First Women Bank Limited

FIRST WOMEN BANK LIMITED

Financial Statements
For the year ended
31 December 2012

DIRECTORS' REPORT

On behalf of the Board of Directors, I am pleased to present to you the 23rd Annual Report of First women Bank Limited for the year ended December 31, 2012.

Financial Highlights:

	December 2012	December 2011
	--------PKR ' 000 --------	
Net Revenue from funds	760,338	742,308
Net other Income	95,318	253,306
Total Income	**855,656**	**995,614**
Administrative Expense	(716,657)	(600,986)
Profit before provision and expense	**138,999**	**394,628**
Provisions	(50,508)	(5,475)
Profit Before Taxation	**88,491**	**400,103**
Taxation	(44,935)	(141,556)
Profit after taxation	**43,556**	**258,547**
EPS	**0.33**	**3.11**

Financial Performance

Financial Highlights for the year 2012 are:

- Net interest margin improved from 39% to 42%;
- Profit before tax has came down to PKR 88 million a 78% decrease over the last year
- Provision against Non-performing Loans of surged by PKR. 50.5 million as compared to reversal of PKR 5.5 million;
- Administrative expenses have gone up by 19% over the previous year;
- Deposits closed at PKR 19.19 billion up by PKR 5.4 billion. The growth translates to 40% over last year.
- Total asset at the close of the year stood at PKR 22.49 billion increased by 39% over the last year.
- Gross Advances increased by 8.5% whereas Net Advance rose by 8.5% closing at PKR 8.5 billion as against PKR 7.9 billion last year.
- Taking calculated risk the major portion of the liquidity generated was placed in Government Securities, Net investments increased by 53.5% to PKR 7.3 billion as against PKR 4.7 billion in last year.

Economic Out look

Pakistan's economy continued to underperform. A modest growth in GDP was witnessed at 3.7% in 2012, better than 2.7% of 2011 however missing the target of 4.2%. The growth was distributed across agriculture, industry and service sector. Credit to private sector remained mute this lead SBP cut the interest rate by 200 bps however in the presence of a risk free dominating borrower the banks bargained the low returns rather than having the risky weighted exposures on their books thus the deliberate move of SBP of reducing the rate didn't reaped the desired benefits intended for the private sector.

Pakistan's budgetary gap reached 8.5% of the GDP including the on-off payment of the circular debt financed by government. Excluding this one-off adjustment the fiscal deficit stood at 6.6% of the GDP against the target of 4% of the GDP. It was no surprise given the losses stemming from the Public Sector Enterprises, higher interest payments and floods in addition to the circular debt issue. The size of the over grown fiscal debt is no way sustainable as it has impacts on inflation which effects interest rates and which has a ripple effect on the private investment squeezing it out. The impact on the balance sheets of the commercial banks has become more obvious and the country seems to be pushed towards a debt trap.

Some positive is seen in the Inflation indices showing a declining trend throughout 2012 with CPI closing at 11% compared with 13.7% of 2011. This has also helped the SBP to bring down its policy rates however further cuts if any would be dependent on the state of balance of external payments. For the year 2012 the external front remained supported by the heavy worker remittances and inflow of the coalition fund inflows. However, repayments of IMF loan installments have created a pressure on the foreign exchange reserves depreciating rupee by 9% during the year.

Foreign Direct Investment and portfolio investment continued the declining path from a peak of 7.2% of GDP in 2007 to 0.7% in 2012. The structural problems in the energy sector, Public Sector Entities and the fiscal deficit are expected to remain unresolved in the medium term though there is an urgent need to embark on the structural reforms in these sectors. Despite the low FDI's Pakistan equity market proved its self to be one of the world's best performing market for 2012. The reduced bank rates, fewer investment avenues and rising corporate profitability in some key sector fueled this growth. However the average daily volumes remained low throughout the year.

Key Developments During 2012

Launch of new branches

After the initial launch of the Bank's branches there was a complete halt in the network expansion of the Bank. The ice was broken by conversion of two permanent booths into branches namely International Islamic University branch – Islamabad and Fatima Jinnah University branch - Rawalpindi during 2nd quarter of 2012. A Third branch in Gilgit was launched in 3rd quarter of 2012 taking the total tally of the branches to 41.

IT infrastructure initiative

The Bank has taken strategic decision of upgrading its core banking system. This will enable the Bank to align itself with the industry trends and better customer products including internet and mobile bank can also be offered in to the customers of the Bank. For the purpose bank has entered into an alliance with M/s Auto Soft Dynamics. The Bank will be moving to a centrally administered data base environment as opposed to the existing distributed structure. It is expected that with the proposed centralization the Bank will be able to benefit from the economies of scale as well as specialized handling of the process will also be possible. After a detailed study of the system requirements the project was rolled out in one of the pilot branch. As at December 31, 2012 there were 3 branches running on the new platform the whole system is expected to be rolled out bank wide by end of 2013.

Equity Injection by Ministry of Finance – Government of Pakistan

The Bank remained non compliant with the regulatory requirement of paid up capital however, under the restructuring and recapitalization plan, the Bank had received an injection of PKR 300 million during 2012 from Government of Pakistan through Ministry of Finance (“MOF”). With this fresh equity injection the shareholding of MOF has increased from 41.94% to 53.60%.

Issuance of Bonus Shares

The paid up capital of the Bank was further supported by capitalization of the reserves in the form of bonus shares. During the year, Bonus shares of PKR 114.075 million were issued. The aggregate Paid-up capital of the Bank including the fresh equity injection and with the bonus issue stands at PKR 1.494 billion as at the close of 2012.

Minimum Capital Requirements

Missing the target of the minimum paid up capital set by the regulator, the Bank had to apply for an extension to SBP which has granted the extension till June 30, 2013. The management of the Bank has taken up the matter through various formal and informal communications with the MOF and with the regulator however the Bank is yet to receive any conclusive input from either of these two stakeholders.

Upgrade in Credit Rating

For the year 2012 Pakistan Credit Rating Agency (PACRA) has upgraded the Bank’s “long-term” entity ratings, from “BBB+” (Triple B plus) to “A-” (A minus), while maintained the “short-term” entity rating at “A2” (A two).These ratings denote a low expectation of credit risk while capacity for timely payment of financial commitments is considered strong.

Women Economic Empowerment through Capacity Building

Government of Pakistan in its year book 2011 – 2012 referring to the Bank has stated that “the Bank has a wider vision than any commercial bank to cater to women’s economic needs and to encourage them into trade, business, industry and the practice of their professions, to promote economic prosperity and self reliance in women of urban and rural areas.”

The management’s initiative of reviving of the earlier closed down Business and development center and to established Women’s Entrepreneurship Development Division for providing Capacity Building & Skill Development Trainings to women for enhancing entrepreneurial skills and for increasing employment opportunities reflects a far sightedness in creating a body of potential clients for the Bank in the long term.

The snapshot of the activities under taken and their results are summarized below:

- Revitalization of three Business Development & Training Centers and making them operational. Each in Karachi, Lahore & Islamabad.
- Launch of Capacity Building and Skill development program – trainings to the women are being given under the auspices of Benazir Bhutto Shaheed Development Program with the youth Department of Government of Sindh,
- Funding from various foreign and local agencies have been generated for the developmental activities including USAID under Gender Equality Program, UNIDO, Benazir Bhutto Shaheed Youth Development Program,
- A full fledge training facility in collaboration with SMEDA for women entrepreneurship development has been established at Karachi
- 30 exhibitions were organized through Islamabad center while 201 women received training in the areas of Beautician, Home Textile, Spoken English and Digital Marketing.
- Trainings in various fields are being given in collaboration with USAID-GEP free of cost mostly to low income group as a step towards Bank's Corporate Social Responsibility.
- In collaboration with Benazir Bhutto Shaheed Youth Development Program (BBSYDP) a five month Banking Training Program was conducted , 20 females were given internship opportunities in the branches of the Bank and later on based on the performance and requirement of the Bank the same were absorbed in the Bank
- The Bank's Training center has been transformed in a full fledge facility for training as well as show casing the work of the developed entrepreneurs generating income for both Bank and the respective users of those facilities.

Future Outlook

2013 first half is over shadowed by the political uncertainties with elections expected to be held in mid of May. Already challenged economic situation is not expected to improve much rather the falling foreign exchange reserves and adverse balance of payment will be adding to the immediate challenges faced by the next government to come in.

According to the official regulatory estimate the GDP is expected to grow at the same level as that is seen in 2012. Fiscal deficit is being targeted at 4.7 % of the GDP however this will be difficult to achieve if the immediate and long term solutions to the circular debt, energy crisis, insurgencies in various parts of the country hampering the overall economic growth are not addressed immediately.

Banking spread are at their lowest in the last 5 years, Interest rate have declined by 250 bps whereas the returns on the profit and loss sharing account at minimum is at 6% raising low cost deposit remains a challenge for the Bank however the Bank is confident that with the technological initiatives taken during the year and new products launches planned for 2013 will support the Bank in meeting this challenged.

The Bank will continue perusing with the major shareholder and the regulator for an equity restructuring that address the issue of the minimum paid up capital in line with the regulatory directives strengthening the financial base of the Bank.

Statement under clause XVI of the Code of Corporate Governance:

The Board of Directors is committed to ensure that the requirements of the Code of Corporate Governance are fully met. The Directors are pleased to report that:

- The financial statements present fairly the state of affairs of the Bank, the result of its operations, cash flows and changes in equity;
- Proper books of account of the Bank have been maintained;
- Appropriate accounting policies have been consistently applied in the preparation of financial statements and accounting estimates are based on reasonable and prudent judgment;
- International Financial Reporting standards, as applicable to Banks in Pakistan, have been followed in the preparation of financial statements without any departure there from;
- The system of internal control in the Bank is sound in design, and has been effectively implemented and monitored;
- There are no significant doubts regarding the Bank's ability to continue as a going concern;
- There has been no material departure from the best practices of Corporate Governance;
- The Board has appointed the following three committees with defined terms of reference:
  - Board Risk Management Committee (BRMC); met 2 times during the year;
  - Board Human Resource & Compensation Committee (BHRCC); met 4 times during the year; and
  - Board Audit Committee (BAC); met 5 times during the year.

The number of Board committee meetings attended by each of the committee member is given below:

Name of Director	Representing	Designation & Name of Committee	BRMC	BHRCC	BAC
Naheed Ishaq Khan	MOF	Member – BAC			4
Muhtashim Ashai	MCB	Chairman - BHRCC Member – BRMC	1	3	
Zia Ullah Khan	NBP	Ex-Chairman - BAC			3
Ali Sameer	UBL	Member - BRMC Member – BAC	1		3
Khalid Sherwani	ABL	Ex-Member – BRMC	1		
Mudassir H. Khan	HBL	Chairman - BAC Member – BHRCC		1	1
Shafqat Sultana	President / CEO	Chairperson - BRMC Member – BHRCC	2	2	
M. U. A. Usmani	MCB	Ex-Chairman – BHRCC		1	

Mr. Khalid A. Sherwani and Mr. Zakir A. Khan have retired during the year.

Staff Retirement Benefit Funds:

The Bank operates three post retirement funds including the Provident Fund, Gratuity Fund and Pension.

The carrying value of investments of the approved contributory / non-contributory Provident Fund, Pension and Gratuity schemes, based on the last un-audited financial statements of the funds, were:

Value of the Investments and Bank Balances	Provident Fund	Pension Fund	Gratuity
	'-----------------------------(PKR '000)--------------------------------		
2012	111,108	362,844	461
2011	97,190	260,602	3,334

The Bank also operates unfunded scheme in the form of Compensated Absences.

Meetings of the Directors

During 2012 the Board of Directors met seven times. Summary of the meetings attended by each of the directors is given below:

Name of Director	Representing	Meetings Attended
Naheed Ishaq Khan	MOF	7
Muhtashim Ashai	MCB	5
Zia Ullah Khan	NBP	3
Ali Sameer	UBL	5
Khalid Sherwani	ABL	1
Mudassir H. Khan	HBL	1
Shafqat Sultana	President / CEO	7

Change in the Directors

During 2012, two Directors retired who were Mr. Khalid A. Sherwani (ABL) and Mr. Zakir A. Khan (HBL). In place of Mr. Zakir, Mr. Mudassir Hussain Khan (HBL) has been appointed on September 07, 2012. However, the position of Mr. Khalid Sherwani is still vacant.

Directors Training Program

In compliance with the clause (XI) of the Code of Corporate Governance, Mr. Muhtashim Ashai, Ms. Naheed Ishaq and Mr. Mudassir H. Khan attended the Director's Orientation Workshop in collaboration with PICG.

Pattern of Share holding:

The pattern of shareholding as required U/s. 236 of the Companies Ordinance, 1984 and Article (xix) of the Code of Corporate Governance is as follows:

Share Holders	Number of Shares	% of Holding
Federal Government of Pakistan (through Ministry of Finance)	80,088,793	53.60%
MCB Bank Limited	23,095,324	15.46%
Habib Bank Limited	23,095,324	15.46%
Allied Bank Limited	7,734,927	05.15%
National Bank Limited	7,698,441	05.18%
United Bank Limited	7,698,441	05.18%
	149,411,250	100.00%

Risk Management Framework:

The overall risk management frame work of the Bank is under the supervision of the Board Risk Management Committee (BRMC) while the operational level day to day functioning is carried out by the Risk Management Department (RMD) of the Bank. To formalize and strengthen the risk management approach with in the Bank following policies were developed and approved by the Board:

- Credit Risk Policy
- Market Risk Policy
- Operational Risk policy

The Bank aims to formulate an integrated risk management framework.

During 2012 the Bank followed a conscious strategy of low risk and parked most of the liquidity generated either in the sovereign bonds or advances backed by the sovereign guarantee in any form.

Low risk profile helped in maintaining the Capital Adequacy Ratio (CAR) well above the prescribed regulatory threshold. The Bank has been performing stress testing process to ascertain the reliance of its financial statements given various stringent scenarios. The Bank realizes the need of a cohesive Risk Management Frame work and is taking appropriate steps in this direction.

Key Financial Indicators of FWBL during 2007-2012

The significant highlights of the Bank's financial performance during the last 6 years are enclosed as under:

Key Financial Indicators	(PKR In Millions)					
	2007	2008	2009	2010	2011	2012
Total Assets	8,985	7,304	10,258	12,703	16,128	22,491
Shareholders' Equity	1,088	1,103	1,093	1,106	1,720	2,077
Advances (Gross)	3,129	3,410	3,482	6,535	7,901	8,573
NPLs	85	174	331	430	523	613
Deposits	7,569	5,939	8,757	10,195	13,815	19,193
Investments & Lending's to Financial Institutions	4,405	2,615	5,233	4,356	6,336	11,484
Profit before tax	238	190	(86)	55	400	88
Net Assets Value - PKR / Share	38	39	39	39	16	14
Earnings per share - PKR / Share	5.57	3.74	(2.82)	0.30	3.11	0.33
Capital Adequacy Ratio - %	29.52%	22.12%	32.39%	27.24%	35.45%	24.70%

Appointment of External Auditors

The present auditors M/s. M. Yousuf Adil Saleem & Co., Chartered Accountants, retire and being eligible, offer themselves for re-appointment in the forthcoming Annual General Meeting. On the suggestion of the Audit Committee, the Board of Directors recommends to reappoint the same as Statutory Auditors of the Bank for the financial year ending 31st December 2013.

Acknowledgement

In conclusion on behalf of the Board of Directors and management of the Bank I would like to place on record our gratitude to the Government of Pakistan, Ministry of Finance and the State Bank of Pakistan for their continued support and guidance. We take this opportunity to thank our valued customers and business partners for their continued trust and patronage. We also acknowledge the commitment and continuous efforts of our colleagues.

For and on behalf of the Board of Directors

Shafqat Sultana
Chairperson of the Board of Directors &
President / CEO
Karachi

Date: March 19, 2013

First Women Bank Limited

STATEMENT OF INTERNAL CONTROLS

REPORTING OF INTERNAL CONTROL SYSTEM

The Bank's management is primarily responsible for the establishment and maintenance of an adequate and effective system of internal control that could help in the Bank's endeavor to attain a professional and efficient working environment throughout the Bank. The Internal Control System comprises of control procedures, practices and control environment.

The management ensures the efficiency and effectiveness of the Internal Control System by identifying control objectives, reviewing pertinent policies/procedures and establishing relevant control procedures. The Board has approved significant policies/manuals of the Bank, while some policies and procedures are being compared with existing practices and necessary amendments/updates and preparation of additional new policies/manuals are in progress.

Further, the management is conscious of appropriate authentication of transactions, strengthening of control environment, identifying areas requiring improvement in Internal Control System and ensuring relevant appropriate follow-ups/corrective actions, on timely basis. In this connection, the Bank has engaged M/s. BDO Ebrahim & Co., an independent Chartered Accountant firm to review the system of internal controls in accordance with established benchmarks including the COSO Framework. The consultant has completed 04 stages of ICFR assignment out of 09 as per structured road map provided by the SBP vide BSD circular no-5 dated February 24, 2009. To comply with the revised SBP instructions mentioned as point-2 in BSD circular No.3 dated June 10, 2010, review of four stages completed by the Consultant M/s.BDO Ebrahim & Co., was conduct by M/s. KPMG Taseer Hadi & Co., (Statutory Auditor of the Bank) for issuance of a "**Long Form Report**" for the year ended December 31, 2010. The said **"Long Form Report"** submitted to the State Bank of Pakistan as on 30-06-2011contain the various **"Factual Findings"** on the work completed. In the light of these factual findings, Updation of Internal Control Manual, gaps report & remedial plan was indispensable. Therefore, the management after detailed deliberation again engaged M/s. BDO Ebrahim & Co., for updation assignment keeping in view the cost & time factors, which was completed by the consultant & revised ICM & Implementation Plan is provided to the management as per agreement. Remaining stages would be completed as per given timeline. Meanwhile, in response to Bank's extension request revised SBP instruction & deadline were received vide letter NO- BSD/BRP-2/548/2012/14819 dated December 14, 2012, that the Bank should complete all stages of ICFR as per road map (issued vide Circular No-05 dated February 24, 2009) as of 31-03-2013 and statutory auditors should submit "**Long Form Report"** to the SBP through bank latest by **June 30, 2013**.

Internal Control System in the Bank is designed to manage, rather than eliminate, the risk of failure to achieve the business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

EVALUATION OF EXISTING INTERNAL CONTROL SYSTEM

The Bank strived during the year 2012 to ensure that an effective and efficient internal control system is implemented, any material compromise is not made in implementing the desired control procedures and a suitable environment is maintained in general. However, it is an ongoing process that includes identification, evaluation and management of significant risks being faced by the Bank.

The significant observations and weaknesses found/identified by the auditors, both internal and external, have taken care of largely and necessary steps were taken by the management, to minimize recurrence of those exceptions and elimination of such weaknesses, as far as possible. Efforts are underway to further strengthen the internal controls. The Board, with assistance of its Sub-Committees including the Audit Committee, provides supervision and overall guidance in improving the effectiveness of the internal control system. Due attention and focus is being given to improve controls and enhance competence level and knowledge of the staff.

For and on behalf of the Board

Shafqat Sultana
Chairperson & President / CEO
Date: March 19, 2013

AUDITORS' REVIEW REPORT TO THE MEMBERS ON THE STATEMENT OF COMPLIANCE WITH 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) for the year ended December 31 2012 prepared by the Board of Directors of **First Women Bank Limited** (the Bank) to comply with the Regulation G-1 of Prudential Regulations for Corporate / Commercial Banking issued by the State Bank of Pakistan.

The responsibility for compliance with the Code is that of the Board of Directors of the Bank. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement reflects the status of the Bank's compliance with the provisions of the Code and report if it does not. A review is limited primarily to inquiries of the Bank'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, the Code requires the Bank to place before the Board of Directors for their consideration and approval, related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price, recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code, as applicable to the Bank for the year ended December 31, 2012.

M. Yousuf Adil Saleem & Co.
Chartered Accountants

Engagement Partner:
Mushtaq Ali Hirani

Karachi
Date: March 19, 2013

First Women Bank Limited

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

This statement is being presented to comply with the Code of Corporate Governance (the Code) issued by the Securities and Exchange Commission of Pakistan and made applicable by State Bank of Pakistan to banks vide Regulation G-1 of Prudential Regulations (dealing with the responsibilities of the Board of Directors) and BSD Circular No. 15 dated 13 June, 2002 for the purpose of establishing a framework of good governance, to manage a bank in compliance with the best practices of Corporate Governance.

The Bank has adopted the Code and applied the principles contained in it in the following manner:

1. The President / Chief Executive Officer of the Bank is also the chairperson of the Board and is appointed by the Government of Pakistan (GoP). At present, the Board comprises of:

Category	**Names**
Executive Director	Ms. Shafqat Sultana
Non-Executive Directors	Ms. Naheed Ishaq Mr. Zia Ullah Khan Mr. Mudassir H. Khan Mr. Muhtashim Ahmed Ashai Mr. Ali Sameer

In the current year ABL withdrew its nomination from the Board of Directors. As the Banks Nationalization Act (BNA) is applicable to the Bank, certain criteria for election, powers and functions of the Board as laid down in the Code are not considered applicable to the Bank.

2. The directors have confirmed that they are not serving as a director in more than seven listed companies, including this Bank

3. All the directors of the Bank are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a Development Financial Institution (DFI) or a Non-Banking Finance Institution (NBFI) or, being a member of a Stock Exchange, has been declared as a defaulter by that Stock Exchange. The directors have also confirmed that neither they nor their spouses are engaged in the business of Stock Brokerage.

4. Two casual vacancies occurred in the Board one each on 15 February 2012 and 06 July 2012. The Bank has timely intimated the above vacancies to the relevant authorities. The casual vacancy of 15 February 2012 was filled on 27 February 2012. However the SBP clearance in this regard was received on 07 September 2012. Casual vacancy created on 06 July 2012 due to resignation of nominee of a shareholder is not filled.

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

6. The Board has developed the Vision / Mission statements, overall corporate strategy and significant policies of the Bank. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained by the Bank except that six policies were in circulation for approval by the Board as at 31 December, 2012 out of which three policies were approved subsequent to the year end.

7. All the powers of the Board have been duly exercised and necessary administrative, financial and credit discretionary powers have been delegated to the management and decisions on material transactions, have been approved / ratified / confirmed by the Board.

8. All the meetings of the Board were presided over by the Chairman in terms of the provisions of Banks (Nationalization) Act, 1974. The Board met at least once in every quarter during the year ended 31 December 2012. Written notices of the Board meetings, along with agenda and working papers were circulated at least seven days before the meetings. However, the minutes of the meetings were appropriately recorded and circulated along with the agenda of the next meeting.

9. During the year, the Board arranged Director's Orientation Workshop in collaboration with Pakistan Institute of Corporate Governance which has been attended by all the directors including the President of the Bank. One of the directors who possessed certification under the "Board Development Series" program conducted by the Pakistan Institute of Corporate Governance has resigned during the year. The Bank is making arrangements that some of its existing directors will obtain the certification under the directors training program in the ensuing year.

10. The Board has approved the appointment of Chief Financial Officer, Company Secretary and Head of Internal Audit including their remuneration and terms and conditions of employment. However, no new appointment of Company Secretary and Head of Internal Audit was made during the year.

11. The Directors' Report for the year ended 31 December 2012 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

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

13. The directors, Chief Executive Officer and executives do not hold any interest in the shares of the Bank.

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

15. The Board has formed an Audit Committee which comprises of three members. All the members including the Chairman of the Committee are non-executive directors. The terms of reference of the Committee have been formed and advised to the Committee for compliance.

16. The meetings of the Audit Committee were held at least once in every quarter prior to the approval of interim and final results of the Bank and as required by the Code.

17. The board has formed a Human Resource and Remuneration Committee. It comprises of three members, of whom two are non-executive directors including the Chairman of the Committee.

18. The board has set up an effective internal audit function. Head of Internal Audit is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Bank and is involved in the internal audit function on a full time basis.

19. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review 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 all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as adopted by the Institute of Chartered Accountants of Pakistan.

20. The statutory auditors or the persons associated with them have not been appointed to provide other than approved services and the auditors have confirmed that they have observed IFAC guidelines in this regard.

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

For and on behalf of the Board

Shafqat Sultana
Chairman of the Board of Directors &
President / CEO
Karachi

Date: March 19, 2013

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed statement of financial position of **First Women Bank Limited** (the Bank) as at December 31, 2012 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'the financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for nine branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief were necessary for the purposes of our audit.

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

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, which in 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, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at the December 31, 2012, and its true balance of profit, its comprehensive income, its cash flows and changes in equity for the year then ended; and

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

M. Yousuf Adil Saleem & Co.
Chartered Accountants

Engagement Partner:
Mushtaq Ali Hirani

Karachi.
Date: March 19, 2013

First Women Bank Limited
Statement of Financial Position
As at 31 December 2012

	Note	2012	2011
		(Rupees in '000)	
Assets			
Cash and balances with treasury banks	*6*	**1,188,234**	973,701
Balances with other banks	*7*	**636,034**	561,555
Lendings to financial institutions	*8*	**4,219,779**	1,605,946
Investments - net	*9*	**7,263,885**	4,730,434
Advances - net	*10*	**8,334,643**	7,701,063
Operating fixed assets	*11*	**239,084**	229,344
Deferred tax assets - net	*12*	**-**	-
Other assets - net	*13*	**609,141**	326,492
		22,490,800	16,128,535
Liabilities			
Bills payable	*15*	**548,727**	96,417
Borrowings	*16*	**73,340**	51,100
Deposits and other accounts	*17*	**19,193,344**	13,814,854
Subordinated loan		**-**	-
Liabilities against assets subject to finance lease		**-**	-
Deferred tax liabilities - net	*12*	**5,242**	1,252
Other liabilities	*18*	**592,907**	445,348
		20,413,560	14,408,971
Net assets		**2,077,240**	1,719,564
Represented by:			
Share capital	*19*	**1,494,113**	1,080,038
Reserves		**293,863**	284,991
Unappropriated profit		**203,665**	280,399
		1,991,641	1,645,428
Surplus on revaluation of assets - net of tax	*20*	**85,599**	74,136
		2,077,240	1,719,564
Contingencies and commitments	*21*		

The annexed notes 1 to 44 form an integral part of these financial statements.

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Director

(Naheed Ishaq)
Director

(Muhtashim A. Ashai)
Director

First Women Bank Limited
Profit and Loss Account
For the year ended 31 December 2012

	Note	2012	2011
		(Rupees in '000)	
Mark-up / return / interest earned	24	**1,798,231**	1,918,759
Mark-up / return / interest expensed	25	**1,037,893**	1,176,451
Net mark-up / return / interest income		**760,338**	742,308
Provision against / (reversal of) non-performing loans and advances - net	10.3.2	**48,216**	(25,285)
Provision for diminution in the value of investments	9.10	**2,292**	2,297
Provision against lendings to financial institutions		**-**	17,513
Bad debts written off directly		**-**	-
		50,508	(5,475)
Net mark-up / return / interest income after provisions		**709,830**	747,783
Non-mark-up / interest income			
Fee, commission and brokerage income		**43,602**	20,779
Dividend income		**7,771**	12,639
Income from dealing in foreign currencies		**24,698**	18,918
Gain on sale / redemption of securities - net	26	**600**	180,570
Other income - net	27	**18,910**	20,813
Total non-mark-up / interest income		**95,581**	253,719
		805,411	1,001,502
Non-mark-up / interest expenses			
Administrative expenses	28	**716,657**	600,986
Provision against other assets		**-**	-
Other charges	29	**263**	413
Total non-mark-up / interest expenses		**716,920**	601,399
Extra ordinary / unusual items		**-**	-
Profit before taxation		**88,491**	400,103
Taxation - current year		**32,062**	127,442
- prior year		**13,064**	-
- deferred		**(191)**	14,114
	30	**44,935**	141,556
Profit after taxation		**43,556**	258,547
Unappropriated profit brought forward		**280,399**	567,585
Issuance of bonus shares		**(114,075)**	(496,388)
Transferred to statutory reserve		**(8,872)**	(51,709)
Transfer from surplus on revaluation of fixed assets - net of tax	20.1	**2,657**	2,364
		160,109	21,852
Profit available for appropriation		**203,665**	280,399
		(Rupees)	**(Restated)**
Basic and diluted earnings per share - after tax	31	**0.33**	3.11

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(Shafqat Sultana) **President and** **Chief Executive**	**(Mudassir H. Khan)** **Director**	**(Naheed Ishaq)** **Director**	**(Muhtashim A. Ashai)** **Director**

First Women Bank Limited
Statement of Comprehensive Income
For the year ended 31 December 2012

	2012	2011
	(Rupees in '000)	
Profit after taxation for the year	**43,556**	258,547
Other comprehensive income	-	-
Total comprehensive income for the year	**43,556**	258,547

The annexed notes 1 to 44 form an integral part of these financial statements.

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First Women Bank Limited
Cash Flow Statement
For the year ended 31 December 2012

	Note	2012	2011
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		**88,491**	400,103
Dividend income		**(7,771)**	(12,639)
		80,720	387,464
Adjustments for non-cash charges:			
Depreciation	*11.1*	**24,983**	24,913
Amortisation of intangible assets	*11.3*	**2,003**	1,901
Provision for diminution in value of investments	*9.10*	**2,292**	2,297
Provision against lendings to financial institutions		**-**	17,513
Provision against / (reversal of) non-performing loans and advances - net	*10.3.2*	**48,216**	(25,285)
Gain on sale of operating fixed assets	*27*	**(2,017)**	(3,736)
		75,477	17,603
		156,197	405,067
(Increase) / decrease in operating assets			
Lendings to financial institutions		**(2,613,833)**	(697,136)
Advances		**(672,200)**	(1,365,433)
Others assets (excluding advance taxation)		**(202,235)**	(35,449)
		(3,488,268)	(2,098,018)
Increase / (decrease) in operating liabilities			
Bills payable		**452,310**	(5,765)
Borrowings		**22,240**	(915,785)
Deposits and other accounts		**5,378,490**	3,619,640
Other liabilities		**147,559**	109,396
		6,000,599	2,807,486
		2,668,528	1,114,535
Income tax paid		**(136,567)**	(44,070)
Net cash generated from operating activities		**2,531,961**	1,070,465
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		**(2,523,215)**	(1,242,874)
Net investments in held-to-maturity securities		**7,204**	6,883
Dividend income received		**7,771**	12,639
Purchase of operating fixed assets		**(38,163)**	(53,762)
Proceeds from disposal of operating fixed assets		**3,454**	5,366
Net cash used in investing activities		**(2,542,949)**	(1,271,748)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of share capital		**300,000**	300,000
Net cash generated from financing activities		**300,000**	300,000
Increase in cash and cash equivalents		**289,012**	98,717
Cash and cash equivalents at beginning of the year		**1,535,256**	1,436,539
Cash and cash equivalents at end of the year	*32*	**1,824,268**	1,535,256

The annexed notes 1 to 44 form an integral part of these financial statements.

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First Women Bank Limited
Statement of Changes in Equity
For the year ended 31 December 2012

	Note	Share capital	Statutory reserve	Revenue reserve unappropriated profit	Total
		------------------------- (Rupees in '000) ----------------------------			
Balance at 31 December 2010		283,650	233,282	567,585	1,084,517
Total comprehensive income for the year					
Profit after taxation for the year ended 31 December 2011		-	-	258,547	258,547
Other comprehensive income		-	-	-	-
		-	-	258,547	258,547
Transferred to statutory reserve		-	51,709	(51,709)	-
Transferred from surplus on revaluation of fixed assets to unappropriated profit - net of tax	*20.1*	-	-	2,364	2,364
Transactions with owners recorded directly in equity					
Issue of bonus shares at 175%		496,388	-	(496,388)	-
Issue of shares against cash		300,000	-	-	300,000
		796,388	-	(496,388)	300,000
Balance at 31 December 2011		1,080,038	284,991	280,399	1,645,428
Total comprehensive income for the year					
Profit after taxation for the year ended 31 December 2012		-	-	43,556	43,556
Other comprehensive income		-	-	-	-
		-	-	43,556	43,556
Transferred to statutory reserve		-	8,872	(8,872)	-
Transferred from surplus on revaluation of fixed assets to unappropriated profit - net of tax	*20.1*	-	-	2,657	2,657
Transaction with owners recorded directly in equity					
Issue of bonus shares at 10.56%		114,075	-	(114,075)	-
Issue of shares against cash		300,000	-	-	300,000
		414,075	-	(114,075)	300,000
Balance at 31 December 2012		**1,494,113**	**293,863**	**203,665**	**1,991,641**

The annexed notes 1 to 44 form an integral part of these financial statements.

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1. STATUS AND NATURE OF BUSINESS

First Women Bank Limited (the Bank) was incorporated under the Companies Ordinance, 1984 on 21 November 1989 in Pakistan as an unquoted public limited company and commenced operations on 02 December 1989. The Bank is engaged in commercial banking and related services. The registered office of the Bank is situated at ground floor, S.T.S.M. Foundation Building, Civil Lines, Karachi. The Bank operates a network of forty one branches as at 31 December 2012 (2011: thirty eight).

2. BASIS OF PRESENTATION

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

3. STATEMENT OF COMPLIANCE

3.1 These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved Accounting Standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 and the directives issued by the SBP. In case the requirements differ, the provisions of and directives issued under the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 and the directives issued by the SBP shall prevail.

3.2 The SBP, vide BSD Circular No. 10, dated 26 August 2002 has deferred the applicability of International Accounting Standard 39, 'Financial Instruments: Recognition and Measurement' (IAS 39) and International Accounting Standard 40, 'Investment Property' (IAS 40) for banking companies till further instructions. Further, according to a notification of Securities and Exchange Commission of Pakistan vide SRO 411 (1) 2008 dated 28 April 2008, International Financial Reporting Standard, 'Financial Instruments Disclosure' (IFRS 7) 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 prescribed by the SBP through various circulars.

3.3 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

During the year, amendments to following standards became effective, however, their application did not have material impact on the financial statements of the Bank:

- Amendments to IAS 12 - Income Taxes - Deferred Tax: Recovery of Underlying Assets
- Amendments to IFRS 7 - Financial Instruments: Disclosures - Transfer of financial assets

3.4 Amendments to published standards and new interpretation to existing standard that are not yet effective and have not been early adopted by the Bank

The following amendments to published standards and new interpretation to existing standard are effective for annual periods, beginning on or after the date mentioned against them:

- lAS 1 -'Presentation of Financial Statements' (effective for annual periods beginning on or after July 1, 2012) - retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

- IAS 19 -'Employee Benefits' (effective for annual periods beginning on or after January 1, 2013) - The amendments require actuarial gains and losses to be recognized immediately in other comprehensive income; to immediately recognize all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability / asset. This change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19. As a result of adoption of this amendment, the Bank will recognize the actuarial gains and losses in other comprehensive income, which are currently being recognized in the profit and loss account.

- lAS 32 'Financial Instruments: Presentation' - (effective for annual periods beginning on or after January 1, 2014) - These amendments clarify the meaning of `currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house ystems) which apply gross settlement mechanisms that are not simultaneous.

- IFRIC 20 'Stripping Costs in the Production Phase of a Surface Mine' - (effective for annual periods beginning on or after January 1, 2013) - This interpretation applies to all types of natural resources that are extracted using a surface mine activity process, and addresses the issues pertaining to the recognition of production stripping cost as an asset, initial measurement of stripping activity at cost and subsequent measurement of stripping activity asset at depreciated or amortized cost based on a systematic basis over the expected useful life of the identified component of ore body.

The above mentioned amendments to published standards and new interpretation to existing standard are either not relevant to the Bank's operations or are not expected to have significant impact on the Bank's financial statements other than increase in disclosure in certain cases.

4. BASIS OF MEASUREMENT

4.1 These financial statements have been prepared under the historical cost convention except that certain operating fixed assets are stated at revalued amounts less accumulated depreciation, available- for-sale and held-for-trading investments and derivative financial instruments are measured at fair value.

4.2 The financial statements are presented in Pakistan Rupees, which is the Bank's functional and presentation currency. Except as indicated, financial information presented in Pakistan Rupees has been rounded to nearest thousand.

4.3 Critical accounting judgements and key sources of estimation of uncertainty

The preparation of financial statements in conformity with the approved accounting standards as applicable in Pakistan requires the use of certain critical accounting estimates that affect the reported amounts of assets, liabilities, income and expenses. It also requires the management to exercise its judgment in the process of applying the Bank's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Bank's financial statements or where judgment was exercised in application of accounting policies are as follows:

a) Classification of investments

- In classifying investments as 'held-for-trading', the Bank determines the securities which are acquired with the intention to trade by taking advantage of short term market / interest rate movements and are to be sold within 90 days. However, currently no held-for-trading instruments are held by the Bank.

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

- The investments which are not classified as 'held-for-trading' or 'held-to-maturity' are classified as 'available-for-sale'.

b) Valuation and impairment of available-for-sale equity investments

The Bank determines that 'available-for-sale' equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, the impairment may be appropriate when there is an evidence of deterioration in the financial health of investee, industry and sector performance, changes in technology and operational and financing cash flows.

c) Provision against non-performing loans and advances and debt securities classified as investments

The Bank reviews its loan portfolio and debt securities classified as investments to assess amount of non-performing loans and advances and debt securities and provision required there against on a regular basis. While assessing this requirement various factors including the delinquency in the account, financial position of the borrower, the forced sale value of the securities and the requirements of the Prudential Regulations are considered. The Bank also maintains general provision against consumer advances in accordance with the requirement set out in Prudential Regulations of the SBP. These provisions change due to changes in requirements.

d) Income taxes

In making the estimates for income taxes currently payable by the Bank, the management looks at the current income tax laws and the decisions of appellate authorities on certain issues in the past. In making the provision for deferred taxes, estimates of the Bank's future taxable profits are taken into account.

e) Operating fixed assets, depreciation, amortisation and revaluation

The Bank estimates the revalued amount of land and buildings on a regular basis. The estimates are based on valuations carried out by independent professional valuers and such valuations are carried out with sufficient regulatory so that the valuation at the year end is close to their fair values. In making estimates of the depreciation / amortisation method, the management uses the method which reflects the pattern in which economic benefits are expected to be consumed by the Bank. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method is changed to reflect the changed pattern. Such a change is accounted for as change in accounting estimates in accordance with International Accounting Standard, 'Accounting Policies, Changes in Accounting Estimates and Errors' (IAS 8).

f) Staff retirement benefits

Liability is determined on the basis of actuarial advice using the Projected Unit Credit Method. The actuarial assumptions used to determine the liability and related expense are disclosed in note 34. Actuarial assumptions are entity's best estimates of the variables that will determine the ultimate cost of providing post employment benefits. Changes in these assumptions in future years may effect the liability / asset under these plans in those years.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements are the same as those applied in the preparation of the financial statements of the Bank for the year ended 31 December 2011 and are enumerated as follows:

5.1 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise of cash and balances with treasury banks and balances with other banks.

5.2 Investments

The Bank classifies its investment portfolio into following categories:

a) Held-for-trading

These are securities, which are either acquired for generating profit from short-term fluctuations in market prices, interest rate movements, dealers margin or are securities included in a portfolio in which a pattern of short-term profit taking exists. However, currently no held-for-trading investments are held by the Bank.

b) Held-to-maturity

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

c) Available-for-sale

These are securities, that do not fall under the 'held-for-trading' or 'held-to-maturity' categories.

Investments are initially recognised at cost being fair value of the consideration given and includes transaction costs associated with the investment except that in case of held-for-trading financial instruments, these are charged off to the profit and loss account.

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

In accordance with the requirements of the SBP, quoted securities, other than those classified as held-to-maturity, are carried at market value. Investments classified as held to maturity are carried at amortized cost.

Unrealized surplus / (deficit) arising on revaluation of the Bank's quoted held for trading investment portfolio is taken to the profit and loss account (however, at 31 December 2012, no investments were held in the held-for-trading category). Surplus / (deficit) arising on revaluation of quoted securities classified as available-for-sale is kept in a separate account shown in the balance sheet below equity. The surplus / (deficit) arising on these securities is taken to the profit and loss account when actually realised upon disposal or when the investment is considered to be impaired.

Unquoted equity securities (including the investment in associated undertaking where the Bank does not have significant influence) are valued at the lower of cost and break-up value. Break-up value of these securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements. Associates as defined under local statutes but not under IAS are accounted for as ordinary investments.

Provision for diminution in the values of securities (except for term finance certificates) is made currently after consideration of impairment, if any. Provision for diminution in the value of term finance certificates is determined as per the requirements of the Prudential Regulations issued by the SBP.

5.3 Lendings to / borrowings from financial institutions

The Bank enters into transactions of borrowing (repurchase) from and lending (reverse repurchase) to financial institutions, at contracted rates for a specified period of time. These are recorded as under:

Sale under repurchase obligation

Securities sold with a simultaneous commitment to repurchase at a specified future date (repo) continue to be recognised in the balance sheet and are measured in accordance with accounting policies for investments and counter party liability is included in borrowing from financial institutions. The difference between sale and repurchase price is amortised as an expense over the term of the repo agreement.

Purchase under resale obligation

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognised in the balance sheet and instead amounts paid under these arrangements are included in lendings to financial institutions. The difference between purchase and resale price is accrued as income over the term of the agreement.

Other obligation

Other borrowings including borrowings from SBP are recorded at the proceeds received. Mark-up on such borrowing is charged to the profit and loss account on a time proportion basis.

5.4 Advances

Advances are stated net of specific and general provisions. Specific provision is determined on the basis of the Prudential Regulations and other directives issued by the SBP and charged to the profit and loss account. General provision is maintained against consumer and microfinance portfolio in accordance with the requirements of the Prudential Regulations issued by the SBP.

Advances are written-off when there is no realistic prospect of recovery.

5.5 Operating fixed assets and depreciation

5.5.1 Tangible assets

Property and equipment owned by the Bank other than land the carrying value of which is not amortised, are stated at cost or revalued amounts less accumulated depreciation and accumulated impairment losses, if any. Land is carried at revalued amounts.

Depreciation is charged to the profit and loss account applying the diminishing balance method except for vehicles which are depreciated using the straight line method. The rates of depreciation are given in note 11.1 to these financial statements. The residual values, useful lives and depreciation methods are reviewed and changes, if any, are treated as change in accounting estimates, at each balance sheet date. Depreciation on additions to operating fixed assets is charged for the whole year, while no depreciation is charged on operating fixed assets disposed off during the year.

Surplus arising on revaluation of land and buildings is credited to the surplus on revaluation of fixed assets account. Deficit arising on subsequent revaluation of fixed assets is adjusted against the balance in the above mentioned surplus account as allowed under the provisions of the Companies Ordinance, 1984. Revaluation is carried out with sufficient regularity to ensure that the carrying amount of assets does not differ materially from the fair value. The surplus on revaluation of fixed assets to the extent of incremental depreciation charged on the related assets, is transferred directly to unappropriated profit (net of deferred tax).

An item of property and equipment is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gains or losses on sale of property and equipment are included in the profit and loss account in the year the asset is de-recognised, except that the related surplus on revaluation of land and buildings (net of deferred tax) is transferred directly to unappropriated profit.

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

5.5.2 Intangible assets

Intangible assets comprise of cost of computer software and are stated at cost less accumulated amortisation and accumulated impairment losses, if any. The cost of intangible assets are amortised over their estimated useful lives using the diminishing balance method at the rates stated in note 11.3. Costs associated with maintaining the computer software are recognised as expense in the profit and loss account as and when incurred. The useful lives of intangible assets are reviewed and adjusted, if appropriate, at each balance sheet date.

5.5.3 Capital work-in-progress

Capital work-in-progress is stated at cost less impairment losses, if any.

5.6 Impairment

At each balance sheet date, the Bank reviews the carrying amount of its assets (other than deferred tax assets) to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of assets is estimated in order to determine the extent of the impairment loss, if any. Recoverable amount is the greater of net selling price and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the assets is reduced to its recoverable amount. The resulting impairment loss is recognised as an expense immediately, except that the impairment loss on revalued fixed assets is first adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of those assets.

5.7 Taxation

5.7.1 Current

Provision for current taxation is based on taxable income for the year determined in accordance with the prevailing laws for taxation on income earned. The charge for current tax is calculated using the prevailing tax rates or tax rates expected to apply to the profits for the year. The charge for current tax also includes adjustments where considered necessary, relating to prior years which arise from assessments finalised during the year for such years.

5.7.2 Deferred

Deferred tax is recognised using the balance sheet liability method on all major temporary differences at the balance sheet date between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. Deferred tax is calculated at the rates that are expected to apply to the periods when the difference will reverse, based on tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Bank also recognises deferred tax asset / liability on deficit / surplus on revaluation of securities and operating fixed assets (other than land) which is adjusted against the related deficit / surplus in accordance with the requirements of International Accounting Standard, 'Income Taxes' (IAS 12).

5.8 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made.

Provision against identified non-funded losses is recognised when intimated and reasonable certainty exists for the Bank to settle the obligation. The loss is charged to the profit and loss account net of expected recovery and is classified under other liabilities.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

5.9 Staff retirement benefits

Staff retirement benefits are available to the employees of the Bank under two schemes, viz. old scheme and a new scheme.

5.9.1 For employees of the Bank who were transferred from other scheduled banks and who did not opt for the new scheme, the Bank operates the following schemes:

Approved funded gratuity scheme (defined benefit plan)

The Bank operates a funded gratuity scheme for its employees. The fund was granted approval by the Commissioner of Income Tax on 31 December 2003 to take effect from 1 January 2003. Contributions to the fund are made on the basis of actuarial recommendations.

Approved contributory provident fund (defined contribution plan)

The Bank operates a recognised contributory provident fund to which equal contributions are made both by the Bank and the employees at a rate of 8.33% of basic salary.

5.9.2 For new employees and for those who have opted for the new scheme, the Bank operates the following schemes:

Approved funded pension scheme (defined benefit plan)

The Bank operates a funded pension scheme for its employees. The fund was granted approval by the Commissioner of Income Tax on 6 March 2000 to take effect from 1 October 1999. Contributions are made on the basis of actuarial recommendations.

Approved non contributory provident fund (defined contribution plan)

The Bank operates a non contributory provident fund in which monthly contributions are made by employees at a rate of 12% of basic salary.

5.9.3 Contributions to the defined benefit plans are made on the basis of actuarial recommendations using the projected unit credit method. The above benefits are payable to staff at the time of separation / retirement from the Bank's services subject to the completion of qualifying period of service.

5.9.4 Actuarial gains and losses

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of the plan assets or 10% of the defined benefit obligation at the end of the last reporting year are charged or credited to income over the employees' expected average remaining working lives. These limits are calculated and applied separately for each defined benefit plan.

5.9.5 Past service cost

Past service cost resulting from changes to defined benefit plans to the extent the benefits are already vested is recognized immediately and the remaining unrecognized past service cost is recognized as an expense on a straight line basis over the average period until the benefits become vested.

5.10 Employees' compensated absences

The Bank recognises liability in respect of compensated absences of its employees in the period in which these are earned on the basis of actuarial valuation carried out using the Projected Unit Credit Method.

5.11 Revenue recognition

- Mark-up / return / interest on regular advances and investments is recognised on a time proportion basis using effective interest method. Where debt securities are purchased at premium or discount, the same is amortized through the profit and loss account using the effective interest rate method.

- Mark-up / return / interest recoverable on classified advances and investments is recognised on receipt basis. Mark-up / return / interest on classified rescheduled / restructured advances and investments is recognised as permitted by the regulations of the SBP.

- Dividend income is recognised when the Bank's right to receive dividend is established.

- Gain / loss on sale of investments is recognised to the profit and loss account.

- Fees, brokerage and commission on letters of credit / guarantee are recognised at the time of performance of services. Account maintenance and service charges are recognised when realised.

5.12 Foreign currencies

5.12.1 Foreign currency transactions

Transactions in foreign currencies are translated into rupees at the foreign exchange rates ruling on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in rupee terms at the rates of exchange prevailing at the balance sheet date. Foreign bills purchased and forward foreign exchange contracts are valued at the rates applicable to their respective maturities.

5.12.2 Translation gains and losses

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

5.12.3 Commitments

Commitments for outstanding forward foreign exchange contracts are disclosed in these financial statements at committed amounts / contracted rates. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange ruling at the balance sheet date.

5.13 Financial instruments

5.13.1 Financial assets and financial liabilities

Financial assets and financial liabilities are recognised at the time when the Bank becomes a party to the contractual provision of the instrument. Financial assets are de-recognised when the contractual right to future cash flows from the asset expires or is transferred along with the risk and reward of the asset. Financial liabilities are de-recognised when obligation specific in the contract is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial assets and liabilities is recognised in the profit and loss account of the current period. The particular recognition and subsequent measurement methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them.

5.13.2 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value using valuation techniques. All derivative financial instruments are carried as assets when the fair value is positive and liability when fair value is negative. Any change in the fair value of derivative financial instruments is taken to the profit and loss account.

5.14 Off-setting

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

5.15 Deposits

Deposits are initially recorded at the amount of proceeds received. Mark-up accrued on deposits is recognized separately as part of other liabilities and is charged to the profit and loss account on a time proportion basis.

5.16 Dividend distribution and appropriations

Bonus and cash dividend and other appropriations (except for the appropriations required by law), declared / approved subsequent to balance sheet date are considered as non-adjusting event and are not recorded in financial statements of the current year. These are recognized in the period in which these are declared / approved.

5.17 Earnings / loss per share

The Bank presents earnings / loss per share data for its ordinary shares. Earnings / loss per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank with the weighted average number of ordinary shares outstanding during the year.

5.18 Segment reporting

A segment is a distinguishable component of the Bank that is engaged in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment information is presented as per the Bank's functional structure and guidance of the SBP. The Bank comprises of following main segments:

5.18.1 Business segments

Corporate finance

Corporate finance includes syndications and advances to corporate enterprises.

Trading and sales

It includes fixed income, equity, foreign exchange commodities, lendings to financial institutions and borrowings.

Retail and consumer banking

It includes retail lending and deposits, banking services, private lending and deposits, retail offered to its retail customers and small and medium enterprises.

Commercial banking

It includes project finance, export finance, trade finance, other lendings, guarantees and bills of exchange.

5.18.2 Geographical segment

The Bank operates in Pakistan only.

	Note	**2012**	2011
		(Rupees in '000)	
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency	*6.1*	**354,487**	205,435
Foreign currencies		**134,410**	52,454
With State Bank of Pakistan in			
Local currency current accounts	*6.2*	**464,931**	498,329
Foreign currency deposit accounts	*6.3*	**141,839**	120,527
US Dollar clearing account		**4,210**	2,413
With National Bank of Pakistan in local currency current accounts - a related party		**88,357**	94,543
		1,188,234	973,701

6.1 This includes National Prize Bonds of Rs. 0.284 million (2011: Rs. 0.940 million).

6.2 The local currency current accounts are maintained with the State Bank of Pakistan (SBP) as per the requirements of Section 36 of the State Bank of Pakistan Act, 1956. This section requires banking companies to maintain a local currency cash reserve as percentage of its time liabilities and demand liabilities in Pakistan as may be prescribed by the SBP.

6.3 The balance held in foreign currency deposit accounts with the SBP represents the 5% cash reserve requirement and 15% special cash reserve for holding FE-25 deposits. This amount includes special cash reserve of Rs. 35.751 million (2011: Rs. 89.496 million) at nil return per annum (2011: nil return per annum).

	Note	2012	2011
		(Rupees in '000)	

7. BALANCES WITH OTHER BANKS

	Note	2012	2011
In Pakistan			
On current accounts	*7.1*	**49,437**	33,824
On deposit accounts	*7.2*	**544,242**	403,253
Outside Pakistan			
On current accounts	*7.3*	**42,355**	124,478
		636,034	561,555

7.1 These represent balances with related parties.

7.2 Placement of funds with banks, against foreign currency deposit scheme (FE-25), are unsecured and carry mark-up rates ranging from 0.4% to 0.9% per annum (2011: 0.5% to 2% per annum). It represents balances with related parties (2011: Rs. 313.307 million).

7.3 These include related party balances amounting to Rs. 25.072 million (2011: Rs. 39.787 million).

	Note	2012	2011
		(Rupees in '000)	

8. LENDINGS TO FINANCIAL INSTITUTIONS

	Note	2012	2011
In local currency			
Repurchase agreement lendings	*8.1*	**4,219,779**	1,605,946
Term lendings	*8.2*	**139,089**	139,089
		4,358,868	1,745,035
Provision against term lendings	*8.3*	**(139,089)**	(139,089)
		4,219,779	1,605,946

8.1 Securities held as collateral against repurchase agreement lendings

	2012			2011		
	Held by bank	**Further given as collateral**	**Total**	Held by bank	Further given as collateral	Total
	-------------------------------------(Rupees in '000)-------------------------------------					
Market Treasury Bills	**4,219,779**	**-**	**4,219,779**	1,605,946	-	1,605,946

Market value of securities held as collateral against repurchase agreement lendings at 31 December 2012 amounted to Rs. 4,364.590 million (2011: Rs. 1,607.666 million) and carry mark-up rates ranging from 7.5% to 7.8% per annum (2011: 11.3% to 11.9% per annum). This includes lendings to related parties amounting to Rs. 2,921.195 million (2011: Rs. 1,377.063 million).

8.2 This represents financing to two financial institutions carried profit rate ranging from 10% to 12.14% (2011: 10% to 13.79%) per annum. However, due to default in repayments, full provision has been made against this amount.

8.3 Movement of provision against term lendings

	2012	**2011**
	(Rupees in '000)	
Opening balance	139,089	121,576
Charge for the year	-	20,013
Reversal during the year	-	(2,500)
	-	17,513
Closing balance	139,089	139,089

9. INVESTMENTS - NET

9.1 Investments by types

	Note	2012			2011		
		Held by bank	**Given as collateral**	**Total**	Held by bank	Given as collateral	Total
		-------------------------------------(Rupees in '000)-------------------------------------					
Available-for-sale							
- Market Treasury Bills	*9.4*	**4,109,176**	**-**	**4,109,176**	3,825,075	-	3,825,075
- Pakistan Investment Bonds	*9.4*	**2,909,048**	**-**	**2,909,048**	662,865	-	662,865
- Term Finance Certificates (TFCs)	*9.5*	**14,838**	**-**	**14,838**	21,907	-	21,907
- Units / certificates of mutual funds	*9.6*	**30,000**	**-**	**30,000**	30,000	-	30,000
- Preference shares of a listed company	*9.7*	**10,000**	**-**	**10,000**	10,000	-	10,000
- Ordinary shares of an unlisted company	*9.8*	**954**	**-**	**954**	954	-	954
		7,074,016	**-**	**7,074,016**	4,550,801	-	4,550,801
Held-to-maturity							
- Pakistan Investment Bonds	*9.9*	**203,699**	**-**	**203,699**	210,903	-	210,903
Investments at cost		**7,277,715**	**-**	**7,277,715**	4,761,704	-	4,761,704
Provision for diminution in value of investments	*9.10*	**(24,049)**	**-**	**(24,049)**	(21,757)	-	(21,757)
Investments (net of provisions)		**7,253,666**	**-**	**7,253,666**	4,739,947	-	4,739,947
Surplus / (deficit) on revaluation of available-for-sale securities - net	*20.2*	**10,219**	**-**	**10,219**	(9,513)	-	(9,513)
Investments at revalued amount		**7,263,885**	**-**	**7,263,885**	4,730,434	-	4,730,434

9.2 Investments by segments

	Note	**2012**	2011
		(Rupees in '000)	
Federal Government Securities:			
- Market Treasury Bills	*9.4*	**4,109,176**	3,825,075
- Pakistan Investment Bonds	*9.4 & 9.9*	**3,112,747**	873,768
Fully paid-up ordinary shares / certificates / units:			
- Listed mutual funds	*9.6*	**30,000**	30,000
- Unlisted company (related party)	*9.8*	**954**	954
Fully paid-up preference shares:			
- Shares of a listed company	*9.7*	**10,000**	10,000
Term Finance Certificates, debentures, bonds and Participation Term Certificates:			
- Listed Term Finance Certificates	*9.5*	**9,178**	16,247
- Unlisted Term Finance Certificates	*9.5*	**5,660**	5,660
		14,838	21,907
Investments at cost		**7,277,715**	4,761,704
Provision for diminution in value of investments	*9.10*	**(24,049)**	(21,757)
Investments (net of provisions)		**7,253,666**	4,739,947
Surplus / (deficit) on revaluation of available-for-sale securities - net	*20.2*	**10,219**	(9,513)
Investments at revalued amount		**7,263,885**	4,730,434

9.3 Quality of available-for-sale securities

	2012			2011		
	Market value/ carrying value of investments (Rupees in '000)	Credit rating Long Term	Credit rating Short Term	Market value/ carrying value of investments (Rupees in '000)	Credit rating Long Term	Credit rating Short Term
Market Treasury Bills	**4,115,543**	**(Unrated - Government Securities)**		3,842,007	(Unrated - Government Securities)	
Pakistan Investment Bonds	**2,900,647**	**(Unrated - Government Securities)**		629,743	(Unrated - Government Securities)	
Listed Term Finance Certificates						
Telecard Limited - I	**4,589**	**(Unrated)**	**(Unrated)**	6,890	D	(Unrated)
Bank Al-Habib Limited - I	-	-	-	2,629	AA	(Unrated)
Orix Leasing Pakistan Limited - II	-	-	-	4,030	AA+	(Unrated)
	4,589			13,549		
Un-listed Term Finance Certificates						
Pakistan International Airlines Corporation	**5,660**	**(Unrated)**	**(Unrated)**	5,660	(Unrated)	(Unrated)
Shares in listed companies / certificates / units of mutual funds						
Meezan Balanced Fund	**11,560**	**(Unrated)**	**(Unrated)**	9,100	(Unrated)	(Unrated)
Pakistan Strategic Allocation Fund	**9,930**	**3 Star**	**5 Star**	7,910	FR 4 star	FR 3 Star
KASB Cash Fund	**11,303**	**AA+ (f)**	**(Unrated)**	-		
Crosby Phoenix Fund	-	-	-	10,608	A(f)	(Unrated)
	32,793			27,618		
Shares in an un-listed company						
National Institutional Facilitation Technologies (Private) Limited	**954**	**(Unrated)**	**(Unrated)**	954	(Unrated)	(Unrated)
	7,060,186			4,519,531		

9.4 Available-for-sale Market Treasury Bills and Pakistan Investment Bonds are eligible for rediscounting with the State Bank of Pakistan.

9.5 Term Finance Certificates (TFCs) - available-for-sale

Investee	Number of certificates held	Paid up value per certificate	Total Paid up value (before redemption)	Profit	Principal Redemption	Value as at 31 December 2012	Name of the Chief Executive Officer
		(Rupees)	(Rupees in '000)			(Rupees in '000)	
Listed TFCs							
Telecard Limited	5,000	5,000	25,000	3 months KIBOR + 5.04% p.a.	0.04% of total issue in 2 semi annual instalments in first 12 months, 6.25% of total issue in 1 semi annual instalment in 18th month, 20.84% of total issue in 1 annual instalment in 30th month, 4.17% of total issue in 1 semi annual instalment in 36th month, 21.66% of the total issue in 2 semi-annual instalments in 42th and 48th month, 1.47% of the total issue in 1 semi annual instalment in 54th month, 8.82% of the total issue in 4 semi-annual instalments in 60th to 78th month, 0.12% of the total issue in 3 quarterly instalments in 81th to 87th month, 2.08% of total issue in 1 quarterly instalment in 90th month, 2.21% of total issue in 1 quarterly instalment in 93rd month, 7.72% of total issue in 3 quarterly instalments in 96th to 102th month, 2.94% of total issue 1 quarterly instalment in 105th month and remaining 21.68% of total issue in 4 quarterly instalments in 108th to 118th month.	**9,178**	Mr. Shams ul Arfeen
Unlisted TFCs							
Pakistan International Airlines Corporation	1,133	5,000	5,665	6 months KIBOR + 0.85% p.a.	0.08% of the total issue in 4 semi-annual instalments in 6th to 24th month, 83.30% of the total issue in 5 semi-annual instalments in 30th to 54th month, the remaining in 60th month.	**5,660**	Mr. Muhammad Junaid Yunus
						5,660	
Total (at cost)						**14,838**	
Provision for diminution						**(4,589)**	
Total (net of provision)						**10,249**	
Deficit on revaluation of listed TFCs - net						**-**	
Carrying value as at 31 December 2012						**10,249**	

9.6 Mutual fund units / certificates

Investee	Number of units / certificates held	Paid-up value per certificate / unit	Total paid-up / nominal value	Value as at 31 December 2012	Name of the Chief Executive Officer
		(Rupees)	(Rupees in '000)		
Open end mutual funds					
Pakistan Strategic Allocation Fund	1,000,000	10	10,000	**10,000**	Mr. Yasir Qadri
KASB Cash Fund	110,216	100	11,022	**10,000**	Mr. Amer Maqbool
Closed end mutual funds					
Meezan Balanced Fund	1,000,000	10	10,000	**10,000**	Mr. Mohammad Shoaib
Total (at cost)				**30,000**	
Provision for diminution				**(9,460)**	
Total (net of provision)				**20,540**	
Surplus on revaluation				**12,253**	
Carrying value as of 31 December 2012				**32,793**	

9.7 Preference shares in a listed company

This represents cumulative redeemable preference shares of a listed company, carrying dividend entitlement at 9.25% per annum on the face value. Market value of these shares at 31 December 2012 amounted to Rs. 1.05 million (2011: Rs. 1.7 million). Given the financial position and market price of the Company's shares, the Bank has made full provision against the value of these preference shares.

9.8 Shares in an unlisted company - a related party

This represents investment in 924,123 ordinary shares (2011: 616,082 ordinary shares) of Rs. 10 of National Institutional Facilitation Technologies (Private) Limited (NIFT). The Bank's investment in NIFT is carried at cost and is not accounted under the equity method of accounting as the Bank does not have significant influence over the entity. However, two employees of the Bank are Directors of NIFT. The Bank has 5.67% (2011: 5.67%) stake in the above company.

The details of assets, liabilities, net assets, revenue and profit of the above company as at 30 June 2012 (latest available audited financial statements) are as follows:

	30 June 2012	30 June 2011
	(Rupees in '000)	
Assets	**1,023,843**	853,872
Liabilities	**277,239**	200,308
Net assets	**746,604**	653,564
Revenue	**1,454,850**	1,119,018
Profit	**315,867**	243,592

Based on the financial statements of the above investee company as of 30 June 2012, the break-up value per share amounts to Rs. 68.68 per share (2011: Rs. 60.13 per share).

9.9 Market value of Pakistan Investment Bonds classified as 'held-to-maturity' as at 31 December 2012 amounted to Rs. 199.818 million (2011: Rs. 191.325 million).

9.10 Provision for diminution in the value of investments

	2012	2011
	(Rupees in '000)	
Opening balance	**21,757**	19,460
Charge for the year	**2,292**	2,297
Closing balance	**24,049**	21,757

10. ADVANCES - net

	Note	2012	2011
		(Rupees in '000)	
Loans, cash credits, running finances, etc.			
In Pakistan	*10.1*	**8,573,327**	7,901,127
Provision against non-performing loans and advances			
Specific provision	*10.3*	**(238,367)**	(199,471)
General provision	*10.3*	**(317)**	(593)
		(238,684)	(200,064)
Advances - net		**8,334,643**	7,701,063

10.1 Particulars of advances (gross)

		2012	2011
10.1.1	In local currency	**8,573,327**	7,901,127
	In foreign currencies	**-**	-
		8,573,327	7,901,127
10.1.2	Short-term (for upto one year)	**6,645,613**	7,055,173
	Long-term (for over one year)	**1,927,714**	845,954
		8,573,327	7,901,127

10.2 Advances include Rs. 612.714 million (2011: Rs. 523.443 million) which have been placed under the non-performing status as detailed below:

2012									
Category of classification	**Classified advances**			**Specific provision required**			**Specific provision held**		
	Domestic	**Overseas**	**Total**	**Domestic**	**Overseas**	**Total**	**Domestic**	**Overseas**	**Total**
	(Rupees in '000)								
Substandard	**135,181**	**-**	**135,181**	**9,617**	**-**	**9,617**	**9,617**	**-**	**9,617**
Doubtful	**142,023**	**-**	**142,023**	**51,739**	**-**	**51,739**	**51,739**	**-**	**51,739**
Loss	**335,510**	**-**	**335,510**	**177,011**	**-**	**177,011**	**177,011**	**-**	**177,011**
	612,714	**-**	**612,714**	**238,367**	**-**	**238,367**	**238,367**	**-**	**238,367**

2011									
Category of classification	Classified advances			Specific provision required			Specific provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
Substandard	110,650	-	110,650	8,009	-	8,009	8,009	-	8,009
Doubtful	68,470	-	68,470	938	-	938	938	-	938
Loss	344,323	-	344,323	190,524	-	190,524	190,524	-	190,524
	523,443	-	523,443	199,471	-	199,471	199,471	-	199,471

10.3 Particulars of provision against non-performing loans and advances

	Note	**2012 Specific**	**2012 General**	**2012 Total**	2011 Specific	2011 General	2011 Total
		(Rupees in '000)					
Opening balance		**199,471**	**593**	**200,064**	222,799	4,755	227,554
Charge for the year		**69,367**	**39**	**69,406**	76,813	106	76,919
Reversals		**(20,875)**	**(315)**	**(21,190)**	(97,936)	(4,268)	(102,204)
	10.3.2	**48,492**	**(276)**	**48,216**	(21,123)	(4,162)	(25,285)
Amounts written off	*10.4*	**(9,596)**	**-**	**(9,596)**	(2,205)	-	(2,205)
Closing balance		**238,367**	**317**	**238,684**	199,471	593	200,064

10.3.1 Particulars of provision against non-performing loans and advances

	2012 Specific	**2012 General**	**2012 Total**	2011 Specific	2011 General	2011 Total
	(Rupees in '000)					
In local currency	**238,367**	**317**	**238,684**	199,471	593	200,064
In foreign currencies	**-**	**-**	**-**	-	-	-
	238,367	**317**	**238,684**	199,471	593	200,064

10.3.2 The following amounts have been charged to the profit and loss account:

	Note	2012	2011
		(Rupees in '000)	
Specific provision		**48,492**	(21,123)
General provision	*10.3.3*	**(276)**	(4,162)
		48,216	(25,285)

10.3.3 This represents general provision against consumer loans representing provision maintained at an amount 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 State Bank of Pakistan.

		Note	2012	2011
			(Rupees in '000)	
10.4	**Particulars of write offs**			
10.4.1	Against provisions		**9,596**	2,205
	Directly charged to the profit and loss account		**-**	-
			9,596	2,205
10.4.2	Write offs of Rs. 500,000 and above	*10.5*	**380**	-
	Write offs of below Rs. 500,000		**9,216**	2,205
			9,596	2,205

10.5 Details of loans 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 31 December 2012 is given at 'Annexure A' to these financial statements.

10.6 State Bank of Pakistan through various circulars has allowed benefit of the forced sales value (FSV) of Plant & Machinery under charge, pledged stock and mortgaged residential, commercial and industrial properties (land and building only) held as collateral against Non-Performing Loans (NPLs). As at December 31, 2012, the Bank has availed cumulative benefit of forced sale values of Rs. 201.950 million (2011: Rs. 206.750 million). Increase in unappropriated profit net of tax amounting to Rs. 131.267 million (2011: Rs. 134.387 million) is not available for the distribution of cash and stock dividend to the shareholders.

10.7 Particulars of advances to directors, associated companies, etc.

10.7.1 Debts due by executives or officers of the Bank or any of them either severally or jointly with any other persons:

	2012	2011
Balance at beginning of the year	**103,029**	89,719
Loans granted during the year	**69,561**	18,625
Repayments	**(35,376)**	(5,315)
Balance at end of the year	**137,214**	103,029

10.7.2 Debts due by companies or firms in which the directors of the bank are interested as directors, partners or in the case of private companies as members:

	2012	2011
Balance at beginning of year	**58,334**	91,667
Loans granted during the year	**125,000**	-
Repayments	**(75,000)**	(33,333)
Balance at end of the year	**108,334**	58,334

10.7.3 Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties:

	Note	**2012**	2011
		(Rupees in '000)	
Balance at beginning of the year		**(66)**	106,828
Loans granted during the year		**201,872**	563,959
Repayments		**(201,872)**	(670,853)
Balance at end of the year		**(66)**	(66)

11. OPERATING FIXED ASSETS

	Note	**2012**	2011
Property and equipment	*11.1*	**205,132**	213,630
Intangible assets	*11.3*	**8,011**	7,604
Capital work-in-progress	*11.4*	**25,941**	8,110
		239,084	229,344

11.1 Property and equipment

2012

Description	**Cost/ revalued amount**				**Accumulated depreciation**				**Net book value at 31 December 2012**	**Annual rate of depreciati-on**
	At 1 January 2012	**Additions / (disposals)**	**Write offs**	**At 31 December 2012**	**At 1 January 2012**	**Charge for the year / (deprecation on disposals)**	**Write offs**	**At 31 December 2012**		
	(Rupees in '000)									
Land - leasehold	**28,605**	**-**	**-**	**28,605**	**-**	**-**	**-**	**-**	**28,605**	**-**
Buildings on leasehold land	**91,667**	**-**	**-**	**91,667**	**-**	**4,583**	**-**	**4,583**	**87,084**	**5%**
Building improvement (rented premises)	**13,050**	**1,478**	**-**	**14,528**	**2,097**	**1,243**	**-**	**3,340**	**11,188**	**10%**
Furniture and fixtures	**47,185**	**2,664** **(488)**	**(1,605)**	**47,756**	**22,692**	**2,506** **(369)**	**(1,257)**	**23,572**	**24,184**	**10% to 33.33%**
Electrical, office and computer equipment	**89,665**	**13,780** **(1,902)**	**(2,475)**	**99,068**	**53,191**	**9,175** **(1,733)**	**(2,153)**	**58,480**	**40,588**	**20%**
Vehicles	**59,184**	**-** **(5,968)**	**-**	**53,216**	**37,746**	**7,476** **(5,489)**	**-**	**39,733**	**13,483**	**20%**
	329,356	**17,922** **(8,358)**	**(4,080)**	**334,840**	**115,726**	**24,983** **(7,591)**	**(3,410)**	**129,708**	**205,132**	

2011

Description	Cost/ revalued amount				Accumulated depreciation				Net book value at 31 December 2011	Annual rate of depreciati-on
	At 1 January 2011	Additions / (disposals)	Revaluation adjustment / * reclassification / write offs	At 31 December 2011	At 1 January 2011	Charge for the year / (deprecation on disposals)	Revaluation adjustment / write offs	At 31 December 2011		
	(Rupees in '000)									
Land - leasehold	25,489	- -	3,116 -	28,605	-	- -	- -	-	28,605	-
Buildings on leasehold land	89,066	1,168 -	(459) * 1,892	91,667	8,684	4,248 -	(13,121) * 189	-	91,667	5%
Building improvement (rented premises)	10,341	4,601 -	- * (1,892)	13,050	1,070	1,216 -	- * (189)	2,097	10,953	10%
Furniture and fixtures	38,890	10,981 (435)	- (2,251)	47,185	21,546	3,198 (337)	- (1,715)	22,692	24,493	10% to 33.33%
Electrical, office and computer equipment	74,184	18,999 (1,327)	- (2,191)	89,665	47,819	8,430 (1,089)	- (1,969)	53,191	36,474	20%
Vehicles	56,649	11,947 (9,412)	- -	59,184	38,801	7,821 (8,876)	- -	37,746	21,438	20%
	294,619	47,696 (11,174)	2,657 (4,442)	329,356	117,920	24,913 (10,302)	(13,121) (3,684)	115,726	213,630	

11.1.1 The land and buildings of the Bank were again revalued as on 31 December 2011 by independent valuers M/s. Iqbal A. Nanjee & Co., valuation and engineering consultants, on the basis of market value. The impact of valuation was incorporated in the financial statements as at 31 December 2011 and resulted in surplus of Rs. 15.779 million over the written down value of Rs. 104.493 million of these assets (total revalued amount being Rs. 120.272 million). The details of revalued amounts (net of reversal) are as follows:

	Note	**(Rupees in '000)**
Total revalued amount of land	11.1.3	**28,605**
Total revalued amount of buildings	11.1.3	**91,667**
		120,272

Had the Land and building not been revalued, total carrying amounts as at 31 December 2012 would have been as follows:

Land	**3,192**
Buildings	**9,235**

11.1.2 The gross carrying amount of fully depreciated assets (vehicles only) that are still in use amounts to Rs. 16.334 million (2011: Rs. 20.08 million).

11.1.3 Summarised details of the valuation of properties across the country:

		Original Cost			**Revalued Amount**		
Location of properties		**Land**	**Buildings**	**Total**	**Land**	**Buildings**	**Total**
		---------------- (Rupees in '000) ----------------			--------------------- (Rupees in '000) ---------------------		
Mehdi Tower, Karachi		-	5,167	5,167	-	16,752	16,752
Gurumandir, Karachi		-	1,348	1,348	-	14,322	14,322
Sukkur		-	1,017	1,017	-	9,000	9,000
Faisalabad		-	4,873	4,873	-	29,376	29,376
F.B. Area, Karachi		-	815	815	-	6,000	6,000
Gulshan-e-Iqbal, Karachi		-	1,322	1,322	-	5,600	5,600
P.E.C.H.S., Karachi		3,000	6,760	9,760	26,000	8,188	34,188
Mirpurkhas	*11.1.4*	67	95	162	2,480	-	2,480
Kohat	*11.1.4*	-	708	708	-	2,429	2,429
Nawabshah	*11.1.4 & 11.1.5*	125	-	125	125	-	125
		3,192	**22,105**	**25,297**	**28,605**	**91,667**	**120,272**

11.1.4 Represents temporarily idle properties.

11.1.5 The land in Nawabshah is under litigation. Sindh High Court has issued an injunction in favour of the Bank under which the sale of land (by a party who illegally transferred the title in his own name) has been stayed.

11.2 Disposals of fixed assets during the year

		Cost	**Accumulated depreciation**	**Carrying value**	**Sale proceeds**	**Mode of disposal**	**Particulars of Buyers**
		------------------- (Rupees in '000) -------------------					
Furniture and fixtures							
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000:							
Miscellaneous items		488	369	119	58	Auction / quotation	Different buyers
Miscellaneous scrapped items		1,605	1,257	348	-	Damaged	Write offs
		2,093	1,626	467	58		
Electrical, office and computer equipment							
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000:							
Miscellaneous items		1,902	1,733	169	78	Auction / quotation	Different buyers
Miscellaneous scrapped items		2,475	2,153	322	-	Damaged	Write offs
		4,377	3,886	491	78		
Vehicles							
Items having book value of more than Rs. 250,000 or cost of more than Rs. 1,000,000:							
Suzuki Cultus		798	319	479	479	Sale	Ms. Rukhsana Gul (ex-employee)
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000:							
Various		5,170	5,170	-	2,839	Auction / quotation	Different buyers
Total	**2012**	**12,438**	**11,001**	**1,437**	**3,454**		
Total	2011	15,616	13,986	1,630	5,366		

11.3 Intangible assets

	2012							
	Cost			**Accumulated amortisation**			**Net book value at 31 December 2012**	**Rate of amortisation %**
	At 1 January 2012	**Additions**	**At 31 December 2012**	**At 1 January 2012**	**Amortisation for the year**	**At 31 December 2012**		
	---- (Rupees in '000) ----							
Computer software	**20,169**	**2,410**	**22,579**	**12,565**	**2,003**	**14,568**	**8,011**	**20%**

	2011							
	Cost			Accumulated amortisation			Net book value at 31 December 2011	Rate of amortisation %
	At 1 January 2011	Additions	At 31 December 2011	At 1 January 2011	Amortisation for the year	At 31 December 2011		
	---- (Rupees in '000) ----							
Computer software	15,184	4,985	20,169	10,664	1,901	12,565	7,604	20%

11.4 Capital work-in-progress

This represents civil works, advances to contractors and payments for certain equipment acquired by the Bank for the purpose of renovation work in progress at the branches, etc. This also includes advance of Rs. 7.385 million paid against implementation of Auto Banker II.

12. DEFERRED TAX ASSET / (LIABILITY) - net

12.1 The details of the tax effect of taxable and deductible temporary differences are as follows:

	Note	**2012**	2011
		(Rupees in '000)	
Taxable temporary differences on:			
Surplus on revaluation of operating fixed assets	*20.1*	**(27,182)**	(28,613)
Accelerated tax depreciation		**(8,117)**	(7,139)
		(35,299)	(35,752)
Deductible temporary differences on:			
Compensated leave absences		**1,848**	1,848
Deficit on revaluation on investments	*20.2*	**(514)**	5,098
Provision against non-performing loans and advances		**28,723**	27,554
		30,057	34,500
Net deferred tax liability recognised by the Bank		**(5,242)**	(1,252)

12.2 Reconciliation of deferred tax

	Balance as at 1 January 2011	**Recognised in the profit and loss**	**Recognised in surplus / (deficit) on revaluation of assets**	**Balance as at 31 December 2011**	**Recognised in the profit and loss**	**Recognised in surplus / (deficit) on revaluation of assets**	**Balance as at 31 December 2012**
		----(Rupees in '000)----					
Deferred debits arising in respect of:							
Compensated leave absences	1,848	-	-	**1,848**	-	-	**1,848**
Provision against non-performing loans and advances	36,078	(8,524)	-	**27,554**	**1,169**	-	**28,723**
Deficit on revaluation of investment	27,938	-	(22,840)	**5,098**	-	**(5,612)**	**(514)**
Carry forward of tax losses	2,900	(2,900)	-	-	-	-	-
	68,764	(11,424)	(22,840)	**34,500**	**1,169**	**(5,612)**	**30,057**
Deferred credits arising due to							
Surplus on revaluation of fixed assets	(25,453)	-	(3,160)	**(28,613)**	-	**1,431**	**(27,182)**
Accelerated tax depreciation	(4,450)	(2,689)	-	**(7,139)**	**(978)**	-	**(8,117)**
	(29,903)	(2,689)	(3,160)	**(35,752)**	**(978)**	**1,431**	**(35,299)**
	38,861	(14,114)	(26,000)	**(1,252)**	**191**	**(4,181)**	**(5,242)**

13. OTHER ASSETS - net

	Note	2012	2011
		(Rupees in '000)	
Mark-up / return / interest accrued in local currency		**387,937**	274,704
Mark-up / return / interest accrued in foreign currency		**427**	579
Advances, deposits, prepayments and other receivables		**37,011**	33,136
Advance taxation (net of provisions)		**88,405**	-
Receivable from defined benefit plan	*34.3*	**22,440**	2,160
Stationery and stamps on hand		**3,561**	3,803
Suspense account (fully provided - net of liquid assets)		**3,250**	5,050
Clearing proceeds awaiting		**41,152**	3,443
Receivable against encashment of instruments		**29,523**	8,593
Others		**411**	-
		614,117	331,468
Provision against other assets	*13.1*	**(4,976)**	(4,976)
		609,141	326,492

13.1 Provision against other assets

	2012	2011
Opening balance	**4,976**	5,728
Write-off against provision	**-**	(752)
Closing balance	**4,976**	4,976

14. CONTINGENT ASSETS

There were no contingent assets of the Bank as at 31 December 2012 and 31 December 2011.

15. BILLS PAYABLE

	2012	2011
In Pakistan	**542,615**	89,210
Outside Pakistan	**6,112**	7,207
	548,727	96,417

16. BORROWINGS

	2012	2011
In Pakistan - in local currency	**73,340**	51,100

16.1 Details of borrowings (secured / unsecured)

	Note	2012	2011
Secured			
Borrowings from State Bank of Pakistan under:			
- Export refinance scheme	*16.2*	**73,340**	51,100
- Repurchase agreement borrowings		**-**	-
- Locally manufactured machinery		**-**	-
		73,340	51,100
Unsecured			
Call borrowings		**-**	-
		73,340	51,100

16.2 The Bank has entered into agreements for financing with the State Bank of Pakistan (SBP) for extending export finance to customers. As per the agreements, the Bank has granted SBP the right to recover the outstanding amount from the Bank at the date of maturity of the finance by directly debiting the current account maintained by the Bank with SBP. This carries mark-up rate of 8.5% per annum (2011: 10% per annum). These borrowings are repayable up to May 2013.

17. DEPOSITS AND OTHER ACCOUNTS

	Note	2012	2011
		(Rupees in '000)	
Customers			
Fixed deposits		**7,321,209**	4,958,618
Savings deposits		**4,176,363**	3,485,861
Current (saving cum current) accounts - remunerative		**4,245,806**	2,864,774
Current accounts - non remunerative		**2,841,400**	2,271,221
Call deposits		**388,976**	166,504
Sundry deposits	*17.1*	**217,980**	66,264
		19,191,734	13,813,242
Financial institutions			
Remunerative deposits		**1,500**	1,500
Non-remunerative deposits		**110**	112
		1,610	1,612
		19,193,344	13,814,854

17.1 Sundry deposits include margin account balance of Rs. 199.394 million (2011: Rs. 48.309 million).

17.2 Particulars of deposits

	2012	2011
In local currency	**18,474,992**	13,239,427
In foreign currencies	**718,352**	575,427
	19,193,344	13,814,854

18. OTHER LIABILITIES

	Note	2012	2011
Mark-up / return / interest payable in local currency		**440,551**	369,728
Accrued expenses		**27,354**	15,957
Branch adjustment account		**52,832**	1,652
Payable to defined contribution plan		**-**	1,291
Payable to defined benefit plan		**-**	31
Provision for employees' compensated absences	*34.10.4*	**38,593**	25,191
Advance taxation (net of provisions)		**-**	3,094
Workers welfare fund		**16,397**	14,024
Others		**17,180**	14,380
		592,907	445,348

19. SHARE CAPITAL

19.1 Authorised capital

2012	2011		2012	2011
(Number of shares)			**(Rupees in '000)**	
200,000,000	200,000,000	Ordinary shares of Rs. 10 each	**2,000,000**	2,000,000

19.2 Issued, subscribed and paid up capital

This comprises of fully paid-up ordinary shares of Rs 10 each as follows:

2012	2011		2012	2011
(Number of shares)			**(Rupees in '000)**	
84,365,000	54,365,000	Issued for cash	**843,650**	543,650
65,046,250	53,638,750	Issued as bonus shares	**650,463**	536,388
149,411,250	108,003,750		**1,494,113**	1,080,038

19.3 The Bank issued 11,407,500 ordinary shares of Rs. 10 each as bonus shares @ 10.56%, approved in the extra-ordinary general meeting of the members held on 25 July 2012. The Bank has also issued 30,000,000 ordinary shares of Rs. 10 each against cash to Federal Government of Pakistan through Ministry of Finance.

	2012	2011
	Number of shares	
19.4 Reconciliation of number of ordinary shares of Rs. 10/- each		
Shares at beginning of the year	**108,003,750**	28,365,000
Add: Issued during the year		
as bonus shares	**11,407,500**	49,638,750
as right shares	**30,000,000**	30,000,000
Shares at end of the year	**149,411,250**	108,003,750

19.5 Major shareholders (associated undertakings)

	2012	
	Number of shares held	**Percentage of shareholding** %
Federal Government of Pakistan through Ministry of Finance	**80,088,793**	**53.60**
MCB Bank Limited	**23,095,324**	**15.46**
Habib Bank Limited	**23,095,324**	**15.46**
Allied Bank Limited	**7,734,927**	**5.18**
National Bank of Pakistan	**7,698,441**	**5.15**
United Bank Limited	**7,698,441**	**5.15**
	149,411,250	**100.00**

	2011	
	Number of shares held	Percentage of shareholding %
Federal Government of Pakistan through Ministry of Finance	45,303,750	41.94
MCB Bank Limited	20,889,000	19.34
Habib Bank Limited	20,889,000	19.34
Allied Bank Limited	6,996,000	6.48
National Bank of Pakistan	6,963,000	6.45
United Bank Limited	6,963,000	6.45
	108,003,750	100.00

19.6 According to BSD Circular No. 07 of 2009 dated 15 April 2009, the Bank was required to raise its paid-up capital to Rs. 9 billion (free of losses) by 31 December 2012. However, the State Bank of Pakistan (SBP) through its letter No. BPRD/BAID/627/2420/2013 dated 01 March 2013, has granted the Bank an extension to meet the Minimum Paid-up Capital Requirement (MCR) by 30 June 2013.

19.7 In the Federal Budget 2011-12 an outlay of Rs. 800 million was made under grants for injection of equity in the Bank. The first tranche of Rs. 300 million was received during the year ended December 31 2011 and the second tranche of Rs. 300 million was received during the current year as reflected in note 19.3 to the financial statements. These increased the direct shareholding of the Government of Pakistan from 19.62% to 53.60% of the total paid-up capital. The management has submitted five years business plan to Finance Division, Government of Pakistan and requested to inject further capital in order to comply with the minimum capital requirements.

	Note	**2012**	2011
20. SURPLUS ON REVALUATION OF ASSETS - net of tax		**(Rupees in '000)**	
Surplus / (deficit) arising on revaluation (net of tax) of:			
- fixed assets	*20.1*	**75,894**	78,551
- available-for-sale securities	*20.2*	**9,705**	(4,415)
		85,599	74,136

20.1 Surplus on revaluation of fixed assets - net of tax

	2012	2011
	(Rupees in '000)	
Surplus on revaluation of fixed assets as at 1 January	**107,164**	95,021
Transferred to accumulated profit representing incremental depreciation charged during the year - net of tax	**(2,657)**	(2,364)
Related deferred tax liability	**(1,431)**	(1,272)
	(4,088)	(3,636)
	103,076	91,385
Revaluation during the year	**-**	15,779
	103,076	107,164
Less:		
Deferred tax liability on:		
Revaluation surplus as at 1 January	**28,613**	25,453
Incremental depreciation charged during the year	**(1,431)**	(1,272)
Revaluation during the year	**-**	4,432
	27,182	28,613
	75,894	78,551

20.2 Surplus / (deficit) on revaluation of available-for-sale securities - net of tax

	2012	2011
Federal Government Securities	**(2,034)**	(16,190)
Listed Securities		
- Units / certificates of mutual funds / preference shares	**12,253**	7,078
- Term Finance Certificates	**-**	(401)
	12,253	6,677
	10,219	(9,513)
Related deferred tax asset - net	**(514)**	5,098
	9,705	(4,415)

21. CONTINGENCIES AND COMMITMENTS

21.1 Transaction-related contingent liabilities

	2012	2011
Guarantees in favour of:		
Government	**340,162**	68,164
Others	**1,041**	1,820
	341,203	69,984

21.2 Trade-related contingent liabilities

	2012	2011
Letter of credit and acceptances on behalf of:		
Government	**-**	-
Others	**447,418**	121,930
	447,418	121,930

	2012	2011
	(Rupees in '000)	

21.3 Commitments in respect of lending

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

21.4 Other contingencies

	2012	2011
Claims against the Bank not acknowledged as debt	**1,894**	101,894

21.5 Commitments in respect of forward foreign exchange contracts

	2012	2011
Purchase	**-**	-
Sale	**-**	-

21.6 Commitment for the acquisition of operating fixed assets

	2012	2011
Civil works	**755**	3,422
Capital commitments for intangible assets	**16,628**	-

22. BENAZIR EMPLOYEES' STOCK OPTION SCHEME (BESOS)

Amendments to IFRS 2 Share-based Payment - Group Cash-settled Share-based Payment Transactions became effective from 01 July 2010 which requires an entity receiving goods or services (receiving entity) in either an equity-settled or a cash-settled share-based payment transaction to account for the transaction in its separate or individual financial statements.

On August 14, 2009, the Government of Pakistan launched a scheme called Benazir Employees' Stock Option Scheme ('BESOS') for employees of state owned entities including First Women Bank Limited. On 26 May 2010, a Trust Deed was executed for creating and regulating a trust known as the FWBL Employees Empowerment Trust ("Trust"). As per Trust Deed, the Ministry of Finance (MOF) Government of Pakistan shall transfer 12% of the shares held by MOF to the Trust without any consideration subject to transfer back of these shares to the MOF. Eligible employees shall be allotted units of the Trust, based on the length of service till 14 August 2009. Furthermore, on the cessation of employment, each employee shall be required to surrender the units for cash payment from the Trust equivalent to the break-up value of the shares based in the last audited financial statements (in case of unlisted entities) and that the eligible employees will not be entitled to get the benefit unless they have served five more years from the date of enforcement of BESOS except for other reasons to be mentioned in the Trust Deed.

The Securities & Exchange Commission of Pakistan on receiving representation from some of entities covered under the Scheme and after having consulted with the Institute of Chartered Accountants of Pakistan, has granted exemption vide SRO No. 587 (1)/2011 dated 07 June 2011, to such entities from the application of amended International Financial Reporting Standard 2: Share Based Payments (IFRS 2) to the Scheme.

Had the exemption not been granted, the staff cost of the Bank for the year would have been higher by Rs. 2.339 million, profit after tax would have been lower by Rs. 1.521 million, unappropriated profit would have been lower by Rs. 8.819 million, earning per share would have been lower by Rs. 0.01 per share and reserves would have been lower by Rs. 11.023 million.

23. DERIVATIVE INSTRUMENTS

The Bank, as a policy does not enter into derivatives except for forward foreign exchange contracts, which are primarily backed by trade finance related business of customers. The volume and quantum of such forward contracts is low and there were no forward exchange contracts at the year end.

	2012	2011
	(Rupees in '000)	
24. MARK-UP / RETURN / INTEREST EARNED		
On loans and advances to:		
Customers	**1,105,040**	914,575
Financial institutions	**16,785**	3,067
	1,121,825	917,642
On investments in:		
Available-for-sale securities	**512,743**	943,929
Held-to-maturity securities	**12,167**	10,909
	524,910	954,838
On deposits with financial institutions (including lendings)	**503**	7,528
On securities purchased under resale agreements	**150,993**	38,751
	1,798,231	1,918,759

		Note	2012	2011
			(Rupees in '000)	
25.	**MARK-UP / RETURN / INTEREST EXPENSED**			
	On deposits		**1,034,594**	861,418
	On securities sold under repurchase agreements		**3,299**	314,975
	On other short-term borrowings		**-**	58
			1,037,893	1,176,451
26.	**GAIN ON SALE OF SECURITIES - net**			
	Federal Government Securities			
	Market Treasury Bills		**-**	20,158
	Pakistan Investment Bonds		**600**	160,412
			600	180,570
27.	**OTHER INCOME - net**			
	Gain on disposal of fixed assets - net		**2,017**	3,736
	Rent on lockers		**7,472**	6,731
	Charges recovered from customers		**9,421**	10,346
			18,910	20,813
28.	**ADMINISTRATIVE EXPENSES**			
	Salaries and allowances		**372,701**	297,112
	Charge for employees' compensated absences	*34.10.4*	**13,402**	616
	Charge for defined benefit plans:			
	Approved pension fund	*34.7*	**38,566**	37,192
	Approved gratuity fund	*34.7*	**53**	367
			38,619	37,559
	Contribution to defined contribution plan - provident fund	*35*	**292**	372
	Non-executive directors' fees		**47**	11
	Rent, taxes, insurance, electricity		**97,875**	95,084
	Legal and professional charges		**16,915**	12,697
	Worker Welfare Fund		**2,373**	8,034
	Communications		**14,681**	15,041
	Repairs and maintenance		**21,403**	19,085
	Stationery and printing		**17,930**	16,736
	Advertisement and publicity		**26,272**	16,645
	Auditors' remuneration	*28.1*	**3,878**	2,024
	Depreciation	*11.1*	**24,983**	24,913
	Amortization of intangible asset	*11.3*	**2,003**	1,901
	Remittances, cash handling service charges		**11,694**	9,582
	Conveyance, travelling, etc.		**11,831**	7,569
	Outsourced security services		**22,835**	19,342
	Entertainment		**7,086**	5,784
	Others		**9,837**	10,879
			716,657	600,986

		2012	2011
		(Rupees in '000)	

28.1 Auditors' remuneration

	2012	2011
Audit fee	**1,199**	1,090
Fee for half yearly review of financial statements	**400**	380
Fee for special certifications, etc.	**2,169**	355
Out of pocket expenses	**110**	199
	3,878	2,024

29. OTHER CHARGES

	2012	2011
Penalties imposed by the State Bank of Pakistan	**263**	413

30. TAXATION

	2012	2011
For the year		
Current	**32,062**	127,442
Deferred	**(191)**	14,114
	31,871	141,556
Prior years		
Current	**13,064**	-
Deferred	**-**	-
	13,064	-
	44,935	141,556

30.1 Relationship between tax expense and accounting profit

	2012	2011
Accounting profit for the year	**88,491**	400,103
Tax rate	**35%**	35%
Tax on income	**30,972**	140,036
Prior year tax charge	**13,064**	-
Tax effect of expenses not allowable for tax purposes	**92**	145
Tax effect of income taxable at reduced rates	**(1,943)**	(3,160)
Others	**2,750**	4,535
Tax charge for the year	**44,935**	141,556

30.2 Income tax assessments of the Bank have been finalized upto and including the tax year 2008 (financial year ended 31 December 2007)

30.3 While finalizing the assessments for tax years 1997, 1998 and from 2004 to 2008 (financial years ended 31 December 1996, 31 December 1997 and from 31 December 2003 to 31 December 2007), the tax authorities made certain disallowances primarily against nostro account balances and unrealized income suspended by the Bank against which appeals have been filed by the Bank at the appellate forums.

In case of adverse decisions, additional charge to the Bank could be Rs. 8.722 million. However, based on the advice of its tax advisors, management is confident that the decision in appeals would be in its favour and as such no provision has been made against the above amount.

30.4 Return for the tax year 2009 (financial year ended 31 December 2008) has been filed which is deemed to have been assessed under Section 120 of the Income Tax Ordinance, 2001 (unless selected for audit).

30.5 The Additional Commissioner Inland Revenue (ACIR), has amended the assessment orders for the tax years 2010, 2011 and 2012 (financial years ended 31 December 2009, 31 December 2010 and 31 December 2011) respectively under Sections 122 (4) and 122 (5A) of the Income Tax Ordinance, 2001. Demands aggregated to Rs. 31.751 million on account of certain disallowances have been made relating to these tax years. The Bank has filed before the Commissioner Inland Revenue (Appeals) which are pending adjudication, Based on the advice of its tax advisors, management believes that the matter will ultimately be decided in the favor of the Bank. Accordingly, no provision has been made against the said amount.

30.6 The Deputy Commissioner Inland Revenue (DCIR) has raised demands aggregated to Rs. 13.477 million on account of Federal Excise Duty (FED) on fee, commission and brokerage income of the Bank for the period from 01 January 2009 to 31 December 2011. The Bank has filed appeals against the said orders before Commissioner Inland Revenue (Appeals), who has remanded the case back to the DCIR for proper scrutiny of the facts. Based on the advice of its tax advisors, management is confident that the matter will ultimately be decided in the favor of the Bank. Accordingly, no provision has been made.

		Note	2012	2011
			(Rupees in '000)	**(Restated)**
31.	**BASIC AND DILUTED EARNINGS PER SHARE**			
	Profit after taxation		**43,556**	258,547
			(Number of shares)	
	Weighted average number of ordinary shares outstanding during the year		**131,911,250**	94,411,250
			(Rupees)	
	Basic and diluted earnings per share		**0.33**	2.74
			(Rupees in '000)	
32.	**CASH AND CASH EQUIVALENTS**			
	Cash and balances with treasury banks	*6*	**1,188,234**	973,701
	Balances with other banks	*7*	**636,034**	561,555
			1,824,268	1,535,256

	2012	2011
	(Number)	

33. STAFF STRENGTH

Permanent	**401**	384
Temporary / on contractual basis	**193**	186
Daily wages	**47**	60
Bank's own staff strength at the end of the year	**641**	630
Outsourced	**-**	-
	641	630

34. STAFF RETIREMENT AND OTHER BENEFITS

34.1 General description

The Bank operates the following final staff retirement benefits for its employees as explained in detail in note 5.9 to these financial statements:

- Approved pension fund - funded
- Approved gratuity fund - funded

In addition, the bank also makes provisions for employees compensated absences details of which are given in note 34.10.4.

34.2 Principal actuarial assumptions

The latest actuarial valuations of the approved pension fund, approved gratuity fund and employee's compensated absences were carried out at as at 31 December 2012. The principal actuarial assumptions used are as follows:

		Approved pension fund		Approved gratuity fund	
	Note	**2012**	2011	**2012**	2011
		(Percentages)		**(Percentages)**	
Valuation discount rate		**12.00**	13.00	**12.00**	13.00
Expected rate of return on plan assets		**12.00**	11.00	**12.00**	11.00
Salary increase rate		**11.00**	12.00	**11.00**	12.00
Indexation in pension		**4.00**	5.00	**-**	-

34.3 The amounts recognised in the balance sheet

		Approved pension fund		Approved gratuity fund	
		2012	2011	**2012**	2011
		-----------------------	------(Rupees in '000)------	-----------------------	
Present value of funded obligations	*34.4*	**465,308**	349,280	**921**	3,558
Fair value of plan assets	*34.5*	**(364,734)**	(279,651)	**(473)**	(3,351)
Deficit		**100,574**	69,629	**448**	207
Unrecognised actuarial losses		**(122,749)**	(71,789)	**(713)**	(176)
Recognised (asset) / liability		**(22,175)**	(2,160)	**(265)**	31

		Note	Approved pension fund		Approved gratuity fund	
			2012	2011	**2012**	2011
			(Rupees in '000)			
34.4	**Movement in present value of defined benefit obligations**					
	Present value of obligations as at 01 January		**349,280**	292,430	**3,558**	6,411
	Current service cost		**21,313**	17,498	**-**	271
	Interest cost		**46,368**	43,199	**217**	670
	Actual benefits paid during the year		**(1,840)**	(5,706)	**(3,503)**	(3,416)
	Payable in respect of outgoing employees		**(4,754)**	-	**-**	-
	Actuarial losses / (gains) on obligation		**54,941**	1,859	**649**	(378)
	Present value of obligation as at 31 December		**465,308**	349,280	**921**	3,558
34.5	**Movement in fair value of plan assets**					
	Fair value of plan assets as at 01 January		**279,651**	210,441	**3,351**	6,341
	Expected return on plan assets		**31,572**	27,023	**164**	574
	Contributions during the year		**58,581**	42,842	**349**	(218)
	Benefits paid		**(1,840)**	(5,706)	**(3,503)**	(3,416)
	Payable in respect of outgoing employees		**(4,754)**	-	**-**	-
	Actuarial gains on plan assets		**1,524**	5,051	**112**	70
	Fair value of plan assets as at 31 December		**364,734**	279,651	**473**	3,351
34.6	**Movements in net (asset) / liability recognised in the balance sheet**					
	Opening balance		**(2,160)**	3,490	**31**	(554)
	Charge for the year	*34.7*	**38,566**	37,192	**53**	367
	Contribution to the fund made during the year		**(58,581)**	(42,842)	**(349)**	218
	Closing balance		**(22,175)**	(2,160)	**(265)**	31
34.7	**Amounts recognised in the profit and loss account**					
	Current service cost		**21,313**	17,498	**-**	271
	Interest cost		**46,368**	43,199	**217**	670
	Expected return on plan assets		**(31,572)**	(27,023)	**(164)**	(574)
	Actuarial losses recognised during the year		**2,457**	3,518	**-**	-
	Cost for the year ended		**38,566**	37,192	**53**	367
34.8	**Actual return on plan assets**		**33,096**	32,074	**276**	644
34.9	**Components of plan assets as percentage of total assets**					
	Government securities		**68.78%**	94.50%	**0.00%**	0.00%
	Term Deposits - First Women Bank Limited		**27.28%**	4.00%	**0.00%**	75.00%
	Mutual Funds		**0.00%**	0.00%	**0.00%**	0.00%
	Cash at Bank - First Women Bank Limited		**3.94%**	1.50%	**100.00%**	25.00%
			100.00%	100.00%	**100.00%**	100.00%

34.10 Other relevant details of above funds are as follows:

34.10.1 Approved pension fund

	2012	2011	2010	2009	2008
	-------------------------------(Rupees in '000)-------------------------------				
Present value of defined benefit obligation	**465,308**	349,280	292,430	227,188	167,383
Fair value of plan assets	**364,734**	279,651	210,441	159,653	136,652
Deficit	**100,574**	69,629	81,989	67,535	30,731
Experience adjustments on plan liabilities loss / (gain)	**54,941**	1,859	18,319	31,833	(5,273)
Experience adjustments on plan assets gain / (loss)	**1,641**	4,244	1,452	(3,627)	(8,033)

34.10.2 Approved gratuity fund

	2012	2011	2010	2009	2008
Present value of defined benefit obligation	**921**	3,558	6,411	7,320	7,263
Fair value of plan assets	**473**	3,351	6,341	7,379	5,173
Deficit / (surplus)	**448**	207	70	(59)	2,090
Experience adjustments on plan liabilities (gain) / loss	**649**	(378)	(134)	1,003	201
Experience adjustments on plan assets gain / (loss)	**85**	70	(20)	(180)	(1)

34.10.3 Expected contribution to be paid to the funds in the next financial year

The Bank contributes to the pension and gratuity fund as per actuarial expected charge for the next one year. Based on actuarial advice, management estimates that the charge in respect of pension fund would be Rs. 39.940 million and gratuity fund would be Rs. 0.129 million, for the year ending 31 December 2013.

34.10.4 Employee compensated absences

The liability of the Bank in respect of long-term employees compensated absences is determined based on actuarial valuation carried out using Projected Unit Credit Method. The liability of the Bank as per the latest actuarial valuation carried out as at 31 December 2012 amounted to Rs. 38.593 million (2011: Rs. 25.191 million) which has been fully provided by the Bank. The charge for the year in respect of these absences is Rs. 13.402 million (2011: Rs. 0.616 million) which is included in note 28 to these financial statements. Discount rate of 12% (2011: 13%) and salary increase of 11% (2011: 12%) per annum has been used for the above valuation.

35. Defined Contribution Plan

The Bank operates an approved contributory provident fund for 01 employee (2011: 3 employees) where contributions are made by the Bank and employee at 8.33% per annum (2011: 8.33% per annum) of the basic salary. During the year, Bank contributed Rs. 0.292 million (2011: Rs. 0.372 million) in respect of this fund.

The Bank also operates an approved non-contributory provident fund for 326 employees (2011: 297 employees) who have opted for the new scheme, where contributions are made by the employee at 12% per annum (2011: 12% per annum) of the basic salary.

36. COMPENSATION OF DIRECTORS AND EXECUTIVES

The aggregate amount charged in the financial statements for compensation, including all benefits, to the Chief Executive, Directors and Executives of the Bank was as follows:

	President / Chief Executive		Directors		Executives	
	2012	2011	**2012**	2011	**2012**	2011
	---(Rupees in '000)---					
Fees	**-**	**-**	**47**	11	**-**	**-**
Managerial remuneration	**2,880**	2,638	**-**	-	**76,903**	49,062
Charge for defined benefit plan	**240**	220	**-**	-	**5,247**	3,035
Contribution to defined contribution plan	**240**	220	**-**	-	**-**	168
Rent and house maintenance	**1,871**	1,600	**-**	-	**17,491**	17,248
Utilities	**722**	860	**-**	-	**4,373**	5,714
Medical	**447**	242	**-**	-	**5,466**	3,723
Conveyance	**587**	500	**-**	-	**14,585**	11,483
Others (bonus, special allowance, expense reimbursement, etc)	**9,758**	6,631	**-**	-	**8,468**	5,199
	16,745	12,911	**47**	11	**132,533**	95,632
Number of persons	**1**	1	**5**	6	**63**	55

The Chief Executive and certain executives are provided with free use of the Bank's maintained car and household equipment in accordance with the terms of their employment.

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments is based on quoted market prices, except for Pakistan Investment Bonds which has been classified by the Bank as 'held-to-maturity'. These 'held-to-maturity' Bonds are being carried at amortised cost in order to comply with the requirements of BSD Circular 14 dated 24 September 2004. The fair value of these investments amounts to Rs. 199.818 million (2011: Rs. 191.325 million). Fair value of an unquoted equity investments is determined on the basis of break up value of those investments as per the latest available audited financial statements. The details of these investments are given in note 9.8.

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

The maturity and repricing profile and effective yield / interest rates are stated in notes 42.4.3, 42.4.5.1 and 42.4.5.2 respectively.

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

38. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

2012	Corporate finance	Trading and sales	Retail & consumer banking	Commercial banking	Total
	(Rupees in '000)				
Total income	**787,428**	**709,475**	**334,397**	**62,512**	**1,893,812**
Total expenses	**224,302**	**9,272**	**1,571,311**	**436**	**1,805,321**
Income tax					**44,935**
Net income / (loss)	**563,126**	**700,203**	**(1,236,914)**	**62,076**	**43,556**
Segment assets - (Gross)	**6,257,925**	**11,900,292**	**2,657,553**	**1,983,204**	**22,798,974**
Advance tax					**88,405**
Deferred tax assets					**-**
Total assets	**6,257,925**	**11,900,292**	**2,657,553**	**1,983,204**	**22,887,379**
Segment non performing loans	**395,274**	**-**	**217,440**	**-**	**612,714**
Segment specific provision required	**200,449**	**-**	**37,918**	**-**	**238,367**
Segment liabilities	**1,976,597**	**-**	**17,657,297**	**779,666**	**20,413,560**
Segment return on net assets (ROA) (%)	**13.87%**	**10.52%**	**13.40%**	**0.87%**	**9.66%**
Segment cost of funds (%)	**7.36%**	**11.15%**	**7.36%**	**8.50%**	**8.59%**
2011					
Total income	621,139	1,213,244	296,503	41,592	2,172,478
Total expenses	104,721	506,636	1,160,393	625	1,772,375
Income tax					141,556
Net income / (loss)	516,418	706,608	(863,890)	40,967	258,547
Segment assets - (Gross)	5,600,962	6,614,486	2,673,646	1,614,840	16,503,934
Advance tax					-
Deferred tax assets					-
Total assets	5,600,962	6,614,486	2,673,646	1,614,840	16,503,934
Segment non performing loans	276,730	-	246,713	-	523,443
Segment specific provision required	122,161	-	77,310	-	199,471
Segment liabilities	1,359,795	-	12,824,787	224,389	14,408,971
Segment return on net assets (ROA) (%)	12.54%	10.68%	8.45%	2.95%	13.64%
Segment cost of funds (%)	6.24%	9.10%	6.24%	10.00%	12.30%

39. TRUST ACTIVITIES

The Bank is not involved in any significant trust activities.

40. RELATED PARTY TRANSACTIONS AND BALANCES

The Bank has related party relationships with associated undertakings, employee benefits, directors and key management personnel and companies with common directors.

Details of advances to the companies or firms in which the directors of the Bank are interested as directors, partners or in case of private companies as members, are given in note 10.7 to these financial statements. There are no transactions with key management personnel other than under their terms of employment. Contributions to and accruals in respect of staff retirement benefit plans are made in accordance with the actuarial valuation / terms of the contribution plan as disclosed in notes 34 and 35. Remuneration to the executives and disposals of vehicles are disclosed in notes 36 and 11.2 to these financial statements. The details of transactions and balances with related parties, except as disclosed elsewhere in the financial statements, are as follows:

A. Balances

	Directors		Associated undertakings		Key management personnel		Other related parties	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Deposits	(Rupees in '000)							
Balance at beginning of the year	**2,409**	2,006	**32**	19	**3,698**	2,932	**20,075**	14,383
Deposited during the year	**38,104**	13,975	**15**	125,022	**73,640**	32,622	**2,937,014**	1,338,354
Withdrawn during the year	**(37,079)**	(13,572)	**(22)**	(125,009)	**(74,115)**	(31,677)	**(2,815,623)**	(1,332,662)
Adjustments - net	**-**	-	**-**	-	**123**	(179)	**-**	-
Balance at end of the year	**3,434**	2,409	**25**	32	**3,346**	3,698	**141,466**	20,075

Deposits carry mark-up rate at 6% to 11.25% per annum (2011: 5% to 13.5% per annum).

	Directors		Associated undertakings		Key management personnel		Other related parties	
Mark-up / return / interest expensed	**85**	104	**-**	-	**163**	108	**8,882**	1,403
Mark-up payable in local currency	**56**	50	**-**	-	**46**	62	**1,630**	104
Advances (secured)								
Balance at beginning of the year	**-**	-	**58,334**	91,667	**6,849**	7,353	**(66)**	106,828
Loans granted during the year	**3,272**	-	**125,000**	-	**15,201**	300	**201,872**	563,959
Repayments received during the year	**-**	-	**(75,000)**	(33,333)	**(1,883)**	(804)	**(201,872)**	(670,853)
Adjustment	**-**	-	**-**	-	**3,234**	-	**-**	-
Balance at end of the year	**3,272**	-	**108,334**	58,334	**23,401**	6,849	**(66)**	(66)

Advances carry profit rates ranging from 5.5% to 14.4% per annum (2011: 5.1% to 15.4% per annum)

	Directors		Associated undertakings		Key management personnel		Other related parties	
Mark-up / return / interest earned	**6**	-	**22,278**	12,624	**714**	357	**-**	4,003
Mark-up receivable in local currency	**-**	-	**32**	43	**245**	214	**-**	-

B. Other transactions and balances (including profit and loss related transactions)

	Associated undertakings		Key management personnel		Other related parties	
Balances as at the year end	**2012**	2011	**2012**	2011	**2012**	2011
	(Rupees in '000)					
Cash and balance with treasury bank	**88,357**	93,603	**-**	-	**-**	-
Balances with other banks	**618,751**	386,918	**-**	-	**-**	-
Investment in National Institutional Facilitation Technologies (Private) Limited	**954**	954	**-**	-	**-**	-
Lendings to financial institutions	**2,921,195**	1,377,063	**-**	-	**-**	-
Mark-up receivable in local currency	**616**	1,447	**-**	-	**-**	-
MCB ATM settlement account balance	**417**	417	**-**	-	**-**	-
Net receivable from defined benefit plan	**-**	-	**-**	-	**22,440**	2,129
Payable to defined contribution plan	**-**	-	**-**	-	**-**	1,291
Transactions during the year						
Interest income on lendings to financial institutions	**91,885**	12,216	**-**	-	**-**	-
Interest expense on repurchase agreement borrowings	**836**	142,051	**-**	-	**-**	-
Dividend income	**-**	-	**-**	-	**-**	-
Charge for retirement benefits:						
Approved pension fund	**-**	-	**-**	-	**38,566**	37,192
Approved gratuity fund	**-**	-	**-**	-	**53**	367
Contributory provident fund	**-**	-	**-**	-	**292**	372
	-	-	**-**	-	**38,911**	37,931
Proceeds from sale of fixed assets	**-**	-	**-**	-	**-**	675
Remuneration of key management personnel	**-**	-	**44,030**	26,509	**-**	-

41. CAPITAL ADEQUACY

41.1 Capital management

Objectives and goals of managing capital

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

- maintain strong ratings and to protect the Bank against unexpected events;

- availability of adequate capital (including the quantum) at a reasonable cost so as to enable the Bank to expand; and

- achieve low overall cost of capital with appropriate mix of capital elements.

Statutory minimum capital requirement and management of capital

In order to strengthen the solvency of Banks / Development Financial Institutions (DFI), SBP through its BSD Circular No. 07 of 2009 dated 15 April 2009 has asked the Banks to raise their minimum paid up capital to Rs. 9 billion (free of losses) by the end of financial year 2012. Further, the banks are expected to increase their minimum paid up capital to Rs 10 billion (free of losses) by the end of financial year 2013. However, the paid up capital of the Bank at 31 December 2012 was Rs. 1,494.113 million which was short of the SBP's requirement. The SBP has granted the Bank an extension for meeting the minimum paid-up capital requirement up to 30 June 2013 (refer note 19.6 & 19.7 in this regard).

The paid up capital and CAR of the Bank stands at Rs. 1,494.113 million (free of losses) and 24.70% of its risk weighted exposure as at 31 December 2012.

The Bank’s regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes fully paid up capital (including the bonus shares), general reserves as per the financial statements and net un-appropriated profits, etc after deductions for deficit on revaluation of available for sale investments, if any.

- Tier 2 capital, which includes general provisions for loan losses (up to a maximum of 1.25 % risk weighted assets), reserves on the revaluation of fixed assets and equity investments, net off against deficit on account of revaluation of available for sale (AFS) securities (up to a maximum of 45 % of the balance in the related revaluation reserves).

Tier 3 capital has also been prescribed by the State Bank of Pakistan. However the Bank doesn't have any Tier 3 capital.

The Capital of the Bank is managed keeping in view the minimum “Capital Adequacy Ratio” required by SBP. The adequacy of the capital is tested with reference to the risk-weighted assets of the Bank. The Bank is required to manage its capital based on Basel II accord under the standardised approach and the Bank is complying with reporting of calculating the capital requirement under this basis.

The required capital adequacy ratio (10% of the risk-weighted assets) is tested with reference to the risk weighted exposure of the Bank. It is achieved by the Bank through improvement in the asset quality at the existing volume level, ensuring better recovery management and striking compromise proposal and settlement and composition of asset mix with low risk. Banking operations are categorized as either trading book or banking book and risk-weighted assets are determined according to specified requirements of the State Bank of Pakistan that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The total risk-weighted exposures comprise the credit risk, market risk and operational risk.

On and off-balance sheet assets in the banking book are broken down to various asset classes for calculation of credit risk. Ratings for assets are applied using various ECAI's and aligned with appropriate risk buckets. Collaterals if any, are used as an outflow adjustment. Risk weights notified, are applied at net adjusted exposure. Collaterals used include: Government of Pakistan guarantees for advances and investments in PSE / GOP, deposits / margins, lien on deposits, saving certificates and lending of securities (repo & reverse repo).

The risk weighted amount for operational risk is computed according to the basic indicator approach.

The Bank's risk weighted amount for market risk comprise of foreign exchange rate risk, which includes net spot positions. Trading book consists of positions in financial instruments held either with trading intent or in order to hedge other elements of the trading book. To be eligible for trading book, financial instruments must be held with the intent of trading and free of any restrictive covenants on their tradability. In addition, positions need to be frequently and accurately valued and the portfolio should be actively managed.

All investments excluding trading book are considered as part of banking book, which includes:

i) Available for sale securities.

ii) Held to maturity securities.

iii) Other strategic investments, if any.

Treasury investments parked in the banking book include:

i) Government securities.

ii) Capital market investments (except for investments in closed end mutual funds, considered as part of trading book).

iii) Strategic investments, if any.

iv) Investments in bonds, certificates, etc.

Due to the diversified nature of investments in banking book, it is subject to interest rate and equity price risk.

41.2 Tier I Capital

	2012	2011
	(Rupees in '000)	
Shareholders' equity	**1,494,113**	1,080,038
Reserves	**293,863**	284,991
Unappropriated profits (net of losses)	**203,665**	280,399
Book value of intangibles	**(8,011)**	(7,604)
Shortfall in provisions required against classified assets irrespective of relaxation allowed	**-**	-
Deficit on account of revaluation of investments held in AFS category	**-**	-
	(8,011)	(7,604)
Total Tier I Capital	**1,983,630**	1,637,824
Tier II Capital		
General Provisions subject to 1.25% of Total Risk Weighted Assets	**317**	593
Revaluation Reserve (upto 45%)	**50,983**	43,943
Total Tier II Capital	**51,300**	44,536
Eligible Tier III Capital	**-**	-
Total Regulatory Capital Base	**2,034,930**	1,682,360

41.3 Capital Requirements and Risk Weighted Assets

		Capital Requirements		Risk Weighted Assets	
		2012	2011	**2012**	2011
		(Rupees in '000)			
Credit Risk					
Portfolios subject to standardized approach (Simple)					
On- Balance Sheet					
(a)	Cash and Cash Equivalents	**-**	-	**-**	-
(b)	Claims on Government of Pakistan (Federal or Provincial Governments) and SBP, denominated in PKR	**-**	-	**-**	-
(c)	Foreign Currency claims on SBP arising out of statutory obligations of banks in Pakistan	**-**	-	**-**	-
(d)	Claims on other sovereigns and on Government of Pakistan or provincial governments or SBP denominated in currencies other than PKR	**421**	241	**4,210**	2,413
(e)	Claims on Bank for International Settlements, International Monetary Fund, European Central Bank, and European Community	**-**	-	**-**	-
(f)	Claims on Multilateral Development Banks	**-**	-	**-**	-
(g)	Claims on Public Sector Entities in Pakistan	**283**	298	**2,830**	2,979
(h)	Claims on Banks	**2,770**	2,567	**27,699**	25,673
(i)	Claims, denominated in foreign currency, on banks with original maturity of 3 months or less	**11,741**	10,566	**117,405**	105,662
(j)	Claims on banks with original maturity of 3 months or less denominated in PKR and funded in PKR	**84,413**	32,151	**844,134**	321,508
(k)	Claims on Corporates (excluding equity exposures)	**406,582**	165,297	**4,065,818**	1,652,970
(l)	Claims categorized as retail portfolio	**31,491**	42,202	**314,911**	422,017
(m)	Claims fully secured by residential property	**5,048**	2,678	**50,481**	26,782
(n)	Past Due loans:				
1	The unsecured portion of any claim (other than loans and claims secured against eligible residential mortgages as defined in section 2.1 of circular 8 of 2006) that is past due for more than 90 days and / or impaired:				
1.1	where specific provisions are less than 20 per cent of the outstanding amount of the past due claim.	**35,254**	39,163	**352,544**	391,631
1.2	where specific provisions are no less than 20 per cent of the outstanding amount of the past due claim.	**9,409**	521	**94,089**	5,214
1.3	where specific provisions are more than 50 per cent of the outstanding amount of the past due claim.	**2,262**	2,884	**22,615**	28,836
2	Loans and claims fully secured against eligible residential mortgages that are past due for more than 90 days and / or impaired	**-**	-	**-**	-
3	Loans and claims fully secured against eligible residential mortgage that are past due by 90 days and /or impaired and specific provision held there against is more than 20% of outstanding amount	**-**	-	**-**	-
(o)	Listed Equity investments and regulatory capital instruments issued by other banks (other than those deducted from capital) held in the banking book.	**-**	276	**-**	2,764
(p)	Unlisted equity investments (other than that deducted from capital) held in banking book	**143**	143	**1,431**	1,431
(q)	Investments in venture capital	**-**	-	**-**	-
(r)	Investments in premises, plant and equipment and all other fixed assets	**23,107**	22,174	**231,073**	221,740
(s)	Claims on all fixed assets under operating lease	**-**	-	**-**	-
(t)	All other assets	**15,319**	6,973	**153,189**	69,727
		628,243	328,134	**6,282,429**	3,281,347
Off- Balance Sheet - Non Market related Exposures					
Direct Credit Substitutes/ Lending of securities or posting of securities as collateral		**32,993**	5,451	**329,934**	54,514
Trade Related contingencies/Other Commitments with original maturity of one year or less		**-**	-	**-**	-
		32,993	5,451	**329,934**	54,514
Total Credit Risk (A)		**661,236**	333,585	**6,612,363**	3,335,861
Market Risk					
Capital Requirement for portfolios subject to Standardized Approach					
Interest rate risk		**-**	-	-	-
Equity position risk etc.		**2,313**	1,820	**23,125**	18,200
Capital Requirement for portfolios subject to Internal Models Approach					
Interest rate risk		-	-	-	-
Foreign exchange risk, etc.		**14,308**	12,109	**143,075**	121,088
		14,308	12,109	**143,075**	121,088
Total Market Risk (B)		**16,621**	13,929	**166,200**	139,288
Operational Risk					
Basic Indicator Approach-Total of operational risk (C)		**145,964**	127,088	**1,459,638**	1,270,875
TOTAL of A + B + C		**823,821**	474,602	**8,238,201**	4,746,024

		2012	2011
Capital Adequacy Ratio			
Total eligible regulatory capital held (Note 41.2)	(a)	**2,034,930**	1,682,360
Total Risk Weighted Assets (Note 41.3)	(b)	**8,238,201**	4,746,024
Capital Adequacy Ratio	(a) / (b)	**24.70%**	35.45%

41.4 Types of exposures and External Credit Assessment Institutions (ECAIs) used

	31 December 2012	
Exposures	**JCR-VIS**	**PACRA**
Corporate	Yes	Yes
Banks	Yes	Yes
Sovereigns	-	-
SME's	-	-
Securitizations	-	-
Others	Yes	Yes

41.5 Credit exposures subject to Standardized Approach

		2012			2011		
Exposures	**Rating Category**	**Amount Outstanding**	**Deduction CRM**	**Net Amount**	Amount Outstanding	Deduction CRM	Net Amount
		(Rupees in '000)					
Corporate	1	-	-	-	4,087	-	4,087
	2	**108,365**	-	**108,365**	183,469	-	183,469
	3 , 4	-	-	-	-	-	-
	5 , 6	-	-	-	6,891	-	6,891
Banks		**4,765,340**	-	**4,765,340**	2,011,374	-	2,011,374
Retail		**454,233**	**713**	**453,520**	610,058	732	609,326
Others		**12,754,255**	-	**12,754,255**	10,839,298	-	10,839,298
Unrated		**5,177,975**	**451,476**	**4,726,499**	2,649,161	849,151	1,800,010

42. RISK MANAGEMENT

Risk Management is a process consisting of defined steps, which support better decision making by contributing to a greater insight into risks and their impacts. The Bank has in place the “Basic Framework & Policy Guidelines”, which cover organizational set up and functions of Risk Management Department (RMD). Risk management processes help to improve safety, quality and performance of activities. The Bank intends to further augment its RMD in line with the regulatory requirements, etc.

42.1 Credit risk

Credit risk is the possibility that a borrower or counter party will fail to meet its obligations in accordance with agreed terms. The Bank’s Credit Manual contains detailed procedures and guidelines to address credit risk methodology for identifying, assessing, monitoring and mitigating the risk factors. The credit manual is under process of implementation and it will be followed in conjunction with risk based lending approach.

The Bank’s policies and procedures on Country Risk Management have been approved by the Board of Directors.

42.2 Concentration of credit and deposit

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk is monitored, reviewed and analysed by Asset and Liability Management Committee (ALCO), which has established credit lines and credit limits to control exposure to counter parties.

Out of the total financial assets of Rs. 22,039.636 million (2011: Rs. 15,854.786 million), the financial assets which were subject to credit risk amounted to Rs. 13,210.625 million (2011: Rs. 9,906.291 million). To manage credit risk the Bank applies credit limits to its customers and obtains adequate collateral.

The following financial assets are guaranteed by the Federal / Provincial Government or the State Bank of Pakistan.

	2012	2011
	(Rupees in '000)	
Advances	**3,021,572**	4,253,197
Investments	**7,021,850**	4,477,410
Mark-up receivable on Government guaranteed financial assets	**284,692**	201,677
Cash and balances with the State Bank of Pakistan	**610,980**	621,269

42.3 Segmental information

Segmental information is presented in respect of the class of business and geographical distribution of advances (gross), deposits, contingencies and commitments. The details are as follows:

42.3.1 Segments by class of business

	2012					
	Advances (gross)		**Deposits**		**Contingencies and commitments**	
	(Rupees in '000)	**Percent (%)**	**(Rupees in '000)**	**Percent (%)**	**(Rupees in '000)**	**Percent (%)**
Agriculture, forestry, hunting and fishing	**34,991**	**0.41**	**51,687**	**0.27**	**-**	**-**
Cement	**58,380**	**0.68**	**-**	**-**	**-**	**-**
Chemical and pharmaceuticals	**127,750**	**1.49**	**1,254**	**0.01**	**2,333**	**0.30**
Construction	**564,461**	**6.58**	**851,438**	**4.44**	**142,155**	**17.98**
Electronics and electrical appliances	**60,358**	**0.70**	**7,278**	**0.04**	**151,936**	**19.22**
Financial	**108,333**	**1.26**	**1,610**	**0.01**	**-**	**-**
Food, beverages and allied	**3,626,117**	**42.30**	**12,965**	**0.07**	**-**	**-**
Footwear and leather garments	**40,090**	**0.47**	**-**	**-**	**-**	**-**
Individuals	**144,359**	**1.68**	**5,506,879**	**28.69**	**-**	**-**
Production and transmission of energy	**894,111**	**10.43**	**1,810,283**	**9.43**	**33,311**	**4.21**
Services / social development and education	**996,030**	**11.62**	**2,682,088**	**13.97**	**6,000**	**0.76**
Textile and garment	**706,618**	**8.24**	**31,486**	**0.16**	**1,630**	**0.21**
Transport, storage and communication	**3,202**	**0.04**	**7,162**	**0.04**	**-**	**-**
Wholesale and retail trade	**459,087**	**5.35**	**-**	**-**	**443,508**	**56.10**
Others	**749,440**	**8.74**	**8,229,214**	**42.88**	**9,642**	**1.22**
	8,573,327	**100.00**	**19,193,344**	**100.00**	**790,515**	**100.00**

	2011					
	Advances (gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)
Agriculture, forestry, hunting and fishing	24,166	0.31	40,829	0.30	-	-
Cement	59,904	0.76	-	-	-	-
Chemical and pharmaceuticals	94,370	1.19	1,500	0.01	4,088	1.39
Construction	375,981	4.76	45,341	0.33	29,420	10.01
Electronics and electrical appliances	8,411	0.11	3,442	0.02	1,350	0.46
Financial	183,333	2.32	1,612	0.01	-	-
Food, beverages and allied	4,355,400	55.12	7,287	0.05	-	-
Footwear and leather garments	35,448	0.45	-	-	-	-
Individuals	109,063	1.38	3,720,877	26.93	-	-
Production and transmission of energy	397,778	5.03	1,271,244	9.20	24,909	8.48
Services / social development and education	1,028,159	13.01	2,953,529	21.38	-	-
Textile and garment	207,406	2.63	5,024	0.04	1,630	0.55
Transport, storage and communication	13,010	0.16	11,760	0.09	5,883	2.00
Wholesale and retail trade	218,448	2.76	-	-	120,610	41.05
Others	790,250	10.00	5,752,409	41.64	105,918	36.05
	7,901,127	100.00	13,814,854	100.00	293,808	100.00

42.3.2 Segment by sector

	2012					
	Advances (gross)		**Deposits**		**Contingencies and commitments**	
	(Rupees in '000)	**Percent (%)**	**(Rupees in '000)**	**Percent (%)**	**(Rupees in '000)**	**Percent (%)**
Public / Government	**3,021,572**	**35.24**	**6,579,858**	**34.28**	**340,162**	**43.03**
Private	**5,551,755**	**64.76**	**12,613,486**	**65.72**	**450,353**	**56.97**
	8,573,327	**100.00**	**19,193,344**	**100.00**	**790,515**	**100.00**

	2011					
	Advances (gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)
Public / Government	4,253,197	53.83	5,093,089	36.87	68,164	22.93
Private	3,647,930	46.17	8,721,765	63.13	229,066	77.07
	7,901,127	100.00	13,814,854	100.00	293,808	100.00

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

	2012		2011	
	Classified advances	**Specific provision held**	Classified advances	Specific provision held
	--------------------------(Rupees in '000)--------------------------			
Agriculture, forestry, hunting and fishing	**159**	**159**	1,972	1,972
Cement	**58,380**	**5,028**	59,904	4,838
Chemical and pharmaceuticals	**1,993**	**1,993**	2,088	2,088
Construction	**52,107**	**2,831**	58,087	2,053
Electronics and electrical appliances	**1,600**	**80**	3,588	2,297
Footwear and leather garments	**39,699**	**4,600**	34,629	2,380
Individuals	**2,265**	**2,265**	6,375	3,409
Production and transmission of energy	**2,174**	**-**	-	-
Services / social development and education	**33,553**	**1,219**	6,742	484
Textile and garment	**230,297**	**138,530**	138,033	84,465
Transport, storage and communication	**1,300**	**-**	1,300	-
Wholesale and retail trade	**10,913**	**1,631**	9,897	2,606
Others	**178,274**	**80,031**	200,828	92,879
	612,714	**238,367**	523,443	199,471

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

Private	**612,714**	**238,367**	523,443	199,471

42.3.5 Geographical segment analysis

	2012			
	Profit before taxation	**Total assets employed**	**Net assets employed**	**Contingencies and commitments**
	--------------------------(Rupees in '000)--------------------------			
Pakistan	**88,491**	**22,490,800**	**2,077,240**	**790,515**

	2011			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	--------------------------(Rupees in '000)--------------------------			
Pakistan	400,103	16,128,535	1,719,564	293,808

Total assets employed include intra group items of nil (2011: nil).

42.4 Market risk management

Market risk is the risk of loss arising from movements in market variables, such as interest rates, exchange rates and equity indices, etc. Concentration limits and other controls are applied through various checks and controls.

The Asset and Liability Management Committee (ALCO) of the Bank is responsible for reviewing policies relating to risk assets, primarily in lending and treasury related transactions as well as in reviewing / approving the procedures, setting of limits, monitoring and implementation as per the Board’s approved policies.

Procedural guidelines for covering the risks involved in various types of financing and customers’ transactions are being followed to ensure customers’ due diligence.

A number of developments are underway more particularly for operational and credit risk areas. Information technology infrastructure is being developed so as to strengthen the monitoring capacity as well as to keep pace with the modern banking facilities.

The management ensures all policies and procedures are regularly reviewed with a view to have full compliance with SBP guidelines as far as feasible and practicable with a view to ensure an efficient and effective system.

42.4.1 Foreign exchange risk management

Main objective of foreign exchange risk management is to ensure that foreign exchange exposure of the Bank remains within the defined risk appetite (20% of the paid up capital). Daily reports are generated to evaluate the exposure in different currencies. Details of the Bank's currency risk exposure are as follows:

	2012			
	Assets	**Liabilities**	**Off-balance sheet items**	**Net foreign currency exposure**
	---------------------------(Rupees in '000)---------------------------			
Pakistan Rupee	**21,623,317**	**19,689,096**	**447,418**	**2,381,639**
United States Dollar	**740,685**	**655,119**	**(447,418)**	**(361,852)**
Pound Sterling	**90,182**	**44,925**	**-**	**45,257**
Japanese Yen	**523**	**-**	**-**	**523**
Euro	**35,516**	**24,420**	**-**	**11,096**
Other currencies	**577**	**-**	**-**	**577**
	22,490,800	**20,413,560**	**-**	**2,077,240**

	2011			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	---------------------------(Rupees in '000)---------------------------			
Pakistan Rupee	15,424,815	13,826,337	121,930	1,720,408
United States Dollar	625,256	537,653	(121,930)	(34,327)
Pound Sterling	38,499	19,993	-	18,506
Japanese Yen	537	-	-	537
Euro	39,391	24,988	-	14,403
Other currencies	37	-	-	37
	16,128,535	14,408,971	-	1,719,564

42.4.2 Equity price risk

Equity price risk arises, primarily in trading book, due to changes in process of individual stocks or levels of equity indices. The Bank's existing equity book primarily comprises of available for sale portfolio, which is maintained with a medium term view of capital gains and higher dividend yields. Equity price risk is managed by applying nominal limits on individual scripts. The portfolio is also diversified to minimize the risk.

42.4.3 Mismatch of interest rate sensitive assets and liabilities

Yield / interest rate sensitivity position for on-balance sheet instruments is based on the earlier of contractual re-pricing or maturity date and for off-balance sheet instruments is based on settlement date.

	2012											
	Effective yield / interest rate	**Total**	**Exposed to yield / interest risk**									**Not exposed to yield / interest risk**
			Up to 1 month	**Over 1 to 3 months**	**Over 3 to 6 months**	**Over 6 months to 1 year**	**Over 1 to 2 years**	**Over 2 to 3 years**	**Over 3 to 5 years**	**Over 5 to 10 years**	**Above 10 years**	
		-----(Rupees in '000)-----										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	**0.00%**	**1,188,234**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,188,234**
Balances with other banks	**1.15%**	**636,034**	**194,299**	**349,943**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**91,792**
Lendings to financial institutions	**10.30%**	**4,219,779**	**4,219,779**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Investments - net	**10.73%**	**7,263,885**	**901,299**	**2,270,330**	**698,028**	**957,884**	**51,117**	**1,355**	**31,154**	**2,318,971**	**-**	**33,747**
Advances - net	**13.62%**	**8,334,643**	**6,682,583**	**42,845**	**1,044,261**	**190,607**	**-**	**-**	**-**	**-**	**-**	**374,347**
Other assets - net	**-**	**392,025**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**392,025**
		22,034,600	**11,997,960**	**2,663,118**	**1,742,289**	**1,148,491**	**51,117**	**1,355**	**31,154**	**2,318,971**	**-**	**2,080,145**
Liabilities												
Bills payable	**-**	**548,727**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**548,727**
Borrowings	**12.05%**	**73,340**	**-**	**11,000**	**62,340**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Deposits and other accounts	**7.36%**	**19,193,344**	**9,932,770**	**1,171,164**	**1,413,359**	**2,812,157**	**282,932**	**92,463**	**40,033**	**-**	**-**	**3,448,466**
Other liabilities	**-**	**440,551**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**440,551**
		20,255,962	**9,932,770**	**1,182,164**	**1,475,699**	**2,812,157**	**282,932**	**92,463**	**40,033**	**-**	**-**	**4,437,744**
On-balance sheet gap		**1,778,638**	**2,065,190**	**1,480,954**	**266,590**	**(1,663,666)**	**(231,815)**	**(91,108)**	**(8,879)**	**2,318,971**	**-**	**(2,357,599)**
Off-balance sheet financial instruments		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Off-balance sheet gap		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total yield / interest risk sensitivity gap			**2,065,190**	**1,480,954**	**266,590**	**(1,663,666)**	**(231,815)**	**(91,108)**	**(8,879)**	**2,318,971**	**-**	
Cumulative yield / interest risk sensitivity gap			**2,065,190**	**3,546,144**	**3,812,734**	**2,149,068**	**1,917,253**	**1,826,145**	**1,817,266**	**4,136,237**	**4,136,237**	

	2011											
	Effective yield / interest rate	Total	Exposed to yield / interest risk									Not exposed to yield / interest risk
			Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
		-----(Rupees in '000)-----										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	0.00%	973,701	-	-	-	-	-	-	-	-	-	973,701
Balances with other banks	0.87%	561,555	166,769	146,538	-	89,946	-	-	-	-	-	158,302
Lendings to financial institutions	11.90%	1,605,946	1,605,946	-	-	-	-	-	-	-	-	-
Investments - net	12.40%	4,730,434	4,145	488,069	1,813,767	1,619,601	696,526	48,609	31,145	-	-	28,572
Advances - net	15.40%	7,701,063	1,258,648	4,998,862	863,147	256,434	-	-	-	-	-	323,972
Other assets - net	-	282,087	-	-	-	-	-	-	-	-	-	282,087
		15,854,786	3,035,508	5,633,469	2,676,914	1,965,981	696,526	48,609	31,145	-	-	1,766,634
Liabilities												
Bills payable	-	96,417	-	-	-	-	-	-	-	-	-	96,417
Borrowings	13.20%	51,100	3,200	11,800	36,100	-	-	-	-	-	-	-
Deposits and other accounts	7.01%	13,814,854	526,095	1,067,068	6,821,365	2,782,626	26,248	52,334	34,968	49	-	2,504,101
Other liabilities	-	377,457	-	-	-	-	-	-	-	-	-	377,457
		14,339,828	529,295	1,078,868	6,857,465	2,782,626	26,248	52,334	34,968	49	-	2,977,975
On-balance sheet gap		1,514,958	2,506,213	4,554,601	(4,180,551)	(816,645)	670,278	(3,725)	(3,823)	(49)	-	(1,211,341)
Off-balance sheet financial instruments		-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-	-	-	-	-	-	-
Total yield / interest risk sensitivity gap			2,506,213	4,554,601	(4,180,551)	(816,645)	670,278	(3,725)	(3,823)	(49)	-	
Cumulative yield / interest risk sensitivity gap			2,506,213	7,060,814	2,880,263	2,063,618	2,733,896	2,730,171	2,726,348	2,726,299	2,726,299	

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates.

The reconciliation of:
- total assets and total financial assets; and
- total liabilities and total financial liabilities is as follows:

Reconciliation to total assets	2012	2011
	(Rupees in '000)	
Balance as per balance sheet	**22,490,800**	16,128,535
Less: Non-financial assets		
Operating fixed assets	**239,084**	229,344
Deferred tax assets	**-**	-
Other assets	**217,116**	44,405
	456,200	273,749
Total financial assets	**22,034,600**	15,854,786

Reconciliation to total liabilities	2012	2011
	(Rupees in '000)	
Balance as per balance sheet	**20,413,560**	14,408,971
Less: Non-financial liabilities		
Other liabilities	**152,356**	67,891
Deferred tax liability	**5,242**	1,252
	157,598	69,143
Total financial liabilities	**20,255,962**	14,339,828

42.4.4 Liquidity risk

Liquidity risk is defined as the potential loss arising from the Bank's inability to meet its own contractual obligations, when due. The liquidity risk is managed through a framework of liquidity policies, controls and limits. These policies and controls ensure that the Bank maintains diversified sources of funding to meet its contractual obligations.

42.4.5 Maturities of assets and liabilities

42.4.5.1 Maturities of assets and liabilities - Based on contractual maturity of the assets and liabilities of the Bank

The below mentioned maturity profile has been prepared on the basis of contractual maturities. The management believes that such a maturity analysis does not reveal the expected maturity of current and saving deposits as a contractual maturity analysis of deposits alone does not provide information about the conditions expected in normal circumstances. The maturity profile disclosed in note 42.4.5.2 includes maturities of current and saving deposits determined by the Asset and Liability Management Committee (ALCO) keeping in view historical withdrawal pattern of these deposits.

2012

	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)									
Assets										
Cash and balances with treasury banks	1,188,234	1,188,234	-	-	-	-	-	-	-	-
Balances with other banks	636,034	286,091	349,943	-	-	-	-	-	-	-
Lendings to financial institutions	4,219,779	4,219,779	-	-	-	-	-	-	-	-
Investments - net	7,263,885	901,299	2,270,330	731,775	957,884	51,117	1,355	31,154	2,318,971	-
Advances - net	8,334,643	3,420,291	3,176,455	80,270	126,592	125,904	556,285	653,644	105,517	89,685
Operating fixed assets	239,084	10,339	20,679	5,077	10,154	17,792	15,712	26,530	34,504	98,297
Other assets - net	609,141	225,635	267,342	9,253	106,911	-	-	-	-	-
	22,490,800	10,251,668	6,084,749	826,375	1,201,541	194,813	573,352	711,328	2,458,992	187,982
Liabilities										
Bills payable	548,727	548,727	-	-	-	-	-	-	-	-
Borrowings	73,340	-	11,000	62,340	-	-	-	-	-	-
Deposits and other accounts	19,193,344	11,637,164	1,526,977	1,678,157	3,102,473	334,124	651,152	263,297	-	-
Deferred tax liabilities	5,242	(1,907)	(3,779)	(6,739)	(13,514)	3,054	2,735	4,668	7,908	12,816
Other liabilities	592,907	543,690	11,968	17,952	19,297	-	-	-	-	-
	20,413,560	12,727,674	1,546,166	1,751,710	3,108,256	337,178	653,887	267,965	7,908	12,816
Net assets	2,077,240	(2,476,006)	4,538,583	(925,335)	(1,906,715)	(142,365)	(80,535)	443,363	2,451,084	175,166
Share capital	1,494,113									
Reserves	293,863									
Unappropriated profit	203,665									
Surplus on revaluation of assets - net of tax	85,599									
	2,077,240									

2011

	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)									
Assets										
Cash and balances with treasury banks	973,701	973,701	-	-	-	-	-	-	-	-
Balances with other banks	561,555	325,071	146,538	-	89,946	-	-	-	-	-
Lendings to financial institutions	1,605,946	1,605,946	-	-	-	-	-	-	-	-
Investments - net	4,730,434	4,145	488,069	1,813,767	1,648,173	696,526	48,609	31,145	-	-
Advances - net	7,701,063	2,517,160	4,288,323	110,556	139,134	208,257	182,864	158,370	40,549	55,850
Operating fixed assets	229,344	4,474	8,945	5,308	10,616	18,884	16,937	29,272	34,327	100,581
Deferred tax assets	34,500	2,454	5,426	9,306	16,477	751	52	34	-	-
Other assets - net	326,492	110,195	191,330	8,284	16,683	-	-	-	-	-
	16,163,035	5,543,146	5,128,631	1,947,221	1,921,029	924,418	248,462	218,821	74,876	156,431
Liabilities										
Bills payable	96,417	96,417	-	-	-	-	-	-	-	-
Borrowings	51,100	3,200	11,800	36,100	-	-	-	-	-	-
Deposits and other accounts	13,814,854	3,993,109	1,566,835	701,768	3,088,945	454,006	729,950	3,280,192	49	-
Deferred tax liabilities	35,752	378	755	881	1,760	3,163	2,845	4,874	7,988	13,108
Other liabilities	445,348	411,617	14,837	6,298	12,596	-	-	-	-	-
	14,443,471	4,504,721	1,594,227	745,047	3,103,301	457,169	732,795	3,285,066	8,037	13,108
Net assets	1,719,564	1,038,425	3,534,404	1,202,174	(1,182,272)	467,249	(484,333)	(3,066,245)	66,839	143,323
Share capital	1,080,038									
Reserves	284,991									
Unappropriated profit	280,399									
Surplus on revaluation of assets - net of tax	74,136									
	1,719,564									

42.4.5.2 Maturities of assets and liabilities - Based on working prepared by the Asset and Liability Management Committee (ALCO) of the Bank

Current and savings deposits do not have any contractual maturity therefore, current deposits and savings accounts have been classified between all nine maturities. Further, it has been assumed that on a going concern basis, these deposits are not expected to fall below the current year's level.

	2012									
	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)-----									
Assets										
Cash and balances with treasury banks	1,188,234	1,188,234	-	-	-	-	-	-	-	-
Balances with other banks	636,034	286,091	349,943	-	-	-	-	-	-	-
Lendings to financial institutions	4,219,779	4,219,779	-	-	-	-	-	-	-	-
Investments - net	7,263,885	901,299	2,270,330	731,775	957,884	51,117	1,355	31,154	2,318,971	-
Advances - net	8,334,643	597,681	3,456,026	1,706,793	885,113	284,568	555,617	653,643	105,517	89,685
Operating fixed assets	239,084	10,339	20,679	5,077	10,154	17,792	15,712	26,530	34,504	98,297
Other assets - net	609,141	225,635	267,342	9,253	106,911	-	-	-	-	-
	22,490,800	7,429,058	6,364,320	2,452,898	1,960,062	353,477	572,684	711,327	2,458,992	187,982
Liabilities										
Bills payable	548,727	548,727	-	-	-	-	-	-	-	-
Borrowings	73,340	-	11,000	62,340	-	-	-	-	-	-
Deposits and other accounts	19,193,344	6,468,917	1,849,455	1,748,335	3,257,896	810,308	1,015,394	4,043,039	-	-
Deferred tax liabilities	5,242	(1,907)	(3,779)	(6,739)	(13,514)	3,054	2,735	4,668	7,908	12,816
Other liabilities	592,907	543,690	11,968	17,952	19,297	-	-	-	-	-
	20,413,560	7,559,427	1,868,644	1,821,888	3,263,679	813,362	1,018,129	4,047,707	7,908	12,816
Net assets	2,077,240	(130,369)	4,495,676	631,010	(1,303,617)	(459,885)	(445,445)	(3,336,380)	2,451,084	175,166
Share capital	1,494,113									
Reserves	293,863									
Unappropriated profit	203,665									
Surplus on revaluation of assets - net of tax	85,599									
	2,077,240									

	2011									
	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)-----									
Assets										
Cash and balances with treasury banks	973,701	973,701	-	-	-	-	-	-	-	-
Balances with other banks	561,555	325,071	146,538	-	89,946	-	-	-	-	-
Lendings to financial institutions	1,605,946	1,605,946	-	-	-	-	-	-	-	-
Investments - net	4,730,434	4,145	488,069	1,813,767	1,648,173	696,526	48,609	31,145	-	-
Advances - net	7,701,063	2,517,160	4,288,323	110,556	139,134	208,257	182,864	158,370	40,549	55,850
Operating fixed assets	229,344	4,474	8,945	5,308	10,616	18,884	16,937	29,272	34,327	100,581
Deferred tax assets	34,500	2,454	5,426	9,306	16,477	751	52	34	-	-
Other assets - net	326,492	110,195	191,330	8,284	16,683	-	-	-	-	-
	16,163,035	5,543,146	5,128,631	1,947,221	1,921,029	924,418	248,462	218,821	74,876	156,431
Liabilities										
Bills payable	96,417	96,417	-	-	-	-	-	-	-	-
Borrowings	51,100	3,200	11,800	36,100	-	-	-	-	-	-
Deposits and other accounts	13,814,854	3,993,109	1,566,835	701,768	3,088,945	454,006	729,950	3,280,192	49	-
Deferred tax liabilities	35,752	378	755	881	1,760	3,163	2,845	4,874	7,988	13,108
Other liabilities	445,348	411,617	14,837	6,298	12,596	-	-	-	-	-
	14,443,471	4,504,721	1,594,227	745,047	3,103,301	457,169	732,795	3,285,066	8,037	13,108
Net assets	1,719,564	1,038,425	3,534,404	1,202,174	(1,182,272)	467,249	(484,333)	(3,066,245)	66,839	143,323
Share capital	1,080,038									
Reserves	284,991									
Unappropriated profit	280,399									
Surplus on revaluation of assets - net of tax	74,136									
	1,719,564									

42.4.6 Operational Risk

Operational risk is the risk resulting from inadequate or failed internal processes, people, system or from external events. This risk arises from inadequate documentation, legal or regulatory incapacity and uncertainty in enforcement of contracts. Procedural guidelines have been issued down the line. Necessary information / guidelines for Know Your Customer (KYC) compliance have also been issued by the Bank.

43. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Bank in their meeting held on 19 March 2013.

44. GENERAL

These financial statements have been prepared in accordance with the revised format for the financial statements of banks issued by the State Bank of Pakistan through BSD Circular No. 4 dated February 17, 2006.

(Kauser Safdar) **Chief Financial Officer**	**(Shafqat Sultana)** **President and** **Chief Executive**

(Shafqat Sultana) **President and** **Chief Executive**	**(Mudassir H. Khan)** **Director**	**(Naheed Ishaq)** **Director**	**(Muhtashim A. Ashai)** **Director**

Annexure A

STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF FIVE HUNDRED THOUSAND RUPEES OR ABOVE PROVIDED DURING THE YEAR ENDED 31 DECEMBER, 2012
As referred to in note 10.5 to these Financial Statements

(Rupees in thousands)

S.No	Full Name of Borrower/ Company Name	Name of Director/ Partner/Proprietor (with CNIC #)	Father/Husband's Name	Address of Borrower	Outstanding liabilities at beginning of year				Amount Written Off			
					Principal	Accrued Mark up	Others	Total (6+7+8)	Principal	Accrued Mark up	Others	Total (10+11+12)
1	2	3	4	5	6	7	8	9	10	11	12	13
1	Varied Computer	Ghazala Khan NIC # - NA	W/O Hasan Zafar Arif	5A/2B, 9th Commercial Street Phase II DHA Karachi.	92	136	2,012	2,240	92	136	2,012	2,240
2	H & H Farms Pvt Ltd	1) Ghayas Ahmed Siddiqui NIC # 517-60-308249 2) Zarina Ghayas NIC # 517-29-033301 3) Fatima Ghayas NIC # 517-85-033309 4) Fauzia Ghayas NIC # 517-85-033308 5) Haji Hasan Ghayas NIC # 517-60-308249	S/O Saeed Ahmed W/O Ghayas Ahmed Siddiqui D/O Ghayas Ahmed Siddiqui D/O Ghayas Ahmed Siddiqui S/O Ghayas Ahmed Siddiqui	C-65, Billys Homes, Main University road Karachi	288	-	1,495	1,783	288	-	1,495	1,783
3	New Allied Electronics	1) Mian Pervaiz Akhter CNIC # 42301-7176596-3 2) Abdul Rauf CNIC # 42201-3539213-1	S/O Mian Mohammad Rafiq S/O Abdul Ghafoor Ateeq	7th Floor, Lakson Square Building no. 1, Sarwar Hussain Shaheed Road, Saddar, Karachi.	2,213	2,207	-	4,420	-	1,169	-	1,169
	TOTAL				**2,593**	**2,343**	**3,507**	**8,443**	**380**	**1,305**	**3,507**	**5,192**