



First Women Bank Limited.

First Women Bank Ltd.

Financial Statements

For the year ended

31 December 2011



First Women Bank Limited

DIRECTORS' REPORT

The Board of Directors of First Women Bank Ltd. is pleased to present the 22nd Annual Report of the Bank, together with the Audited Financial Statements and the Auditors' Report thereon for the year ended December 31, 2011.

Financial Highlights:

	(Rs. in '000)	
	As at 31 December, 2011	As at 31 December, 2010
Advances (Gross)	7,901,127	6,535,694
Deposits	13,814,854	10,195,214
Total Assets	16,128,535	12,703,160
Paid up Capital	1,080,038	283,650
Reserves	284,991	233,282
Un-appropriated profit	280,399	567,585
Surplus on revaluation of assets (net)	74,136	21,504
Total Net Assets:	1,719,564	1,106,021
	For the year ended as at 31 Dec., 2011	For the year ended as at 31 Dec., 2010
Net Mark-up / return / interest income	742,308	610,707
Fees, commission & other income	253,719	57,141
Administrative expenses and other charges	(601,399)	(543,072)
Profit before provisions and taxations	394,628	124,776
Provision against non-performing loans – net	25,285	(19,967)
Provision for diminution in value of investments	(2,297)	(3,856)
Provision against lendings to financial institutions	(17,513)	(53,076)
Provision against other assets	-	6,800
Provision	5,475	(70,099)
Profit before taxation	400,103	54,677
Taxation – Current & deferred	(141,556)	(30,966)
Profit / (loss) after taxation	258,547	23,711



First Women Bank Limited

Financial Performance:

Profitability: The Bank's operational profit before taxation & provisions against classified assets is Rs. 394.6 million for the year 2011 (2010: Rs. 124.8 million). The Bank has absorbed additional burden of booking provision against lending to financial institutions of Rs. 17.5 million (2010: 53.1 million) and for diminution in value of investments Rs. 2.3 million (2010: Rs. 3.8 million), while, the Bank reversed provision against non-performing loans and advances of Rs. 25.285 million (2010: charge of Rs. 19.9 million); the Bank's expectations about reversal and recovery are high. The net profit before tax is Rs. 400.1 million (2010: Rs. 54.7 million).

Mark-up income from investing activities has increased by Rs. 457.4 million (compared to increase of Rs. 48.1 million during 2010), due to increase in average treasury balances mainly from increased investment in Government Securities during the year.

Administrative Expenses and other charges increased by Rs. 58.3 million 10.7% (2010: Rs. 89.5 million or 19.7%); Salaries and other benefits increased by Rs. 27.4 million or 10.2% (2010: Rs. 30.1 million or 12.6%), utilities, rentals, electricity and fuel charges increased by Rs. 21.2 million or 28.7% (2010: Rs. 11.9 million or 19.3%), advertisement expenses increased by Rs. 7.8 million or 88.1% (2010: decreased by Rs. 0.8 million or 8.7%), whereas, other over-heads such as repair and maintenance charges, fuel charges, stationery expenses, etc. increased in line with rising inflationary impacts, increased by Rs. 1.9 million or 1.0% (2010: Rs. 48.3 million or 33.9%).

Investments portfolio increased by Rs. 1,300.2 million or 37.9% and **Lendings to Financial Institutions** increased by Rs. 679.6 million or 73.4% as compared to last year, due to concentration of the Bank on increasing the investing activities of the Bank.

Gross Advances were Rs. 7,901 million at December 31, 2011, showing an increase of Rs. 1,365 million or 20.9% (2010: Rs. 3,054 million or 87.7%). Gross Advances in respect of Public sector amounted to Rs. 4,253 million (53.8% of total gross advances) and in respect of Private sectors entities amounted to Rs. 3,648 million (46.2% of total gross advances), as at December 31, 2011.

Deposits were Rs. 13,815 million as compared to Rs. 10,195 million last year. Deposits as at December 31, 2011 included Rs. 5,093 million from the Public sector (36.9% of Deposits) and Rs. 8,722 million in respect of Private sectors entities (63.1% of Deposits).

Shareholders Equity has increased to Rs. 1,720 million in current year compared to Rs. 1,106 million as at December 31, 2010.

Net Assets Value per share has decreased to Rs. 15.92, as compared to Rs. 38.99 last year.

Focus on Women Development:

In line with the Bank's Charter: "*Undertaking the conduct of all forms of business of a Banking Company in a manner designed to meet the special needs of women and to encourage and assist them in promotion and running of trade and industry and practice of profession*", and its Mission "*To transform the status of women from passive beneficiaries of social services to dynamic agents of change*" the Bank's marketing activities were accelerated to target women entrepreneurs – Micro, Small & Medium and Corporate, and to increase the share of women depositors and women borrowers.

Advances to Women/ Women Owned Enterprises:

The Bank has the best outreach to women; to date Rs. 37.1 billion has been disbursed, of which Rs. 18.8 billion has been disbursed to the women, which constitute 51% financing to women, with total outreach to 49,199 borrowers.



First Women Bank Limited

First Women Bank Ltd. caters to women at all socio-economic levels; Micro, Small & Medium and Corporate:

- Micro-credit :Rs. 3.8 billion, which constitute 20.2% of total disbursements to women
 - SMEs :Rs. 12.5 billion, which constitute 66.5% of total disbursements to women
 - Corporate :Rs. 2.5 billion, which constitute 13.3% of total disbursements to women
- Total** **Rs. 18.8** billion **100.0%**

During the year 2011 Rs. 7.5 billion has been disbursed, which includes Rs. 1.6 billion or 21.3% disbursed to women, Rs. 4.4 billion or 58.7% for commodity financing and Rs. 1.5 billion or 20.0% to others.

The model of FWBL, a Commercial Bank and a Developmental Financial Institution, is unique, since our credit policies are designed to promote asset ownership, and most importantly to provide the support services required to navigate the obstacles in the development of business, with the vision to assist them in emerging as key players in the economy.

Deposits from Women/ Women owned Enterprises stood at Rs. 4,359 million. The number of women account holders is 57,606 which constitute 56% of the total account holders as at December 31, 2011.

Support Services for Women: The Bank recognizes that access to credit alone is not sufficient to economically empower women. FWBL's credit products are complemented by support services offered through Business Centres, Computer Literacy Centres and Financial Services Desk.

Financial Services Desk (FSD): Financial Services Desk has facilitated the women in business, in five important facets:- Legal counseling, Tax consultancy, Marketing, Credit management and Trade Finance, but also for fast track processing of credit proposals.

Operational Performance Review:

The Bank concentrated its efforts to strengthen the Infra-structure, improve employees' knowledge and skill set, augment I.T resources, improve customer services and increase the size of its Balance Sheet by mobilizing Deposits.

Key Financial Indicators of FWBL during 2006-2011:

The significant highlights of the Bank's financial performance during the last 6 years are enclosed as Appendix-I.

Market Recognition:

The Pakistan Credit Rating Agency Ltd. (PACRA) has maintained the Bank's "long-term" and "short-term" entity ratings on stand alone basis at "BBB+" (Triple B Plus) and "A2" (A two), respectively, as per its press release issued on June 30, 2011. These ratings, as defined by PACRA, denote a low expectation of credit risk emanating from an adequate capacity for timely payment of financial commitments.



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Minimum Capital Requirements:

The State Bank of Pakistan has granted the Bank an extension in meeting the compliance of the Minimum Paid-up Capital Requirements till June 30, 2012. The Bank's inability to raise its paid-up capital to meet the Minimum Paid-up Capital Requirements, periodic deferrals by the State Bank of Pakistan, lowest paid-up capital, sole dependence on limited internal resources generated through profits, are major challenges to compete in a tough competitive scenario and poses serious threat to the institution for meeting its restructuring needs.

Future Outlook:

First Women Bank Ltd. "run and managed by women, for the women of Pakistan" is committed to be the "benchmark employer" of women in the Banking industry, with the best practices and the best financial services, in line with its vision:

"To be the lead Bank for women: Dynamic, adaptive and responsive to their special economic needs, offering the best financial services and the best banking practices".

After the successful launch of the on-line banking, SWIFT, RTGS inter-bank fund transfer system, the Bank is committed to provide more resources for implementation of new innovations in the field of Information Technology for the benefit of our valuable clientele. The Bank would continue to improve its existing infrastructure as well as by acquiring upgraded banking applications, to offer new products, such as Phone Banking, Call Centre, Internet Banking, Utility Bills payment, Point of Sale terminals/ Debit Cards and phase-wise integration of automated centralized MIS.

With the hiring of additional professionals as divisional heads, the Bank has worked-out detailed timeframes to develop and update Manuals and Policy documents, to further strengthen the system of internal controls and to ensure better compliance with the Regulatory requirements.

Compliance with the Best Practices of the Code of Corporate Governance:

First Women Bank Ltd. recognizes the importance of the code of Corporate Governance and the Directors are pleased to give following statement in respect of the Code of Corporate Governance:

- 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 Accounting Standards, as applicable to Banks in Pakistan, have been followed in 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 is no reason, what so ever, to doubt the Bank's ability to continue as a going concern.
- There has been no material departure from the best practices of Corporate Governance, in accordance with the relevant regulations.



First Women Bank Limited

The Board has appointed the following eight committees with defined terms of reference:

- | | |
|--|---|
| ➤ Audit Committee | Comprising of non-executive members |
| ➤ HR Recruitment & Compensation Committee | Comprising of executive & non-executive members |
| ➤ Credit & Risk Management Committee | Comprising of executive & non-executive members |
| ➤ Executive Committee | Comprising of the Bank's Executives |
| ➤ Assets & Liabilities Management Committee (ALCO) | Comprising of the Bank's Executives |
| ➤ Fraud & Forgery Committee | Comprising of the Bank's Executives |
| ➤ Executive Credit Committee | Comprising of the Bank's Executives |
| ➤ IT Steering Committee | Comprising of the Bank's Executives |

Risk Management Framework:

In order to comply with SBP guidelines on risk management, the Bank had prepared the 'Basic framework & policy guidelines', which were approved by the Board.

Recognizing the facts that policies and procedures are imperative to strengthen the internal control systems and to ensure smooth functioning of any department of an institution, the Bank prepared several Guidelines and Manuals, which have been approved by the Board of Directors, including 'Credit Manual', 'KYC & Anti Money Laundering Policy & Procedures', 'Policy for Acquisition & Disposal of Fixed Assets', 'Policy for Maturity-wise Distribution of Rate Sensitive Deposits & Other Accounts', 'Consumer Credit Policy', 'Accounting Policy', 'Country Risk Management Policy', 'IT Security Policy', 'Treasury Manual' and 'Investment Policy'.

Staff Retirement Benefit Funds:

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 schemes, were:

	<u>(Rs. in '000s)</u>	
	<u>As at 30-06-11</u>	<u>As at 30-06-10</u>
Provident Fund		
Value of Investments & Bank balance	<u>97,190</u>	<u>82,450</u>
Pension Fund	<u>As at 31-12-11</u>	<u>As at 31-12-10</u>
Value of Investments & Bank balance	<u>260,602</u>	<u>202,311</u>
Gratuity Fund	<u>As at 31-12-11</u>	<u>As at 31-12-10</u>
Value of Investments & Bank balance	<u>3,334</u>	<u>8,169</u>

Board Meetings:

During the year under report, the Board of Directors met 6 times (including the Pre-AGM). The number of meetings attended by each Director during the year:

Name of Directors	Attendance
1. Mrs. Shafqat Sultana	6
2. Mr. M. U. A. Usmani	5
3. Mr. R. Zakir Mahmood	-
4. Ms. Batool Iqbal Qureshi	3
5. Mr. Khalid A. Sherwani	6
6. Mr. Qamar Hussain / Mr. Zia Ullah Khan	1 / 2
7. Mr. Atif R. Bokhari / Mr. Ali Sameer	1 / 3



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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:

Share Holders:	<u>Number of Shares</u>	<u>% of Holding</u>
MCB Bank Ltd.	20,889,000	19.34%
Habib Bank Ltd.	20,889,000	19.34%
Federal Government of Pakistan through Ministry of Finance	45,303,750	41.94%
Allied Bank Ltd.	6,996,000	06.48%
National Bank of Pakistan.	6,963,000	06.45%
United Bank Ltd.	6,963,000	06.45%
Total Paid up Shares	<u>108,003,750</u>	<u>100.00%</u>

Appointment of External Auditors:

On the suggestion of the Audit Committee, the Board of Directors recommends to reappoint M/s. M. Yousuf Adil Saleem & Co., Chartered Accountants, as Auditors of the Bank for the financial year ending as at December 31, 2012.

Acknowledgement:

The Board of Directors and the management of the Bank wish to record their thanks to the Government of Pakistan, Ministry of Finance and State Bank of Pakistan for their continued support and guidance. We also take this opportunity to express our gratitude to our valued customers, business partners and the staff for their trust and commitment.

For and on behalf of the Board of Directors

Shafqat Sultana

Chairperson & President/CEO.

Date: March 21, 2012



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Appendix – I**Financial Performance at a Glance During 2006 – 2011:**

Key Financial Indicators	* (Rs. in Million)					
	2006	2007	2008	2009	2010	2011
Total Assets *	8,989	8,985	7,304	10,258	12,703	16,128
Shareholder Equity *	935	1,088	1,103	1,093	1,106	1,720
Advances (Gross) *	3,115	3,129	3,410	3,482	6,535	7,901
NPLs *	47	85	174	331	430	523
Deposits *	6,965	7,569	5,939	8,757	10,195	13,815
Investments & Lendings						
to Financial Institutions *	4,569	4,405	2,615	5,233	4,356	6,336
Profit before tax *	256.5	238.4	190.4	(86.2)	54.7	400.1
Net Asset value – Rs. per Share	32.96	38.35	38.89	38.55	38.99	15.92
Earning per Share – Rs. per Share	5.85	5.57	3.74	(2.82)	0.30	3.11
Capital Adequacy Ratio%	24.51%	29.52%	22.12%	32.39%	27.24%	35.45%



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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 30-06-2011 contain 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. Meanwhile, recent SBP instruction & deadline were received vide letter No. BSD/BRP-2/548(501)/2012/665 dated January 16, 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 30-09-2012 and statutory auditors should submit "**Long Form Report**" to SBP through the Bank latest by **December 31, 2012**.

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 2011 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 been 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 the Board 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 21, 2012



First Women Bank Limited

**STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE
For the Year Ended 31 December 2011**

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 the 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 of Corporate Governance and applied the principles contained in the Code in the following manner:

1. At present all the members of the Board of Directors (the Board) are non-executive Directors except for the President / Chief Executive Officer who is also the Chairperson of the Board. The President of the Bank is appointed by the Government of Pakistan (GoP).
2. The Directors have confirmed that they are not serving as Director in more than ten listed companies, including this Bank.
3. All the directors of the Bank have confirmed that they are registered as tax payers 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 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. Four casual vacancies occurred in the Board; one each on 17 January 2011 and 30 June 2011 and two on 26 August 2011. The Bank has timely intimated the above vacancies to the relevant authorities. However, casual vacancy of 17 January 2011 was filled by Federal Government on 28 February 2011. Casual vacancy of 30 June 2011 arose due to devolvement of Ministry of Women Development in June 2011 after which a director was nominated by the Ministry of Finance on 28 November, 2011. Casual vacancies of 26 August 2011 were duly filled on the same day.
5. The Bank has prepared a 'Statement of Ethics and Business Practices' which is approved by the Board on 31 October 2011. However, the said statement is not yet circulated and signed by all Directors and employees of the Bank.
6. The Board has developed a Vision / Mission statements and overall corporate strategy. The Board has approved significant policies of the Bank, which includes three policies approved and one revised during the year. Further, six policies are in approval process.
7. All the meetings of the Board were presided over by the Chairperson 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 2011. Written notices of the Board meetings, along with agenda were circulated at least seven days before the meeting and working papers were distributed before the meetings. However, the minutes of the meetings were appropriately recorded and circulated along with the agenda of next meeting.
8. Out of the six non-executive Directors of the Bank, three are presidents and two are the Senior Executive. Vice President (SEVP) / group heads of stakeholder banks. In view of their confirmation that they are fully aware of their duties and responsibilities, orientation courses required under the Code were not arranged by the Bank.



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9. The appointment of Chief Financial Officer and Company Secretary had been approved by the Board of Directors and the appointment of the Head of Internal Audit has been approved by the Board's Committee. Their remuneration and terms of employment are duly approved by the Board / Board's Committee. However, no new appointment of Chief Financial Officer (CFO), Company Secretary or Head of Internal Audit was made during the year.
10. 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.
11. The Directors' Report for the year ended December 31, 2011 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 material corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee which comprises of three members who are non-executive director. The Chairman of the Committee is director nominated by National Bank of Pakistan. 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 approval of interim and final results of the Bank.
17. 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.
18. 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.
19. 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 International Federation of Accounts (IFAC) guidelines in this regard.
20. The related party transactions have been placed before the Audit Committee and approved by the Board of Directors of the Bank.
21. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

Shafqat Sultana
Chairperson & President/CEO

Date: March 21, 2012

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

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Bank. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement 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 have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal controls covers all controls and the effectiveness of such internal controls.

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, 2011.

The Statement of Compliance of the Bank for the year ended December 31, 2010 was reviewed by another firm of Chartered Accountants who vide their report dated March 21, 2011 expressed an unmodified conclusion thereon.

M. Yousuf Adil Saleem & Co.
Chartered Accountants

Engagement Partner:
Mushtaq Ali Hirani

Karachi
Date: March 21, 2012

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, 2011 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'the financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for 7 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 60% 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, 2011, and its true balance of profit, its comprehensive income, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

The financial statements of the Bank for the year ended December 31, 2010 were audited by another firm of Chartered Accountants who vide their audit report dated March 21, 2011 issued an unqualified opinion on those financial statements.

M. Yousuf Adil Saleem & Co.
Chartered Accountants

Engagement Partner:
Mushtaq Ali Hirani

Karachi.
Date: March 21, 2012

First Women Bank Limited

Statement of Financial Position

As at 31 December 2011

	Note	2011 (Rupees in '000)	2010
Assets			
Cash and balances with treasury banks	6	973,701	836,311
Balances with other banks	7	561,555	600,228
Lendings to financial institutions	8	1,605,946	926,323
Investments - net	9	4,730,434	3,430,251
Advances - net	10	7,701,063	6,308,140
Operating fixed assets	11	229,344	188,248
Deferred tax assets - net	12	-	38,861
Other assets - net	13	326,492	374,798
		16,128,535	12,703,160
Liabilities			
Bills payable	15	96,417	102,182
Borrowings	16	51,100	966,885
Deposits and other accounts	17	13,814,854	10,195,214
Subordinated loan		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities - net	12	1,252	-
Other liabilities	18	445,348	332,858
		14,408,971	11,597,139
Net assets		1,719,564	1,106,021
Represented by:			
Share capital	19	1,080,038	283,650
Reserves		284,991	233,282
Unappropriated profit		280,399	567,585
		1,645,428	1,084,517
Surplus on revaluation of assets - net of tax	20	74,136	21,504
		1,719,564	1,106,021
Contingencies and commitments	21		

The annexed notes 1 to 43 form an integral part of these financial statements.

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Shafqat Sultana
President and
Chief Executive

Shafqat Sultana
President and
Chief Executive

Naheed Ishaq
Director

Ali Sameer
Director

Muhtashim Ashai
Director

First Women Bank Limited

Profit and Loss Account

For the year ended 31 December 2011

	Note	2011 (Rupees in '000)	2010
Mark-up / return / interest earned	24	1,918,759	1,374,548
Mark-up / return / interest expensed	25	1,176,451	763,841
Net mark-up / return / interest income		742,308	610,707
(Reversal of) / provision against non-performing loans and advances - net	10.3.2	(25,285)	19,967
Provision for diminution in the value of investments	9.10	2,297	3,856
Provision against lendings to financial institutions	8.3	17,513	53,076
Bad debts written off directly		-	-
		(5,475)	76,899
Net mark-up / return / interest income after provisions		747,783	533,808
Non-mark-up / interest income			
Fee, commission and brokerage income		20,779	26,445
Dividend income		12,639	14,025
Income from dealing in foreign currencies		18,918	(2,231)
Gain on sale / redemption of securities - net	26	180,570	3,210
Other income - net	27	20,813	15,692
Total non-mark-up / interest income		253,719	57,141
		1,001,502	590,949
Non-mark-up / interest expenses			
Administrative expenses	28	600,986	533,679
Provision against other assets	13.1	-	(6,800)
Other charges	29	413	9,393
Total non-mark-up / interest expenses		601,399	536,272
Extra ordinary / unusual items		-	-
Profit before taxation		400,103	54,677
Taxation - current year		127,442	15,867
- prior years		-	-
- deferred		14,114	15,099
	30	141,556	30,966
Profit after taxation		258,547	23,711
Unappropriated profit brought forward		567,585	546,128
Issuance of bonus shares		(496,388)	-
Transferred to statutory reserve		(51,709)	(4,742)
Transfer from surplus on revaluation of fixed assets - net of tax	20.1	2,364	2,488
		21,852	543,874
Profit available for appropriation		280,399	567,585
			(Rupees)
Basic and diluted earnings per share - after tax	31	3.11	0.30

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First Women Bank Limited
Statement of Comprehensive Income
For the year ended 31 December 2011

	2011	2010
	(Rupees in '000)	
Profit after taxation for the year	258,547	23,711
Other comprehensive income	-	-
Total comprehensive income - profit for the year	258,547	23,711

The annexed notes 1 to 43 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 2011

	2011	2010
Note	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	400,103	54,677
Dividend income	(12,639)	(14,025)
	387,464	40,652
<i>Adjustments for non-cash charges:</i>		
Depreciation	11.1 24,913	20,222
Amortisation of intangible assets	11.3 1,901	1,130
Provision for diminution in value of investments	9.10 2,297	3,856
Provision against lendings to financial institutions	8.3 17,513	53,076
(Reversal of) / provision against non-performing loans and advances - net	10.3 (25,285)	19,967
Provision against other assets	13.1 -	(6,800)
(Gain) / loss on sale of operating fixed assets	27 (3,736)	426
	17,603	91,877
	405,067	132,529
(Increase) / decrease in operating assets		
Lendings to financial institutions	(697,136)	156,626
Advances	(1,365,433)	(3,053,840)
Others assets (excluding advance taxation)	(35,449)	(145,010)
	(2,098,018)	(3,042,224)
Increase / (decrease) in operating liabilities		
Bills payable	(5,765)	13,162
Borrowings	(915,785)	935,557
Deposits and other accounts	3,619,640	1,438,421
Other liabilities	109,396	45,306
	2,807,486	2,432,446
	1,114,535	(477,249)
Income tax paid	(44,070)	(44,558)
<i>Net cash generated from / (used in) operating activities</i>	1,070,465	(521,807)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investments in available-for-sale securities	(1,242,874)	656,471
Net investments in held-to-maturity securities	6,883	6,506
Dividend income received	12,639	14,025
Purchase of operating fixed assets	(53,762)	(19,309)
Proceeds from disposal of operating fixed assets	5,366	664
<i>Net cash (used in) / generated from investing activities</i>	(1,271,748)	658,357
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of share capital	300,000	-
<i>Net cash generated from financing activities</i>	300,000	-
Increase in cash and cash equivalents	98,717	136,550
Cash and cash equivalents at beginning of the year	1,436,539	1,299,989
Cash and cash equivalents at end of the year	1,535,256	1,436,539

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Statement of Changes in Equity

For the year ended 31 December 2011

	Share capital	Statutory reserve	Revenue reserve unappropriated profit	Total
Note	----- (Rupees in '000) -----			
Balance at 31 December 2009	283,650	228,540	546,128	1,058,318
<i>Changes in equity for the year 2010</i>				
Total comprehensive income for the year ended 31 December 2010 - profit for the year	-	-	23,711	23,711
Transferred to statutory reserve	-	4,742	(4,742)	-
Transferred from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	2,488	2,488
20.1				
Balance at 31 December 2010	283,650	233,282	567,585	1,084,517
<i>Changes in equity for the year 2011</i>				
Transaction with owners				
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
Total comprehensive income for the year ended 31 December 2011	-	-	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	-	-	2,364	2,364
20.1				
Balance at 31 December 2011	1,080,038	284,991	280,399	1,645,428

The annexed notes 1 to 43 form an integral part of these financial statements.

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First Women Bank Limited

Notes to the Financial Statements

For the year ended 31 December 2011

1. STATUS AND NATURE OF BUSINESS

- 1.1** 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 thirty eight branches as at 31 December 2011 (2010: 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**

The following standards, amendments and interpretations of approved accounting standards are effective for accounting periods beginning on or after the date mentioned against them:

- IAS 1 - 'Presentation of Financial Statements' (effective for annual periods beginning on or after 01 July 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 12 - 'Income taxes' - (effective for annual periods beginning on or after 01 January 2012) - IAS 12 currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment Property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes - recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.
- IAS 19 - 'Employee Benefits' (effective for annual periods beginning on or after 01 January 2013) - These amendments eliminate the corridor approach and calculate finance costs on a net funding basis.
- IFRIC 20 - 'Stripping Costs in the Production Phase of a Surface Mine' 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 core body.

The abovementioned standards, amendments and interpretations of approved accounting standards 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 disclosures 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 2010 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 2011, 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.

	<i>Note</i>	2011 (Rupees in '000)	2010
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency	6.1	205,435	164,033
Foreign currencies		52,454	33,609
With State Bank of Pakistan in			
Local currency current account	6.2	498,329	440,655
Foreign currency deposit account	6.3	120,527	123,745
US Dollar clearing account		2,413	9,977
With National Bank of Pakistan in local currency current account - a related party		94,543	64,292
		973,701	836,311

- 6.1** This includes National Prize Bonds of Rs. 0.940 million (2010: Rs 0.476 million).
- 6.2** The local currency current account is maintained with the State Bank of Pakistan (SBP) as per the requirements of Section 36 of the State Bank of Pakistan Act, 1956. This section requires banking companies to maintain a local currency cash reserve 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 account 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. 89.496 million (2010: Rs. 92.488 million) at nil return per annum (2010: nil return per annum).

7. BALANCES WITH OTHER BANKS

	<i>Note</i>	2011	2010
		(Rupees in '000)	
In Pakistan			
On current account	7.1	33,824	57,404
On deposit account	7.2	403,253	375,941
Outside Pakistan			
On current account	7.3	124,478	166,883
		<u>561,555</u>	<u>600,228</u>

- 7.1** This represents 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 0.5% to 2% per annum (2010: 0.8% to 1.3% per annum). It includes balances with related parties amounting to Rs. 313.307 million (2010: 375.941 million).
- 7.3** It includes related party balances amounting to Rs. 39.787 million (2010: Nil).

	<i>Note</i>	2011	2010
		(Rupees in '000)	
8. LENDINGS TO FINANCIAL INSTITUTIONS			
Term lendings - secured	8.1	139,089	155,441
Repurchase agreement lendings	8.2	1,605,946	892,458
		<u>1,745,035</u>	<u>1,047,899</u>
Provision against term lendings	8.3	(139,089)	(121,576)
		<u>1,605,946</u>	<u>926,323</u>

- 8.1** This represents financing to two financial institutions carrying profit rate ranging from 10% to 13.79% (2010: 10% to 13.32%) per annum. These are due to mature by December 2012 and are adjustable in monthly installments. Due to default, this amount has been fully provided.

8.2 Securities held as collateral against repurchase agreement lendings

	2011			2010		
	Held by bank	Further given as collateral	Total	Held by bank	Further given as collateral	Total
------(Rupees in '000)-----						
Market Treasury Bills	<u>1,605,946</u>	<u>-</u>	<u>1,605,946</u>	<u>892,458</u>	<u>-</u>	<u>892,458</u>

Market value of securities held as collateral against repurchase agreement lendings at 31 December 2011 amounted to Rs. 1,607.666 million (2010: Rs. 892.457 million) and carry mark-up rates ranging from 11.3% to 11.9% per annum (2010: 13% to 13.6% per annum). This includes lendings to related parties amounting to Rs. 1,377.063 million (2010: Nil).

8.3 Provision against term lendings

	2011	2010
	(Rupees in '000)	
Opening balance	<u>121,576</u>	68,500
Charge for the year	<u>20,013</u>	53,076
Reversal during the year	<u>(2,500)</u>	-
	<u>17,513</u>	53,076
Closing balance	<u>139,089</u>	<u>121,576</u>

9. INVESTMENTS - net

Note

9.1 Investments by types

	Note	2011			2010		
		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	<u>3,825,075</u>	-	<u>3,825,075</u>	1,528,369	673,588	2,201,957
- Pakistan Investment Bonds	9.4	<u>662,865</u>	-	<u>662,865</u>	813,646	225,936	1,039,582
- Term Finance Certificates (TFCs)	9.5	<u>21,907</u>	-	<u>21,907</u>	35,434	-	35,434
- Units / certificates of mutual funds	9.6	<u>30,000</u>	-	<u>30,000</u>	20,000	-	20,000
- Preference shares of a listed company	9.7	<u>10,000</u>	-	<u>10,000</u>	10,000	-	10,000
- Ordinary shares of an unlisted company	9.8	<u>954</u>	-	<u>954</u>	954	-	954
		<u>4,550,801</u>	-	<u>4,550,801</u>	2,408,403	899,524	3,307,927
Held-to-maturity							
- Pakistan Investment Bonds	9.9	<u>210,903</u>	-	<u>210,903</u>	217,786	-	217,786
Investments at cost		<u>4,761,704</u>	-	<u>4,761,704</u>	2,626,189	899,524	3,525,713
Provision for diminution in value of investments	9.10	<u>(21,757)</u>	-	<u>(21,757)</u>	(19,460)	-	(19,460)
Investments (net of provisions)		<u>4,739,947</u>	-	<u>4,739,947</u>	2,606,729	899,524	3,506,253
Deficit on revaluation of available-for-sale securities - net	20.2	<u>(9,513)</u>	-	<u>(9,513)</u>	(59,299)	(16,703)	(76,002)
Investments at revalued amount		<u>4,730,434</u>	-	<u>4,730,434</u>	2,547,430	882,821	3,430,251

9.2 Investments by segments

	Note	2011	2010
		(Rupees in '000)	
Federal Government Securities:			
- Market Treasury Bills	9.4	<u>3,825,075</u>	2,201,957
- Pakistan Investment Bonds	9.4 & 9.9	<u>873,768</u>	1,257,368
Fully paid-up ordinary shares / certificates / units:			
- Listed mutual funds	9.6	<u>30,000</u>	20,000
- Unlisted company (related party)	9.8	<u>954</u>	954
Fully paid-up preference shares:			
- Shares of a listed company	9.7	<u>10,000</u>	10,000
Term Finance Certificates, debentures, bonds and Participation Term Certificates:			
- Listed Term Finance Certificates	9.5	<u>16,247</u>	29,772
- Unlisted Term Finance Certificates	9.5	<u>5,660</u>	5,662
		<u>21,907</u>	35,434
Investments at cost		<u>4,761,704</u>	3,525,713
Provision for diminution in value of investments	9.10	<u>(21,757)</u>	(19,460)
Investments (net of provisions)		<u>4,739,947</u>	3,506,253
Deficit on revaluation of available-for-sale securities - net	20.2	<u>(9,513)</u>	(76,002)
Investments at revalued amount		<u>4,730,434</u>	3,430,251

9.3 Quality of available-for-sale securities

	2011			2010		
	Market value/ carrying value of investments (Rupees in '000)	Credit rating		Market value/ carrying value of investments (Rupees in '000)	Credit rating	
		Long Term	Short Term		Long Term	Short Term
Market Treasury Bills	3,842,007	(Unrated - Government Securities)		2,196,912	(Unrated - Government Securities)	
Pakistan Investment Bonds	629,743	(Unrated - Government Securities)		964,015	(Unrated - Government Securities)	
Listed Term Finance Certificates						
Searle Pakistan Limited	-	-	-	3,729	A-	(Unrated)
Telecard Limited - I	6,890	D	(Unrated)	8,792	BBB	(Unrated)
Bank Al-Habib Limited - I	2,629	AA	(Unrated)	4,120	AA	(Unrated)
Orix Leasing Pakistan Limited - II	4,030	AA+	(Unrated)	12,391	AA+	(Unrated)
	13,549			29,032		
Un-listed Term Finance Certificates						
Pakistan International Airlines Corporation	5,660	(Unrated)	(Unrated)	5,662	(Unrated)	(Unrated)
Shares in listed companies / certificates / units of mutual funds						
Meezan Balanced Fund	9,100	(Unrated)	(Unrated)	7,500	(Unrated)	(Unrated)
Pakistan Strategic Allocation Fund	7,910	FR 4 star	FR 3 Star	8,390	FR 4 star	(Unrated)
Crosby Phoenix Fund	10,608	A(f)	(Unrated)	-		
	27,618			15,890		
Shares in an un-listed company						
National Institutional Facilitation Technologies (Private) Limited	954	(Unrated)	(Unrated)	954	(Unrated)	(Unrated)
	4,519,531			3,212,465		

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 (Rupees)	Total Paid up value (before redemption) (Rupees in '000)	Profit	Principal Redemption	Value as at 31 December 2011 (Rupees in '000)	Name of the Chief Executive
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 and remaining 21.68% of total issue in 4 quarterly instalments in 108th to 118th month.	9,188	Mr. Shams ul Arfeen
Bank AL Habib Limited - I	871	5,000	4,355	6 months KIBOR + 1.5% p.a.	0.02% of total issue in 2 semi annual instalments in first 78 months and the remaining principal in 3 equal semi-annual instalments from the 84th month from July 2004.	2,896	Mr. Abbas D. Habib
Orix Leasing Pakistan Limited - II	5,000	5,000	25,000	6 month KIBOR + 1.50% p.a.	0.02% of total issue in 4 semi annual instalments in first 24 months and remaining in 6 semi annual instalments from 30th month from September 2006.	4,163	Mr. Teizoon Kisat
						16,247	
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	Capt. Nadeem Khan Yousufzai
						5,660	
Total (at cost)						21,907	
Provision for diminution						(2,297)	
Total (net of provision)						19,610	
Deficit on revaluation of listed TFCs - net						(401)	
Carrying value as at 31 December 2011						19,209	

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 2011	Name of the Chief Executive
		(Rupees)		(Rupees in '000)	
Open end mutual funds					
Pakistan Strategic Allocation Fund	1,000,000	10	10,000	10,000	Mr. Yasir Qadri
Crosby Phoenix Fund	99,219	100	9,922	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				7,078	
Carrying value as of 31 December 2011				27,618	

9.7 Preference shares in a listed company

This represents cumulative redeemable preference shares of Chenab Limited, carrying dividend entitlement at 9.25% per annum on the face value. Market value of these shares at 31 December 2011 amounted to Rs. 1.7 million (2010: Rs. 2.5 million).

9.8 Shares in an unlisted company - a related party

This represents investment in 616,082 ordinary shares (2010: 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% (2010: 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 2011 (latest available audited financial statements) are as follows:

	30 June 2011	30 June 2010
	(Rupees in '000)	
Assets	853,872	641,702
Liabilities	200,308	68,687
Net assets	<u>653,564</u>	<u>573,015</u>
Revenue	<u>1,001,610</u>	<u>886,811</u>
Profit	<u>243,592</u>	<u>189,047</u>

Based on the financial statements of the above investee company as of 30 June 2011, the break-up value per share amounts to Rs. 60.13 per share (2010: Rs. 52.72 per share).

9.9 Market value of Pakistan Investment Bonds classified as 'held-to-maturity' as at 31 December 2011 amounted to Rs. 191.325 million (2010: Rs. 179.29 million).

9.10 Provision for diminution in the value of investments

	2011	2010
	(Rupees in '000)	
Opening balance	19,460	15,604
Charge for the year	2,297	3,856
Closing balance	<u>21,757</u>	<u>19,460</u>

10. ADVANCES - net	<i>Note</i>	2011	2010
		(Rupees in '000)	
Loans, cash credits, running finances, etc. In Pakistan	10.1	7,901,127	6,535,694
Provision against non-performing loans and advances			
Specific provision	10.3	(199,471)	(222,799)
General provision	10.3	(593)	(4,755)
		(200,064)	(227,554)
Advances - net		7,701,063	6,308,140
10.1 Particulars of advances (gross)			
10.1.1 In local currency		7,901,127	6,535,694
In foreign currencies		-	-
		7,901,127	6,535,694
10.1.2 Short-term (for upto one year)		7,055,173	5,837,773
Long-term (for over one year)		845,954	697,921
		7,901,127	6,535,694

10.2 Advances include Rs. 523.443 million (2010: Rs. 430.232 million) which have been placed under the non-performing status as detailed below:

Category of classification	2011								
	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
	----- (Rupees in '000) -----								
Category of classification	2010								
	Classified advances			Specific provision required			Specific provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	----- (Rupees in '000) -----								
Substandard	70,416	-	70,416	2,015	-	2,015	2,015	-	2,015
Doubtful	134,805	-	134,805	24,148	-	24,148	24,148	-	24,148
Loss	225,011	-	225,011	196,636	-	196,636	196,636	-	196,636
	430,232	-	430,232	222,799	-	222,799	222,799	-	222,799

10.3 Particulars of provision against non-performing loans and advances

	<i>Note</i>	2011			2010		
		Specific	General	Total	Specific	General	Total
		----- (Rupees in '000) -----					
Opening balance		222,799	4,755	227,554	206,222	1,411	207,633
Charge for the year		76,813	106	76,919	29,451	3,344	32,795
Reversals		(97,936)	(4,268)	(102,204)	(12,828)	-	(12,828)
	10.3.2	(21,123)	(4,162)	(25,285)	16,623	3,344	19,967
Amounts written off	10.4	(2,205)	-	(2,205)	(46)	-	(46)
Closing balance		199,471	593	200,064	222,799	4,755	227,554

10.3.1 Particulars of provision against non-performing loans and advances

	2011			2010		
	Specific	General	Total	Specific	General	Total
	----- (Rupees in '000) -----					
In local currency	199,471	593	200,064	222,799	4,755	227,554
In foreign currencies	-	-	-	-	-	-
	199,471	593	200,064	222,799	4,755	227,554

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

	<i>Note</i>	2011	2010
		(Rupees in '000)	
Specific provision		(21,123)	16,623
General provision	10.3.3	(4,162)	3,344
		(25,285)	19,967

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.

10.4 Particulars of write offs	<i>Note</i>	2011	2010
		(Rupees in '000)	
10.4.1 Against provisions		2,205	46
Directly charged to the profit and loss account		-	-
		<u>2,205</u>	<u>46</u>
10.4.2 Write offs of Rs. 500,000 and above	<i>10.5</i>	-	-
Write offs of below Rs. 500,000		2,205	46
		<u>2,205</u>	<u>46</u>

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 2011 is given at 'Annexure A' to these financial statements.

10.6 In accordance with BSD Circular No. 10 of 2009 dated 20 October 2009 issued by the State Bank of Pakistan, during the year the Bank has further availed the benefit of FSV against the non-performing advances (excluding consumer housing finance portfolio). Had this benefit of FSV not been taken by the Bank, the specific provision against non-performing advances for the year would have been higher by Rs.119.531 million and profit after taxation for the year ended 31 December 2011 would have been lower by approximately Rs. 77.695 million. As of 31 December 2011, had the benefit of FSVs not taken by the Bank, the specific provision against non-performing advances would have been higher by Rs. 206.750 million and accumulated profit would have been lower by Rs. 134.387 million. This amount of Rs. 206.750 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:

Balance at beginning of the year	89,719	75,782
Loans granted during the year	18,625	30,010
Repayments	(5,315)	(16,073)
Balance at end of the year	<u>103,029</u>	<u>89,719</u>

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:

Balance at beginning of year	91,667	41,667
Loans granted during the year	-	75,000
Repayments	(33,333)	(25,000)
Balance at end of the year	<u>58,334</u>	<u>91,667</u>

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

Note	2011	2010
	(Rupees in '000)	
Balance at beginning of the year	106,828	57,794
Loans granted during the year	563,959	289,034
Repayments	(670,853)	(240,000)
Balance at end of the year	(66)	106,828

11. OPERATING FIXED ASSETS

Property and equipment	11.1	213,630	176,699
Intangible asset	11.3	7,604	4,520
Capital work-in-progress	11.4	8,110	7,029
		<u>229,344</u>	<u>188,248</u>

11.1 Property and equipment

Description	2011				2010				Net book value at 31 December 2011	Annual rate of depreciation
	Cost/ revalued amount				Accumulated depreciation					
	At 1 January 2011	Additions / (disposals)	Revaluation adjustment / *reclassification / write offs	At 31 December 2011	At 1 January 2011	Charge for the year / (depreciation 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%
	<u>294,619</u>	<u>47,696</u> <u>(11,174)</u>	<u>2,657</u> <u>(4,442)</u>	<u>329,356</u>	<u>117,920</u>	<u>24,913</u> <u>(10,302)</u>	<u>(13,121)</u> <u>(3,684)</u>	<u>115,726</u>	<u>213,630</u>	

Description	2010				2010				Net book value at 31 December 2010	Annual rate of depreciation
	Cost/ revalued amount				Accumulated depreciation					
	At 1 January 2010	Additions / (disposals)	Revaluation adjustment / write offs	At 31 December 2010	At 1 January 2010	Charge for the year / (depreciation on disposals)	Revaluation adjustment / write offs	At 31 December 2010		
(Rupees in '000)										
Land - leasehold	36,614	-	(11,125)	25,489	-	-	-	-	25,489	-
Buildings on leasehold land	89,066	-	-	89,066	4,453	4,231	-	8,684	80,382	5%
Building improvement (rented premises)	406	9,935	-	10,341	40	1,030	-	1,070	9,271	10%
Furniture and fixtures	33,277	8,320 (2,707)	-	38,890	20,805	2,434 (1,693)	-	21,546	17,344	10% to 33.33%
Electrical, office and computer equipment	68,766	8,414 (2,996)	-	74,184	43,455	6,146 (1,782)	-	47,819	26,365	20%
Vehicles	51,643	5,510 (504)	-	56,649	32,596	6,381 (176)	-	38,801	17,848	20%
	<u>279,772</u>	<u>32,179</u> <u>(6,207)</u>	<u>(11,125)</u> <u>-</u>	<u>294,619</u>	<u>101,349</u>	<u>20,222</u> <u>(3,651)</u>	<u>-</u> <u>-</u>	<u>117,920</u>	<u>176,699</u>	

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
		<u>120,272</u>

Had the Land and building not been revalued, total carrying amounts as at 31 December 2011 would have been as follows:

Land	3,192
Buildings	9,721

11.1.2 The gross carrying amount of fully depreciated assets (vehicles only) that are still in use amounts to Rs. 20.08 million (2010: Rs. 24.744 million).

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

Location of properties	Original Cost			Revalued Amount		
	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
	<u>3,192</u>	<u>22,105</u>	<u>25,297</u>	<u>28,605</u>	<u>91,667</u>	<u>120,272</u>

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						
<i>Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000:</i>						
Miscellaneous items	435	337	98	40	Auction / quotation	Different buyers
Miscellaneous scrapped items	2,251	1,715	536	-	Damaged	Write offs
	2,686	2,052	634	40		
Electrical, office and computer equipment						
<i>Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000:</i>						
Miscellaneous items	1,327	1,089	238	123	Auction / quotation	Different buyers
Miscellaneous scrapped items	2,191	1,969	222	-	Damaged	Write offs
	3,518	3,058	460	123		
Vehicles						
<i>Items having book value of more than Rs. 250,000 or cost of more than Rs. 1,000,000:</i>						
Suzuki Cultus	798	319	479	479		
<i>Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000:</i>						
Toyota Corolla	859	859	-	675	Auction	Mr. Agha Shujaat Ali (employee)
Various	7,755	7,698	57	4,049	Auction / quotation	Different buyers
	8,614	8,557	57	4,724		
Total	2011	15,616	13,986	1,630	5,366	
Total	2010	6,207	3,651	2,556	2,130	

11.3 Intangible asset

	2011							Rate of amortisation %
	Cost			Accumulated amortisation			Net book value at 31 December 2011	
	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%
	<u>15,184</u>	<u>4,985</u>	<u>20,169</u>	<u>10,664</u>	<u>1,901</u>	<u>12,565</u>	<u>7,604</u>	
----- (Rupees in '000) -----								
	2010							Rate of amortisation %
	Cost			Accumulated amortisation			Net book value at 31 December 2010	
	At 1 January 2010	Additions	At 31 December 2010	At 1 January 2010	Amortisation for the year	At 31 December 2010		

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.

12. DEFERRED TAX ASSET / (LIABILITY) - net

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

	Note	2011 (Rupees in '000)	2010
Taxable temporary differences on:			
Surplus on revaluation of operating fixed assets	20.1	(28,613)	(25,453)
Accelerated tax depreciation		(7,139)	(4,450)
		<u>(35,752)</u>	<u>(29,903)</u>
Deductible temporary differences on:			
Compensated leave absences		1,848	1,848
Deficit on revaluation on investments	20.2	5,098	27,938
Provision against non-performing loans and advances	30.4	27,554	36,078
Carry forward of tax losses		-	2,900
		<u>34,500</u>	<u>68,764</u>
Net deferred tax (liability) / asset recognised by the Bank		<u>(1,252)</u>	<u>38,861</u>

12.2 Reconciliation of deferred tax

	Balance as at 1 January 2010	Recognised in the profit and loss	Recognised in surplus / (deficit) on revaluation of assets	Balance as at 31 December 2010	Recognised in the profit and loss	Recognised in surplus / (deficit) on revaluation of assets	Balance as at 31 December 2011
----- (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 (note 30.4)	48,452	(12,374)	-	36,078	(8,524)	-	27,554
Deficit on revaluation of investment	27,531	-	407	27,938	-	(22,840)	5,098
Carry forward of tax losses	4,996	(2,096)	-	2,900	(2,900)	-	-
	<u>82,827</u>	<u>(14,470)</u>	<u>407</u>	<u>68,764</u>	<u>(11,424)</u>	<u>(22,840)</u>	<u>34,500</u>
Deferred credits arising due to							
Surplus on revaluation of fixed assets	(26,793)	-	1,340	(25,453)	-	(3,160)	(28,613)
Accelerated tax depreciation	(3,822)	(628)	-	(4,450)	(2,689)	-	(7,139)
	<u>(30,615)</u>	<u>(628)</u>	<u>1,340</u>	<u>(29,903)</u>	<u>(2,689)</u>	<u>(3,160)</u>	<u>(35,752)</u>
	<u>52,212</u>	<u>(15,099)</u>	<u>1,747</u>	<u>38,861</u>	<u>(14,114)</u>	<u>(26,000)</u>	<u>(1,252)</u>

	<i>Note</i>	2011 (Rupees in '000)	2010
13. OTHER ASSETS - net			
Mark-up / return / interest accrued in local currency		274,704	248,500
Mark-up / return / interest accrued in foreign currency		579	945
Advances, deposits, prepayments and other receivables		33,136	24,741
Advance taxation (net of provisions)		-	80,278
Receivable from defined benefit plan	34.3	2,160	554
Stationery and stamps on hand		3,803	3,751
Suspense account (fully provided - net of liquid assets)		5,050	5,050
Branch adjustment account		-	1,449
Receivable from mutual fund		-	10,000
Others		12,036	5,258
		331,468	380,526
Provision against other assets	13.1	(4,976)	(5,728)
		326,492	374,798
13.1 Provision against other assets			
Opening balance		5,728	12,528
Reversal during the year		-	(6,800)
		5,728	5,728
Write-off against provision		(752)	-
Closing balance		4,976	5,728
14. CONTINGENT ASSETS			
There were no contingent assets of the Bank as at 31 December 2011 and 31 December 2010.			
15. BILLS PAYABLE			
In Pakistan		89,210	96,821
Outside Pakistan		7,207	5,361
		96,417	102,182
16. BORROWINGS			
In Pakistan - in local currency		51,100	966,885
16.1 Details of borrowings (secured / unsecured)			
Secured			
Borrowings from State Bank of Pakistan under:			
- Export refinance scheme	16.2	51,100	85,000
- Repurchase agreement borrowings		-	881,885
- Locally manufactured machinery		-	-
		51,100	966,885
Unsecured			
Call borrowings		-	-
		51,100	966,885

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. These carry mark-up rate of 10% per annum (2010: 7.5% to 9.5% per annum). These borrowings are repayable up to May 2012.

17. DEPOSITS AND OTHER ACCOUNTS

	Note	2011 (Rupees in '000)	2010
Customers			
Fixed deposits		4,958,618	2,016,785
Savings deposits		3,485,861	3,078,276
Current (saving cum current) accounts - remunerative		2,864,774	2,994,797
Current accounts - non remunerative		2,271,221	1,951,992
Call deposits		166,504	129,923
Sundry deposits	17.1	66,264	20,729
		<u>13,813,242</u>	<u>10,192,502</u>
Financial institutions			
Remunerative deposits		1,500	2,000
Non-remunerative deposits		112	712
		<u>1,612</u>	<u>2,712</u>
		<u>13,814,854</u>	<u>10,195,214</u>

17.1 Sundry deposits include margin account balance of Rs. 48.309 million (2010: Rs. 1.3 million).

17.2 Particulars of deposits

In local currency	13,239,427	9,583,518
In foreign currencies	575,427	611,696
	<u>13,814,854</u>	<u>10,195,214</u>

18. OTHER LIABILITIES

Mark-up / return / interest payable in local currency	369,728	287,165
Accrued expenses	15,957	6,271
Branch adjustment account	1,652	-
Payable to defined contribution plan	1,291	10
Payable to defined benefit plan	34.3	31
Provision for employees' compensated absences	34.10.4	25,191
Advance taxation (net of provisions)	3,094	-
Workers welfare fund	14,024	5,720
Others	14,380	5,627
	<u>445,348</u>	<u>332,858</u>

19. SHARE CAPITAL

19.1 Authorised capital

2011 (Number of shares)	2010		2011 (Rupees in '000)	2010
<u>200,000,000</u>	<u>30,000,000</u>	Ordinary shares of Rs. 10 each	<u>2,000,000</u>	<u>300,000</u>

19.2 Issued, subscribed and paid up capital

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

2011 (Number of shares)	2010		2011 (Rupees in '000)	2010
54,365,000	24,365,000	Issued for cash	543,650	243,650
53,638,750	4,000,000	Issued as bonus shares	536,388	40,000
108,003,750	28,365,000		1,080,038	283,650

- 19.3 The Bank issued 49,638,750 ordinary shares of Rs. 10 each as bonus shares which has been approved in the extra-ordinary general meeting of the members held on 22 June 2011. 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. After such issuance of ordinary shares the paid-up capital of the Bank increased to Rs. 1,080.038 million as at 31 December 2011.

19.4 Major shareholders (associated undertakings)

	2011	
	Number of shares held	Percentage of shareholding %
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
Federal Government of Pakistan through Ministry of Finance	45,303,750	41.94
	108,003,750	100.00
	2010	
	Number of shares held	Percentage of shareholding %
MCB Bank Limited	7,596,000	26.78
Habib Bank Limited	7,596,000	26.78
Allied Bank Limited	2,544,000	8.96
National Bank of Pakistan	2,532,000	8.93
United Bank Limited	2,532,000	8.93
Ministry of Women Development, Government of Pakistan	5,565,000	19.62
	28,365,000	100.00

- 19.5 According to BSD Circular No. 07 of 2009 dated 15 April 2009, the Bank was required to raise its paid-up capital to Rs. 8 billion (free of losses) by 31 December 2011. However, the State Bank of Pakistan (SBP) through its letter reference BSD/BAID/627/3402/2012 dated 20 March 2012, keeping in view the fact that restructuring / recapitalisation of the Bank is underway, has granted the Bank an extension to meet the Minimum Paid-up Capital Requirement (MCR) up till 30 June 2012. At the same time SBP has mentioned that the Bank would need to comply with the Capital Adequacy Ratio requirement.

- 19.6 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 as reflected in note 19.3 to the financial statements. This increased the direct shareholding of the Government of Pakistan from 19.62% to 41.94% of the total paid-up capital. The management is pursuing the Finance Division, Government of Pakistan to release the remaining amount of Rs. 500 million.

20. SURPLUS ON REVALUATION OF ASSETS - net of tax

Surplus / (deficit) arising on revaluation (net of tax) of:

	Note	2011 (Rupees in '000)	2010
- fixed assets	20.1	78,551	69,568
- available-for-sale securities	20.2	(4,415)	(48,064)
		74,136	21,504

20.1 Surplus on revaluation of fixed assets - net of tax	2011	2010
	(Rupees in '000)	
Surplus on revaluation of fixed assets as at 1 January	95,021	109,974
Transferred to accumulated profit representing incremental depreciation charged during the year - net of tax	(2,364)	(2,488)
Related deferred tax liability	(1,272)	(1,340)
	(3,636)	(3,828)
	91,385	106,146
Revaluation / (reversal) during the year	15,779	(11,125)
	107,164	95,021
Deferred tax liability on:		
Revaluation surplus as at 1 January	25,453	26,793
Incremental depreciation charged during the year	(1,272)	(1,340)
Revaluation during the year	4,432	-
	28,613	25,453
	78,551	69,568
20.2 Deficit on revaluation of available-for-sale securities - net of tax		
Federal Government Securities	(16,190)	(80,612)
Listed Securities		
- Units / certificates of mutual funds / preference shares	7,078	5,350
- Term Finance Certificates	(401)	(740)
	6,677	4,610
	(9,513)	(76,002)
Related deferred tax asset - net	5,098	27,938
	(4,415)	(48,064)
21. CONTINGENCIES AND COMMITMENTS		
21.1 Transaction-related contingent liabilities		
Guarantees in favour of:		
Government	68,164	44,441
Others	1,820	400
	69,984	44,841
21.2 Trade-related contingent liabilities		
Letter of credit and acceptances on behalf of:		
Government	-	-
Others	121,930	2,394
	121,930	2,394

2011 2010
(Rupees in '000)

21.3 Commitments in respect of lending

Commitments to extend credit	<u> -</u>	<u> -</u>
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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

Claims against the Bank not acknowledged as debt	<u> 101,894</u>	<u> 154,037</u>
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21.5 Commitments in respect of forward foreign exchange contracts

Purchase	<u> -</u>	<u> -</u>
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Sale	<u> -</u>	<u> -</u>
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21.6 Commitment for the acquisition of operating fixed assets

Capital commitments	<u> 3,422</u>	<u> -</u>
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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') 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.

During the year, 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. 3.761 million, profit after tax would have been lower by Rs. 2.445 million, unappropriated profit would have been lower by Rs. 4.89 million, earning per share would have been lower by Rs. 0.02 per share and reserves would have been lower by Rs. 6.112 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 foreign exchange contracts at the year end.

2011 2010
(Rupees in '000)

24. MARK-UP / RETURN / INTEREST EARNED

On loans and advances to:

Customers	914,575	828,838
Financial institutions	3,067	2,042
	917,642	830,880

On investments in:

Available-for-sale securities	943,929	439,413
Held-to-maturity securities	10,909	18,000
	954,838	457,413

On deposits with financial institutions (including lendings)	7,528	20,233
On securities purchased under resale agreements	38,751	66,022
	1,918,759	1,374,548

	<i>Note</i>	2011 (Rupees in '000)	2010
25. MARK-UP / RETURN / INTEREST EXPENSED			
On deposits		861,418	679,856
On securities sold under repurchase agreements		314,975	83,249
On other short-term borrowings		58	736
		<u>1,176,451</u>	<u>763,841</u>
26. GAIN ON SALE OF SECURITIES - net			
Federal Government Securities			
Market Treasury Bills		20,158	-
Pakistan Investment Bonds		160,412	-
		<u>180,570</u>	-
Mutual Funds		-	3,210
		<u>180,570</u>	<u>3,210</u>
27. OTHER INCOME - net			
Gain / (loss) on disposal of fixed assets - net		3,736	(426)
Rent on lockers		6,731	6,099
Others		10,346	10,019
		<u>20,813</u>	<u>15,692</u>
28. ADMINISTRATIVE EXPENSES			
Salaries and allowances		297,112	269,674
Charge for employees' compensated absences	34.10.4	616	6,411
<u>Charge for defined benefit plans:</u>			
Approved pension fund	34.7	37,192	33,866
Approved gratuity fund	34.7	367	2,951
		<u>37,559</u>	36,817
Contribution to defined contribution plan - provident fund	35	372	395
Non-executive directors' fees		11	8
Rent, taxes, insurance, electricity		95,084	73,902
Legal and professional charges		12,697	15,123
Worker Welfare Fund		8,034	1,116
Communications		15,041	13,553
Repairs and maintenance		19,085	15,899
Stationery and printing		16,736	14,232
Advertisement and publicity		16,645	8,848
Donations		-	5,971
Auditors' remuneration	28.1	2,024	2,225
Depreciation	11.1	24,913	20,222
Amortization of intangible asset	11.3	1,901	1,130
Remittances, cash handling service charges		9,582	8,276
Conveyance, travelling, etc.		7,569	8,517
Others		36,005	31,360
		<u>600,986</u>	<u>533,679</u>

28.1 Auditors' remuneration	2011	2010
	(Rupees in '000)	
Audit fee	1,090	1,090
Fee for half yearly review of financial statements	380	380
Fee for special certifications, etc.	355	355
Fee for tax services	-	250
Out of pocket expenses	199	150
	<u>2,024</u>	<u>2,225</u>
29. OTHER CHARGES		
Penalties imposed by the State Bank of Pakistan	<u>413</u>	<u>9,393</u>
30. TAXATION		
For the year		
Current	127,442	15,867
Deferred	14,114	15,099
	<u>141,556</u>	<u>30,966</u>
Prior years		
Current	-	-
Deferred	-	-
	<u>-</u>	<u>-</u>
	<u>141,556</u>	<u>30,966</u>
30.1 Relationship between tax expense and accounting profit		
Accounting profit for the year	<u>400,103</u>	<u>54,677</u>
Tax rate	<u>35%</u>	<u>35%</u>
Tax on income	140,036	19,137
Minimum tax payable	-	15,867
Tax effect of expenses not allowable for tax purposes	145	3,288
Tax effect of income taxable at reduced rates	(3,160)	(4,251)
Others	4,535	(3,075)
Tax charge for the year	<u>141,556</u>	<u>30,966</u>

30.2 Income tax assessments of the Bank have been finalised up to and including the tax year 2008 (financial year ended 31 December 2007) while returns for the tax years 2009, 2010 and 2011 (financial year ended 31 December 2008, 31 December 2009 and 31 December 2010) have been filed which are deemed to have been assessed under section 120 of the Income Tax Ordinance, 2001 (unless selected for audit).

The tax authorities have made certain disallowances primarily against Nostro account balances and bad debts written-off by the Bank and unrealised income suspended by the Bank in respect of the tax years from 2004 to 2008 (financial years ended from 31 December 2003 to 31 December 2007) against which appeals have been filed by the Bank at appellate forums. In case of adverse decisions, additional charge to the Bank would be Rs. 8.973 million.

However, the 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.

30.3 For the tax years 2009 and 2010 (financial years ended 31 December 2008 and 2009), notices were received from the taxation authorities, indicating the need to revise the return for the years then ended due to certain expenses claimed as admissible by the Bank; Tax amount on such expenses would be Rs. 47.084 million. Responses to the notices have been submitted and till date the tax authorities have not served any further notice. The Bank's management is of the view that expenses claimed, etc., are allowable within the purview of the Seventh Schedule of the Income Tax Ordinance 2001.

30.4 Through Finance Act, 2010 certain amendments have been introduced in Seventh Schedule to the Income Tax Ordinance, 2001. The provision for advances & off balance sheet items will now be allowed at 5% of total gross advances for consumer and SMEs (as defined in SBP prudential Regulation). The provision for advances and off balance sheet items other than those falling in definition of consumer & SMEs will be allowed upto 1% of such total gross advances.

Further a new Rule 8(A) has been introduced in Seventh Schedule to allow for amounts provided for in tax year 2008 and prior to said tax year for doubtful debts, which were neither claimed nor allowed as tax deductible in any year shall be allowed as deduction in tax year in which such doubtful debts are written off.

With reference to allowability of provision, the management has carried out an exercise at period end and concluded that full deduction of provision in succeeding years would be allowed and accordingly recognized deferred tax asset amounting to Rs. 27.554 million on such provision.

	<i>Note</i>	2011 (Rupees in '000)	2010
31. BASIC AND DILUTED EARNINGS PER SHARE			
Profit after taxation		<u>258,547</u>	<u>23,711</u>
		(Number of shares)	
Weighted average number of ordinary shares outstanding during the year		<u>83,003,750</u>	<u>78,003,750</u>
		(Rupees)	
Basic and diluted earnings per share		<u>3.11</u>	<u>0.30</u>
32. CASH AND CASH EQUIVALENTS		(Rupees in '000)	
Cash and balances with treasury banks	6	973,701	836,311
Balances with other banks	7	561,555	600,228
		<u>1,535,256</u>	<u>1,436,539</u>

	2011	2010
	(Number)	
33. STAFF STRENGTH		
Permanent	384	358
Temporary / on contractual basis	186	205
Daily wages	60	22
Bank's own staff strength at the end of the year	<u>630</u>	<u>585</u>
Outsourced	-	-
	<u><u>630</u></u>	<u><u>585</u></u>

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 2011. The principal actuarial assumptions used are as follows:

	<i>Note</i> <u>Approved pension fund</u>		<u>Approved gratuity fund</u>	
	2011	2010	2011	2010
	(Percentages)		(Percentages)	
Valuation discount rate	13.00	14.50	13.00	14.50
Expected rate of return on plan assets	11.00	12.50	11.00	12.50
Salary increase rate	12.00	13.50	12.00	13.50
Indexation in pension	5.00	6.50	-	-

34.3 The amounts recognised in the balance sheet

	<u>Approved pension fund</u>		<u>Approved gratuity fund</u>	
	2011	2010	2011	2010
	------(Rupees in '000)-----			
Present value of funded obligations	34.4 349,280	292,430	3,558	6,411
Fair value of plan assets	34.5 (279,651)	(210,441)	(3,351)	(6,341)
Deficit	<u>69,629</u>	81,989	<u>207</u>	70
Unrecognised actuarial losses	(71,789)	(78,499)	(176)	(624)
Recognised (asset) / liability	<u>(2,160)</u>	<u>3,490</u>	<u>31</u>	<u>(554)</u>

	<i>Note</i>	<u>Approved pension fund</u>		<u>Approved gratuity fund</u>	
		2011	2010	2011	2010
------(Rupees in '000)-----					
34.4		Movement in present value of defined benefit obligations			
		292,430	227,188	6,411	7,320
		17,498	14,437	271	375
		43,199	33,981	670	814
		(5,706)	(1,495)	(3,416)	(1,964)
		1,859	18,319	(378)	(134)
		349,280	292,430	3,558	6,411
34.5		Movement in fair value of plan assets			
		210,441	159,653	6,341	7,379
		27,023	17,856	574	432
		42,842	28,932	(218)	14,464
		(5,706)	(1,495)	(3,416)	(15,914)
		5,051	5,495	70	(20)
		279,651	210,441	3,351	6,341
34.6		Movements in net (asset) / liability recognised in the balance sheet			
		3,490	(1,444)	(554)	10,959
	34.7	37,192	33,866	367	2,951
		(42,842)	(28,932)	218	(14,464)
		(2,160)	3,490	31	(554)
34.7		Amounts recognised in the profit and loss account			
		17,498	14,437	271	375
		43,199	29,789	670	814
		(27,023)	(17,856)	(574)	(432)
		-	4,192	-	-
		3,518	3,304	-	2,194
		37,192	33,866	367	2,951
34.8		32,074	19,308	644	412
34.9		Components of plan assets as percentage of total assets			
		94.50%	96.00%	0.00%	86.00%
		4.00%	0.00%	75.00%	0.00%
		0.00%	0.00%	0.00%	0.00%
		1.50%	4.00%	25.00%	14.00%
		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

	2011	2010	2009	2008	2007
	------(Rupees in '000)-----				
Present value of defined benefit obligation	349,280	292,430	227,188	167,383	150,082
Fair value of plan assets	279,651	210,441	159,653	136,652	122,290
Deficit	69,629	81,989	67,535	30,731	27,792
Experience adjustments on plan liabilities loss / (gain)	1,859	18,319	31,833	(5,273)	(369)
Experience adjustments on plan assets gain / (loss)	4,244	1,452	(3,627)	(8,033)	(3,539)

34.10.2 Approved gratuity fund

Present value of defined benefit obligation	3,558	6,411	7,320	7,263	6,069
Fair value of plan assets	3,351	6,341	7,379	5,173	3,754
Deficit / (surplus)	207	70	(59)	2,090	2,315
Experience adjustments on plan liabilities (gain) / loss	(378)	(134)	1,003	201	(399)
Experience adjustments on plan assets gain / (loss)	70	(20)	(180)	(1)	(96)

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. 38.566 million and gratuity fund would be Rs. 0.053 million, for the year ending 31 December 2012.

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 2011 amounted to Rs. 25.191 million (2010: Rs. 24.575 million) which has been fully provided by the Bank. The charge for the year in respect of these absences is Rs. 0.616 million (2010: Rs. 6.411 million) which is included in note 28 to these financial statements. Discount rate of 13% (2010: 14.5%) and salary increase of 12% (2010: 13.5%) per annum has been used for the above valuation.

35. Defined Contribution Plan

The Bank operates an approved contributory provident fund for 3 employees (2010: 4 employees) where contributions are made by the Bank and employees at 8.33% per annum (2010: 8.33% per annum) of the basic salary. During the year, Bank contributed Rs. 0.372 million (2010: Rs. 0.395 million) in respect of this fund.

The Bank also operates an approved non-contributory provident fund for 297 employees (2010: 274 employees) who have opted for the new scheme, where contributions are made by the employee at 12% per annum (2010: 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	
	2011	2010	2011	2010	2011	2010
------(Rupees in '000)-----						
Fees	-	-	11	8	-	-
Managerial remuneration	2,638	2,340	-	-	49,062	36,131
Charge for defined benefit plan	220	195	-	-	3,035	1,702
Contribution to defined contribution plan	220	195	-	-	168	211
Rent and house maintenance	1,600	1,500	-	-	17,248	12,327
Utilities	860	402	-	-	5,714	3,613
Medical	242	454	-	-	3,723	3,968
Conveyance	500	420	-	-	11,483	6,738
Others (bonus, special allowance, expense reimbursement, etc)	6,631	6,631	-	-	5,199	3,451
	12,911	12,137	11	8	95,632	68,141
Number of persons	1	1	6	6	55	41

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 tradable Pakistan Investment Bonds 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. 191.325 million (2010: Rs. 179.29 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 this investments is 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:

<u>2011</u>	Corporate Finance	Trading and Sales	Retail & Consumer Banking	Commercial Banking	Total
	------(Rupees in '000)-----				
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	<u>516,418</u>	<u>706,608</u>	<u>(863,890)</u>	<u>40,967</u>	<u>258,547</u>
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	<u>5,600,962</u>	<u>6,614,486</u>	<u>2,673,646</u>	<u>1,614,840</u>	<u>16,503,934</u>
Segment non performing loans	<u>276,730</u>	<u>-</u>	<u>246,713</u>	<u>-</u>	<u>523,443</u>
Segment specific provision required	<u>122,161</u>	<u>-</u>	<u>77,310</u>	<u>-</u>	<u>199,471</u>
Segment liabilities	<u>1,359,795</u>	<u>-</u>	<u>12,824,787</u>	<u>224,389</u>	<u>14,408,971</u>
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%	0.28%	12.30%
<u>2010</u>					
Total income	485,251	472,417	431,884	42,137	1,431,689
Total expenses	196,768	230,092	945,918	4,234	1,377,012
Income tax					30,966
Net loss	<u>288,483</u>	<u>242,325</u>	<u>(514,034)</u>	<u>37,903</u>	<u>23,711</u>
Segment assets - (Gross)	3,872,916	4,640,634	2,758,552	1,762,238	13,034,341
Advance tax					80,278
Deferred tax assets					38,861
Total assets	<u>3,872,916</u>	<u>4,640,634</u>	<u>2,758,552</u>	<u>1,762,238</u>	<u>13,153,480</u>
Segment non performing loans	<u>300,499</u>	<u>-</u>	<u>129,733</u>	<u>-</u>	<u>430,232</u>
Segment specific provision required	<u>155,616</u>	<u>-</u>	<u>67,183</u>	<u>-</u>	<u>222,799</u>
Segment liabilities	<u>1,598,020</u>	<u>881,885</u>	<u>8,597,194</u>	<u>520,040</u>	<u>11,597,139</u>
Segment return on net assets (ROA) (%)	13.61%	6.45%	8.70%	3.05%	1.95%
Segment cost of funds (%)	6.67%	9.52%	6.67%	0.81%	11.87%

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 are as follows:

A. Balances	Directors		Associated undertakings		Key management personnel		Other related parties	
	2011	2010	2011	2010	2011	2010	2011	2010
Deposits	------(Rupees in '000)-----							
Balance at beginning of the year	2,006	1,296	19	25,022	2,932	3,381	14,383	25,508
Deposited during the year	13,975	9,167	125,022	75,000	32,622	33,219	1,338,354	438,410
Withdrawn during the year	(13,572)	(8,457)	(125,009)	(100,003)	(31,677)	(32,197)	(1,332,662)	(449,535)
Adjustments - net	-	-	-	-	(179)	(1,471)	-	-
Balance at end of the year	<u>2,409</u>	<u>2,006</u>	<u>32</u>	<u>19</u>	<u>3,698</u>	<u>2,932</u>	<u>20,075</u>	<u>14,383</u>
Deposits carry mark-up rate at 5% to 13.5% per annum (2010: 5% to 13.5% per annum).								
Mark-up / return / interest expensed	<u>104</u>	<u>59</u>	<u>-</u>	<u>-</u>	<u>108</u>	<u>126</u>	<u>1,403</u>	<u>666</u>
Mark-up payable in local currency	<u>50</u>	<u>38</u>	<u>-</u>	<u>-</u>	<u>62</u>	<u>78</u>	<u>104</u>	<u>139</u>
Advances (secured)								
Balance at beginning of the year	-	-	91,667	41,667	7,353	7,677	106,828	57,794
Loans granted during the year	-	-	-	75,000	300	301	563,959	289,034
Repayments received during the year	-	-	(33,333)	(25,000)	(804)	(625)	(670,853)	(240,000)
Balance at end of the year	<u>-</u>	<u>-</u>	<u>58,334</u>	<u>91,667</u>	<u>6,849</u>	<u>7,353</u>	<u>(66)</u>	<u>106,828</u>
Advances carry profit rates ranging from 5.1% to 15.4% per annum (2010: 5% to 15.31% per annum)								
Mark-up / return / interest earned	<u>-</u>	<u>-</u>	<u>12,624</u>	<u>4,745</u>	<u>357</u>	<u>375</u>	<u>4,003</u>	<u>19,394</u>
Mark-up receivable in local currency	<u>-</u>	<u>-</u>	<u>43</u>	<u>46</u>	<u>214</u>	<u>187</u>	<u>-</u>	<u>5,540</u>
B. Other transactions and balances (including profit and loss related transactions)								
Balances as at the year end			Associated undertakings		Key management personnel		Other related parties	
			2011	2010	2011	2010	2011	2010
			------(Rupees in '000)-----					
Cash and balance with treasury bank			<u>93,603</u>	<u>64,292</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balances with other banks			<u>386,918</u>	<u>433,345</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Investment in National Institutional Facilitation Technologies (Private) Limited			<u>954</u>	<u>954</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
lendings to financial institutions			<u>1,377,063</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Mark-up receivable in local currency			<u>1,447</u>	<u>46</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Mark-up payable in local currency			<u>-</u>	<u>641</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
MCB ATM settlement account balance			<u>417</u>	<u>417</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net receivable / (payable) from defined benefit plan			<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,129</u>	<u>(2,936)</u>
Payable to defined contribution plan			<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,291</u>	<u>10</u>
Repurchase agreement borrowings			<u>-</u>	<u>881,885</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Transactions during the year								
Interest income on lendings to financial institutions			<u>12,216</u>	<u>20,068</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Interest expense on repurchase agreement borrowings			<u>142,051</u>	<u>52,990</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Dividend income			<u>-</u>	<u>12,322</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Charge for retirement benefits:								
Approved pension fund			<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,192</u>	<u>33,866</u>
Approved gratuity fund			<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>367</u>	<u>2,951</u>
Contributory provident fund			<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>372</u>	<u>395</u>
			<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,931</u>	<u>37,212</u>
Proceeds from sale of fixed assets			<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>675</u>	<u>-</u>
Remuneration of key management personnel			<u>-</u>	<u>-</u>	<u>26,509</u>	<u>20,792</u>	<u>-</u>	<u>-</u>

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. 8 billion (free of losses) by the end of financial year 2011. Furthermore the banks are expected to increase their minimum paid up capital to Rs 10 billion (free of losses) in a phased manner by the end of financial year 2013. However, the paid up capital of the Bank at 31 December 2011 amounting to Rs. 1,080.038 million is 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 2012. At the same time SBP has mentioned that the Bank would need to comply with the Capital Adequacy Ratio requirement (CAR) (refer note 19.4 for more details).

The paid up capital and CAR of the Bank stands at Rs. 1,080.038 million (free of losses) and 35.45% of its risk weighted exposure as at 31 December 2011 (refer note 19.4 also).

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 (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 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.

	2011	2010
	(Rupees in '000)	
41.2 Tier I Capital		
Shareholders' equity /Assigned Capital	1,080,038	283,650
Reserves	284,991	233,282
Unappropriated profits (Net of Losses)	280,399	567,585
Book value of intangibles	(7,604)	(4,520)
Shortfall in provisions required against classified assets irrespective of relaxation allowed	-	-
Deficit on account of revaluation of investments held in AFS category	-	-
	(7,604)	(4,520)
Total Tier I Capital	<u>1,637,824</u>	<u>1,079,997</u>
Tier II Capital		
General Provisions subject to 1.25% of Total Risk Weighted Assets	593	4,755
Revaluation Reserve (upto 45%)	43,943	8,559
Total Tier II Capital	<u>44,536</u>	<u>13,314</u>
Eligible Tier III Capital	-	-
Total Regulatory Capital Base	<u>1,682,360</u>	<u>1,093,311</u>

41.3 Capital Requirements and Risk Weighted Assets

Capital Requirements		Risk Weighted Assets	
31 December	31 December	31 December	31 December
2011	2010	2011	2010

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	241	998	2,413	9,977
(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	298	297	2,979	2,973
(h) Claims on Banks	2,567	2,434	25,673	24,339
(i) Claims, denominated in foreign currency, on banks with original maturity of 3 months or less	10,566	10,875	105,662	108,754
(j) Claims on banks with original maturity of 3 months or less denominated in PKR and funded in PKR	32,151	3,576	321,508	35,764
(k) Claims on Corporates (excluding equity exposures)	165,297	115,285	1,652,970	1,152,851
(l) Claims categorized as retail portfolio	42,202	81,271	422,017	812,713
(m) Claims fully secured by residential property	2,678	2,841	26,782	28,406
(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.	39,163	19,278	391,631	192,780
1.2 where specific provisions are no less than 20 per cent of the outstanding amount of the past due claim.	521	6,222	5,214	62,219
1.3 where specific provisions are more than 50 per cent of the outstanding amount of the past due claim.	2,884	835	28,836	8,348
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	432	2,764	4,322
(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	22,174	18,373	221,740	183,728
(s) Claims on all fixed assets under operating lease	-	-	-	-
(t) All other assets	6,973	9,233	69,727	92,326
	328,134	272,093	3,281,347	2,720,931

Off- Balance Sheet - Non Market related Exposures

Direct Credit Substitutes/ Lending of securities or posting of securities as collateral	5,451	3,964	54,514	39,642
Trade Related contingencies/Other Commitments with original maturity of one year or less	-	24	-	239
	5,451	3,988	54,514	39,881

Total Credit Risk (A)

Market Risk

Capital Requirement for portfolios subject to Standardized Approach

Interest rate risk	-	-	-	-
Equity position risk etc.	1,820	1,500	18,200	15,000

Capital Requirement for portfolios subject to Internal Models Approach

Interest rate risk	-	-	-	-
Foreign exchange risk, etc.	12,109	9,703	121,088	97,031
	12,109	9,703	121,088	97,031

Total Market Risk (B)

Operational Risk

Basic Indicator Approach-Total of operational risk (C)

	127,088	114,034	1,270,875	1,140,339
TOTAL of A + B + C	474,602	401,318	4,746,024	4,013,182

31 December 2011 31 December 2010
(Rupees in '000)

Capital Adequacy Ratio

Total eligible regulatory capital held (Note 41.2)	(a)	<u>1,682,360</u>	<u>1,093,311</u>
Total Risk Weighted Assets (Note 41.3)	(b)	<u>4,746,024</u>	<u>4,013,182</u>
Capital Adequacy Ratio	(a) / (b)	35.45%	27.24%

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

Exposures	31 December 2011	
	JCR-VIS	PACRA
Corporate	Yes	Yes
Banks	Yes	Yes
Sovereigns	-	-
SME's	-	-
Securitized	-	-
Others	Yes	Yes

41.5 Credit exposures subject to Standardized Approach

Exposures	Rating Category	31 December 2011			31 December 2010		
		Amount Outstanding	Deduction CRM	Net Amount	Amount Outstanding	Deduction CRM	Net Amount
		----- (Rupees in '000) -----					
Corporate	1	4,087	-	4,087	12,580	-	12,580
	2	183,469	-	183,469	95,622	-	95,622
	3, 4	-	-	-	40,984	-	40,984
	5, 6	6,891	-	6,891	-	-	-
Banks		2,011,374	-	2,011,374	892,787	713,966	178,821
Retail		610,058	732	609,326	1,090,390	1,673	1,088,717
Others		10,839,298	-	10,839,298	8,052,750	-	8,052,750
Unrated		2,649,161	849,151	1,800,010	2,558,017	898,813	1,659,204

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. 15,854.786 million (2010: 12,360.02 million), the financial assets which were subject to credit risk amounted to Rs. 9,906.291 million (2010: Rs. 7,877.775 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.

	2011	2010
	(Rupees in '000)	
Advances	<u>4,253,197</u>	<u>2,971,800</u>
Investments	<u>4,477,410</u>	<u>3,384,375</u>
Mark-up receivable on government guaranteed financial assets	<u>201,677</u>	<u>26,603</u>
Cash and balances with the State Bank of Pakistan	<u>621,269</u>	<u>574,377</u>

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

	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	1.38
Construction	375,981	4.76	45,341	0.33	29,420	9.90
Electronics and electrical appliances	8,411	0.11	3,442	0.02	1,350	0.45
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	8.38
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	1.98
Wholesale and retail trade	218,448	2.76	-	-	120,610	40.58
Others	790,250	10.00	5,752,409	41.64	109,340	36.79
	7,901,127	100.00	13,814,854	100.00	297,230	100.00

	2010					
	Advances (gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)
Agriculture, forestry, hunting and fishing	23,057	0.35	82,624	0.81	-	-
Cement	116,354	1.78	-	-	-	-
Chemical and pharmaceuticals	90,924	1.39	3,037	0.03	2,394	1.19
Construction	233,585	3.57	41,205	0.40	5,610	2.79
Electronics and electrical appliances	13,418	0.21	2,653	0.03	50	0.02
Financial	91,667	1.40	2,712	0.03	-	-
Food, beverages and allied	3,068,748	46.95	6,237	0.06	-	-
Footwear and leather garments	2,435	0.04	-	-	-	-
Individuals	286,639	4.39	3,450,828	33.85	-	-
Production and transmission of energy	449,467	6.88	1,479,915	14.52	-	-
Services / social development and education	190,735	2.92	952,211	9.34	-	-
Textile and garment	149,352	2.29	25,884	0.25	7,030	3.49
Transport, storage and communication	24,054	0.37	11,732	0.12	1,000	0.50
Wholesale and retail trade	265,431	4.06	-	-	3,678	1.83
Others	1,529,828	23.41	4,136,176	40.57	181,510	90.18
	6,535,694	100.00	10,195,214	100.00	201,272	100.00

42.3.2 Segment by sector

	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	297,230	100.00

	2010					
	Advances (gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)
Public / government	2,971,799	45.47	3,301,875	32.39	44,441	22.08
Private	3,563,895	54.53	6,893,339	67.61	156,831	77.92
	6,535,694	100.00	10,195,214	100.00	201,272	100.00

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

	2011		2010	
	Classified advances	Specific provision held	Classified advances	Specific provision held
------(Rupees in '000)-----				
Agriculture, forestry, hunting and fishing	1,972	1,972	1,846	1,846
Cement	59,904	4,838	59,952	1,649
Chemical and pharmaceuticals	2,088	2,088	2,063	2,063
Construction	58,087	2,053	37,560	1,248
Electronics and electrical appliances	3,588	2,297	3,977	3,977
Footwear and leather garments	34,629	2,380	1,631	534
Individuals	6,375	3,409	1,304	1,304
Production and transmission of energy	-	-	90,000	90,000
Services / social development and education	6,742	484	37,718	23,425
Textile and garment	138,033	84,465	113,799	46,333
Transport, storage and communication	1,300	-	1,905	1,905
Wholesale and retail trade	9,897	2,606	10,475	6,397
Others	200,828	92,879	68,002	42,118
	<u>523,443</u>	<u>199,471</u>	<u>430,232</u>	<u>222,799</u>

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

Private	<u>523,443</u>	<u>199,471</u>	<u>430,232</u>	<u>222,799</u>
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42.3.5 Geographical segment analysis

	2011			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
------(Rupees in '000)-----				
Pakistan	<u>400,103</u>	<u>16,128,535</u>	<u>1,719,564</u>	<u>297,230</u>
	2010			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
------(Rupees in '000)-----				
Pakistan	<u>54,677</u>	<u>12,703,160</u>	<u>1,106,021</u>	<u>201,272</u>

Total assets employed include intra group items of nil (2010: 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 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:

	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

	2010			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	------(Rupees in '000)-----			
Pakistan Rupee	11,992,039	10,985,443	2,394	1,008,990
United States Dollar	603,441	517,589	(2,394)	83,458
Pound Sterling	23,830	19,044	-	4,786
Japanese Yen	488	-	-	488
Euro	82,190	75,063	-	7,127
Other currencies	1,172	-	-	1,172
	12,703,160	11,597,139	-	1,106,021

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.

		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
		<u>15,854,786</u>	<u>3,035,508</u>	<u>5,633,469</u>	<u>2,676,914</u>	<u>1,965,981</u>	<u>696,526</u>	<u>48,609</u>	<u>31,145</u>	<u>-</u>	<u>-</u>	<u>1,766,634</u>
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
		<u>14,339,828</u>	<u>529,295</u>	<u>1,078,868</u>	<u>6,857,465</u>	<u>2,782,626</u>	<u>26,248</u>	<u>52,334</u>	<u>34,968</u>	<u>49</u>	<u>-</u>	<u>2,977,975</u>
On-balance sheet gap		<u>1,514,958</u>	<u>2,506,213</u>	<u>4,554,601</u>	<u>(4,180,551)</u>	<u>(816,645)</u>	<u>670,278</u>	<u>(3,725)</u>	<u>(3,823)</u>	<u>(49)</u>	<u>-</u>	<u>(1,211,341)</u>
Off-balance sheet financial instruments												
Off-balance sheet gap		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total yield / interest risk sensitivity gap			<u>2,506,213</u>	<u>4,554,601</u>	<u>(4,180,551)</u>	<u>(816,645)</u>	<u>670,278</u>	<u>(3,725)</u>	<u>(3,823)</u>	<u>(49)</u>	<u>-</u>	
Cumulative yield / interest risk sensitivity gap			<u>2,506,213</u>	<u>7,060,814</u>	<u>2,880,263</u>	<u>2,063,618</u>	<u>2,733,896</u>	<u>2,730,171</u>	<u>2,726,348</u>	<u>2,726,299</u>	<u>2,726,299</u>	

		2010										
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%	836,311	-	-	-	-	-	-	-	-	-	836,311
Balances with other banks	0.87%	600,228	217,048	158,893	-	-	-	-	-	-	-	224,287
Lendings to financial institutions	12.70%	926,323	892,458	-	-	-	-	-	-	-	-	33,865
Investments - net	11.81%	3,430,251	747,015	1,613,767	171,349	284,300	69,875	485,081	42,020	-	-	16,844
Advances - net	15.31%	6,308,140	1,891,652	3,195,575	1,010,817	2,663	-	-	-	-	-	207,433
Other assets - net	-	258,767	-	-	-	-	-	-	-	-	-	258,767
		<u>12,360,020</u>	<u>3,748,173</u>	<u>4,968,235</u>	<u>1,182,166</u>	<u>286,963</u>	<u>69,875</u>	<u>485,081</u>	<u>42,020</u>	<u>-</u>	<u>-</u>	<u>1,577,507</u>
Liabilities												
Bills payable	-	102,182	-	-	-	-	-	-	-	-	-	102,182
Borrowings	11.13%	966,885	45,100	496,302	425,483	-	-	-	-	-	-	-
Deposits and other accounts	7.04%	10,195,214	6,222,095	36,158	182,619	1,091,976	24,657	25,089	54,816	-	49	2,557,755
Other liabilities	-	287,165	-	-	-	-	-	-	-	-	-	287,165
		<u>11,551,446</u>	<u>6,267,195</u>	<u>532,460</u>	<u>608,102</u>	<u>1,091,976</u>	<u>24,657</u>	<u>25,089</u>	<u>54,816</u>	<u>-</u>	<u>49</u>	<u>2,947,102</u>
On-balance sheet gap		<u>808,574</u>	<u>(2,519,022)</u>	<u>4,435,775</u>	<u>574,064</u>	<u>(805,013)</u>	<u>45,218</u>	<u>459,992</u>	<u>(12,796)</u>	<u>-</u>	<u>(49)</u>	<u>(1,369,595)</u>
Off-balance sheet financial instruments												
Off-balance sheet gap		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total yield / interest risk sensitivity gap			<u>(2,519,022)</u>	<u>4,435,775</u>	<u>574,064</u>	<u>(805,013)</u>	<u>45,218</u>	<u>459,992</u>	<u>(12,796)</u>	<u>-</u>	<u>(49)</u>	
Cumulative yield / interest risk sensitivity gap			<u>(2,519,022)</u>	<u>1,916,752</u>	<u>2,490,816</u>	<u>1,685,804</u>	<u>1,731,022</u>	<u>2,191,014</u>	<u>2,178,218</u>	<u>2,178,218</u>	<u>2,178,169</u>	

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 operational risk is the risk of 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 21 March 2012.

Shahid Mughal
Chief Financial Officer

Shafqat Sultana
President and
Chief Executive

Shafqat Sultana
President and
Chief Executive

Naheed Ishaq
Director

Ali Sameer
Director

Muhtashim Ashai
Director

FIRST WOMEN BANK LIMITED

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 2011

As referred to in note 10.5 to these Financial Statements

(Rupees in '000)

S. No.	Name and address of borrower	Name of Individuals/ Partners/ Directors (with CNIC #)	Father's / Husband's name	Outstanding Liabilities at beginning of year				Principal written-off	Interest / Mark-up written-off	Other Financial Reliefs provided	Total (9+10+11)
				Principal	Interest / Mark-up	Others	Total (5+6+7)				
1	2	3	4	5	6	7	8	9	10	11	12
1	M/s. Sabah's Designet & Interior 11 Sands Apartment, Khayaban-e-Saadi, Clifton, Karachi	Talat Inayatullah CNIC # 7119575-4	Inayatullah Khan	-	449	259	708	-	449	259	708
2	M/s. Saba Enterprises A1/14, City Villas, Scheme 33, Gulistan-e- Jauhar, Karachi	Parveen Bashir Qaim Khani CNIC # 485-58-033361	Bashir Qaim Khani	-	740	-	740	-	740	-	740
3	M/s. Dewan Sugar Mills (Private) Limited 7th Floor, Block - A, FTC Building, Shahrah-e- Faisal, Karachi	Dewan M. Yousuf Farooqui CNIC # 42301-6948978-9 Dewan Asim Mushtaq Farooqui CNIC # 42301-4927084-9 Dewan Abdullah Ahmed Saleh Farooqui CNIC # 42301-7511974-1 Dewan Abdul Rehman Farooqui CNIC # 42301-0862043-3 Muhammad Azimuddin CNIC # 42301-2032996-3 Mian Kausar Hameed CNIC # 35202-2563505-5 Anis Wahab Zuberi CNIC # 42000-0521164-1	Dewan M. Umer Farooq Farooqui Dewan M. Umer Farooq Farooqui Dewan M. Umer Farooq Farooqui M. Suleman Farooqui M. Karimuddin Mian Abdul Hameed Abdul Rahim Zuberi	2,225	793	29	3,047	-	793	29	822
TOTAL				2,225	1,982	288	4,495	-	1,982	288	2,270