,160	252,130
- Unlisted	10.8.2	1,709,126	1,786,911
		<b>1,903,286</b>	<b>2,039,041</b>
<b>Other investments</b>			
Mutual fund units	10.9	8,388	54,543
Preference shares - Listed	10.10-10.11	29,769	44,538
Investment in associate	10.12	75,000	75,000
Investment in commercial papers	10.13	67,014	46,504
Shares repo		74,910	74,910
		<b>255,081</b>	<b>295,495</b>
<b>Total investments at cost</b>		<b>13,246,101</b>	<b>20,363,832</b>
Provision for diminution in the value of investments	10.3	(83,578)	(85,137)
<b>Investments - net of provision</b>		<b>13,162,523</b>	<b>20,278,695</b>
Unrealized (loss) / gain on revaluation of investment classified as held-for-trading	10.4	(94)	69
Deficit on revaluation of available-for-sale investments	22.1	(169,253)	(99,435)
<b>Total investments at market value</b>		<b>12,993,176</b>	<b>20,179,329</b>

### 10.2.1 Principal terms of investments in market treasury bills

Name of investment	Maturity period	Principal payment	Coupon rate	Coupon payment
Market treasury bills	February 2011 to August 2011	On maturity	12.07% to 13.25%	At maturity

### 10.2.2 Principal terms of investments in Pakistan investment bonds

Name of investment	Maturity period	Principal payment	Coupon rate	Coupon payment
Pakistan investment bonds	February 2011 to September 2019	On maturity	8% to 14%	Semi-annually

These include securities having face value of Rs. 47.7 million (2009: Rs. 47.7 Million) pledged with State Bank of Pakistan and National Bank of Pakistan as security to facilitate T.T discounting facility to branches of the Bank.



## Notes to the Financial Statements for the year ended December 31, 2010

	Note	2010	2009
		Rupees in '000	
<b>10.3 Particulars of provision</b>			
Opening balance		85,137	78,993
Charge for the year		-	6,839
Reversals		(1,559)	(695)
Write off		(1,559)	6,144
Closing balance	10.3.1	<u>83,578</u>	<u>85,137</u>
<b>10.3.1 Particulars of provision in respect of type and segment</b>			
<b>Available-for-sale securities</b>			
Ordinary shares - unlisted		5,680	7,239
Term finance certificates - unlisted		2,988	2,988
<b>Held-to-maturities securities</b>			
Shares repo		74,910	74,910
		<u>83,578</u>	<u>85,137</u>
<b>10.4 Unrealized (loss) / gain on revaluation of investments classified as held-for-trading</b>			
Listed shares		(94)	(393)
Market treasury bills		-	(18)
Pakistan investment bonds		-	480
		<u>(94)</u>	<u>69</u>

## Notes to the Financial Statements for the year ended December 31, 2010

		2010		2009
	Rating long term / short term	Amount		Amount
		Rupees in '000		Rupees in '000
<b>10.5 Quality of available-for-sale securities</b>				
<b>10.5.1</b> Market treasury bills	Unrated	3,667,077	Unrated	7,407,215
<b>10.5.2</b> Pakistan investment bonds	Unrated	2,135,838	Unrated	3,443,939
		<b>5,802,915</b>		<b>10,851,154</b>
<b>10.5.3 Mutual fund units</b>				
Pakistan Strategic Allocation Fund		-	Unrated	8,880
PICIC Growth Fund	Unrated	-	Unrated	2,852
Golden Arrow Selected Stocks Fund	Unrated	3,947		-
ABAMCO Composite Fund		-	Unrated	24,035
NAMCO Balanced Fund	Unrated	4,441	Unrated	3,776
MCB Cash Management Optimizer Fund		-	Unrated	15,000
		<b>8,388</b>		<b>54,543</b>
<b>10.5.4 Investment in commercial papers</b>	Unrated	<b>67,014</b>	Unrated	46,504
<b>10.5.5 Preference shares-listed</b>				
Chenab Limited	Unrated	14,769	Unrated	29,538
Masood Textile Mills Limited	Unrated	15,000	Unrated	15,000
		<b>29,769</b>		<b>44,538</b>
<b>10.5.6 Term finance certificates-listed</b>				
Escort Investment Bank Limited	A-/A-1	4,996	A+	8,327
Worldcall Telecom Limited	A	3,064	A	6,128
Askari Bank Limited	AA-	63,040	AA-	93,065
Pakistan Mobile Communication Limited	A+	20,800		-
Engro Chemicals Limited	AA-	54,832	AA-	90,370
		<b>146,732</b>		<b>197,890</b>
<b>Term finance certificates-unlisted</b>				
Avari Hotels	A-	479,767	A-	565,000
JDW Sugar Mills Limited	A-/A-2	149,333	A	192,000
Gharibwal Cement Limited	D	5,974	D	5,974
Bank Al-Habib Limited	AA	16,980	AA	156,937
Bank Al Falah Limited	AA-	90,072		-
Faysal Bank Limited	AA-	100,000		-
Power Holding (Private) Limited	Unrated	867,000	Unrated	867,000
		<b>1,709,126</b>		<b>1,786,911</b>

## Notes to the Financial Statements for the year ended December 31, 2010

	Rating long term / short term	2010 Amount	Rating long term / short term	2009 Amount
		Rupees in '000		Rupees in '000
<b>10.5.7 Ordinary shares-listed</b>				
Fauji Fertilizer Company Limited	Unrated	-	Unrated	19,204
Hub Power Company Limited		-	AA+/A1+	21,069
Hira Textile Mills Limited	Unrated	2,854	Unrated	7,497
Kohinoor Energy Limited		-	Unrated	2,177
PTA Limited	Unrated	3,647	Unrated	2,845
Maple Leaf Cement Limited		-	SD	3,407
National Bank of Pakistan	AAA / A-1+	26,450	AAA	5,704
Pakistan Oil fields Limited	Unrated	6,723	Unrated	8,139
Pioneer Cement Limited		-	Unrated	213
Sui Southern Gas Company Limited		-	AA-/A1+	4,701
EFU General Insurance Limited		-	AA	2,549
Pakistan Reinsurance Limited	Unrated	3,436	Unrated	885
Habib Bank Limited		-	AA+	3,404
Engro Chemicals Limited	AA / A-1+	9,182	AA/A1+	13,362
TRG Pakistan Limited		-	Unrated	6,270
Standard Chartered Bank Limited		-	AAA / A1+	329
Nishat Power Limited	AA- / A-1+	43,750	AA/A1+	53,750
Pakistan State Oil Limited	AA+/ A-1+	21,490		-
Kot Addu Power Company Limited	Unrated	30,626		-
Nishat Chunian Limited	AA- / A-1+	7,283		-
Nishat Mills Limited	A+/A1	10,709		-
My Bank Limited	A-/A 2	3,930		-
World Call Telecom Limited	A-/A 2	9,081		-
Thall Limited	Unrated	4,801		-
ICI Pakistan	Unrated	7,043		-
M.C.B Bank Limited	AA+/ A-1+	10,441		-
Pakistan Telecommunication Limited	Unrated	20,638		-
United Bank Limited	AA+/ A-1+	13,127		-
Attock Petroleum Limited	AA/A1+	11,918		-
Pakistan Petroleum Limited	Unrated	18,880		-
Bank Alfalah Limited	AA/A1+	77,108		-
Shell Pakistan Limited		-	Unrated	2,577
Allied Bank Limited		-	AA/A1+	1,129
		<b>343,117</b>		<b>159,211</b>
<b>10.5.8 Ordinary shares-unlisted</b>				
Pakistan Export Finance Guarantee Limited	Unrated	5,680	Unrated	5,680
Khushali Bank Limited	Unrated	10,000	A-	10,000
Al-Hamra (Private) Limited	Unrated	24,220	Unrated	50,000
		<b>39,900</b>		<b>65,680</b>
		<b>8,146,961</b>		<b>13,206,431</b>

## Notes to the Financial Statements for the year ended December 31, 2010

### 10.6 Investment in fully paid up ordinary share-listed

2010	2009	Paid up value per share Rupees	Name of investee	2010	2009
No. of ordinary shares				Rupees in '000	
-	200,005	10	Fauji Fertilizer Company Limited	-	19,204
-	-	10	Fauji Fertilizer Bin Qasim Limited	-	-
-	685,000	10	Hub Power Company Limited	-	21,069
<b>799,733</b>	<b>2,585,000</b>	<b>10</b>	<b>Hira Textile Mills Limited</b>	<b>2,854</b>	<b>7,497</b>
-	74,997	10	Kohinoor Energy Limited	-	2,177
<b>350,000</b>	<b>500,000</b>	<b>10</b>	<b>PTA Limited</b>	<b>3,647</b>	<b>2,845</b>
-	906,250	10	Maple Leaf Cement Limited	-	3,407
<b>400,000</b>	<b>75,000</b>	<b>10</b>	<b>National Bank of Pakistan</b>	<b>26,450</b>	<b>5,704</b>
<b>690,560</b>	-	<b>10</b>	<b>Kot Addu Power Company Limited</b>	<b>30,626</b>	-
<b>300,000</b>	-	<b>10</b>	<b>Nishat Chunian Limited</b>	<b>7,283</b>	-
<b>200,000</b>	-	<b>10</b>	<b>Nishat Mills Limited</b>	<b>10,709</b>	-
<b>1,500,000</b>	-	<b>10</b>	<b>My Bank Limited</b>	<b>3,930</b>	-
<b>2,800,000</b>	-	<b>10</b>	<b>World Call Telecom Limited</b>	<b>9,081</b>	-
<b>90,000</b>	-	<b>10</b>	<b>Thall Limited</b>	<b>9,947</b>	-
<b>50,000</b>	-	<b>10</b>	<b>ICI Pakistan</b>	<b>7,043</b>	-
<b>1,000,000</b>	-	<b>10</b>	<b>Pakistan Telecommunication Limited</b>	<b>20,638</b>	-
<b>250,000</b>	-	<b>10</b>	<b>United Bank Limited</b>	<b>13,127</b>	-
<b>100,000</b>	-	<b>10</b>	<b>Pakistan Petroleum Limited</b>	<b>18,880</b>	-
<b>38,000</b>	-	<b>10</b>	<b>Attock Petroleum Limited</b>	<b>11,918</b>	-
<b>100,000</b>	-	<b>10</b>	<b>Lucky Cement Limited</b>	<b>7,675</b>	-
<b>25,000</b>	<b>40,000</b>	<b>10</b>	<b>Pakistan Oil fields Limited</b>	<b>6,723</b>	<b>8,139</b>
-	19,962	10	Pioneer Cement Limited	-	213
-	350,000	10	Sui Southern Gas Company Limited	-	4,701
-	25,000	10	EFU General Insurance Limited	-	2,549
<b>153,000</b>	<b>25,000</b>	<b>10</b>	<b>Pakistan Reinsurance Limited</b>	<b>3,436</b>	<b>885</b>
-	25,000	10	Habib Bank Limited	-	3,404
<b>60,000</b>	<b>75,000</b>	<b>10</b>	<b>Engro Chemicals Limited</b>	<b>11,132</b>	<b>13,362</b>
-	2,200,000	10	TRG Pakistan Limited	-	6,270
-	30,000	10	Standard Chartered Bank Limited	-	329
<b>3,500,000</b>	<b>4,300,000</b>	<b>10</b>	<b>Nishat Power Limited</b>	<b>43,750</b>	<b>53,750</b>
-	10,000	10	Shell Pakistan Limited	-	2,577
-	24,050	10	Allied Bank Limited	-	1,129
<b>10,000</b>	-	<b>10</b>	<b>Packages Limited</b>	<b>1,304</b>	-
<b>50,000</b>	<b>25,000</b>	<b>10</b>	<b>MCB Bank Limited</b>	<b>10,441</b>	<b>5,581</b>
<b>7,150,000</b>	<b>200,000</b>	<b>10</b>	<b>Bank Al-Falah Limited</b>	<b>77,108</b>	<b>2,854</b>
-	200,000	10	NIB Bank Limited	-	1,112
<b>90,000</b>	<b>20,000</b>	<b>10</b>	<b>Pakistan State Oil Limited</b>	<b>25,950</b>	<b>6,000</b>
				<b>363,652</b>	<b>174,758</b>

### 10.7 Investment in fully paid up ordinary share-unlisted

2010	2009	Paid up value per share Rupees	Name of investee	2010	2009
No. of ordinary shares				Rupees in '000	
<b>568,000</b>	<b>568,000</b>	<b>10</b>	<b>Pakistan Export Finance Guarantee Chief Executive Mr. S.M Zaeem</b>	<b>5,680</b>	<b>5,680</b>
<b>1,000,000</b>	<b>1,000,000</b>	<b>10</b>	<b>Khushahli Bank Limited Chief Executive Mr. Ghalib Nishter</b>	<b>10,000</b>	<b>10,000</b>
<b>5,000,000</b>	<b>5,000,000</b>	<b>10</b>	<b>Al-Hamra (Private) Limited Chief Executive Mr. Habib Ahmed</b>	<b>24,220</b>	<b>50,000</b>
				<b>39,900</b>	<b>65,680</b>

## Notes to the Financial Statements for the year ended December 31, 2010

**10.7.1** The Bank contributed Rs. 10 million towards the equity of Khushali Bank Limited, as per SBP Letter No. BSD RU-26/25-MFB/13317/00 dated August 07, 2000. In accordance with the restrictions imposed by Khushali Bank Ordinance, 2000 the Bank cannot sell / transfer these shares before a period of five years from the date of subscription. Thereafter, such sale / transfer shall be subject to the prior approval of State Bank of Pakistan, pursuant to section 10 of the Khushali Bank Ordinance, 2000. The profits of the investee bank shall not be distributable and shall be applied towards the promotion of its objectives.

### 10.8 Investment in term finance certificates, debentures, bonds and participation term certificates

#### 10.8.1 Term finance certificates-listed

Name of investee	No. of certificates held	Paid up value per (Rupees)	2010	2009
			Rupees in '000	
Invest Capital Investment Bank Limited	-	5,000	-	6,800
Bank Al-Habib Limited	6,000	5,000	<b>29,928</b>	29,940
Invest Capital Investment Bank Limited	3,500	5,000	<b>17,500</b>	17,500
Escort Investment Bank Limited	2,000	5,000	<b>4,996</b>	8,327
Worldcall Telecom Limited	1,840	5,000	<b>3,064</b>	6,128
Askari Bank Limited	29,413	5,000	<b>63,040</b>	93,065
Pakistan Mobile Communication Limited	5,000	5,000	<b>20,800</b>	-
Engro Chemicals Limited	18,074	5,000	<b>54,832</b>	90,370
			<b>194,160</b>	<b>252,130</b>

#### 10.8.2 Term finance certificates-unlisted

Name of investee	Chief Executive	No. of certificates held	Paid up value per certificates (Rupees)	2010	2009
				Rupees in '000	
Avari Hotels	Mr. Bahram Avari	113,000	5,000	<b>479,767</b>	565,000
JDW Sugar Mills Limited	Mr. Jahangir Khan Tareen	38,400	5,000	<b>149,333</b>	192,000
Gharibwal Cement Limited	Mr. Mohd Tousif	1,195	5,000	<b>5,974</b>	5,974
Bank Al-Habib Limited	Mr. Abbas D. Habib	37,000	5,000	<b>16,980</b>	156,937
Power Holding (Private) Limited	Mr. Shahid Rafi	173,400	5,000	<b>867,000</b>	867,000
Bank Al Falah Limited	Mr. Sirajuddin Aziz	18,000	5,000	<b>90,072</b>	-
Faysal Bank Limited	Mr. Naveed A Khan	20,000	5,000	<b>100,000</b>	-
				<b>1,709,126</b>	<b>1,786,911</b>

## Notes to the Financial Statements for the year ended December 31, 2010

### 10.9 Mutual funds

2010	2009	Paid up value per unit	Name of investee	2010	2009
No. of units				Rupees in '000	
-	2,000,000	10	Pakistan Strategic Allocation Fund	-	8,880
-	200,000	10	PICIC Growth Fund	-	2,852
<b>1,200,000</b>	-	10	Golden Arrow Selected Stocks Fund	<b>3,947</b>	-
-	5,224,895	100	ABAMCO Composite Fund	-	24,035
<b>854,425</b>	800,000	10	NAMCO Balanced Fund	<b>4,441</b>	3,776
-	150,190	100	MCB Cash Management Optimizer Fund	-	15,000
				<b>8,388</b>	<b>54,543</b>

**10.10** This includes investment in 5 million (2009: 5 million) cumulative shares of Rs. 10 each issued by Chenab Limited. These preference shares with put and call option are non-voting in nature and enjoy preference over ordinary shares in case of payment of dividend and liquidation and carry preferred dividend at the rate of 9.25% per annum on the issue price.

**10.11** This also includes investment in 1.5 million (2009: 1.5 million) cumulative preference shares of Rs. 10 each issued by Masood Textile Mills Limited. These preference shares with call option are non-voting in nature and enjoy preference over ordinary shares in case of payment of dividend and liquidation and carry preferred dividend at the rate of 6 months KIBOR plus 200 bps per annum on the issue price.

### 10.12 Investment in associate

Name of associate	Chief Executive	Proportion of ownership interest	Place of incorporation	Principal activity
Saudi Pak Insurance Company Limited	Capt. Azhar Ehtesham Ahmed	23.07% (2009: 23.07%)	Pakistan	General insurance

Summarized financial information in respect of associate based on latest available financial statements as at September 30, 2010 is set out below:

	Note	September 30, 2010	December 31, 2009
		Rupees in '000	
Total assets		<b>540,745</b>	522,699
Total liabilities		<b>361,958</b>	321,830
<b>Net assets</b>		<b>178,787</b>	200,869
<b>Net premium revenue</b>		<b>64,869</b>	124,851
<b>(Loss) / Profit for the year (after tax)</b>		<b>(22,082)</b>	848
<b>Share of loss from associate</b>	10.12.1	<b>(37,794)</b>	(32,700)
<b>10.12.1 Share of loss from associate</b>			
Opening balance		<b>(32,700)</b>	(32,896)
Share of (loss) / profit based on audited financial statements		<b>(5,094)</b>	196
Closing balance		<b>(37,794)</b>	(32,700)



## Notes to the Financial Statements for the year ended December 31, 2010

**10.13** This represents investment in commercial papers issued by Pak Electron Limited carrying interest rate of 16.11% (2009: 7.52%) with maturity up to July 25, 2011.

	Note	2010	2009
		Rupees in '000	
<b>11 ADVANCES - NET</b>			
Loans, cash credits, running finances, etc.			
In Pakistan		<b>51,377,508</b>	39,637,979
Outside Pakistan		-	-
		<b>51,377,508</b>	39,637,979
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		<b>551,643</b>	296,655
Payable outside Pakistan		<b>995,361</b>	657,460
		<b>1,547,004</b>	954,115
<b>Advances - gross</b>		<b>52,924,512</b>	40,592,094
Provision for non-performing advances - specific	11.2	<b>(8,556,924)</b>	(8,490,158)
Provision against consumer finance- general	11.4.1	<b>(13,182)</b>	(4,446)
<b>Advances - net of provisions</b>		<b>44,354,406</b>	32,097,490
<b>11.1 Particulars of advances (Gross)</b>			
<b>11.1.1</b> In local currency		<b>52,787,961</b>	40,404,337
In foreign currencies		<b>136,551</b>	187,757
	11.7	<b>52,924,512</b>	40,592,094
<b>11.1.2</b> Short term (for up to one year)		<b>24,232,756</b>	19,737,785
Long term (for over one year)		<b>28,691,756</b>	20,854,309
		<b>52,924,512</b>	40,592,094

**11.2** Advances include Rs.12,360 million (2009:Rs.11,891million) which have been placed under non-performing status as detailed below:

Category of classification - Specific	2010			2009		
	Classified advances	Provision required (Domestic)	Provision held	Classified advances	Provision required (Domestic)	Provision held
	Rupees in '000					
Substandard	666,550	82,358	82,358	457,149	103,196	103,196
Doubtful	1,074,123	298,309	298,309	1,054,404	263,384	263,384
Loss	10,619,231	8,176,257	8,176,257	10,379,875	8,123,578	8,123,578
	<b>12,359,904</b>	<b>8,556,924</b>	<b>8,556,924</b>	11,891,428	8,490,158	8,490,158

## Notes to the Financial Statements for the year ended December 31, 2010

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

Note	2010			2009			
	Specific	General	Total	Specific	General	Total	
	Rupees in '000						
<b>Opening balance</b>	<b>8,490,158</b>	<b>4,446</b>	<b>8,494,604</b>	7,089,770	10,249	7,100,019	
Reclassification of provision against other assets	14.2	-	-	(323,097)	-	(323,097)	
	<b>8,490,158</b>	<b>4,446</b>	<b>8,494,604</b>	6,766,673	10,249	6,776,922	
Charge for the year		<b>983,091</b>	<b>8,736</b>	<b>991,827</b>	3,272,861	-	3,272,861
Reversals for the year	11.3.1	<b>(825,259)</b>	-	<b>(825,259)</b>	(1,108,216)	(5,803)	(1,114,019)
<b>Net charge/(reversal)</b> (note 11.3.2)		<b>157,832</b>	<b>8,736</b>	<b>166,568</b>	2,164,645	(5,803)	2,158,842
Written off	11.6	<b>(91,066)</b>	-	<b>(91,066)</b>	(441,160)	-	(441,160)
<b>Closing balance</b>		<b>8,556,924</b>	<b>13,182</b>	<b>8,570,106</b>	8,490,158	4,446	8,494,604

2010      2009  
Rupees in '000

#### 11.3.1 Reversal for the year

Reversal charged to profit and loss statement		<b>(825,259)</b>	(1,102,123)
Reversal made directly to equity as capital reserve	11.3.3	-	(6,093)
Net reversal		<b>(825,259)</b>	(1,108,216)

#### 11.3.2 Net charge during the year - specific provisioning

Net charge classified to profit and loss account		<b>151,739</b>	2,170,738
Less: (Charge) / Reversal made directly to the equity as capital reserve	11.3.3	<b>6,093</b>	(6,093)
Net increase in provision against non-performing advances	11.3	<b>157,832</b>	2,164,645

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

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

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

## Notes to the Financial Statements for the year ended December 31, 2010

### 11.4.1 Particulars of provision for consumer financing - general

	2010	2009
	Rupees in '000	
Opening balance	4,446	10,249
Charge for the year	8,736	-
Reversals	-	(5,803)
Closing balance	<u>13,182</u>	<u>4,446</u>

### 11.5 Amendments in Prudential Regulations in respect of provisioning against non-performing advances

SBP vide its BSD Circular No.2 dated January 27, 2009, BSD Circular No.10 dated October 20, 2009 and BSD Circular 2 dated June 3, 2010 has amended Prudential Regulations in respect of provisioning against non-performing advances. These regulations have introduced the benefit of Forced Sale Value (FSV) for three years (for pledged stocks, mortgaged residential / commercial / industrial properties) and four years (for open plot or land where building is constructed, separate valuation is available)

The Bank has availed the benefit of FSV against the non-performing loans. During the year, total FSV benefit resulted in decrease in after tax loss of Rs. 669 million. Accordingly, as of December 31, 2010, the accumulated decrease in loss after tax of Rs. 1.862 billion shall not be available for payment of cash or stock dividend.

	2010	2009
	Rupees in '000	
<b>11.6 Particulars of write offs</b>		
Against provision	91,066	441,160
Directly charged to profit and loss account	-	-
	<u>91,066</u>	<u>441,160</u>
Write offs of Rs. 500,000 and above	89,020	439,956
Write offs of below Rs. 500,000	2,046	1,204
	<u>91,066</u>	<u>441,160</u>

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

In terms of sub-section (3) of section 33A of the Banking Companies Ordinance, 1962 the statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended December 31, 2010 is given in Annexure - I. However, this write-off does not affect the Bank's right to recover the debts from these customers.

11.7 This includes a loan given to a customer amounting to Rs. 2.2 billion contributing 4% of gross advances.

## Notes to the Financial Statements for the year ended December 31, 2010

	2010	2009
	Rupees in '000	
<b>11.8 Particulars of loans and advances to Directors, Associated Companies, etc</b>		
<b>Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons</b>		
Balance at beginning of the year	332,523	272,097
Loans granted during the year	76,187	88,669
Repayments	(22,732)	(28,243)
Balance at end of the year	<u>385,978</u>	<u>332,523</u>
<b>Debts due by companies or firms in which the directors of the Bank are/(were) interested as directors, partners or in the case of private companies as members</b>		
Balance at beginning of the year	-	-
Loans granted during the year	-	-
Repayments	-	-
Balance at end of the year	<u>-</u>	<u>-</u>
<b>Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties</b>		
Balance at beginning of the year	-	-
Loans granted during the year	-	-
Repayments	-	-
Balance at end of the year	<u>-</u>	<u>-</u>

Details of loans and advances to associates, subsidiary and other related parties are given in note 40.

	Note	2010	2009
		Rupees in '000	
<b>12 OPERATING FIXED ASSETS</b>			
Capital work-in-progress	12.1	88,902	569,328
Property and equipment	12.2	1,900,628	3,122,480
Intangible assets	12.3	454,275	28,887
		<u>2,443,805</u>	<u>3,720,695</u>
<b>12.1 Capital work-in-progress</b>			
Civil works		73,873	132,032
Equipment		1,995	5,686
Advances to suppliers and contractors		13,034	431,610
		<u>88,902</u>	<u>569,328</u>
<b>12.1.1 Civil work</b>			
Opening balance		569,328	94,880
Additions during the year		588,991	799,828
Transferred to property and equipment		(1,053,179)	(312,586)
Impairment on capital work-in-progress	23.4.2	(16,238)	(12,794)
		<u>88,902</u>	<u>569,328</u>

## Notes to the Financial Statements for the year ended December 31, 2010

### 12.2 Property and equipments

	Cost / Revaluation				Accumulated depreciation				Net Book value as at December 31, 2010	Rate of depreciation	
	As at January 01, 2010	Adjustment	Additions/ Revaluation*/ Lease**	Disposals	As at December 31, 2010	As at January 01, 2010	Adjustment	Charge for the year/ (Revaluation)** / (Deletions)*			As at December 31, 2010
Rupees in '000											
Freehold land	557,179	-	146,484	535,735	167,928	-	-	-	-	167,928	-
Building on freehold land	64,000	-	10,976	64,000	10,976	3,200	-	1,576 (4,533)	243	10,733	5%
Leasehold land	1,282,131	-	-	1,196,568	85,563	-	-	-	-	85,563	-
Building on leasehold land	260,919	-	-	103,600	157,319	13,360	655	9,368 (7,338)*	16,045	141,274	5%
Leasehold improvements	587,768	(1,000)	217,624	-	804,392	158,472	-	63,780	222,252	582,140	10%
Furniture and fixture	139,709	(934)	90,426	-	229,201	47,696	(375)	16,578 -	63,899	165,302	10%
Other equipments	285,501	-	131,806	836	416,471	127,733	732	59,500 (773)*	187,192	229,279	20%
Computers	245,343	55,253	305,322	367	605,551	154,036	55,441	82,103 (127)*	291,453	314,098	20% - 33.3%
Vehicles	284,283	(1,600)	98,459	39,250	341,892	88,045	11,746	56,766 (18,976)	137,581	204,311	20%
<b>December 31, 2010</b>	<b>3,706,833</b>	<b>51,719</b>	<b>1,001,097</b>	<b>1,940,356</b>	<b>2,819,293</b>	<b>592,542</b>	<b>68,199</b>	<b>289,671 (27,214)</b>	<b>918,665</b>	<b>1,900,628</b>	
December 31, 2009	3,405,739	(50,262)	489,155	62,265	3,782,367	515,451	(40,686)	216,437 (31,315)	659,887	3,122,480	

## Notes to the Financial Statements for the year ended December 31, 2010

### 12.2.1 Details of disposal of fixed assets - By negotiations

Description	Cost / Revaluation	Accumulated depreciation	Book value	Sale proceeds	Gain / (Loss)	Particulars of purchasers
Rupees in '000						
Honda Civic Vti Reg # ARM-893	1,859	434	1,425	1,425	-	Bank Employee Mr. Zahid Khan
Suzuki Cultus VXL Reg # APS-163	694	301	393	613	220	Bank Employee Mr. Nooruddin Shaikh
Toyota Land Cruiser Prado Reg # NG-050	1,718	429	1,289	1,289	-	Bank Employee Mr. Abdul Mateen Khan
Toyota Corolla Xli Reg # ARL-148	1,079	270	809	827	18	Bank Employee Mr. Shahid Khan Niazi
Suzuki Cultus VXL Reg # ARA-196	779	247	532	532	-	Bank Employee Mr. Anas Akhlaq Ahmed
Honda Civic Vti Reg # ANG-100	1,079	270	809	809	-	Bank Employee Mr. Aman Kotak
Toyota Corolla Xli Reg # RIA-07-2626	879	498	381	1,049	668	Rohila Motors
Suzuki Cultus VXL Reg # LEA-09-985	829	152	677	760	83	Bank Employee Mr. Rizwan Ahmad Khan
Suzuki Cultus VXL Reg #APM-394	694	359	335	613	278	Bank Employee Mr. Zeeshan Ali Khan
Honda City Reg # LEB-10-1969	600	20	580	590	10	Bank Employee Mr. Noman Mahmood
Honda City Vario Reg #AKU-449	827	565	262	831	569	Ittehad Motors
Honda City Reg # FDZ-8410	1,088	1,088	-	711	711	Bilal Motors
Honda City Reg # LWJ-708	1,181	807	374	960	586	JM Motors
Property Central Office Karachi	1,300,168	7,338	1,292,830	2,000,000	707,170	Arif Habib Equity (Private) Limited
Property Egerton Road Lahore	599,735	4,533	595,202	450,000	(145,202)	M/s. Educational Excellence
Honda City Reg # ALZ-373	779	247	532	545	13	Bank Employee Mr. Wamiq Hussain
Suzuki Cultus VXL Reg #ARF-409	779	286	493	493	-	Bank Employee Mr. Shujat Ali Lahori
Honda City Reg # LEB-09-710	1,312	350	962	984	22	Bank Employee Mr. Basir Mirza
Suzuki Cultus VXL Reg #ARM-058	889	282	607	622	15	Bank Employee Mr. Nayyar Noman Khan
Suzuki Cultus VXL Reg #ANM-122	600	170	430	430	-	Bank Employee Mr. Safi Ahmed
Honda Accord Reg # LEF-08-7313	4,703	1,568	3,135	3,135	-	Bank Employee Ms. Gulbano Asim
Suzuki Cultus VXL Reg #APM-488	694	382	312	312	-	Bank Employee Mr. Muhammad Ali Baloch
Suzuki Alto VXR Reg #LED-08-8818	593	119	474	474	-	Bank Employee Mr. Alay Raza
Suzuki Alto RA410	600	50	550	570	20	Bank Employee Mr. Shamyl Akbar Khan
Honda City Reg # ARF-631	1,060	424	636	654	18	Bank Employee Ms. Shahida Mannan
Honda Civic Ivttec Prosmatec Oriel	829	345	484	484	-	Bank Employee Ms. Saira Raza
Toyota Corolla Altis	1,869	249	1,620	1,869	249	Insurance claim EFU
Items having book value of less than Rs.250,000 and cost of less than Rs.1,000,000	12,441	9,966	2,475	4,680	2,205	Various
	<b>1,940,357</b>	<b>31,749</b>	<b>1,908,608</b>	<b>2,476,261</b>	<b>567,653</b>	



## Notes to the Financial Statements for the year ended December 31, 2010

### 12.2.2 Operating fixed assets written off

	2010	2009
	Rupees in '000	
Cost of the assets written off	-	48,812
Less: Accumulated depreciation	-	(40,638)
Net book value	-	8,174
Less: Cash realization on disposal of write off assets	-	(283)
Net charge for the year	-	7,891

This represents write-offs of fixed assets and accumulated depreciation thereon based on an exercise carried out by the management to reconcile the records with physical assets.

**12.2.3** The Bank's land and building were revalued on November 25, 2008 by Hasib Associates, an independent valuer, on market value basis. The revaluation resulted in a surplus of Rs. 399.036 million over the properties net book value of Rs. 1,736.5 million as on that date. Had there been no revaluation, the carrying value of the revalued assets would have been lower by Rs. 387.213 million (2009: Rs. 397.864 million).

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

	2010	2009
	Rupees in '000	
Furniture, electrical, office and computer equipment	250,883	293,591
Vehicles	24,832	28,231
	<b>275,715</b>	<b>321,822</b>

### 12.3 Intangible assets

	Cost			Accumulated amortization			As at December 31, 2010	Net book value as at December 31, 2010	Rate of amortization	
	As at January 01, 2010	Adjustment	Addition / (Disposal)	As at December 31, 2010	As at January 01, 2010	Adjustment				Amortization for the year
	Rupees in '000									
Computer software	65,499	-	475,358	540,857	36,612	30	49,940	86,582	454,275	14.28-25%
December 31, 2009	61,599	(14,340)	18,240	65,499	44,317	(14,340)	6,635	36,612	28,887	25%

## Notes to the Financial Statements for the year ended December 31, 2010

13	<b>DEFERRED TAX ASSETS - NET</b>	<b>Note</b>	<b>2010</b>	<b>2009</b>
			Rupees in '000	
	<b>Deferred tax debits arising in respect of</b>			
	<b>Provision against:</b>			
	(Not applicable in the current year)		-	989,352
	Accumulated loss		<b>4,380,419</b>	3,164,324
	Revaluation of securities	22.1	<b>56,027</b>	30,520
			<b>4,436,446</b>	4,184,196
	<b>Deferred tax credits arising in respect of</b>			
	Liabilities against assets subject to finance lease			(800)
	Accelerated tax depreciation		<b>(212,703)</b>	(175,158)
	Revaluation of property and equipment	22.2	<b>(30,789)</b>	(32,089)
			<b>(243,492)</b>	(208,047)
			<b>4,192,954</b>	3,976,149
<b>13.1</b>	As on December 31, 2010 the Bank has available deferred tax assets of Rs. 646.17 million. Out of which the Bank has recorded net deferred tax assets of Rs. 216.805 (2009: Rs. 1,362.210) million during the current year and as of the balance sheet date net deferred tax assets aggregated Rs. 4,192.954 (2009: Rs. 3,976.149) million leaving an unrecognized amount of Rs. 429.364 (2009: Nil) million.			
<b>13.2</b>	The management has recorded deferred tax asset on the basis of business plan which shows that the Bank will have enough profits in the coming years against which the deferred tax asset will be utilized. The plan is based on assumptions which inter-alia includes percentage of growth in advances, deposits, net revenue from funds and cost of funds.			
<b>14</b>	<b>OTHER ASSETS</b>	<b>Note</b>	<b>2010</b>	<b>2009</b>
			Rupees in '000	
	Income/ Mark-up accrued in local currency		<b>1,972,477</b>	1,684,105
	Income/ Mark-up accrued in foreign currency		<b>8,768</b>	11,682
	Advances, deposits, advance rent and other prepayments		<b>473,159</b>	511,638
	Non-banking assets acquired in satisfaction of claims	14.1	<b>1,739,194</b>	2,306,269
	Branch adjustment account		<b>51,407</b>	-
	Others		<b>62,775</b>	69,359
			<b>4,307,780</b>	4,583,053
	Less: Provision held against other assets	14.2	<b>(214,696)</b>	(232,031)
	<b>Other assets (net of provision)</b>		<b>4,093,084</b>	4,351,022
<b>14.1</b>	<b>Market value of Non-Banking assets acquired in satisfaction of claims</b>		<b>1,739,194</b>	2,306,269

## Notes to the Financial Statements for the year ended December 31, 2010

	Note	2010	2009
Rupees in '000			
<b>14.2 Provisions against other assets</b>			
<b>Opening balance</b>		<b>232,031</b>	109,156
Reclassification from advances	11.3	-	323,097
		<b>232,031</b>	432,253
Charge for the year		<b>2,344</b>	59,148
Reversals		<b>3,019</b>	182,079
<b>Net (reversal) / charge for the year</b>	30	<b>(675)</b>	(122,931)
Amount written off		<b>16,660</b>	77,291
<b>Closing balance</b>		<b>214,696</b>	232,031
<b>15 BILLS PAYABLE</b>			
In Pakistan		<b>836,931</b>	637,602
Outside Pakistan		-	-
		<b>836,931</b>	637,602
<b>16 BORROWINGS</b>			
In Pakistan		<b>9,789,309</b>	15,088,332
Outside Pakistan		<b>81,832</b>	-
		<b>9,871,141</b>	15,088,332
<b>16.1 Particulars of borrowings</b>			
In local currency		<b>9,789,309</b>	15,088,332
In foreign currencies		<b>81,832</b>	-
		<b>9,871,141</b>	15,088,332
<b>16.2 Details of borrowings</b>			
<b>Secured</b>			
Borrowings from SBP			
Under export refinance scheme	16.2.1	<b>3,454,516</b>	3,409,365
LTF-Export Oriented Projects	16.2.1	<b>64,128</b>	82,554
Long Term Fixed Finance	16.2.1	<b>111,330</b>	27,264
Repurchase agreement borrowing	16.2.2	<b>4,659,335</b>	11,569,149
		<b>8,289,309</b>	15,088,332
<b>Unsecured</b>			
Call borrowings	16.2.3	<b>1,500,000</b>	-
Overdrawn NOSTRO accounts		<b>81,832</b>	-
		<b>1,581,832</b>	-
		<b>9,871,141</b>	15,088,332

**16.2.1** These borrowings carry markup at the rate ranging from 5% to 9.5% (2009: 5% to 7%) per annum.

**16.2.2** These represents funds borrowed from the local interbank money market carrying interest rate ranging from 12.80% to 13.25% (2009: 11.96% to 12.5%) per annum with maturities upto February 28, 2011.

**16.2.3** These represents unsecured borrowings from the local money market carrying at interest rate ranging from 13.85% to 13.9% (2009: Nil) per annum with maturities upto March 2011.

## Notes to the Financial Statements for the year ended December 31, 2010

	2010	2009
	Rupees in '000	
<b>17 DEPOSITS AND OTHER ACCOUNTS</b>		
Customers		
Fixed deposits	<b>26,430,555</b>	23,722,819
Savings deposits	<b>15,937,905</b>	12,847,945
Current accounts - non-remunerative	<b>10,637,559</b>	8,169,844
Margin accounts - non-remunerative	<b>542,090</b>	580,773
Others	<b>134,310</b>	179,233
	<b>53,682,419</b>	45,500,614
<b>Financial institutions</b>		
Remunerative deposits	<b>1,961,573</b>	4,093,822
Non-remunerative deposits	<b>62,196</b>	15,598
	<b>2,023,769</b>	4,109,420
	<b>55,706,188</b>	49,610,034
<b>17.1 Particulars of deposits</b>		
In local currency	<b>51,657,312</b>	46,329,818
In foreign currencies	<b>4,048,876</b>	3,280,216
	<b>55,706,188</b>	49,610,034

### 18 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

Period	2010			2009		
	Minimum lease payments	Financial charges allocated to future periods	Principal outstanding	Minimum lease payments	Financial charges	Principal outstanding
	Rupees in '000					
Not later than one year	-	-	-	10,708	232	10,476
Later than one year and not later than five years	-	-	-	-	-	-
	-	-	-	10,708	232	10,476

- 18.1** The Bank entered into various lease agreements with leasing companies for office equipment and motor vehicles. Lease rentals were payable monthly and include finance charge at the rate of Nil (2009: KIBOR plus 3.5%) per annum which had been used as a discounting factor. The base rate was defined as 6 Months ask side KIBOR rate to be revised half yearly. During the year, lease liability has been repaid.

## Notes to the Financial Statements for the year ended December 31, 2010

		Note	2010	2009
			Rupees in '000	
<b>19</b>	<b>OTHER LIABILITIES</b>			
	Mark-up/ Return/ Interest payable in local currency		711,382	894,712
	Mark-up/ Return/ Interest payable in foreign currency		2,642	5,372
	Unearned commission and income on bills discounted		-	16,556
	Accrued expenses		219,889	184,939
	Branch adjustment account		-	102,794
	Unrealized loss on forward foreign exchange contracts		30,036	3,841
	Tax liability - net		45,358	42,575
	Provision for gratuity	36.4	-	35,075
	Others		345,894	268,944
			<b>1,355,201</b>	<b>1,554,808</b>
<b>20</b>	<b>SHARE CAPITAL</b>			
<b>20.1</b>	<b>Authorized capital</b>			
	2010	2009	2010	2009
	Number of shares in '000		Rupees in '000	
	<u>4,000,000</u>	<u>4,000,000</u>	<u>40,000,000</u>	<u>40,000,000</u>
		Ordinary shares of Rs. 10 each.		
<b>20.2</b>	<b>Issued, subscribed and paid up share capital</b>			
	2010	2009	2010	2009
	Number of shares in '000		Rupees in '000	
	800,315	800,315	8,003,150	8,003,150
		Ordinary shares of Rs. 10 each fully paid in cash		
	100,000	100,000	1,000,000	1,000,000
		Ordinary shares of Rs. 10 each fully paid in cash and issued at a discount of Rs. 2.5 per share		
	1,771,290	-	17,712,898	-
		Ordinary shares of Rs. 10 each fully paid in cash and issued at a discount of Rs. 7.5 per share		
	<u>2,671,605</u>	<u>900,315</u>	<u>26,716,048</u>	<u>9,003,150</u>

## Notes to the Financial Statements for the year ended December 31, 2010

**20.3** The Bank has approved issuance of rights shares @311.00226% on December 2, 2009 at a discount of Rs.7.5 per share on the face value of Rs.10 each to generate net additional capital of Rs. 7 billion. These rights shares were subsequently taken up by the shareholders an amount of Rs. 2.572 billion has remained unsubscribed and the bank is in negotiations with various investors for share subscription towards the unpaid rights. SECP has granted approval to complete subscription of unpaid rights till March 31, 2011.

### **20.4 Capital management policies and procedures**

The Bank's objectives when managing capital are:

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

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

**20.5** The State Bank of Pakistan requires each commercial bank to: (a) hold the minimum level of the regulatory capital (net of losses) to be raised to Rs.10 billion by the year ending December 31, 2013. The raise is to be achieved in phased manner requiring Rs. 7 billion paid up capital (net of losses) by the end of the financial year 2010 and (b) maintain a ratio of total regulatory capital to the risk-weighted asset (the "Basel ratio") at or above the internationally agreed minimum of 10%.

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

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

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

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

The table referred to in note 41, summarises the composition of regulatory capital and the ratios of the Bank for the year ended December 31, 2010.

	2010	2009
	No. of shares in '000	
<b>20.7 Reconciliation of number of ordinary shares of Rs. 10 each</b>		
At the beginning of the year	900,315	900,315
Issued during the year	1,771,290	-
At the end of the year	<u>2,671,605</u>	<u>900,315</u>
<b>21 ACCUMULATED LOSSES</b>	2010	
	Rupees in '000	
Loss brought forward January 01, 2010		(9,030,894)
Transfer of reserve fund to accumulated loss		218,556
Realized surplus on revaluation of properties (note 22.2.1)		1,502,591
Total comprehensive loss		(1,131,154)
Right share issue cost		(177,108)
Transfer from surplus on revaluation of fixed assets on account of incremental depreciation- net of tax		3,720
Accumulated loss carried forward		<u>(8,614,289)</u>



## Notes to the Financial Statements for the year ended December 31, 2010

During the period the Bank has disposed of some of its properties. There sultant gain has been recorded in the books as under:

		<b>2010</b>	
		Rupees in '000	
		<b>1,502,591</b>	
		<b>561,968</b>	
	Note	<b>2010</b>	2009
		Rupees in '000	
<b>22</b>	<b>SURPLUS ON REVALUATION OF ASSETS - NET OF DEFERRED TAX</b>		
	(Deficit) on revaluation of securities	22.1 (113,226)	(68,915)
	Surplus on revaluation of property	22.2 130,088	1,635,099
		<b>16,862</b>	<b>1,566,184</b>
<b>22.1</b>	(Deficit) on revaluation of securities		
	Federal government securities	(160,078)	(87,199)
	Quoted securities	(9,175)	(12,236)
		10.2 (169,253)	(99,435)
	Deferred tax asset recognized	13 56,027	30,520
		<b>(113,226)</b>	<b>(68,915)</b>
<b>22.2</b>	<b>Surplus on revaluation of property</b>		
	Surplus on revaluation of properties	22.2.1 160,877	1,667,188
	Deferred tax (liability) recognized	13 (30,789)	(32,089)
		<b>130,088</b>	<b>1,635,099</b>
<b>22.2.1</b>	<b>Reconciliation of surplus on revaluation of property</b>		
	At the beginning of the year	1,667,188	1,670,908
	Surplus realized on disposal of property and equipment	(1,502,591)	-
	Surplus realized on account of incremental depreciation (net of tax)	(3,720)	(3,720)
	At the end of the year	<b>160,877</b>	<b>1,667,188</b>
<b>23</b>	<b>CONTINGENCIES AND COMMITMENTS</b>		
<b>23.1</b>	<b>Direct credit substitutes</b>	-	-
<b>23.2</b>	<b>Transaction-related contingent liabilities</b>		
	Guarantees favoring:		
	Government	7,628,737	4,063,478
	Banking companies and other financial institutions	761,829	573,262
	Others	572,196	1,428,959
<b>23.3</b>	<b>Trade-related contingent liabilities</b>		
	Others	3,041,251	4,054,459
<b>23.4</b>	<b>Other contingencies</b>		
<b>23.4.1</b>	Claims against the Bank not acknowledged as debt	<b>207,607</b>	207,607
<b>23.4.2</b>	The Bank had purchased a property of Rs. 68.882 million in Lahore in year 2006 for its own use. Although the builder has released the clearance letter in favor of the Bank but due to dispute between Military Estate Officer and builder in respect of area allotted for parking, the title documents of the property has not been transferred in Bank's name. The said property has therefore been classified as capital work in progress. However, impairment at the rate of 5% per annum has accordingly been charged to the accounts (refer note 12.1.1).		

## Notes to the Financial Statements for the year ended December 31, 2010

**23.4.3** The Bank has approached SBP for deferral of provisions amounting to Rs. 115 million against a customer as at December 31, 2010. The said provision has not been accounted for in the accounts, pending a decision in this matter from SBP.

	Note	2010	2009
		Rupees in '000	
<b>23.5 Commitments in respect of</b>			
Forward Exchange Contracts with State Bank of Pakistan, banks and other institutions			
Sale		<b>2,729,569</b>	2,109,623
Purchase		<b>3,475,039</b>	4,459,746
<b>23.6 Commitments in respect of</b>			
Property, civil work & equipment		<b>34,550</b>	411,241
Purchase of software		<b>9,758</b>	205,227
		<b>44,308</b>	616,468

### 24 DERIVATIVE INSTRUMENTS

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

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

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

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

The details of commitments under forward foreign exchange contracts outstanding at year-end have been given in note 23.5 There was no equity futures position at the year end.

	Note	2010	2009
		Rupees in '000	
<b>25 MARK-UP / RETURN / INTEREST EARNED</b>			
On loans and advances to:			
Customers	25.1	<b>5,136,287</b>	4,143,977
On investments in:			
Held-for-trading securities		<b>22,795</b>	-
Available-for-sale securities		<b>956,323</b>	954,189
Held-to-maturity securities		<b>502,308</b>	668,608
		<b>1,481,426</b>	1,622,797
On deposits with financial institutions		<b>160</b>	1,394
On call money lendings		<b>64,745</b>	105,660
On securities purchased under resale agreements		<b>92,947</b>	39,348
On placements - foreign currency		-	141
		<b>6,775,565</b>	5,913,317

## Notes to the Financial Statements for the year ended December 31, 2010

**25.1** This figure is net off mark-up suspended in accordance with the Prudential Regulations of the SBP amounting to Rs. 602.962 million (2009: Rs. 219.629 million).

	Note	2010	2009
		Rupees in '000	
<b>26</b>	<b>MARK-UP / RETURN / INTEREST EXPENSED</b>		
Deposits		4,445,627	4,493,551
Securities sold under repurchase agreements		789,277	866,277
Call borrowings		419,188	295,577
Borrowing from State Bank of Pakistan under export refinance scheme		269,590	198,010
Others		2,846	2,102
		<b>5,926,528</b>	<b>5,855,517</b>
<b>27</b>	<b>GAIN / (LOSS) ON SALE OF SECURITIES - net</b>		
Federal government securities			
Pakistan Investment Bonds		(99,806)	55,809
Market treasury bills		2,381	4,468
Shares - Listed		17,028	(1,625)
Term finance certificates		904	-
Mutual funds		8,148	(12)
		<b>(71,345)</b>	<b>58,640</b>
<b>28</b>	<b>OTHER INCOME</b>		
Rent on property		16,550	7,935
Net profit on sale of property and equipment	12.2.1	567,653	9,387
Income from non-banking assets and profit from sale of or dealing with such assets		50,678	-
Postage, telex, services charges etc.		61,047	79,178
Others		77,893	37,375
		<b>773,821</b>	<b>133,875</b>
<b>29</b>	<b>ADMINISTRATIVE EXPENSES</b>		
Salaries, allowances and other benefits		1,563,279	1,327,645
Charge for defined benefit plan	36.5	45,143	34,960
Contribution to defined contribution plan		52,308	43,872
Non-executives directors' fees, allowances and other expenses		15,464	19,380
Rent, taxes, insurance, electricity, etc.		544,237	434,279
Legal and professional charges		78,902	87,947
Communications		94,103	129,004
Repairs and maintenance		105,635	46,275
Financial charges on leased assets		1,884	4,375
Stationery and printing		36,414	58,853
Security charges		55,023	46,564
Advertisement and publicity		50,265	109,933
Donation	29.1	3,488	1,083
Depreciation	12.2	289,671	216,437
Amortization of intangible assets	12.3	49,940	6,635
Auditors' remuneration	29.2	3,625	2,283
Fuel and traveling expenses		85,852	111,032
Brokerage and commission		6,121	7,220
Subscriptions and newspapers		1,091	1,427
Entertainment		24,096	26,367
Others		47,060	32,285
		<b>3,153,601</b>	<b>2,747,856</b>



## Notes to the Financial Statements for the year ended December 31, 2010

	Note	2010	2009
Rupees in '000			
<b>31 OTHER CHARGES</b>			
National Accountability Bureau Commission	31.1	172	10,710
Penalties imposed by SBP	31.2	17,492	771
Federal Excise Duty default surcharge		4,772	-
Others		2,181	6,000
		<b>24,617</b>	<b>17,481</b>

**31.1** This represents commission paid to National Accountability claims. Bureau (NAB) on account of settlement of Bank's

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

### 32 INCOME TAX EXPENSE

Current	85,608	8,414
Prior years	-	34,616
Deferred	(190,000)	(1,392,584)
	<b>(104,392)</b>	<b>(1,349,554)</b>

#### 32.1 Effective tax rate reconciliation

The charge for the current year represents tax charge on profit of Azad Jammu and Kashmir operations. However, reconciliation of tax charge and accounting loss has not been presented as no tax charge and liability rose on taxable losses related to Pakistan operations.

#### 32.2 Status of assessments

The income tax returns of the Bank have been submitted upto tax year 2010. As regard to tax year 2008, the Bank was selected for tax audit and the Taxation Officer (TO) made a demand for Rs 1,068 million, the Bank has filed an appeal to Commissioner Inland Revenue CIR (A) against the demand, and also filed a writ petition against the jurisdiction in Lahore High Court. The FBR granted stay against the demand to the Bank till the decision of appeal to CIR (A). The Bank has filed appeals before the Income Tax Appellate Tribunal (ITAT) against certain disallowances amounting to Rs. 3,515.15 million made by TO for assessment / tax year(s) 1999-2000, 2000-2001, 2001-2002, 2002-2003 and 2004. The disallowances amounting to Rs. 7,931.98 million in respect of tax year 2003, 2006 and 2008 are pending at CIR (A). The management is confident that the outcome of these appeals would be in favor of the Bank.

**32.3** The Bank's return in respect of AJK operations have submitted up to and including tax year 2010. Certain appeals were filed before the various appellate forums which are pending for adjudication. The management is confident that the outcome of these appeals would be in favor of the Bank.

**32.4** The Finance Act, 2010 has made amendments in the Seventh Schedule to the Income Tax Ordinance, 2001. Deductions on account of provision for doubtful and loss category advances and off balance sheet items are allowable at 5 per cent of total advances for Consumers and SMEs and upto a maximum of 1% of advances other than consumer and SME. Amount of bad debts classified as Substandard under Prudential Regulations issued by State Bank of Pakistan would not however be admissible. Provisioning in excess of 1% of advances other than consumer and SME would be allowed to be carried over to succeeding years. However, income tax provisions in respect of provisions against Non performing loans relating to tax year 2008 and prior years would remain same as before the said amendment.

### 33 LOSS PER SHARE - BASIC AND DILUTED

	2010	2009
Loss after taxation for the year (Rupees in '000)	(1,131,154)	(2,902,905)
Weighted average number of ordinary shares (in '000)	2,309,173	900,315
Loss per share - Basic and Diluted	<b>(0.49)</b>	<b>(2.52)</b>

Loss per share for the year ended December 31, 2009 has been restated to give effect of bonus element included in issuance of right shares made during the year. There is no dilutive effect on the basic loss per share of the bank.

## Notes to the Financial Statements for the year ended December 31, 2010

	Note	2010	2009
Rupees in '000			
<b>34 CASH AND CASH EQUIVALENTS</b>			
Cash and balances with treasury banks	7	<b>3,414,524</b>	3,120,880
Balances with other banks	8	<b>89,355</b>	151,068
Call money lendings	9	<b>570,000</b>	750,000
		<b>4,073,879</b>	4,021,948
Number of persons			
<b>35 STAFF STRENGTH</b>			
Permanent		<b>1,247</b>	1,238
Temporary/ Contractual basis		<b>14</b>	21
Bank's own staff strength at the end of the year		<b>1,261</b>	1,259
Outsourced		<b>918</b>	700
Total staff strength		<b>2,179</b>	1,959
<b>36 DEFINED BENEFIT PLAN</b>			
<b>36.1 General description</b>			
The Bank operates an approved gratuity scheme for all its regular employees. The entitlement of the employees will start on completion of five years with the Bank beginning from January 01, 2005. Projected Unit Credit Actuarial Cost Method has been used for actuarial valuation.			
The main assumptions used for actuarial valuation are as under:			
<b>36.2 Principal actuarial assumption</b>		<b>2010</b>	2009
Discount factor used per annum		<b>14.50%</b>	12.75%
Expected increase in eligible pay per annum		<b>13.50%</b>	12.75%
Long term rate of return on assets per annum compound		<b>14.50%</b>	11.00%
Normal retirement age		<b>60 years</b>	60 years
<b>36.3 Reconciliation of amount payable to defined benefit plan</b>			
Rupees in '000			
Present value of defined benefit obligation		<b>139,487</b>	93,632
(Unrecognized) actuarial gain		<b>(4,192)</b>	(20,851)
Fair value of plan assets		<b>(127,225)</b>	(40,740)
Unrecognized prior years service cost		<b>(8,070)</b>	3,034
Liability recognized in balance sheet	36.4	<b>-</b>	35,075
<b>36.4 Movement in payable to defined benefit plan</b>			
Opening balance		<b>35,075</b>	26,632
Charge for the year	36.5	<b>45,143</b>	34,960
Contribution during the period		<b>(80,218)</b>	(26,517)
Closing balance		<b>-</b>	35,075
<b>36.5 Charge for defined benefit plan</b>			
Current service cost		<b>41,956</b>	32,522
Interest cost		<b>14,447</b>	9,736
Expected return on plan assets		<b>(10,667)</b>	(5,885)
Recognition of (gain) on obligation		<b>(593)</b>	(1,413)
	29	<b>45,143</b>	34,960

## Notes to the Financial Statements for the year ended December 31, 2010

### 36.6 The history of the plan for the current and prior four years are as follows:

	2010	2009	2008	2007	2006
	Rupees in '000				
Present value of defined benefit obligation	<b>139,487</b>	93,632	49,762	42,493	25,530
Fair value of plan assets	<b>(127,225)</b>	(40,740)	(22,862)	(25,130)	-
Deficit/(Surplus)	<b>12,262</b>	52,892	26,900	17,363	25,530
Experience adjustments on defined benefit obligation	<b>16,008</b>	(6,988)	(1,597)	5,374	(1,808)
Experience adjustments on assets	<b>(170)</b>	(9,146)	(6,919)	-	-

### 37 COMPENSATION OF DIRECTORS AND EXECUTIVES

	2010	2009	2010	2009	2010	2009
	President / CEO		Executive Director		Executives	
	Rupees in '000					
Managerial remuneration	<b>22,766</b>	22,552	29,927	-	420,063	334,558
Charge for defined benefit plan	<b>1,896</b>	1,879	2,493	-	33,146	25,665
Contribution to defined contribution plan	<b>1,896</b>	1,879	2,493	-	33,146	25,680
Rent and house maintenance	<b>11,383</b>	7,893	14,963	-	210,032	132,836
Utilities	-	2,255	-	-	-	33,462
Medical	<b>2,277</b>	-	2,993	-	42,006	29,937
Conveyance	-	-	5,985	-	83,999	29,778
Others	<b>12,553</b>	7,586	-	-	79,223	113,720
	<b>52,771</b>	44,044	58,854	-	901,617	725,636
Number of persons remained during the year	<b>1</b>	1	1	-	295	245

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

### 38 FAIR VALUE OF FINANCIAL INSTRUMENTS

#### 38.1 On-balance sheet financial instruments

	2010		2009	
	Book value	Fair value	Book value	Fair value
	Rupees in '000			
<b>Assets</b>				
Cash balances with treasury banks	<b>3,414,524</b>	<b>3,414,524</b>	3,120,880	3,120,880
Balances with other banks	<b>89,355</b>	<b>89,355</b>	151,068	151,068
Lending to financial institutions	<b>1,050,754</b>	<b>1,050,754</b>	1,067,708	1,067,708
Investments	<b>12,964,526</b>	<b>12,964,526</b>	20,179,329	20,179,329
Advances	<b>44,354,406</b>	<b>44,354,406</b>	32,097,490	32,097,490
Other assets	<b>1,981,245</b>	<b>1,981,245</b>	1,695,787	1,695,787
	<b>63,854,810</b>	<b>63,854,810</b>	58,312,262	58,312,262
<b>Liabilities</b>				
Bills payable	<b>836,931</b>	<b>836,931</b>	637,602	637,602
Borrowings	<b>9,871,141</b>	<b>9,871,141</b>	15,088,332	15,088,332
Deposits and other accounts	<b>55,706,188</b>	<b>55,706,188</b>	49,610,034	49,610,034
Liabilities against assets subject to finance lease	-	-	10,476	10,476
Other liabilities	<b>714,024</b>	<b>714,024</b>	900,084	900,084
	<b>67,128,284</b>	<b>67,128,284</b>	66,246,528	66,246,528

#### 38.2 Off-balance sheet financial instruments

Forward purchase of foreign exchange	<b>3,475,039</b>	<b>3,475,039</b>	4,459,746	4,459,746
Forward agreements for borrowing	-	-	-	-
Forward sale of foreign exchange	<b>2,729,569</b>	<b>2,729,569</b>	2,109,623	2,109,623
Forward agreements for lending	-	-	-	-



## Notes to the Financial Statements for the year ended December 31, 2010

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

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

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

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

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

### 39 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

- Corporate Finance
- Trading and Sales
- Retail Banking and
- Commercial Banking

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

	2010					
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Others	Total
	Rupees in '000					
<b>Current year</b>						
Total income	63,741	1,799,538	1,095,366	4,299,344	702,380	7,960,369
Total expenses	29,380	1,211,822	-	4,715,216	3,239,497	9,195,915
Net income(loss)	34,361	587,716	1,095,366	(415,872)	(2,537,117)	(1,235,546)
Segment assets (gross)	9,198,999	15,386,047	2,006,371	54,582,097	-	81,173,514
Segment non performing loans	8,441,954	-	110,315	3,781,904	25,731	12,359,904
Segment provision required	6,369,309	-	71,484	2,107,644	8,487	8,556,924
Segment liabilities	-	6,200,726	68,870	61,481,254	18,611	67,769,461
Segment return on net assets (ROA) (%)	0.37	6.40	56.53	6.03	-	-
Segment cost of funds (%)	-	19.54	-	7.67	-	-
	2009					
	Rupees in '000					
<b>Prior year</b>						
Total income	81,542	1,910,042	93,481	4,297,855	192,584	6,575,504
Total expenses	29,576	1,163,956	-	4,691,561	4,942,870	10,827,963
Net income(loss)	51,966	746,086	93,481	(406,493)	(4,737,499)	(4,252,459)
Segment assets (gross)	9,328,984	22,585,201	1,721,813	43,522,947	-	77,158,945
Segment non performing loans	9,113,190	-	101,054	2,677,184	-	11,891,428
Segment provision required	6,777,226	-	27,000	1,685,932	-	8,490,158
Segment liabilities	-	11,606,241	17,449	55,277,562	-	66,901,252
Segment return on net assets (ROA) (%)	0.56	6.80	5.48	3.46	-	-
Segment cost of funds (%)	-	10.03	-	8.49	-	-

Detail segment information is mentioned in note 42.1.4

## Notes to the Financial Statements for the year ended December 31, 2010

### 40 RELATED PARTY TRANSACTIONS

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

Transactions with the related parties are executed substantially on the same terms, including mark-up rates and collaterals, as those prevailing at the time for comparable transaction with the unrelated parties and do not involve more than a normal risk (i.e. under the Comparable Uncontrolled Price Method).

Other than those transactions which are made under the terms of employment, the majority of the transactions with related parties comprise loans and advances, deposits, issuance of letter of credits and guarantees.

Advances for the house building, conveyance and for personal use have also been provided to the staff and executives at the reduced rates in accordance with the employment and pay policy. These have been disclosed in note 11.8 of the financial statements. Facility of group life insurance and hospitalization insurance is also provided to staff and executives. In addition to this, executives of the Bank have been provided with Bank maintained car.

Details of transactions, other than disclosed else where, with related parties and balances with them as at the year-end were as follows:

	2010			2009		
	Directors	Key management personnel	Associated companies & common directorship	Directors	Key management personnel	Associated companies & common directorship
	Rupees in '000					
<b>Balances</b>						
<b>Loans</b>						
Outstanding at beginning	-	1,153	-	-	1,666	-
Loans given during the year	-	2,766	-	-	5,307	-
Loans repaid during the year	-	(3,919)	-	-	(5,820)	-
Loans outstanding at end	-	-	-	-	1,153	-
<b>Deposits</b>						
Deposits at beginning	2,469	57,861	36,830	6,915	105,632	20,755
Deposit received during the year	2,286,139	712,552	964,015	143,375	815,101	1,218,805
Deposit repaid during the year	(2,276,523)	(668,437)	(945,363)	(147,821)	(862,872)	(1,202,730)
Deposit at end	12,085	101,976	55,482	2,469	57,861	36,830
Investment in Term Finance Certificates	-	-	20,800	-	-	6,128
<b>Transactions</b>						
Short term employment benefits	-	364,643	-	-	288,235	-
Termination benefits	-	29,111	-	-	23,431	-
Mark-up and commission earned	-	70	-	-	198	1,407
Mark-up and commission paid	207	4,899	5,669	279	4,412	3,449
Mark-up earned on TFC's	-	-	5,096	-	-	-
Services rendered / goods supplied	-	-	110,052	-	-	191,248
Software purchased	-	-	10,161	-	-	10,145

## Notes to the Financial Statements for the year ended December 31, 2010

### 41 CAPITAL ADEQUACY

The risk weighted assets to capital ratio, calculated in accordance with the BSD Circular No. 08 of 2006 dated June 27, 2006 by State Bank of Pakistan is as follows:

	2010	2009
	Rupees in '000	
<b>Regulatory Capital Base</b>		
<b>Tier I Capital</b>		
Fully paid-up-capital	26,716,048	9,003,150
Discount on issuance of right shares	(13,284,674)	-
General reserves as disclosed on the Balance Sheet	-	224,649
Accumulated losses	(8,614,289)	(9,030,894)
	<b>4,817,085</b>	<b>196,905</b>
<b>Deductions:</b>		
Book value of intangibles	454,275	28,887
Shortfall in provisions required against classified assets irrespective of any relaxation allowed by SBP.	115,000	-
Deficit on account of revaluation of available-for-sale investments (net of tax)	8,376	-
Other deductions	37,500	37,500
	<b>615,151</b>	<b>66,387</b>
<b>Total eligible Tier 1 capital</b>	<b>4,201,934</b>	<b>130,518</b>
<b>Supplementary Capital</b>		
<b>Tier II Capital</b>		
Subordinated debt (up to 50% of total Tier I Capital)	-	-
General provisions or general reserves for loan losses-up to maximum of 1.25% of Risk Weighted Assets	13,182	4,446
Revaluation reserve (up to 45%)	-	705,489
	<b>13,182</b>	<b>709,935</b>
<b>Deductions:</b>		
Other deductions	37,500	37,500
<b>Total eligible Tier 2 Capital</b>	<b>(24,318)</b>	<b>672,435</b>
<b>Eligible Tier III Capital</b>	<b>-</b>	<b>-</b>
	<b>-</b>	<b>-</b>
<b>Total Supplementary Capital eligible for capital adequacy ratio (Maximum upto 100% of Total eligible Tier 1 capital)</b>	<b>4,177,616</b>	<b>130,518</b>
<b>Total Eligible Capital</b>	<b>4,177,616</b>	<b>261,036</b>
<b>Risk Weighted Amounts</b>		
Total Credit Risk Weighted Amount	56,849,879	41,144,697
Total Market Risk Weighted Amount	3,526,170	3,598,710
Total Operational Risk Weighted Amount	1,450,891	1,670,233
<b>Total Risk Weighted Amount</b>	<b>61,826,940</b>	<b>46,413,640</b>
<b>Capital Adequacy Ratios</b>		
Credit Risk Capital Adequacy Ratio	7.35%	1.95%
Tier 1 Capital to Total Risk Weighted Amount	6.80%	0.28%
<b>TOTAL CAPITAL ADEQUACY RATIO</b>	<b>6.76%</b>	<b>0.56%</b>

SBP has allowed the Bank to provide provisions amounting to Rs. 766 million in five quarters till December 31, 2011 against exposure to one group. Had the complete provision been recognized as at December 31, 2010, capital adequacy ratio would have been lower by 1.05%.

## Notes to the Financial Statements for the year ended December 31, 2010

### 41.1 Credit risk - General disclosures

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

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

Exposures	2010	
	JCR - VIS	PACRA
Corporate	✓	✓
Banks	✓	✓
Sovereigns	✗	✗
SME's	✗	✗
Securitisation	N/A	N/A
Others	N/A	N/A

### 41.2 Credit exposures subject to Standardized Approach

Exposures	Rating Category #	2010			2009		
		Amount Outstanding	Deduction CRM	Net Amount	Amount Outstanding	Deduction CRM	Net Amount
Cash and Cash Equivalents	-	584,962	-	584,962	569,126	-	569,126
Claims on Government of Pakistan	-	6,730,459	-	6,730,459	6,975,231	-	6,975,231
Foreign Currency claims on SBP	-	980,370	-	980,370	747,071	-	747,071
Claims on other sovereigns and on GoP	1	-	-	-	-	-	-
Claims on other sovereigns and on GoP	2,3,4, 5	-	-	-	-	-	-
Claims on other sovereigns and on GoP	-	-	-	-	-	-	-
PSE's	Unrated	550,664	-	550,664	-	-	-
PSE's	-	-	-	-	-	-	-
Banks	Unrated	535,228	-	535,228	-	-	-
Banks	-	1,369,487	-	1,369,487	2,172,891	-	2,172,891
Corporates	1	738,010	-	738,010	-	-	-
Corporates	2	2,663,037	-	2,663,037	1,754,224	-	1,754,224
Corporates	5,6	392,897	-	392,897	104,502	-	104,502
Corporates	Unrated	27,676,966	2,517,714	25,159,252	20,663,219	949,961	19,713,258
Retail portfolio	-	7,946,827	1,070,435	6,876,392	4,993,994	1,124,426	3,869,568
Secured by residential property	-	1,367,580	-	1,367,580	1,228,717	-	1,228,717
Past due loans	-	3,805,788	-	3,805,788	1,319,238	-	1,319,238
Listed Equity investments - banks	-	176,501	-	176,501	98,778	-	98,778
Unlisted equity investments	-	1,749,026	-	1,749,026	75,418	-	75,418
Investments in operating fixed assets	-	1,989,530	-	1,989,530	3,704,602	-	3,704,602
Other assets	-	8,285,836	-	8,285,836	8,327,171	-	8,327,171
		<b>67,543,168</b>	<b>3,588,149</b>	<b>63,955,019</b>	<b>52,734,182</b>	<b>2,074,387</b>	<b>50,659,795</b>

# Notes to the Financial Statements for the year ended December 31, 2010

## 42 RISK MANAGEMENT

The business of banking is dependent upon acceptance and management of financial risk. It involves identification, measurement, monitoring and controlling risks with a view to ensure that:

- adequate capital is available as a buffer;
- exposures remain within the limits prescribed by the Board of Directors; and
- risk taking decisions are in line with business strategy and objectives set by the Board.

The Bank is exposed to a number of risks, which it manages at different levels.

The main categories of risk are;

### **Credit risk**

The risk of losses because counterparties fail to meet all or part of their obligations towards the Bank.

The Bank has established an appropriate credit risk structure and culture whereby policies are reviewed and revamped to maintain sound credit granting procedures, maintaining appropriate credit administration, measurement, monitoring processes and adequate controls.

Risk Management structure includes Credit approval, Credit Administration, Centralized Processing, Credit Monitoring and Basel II functions reporting to the Risk Management Group Head. Senior and experienced officials are heading each risk category.

The Bank manages credit risk through:

- establishment of acceptable risk levels;
- sound procedures and controls for the management of risk assets and credit documentation;
- target market planning and overall market intelligence; and
- accurate and detailed information about the borrower, its financial position and operations of the Bank.

### **Market risk**

The risk of losses because the market value of the Bank's assets and liabilities will vary with changes in market conditions.

Market Risk measures and controls are applied at the portfolio level and limits and other controls are applied to particular books and to specific portfolios. Controls and established parameters are applied to prevent any undue risk concentrations in the trading book and include controls on exposure to individual market risk factors and on positions in securities of individual issuers.

Treasury Middle Office (TMO) performs market risk management activities. TMO is jointly responsible with Treasury front office for drawing, reviewing market risk policies (Fund management, Treasury investment) and processes, monitoring and implementation, and escalating any deviation to ALCO/MRPC.

### **Operational risk**

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

The Bank has in place robust, duly approved various policies, procedures and a Business Continuity Plan. These are continuously reviewed to strengthen operational controls.

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

### **Liquidity risk**

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

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

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

## Notes to the Financial Statements for the year ended December 31, 2010

### **42.1 Credit risk**

#### **42.1.1 Credit risk management objectives and policies**

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

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

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

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

#### **42.1.2 Credit risk rating**

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

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

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

#### **42.1.3 Objective of Internal Credit Risk Rating (ORR)**

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

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

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

## Notes to the Financial Statements for the year ended December 31, 2010

### 42.1.4 Segmental information

#### 42.1.4.1 Segments by class of business

	2010					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Chemical and Pharmaceuticals	3,298,120	6.2%	880,564	1.6%	1,199,935	6.5%
Agribusiness	148,752	0.3%	34,822	0.1%	-	0.0%
Cement	964,619	1.8%	122,452	0.2%	387,671	2.1%
Sugar	1,602,065	3.0%	23,605	0.0%	258,448	1.4%
Textile	11,353,732	21.5%	1,089,909	2.0%	1,698,369	9.2%
Footwear and Leather garments	690,437	1.3%	83,977	0.2%	-	0.0%
Automobile/transportation equipment	767,000	1.4%	41,627	0.1%	158,761	0.9%
Electronics and electrical appliances	1,261,123	2.4%	7,817	0.0%	335,982	1.8%
Power (electricity), Gas, Water, Sanitary	1,506,642	2.8%	2,415,122	4.3%	989,485	5.4%
Financial	1,046,487	2.0%	1,895,963	3.4%	8,595,226	46.6%
Insurance	-	0.0%	127,806	0.2%	299,061	1.6%
Individuals	2,078,887	3.9%	32,053,008	57.5%	3,692	0.0%
Others	28,206,648	53.3%	16,929,516	30.4%	4,533,908	24.6%
	<b>52,924,512</b>	<b>100%</b>	<b>55,706,188</b>	<b>100%</b>	<b>18,460,536</b>	<b>100%</b>
	2009					
Chemical and Pharmaceuticals	3,086,857	7.6%	1,079,035	2.2%	1,137,402	6.5%
Agribusiness	177,021	0.4%	32,564	0.1%	-	0.0%
Cement	1,401,089	3.5%	370,022	0.7%	367,468	2.1%
Sugar	1,023,905	2.5%	55,830	0.1%	244,979	1.4%
Textile	9,261,815	22.8%	160,542	0.3%	1,609,861	9.2%
Footwear and Leather garments	667,695	1.6%	18,131	0.0%	-	0.0%
Automobile and transportation equipment	808,267	2.0%	957	0.0%	150,487	0.9%
Electronics and electrical appliances	1,062,071	2.6%	242,720	0.5%	318,473	1.8%
Power (electricity), Gas, Water, Sanitary	1,074,345	2.6%	112,702	0.2%	937,919	5.4%
Financial	469,684	1.2%	4,109,420	8.3%	8,147,298	46.5%
Insurance	200,000	0.5%	322,860	0.7%	283,476	1.6%
Individuals	1,658,310	4.1%	24,524,148	49.4%	3,500	0.0%
Others	19,701,035	48.5%	18,581,103	37.5%	4,312,739	24.6%
	<b>40,592,094</b>	<b>100%</b>	<b>49,610,034</b>	<b>100%</b>	<b>17,513,602</b>	<b>100%</b>



## Notes to the Financial Statements for the year ended December 31, 2010

### 42.1.4.2 Segment by sector

	2010					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Public/Government	50,938	-	7,056,530	13%	7,628,737	41%
Private	52,873,574	100%	48,649,658	87%	10,831,799	59%
	<b>52,924,512</b>	<b>100%</b>	<b>55,706,188</b>	<b>100%</b>	<b>18,460,536</b>	<b>100%</b>

	2009					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Public/Government	-	-	7,591,320	15%	4,063,478	23%
Private	40,592,094	100%	42,018,714	85%	13,450,124	77%
	<b>40,592,094</b>	<b>100%</b>	<b>49,610,034</b>	<b>100%</b>	<b>17,513,602</b>	<b>100%</b>

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

	2010		2009	
	Classified advances	Specific provisions	Classified advances	Specific provisions
	Rupees in '000			
Agriculture, forestry, hunting and fishing	39,374	19,909	35,264	21,295
Textile	3,140,508	2,305,450	3,444,953	2,469,913
Chemical and pharmaceuticals	177,630	129,204	193,086	136,071
Cement	288,650	68,438	204,778	113,907
Sugar	449,109	244,807	492,136	193,905
Footwear and leather garments	14,103	10,975	14,103	8,718
Automobile and transportation equipment	723,498	386,005	611,888	335,118
Electronics and electrical appliances	1,036,035	1,000,253	1,338,409	1,232,547
Construction	453,521	155,025	360,845	72,072
Exports / Imports	218,007	117,773	66,626	20,153
Financial	49,379	49,379	52,067	52,067
Services	481,216	186,227	132,920	41,107
Individuals	359,790	119,604	133,931	93,143
Others	4,929,084	3,763,875	4,810,422	3,700,142
	<b>12,359,904</b>	<b>8,556,924</b>	<b>11,891,428</b>	<b>8,490,158</b>

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

	2010		2009	
	Classified Advances	Specific Provisions	Classified Advances	Specific Provisions
	Rupees in '000			
Public / Government	-	-	-	-
Private	12,359,904	8,556,924	11,891,428	8,490,158
	<b>12,359,904</b>	<b>8,556,924</b>	<b>11,891,428</b>	<b>8,490,158</b>

# Notes to the Financial Statements for the year ended December 31, 2010

## 42.1.4.5 Geographical segment analysis

	2010			
	Loss before taxation	Total assets employed	Net assets employed	Contingen-cies and commit-ments
	Rupees in '000			
Pakistan	(1,235,546)	72,603,408	4,833,947	18,460,536
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	<b>(1,235,546)</b>	<b>72,603,408</b>	<b>4,833,947</b>	<b>18,460,536</b>
	2009			
	Rupees in '000			
Pakistan	(4,252,459)	68,664,341	1,763,089	17,513,602
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	<b>(4,252,459)</b>	<b>68,664,341</b>	<b>1,763,089</b>	<b>17,513,602</b>

## 42.2 Market Risk

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

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

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

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

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

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

## Notes to the Financial Statements for the year ended December 31, 2010

### 42.2.1 Foreign exchange risk

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

The majority of foreign currency exposure is in the US dollar. Bank is carefully monitoring the net foreign currency exposure and the effect of exchange rate fluctuation by conducting mark to market sensitivity and stress testing on a regular basis as well as utilizing the currency forward FX contracts to control the risk.

	2010			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	Rupees in '000			
Pakistan rupee	69,348,357	63,710,324	(936,653)	4,701,380
United States dollar	3,084,754	2,846,175	(114,466)	124,113
Great Britain pound	102,292	615,087	514,985	2,190
Japanese yen	5,276	12	-	5,264
Euro	60,515	597,863	536,134	(1,214)
Other currencies	2,214	-	-	2,214
	<b>72,603,408</b>	<b>67,769,461</b>	<b>-</b>	<b>4,833,947</b>
	2009			
	Rupees in '000			
Pakistan rupee	67,192,727	63,436,560	(1,968,238)	1,787,929
United States dollar	1,324,804	2,595,124	1,348,946	78,626
Great Britain pound	55,024	479,187	421,024	(3,139)
Japanese yen	706	11	-	695
Euro	89,263	390,370	300,393	(714)
Other currencies	1,818	-	(102,126)	(100,308)
	<b>68,664,341</b>	<b>66,901,252</b>	<b>-</b>	<b>1,763,089</b>

### 42.2.2 Equity position risk

The Bank is exposed to equity price changes on its investments in Trading Book. These equity exposures are primarily related to market price movements in local equity market index. Changes in the overall value of equity trading book are recorded through Profit and loss account. Bank's Investment Committee approves the investment stocks and their limits. It also reviews the portfolio with mark to market position on regular basis. Stop loss limits have been approved and are monitored on a regular basis.

# Notes to the Financial Statements for the year ended December 31, 2010

## 42.2.3 Mismatch of interest rate sensitive assets and liabilities

Effective Yield / Interest rate	Total	2010									Non-interest bearing financial instruments
		Exposed to Yield/ Interest risk									
		Up to 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	
Rupees in '000											
<b>On-balance sheet financial instruments</b>											
<b>Assets</b>											
Cash and balances with treasury banks	3,414,524	369,102	-	-	-	-	-	-	-	-	3,045,422
Balances with other banks	89,355	-	-	-	-	-	-	-	-	-	89,355
Lending to financial institutions	12.96% 1,050,754	291,499	759,255	-	-	-	-	-	-	-	-
Investments	9.66% 12,964,526	202,282	2,102,730	462,855	2,224,355	2,352,073	470,790	2,071,101	2,452,936	-	625,404
Advances	13.21% 44,354,406	4,874,273	5,609,342	6,252,622	7,487,122	3,621,353	3,703,207	7,244,326	3,237,317	2,311,664	13,180
Other assets	1,981,245	-	-	-	-	-	-	-	-	-	1,981,245
	63,854,810	5,737,156	8,471,327	6,715,477	9,711,477	5,973,426	4,173,997	9,315,427	5,690,253	2,311,664	5,754,606
<b>Liabilities</b>											
Bills payable	836,931	-	-	-	-	-	-	-	-	-	836,931
Borrowings	12.19% 9,871,141	4,352,714	3,727,095	1,615,874	-	7,298	53,023	115,137	-	-	-
Deposits and other accounts	8.63% 55,706,188	8,322,397	9,008,607	6,603,116	11,573,264	1,471,675	1,085,917	2,106,338	2,644,508	1,512,486	11,377,880
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	714,024	-	-	-	-	-	-	-	-	-	714,024
	67,128,284	12,675,111	12,735,702	8,218,990	11,573,264	1,478,973	1,138,940	2,221,475	2,644,508	1,512,486	12,928,835
<b>On-balance sheet gap</b>	<b>(3,273,474)</b>	<b>(6,937,955)</b>	<b>(4,264,375)</b>	<b>(1,503,513)</b>	<b>(1,861,787)</b>	<b>4,494,453</b>	<b>3,035,057</b>	<b>7,093,952</b>	<b>3,045,745</b>	<b>799,178</b>	<b>(7,174,229)</b>
<b>Off-balance sheet financial instruments</b>											
Forward lending	-	-	-	-	-	-	-	-	-	-	-
(Including call lending, repurchase agreement, commitments to extend credit, etc.)	-	-	-	-	-	-	-	-	-	-	-
Forward borrowings	-	-	-	-	-	-	-	-	-	-	-
(Including call borrowing, repurchase agreement borrowing etc.)	-	-	-	-	-	-	-	-	-	-	-
<b>Off-balance sheet gap</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Yield/Interest Risk Sensitivity Gap</b>	<b>(3,273,474)</b>	<b>(6,937,955)</b>	<b>(4,264,375)</b>	<b>(1,503,513)</b>	<b>(1,861,787)</b>	<b>4,494,453</b>	<b>3,035,057</b>	<b>7,093,952</b>	<b>3,045,745</b>	<b>799,178</b>	<b>(7,174,229)</b>
<b>Cumulative Yield/Interest Risk Sensitivity gap</b>	<b>(6,937,955)</b>	<b>(11,202,330)</b>	<b>(12,705,843)</b>	<b>(14,567,630)</b>	<b>(16,429,417)</b>	<b>(12,934,964)</b>	<b>(9,900,007)</b>	<b>(2,806,055)</b>	<b>3,045,745</b>	<b>3,844,923</b>	<b>(3,273,474)</b>

Effective Yield / Interest rate	Total	2009									Non-interest bearing financial instruments
		Exposed to Yield/ Interest risk									
		Up to 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	
Rupees in '000											
<b>On-balance sheet financial instruments</b>											
<b>Assets</b>											
Cash and balances with treasury banks	3,120,880	369,102	-	-	-	-	-	-	-	-	2,751,778
Balances with other banks	151,068	-	-	-	-	-	-	-	-	-	151,068
Lending to financial institutions	11.38% 1,067,708	1,067,708	-	-	-	-	-	-	-	-	-
Investments	7.64% 20,179,329	(41,960)	2,927,452	4,466,640	2,175,540	960,024	2,840,452	2,922,422	3,446,624	46,504	435,631
Advances	10.56% 32,097,490	8,345,416	2,768,014	2,492,377	6,129,755	2,531,139	3,077,994	4,628,069	245,743	1,874,532	4,451
Other assets	1,695,787	-	-	-	-	-	-	-	-	-	1,695,787
	58,312,262	9,740,266	5,695,466	6,959,017	8,305,295	3,491,163	5,918,446	7,550,491	3,692,367	1,921,036	5,038,715
<b>Liabilities</b>											
Bills payable	637,602	-	-	-	-	-	-	-	-	-	637,602
Borrowings	12.43% 15,088,332	15,088,332	-	-	-	-	-	-	-	-	-
Deposits and other accounts	8.43% 49,610,034	8,141,604	9,832,120	8,500,723	5,303,342	1,243,345	1,457,693	2,262,023	1,961,054	1,961,054	8,947,076
Liabilities against assets subject to finance lease	17.18% 10,476	1,293	1,886	3,018	2,465	1,771	43	-	-	-	-
Other liabilities	900,084	-	-	-	-	-	-	-	-	-	900,084
	66,246,528	23,231,229	9,834,006	8,503,741	5,305,807	1,245,116	1,457,736	2,262,023	1,961,054	1,961,054	10,484,762
<b>On-balance sheet gap</b>	<b>(7,934,266)</b>	<b>(13,490,963)</b>	<b>(4,138,540)</b>	<b>(1,544,724)</b>	<b>2,999,488</b>	<b>2,246,047</b>	<b>4,460,710</b>	<b>5,288,468</b>	<b>1,731,313</b>	<b>(40,018)</b>	<b>(5,446,047)</b>
<b>Off-balance sheet financial instruments</b>											
Forward lending	-	-	-	-	-	-	-	-	-	-	-
(Including call lending, repurchase agreement, commitments to extend credit, etc.)	-	-	-	-	-	-	-	-	-	-	-
Forward borrowings	-	-	-	-	-	-	-	-	-	-	-
(Including call borrowing, repurchase agreement borrowing etc.)	-	-	-	-	-	-	-	-	-	-	-
<b>Off-balance sheet gap</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Yield/Interest Risk Sensitivity Gap</b>	<b>(7,934,266)</b>	<b>(13,490,963)</b>	<b>(4,138,540)</b>	<b>(1,544,724)</b>	<b>2,999,488</b>	<b>2,246,047</b>	<b>4,460,710</b>	<b>5,288,468</b>	<b>1,731,313</b>	<b>(40,018)</b>	<b>(5,446,047)</b>
<b>Cumulative Yield/Interest Risk Sensitivity gap</b>	<b>(13,490,963)</b>	<b>(17,629,503)</b>	<b>(19,174,227)</b>	<b>(16,174,739)</b>	<b>(13,928,692)</b>	<b>(9,467,982)</b>	<b>(4,179,514)</b>	<b>(2,448,201)</b>	<b>(2,488,219)</b>	<b>(7,934,266)</b>	

## Notes to the Financial Statements for the year ended December 31, 2010

### 42.3 Liquidity Risk

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

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

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

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

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

#### 42.3.1 Maturities of assets and liabilities

	2010									
	Total	Up to 1 month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
	Rupees in '000									
<b>Assets</b>										
Cash and balances with treasury banks	3,414,524	2,358,526	263,999	263,999	264,000	264,000	-	-	-	-
Balances with other banks	89,355	89,355	-	-	-	-	-	-	-	-
Lending to financial institutions	1,050,754	291,499	759,255	-	-	-	-	-	-	-
Investments	12,964,526	827,686	2,102,730	462,855	2,323,355	2,253,073	470,790	2,071,101	2,452,936	-
Advances	44,354,406	4,875,921	5,610,990	6,254,269	7,488,769	3,623,001	3,704,854	7,247,621	3,237,317	2,311,664
Other assets	4,093,084	2,261,840	285,958	1,122,943	422,343	-	-	-	-	-
Operating fixed assets	2,443,805	-	-	-	-	88,902	314,098	887,868	747,441	405,496
Deferred tax assets	4,192,954	-	-	-	-	1,048,239	1,048,239	1,048,239	1,048,239	-
	<b>72,603,408</b>	<b>10,704,827</b>	<b>9,022,932</b>	<b>8,104,066</b>	<b>10,498,467</b>	<b>7,277,215</b>	<b>5,537,981</b>	<b>11,254,829</b>	<b>7,485,933</b>	<b>2,717,160</b>
<b>Liabilities</b>										
Bills payable	836,931	836,931	-	-	-	-	-	-	-	-
Borrowings	9,871,141	4,303,273	3,776,536	1,615,874	-	7,298	53,023	115,137	-	-
Deposits and other accounts	55,706,188	9,509,422	10,231,771	7,808,210	12,832,566	2,656,441	2,270,682	4,475,870	3,549,211	2,372,015
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Other liabilities	1,355,201	728,862	322,384	121,582	60,791	60,791	60,791	-	-	-
	<b>67,769,461</b>	<b>15,378,488</b>	<b>14,330,691</b>	<b>9,545,666</b>	<b>12,893,357</b>	<b>2,724,530</b>	<b>2,384,496</b>	<b>4,591,007</b>	<b>3,549,211</b>	<b>2,372,015</b>
<b>Net assets</b>	<b>4,833,947</b>	<b>(4,673,661)</b>	<b>(5,307,759)</b>	<b>(1,441,600)</b>	<b>(2,394,890)</b>	<b>4,552,685</b>	<b>3,153,485</b>	<b>6,663,822</b>	<b>3,936,722</b>	<b>345,145</b>
Share capital	26,716,048									
Discount on issue of shares	(13,284,674)									
Reserves	-									
Accumulated loss	(8,614,289)									
Surplus on revaluation of asset - net of deferred tax	16,862									
	<b>4,833,947</b>									

# Notes to the Financial Statements for the year ended December 31, 2010

	2009									
	Total	Up to 1 month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
	Rupees in '000									
<b>Assets</b>										
Cash and balances with treasury banks	3,120,880	2,100,180	255,175	255,175	255,175	255,175	-	-	-	-
Balances with other banks	151,068	151,068	-	-	-	-	-	-	-	-
Lending to financial institutions	1,067,708	1,067,708	-	-	-	-	-	-	-	-
Investments	20,179,329	180,408	3,008,040	4,466,640	2,175,540	960,026	2,840,452	2,922,422	3,459,849	165,952
Advances	32,097,490	8,345,972	2,768,569	2,492,933	6,130,311	2,531,695	3,078,550	4,629,180	245,748	1,874,532
Other assets	4,351,022	1,803,998	444,811	1,922,056	180,157	-	-	-	-	-
Operating fixed assets	3,720,695	-	-	-	-	576,454	111,751	354,037	530,784	2,147,669
Deferred tax assets	3,976,149	-	-	-	-	994,038	994,037	994,037	994,037	-
	68,664,341	13,649,334	6,476,595	9,136,804	8,741,183	5,317,388	7,024,790	8,899,676	5,230,418	4,188,153
<b>Liabilities</b>										
Bills payable	637,602	637,602	-	-	-	-	-	-	-	-
Borrowings	15,088,332	15,088,332	-	-	-	-	-	-	-	-
Deposits and other accounts	49,610,034	9,016,343	10,745,577	9,394,820	6,255,517	2,115,664	2,330,014	4,006,659	2,896,919	2,848,521
Liabilities against assets subject to finance lease	10,476	1,291	1,886	3,018	2,465	1,771	45	-	-	-
Other liabilities	1,554,808	902,048	236,852	166,365	83,181	83,181	83,181	-	-	-
	66,901,252	25,645,616	10,984,315	9,564,203	6,341,163	2,200,616	2,413,240	4,006,659	2,896,919	2,848,521
<b>Net assets</b>	1,763,089	(11,996,282)	(4,507,720)	(427,399)	2,400,020	3,116,772	4,611,550	4,893,017	2,333,499	1,339,632
Share capital	9,003,150									
Reserves	224,649									
Accumulated loss	(9,030,894)									
Surplus on revaluation of asset - net of deferred tax	1,566,184									
	1,763,089									

## 42.4 Operational risk

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

The Bank has in place robust, duly approved various policies, procedures and a Business Continuity Plan. These are continuously reviewed to strengthen operational controls.

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

Operational risk tolerance levels, however, have not been established but a broad strategic operational risk direction is in place. The induction of T24 will be a big step forward. This process will move further with the implementation of Internal Control Systems (COSO compliant in process) and Operational Risk Management. Presently, this risk is effectively managed through robust operational policies and procedures.

## 43 SUBSEQUENT EVENTS

There were no significant adjustable events subsequent to December 31, 2010, which may require an adjustment to the financial statements or additional disclosure.

## 44 DATE OF AUTHORIZATION FOR ISSUE

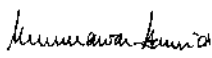
The financial statements were authorized for issue on March 02, 2011 by the Board of Directors of the Bank.

## 45 GENERAL

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



Azmat Tarin  
President & CEO



Munnawar Hamid, OBE  
Chairman



Tariq Iqbal Khan  
Director



Humayun Bashir  
Director

## Statement of written-off loans or any other financial relief of five hundred thousand rupees or above provided during the year ended December 31, 2010

ANNEXURE - I											
Rs. in million											
S.No.	Name and address of the Borrowers	Name of the individuals/ Partners/Directors (with N.I.C. No.)	Father's / Husband Name	Amount Outstanding at the beginning of the year				Principal Written-off	Interest / Mark-up written-off	Other Financial Relief Provided	Total (9+10+11)
				Principal	Interest / Mark-up	Other	Total				
1	2	3	4	5	6	7	8	9	10	11	12
1	BB Corporation 1- Chamba House, Lane GOR, I, Lahore	Babar Yazdani Khan CNIC: 35202-2865220-7 Mr. Hameed ulah Malik CNIC: 277-23-152734 Dr. Saman Yazdani Khan CNIC: 35202-2772906-2 Mst. Rana Laqat Ali Khan CNIC: 35202-2691774-6	Ghulam Yazdani Khan  Kaleem ul Khan  Ghulam Yazdani Khan  Babar Yazdani Khan	14.46	1.90	-	16.36	1.20	1.90	-	3.09
2	Sohail International Trading Co. 11LY-21, 1311, Faqir Muhammad Dura Khan Road, Near Ali Shah Bukhari, Bawapat, Lyari, Karachi	Muhammad Sohail CNIC: 42201-0161493-9	Mr Ali Bahadur	14.76	1.48	-	16.24	-	1.48	-	1.48
3	Pakiza International Office # 601-A, 6th Floor, Eden Tower, 87-E, Gulberg-III, Lahore and House # P-527, Street # 4, Shah Maqbool Road, Faisalabad.	Dishad Ahmed CNIC 33100-4379742-7	Rana Ghulam Muhammad	24.00	4.81	-	28.81	-	4.81	-	4.81
4	Junaid Oil Mills. Ahmadpur Road Musafar Khana, Bahawalpur.	Bashir Ahmad CNIC: 312028743878-1 Javaid Bashir	Kareem Baksh  Bashir Ahmad	8.43	0.98	-	9.41	-	0.98	-	0.98
5	A. H. U. (Pvt.) Ltd. Ahmadpur Road Musafar Khana, Bahawalpur.	Abdul Hayee Umoodi CNIC #: 439-30-01160 Mumtaz Ali Memon	Muhammad Umer Umoodi	6.02	2.56	-	8.57	2.69	2.56	-	5.25
6	China Textile Inds. Pvt Ltd. Plant Location: 53- A, Karkhana Bazar, Faisalabad	Muhammad Shahid CNIC: 33100-9793874-3 Sanam Shahid CNIC: 33100-0273527-8 Mst. Nasim Akhtar CNIC: 33100-0420823-2	Haji Muhammad Siddique  W/o Muhammad Shahid  W/o Haji Muhammad Siddique	60.00	5.97	-	65.97	-	5.97	-	5.97
7	Premier Traders (Pvt.) Ltd. House # 314, Street # 83-G, 11/3, Islamabad & H. No: B-72, Block-10-A, Gulshan-e-Iqbal, Karachi	Syed Muhammad Fahim Wasti CNIC: 42201-1278077-7 Asma Idress CNIC: 515-89-018023	-	-	6.40	-	6.40	-	3.40	-	3.40
8	Sardar Muhammad Ashraf D. Baloch (Pvt) Ltd. 7th floor, PRC Tower 32-A, Lalazar Drive M.T. Khan Road Karachi	Sikandar Ali Jatoti CNIC: 42301-5557954-1 Mazhar Ali Jatoti CNIC: 42301-4785222-5 Aliah Rakhio Jatoti CNIC: 409-88-201570 Mohammad Moosa CNIC: 439-54-179387 Ghulam Akbar Jatoti CNIC: 439-49-284822	-	142.83	26.85	-	169.68	-	26.85	-	26.85
9	Republic Steel (Pvt) Ltd. 265/3, Sher Khan Road, Rawalpindi Cantt.	Syed Zila Ali Shah Naqvi (CEO) CNIC: 210-28-186949 Mrs. Amira Javaid (Director) CNIC: 466-57-078660 Mr. Khalid Javaid	Syed Ghazanfar Ali Shah Naqvi Bukharai  Khalid Javaid Abdul Haque	5.32	2.60	-	7.92	1.12	2.60	-	3.72
10	Siddique Enterprises Alliance Pharmaceutical (Pvt.) Ltd. 112-A, Hayatabad Industrial Estate, Jinnah Road, Faisalabad	Mian Muhammad Arif CNIC: 17301-8308478-3	Mian Haji Lal Muhammad Siddiqui	10.00	1.74	-	11.74	-	1.67	-	1.67
11	Al-Mughani Trading Corp. 58-C, 21st Commercial Street, Phase-II, Extension, PDOHA, Karachi.	Salahuddin Zia CNIC: 42301-0809657-5 Zubaida Zia CNIC: 42301-0780848-2	Yousuf Ali Zia  W/o Salahuddin Zia	12.26	1.77	-	14.03	6.98	1.77	-	8.75
12	Dadabhoi Cement Industries 39-C/11, 24th Commercial Street, Phase-II (Ext.) DHA, Karachi	Muhammad Amin Dadabhoi CNIC: 42301-0915215-7 Humaira Dadabhoi CNIC: 42301-0852905-4 Fazal Karim Dadabhoi CNIC: 42301-0923093-3 Mrs Yasmin Dadabhoi CNIC: 42301-0652905-4	M. Hussain Dadabhoi  W/o Akber Arif Siddiqui  M. Hussain Dadabhoi  W/o M. Asif Ishtiaq	200.00	13.56	-	213.56	25.00	13.56	-	38.56
13	Airport Limousine Services Sui No: 11 & 12, Madam Apartment, Opp. QIAP, Shahrah-e-Faisal Karachi	Muhammad Saleem CNIC: 123-56-516706 Muhammad Javed CNIC: 123-87-464927	Durr-e-Eiman  Durr-e-Eiman	16.32	3.04	-	19.36	4.89	3.04	-	7.93
14	Shahpur Textile Mills Ltd. 1646/10-M Nazimabad Old Chungi No. 8, Multan (Business Address) 64 KM Multan Road, Chunion	Mirza Aurangzeb Baig (CEO) CNIC: 36302-6507395-3 Mirza Jahanzaib Baig CNIC: 36302-1997813-3 Mrs. Asma Alamgir CNIC: 31202-9855777-2 Mirza Asber Baig CNIC: 36202-6915443-9 Fahmida Begum CNIC 36302-4002855-0 Mrs. Yasmin Naz CNIC: 36302-4500754-6 Mr. Mohammad Atzal CNIC: 36302-6509817-7	Mirza Asber Baig  Mirza Asber Baig  Mirza Alamgir Baig Mirza Azhar Baig Mr. Asber Baig Mr. Aurangzeb Baig (CEO) Mr. M. Bashir	22.69	5.92	-	28.60	8.94	5.92	-	14.85
15	Al-Waris Traders 5-Nadia Terrace, Nishtar Road., Karachi	Mr Inam Warsi CNIC: 505-58-168884 Noman Ahmed CNIC: 501-89-176095	Sufi Muhammad Hanif  Siddique Ahmed	30.67	16.35	-	47.01	7.67	16.35	-	24.01
16	Crystal Eximco G.T. Road, Attawa More # Gurawalwa.	Mr. Mansoor Haider Javaid CNIC: 37405-3895920-9) Mr. Khalid Mehmood CNIC: 35202-4446755-9)	Muhammad Anwar Javaid  Ch. Meraj Din	40.57	8.47	-	49.04	-	8.47	-	8.47
17	Fazal Karim Textile Mills (Pvt) Ltd Factory:Bhong Canal road,Mangla Mirpur Azad Kashmir Head Office: House No. 1-A, Street No.42,Main road,Islamabad	Ch Javed Iqbal Chief Executive CNIC: 61101-1843611-3 Ch Fazal Karim CNIC: 61101-0236795-7 Ch Fazal Mehmood CNIC: 61101-4990923-7 Ch Muhammad Irfan CNIC: 61101-2027964-5 Ch Muhammad Shoab CNIC: 61101-6242582-1 Ch Shahid Nadeem CNIC: 61101-6253032-1 Mst Iqbal Sarwar CNIC: 61101-5542207-6	Ch Fazal Karim  Ch Abdul Hakeem Ch Fazal Karim Ch Fazal Karim Ch Fazal Karim Ch Fazal Karim Ch Fazal Karim W/o Ch Fazal Karim	160.89	28.40	-	189.30	30.54	28.40	-	58.94
Total				769.20	132.78	-	901.98	89.02	129.71	-	218.73



## Six Year's Key Financial Data

	Rs in Million					
<b>As at December 31</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006 Restated</b>	<b>2005 Restated</b>
Share Capital	13,431	9,003	9,003	5,002	3,848	3,848
Deposits	55,706	49,610	41,057	42,374	49,015	37,136
Advances	44,354	32,097	31,087	25,875	29,022	19,514
Investments	12,965	20,179	12,012	17,859	15,829	12,465
Assets	72,603	68,664	55,645	53,661	59,200	47,749
<b>Year Ended December 31</b>						
Import Business	22,769	17,814	11,941	15,792	16,660	19,706
Export Business	18,255	13,702	8,502	11,259	10,874	8,438
Guarantees	7,463	7,567	1,625	3,311	3,978	3,315
<b>Gross Revenue</b>						
Profit / (loss) before taxation	(1,236)	(4,252)	(2,834)	(3,320)	(409)	141
Profit / (loss) after taxation	(1,131)	(2,903)	(2,014)	(3,041)	(304)	65
<b>No. of Branches</b>	85	82	65	55	50	50

## Combined Pattern of CDC and Physical Share Holdings as on December 31, 2010

CATEGORIES OF SHAREHOLDERS	NO. OF SHARE HOLDERS	SHARES HELD	PERCENTAGE
INDIVIDUALS	8224	262,479,871	9.82
INVESTMENT COMPANIES	6	86,265,196	3.23
JOINT STOCK COMPANIES	119	37,981,548	1.42
DIRECTORS, CHIEF EXECUTIVES OFFICER AND THEIR SPOUSE AND MINOR CHILDREN	8	122,838,032	4.60
EXECUTIVES	36	23,052,840	0.86
NIT / ICP	3	23,966,165	0.90
ASSOCIATED COMPANIES , UNDERTAKINGS AND RELATED PARTIES	7	2,086,997,798	78.12
PUBLIC SECTOR COMPANIES AND CORPORATIONS	0	0	0.00
BANKS, DFIs, NBFIs, INSURANCE COMPANIES MODARABAS AND MUTUAL FUNDS	19	17,151,256	0.64
FOREIGN INVESTORS	10	9,393,640	0.35
CO-OPERATIVE SOCIETIES	3	35,000	0.00
CHARITABLE TRUSTS	2	611,213	0.02
OTHERS	3	832,268	0.03
<b>TOATAL</b>	<b>8,440</b>	<b>2,671,604,827</b>	<b>100.00</b>

### ADDITIONAL SHAREHOLDERS' INFORMATION

#### ASSOCIATED COMPANIES, UNDERTAKINGS

INTERNATIONAL FINANCE CORPORATION	702,689,067
NOMURA EUROPEAN INVESTMENT LIMITED	356,676,342
BANK MUSCAT S. A.O. G.	315,776,969
SHAIKAT FAYAZ AHMED TARIN	711,855,420
NATIONAL BANK OF PAKISTAN , TRUSTEE DEPTT.	23,615,182
NIT/ ICP	23,966,165
INDUSTRIAL DEVELOPMENT BANK OF PAKISTAN	2,666
NATIONAL INVESTMENT TRUST LIMITED	348,317

#### DIRECTORS, CHIEF EXECUTIVE OFFICER AND THEIR SPOUSE AND MINOR CHILDREN

MUNNAWAR HAMID, OBE	3,699
HUMAYUN BASHIR	3,699
JAVED HAMID	500
SADEQ SAYEED	102,817,019
ARSHAD GHAFUR	-
SHAIKAT TARIN	711,855,420
AZMAT TARIN	20,013,115

#### PUBLIC SECTOR COMPANIES AND CORPORATION

BANKS, DFIs, NBFIs, INSURANCE COMPANIES, MODARABAS & MUTUAL FUNDS	17,151,256
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#### SHAREHOLDERS HOLDING 10% OR MORE VOTING INTREST

INTERNATIONAL FINANCE CORPORATION	702,689,067
NOMURA EUROPEAN INVESTMENT LIMITED	356,676,342
BANK MUSCAT S. A.O. G.	315,776,969
SHAIKAT FAYAZ AHMED TARIN	711,855,420

## Pattern of Share Holdings CDC and Physical as on 31/12/2010

NUMBER OF SHARE HOLDERS	SHARE HOLDING		TOTAL SHARES HELD	NUMBER OF SHARE HOLDERS	SHARE HOLDING		TOTAL SHARES HELD
322	1-	100	15,125	5	150,001-	155,000	762,188
701	101-	500	270,760	3	155,001-	160,000	468,681
936	501-	1,000	868,183	7	160,001-	165,000	1,143,902
2,580	1,001-	5,000	8,247,392	4	165,001-	170,000	668,544
1,219	5,001-	10,000	10,190,839	7	170,001-	175,000	1,217,101
456	10,001-	15,000	5,964,667	4	175,001-	180,000	712,625
380	15,001-	20,000	7,109,743	3	180,001-	185,000	552,500
306	20,001-	25,000	7,194,563	3	185,001-	190,000	564,594
150	25,001-	30,000	4,299,302	2	190,001-	195,000	387,813
106	30,001-	35,000	3,521,267	31	195,001-	200,000	6,199,000
112	35,001-	40,000	4,278,176	7	200,001-	205,000	1,414,171
84	40,001-	45,000	3,587,338	8	205,001-	210,000	1,658,381
199	45,001-	50,000	9,879,831	3	210,001-	215,000	639,674
46	50,001-	55,000	2,432,961	2	215,001-	220,000	439,341
54	55,001-	60,000	3,176,917	8	220,001-	225,000	1,790,420
32	60,001-	65,000	2,020,839	8	225,001-	230,000	1,822,141
33	65,001-	70,000	2,264,612	2	230,001-	235,000	467,000
38	70,001-	75,000	2,811,898	3	235,001-	240,000	719,959
28	75,001-	80,000	2,200,338	1	240,001-	245,000	242,444
25	80,001-	85,000	2,079,099	10	245,001-	250,000	2,500,000
14	85,001-	90,000	1,249,176	1	250,001-	255,000	252,300
12	90,001-	95,000	1,117,483	3	255,001-	260,000	780,000
143	95,001-	100,000	14,272,218	1	260,001-	265,000	263,825
22	100,001-	105,000	2,257,163	2	265,001-	270,000	533,598
10	105,001-	110,000	1,095,002	4	270,001-	275,000	1,097,408
8	110,001-	115,000	907,497	2	275,001-	280,000	556,210
10	115,001-	120,000	1,188,217	1	280,001-	285,000	285,000
17	120,001-	125,000	2,103,651	3	285,001-	290,000	865,459
14	125,001-	130,000	1,796,891	1	290,001-	295,000	295,000
8	130,001-	135,000	1,071,211	13	295,001-	300,000	3,900,000
9	135,001-	140,000	1,248,920	2	300,001-	305,000	604,431
4	140,001-	145,000	566,249	1	305,001-	310,000	310,000
23	145,001-	150,000	3,432,399	1	310,001-	315,000	314,701

## Pattern of Share Holdings CDC and Physical as on 31/12/2010

NUMBER OF SHARE HOLDERS	S H A R E H O L D I N G		TOTAL SHARES HELD	NUMBER OF SHARE HOLDERS	S H A R E H O L D I N G		TOTAL SHARES HELD
1	315,001-	320,000	318,927	2	565,001-	570,000	1,135,448
2	320,001-	325,000	650,000	2	570,001-	575,000	1,146,941
2	325,001-	330,000	653,484	4	595,001-	600,000	2,399,508
3	330,001-	335,000	996,764	1	605,001-	610,000	610,000
3	345,001-	350,000	1,048,317	1	610,001-	615,000	611,307
1	350,001-	355,000	350,953	1	615,001-	620,000	616,503
1	355,001-	360,000	360,000	1	640,001-	645,000	643,300
2	360,001-	365,000	727,705	1	650,001-	655,000	653,823
1	365,001-	370,000	368,500	1	660,001-	665,000	660,031
1	370,001-	375,000	375,000	1	665,001-	670,000	670,000
2	385,001-	390,000	776,309	2	670,001-	675,000	1,345,351
6	395,001-	400,000	2,400,000	1	675,001-	680,000	679,060
3	400,001-	405,000	1,203,903	1	695,001-	700,000	698,003
1	405,001-	410,000	406,892	1	740,001-	745,000	741,579
4	410,001-	415,000	1,645,454	3	745,001-	750,000	2,250,000
1	415,001-	420,000	417,000	1	755,001-	760,000	758,260
1	420,001-	425,000	425,000	4	795,001-	800,000	3,200,000
1	445,001-	450,000	450,000	1	800,001-	805,000	801,268
2	450,001-	455,000	906,559	2	810,001-	815,000	1,624,043
3	455,001-	460,000	1,370,746	1	820,001-	825,000	825,000
1	460,001-	465,000	462,377	1	860,001-	865,000	864,000
1	465,001-	470,000	470,000	1	875,001-	880,000	875,297
1	475,001-	480,000	480,000	1	905,001-	910,000	905,318
1	490,001-	495,000	493,760	1	925,001-	930,000	926,441
14	495,001-	500,000	7,000,000	2	945,001-	950,000	1,899,841
1	500,001-	505,000	502,792	1	965,001-	970,000	970,000
1	505,001-	510,000	510,000	1	970,001-	975,000	973,266
1	530,001-	535,000	532,200	7	995,001-	1,000,000	7,000,000
1	540,001-	545,000	545,000	1	1,000,001-	1,005,000	1,001,500
4	545,001-	550,000	2,197,000	1	1,015,001-	1,020,000	1,020,000
1	550,001-	555,000	552,608	2	1,020,001-	1,025,000	2,047,000
1	555,001-	560,000	556,833	1	1,055,001-	1,060,000	1,059,873
1	560,001-	565,000	561,061	1	1,095,001-	1,100,000	1,100,000

## Pattern of Share Holdings CDC and Physical as on 31/12/2010

NUMBER OF SHARE HOLDERS	SHARE HOLDING		TOTAL SHARES HELD	NUMBER OF SHARE HOLDERS	SHARE HOLDING		TOTAL SHARES HELD
1	1,100,001-	1,105,000	1,100,003	1	5,595,001-	5,600,000	5,600,000
1	1,105,001-	1,110,000	1,109,000	1	6,835,001-	6,840,000	6,838,154
1	1,190,001-	1,195,000	1,194,657	1	7,395,001-	7,400,000	7,398,040
1	1,195,001-	1,200,000	1,195,006	1	8,415,001-	8,420,000	8,420,000
1	1,200,001-	1,205,000	1,205,000	1	9,790,001-	9,795,000	9,792,864
1	1,235,001-	1,240,000	1,240,000	1	9,995,001-	10,000,000	10,000,000
2	1,255,001-	1,260,000	2,512,774	1	10,375,001-	10,380,000	10,379,177
2	1,320,001-	1,325,000	2,649,724	1	13,170,001-	13,175,000	13,174,061
1	1,330,001-	1,335,000	1,333,395	1	16,465,001-	16,470,000	16,467,577
1	1,390,001-	1,395,000	1,393,500	1	23,615,001-	23,620,000	23,615,182
2	1,415,001-	1,420,000	2,834,576	1	36,225,001-	36,230,000	36,228,668
2	1,495,001-	1,500,000	3,000,000	1	37,705,001-	37,710,000	37,709,934
1	1,550,001-	1,555,000	1,552,921	1	41,100,001-	41,105,000	41,100,226
1	1,610,001-	1,615,000	1,611,559	1	76,995,001-	77,000,000	77,000,000
1	1,635,001-	1,640,000	1,639,482	1	86,345,001-	86,350,000	86,349,442
2	1,745,001-	1,750,000	3,497,116	1	237,625,001-	237,630,000	237,626,752
1	1,810,001-	1,815,000	1,812,217	1	315,775,001-	315,780,000	315,776,969
2	1,895,001-	1,900,000	3,797,575	1	356,675,001-	356,680,000	356,676,342
1	1,950,001-	1,955,000	1,952,586	1	360,995,001-	361,000,000	361,000,000
2	1,995,001-	2,000,000	4,000,000	1	702,685,001-	702,690,000	702,689,067
1	2,205,001-	2,210,000	2,210,000				
1	2,370,001-	2,375,000	2,374,752				
1	2,430,001-	2,435,000	2,430,453				
1	2,990,001-	2,995,000	2,991,000				
1	3,060,001-	3,065,000	3,060,762				
1	3,070,001-	3,075,000	3,074,066				
1	3,105,001-	3,110,000	3,108,500				
1	3,310,001-	3,315,000	3,314,733				
1	3,815,001-	3,820,000	3,817,565				
1	4,085,001-	4,090,000	4,090,000				
1	4,295,001-	4,300,000	4,300,000				
1	4,840,001-	4,845,000	4,842,083				
1	4,940,001-	4,945,000	4,941,924				
				8,440			2,671,604,827

## Silkbank Key Figures at a Glance

Rupees in million

2010	2009	2008
------	------	------

### Balance sheet

Share capital	13,431	9,003	9,003
Reserves	7	225	219
Deposits and other accounts	55,706	49,610	41,057
Sub-ordinated loan	-	-	-
Borrowings from financial institutions	9,871	15,088	8,739
Total Assets	72,603	68,664	55,645
Gross Advances	52,925	40,592	38,187
Advances-Net of provisions	44,354	32,097	31,087
Non performing Advances	12,360	11,891	12,845
Investments - net of provisions	12,965	20,179	12,012
Equity	4,817	1,763	4,391

### PROFIT AND LOSS ACCOUNT

Mark-up/return/interest earned	6,776	5,913	4,588
Mark-up/return/interest expensed	(5,927)	(5,856)	(4,219)
Net mark-up/ interest earned	849	58	369
Provisions and Write off	(91)	(2,207)	(1,652)
Net mark-up / interest income/(loss) after provisions	758	(2,149)	(1,282)
Non-markup/interest income	1,185	662	385
Non-markup/interest expense	(3,178)	(2,765)	(1,937)
(Loss)/Profit before Taxation	(1,236)	(4,252)	(2,834)
(Loss)/Profit After Taxation	(1,131)	(2,903)	(2,014)

### FINANCIAL RATIOS

Income / Expense Ratio	Times	0.64	0.26	0.39
Return on average Equity (ROE)	%	(34.38)	(94.34)	(61.30)
Return on average Assets (ROA)	%	(1.60)	(4.67)	(3.69)
NPLs to Gross Advances ratio	%	23.35	29.29	33.64
Earning Assets to Total Assets ratio	%	80.51	77.69	79.93
Earnings per share	Rs	-0.49	-2.52	-5.49
Gross spread ratio (NIM/Gross interest income)	%	12.5	1.0	8.1

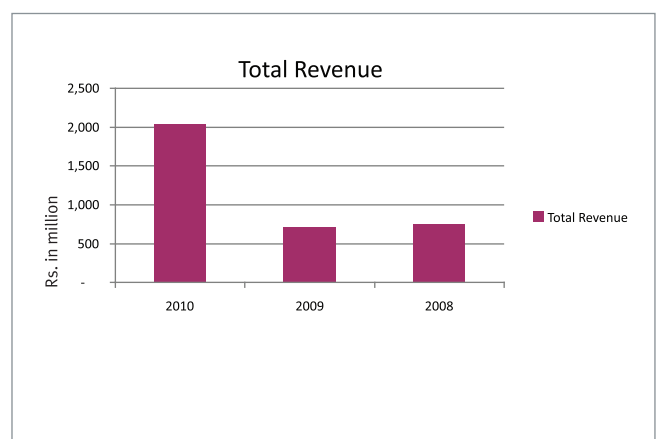
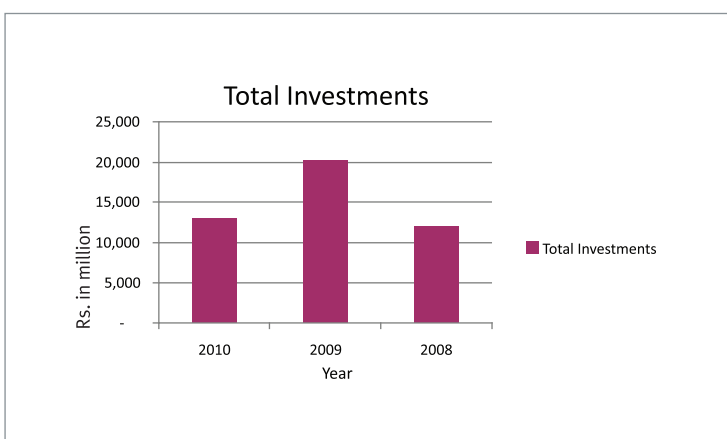
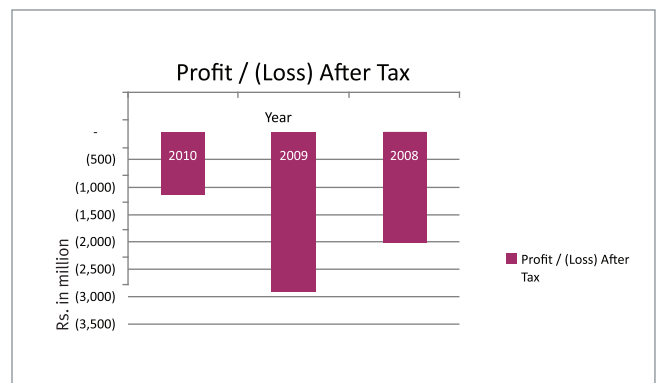
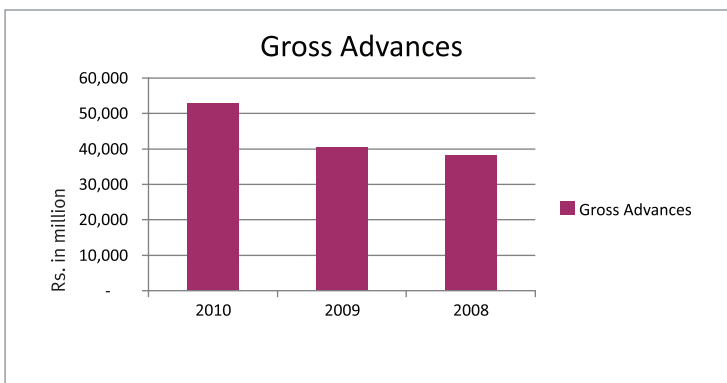
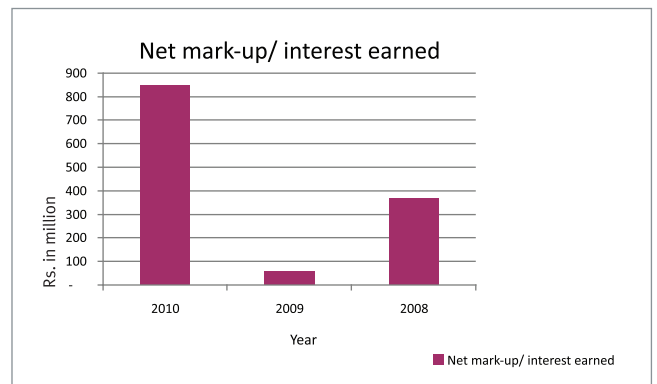
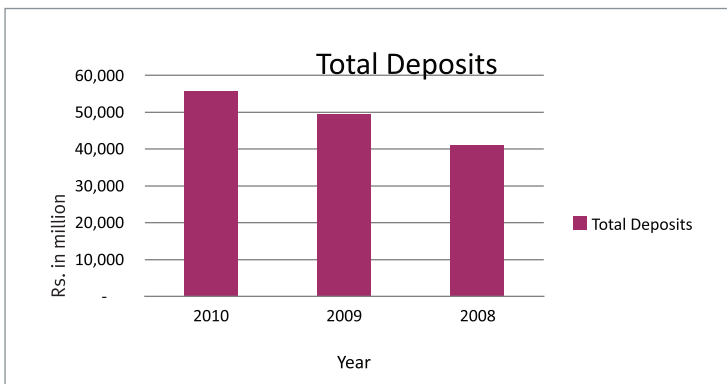
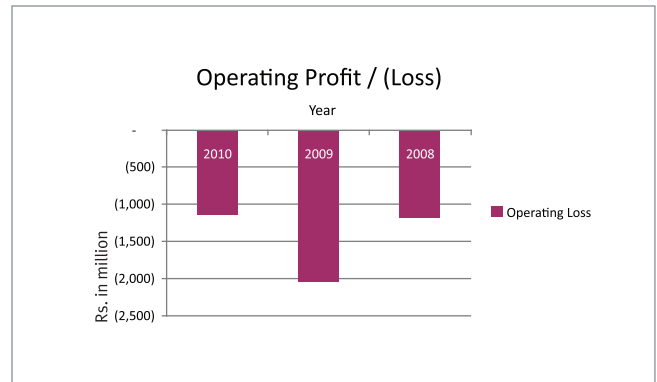
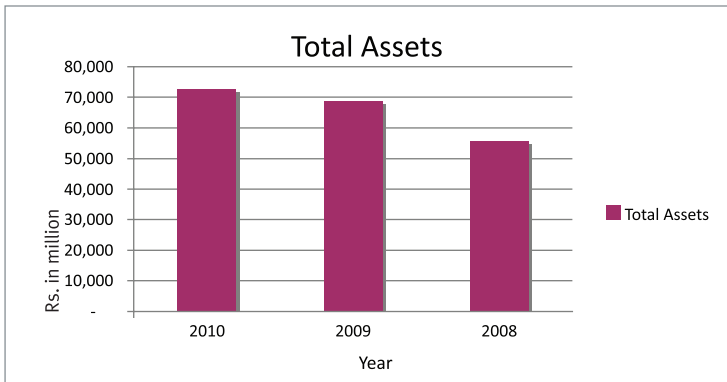
### NON FINANCIAL INFORMATION

Number of branches	85	82	65
Number of employees	2179	1959	1721
Number of ATMs	69	52	21

	2010		2009		2008		08 Vs 07	
	Rs M	%	Rs M	%	Rs M	%	Rs M	%
<b>Balance sheet</b>								
<b>ASSETS</b>								
Cash and balances with treasury banks	3,415	9%	3,121	2%	3,070	-5%		
Balances with other banks	89	-41%	151	-21%	190	47%		
Lending to financial institutions	1,051	-2%	1,068	-22%	1,377	64%		
Investments	12,965	-36%	20,179	68%	12,012	-33%		
Advances	44,354	38%	32,097	3%	31,087	20%		
Operating fixed assets	2,444	-34%	3,721	24%	3,002	27%		
Deferred tax assets (net)	4,193	5%	3,976	52%	2,614	48%		
Other assets	4,093	-6%	4,351	90%	2,292	43%		
<b>TOTAL ASSETS</b>	<b>72,603</b>	<b>6%</b>	<b>68,664</b>	<b>23%</b>	<b>55,645</b>	<b>4%</b>		
<b>LIABILITIES</b>								
Bills payable	837	31%	638	48%	432	-24%		
Borrowings from financial institutions	9,871	-35%	15,088	73%	8,739	27%		
Deposits and other accounts	55,706	12%	49,610	21%	41,057	-3%		
Sub-ordinated loan	-	0%	-	0%	-	-100%		
Liabilities against assets subject to finance lease	-	-100%	10	-74%	40	-50%		
Other liabilities	1,355	-13%	1,555	57%	987	7%		
<b>TOTAL LIABILITIES</b>	<b>67,769</b>	<b>1%</b>	<b>66,901</b>	<b>31%</b>	<b>51,254</b>	<b>0%</b>		
<b>NET ASSETS</b>	<b>4,834</b>	<b>174%</b>	<b>1,763</b>	<b>-60%</b>	<b>4,391</b>	<b>101%</b>		
<b>REPRESENTED BY</b>								
Share capital	26,716	197%	9,003	0%	9,003	80%		
Reserves	-	-100%	225	3%	219	0%		
Discount on issue of rights shares	(13,285)	100%	-	-	-	-		
Accumulated loss	(8,614)	-5%	(9,031)	47%	(6,132)	49%		
Surplus on revaluation of assets (net of tax)	17	-99%	1,566	20%	1,301	21%		
	<b>4,834</b>	<b>174%</b>	<b>1,763</b>	<b>-60%</b>	<b>4,391</b>	<b>101%</b>		
<b>PROFIT AND LOSS ACCOUNT</b>								
Mark-up/return/interest earned	6,776	15%	5,913	29%	4,588	-4%		
Mark-up/return/interest expensed	(5,927)	1%	(5,856)	39%	(4,219)	-5%		
Net mark-up/ interest earned	849	1369%	58	-84%	369	3%		
Provisions and Write off	(91)	-96%	(2,207)	34%	(1,652)	-48%		
Net mark-up / interest income/(loss) after provisions	758	-135%	(2,149)	68%	(1,282)	-54%		
Non-markup/interest income	1,185	79%	662	72%	385	-51%		
Non-markup/interest expense	(3,178)	15%	(2,765)	43%	(1,937)	51%		
(Loss)/Profit before Taxation	(1,236)	-71%	(4,252)	50%	(2,834)	-15%		
Taxation	104	-92%	1,350	65%	820	194%		
<b>(Loss)/Profit After Taxation</b>	<b>(1,131)</b>	<b>-61%</b>	<b>(2,903)</b>	<b>44%</b>	<b>(2,014)</b>	<b>-34%</b>		

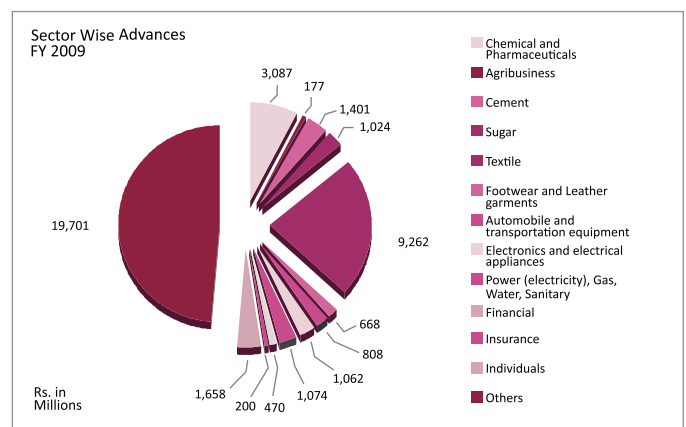
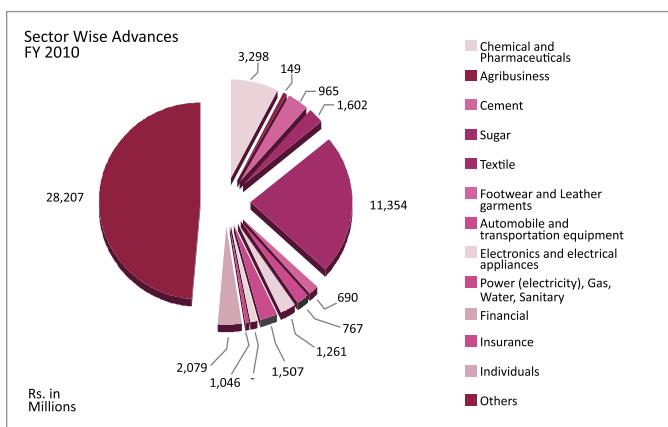
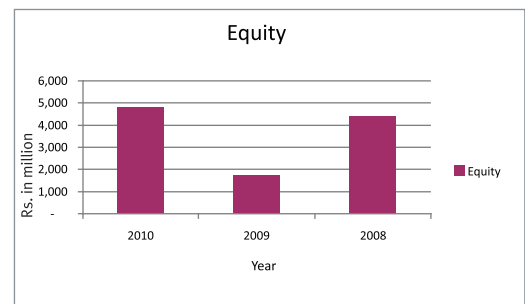
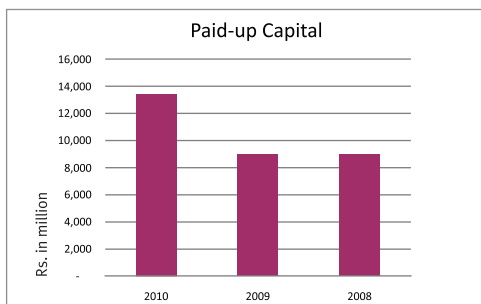
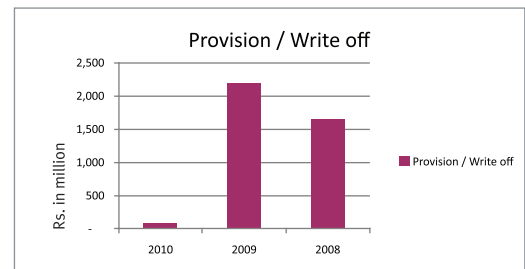
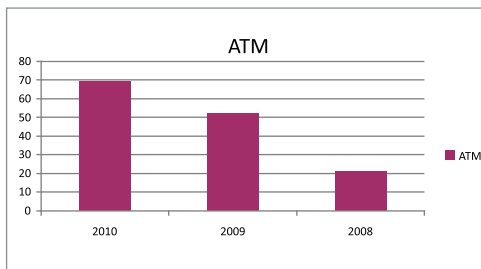
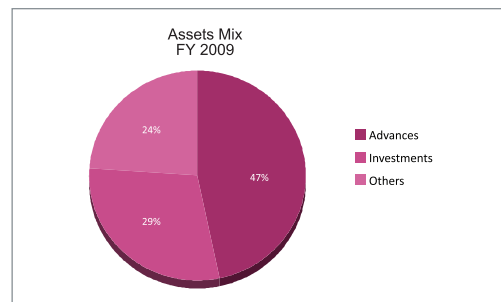
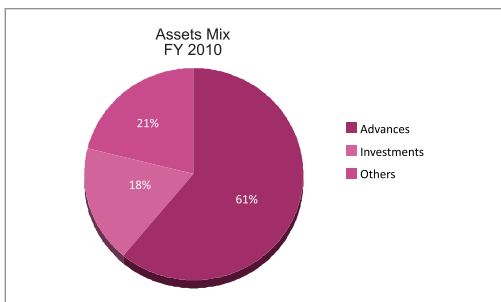
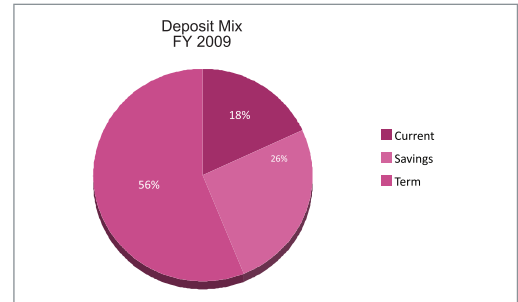
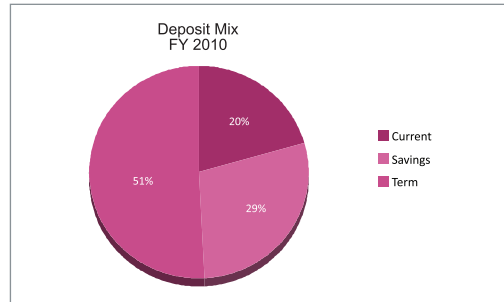
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Deposits and other accounts	55,706	77%	49,610	72%	41,057	74%
Sub-ordinated loan	-	0%	-	0%	-	0%
Liabilities against assets subject to finance lease	-	0%	10	0%	40	0%
Other liabilities	1,355	2%	1,555	2%	987	2%
<b>TOTAL LIABILITIES</b>	<b>67,769</b>	<b>93%</b>	<b>66,901</b>	<b>97%</b>	<b>51,254</b>	<b>92%</b>
<b>NET ASSETS</b>	<b>4,834</b>	<b>7%</b>	<b>1,763</b>	<b>3%</b>	<b>4,391</b>	<b>8%</b>
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Reserves	-	0%	225	0%	219	0%
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Accumulated loss	(8,614)	-12%	(9,031)	-13%	(6,132)	-11%
Surplus on revaluation of assets (net of tax)	17	0%	1,566	2%	1,301	2%
	<b>4,834</b>	<b>7%</b>	<b>1,763</b>	<b>3%</b>	<b>4,391</b>	<b>8%</b>
<b>PROFIT AND LOSS ACCOUNT</b>						
Mark-up/return/interest earned	6,776	85%	5,913	90%	4,588	92%
Mark-up/return/interest expensed	(5,927)	-74%	(5,856)	-89%	(4,219)	-85%
Net mark-up/ interest earned	849	11%	58	1%	369	7%
Provisions and Write off	(91)	-1%	(2,207)	-34%	(1,652)	-33%
Net mark-up / interest income/(loss) after provisions	758	10%	(2,149)	-33%	(1,282)	-26%
Non-markup/interest income	1,185	15%	662	10%	385	8%
Non-markup/interest expense	(3,178)	-40%	(2,765)	-42%	(1,937)	-39%
(Loss)/Profit before Taxation	(1,236)	-16%	(4,252)	-65%	(2,834)	-57%
Taxation	104	1%	1,350	21%	820	16%
<b>(Loss)/Profit After Taxation</b>	<b>(1,131)</b>	<b>-14%</b>	<b>(2,903)</b>	<b>-44%</b>	<b>(2,014)</b>	<b>-41%</b>

## Graphical Presentation of Financial Progress





Graphical Presentation of Financial Progress



## MUNAFI HE MUNAFI



“Our savings have turned into a source of good income, thanks to our investment”



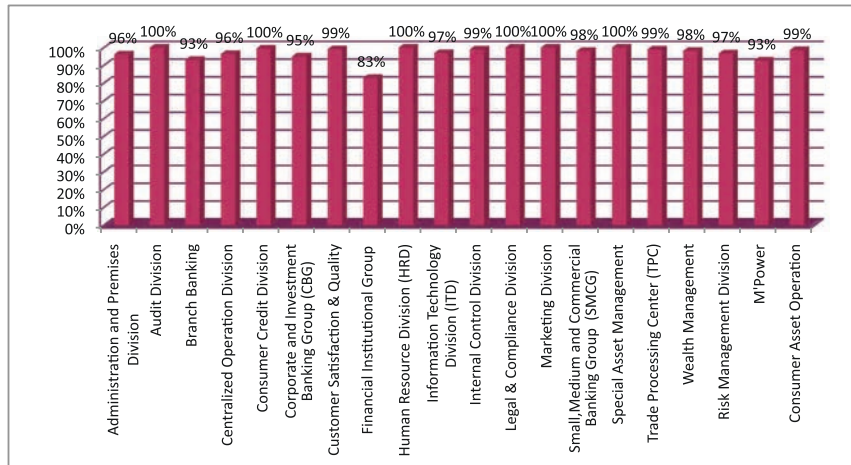
**Milestones and  
Achievements 2010  
&  
Corporate  
Social Responsibility**  
For the year ended December 31, 2010  
Silkbank Limited

# Milestones & Achievements 2010

## Internal Service Measures

Internal Service Measures (ISMS) are tracked every month to monitor accuracy and process TAT. 135 ISMs across 20 segments are measured

### ISM Performance – 2010



## Mystery Shopping Programs

Mystery Shopping Program (MSP) entails monthly visits to 85 branches and Quarterly Video MSP for branches in Karachi, Lahore and Islamabad



## Business Growth

### CASA Growth

- Overall deposit has grown by Rs. 6.1b to Rs. 55.7b
- CASA growth of Rs. 5.5b, representing 90% of growth in deposits
- Reduction in average cost of deposits by 123bps - 8.63% Dec 10 vs. 9.86% Dec 09)

### SMCG

- Trade business worth Rs. 25.7b, an increase of 36.6% over last year. Trade business in Q4 2010 of Rs. 6.52b
- Total book size of SMCG (funded and non funded facilities) stands at Rs. 30.6b, compared to Rs. 28.3b(Q3 2010)
- SMCG deposits stand at Rs. 4.1b, compared to Rs. 3.1b (Q3 2010)
- Switch to 3m KIBOR as base rate instead of 6MK. Change in strategy will improve SMCG spreads by about 25 bps (approx).
- Vigilant and continuous follow-up enabled the SMCG in achieving overall satisfactory collection results

### Corporate

- Continued focus on ancillary business with the same exceeding Rs. 22.8b, an increase of 12.4% over last year
- Trade business of Rs. 8.3b for the Q4 2010
- Total advances stood at Rs. 20b at year end
- Regional restructuring carried out to improve efficiency, reducing the number of regions from four to three
- In addition to debt/equity markets advisory services, initiated bond/ loan restructuring advisory & secured 2 restructuring mandates

## Milestones & Achievements 2010

### New Products

#### M<sup>3</sup>Power

Running finance product for SME launched in October 2009

- Utilization of Rs. 2.4b, 41% ahead of budget
- Margin of Rs. 5.6m against budgeted loss of Rs.15.5m, 145% ahead of budget

#### Business Value Current Account

New business focused CA product launched on October 05, has resulted in 1,684 customers - overall product portfolio size of Rs. 659.3m

#### All-in-One Current Account

New accounts opened in 2010 have contributed Rs.791m – overall product portfolio size Rs.1.36b

#### Silkbank Advantage Personal Loan

Silkbank Personal Loan launched in November 2010

- Volume of Rs.234m at December 2010, against target of Rs. 27m
- 775 loans till December 31, 2010
- Tier based segmented pricing linked to KIBOR to hedge against interest rate fluctuations

### Business Developments

#### ATMs

- ATM Branches increased to 69 in 2010
- Monthly ATM transactions stand at 79,156, up from 25,305 (March 2009)
- Monthly Volume of Rs. 598.4m, up from Rs.162.5m (March 2009)

#### Visa Debit Card

- VISA Debit Cards issued up to December 2010 – 58,653
- Discount campaign on VDC at over 100 partners led to 97% increase in spend volume over December 2009 – Vol Rs.17.3m & 95% increase in number of transactions over December 2009
- ATM usage 61,849 transactions (Vol Rs. 468.7m) in December 2010
- Multiple VDC option against one account introduced

#### Bancassurance

- Bancassurance products offering investment & insurance solutions earned gross commissions of Rs. 83.9m
- Launched Silk Health Plan

#### New Branches

- Relocation of 4 Branches in 2010 - Fortress Stadium & New Garden Town in Lahore, Korangi Road & Bahadurabad in Karachi
- New premises identified for Abdali Road branch, Multan

#### E-Statements

- E-Statement introduced for Foreign Currency Accounts
- E-Statement & SMS Alerts enrollment introduced via Phone Banking
- 15,262 customers enrolled for E-Statements, which will offset statement courier costs for these customers

### Risk Management

#### SAM

Efforts made by SAM have resulted in positive P&L impact of Rs.1,576m during 2010 (Rs. 606m in Q4 2010)

#### Risk Management

- Circulation of revised Credit Application (CA) format for SME, Commercial and Corporate segments
- Presentation of revised target market and Risk Acceptance criteria (RACs) for SME
- Defining procedures for annual reviews & temporary extension
- Revision of per party and group limits
- Introduction of revised PR checklist for Corp. & SMCG customers

#### Consumer Credit

- Successful Mass Market Launch of Personal Installment Loan
- In-House Fraud Detection System developed for VISA Debit Card
- Card System Kick-Off session completed

#### Legal & Compliance

- IT Change Management & Control Review completed
- Revised KYC Forms & Guidelines for completion of KYC Forms completed

#### Internal Control

- 84 Quality Assurance Reviews for Branch Banking, Consumer Credit, TPC, CPC & ASD
- Reconciliation & proofing for GLs, Suspense/Sundry, ATM Claims, NOSTRO, SBP Accounts on continuous basis

## Milestones & Achievements 2010

### Internal Business Processes & Cost Saves

#### Premises Management

Night guards have been replaced with cost-effective alarm systems in Karachi & Lahore, and are being deployed nationwide

#### Technology Initiatives

- Enhancements in the T-24 System
- Personal Loan Application & integration with T-24 developed & launched
- Auto ATM Alerts functionality for sending downtime alerts to the concerned personnel as per defined escalation matrix
- E-statement feature for Foreign Currency Accounts was developed
- Upgrade in existing call center software (One ID Solution)
- FRMS-Fraud and Risk Management System for Visa Debit Cards
- Evaluation of Collection System CWX was accomplished

#### Productivity Initiatives

- Processes & resources for Credit, COD, Admin & Branch Banking reviewed, with a view to enhance productivity and identify synergies & re-investable resources People Management

### People Management

#### Recruitment

- All hiring continues to be approved by CEO, justified against volume/productivity
- Internal hiring encouraged through Job Posting Program

#### Training

- Continuous trainings for Soft and technical skills enhancement and Service Excellence workshops
- Total 4,623 Learning hours achieved in last quarter of the year 2010

#### HR Policies

- Complete HR Policy manual in place
- Policies are based on best HR practices and benefits are aligned with upper quartile of the market

#### Recognition

- Top Performing Sales team members recognized - Bhurban trip for Q3 performers
- Top performing RMs and SEs won a trip to Dubai based on Q4 performance
- "Top-Ten Club" - Top SE's recognition through Certificates & e-mails
- Current programs in place to win laptops, motorbikes, trips to Singapore and more
- International Bancassurance conventions for best performing staff



Corporate Social Responsibility



Corporate Social Responsibility

Silkbank limited in keeping with its Corporate Social Responsibility has made significant contributions to the society. The Silkbank employees voluntarily contributed towards the flood relief rehabilitation fund and an equal amount was contributed by the bank. Out of this, Bank generously donated Rs. 2.5m to the Sind Institute of Urology and Transplantation (SIUT) for the SIUT Chalbani Medical Centre Sukkur and Rs. 1.5m to the Karachi Relief Trust Sonmiani for the flood affectees.



Silkbank also made contributions & sponsorships for many non-governmental organizations (NGOs) like The Medical Aid Foundation, Children Health and Education Foundation, Falah Medical Students Organization, The Kidney Centre, Habib Educational Trust, Ziauddin Medical Foundation, Special Olympics, Lahore Polo Club, WAPDA Sports Board, DIL, Institute of Business Administration Karachi, Marketing Association of Pakistan, Mohatta Palace and British Overseas School Association. The Bank also sponsored special inserts in the souvenirs namely Jinnah Anthology 3<sup>rd</sup> Edition and 10<sup>th</sup> ICC World Cup 2011 published by the Oxford University Press and Ababeel Publications respectively.



Silkbank Polo Team

Silkbank had sponsored a Polo team for the 2010/2011 season at the Lahore Polo Club. A team, of four professional polo players, has been nominated to play on behalf of the bank and has been given the name of "Silkbank Team". Each series is held on a weekly basis. The Silkbank team put in a valiant effort and secured second position in the final of the fifth (five) match series held on December 5, 2010. Happy Winning Silkbank Team!



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JP Morgan  
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### Austria

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Raiffeisen Zentralbank Oesterreich  
Unicredit Bank Austria

### Bahrain

Arab Investment Bank  
Al Baraka Islamic Bank  
Habib Bank Ltd  
United Bank Ltd  
National Bank of Pakistan  
Standard Chartered Bank

### Bangladesh

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### Brazil

HSBC Bank

### Bulgaria

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### Canada

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### China

HSBC Bank  
Standard Chartered Bank  
Agricultural Bank of China  
Commerzbank Ag  
Mashreqbank  
Royal Bank of Scotland  
Bank of China  
China Construction Bank Corporation  
China Ever bright Bank  
Industrial and Commercial Bank of China  
Laishang Bank Co Ltd  
JP Morgan  
Shenzhen Development Bank  
Bank of New York Mellon  
Wachovia Bank  
West LB AG

### Cyprus

Marfin Popular Bank Public Co

### Czech Republic

Commerzbank Ag  
Royal Bank of Scotland  
LBBW Bank CZ A.S

### Denmark

Danske Bank A/S  
Nordea Bank Denmark A/S

### Egypt

HSBC Bank  
Mashreqbank Psc

### Finland

Nordea Bank Finland Plc  
Skandinaviska Enskilda Banken

### France

HSBC Bank

### Commerzbank

National Bank of Pakistan  
UBAF  
Habib Bank Ltd  
BNP Paribas

### Germany

HSBC Trinkaus und Burckhardt AG  
Commerzbank Ag  
Danske Bank  
Deutsche Bank AG  
National Bank of Pakistan  
SEB AG  
Landesbank Baden  
Standard Chartered Bank  
Suedwestbank AG  
Unicredit

### Greece

Habib Bank Limited

### Hungary

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

### Hong Kong

BNP Paribas  
DBS Bank  
Citibank  
Habib Finance Int'l Ltd  
HBZ Finance Ltd  
Intesa Sanpaolo  
National Bank Of Pakistan  
Mashreqbank psc  
JP Morgan  
Standard Chartered  
HSBC  
Royal Bank of Scotland  
UBAF  
West LB AG

### India

Standard Chartered  
Mashreqbank  
Royal Bank of Scotland  
HSBC  
JP Morgan

### Indonesia

HSBC Bank  
Standard Chartered Bank  
Royal Bank of Scotland  
JP Morgan

### Iran

Bank Melli Iran  
Bank Sedarat Iran

### Ireland

National Irish Bank

### Italy

HSBC Bank  
Commerzbank Ag  
Royal Bank of Scotland  
Banca Di Roma S.P.A.  
Banco Di Napoli SPA  
Banco Popolare SOC  
Banco Popolare Di Novara SPA  
Banco Popolare Di Verona SGSP  
Banca Monte Parma  
Banca Carige SPA  
Banca UBAE  
Iccrea Banca  
Intesa Sanpaolo  
Mizuho Corporate Bank Ltd  
Unicredit Banca SPA  
Unicredit Corporate Banking SPA  
Union Di Banche Italiane SCPA  
Cassa di Risparmio in Bologna

### Japan

HSBC Bank  
National Bank of Pakistan  
The Bank of New York

Mizuho Corporate Bank Ltd  
Sumitomo Mitsui Banking Corp  
UBAF  
Royal Bank of Scotland  
Wells Fargo Bank

### Jordan

Standard Chartered Bank

### Kazakhstan

BTA Bank JSC

### Kenya

Standard Chartered Bank

### Kuwait

Gulf Bank, K.S.C.  
Alahli Bank of Kuwait K.S.C.  
National Bank of Kuwait  
Citibank NA

### Korea

Korea Exchange Bank  
Korea Development Bank  
Kookmin Bank  
National Bank of Pakistan  
Standard Chartered First Bank  
Shinhan Bank  
Suhyup Bank  
HSBC Bank U.S.A.  
UBAF  
Royal Bank of Scotland  
Pusan Bank  
Wells Fargo Bank  
Woori Bank

### Kosovo

Reffieisen Bank

### Luxembourg

HSBC Private Bank

### Lebanon

Habib Bank Ltd

### Malaysia

HSBC Bank  
Standard Chartered Bank  
Citi bank NA  
The Royal Bank of Scotland  
JP Morgan

### Mauritius

HSBC Bank  
Habib Bank Ltd  
Mauritius Commercial Bank Ltd

### Morocco

Attijariwafa Bank

### Mexico

HSBC

### Monaco

HSBC Private Bank

### Nepal

Himalayan Bank Ltd

### Netherlands

Commerzbank  
Royal Bank of Scotland  
Deutsche Bank AG  
Habib Bank Ltd.  
Hollandsche Bank Unie NV  
Fortis Bank Nederland N.V.

### New Zealand

HSBC Bank

### Norway

Nordea Bank Norge Asa  
DNB Nor Bank ASA

### Oman

Habib Bank Ltd  
Oman International Bank  
Standard Chartered Bank  
Bank Muscat Oman

**Poland**

Nordea Bank Polska SA  
Royal Bank of Scotland

**Panama**

HSBC Bank

**Philippines**

Royal Bank of Scotland  
HSBC Bank  
Mizuho Corporate Bank

**Portugal**

Banco BPI SA

**Qatar**

United Bank Limited  
Doha Bank

**Republic Of Serbia**

Raiffeisen Bank Kosovo  
Unicredit Bank Serbia

**Romania**

Piraeus Bank Romania

Saudi Arabia  
National Commercial Bank  
Saudi Hollandi Bank  
Bank Muscat Riyadh  
National Bank of Pakistan  
Saudi British Bank

**Singapore**

Royal Bank Of Scotland  
Bank of America  
Citibank NA  
Fortis Bank  
HSBC Bank  
Habib Bank Ltd  
J P Morgan Chase Bank  
Mizuho Corporate Bank  
National Bank of Kuwait  
Sumitomo Mitsui Banking Corporation Ltd  
Standard Chartered Bank  
West LB AG  
UBAF

**South Africa**

Royal Bank of Scotland  
Habib Overseas Bank Ltd  
HBZ Bank Ltd  
HSBC

**Spain**

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

**Sri Lanka**

Standard Chartered Bank  
Muslim Commercial Bank Ltd  
Habib Bank Ltd

**Sweden**

Nordea Bank  
Skandinaviska Enskilda Banken  
Svenska Handelsbanken  
Royal Bank of Scotland  
Danske Bank

**Switzerland**

Banque Cantonale Voudoise  
Habib Bank Ag Zurich  
BNP Paribas ( Sussie)  
Credit Agricole ( Sussie)  
Habibsons Bank  
Credit Sussie  
Royal Bank of Scotland  
United Bank AG  
Citibank

**Taiwan**

HSBC Bank  
The Bank of New York  
Bank of America  
Royal Bank of Scotland  
Standard Chartered Bank  
JP Morgan  
Wells Fargo

**Thailand**

HSBC Bank  
Bank of Ayudha Public Company Ltd  
Export Import Bank of Thailand  
Standard Chartered Bank  
Royal Bank of Scotland  
Citibank N.A.  
JP Morgan

**Turkey**

HSBC Bank  
Royal Bank of Scotland  
Habib Bank Ltd  
Turkiye Vakiflar Bankasi T.A.O  
Turkiye Garanti Bankasi AS  
Fortis Bank

**U.A.E.**

Citibank  
Dubai Islamic Bank  
Emirates NBD Bank  
Emirates Islamic Bank  
HSBC Bank Middle East  
Standard Chartered Bank  
United Bank Ltd  
Habib Bank Ltd  
Mashreq Bank Psc  
Royal Bank of Scotland  
National Bank of Fujairah  
Habib Bank AG Zurich  
National Bank of Dubai  
Noor Islamic Bank

**U.K.**

ABC International bank plc  
Bank Luemi  
Bank Of America  
Clydesdale Bank  
Deutsche Bank  
HSBC Bank  
Fortis Bank  
Habib Bank AG Zurich  
Standard Chartered Bank  
Commerzbank  
Mashreq Bank Psc  
Northern Bank  
JP Morgan  
Merrill Lynch Int'l Bank Ltd  
Nordea Bank Finland  
National Westminster Bank  
Royal Bank Of Scotland  
Habibsons Bank Ltd  
Citibank N.A.  
United National Bank

**U.S.A.**

Royal Bank of Scotland  
Bank of America  
The Bank of New York Mellon  
Bank of the West  
Citibank  
Commerzbank  
Deutsche Bank AG  
Doha Bank  
Fortis Bank  
Habib American Bank  
Habib Bank Ltd  
HSBC Bank U.S.A.  
International Finance Corporation  
Intesa Sanpaolo SPA  
JP Morgan  
Mashreqbank psc  
Mizuho Corporate Bank Ltd  
M&I Bank  
National Bank Of Pakistan  
Standard Chartered Bank  
Sumitomo Mitsui Banking Corporation Ltd  
TD Bank NA  
Union Bank of California

Valley National Bank  
US Bank Minneapolis  
Union Bank NA  
United Bank Ltd  
Wachovia Bank, NA  
Woori Bank  
Valley National Bank  
Wells Fargo Bank

**Vietnam**

HSBC Bank  
Royal Bank of Scotland  
JP Morgan

**Form of Proxy**  
Annual General Meeting



I/We \_\_\_\_\_  
of \_\_\_\_\_  
being a member(s) of Silkbank Limited holding \_\_\_\_\_  
ordinary shares hereby appoint \_\_\_\_\_  
of \_\_\_\_\_ or failing him/her \_\_\_\_\_  
of \_\_\_\_\_ as my / our proxy in my/our absence to attend and vote for me /us in my/our behalf at Annual General Meeting of the Bank to be held on March 30, 2011 and/or adjournment thereof.

As witness my/our hand(s) seal this on the \_\_\_\_\_ day of \_\_\_\_\_ 2011

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

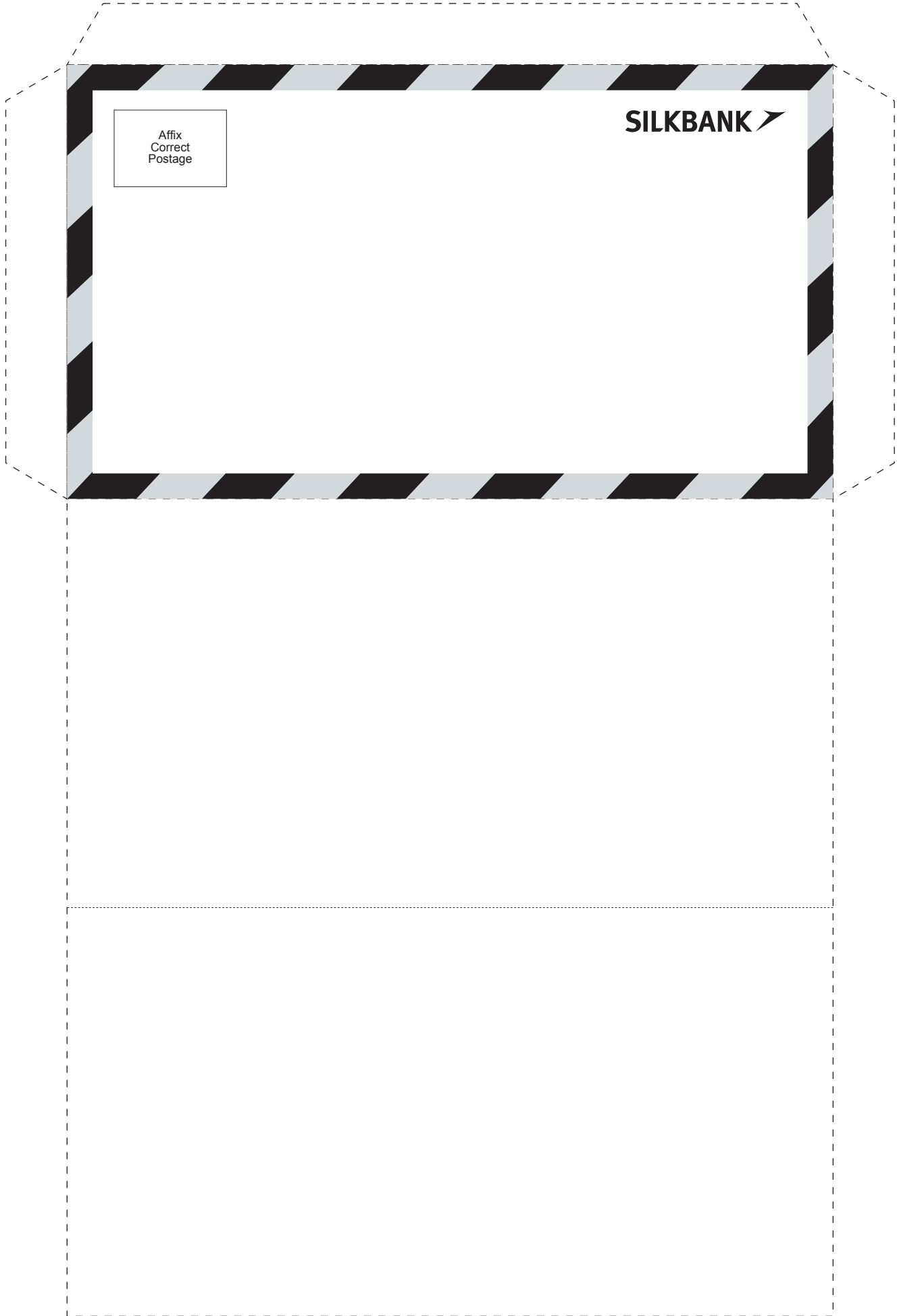
In the presence of 1. \_\_\_\_\_  
\_\_\_\_\_  
2. \_\_\_\_\_  
\_\_\_\_\_

Folio No. /CDC Account No.

Signature on  
Revenue Stamp  
of Appropriate Value

**Important:**

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



Affix  
Correct  
Postage

**SILKBANK** 