



KPMG Taseer Hadi & Co.  
Chartered Accountants

**Tameer Micro Finance Bank Limited**

**Financial Statements**  
**For the year ended 31 December**  
**2009**

### **Auditors' Report to the Members**

We have audited the annexed balance sheet of **Tameer Micro Finance Bank Limited** (the Bank) as at 31 December 2009 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited branches except for twelve branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Bank's Board of Directors to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with the approved accounting standards, the requirements of the Companies Ordinance, 1984 and the Microfinance Institutions Ordinance, 2001. 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 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, we report that:

- a) in our opinion, proper books of account have been kept by the Bank as required by the Companies Ordinance, 1984;
- b) in our opinion:
  - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and the Microfinance Institutions Ordinance, 2001 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes described in note 7 with which we concur;
  - 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 balance sheet, 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 Companies Ordinance, 1984 and the Microfinance Institutions Ordinance, 2001, in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at 31 December 2009 and of the loss, 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.

**Date:**

**Karachi**

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**KPMG Taseer Hadi & Co.**  
**Chartered Accountants**  
**Mazhar Saleem**

# Tameer Micro Finance Bank Limited


## Balance Sheet

As at 31 December 2009

	Note	2009	2008
(Rupees in '000)			
<b>ASSETS</b>			
Cash and balances with SBP and NBP	8	160,040	77,866
Balances with other Banks / NBFIs / MFBs	9	666,128	990,385
Lending to financial institutions		-	-
Investments - net of provisions	10	56,459	41,812
Advances - net of provisions	11	1,513,247	888,407
Operating fixed assets	12	156,467	119,545
Other assets	13	209,792	139,694
Deferred tax assets - net	14	37,351	38,000
<b>Total Assets</b>		<b>2,799,484</b>	<b>2,295,709</b>
<b>LIABILITIES</b>			
Deposits and other accounts	15	1,267,829	639,525
Borrowings	16	232,231	340,581
Subordinated debt		-	-
Other liabilities	17	174,272	69,335
Deferred tax liabilities - net		-	-
<b>Total liabilities</b>		<b>1,674,332</b>	<b>1,049,441</b>
<b>Net Assets</b>		<b>1,125,152</b>	<b>1,246,268</b>
<b>REPRESENTED BY:</b>			
Share capital	19	1,346,939	1,346,939
Statutory and general reserves		343,469	343,469
Accumulated losses		(616,026)	(494,047)
		<b>1,074,382</b>	<b>1,196,361</b>
Deficit on revaluation of assets	20	(473)	(1,726)
Deferred grants	21	51,243	51,633
		<b>1,125,152</b>	<b>1,246,268</b>
<b>Memorandum / off balance sheet items</b>	22		

The annexed notes 1 to 41 form an integral part of these financial statements.

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President &  
Chief Executive Officer



Chairman



Director



Director

# Tameer Micro Finance Bank Limited

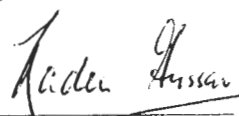
## Profit and Loss Account

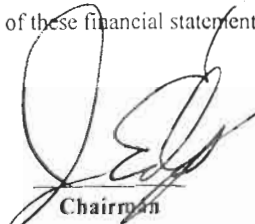
For the year ended 31 December 2009

	Note	2009 (Rupees in '000)	2008
Mark-up / return / interest earned	23	439,691	231,509
Mark-up / return / interest expensed	24	(115,144)	(105,969)
Net mark-up / interest income		324,547	125,540
(Provision) / reversal against non-performing loans and advances		(9,331)	6,227
Provision for diminution in the value of investments		-	-
Bad debts written off directly		-	-
		(9,331)	6,227
Net mark-up / interest income after provisions		315,216	131,767
<b>Non Mark-up / Non Interest Income</b>			
Fee, commission and brokerage income		48,693	25,862
Dividend income		-	-
Gain on sale of Government securities		-	-
Gain on revaluation of derivative asset		18,900	-
Other income	25	73,039	66,606
Total non mark-up / non interest income		140,632	92,468
		455,848	224,235
<b>Non Mark-up / Non Interest Expenses</b>			
Administrative expenses	26	(554,122)	(418,649)
Exchange loss on revaluation of borrowing		(18,900)	-
Other provisions / write offs		(2,262)	(1,232)
Total non mark-up / non interest expenses		(575,284)	(419,881)
		(119,436)	(195,646)
Extraordinary / unusual items		-	-
<b>Loss before taxation</b>		(119,436)	(195,646)
Taxation - current	27	(2,543)	-
- prior		-	-
- deferred		-	-
		(2,543)	-
<b>Loss after taxation</b>		(121,979)	(195,646)
Accumulated loss brought forward		(494,047)	(298,401)
Accumulated losses		(616,026)	(494,047)
<b>Appropriations</b>			
Transfer to			
Statutory reserve		-	-
Capital reserve		-	-
Contribution to MSDF / DPF / RMF		-	-
Revenue reserve		-	-
Proposed cash dividend Rs. nil per share (2008: nil per share)		-	-
Others		-	-
		-	-
Accumulated losses carried forward		(616,026)	(494,047)
		(Rupees)	
<b>Basic and diluted loss per share</b>	30	(0.91)	(2.87)

The annexed notes 1 to 41 form an integral part of these financial statements.

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 Aiden Hussain  
 President &  
 Chief Executive Officer

  
 Chairman

  
 Director

  
 Director

Tameer Micro Finance Bank Limited  
 Statement of Comprehensive Income  
 For the year ended 31 December 2009

	2009	2008
	(Rupees in '000)	
Loss after taxation for the year	(121,979)	(195,646)
Other Comprehensive Income	-	-
<b>Total Comprehensive loss for the year</b>	<u>(121,979)</u>	<u>(195,646)</u>

The annexed notes 1 to 41 form an integral part of these financial statements.

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 President &  
 Chief Executive Officer

  
 \_\_\_\_\_  
 Chairman

  
 \_\_\_\_\_  
 Director

  
 \_\_\_\_\_  
 Director





# Tameer Micro Finance Bank Limited

## Notes to the Financial Statements

For the year ended 31 December 2009

### 1. STATUS AND NATURE OF BUSINESS

Tameer Micro Finance Bank Limited "the Bank" was incorporated in Pakistan on 01 August 2005 as a public limited company under the Companies Ordinance, 1984. The Bank received license from the State Bank of Pakistan on 05 August 2005. The Bank is a subsidiary of Telenor Pakistan (Private) Limited (which acquired 51% stake on 4th December 2008). The Bank received its certificate of commencement of business from Securities and Exchange Commission of Pakistan on 05 September 2005.

The Bank's principal business is to provide micro finance banking and related services to the poor and underserved segment of the society with a view to alleviate poverty under the Microfinance Institution Ordinance, 2001. The Bank operates 39 branches (2008: 29 branches) and is licensed to operate on a nation wide basis. The Bank's registered and principal office is situated at 15-A, Block 7 & 8, KCHS, Union, Karachi. In July 2009. The Bank also started Branchless Banking services with Telenor Paksitan as its Agent under license from State Bank of Pakistan.

### 2. BASIS OF PRESENTATION

These financial statements have been presented in accordance with the BSD Circular No. 11 dated 30 December 2003 issued by the State Bank of Pakistan.

### 3. STATEMENT OF COMPLIANCE

- 3.1 These financial statements have been prepared in accordance with the 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 as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984, the Micro finance Institution Ordinance, 2001, the Prudential Regulations for Microfinance Banks / Institutions and the directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP). In case the requirements differ, the provisions of and directives issued under the Companies Ordinance, 1984, the Micro finance Institution Ordinance, 2001, the Prudential Regulations for Microfinance Bank / Institutions, and the directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan shall prevail.

SBP has clarified that International Accounting Standard 39, Financial Instruments: Recognition and Measurement (IAS 39) and International Accounting Standard 40, Investment Property (IAS 40) are not applicable on the Bank. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. The investments have been classified in accordance with the categories prescribed by the State Bank of Pakistan through various circulars.

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### 3.2 Standards, Interpretations and Amendments to Published Approved Accounting standards that are not yet effective:

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 1 January 2010. These standards are either not relevant to the Bank's operations or are not expected to have a significant impact on the Bank's financial statements other than increase in disclosures in certain cases:

- Revised IFRS 3 - Business Combinations (applicable for annual periods beginning on or after 1 July 2009) broadens among other things the definition of business resulting in more acquisitions being treated as business combinations, contingent consideration to be measured at fair value, transaction costs other than share and debt issue costs to be expensed, any pre-existing interest in an acquiree to be measured at fair value, with the related gain or loss recognised in profit or loss and any non-controlling (minority) interest to be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.
- Amended IAS 27 - Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009) requires accounting for changes in ownership interest by the group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the group loses control of subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in the profit or loss.
- IFRIC 15 - Agreement for the Construction of Real Estate (effective for annual periods beginning on or after 1 October 2009) clarifies the recognition of revenue by real estate developers for sale of units, such as apartments or houses, 'off-plan', that is, before construction is complete.
- Amendments to IAS 39 - Financial Instruments: Recognition and Measurement – Eligible hedged Items (effective for annual periods beginning on or after 1 July 2009) clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship.
- IFRIC – 17 - Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009) states that when an entity distribute non cash assets to its shareholders as dividend, the liability for the dividend is measured at fair value. If there are subsequent changes in the fair value before the liability is discharged, this is recognised in equity. When the non-cash asset is distributed, the difference between the carrying amount and fair value is recognised in the income statement.

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**The International Accounting Standards Board made certain amendments to existing standards as part of its Second annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Bank's 2010 financial statements.**

- Amendment to IFRS 2 - Share-based Payment – Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2010). Currently effective IFRSs require attribution of share-based payment transactions only if they are equity-settled. The amendments resolve diversity in practice regarding attribution of cash-settled share-based payment transactions and require an entity receiving goods or services in either an equity-settled or a cash-settled payment transaction to account for the transaction in its separate or individual financial statements.
- Amendment to IAS 32 - Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 1 February 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.
- IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This interpretation provides guidance on the accounting for debt for equity swaps.
- IAS 24 - Related Party Disclosures (revised 2009) – effective for annual periods beginning on or after 1 January 2011. The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment would result in certain changes in disclosures.
- Amendments to IFRIC 14 IAS 19 - The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment is not likely to have any impact on Bank's financial statements.
- Amendments to IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations – (effective for annual periods beginning on or after 1 July 2009). The amendments specify that if an entity is committed to a plan to sell a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale when the held for sale criteria in IFRS 5 are met. This applies regardless of the entity retaining an interest (other than control) in the subsidiary; and disclosures for discontinued operations are required by the parent when a subsidiary meets the definition of a discontinued operation. This amendment is not likely to have any impact on Bank's and its subsidiary's financial statements.

#### 4. BASIS OF MEASUREMENT

These financial statements have been prepared under historical cost convention except for the following;

- Derivative financial instruments are measured at fair value; and
- Investments classified as available for sale are also measured at fair values

#### 5. FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements have been presented in Pakistani Rupee, which is the Bank's functional and presentation currency. The figures have been rounded off to nearest thousand Rupees unless stated otherwise.

#### 6. USE OF ESTIMATES AND JUDGMENTS

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

The estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 38.

#### 7. 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 financial statements of the Bank for the year ended 31 December 2008 (except for the change mentioned below) and are enumerated as follows:

##### **Change in accounting policy**

Starting 1 January 2009, the Bank has changed its accounting policies in the following areas:

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IAS 1 (Revised) 'Presentation of Financial Statements' (effective for annual periods beginning on or after 1 January 2009) – The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. Further, under revised standard, an entity may present the components of profit or loss either as part of a single statement of comprehensive income or in a separate income statement. The Bank has opted to present the components of profit or loss in a separate statement while a statement of comprehensive income is presented separately as permitted under revised IAS 1. As deficit on revaluation of assets does not form part of the equity of the Bank under the local laws and is presented below the equity in the balance sheet, accordingly changes in equity arising from deficit on revaluation of assets have not been considered part of comprehensive income.

Comparative information has been re-presented so that it is in conformity with the revised / new standards. Since the changes in accounting policies only affect presentation of financial statements, there is no impact on loss per share.

### **7.1 Financial assets and liabilities**

The Bank initially recognises financial assets and liabilities on the date at which they are originated.

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire or are transferred. The Bank also enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all or part of the risks and rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet.

Financial liabilities are derecognised when the contractual obligations expire, or discharged or cancelled.

### **7.2 Cash and cash equivalents**

For the purpose of cash flow statement, cash and cash equivalents comprises of cash in hand, balances with the State Bank of Pakistan and National Bank of Pakistan, balances held with other banks in current and deposit accounts with maturity of less than three months.

### **7.3 Investments**

Investment in securities are classified as follows;

#### **a) Held for trading**

These represent securities, which are either acquired for the purpose of generating profit from short-term fluctuations in prices or dealer's margin or are securities included in the portfolio in which a pattern of short-term profit making exists.

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#### **b) Held-to-maturity**

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

#### **c) Available-for-sale**

These are investments which may be sold in response to need for liquidity or change in interest rates or equity prices. Premium or discount on acquisition of available-for-sale investment is amortized through profit and loss account over the remaining period till maturity.

Investments other than those categorised as held for trading includes transaction costs associated with the investments. In case of investments classified as held for trading, transaction costs are expensed in the profit and loss account.

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

Provision for impairment in the value of equity securities is made after considering objective evidence of impairment. Provision for diminution in the value of debt securities is made as per the Prudential Regulation issued by the State Bank of Pakistan.

The surplus / (deficit) arising as a result of revaluation at market value on held for trading portfolio is taken to profit and loss account.

The surplus / (deficit) arising on revaluation of available-for-sale is kept in “Surplus / (deficit) on Revaluation of Assets” and is 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.

### **7.4 Advances**

Advances are stated net of specific and general provisions. Specific provision against advances is determined on the basis of Prudential Regulations and other directives issued by the State Bank of Pakistan and charged to the profit and loss account. General provision against advances is made in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan. Advances are written off according to the Prudential Regulations issued by the State Bank of Pakistan or when there is no realistic prospect of recovery.

### **7.5 Operating fixed assets**

#### *Owned*

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses (if any).

Capital work-in-progress is stated at cost less impairment loss (if any).

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When parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

Cost include expenditure that is directly attributable to the acquisition of items.

#### *Subsequent costs*

The Bank recognises in the carrying amount of an item of property and equipment the cost of replacing part of such an item when that cost is incurred and if it is probable that the future economic benefits embodied with the item will flow to the Bank and the cost of the item can be measured reliably. Maintenance and normal repairs are charged to income as and when incurred.

#### *Assets subject to finance lease*

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as assets subject to finance lease. These are stated at amounts equal to the lower of their fair value and the present value of minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses (if any). Financial charges are allocated over the period of the lease term so as to provide a constant periodic rate of financial charge on the outstanding liability. The outstanding obligations under the lease agreements are shown as a liability net of finance charges allocable to future periods.

#### *Depreciation*

Depreciation on property and equipment (owned and leased assets) is charged to income using the straight-line basis over the estimated useful lives of each part of property and equipment (owned and leased assets) at the rates given in note 12.2 A full month's depreciation is charged in the month of addition and no depreciation is charged for the month in which the disposal is made. The assets' residual value, depreciation method and useful lives are reviewed and adjusted (if appropriate) at each balance sheet date.

#### *Intangibles*

Intangible assets with a definite useful life are stated at cost less accumulated amortisation and accumulated impairment losses (if any). Intangible assets are amortised from the month, when these assets are available for use, using the straight-line method, whereby the cost of the intangible asset is amortised on the basis of the estimated useful life over which economic benefits are expected to flow to the Bank. The residual value, useful life and amortisation method is reviewed and adjusted, if appropriate, at each balance sheet date.

#### *Others*

The assets' residual value and useful lives are reviewed and adjusted (if appropriate) at the balance sheet date.

Gains and losses on disposal of assets are determined by comparing the sale proceeds with the carrying amount. These are included in the profit and loss account.

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## 7.6 Provisions

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

## 7.7 Impairment

The carrying amount of the Bank's assets (other than deferred tax asset) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the relevant asset is estimated. An impairment loss is recognized in profit and loss account whenever the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

## 7.8 Taxation

Income tax on the profit or loss for the year comprises of current and deferred tax. Income tax is recognised in the profit and loss account, except to the extent that it relates to items recognised directly in equity or below equity, in which case it is recognised in equity or below equity.

### *Current taxation*

Provision for current taxation is based on the taxable income for the year determined in accordance with the Income Tax Ordinance 2001. The charge for current tax is calculated using tax rates enacted or substantively enacted at the balance sheet date after taking into account available tax credits and rebates, if any. The charge for current tax includes adjustments to charge for prior years, if any.

### *Deferred taxation*

Deferred tax is recognised using the balance sheet method on all temporary differences arising between tax base of assets and liabilities and their carrying amounts appearing in the financial statements. No deferred tax is provided on the initial recognition of assets and liabilities that affect neither accounting nor taxable profits.

A deferred tax asset is recognised only to the extent it is probable that future taxable profits will be available against which the assets can be utilised. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the balance sheet date.

## **7.9 Staff retirement benefits**

### *Defined benefit plan*

The Bank operates a funded gratuity scheme for all its eligible permanent and contractual employees. 'Projected unit credit method' has been used for actuarial valuation. Actuarial gains or losses in excess of 10% of the actuarial liability or plan assets are recognised over the expected average working life of the employees.

### *Defined contribution plan*

The Bank also operates a recognised provident fund scheme for its employees. Equal monthly contributions are made, both by the company and the employees, to the fund at the rate of 10% of the basic salary.

## **7.10 Revenue recognition**

Mark-up / return on investments is recognised on time proportion basis using effective interest method. Where debt securities are purchased at premium or discount, those premiums / discounts are amortised through the profit and loss account over the remaining period of maturity.

Mark-up / return on advances are recognised on a time proportion basis using effective interest method.

Income from interbank deposits in saving accounts are recognised in the profit and loss account as it accrues using the effective interest method.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

Fee, commission and brokerage income is recognised when earned.

Interest or mark-up recoverable on non-performing advances is recognised on a receipt basis in accordance with the requirements of the Prudential Regulations.

Commission earned from branchless banking (Easy paisa) is recognised on receipt basis.

## **7.11 Foreign currency transactions**

Foreign currency transactions are translated into the Pakistani Rupee using the foreign exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

## 7.12 Grant

The grant related to an asset is recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Bank will comply with the conditions attached to it. Grants that compensate the Bank for expenses incurred are recognised as revenue in the profit and loss account on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Bank for the cost of an asset are recognised in the profit and loss account as other operating income on a systematic basis over the useful life of the asset.

## 7.13 Off setting

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

Income and expenses are presented on a net basis only when permitted by the approved accounting standards, or for gains and losses arising from a group of similar transactions.

## 7.14 Derivative financial instrument

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

## 7.15 Deposits

Deposits are initially recorded at the amount of proceeds received. Mark-up accrued on deposits is recognised separately as part of other liabilities, and is charged to the profit and loss account over the period.

8. CASH AND BALANCES WITH SBP AND NBP	Note	2009	2008
		(Rupees in '000)	
Cash in hand		90,032	40,152
Balance with State Bank of Pakistan (SBP)		35,697	7,704
Balance with National Bank of Pakistan (NBP) in:			
- Current account		34,311	30,010
<i>KPMGTX</i>	8.1	70,008	37,714
		<u>160,040</u>	<u>77,866</u>

8.1 These represent current accounts maintained with State Bank of Pakistan and National Bank of Pakistan to meet liquidity needs and the requirement of maintaining a minimum balance equivalent to 5% as cash reserve and 10% as liquidity reserve of the Bank's time and demand liabilities in the form of cash in accordance with Regulation No. 6 of the Prudential Regulations applicable on Microfinance Institution / Banks.

9. BALANCES WITH OTHER BANKS / NBFIs / MFBs	Note	2009 (Rupees in '000)	2008
In Pakistan			
- Current accounts		43,105	34,434
- Deposit accounts	9.1	143,023	105,951
- Fixed deposit accounts	9.2	480,000	850,000
		<u>666,128</u>	<u>990,385</u>

9.1 This represents deposits payable on demand and carry mark-up ranging from 5% to 11.15% per annum (2008: 5% to 11% per annum) depending on the daily closing balance held with the banks.

9.2 This represents deposits with various commercial banks on fixed term carrying mark-up ranging from 10.5% to 13.5% per annum (2008: 9.5% to 21.5% per annum) having maturity upto March 2010.

10. INVESTMENTS - NET OF PROVISIONS	Note	2009 (Rupees in '000)	2008
<b>Available-for-sale</b>			
Pakistan Investment Bonds	10.1	19,936	29,675
Market Treasury Bills	10.2	37,250	14,718
Deficit on revaluation of assets	20	(727)	(2,581)
		<u>56,459</u>	<u>41,812</u>

10.1 Pakistan Investment Bonds have a tenor of five years. Bank's return on these investments is 12.20% (2008: 14.02% to 15.01% per annum) with maturities upto 2011.

10.2 Market Treasury Bills have a tenor of one year. Bank's yield on these instrument range from 12.09% to 12.12% per annum (2008: 13.23% to 13.46 %) with maturities upto November 2010.

11. ADVANCES - NET OF PROVISIONS	Note	2009		2008	
		Number of loans	(Rupees in '000)	Number of loans	(Rupees in '000)
Micro credit		70,671	1,539,841	43,791	906,852
<i>Less: Provision held</i>					
- Specific	11.2	502	(3,550)	928	(5,002)
- General	11.2	-	(23,044)	-	(13,443)
			<u>(26,594)</u>		<u>(18,445)</u>
Advances (net off provisions)			<u>1,513,247</u>		<u>888,407</u>

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### 11.1 Particulars of non-performing advances

Advances include Rs. 18.412 million (2008: Rs. 12.028 million) which, as detailed below, have been placed under non-performing status:

Note	2009			2008		
	Amount outstanding	Provision required	Provision held	Amount outstanding	Provision required	Provision held
	------(Rupees in '000)-----			------(Rupees in '000)-----		
OAEM (other assets especially mentioned)	11.1.1	10,611	-	-	-	-
Substandard	11.1.1	2,977	744	6,410	1,602	1,602
Doubtful		4,037	2,019	4,436	2,218	2,218
Loss		787	787	1,182	1,182	1,182
Total		<u>18,412</u>	<u>3,550</u>	<u>12,028</u>	<u>5,002</u>	<u>5,002</u>

11.1.1 During the year, the State Bank of Pakistan vide their circular no. 2 of 2009 dated 27 August 2009 has introduced an additional new classification OAEM (other assets especially mentioned) in Prudential Regulation applicable on microfinance banks for classification of non-performing loans which are overdue by 30-59 days. Previously non-performing loans in this category were classified as substandard and a provision of 25% was being maintained against them. Due to the said changes, provision against non-performing loans and loss after tax for the year ended 31 December 2009 is lower by Rs. 2.65 million.

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

	2009			2008		
	Specific	General	Total	Specific	General	Total
	------(Rupees in '000)-----			------(Rupees in '000)-----		
Opening balance	5,002	13,443	18,445	43,784	4,995	48,779
Charge for the year	19,091	9,601	28,692	39,861	8,448	48,309
Reversals	(19,361)	-	(19,361)	(54,536)	-	(54,536)
	(270)	9,601	9,331	(14,675)	8,448	(6,227)
Amount written off	(1,182)	-	(1,182)	(24,107)	-	(24,107)
Closing balance	<u>3,550</u>	<u>23,044</u>	<u>26,594</u>	<u>5,002</u>	<u>13,443</u>	<u>18,445</u>

11.2.1 General provision has been determined in accordance with the requirement of Prudential Regulation issued by the State Bank of Pakistan applicable on Microfinance Banks / Institutions (i.e. 1.5% of loans and advances net of specific provision).

### 11.3 Particulars of write offs

Note	2009	2008
	(Rupees in '000)	
Against provisions	13,596	55,242
Reversals against write offs	(12,414)	(31,135)
	<u>1,182</u>	<u>24,107</u>

### 12. OPERATING FIXED ASSETS

	Note	2009	2008
Capital work-in-progress	12.1	11,616	3,493
Property and equipments	12.2	140,417	113,898
Intangible assets	12.3	4,434	2,154
		<u>156,467</u>	<u>119,545</u>

#### 12.1 Capital work-in-progress

Civil works	4,302	1,022
Equipments	4,474	-
Advance to suppliers and contractors	2,840	2,471
	<u>11,616</u>	<u>3,493</u>

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## 12.2 Property and equipments

	2009							Book value at 31 December 2009	Rate of depreciation % per annum
	Cost			Depreciation					
	As at 01 January 2009	Additions / (deletion)	As at 31 December 2009	As at 01 January 2009	Charge for the year / (deletion)	As at 31 December 2009			
(Rupees in '000)									
<i>Owned Assets</i>									
Leasehold improvement to property	19,354	4,092	23,446	2,818	2,121	4,939	18,507	10	
Office furniture and fixtures	36,402	10,364	46,766	5,815	4,369	10,184	36,582	10	
Office equipments	35,125	12,079	47,204	11,298	8,076	19,374	27,830	20	
Computer equipments	46,915	16,816	63,731	26,692	13,954	40,646	23,085	33	
Vehicles	28,879	17,935	46,814	9,372	5,477	14,849	31,965	20	
	<b>166,675</b>	<b>61,286</b>	<b>227,961</b>	<b>55,995</b>	<b>33,997</b>	<b>89,992</b>	<b>137,969</b>		
<i>Assets held under finance lease</i>									
Vehicles	7,224	-	7,224	4,006	770	4,776	2,448	20	
	<b>173,899</b>	<b>61,286</b>	<b>235,185</b>	<b>60,001</b>	<b>34,767</b>	<b>94,768</b>	<b>140,417</b>		
2008									
	Cost			Depreciation			Book value at 31 December 2008	Rate of depreciation % per annum	
	As at 01 January 2008	Additions / (deletion)	As at 31 December 2008	As at 01 January 2008	Charge for the year / (deletion)	As at 31 December 2008			
	(Rupees in '000)								
<i>Owned Assets</i>									
Leasehold improvement to property	11,569	7,785	19,354	1,241	1,577	2,818	16,536	10	
Office furniture and fixtures	21,518	14,884	36,402	2,763	3,052	5,815	30,587	10	
Office equipments	23,017	12,288 (180)	35,125	5,574	5,760 (36)	11,298	23,827	20	
Computer equipments	32,780	14,135	46,915	13,154	13,538	26,692	20,223	33	
Vehicles	19,319	10,313 (753)	28,879	4,697	4,688 (13)	9,372	19,507	20	
	<b>108,203</b>	<b>59,405</b> <b>(933)</b>	<b>166,675</b>	<b>27,429</b>	<b>28,615</b> <b>(49)</b>	<b>55,995</b>	<b>110,680</b>		
<i>Assets held under finance lease</i>									
Vehicles	7,224	-	7,224	2,563	1,443	4,006	3,218	20	
	<b>115,427</b>	<b>59,405</b> <b>(933)</b>	<b>173,899</b>	<b>29,992</b>	<b>30,058</b> <b>(49)</b>	<b>60,001</b>	<b>113,898</b>		

12.2.1 Property and equipments includes assets received against grant during the year of Rs.12.775 million (2008: Rs.10.777 million).

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12.2.2 Property and equipments of cost amounting to Rs. 19.195 million (2008: Rs. 3.165 million) are fully depreciated assets are still in use as they are in running conditions.

12.2.3 During the year ended 31 December 2009, the Bank's management conducted a review to determine the residual value of its vehicles (both owned and leased). The expected residual value is determined at 25% of the cost of vehicles. As a result of this, the previous and current period residual value of vehicles are as under:

	2009	2008
	(Rupees in '000)	
Owned vehicles	11,705	-
Leased vehicles	1,805	-
	<u>13,510</u>	<u>-</u>

The effect of changes in the residual value on depreciation charge, in administrative cost, in the current and future period is as follows:

	2009	2010	2011	2012	2013	Later
	(Rupees in '000)					
<i>Decrease in depreciation charge:</i>						
Owned vehicles	4,822	2,647	1,956	1,441	839	-
Leased vehicles	674	1,131	-	-	-	-
Total	<u>5,496</u>	<u>3,778</u>	<u>1,956</u>	<u>1,441</u>	<u>839</u>	<u>-</u>

### 12.3 Intangible assets

	2009							
	Cost			Amortisation		Book value at	Rate of	%
	As at 01 January 2009	Additions	As at 31 December 2009	As at 01 January 2009	Charge for the year	As at 31 December 2009	31 December 2009	
(Rupees in '000)								
Software	14,146	4,621	18,767	11,992	2,341	14,333	4,434	33

	2008							
	Cost			Amortisation		Book value at	Rate of	%
	As at 01 January 2008	Additions	As at 31 December 2008	As at 01 January 2008	Charge for the year	As at 31 December 2008	31 December 2008	
(Rupees in '000)								
Software	13,312	834	14,146	7,427	4,565	11,992	2,154	33

12.3.1 Intangible assets includes assets received against grant during the year of Rs.4.382 million (2008: Rs. 0.806 million).

12.3.2 Intangible assets of cost amounting to Rs. 12.793 million (2008: Rs. nil) are fully amortised are still in use as they are in running conditions.

### 13. OTHER ASSETS

	Note	2009	2008
		(Rupees in '000)	
Income / mark-up accrued	13.1	77,970	31,483
Deposits		4,134	3,600
Upfront mark-up on fixed term deposits		190	3,148
Prepayments		16,663	15,220
Receivable from defined benefit plan	18.4	-	1,063
Advances to staff and executives		9,117	3,987
Advance tax - (payments less provisions)		7,753	7,296
Unrealised gain on derivative financial instrument		85,574	66,674
Others		8,391	7,223
		<u>209,792</u>	<u>139,694</u>

13.1 This includes mark-up receivable on advances to customers and deposits with various commercial banks.

**14. DEFERRED TAX ASSETS - NET**

**2009**      **2008**  
**(Rupees in '000)**

Deferred tax assets / (liabilities) are attributable to the following:

Deferred debits arising in respect of:

- Provision against non-performing advances	2,763	2,763
- Deferred grant	7,532	7,532
- Taxable business losses	35,673	35,673
- Deficit on revaluation of government securities	254	903
- Others	2,171	2,171
	<u>48,393</u>	<u>49,042</u>

Deferred credits arising in respect of:

- Accelerated depreciation allowance	(9,528)	(9,528)
- Others	(1,514)	(1,514)
	<u>(11,042)</u>	<u>(11,042)</u>
	<u>37,351</u>	<u>38,000</u>

**15. DEPOSITS AND OTHER ACCOUNTS**

	2009		2008	
	Number	(Rupees in '000)	Number	(Rupees in '000)
Fixed deposits	2,960	651,665	3,697	467,058
Current deposits	118,350	570,681	71,508	156,086
Saving deposits	1,228	45,483	928	16,381
	<u>122,538</u>	<u>1,267,829</u>	<u>76,133</u>	<u>639,525</u>

**15.1** This includes deposits from related parties amounting to Rs. 351.439 million (2008: Rs. 11.57 million). Out of which deposit from parent company amounted to Rs. 345.815 million.

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## 15.2 Particulars of deposits by ownership

	2009		2008	
	Number	(Rupees in '000)	Number	(Rupees in '000)
Individual depositors	122,379	629,360	76,050	398,533
Institutional depositors - Corporations / firms	159	638,469	83	240,992
	<u>122,538</u>	<u>1,267,829</u>	<u>76,133</u>	<u>639,525</u>

## 16. BORROWINGS

	Note	2009 (Rupees in '000)	2008
Outside Pakistan		232,231	290,581
Inside Pakistan		-	50,000
	16.1	<u>232,231</u>	<u>340,581</u>

### 16.1 Detail of borrowings from financial institutions is as follows:

#### *Unsecured*

Borrowings from financial institutions outside Pakistan	16.1.1	310,830	291,930
Unamortised transaction cost		(891)	(1,349)
		<u>309,939</u>	290,581
Current portion of borrowing from financial institutions outside Pakistan		(77,708)	-
		<u>232,231</u>	290,581
Inter Bank borrowing		-	50,000
		<u>232,231</u>	<u>340,581</u>

16.1.1 The Bank has obtained an interest based loan of USD 3,700,000 on 29 December 2006 from International Finance Corporation (IFC). According to the loan agreement, the loan is obtained to provide medium term funding to support the growth of the Bank's micro finance portfolio. The interest is payable at LIBOR (London Inter Bank Offer Rate) plus 3% on semi annual basis commencing from 16 January 2007. The loan term is for a period of 5 years and principal repayment is in 4 equal semi annual instalments of USD 0.925 million starting from 15 July 2010 to 15 January 2012. The risk of changes in foreign currency fluctuation is secured by cross currency swap arrangement which is disclosed in note 17.2.

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17. OTHER LIABILITIES	Note	2009	2008
(Rupees in '000)			
Mark-up / return / interest payable		27,613	24,701
Accrued expenses		30,369	12,406
Withholding tax payable		3,992	2,023
Accrued mark-up on leased assets		24	57
Liabilities against assets subject to finance lease	17.1	1,907	3,293
Liability in respect of contributory provident fund		1,030	1,637
Payable to defined benefit plan	18.4	849	-
Current portion of foreign currency borrowing		77,708	-
Unrealised loss on derivative financial instrument	17.2	10,475	12,148
Payable to Telenor Pakistan (Private) Limited relating to branchless banking - Easy paisa	25.1	4,282	-
Others		16,023	13,070
		<u>174,272</u>	<u>69,335</u>

#### 17.1 Liabilities against assets subject to finance lease

	2009			2008		
	Minimum lease payments	Financial charges for future periods	Principal outstanding	Minimum lease payments	Financial charges for future periods	Principal outstanding
	------(Rupees in' 000)-----			------(Rupees in' 000)-----		
Not later than one year	2,012	105	1,907	1,746	360	1,386
Later than one year and not later than five years	-	-	-	2,012	105	1,907
	<u>2,012</u>	<u>105</u>	<u>1,907</u>	<u>3,758</u>	<u>465</u>	<u>3,293</u>

17.1.1 The Bank has entered into agreements with First Habib Modaraba for lease of vehicles on commercial terms and conditions. Lease rentals are payable on quarterly basis with mark-up at the rate of KIBOR (Karachi Inter Bank Offer Rate) plus 3.5% per annum with a floor and cap of 10% per annum and 15.5% per annum respectively. The Bank intends to exercise its option to purchase the above assets upon completion of the lease periods.

#### 17.2 Derivative financial instrument

2009  
2008  
(Rupees in '000)

Cross currency swap	<u>10,475</u>	<u>12,148</u>
---------------------	---------------	---------------

17.2.1 On 29 December 2006 the Bank has entered into a cross currency Swap arrangement with Citibank NA, covering the loan facility of USD 3.7 million availed from International Finance Corporation (IFC). The Bank has swapped all future USD cash flows related to IFC loan agreement with PKR cash flows. Under the swap arrangement Bank will receive the bi - annual USD interest payment payable to IFC under the said loan agreement at the relevant LIBOR rate + 3% per annum from Citibank, against which Bank will pay Citibank in PKR, an amount equal to the relevant KIBOR rate + 3.65% per annum. The Bank is assured of agreed rate for its future purchase of USD from Citibank for all future USD denominated principal repayments under the said loan agreement. This swap arrangement will expire on 15 January 2012.

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## 18. DEFINED BENEFIT PLAN

### 18.1 General description

The Bank operates an approved funded gratuity fund for all employees, who have completed minimum qualifying period of service. Contributions to the fund are made in accordance with the rules of the fund. The benefit is equal to one month's last drawn basic salary for each year of eligible service or part thereof, subject to a minimum of three years of service.

### 18.2 Principal actuarial assumptions

The latest actuarial valuation of the Bank's defined benefit plan based on Projected Unit Credit Actuarial Cost Method was carried out as at 31 December, 2009. Following are the significant assumptions used in the valuation:

	2009	2008
	(% per annum)	
- Discount factor rate	14	15
- Salary increase rate	14	15
- Expected rate of return on plan assets	14	15

### 18.3 Reconciliation of receivable from defined benefit plan

	2009	2008
	(Rupees in '000)	
Present value of defined benefit obligation	23,725	18,422
Gratuity payable	176	-
Fair value of plan assets	(22,770)	(15,029)
	<u>1,131</u>	<u>3,393</u>
Net actuarial loss not recognised	(282)	(4,456)
	<u>849</u>	<u>(1,063)</u>

### 18.4 Movement in receivable from defined benefit plan

Opening balance	(1,063)	(1,431)
Charge for the year	6,940	6,566
Contributions to fund made during the year	(5,028)	(6,198)
Closing balance	<u>849</u>	<u>(1,063)</u>

### 18.5 Charge for defined benefit plan

Current service cost	6,213	6,669
Interest cost	2,763	992
Expected return on plan assets	(2,254)	(1,095)
Actuarial loss recognised	218	-
	<u>6,940</u>	<u>6,566</u>

### 18.6 Actual return on plan assets

The actual return earned on plan asset	<u>3,161</u>	<u>(2,118)</u>
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18.7 Plan assets consists	2009	2008
	(Rupees in '000)	
Fixed deposits	-	11,341
Bank balances	6,032	1,859
TFCs	16,738	-
Other balances	-	1,829
	<u>22,770</u>	<u>15,029</u>

18.8 Movement in fair value of plan assets		
Opening balance of Fair value of plan assets	15,029	10,949
Contributions made into the fund	5,028	6,198
Benefits paid by the fund	(448)	-
Expected return on plan assets	2,254	1,095
Actuarial gain / (loss) on assets to be recognised	907	(3,213)
Closing balance of fair value of plan assets	<u>22,770</u>	<u>15,029</u>

#### 18.9 Historical information

	2009	2008	2007	2006	2005
	------(Rupees in '000)-----				
Present value of defined benefit obligation	23,725	18,422	9,917	5,100	953
Gratuity payable	176	-	-	-	-
Fair value of plan assets	(22,770)	(15,029)	(10,949)	(5,805)	-
Deficit / (surplus) in the plan	<u>1,131</u>	<u>3,393</u>	<u>(1,032)</u>	<u>(705)</u>	<u>953</u>
Experience adjustments arising on plan liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Experience adjustments arising on plan assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

#### 18.10 Expected contribution to be paid to the fund in the next financial year

The Bank contributes to the gratuity fund according to the actuary's advice. Based on actuarial advice the management estimates that the charge in respect of defined benefit plans for the year ending 31 December 2010 would be as follows:

	2010
	(Rupees in '000)
Expected charge and contribution for the year 2010	<u>9,007</u>

#### 19. SHARE CAPITAL

Authorised share capital			
2009	2008	2009	2008
(Number of shares in '000)		(Rupees in '000)	
<u>270,000</u>	<u>270,000</u>	<u>2,700,000</u>	<u>2,700,000</u>
Ordinary share of Rs.10 each			
Issued, subscribed and paid-up share capital			
2009	2008		
(Number of shares in '000)			
<u>134,694</u>	<u>134,694</u>	<u>1,346,939</u>	<u>1,346,939</u>
Ordinary share of Rs.10 each fully paid in cash			

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20. DEFICIT ON REVALUATION OF ASSETS	Notes	2009	2008
		(Rupees in '000)	
<b>Federal Government Securities</b>			
Revaluation deficit on Pakistan Investment Bonds		(659)	(2,425)
Revaluation deficit on Market Treasury Bills		(68)	(156)
Less: deferred tax assets		254	855
		<u>(473)</u>	<u>(1,726)</u>

## 21. DEFERRED GRANTS

### *Grant received from:*

Financial Sector Strengthening Programme (FSSP)	21.1	3,194	10,334
State Bank of Pakistan (SBP)	21.2	39,372	9,729
Consultative group to assist the poor (CGAP)	21.3	62,232	70,897
The Aga Khan agency for Microfinance (AKAM)	21.4	2,142	2,360
Soros Economic Development Fund (SEDF)	21.5	3,831	8,549
The Development Innovation Group (DIG)	21.6	-	3,019
		<b>110,771</b>	<b>104,888</b>

### *Less: Grant income recognised during the year:*

Financial Sector Strengthening Programme (FFSP)	(2,975)	(7,140)
State Bank of Pakistan (SBP)	(11,380)	(3,157)
Consultative group to assist the poor (CGAP)	(41,506)	(30,856)
The Aga Khan agency for Microfinance (AKAM)	(1,171)	(4,365)
Soros Economic Development Fund (SEDF)	(2,496)	(4,718)
The Development Innovation Group (DIG)	-	(3,019)
	<b>(59,528)</b>	<b>(53,255)</b>
	<b>51,243</b>	<b>51,633</b>

**21.1** This represents grant of USD received in respect of technical and financial support for development of various banking software and installing equipment for the Microfinance sector from Financial Sector Strengthening Programme (FSSP) of the Swiss Development Corporation.

**21.2** These represent institutional strengthening grants received from State Bank of Pakistan. These grants are funded by Asian Development Bank (ADB) under Microfinance Sector Development Program (MSDP). This also includes grant for Financial Inclusion program (FIP) received from State Bank of Pakistan for economic growth and improved livelihood opportunities for poor and marginalized groups to access to financial services on small & medium level enterprises in Pakistan.

**21.3** These represent grants of USD received from International Bank for Reconstruction and Development (IBRD) for the Consultative Group to Assist the Poor (CGAP) to assist the Bank in achieving its growth goals for financial services at lower income clients via institutional capacity building and training and to develop, launch and scale up mobile banking using agent distribution network and cell phone technologies.

- 21.4 These represents grants of USD received from Aga Khan Agency for Microfinance (AKAM) for insurance linked product and delivery channel development. The terms of agreement included product development, technology platform to use POS machines to collect premium repayments, marketing and client awareness.
- 21.5 This represents grant of USD received from Soros Economic Development Fund (SEDF) to assist the Bank in expanding the outreach of microfinance services to low and moderate income clients by connecting to an interbank ATM switch and a payment settlement network.
- 21.6 This grants of USD received from Development Innovation Group LLC. Maryland USA (DIG) to develop Tameer Ghar Product, a home financing product for customers belonging to lower income groups, residing in urban and rural areas of Pakistan.

<b>22. MEMORANDUM / OFF-BALANCE SHEET ITEMS</b>	<b>2009</b>	<b>2008</b>
	<b>(Rupees in '000)</b>	
Commitments in respect of purchase of fixed assets	<u>7,562</u>	<u>7,726</u>
<b>23. MARK-UP / RETURN / INTEREST EARNED</b>		
Mark-up / interest on advances	<b>347,393</b>	187,332
Mark-up / interest on investment in Government securities	<b>4,128</b>	4,823
Mark-up / interest on deposits with other banks	<u>88,170</u>	<u>39,354</u>
	<u><b>439,691</b></u>	<u>231,509</u>
<b>24. MARK-UP / RETURN / INTEREST EXPENSED</b>		
Mark-up on deposits	<b>74,060</b>	65,806
Interest expense on borrowings	<b>13,877</b>	20,380
Loss on revaluation of derivative financial instrument and borrowings	<u>27,207</u>	<u>19,783</u>
	<u><b>115,144</b></u>	<u>105,969</u>
<b>25. OTHER INCOME</b>		
Grant income	<b>59,528</b>	53,254
Cheque book fees, ATM fees and other service charges	<b>11,298</b>	13,352
Income from branchless banking - Easy paisas	<i>25.1</i> <u>2,213</u>	-
	<u><b>73,039</b></u>	<u>66,606</u>

- 25.1 This represents income on branchless banking operations launched in July 2009, under the brand of "Easy paisa". This product is launched along with its holding company, Telenor Pakistan (Private) Limited as the Super Agent under the State Bank of Pakistan Branchless Banking Regulation issued on 31 March 2008. Revenue relating to Easy paisa are to be shared between the Bank and Telenor on the agreed basis of 25% and 75% respectively.

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26. ADMINISTRATIVE EXPENSES	Note	2009	2008
		(Rupees in '000)	
Salaries and other allowances		305,027	218,673
Contribution to defined contribution plan		6,598	4,402
Charge for defined benefit plan	18.5	6,940	6,566
Fees paid to non-executive directors	26.1	120	155
Training and capacity building		5,395	6,500
Staff welfare		3,932	2,861
Rent and taxes		28,294	21,610
Stamp duty		315	2,146
Legal and professional charges		1,413	2,005
Utilities		10,268	7,026
Communications		22,462	17,180
Finance charges on leased assets		336	428
Travel and transportation		12,186	6,787
Insurance		17,110	7,075
Printing, stationery and periodicals		10,894	5,407
Repair and maintenance		24,428	15,515
Depreciation	12.2	34,767	30,058
Amortisation of intangible assets	12.3	2,341	4,565
Amortisation of borrowing costs		458	909
Auditors' remuneration	26.3	1,891	2,188
Advertisement and publicity		8,340	5,391
Bank charges		3,858	2,900
Security services		9,690	7,015
Loss on sale of operating fixed asset		-	1,213
Consultancy fee		27,510	25,708
Membership fee		168	6,595
Other expenses	26.2	9,381	7,771
		<u>554,122</u>	<u>418,649</u>

26.1 This relates to the fee paid to non-executive directors of the Bank for attending the Board Meetings during the year.

26.2 This includes Bank's share of direct commission expenses relating to the branchless banking (Easy paisa) services amounting to Rs. 0.785 million as agreed with Telenor Pakistan (Private) Limited.

26.3 Auditors' remuneration	2009	2008
	(Rupees in '000)	
Audit fee	800	700
Interim review fees	-	600
Fee for special certifications and advisory services	200	193
Tax services	500	496
Out-of-pocket expenses	391	199
<i>KPMGTH</i>	<u>1,891</u>	<u>2,188</u>

27. TAXATION	<i>Note</i>	2009	2008
		(Rupees in '000)	
Current		<u>(2,543)</u>	<u>-</u>

27.1 Section 113 of the Income Tax Ordinance, 2001 provide levy of minimum tax where due to losses / exemption etc. no tax is payable. This section had been deleted through Finance Act, 2008-09, therefore, minimum tax was not applicable for tax year 2009 (accounting year ended 31 December 2008). However, the same has now been levied again through the Finance Act, 2009-2010.

27.2 Net deferred tax asset amounting to Rs. 228.89 million has not been recognised in these financial statements. A deferred tax asset is recognised only to the extent that it is probable that sufficient future taxable profits will be available in the short term against which the asset can be utilised.

27.3 Relationship between tax expense and accounting loss	2009	2008
	(Rupees in '000)	
Loss before taxation	<u>(119,436)</u>	<u>(195,646)</u>
Tax at applicable tax rate 35% (2008: 35%)	(41,803)	(68,476)
Deferred tax not recognized during the year	41,803	68,476
Turnover tax charge	<u>(2,543)</u>	<u>-</u>
	<u>(2,543)</u>	<u>-</u>

28. NUMBER OF EMPLOYEES

	2009			2008		
	Credit / sales staff	Banking / support staff	Total	Credit / sales staff	Banking / support staff	Total
	------(Numbers)-----			------(Numbers)-----		
Permanent	194	180	374	151	113	264
Temporary / on contractual basis	350	67	417	479	122	601
	<u>544</u>	<u>247</u>	<u>791</u>	<u>630</u>	<u>235</u>	<u>865</u>

29. NUMBER OF BRANCHES

	2009	2008
	(Numbers)	
As at 1 January	29	23
Opened during the year	<u>10</u>	<u>6</u>
	39	29
Closed / merged during the year	-	-
As at 31 December	<u>39</u>	<u>29</u>

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**30. BASIC AND DILUTED LOSS PER SHARE**

2009                      2008  
(Rupees in '000)

There is no dilutive effect on the basic loss per share of the Bank.

Loss for the year	<u>(121,979)</u>	<u>(195,646)</u>
	(Numbers in '000)	
Weighted average number of ordinary shares	<u>134,694</u>	<u>68,051</u>
	(Rupees)	
Basic and diluted loss per share	<u>(0.91)</u>	<u>(2.87)</u>

**31. RELATED PARTY TRANSACTIONS**

The Bank has related party relations with its associated undertakings, holding company, employee benefit plans (refer note 7.9) and its directors and executive officers (including their associates) and major shareholders. Transactions with key management personnel are also disclosed as part of related party transactions.

Banking transactions with the related parties are executed substantially on the same terms, except transactions with directors and executive officers that are as per their terms of employment, including mark-up rates and collateral, as those prevailing at the time of comparable transactions with unrelated parties and do not involve more than a normal risk.

Details of transactions and balances with related parties, other than those which have been specifically disclosed elsewhere in these financial statements are as follows:

	2009	2008
	(Rupees in '000)	
<i>Holding company:</i>		
Payable to Telenor Pakistan (Private) Limited	<u>4,857</u>	<u>53</u>
Expense during the year	<u>10,687</u>	<u>382</u>
Paid to Telenor Pakistan (Private) Limited	<u>5,883</u>	<u>329</u>
Interest on deposits paid to Telenor Pakistan (Private) Limited	<u>3,849</u>	<u>-</u>
Capital received during the year	<u>-</u>	<u>1,030,408</u>
<i>Associate:</i>		
Capital received from Emerging Markets Consulting (Private) Limited	<u>-</u>	<u>36,000</u>
<i>Other related party:</i>		
Payable to International Finance Corporation (IFC) against loan arrangement	<u>310,830</u>	<u>291,930</u>
Payable to International Finance Corporation (IFC) against loan maintenance fee	<u>384</u>	<u>380</u>
Paid to International Finance Corporation (IFC) against loan maintenance fee	<u>396</u>	<u>313</u>
Interest paid to International Finance Corporation (IFC) under loan agreement	<u>16,010</u>	<u>16,640</u>
Capital received during the year:		
- Centurion (Private) Limited	<u>-</u>	<u>9,000</u>
- International Finance Corporation (IFC)	<u>-</u>	<u>6,000</u>
- Noor Muhammad Mewawala	<u>-</u>	<u>4,500</u>
- Nizar Noor Muhammad	<u>-</u>	<u>4,500</u>

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	2009			2008		
	Directors and key management personnel	Holding / Associates	Total	Directors and key management personnel	Associates	Total
	------(Rupees in '000)-----			------(Rupees in '000)-----		
<b>Advances</b>						
At 01 January	669	-	669	598	-	598
Given during the year	3,637	-	3,637	2,431	-	2,431
Repaid during the year	(2,432)	-	(2,432)	(2,360)	-	(2,360)
At 31 December	<u>1,874</u>	<u>-</u>	<u>1,874</u>	<u>669</u>	<u>-</u>	<u>669</u>
<b>Deposits</b>						
At 01 January	11,565	-	11,565	42,794	2,302	45,096
Received during the year	23,719	397,853	421,572	121,433	-	121,433
Withdrawn during the year	(29,660)	(52,038)	(81,698)	(152,662)	(2,302)	(154,964)
At 31 December	<u>5,624</u>	<u>345,815</u>	<u>351,439</u>	<u>11,565</u>	<u>-</u>	<u>11,565</u>

**Management compensation and payments to key management personnel:**

	2009	2008
	(Rupees in '000)	
Salaries and other allowances	<u>50,690</u>	<u>46,421</u>
Employee benefit plans	<u>3,019</u>	<u>2,752</u>
Mark-up - expense on term deposits	<u>4,804</u>	<u>2,864</u>

The Bank has not extended finance or other microfinance services to members of management, directors or parties related to them.

**32. REMUNERATION OF DIRECTORS AND EXECUTIVES**

	2009			2008		
	President / Chief Executive	Directors	Executives	President / Chief Executive	Directors	Executives
	------(Rupees in '000)-----			------(Rupees in '000)-----		
Fees	-	120	-	-	240	-
Managerial remuneration	13,068	-	40,432	13,068	-	29,830
Charge for defined benefit scheme	1,089	-	3,369	1,089	-	2,477
Contribution to defined contribution plan	-	-	2,192	-	-	1,192
Rent and house maintenance	3,920	-	11,936	3,920	-	8,800
Utilities	1,307	-	4,044	1,307	-	2,983
Medical	1,307	-	4,044	1,307	-	2,983
Vehicle running and conveyance	-	-	1,082	-	-	645
Others	-	-	2,325	-	-	1,502
	<u>20,691</u>	<u>120</u>	<u>69,424</u>	<u>20,691</u>	<u>240</u>	<u>50,412</u>
Number of persons	<u>1</u>	<u>7</u>	<u>31</u>	<u>1</u>	<u>6</u>	<u>20</u>

In addition to the above, the Chief Executive and Executives are provided with use of Bank's maintained car, security staff and house hold services.

**33. CASH AND CASH EQUIVALENTS**

	2009	2008
	(Rupees in '000)	
Cash in hand	90,032	40,152
Cash and bank balances with SBP and NBP	70,008	37,714
Balances with other banks / NBFIs / MFBS	<u>666,128</u>	<u>990,385</u>
	<u>826,168</u>	<u>1,068,251</u>

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### 34. YIELD / INTEREST RATE RISK

2009							
Effective yield / interest rate %	Exposed to yield / interest risk						Not exposed to yield / interest risk
	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year upto five years	Over five years	
(Rupees in '000)							
<b>On-balance sheet financial instruments</b>							
<b>Financial Assets</b>							
Cash and balances with SBP and NBP	160,040	-	-	-	-	-	160,040
Balances with other banks	5% - 13.5%	666,128	383,023	240,000	-	-	43,105
Investments	12.09% - 12.20%	56,459	-	9,730	27,452	19,277	-
Advances	18% - 29%	1,513,247	83,582	501,195	794,425	134,045	-
Other assets	-	183,133	25,355	33,238	19,377	-	105,163
		2,579,007	491,960	784,163	841,254	153,322	308,308
<b>Financial Liabilities</b>							
Deposits and other accounts	3% - 18.5%	1,267,829	136,425	342,854	209,780	8,089	570,681
Borrowings	LIBOR + 3%	232,231	232,231	-	-	-	-
Other liabilities	KIBOR + 3.65%	136,590	19,194	15,950	81,960	632	18,854
		1,636,650	387,850	358,804	291,740	8,721	589,535
<b>On-balance sheet gap</b>		<b>942,357</b>	<b>104,110</b>	<b>425,359</b>	<b>549,514</b>	<b>144,601</b>	<b>(281,227)</b>
<b>Total yield / interest risk sensitivity gap</b>			<b>104,110</b>	<b>425,359</b>	<b>549,514</b>	<b>144,601</b>	<b>-</b>
<b>Cumulative yield / interest risk sensitivity gap</b>			<b>104,110</b>	<b>529,469</b>	<b>1,078,983</b>	<b>1,223,584</b>	<b>1,223,584</b>

2008							
Effective yield / interest rate %	Exposed to yield / interest risk						Not exposed to yield / interest risk
	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year upto five years	Over five years	
(Rupees in '000)							
<b>On-balance sheet financial instruments</b>							
<b>Financial Assets</b>							
Cash and balances with SBP and NBP	-	77,866	-	-	-	-	77,866
Balances with other banks	5 - 21.5%	990,385	180,951	775,000	-	-	34,434
Investments	13.23 - 15.01%	41,812	-	14,595	9,785	17,432	-
Advances	17 - 34%	888,407	7,363	223,537	556,773	100,734	-
Other assets	-	123,972	-	-	-	-	123,972
		2,122,442	188,314	1,013,132	566,558	118,166	236,272
<b>Financial Liabilities</b>							
Deposits and other accounts	3% - 18.5%	639,525	101,524	278,096	94,583	7,093	158,229
Borrowings	LIBOR+3%	340,581	-	340,581	-	-	-
Other liabilities	KIBOR+3.5%	67,312	-	3,293	-	-	64,019
		1,047,418	101,524	621,970	94,583	7,093	222,248
<b>On-balance sheet gap</b>		<b>1,075,024</b>	<b>86,790</b>	<b>391,162</b>	<b>471,975</b>	<b>111,073</b>	<b>14,024</b>
<b>Total yield / interest risk sensitivity gap</b>			<b>86,790</b>	<b>391,162</b>	<b>471,975</b>	<b>111,073</b>	<b>-</b>
<b>Cumulative yield / interest risk sensitivity gap</b>			<b>86,790</b>	<b>477,952</b>	<b>949,927</b>	<b>1,061,000</b>	<b>1,061,000</b>

#### Liquidity risk management

Liquidity risk is the risk that the Bank will not be able to raise funds to meet its commitments. At present the Bank is not exposed to this risk as there is sufficient cash placed with various commercial banks at the year end.

#### Interest rate risk management

Interest rate risk is the risk that the value of financial instrument will fluctuate due to changes in the market interest rates. The nature of Bank's business exposes its to interest rate risk. This is mitigated to a large extent by the fact that a vast majority of the loans given by the Bank have a contractual maturity of 12 months and an average life of about 7 months. The Bank has contracted term deposits and borrowings. This has the effect of extending the liability maturity profile and providing funding stability.

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### Credit risk management

Credit risk is the risk that if one party to a financial instrument fails to discharge an obligation, it will cause the other party to incur financial loss. The Bank has drawn a comprehensive credit risk policy and has had this implemented. A credit risk department has been formed to ensure that policies are followed in letter and spirit. Furthermore, an extensive process of quality control and evaluation of the existing loan portfolio is conducted to ensure proactive management.

### Fair value measurements

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair value. Fair value is determined on the basis of objective evidence at each balance sheet date.

### 35. MATURITIES OF ASSETS AND LIABILITIES

2009

	2009					
	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year upto five years	Over five years
------(Rupees in '000)-----						
<b>Assets</b>						
Cash and balances with SBP and NBP	160,040	160,040	-	-	-	-
Balances with other banks/NBFIs / MFBs	666,128	426,128	240,000	-	-	-
Investments	56,459	-	9,730	27,452	19,277	-
Advances	1,513,247	83,582	501,195	794,425	134,045	-
Operating fixed assets	156,467	-	189	20,334	80,876	55,068
Other assets	209,792	27,690	40,187	78,958	62,957	-
Deferred tax assets	37,351	-	-	-	37,351	-
	<u>2,799,484</u>	<u>697,440</u>	<u>791,301</u>	<u>921,169</u>	<u>334,506</u>	<u>55,068</u>
<b>Liabilities</b>						
Deposits and other accounts	1,267,829	707,106	342,854	209,780	8,089	-
Borrowings	232,231	232,231	-	-	-	-
Other liabilities	174,272	58,679	24,902	90,059	632	-
	<u>1,674,332</u>	<u>998,016</u>	<u>367,756</u>	<u>299,839</u>	<u>8,721</u>	<u>-</u>
	<u>1,125,152</u>	<u>(300,576)</u>	<u>423,545</u>	<u>621,330</u>	<u>325,785</u>	<u>55,068</u>

#### Represented by :

Share capital	1,346,939
Statutory and general reserve	343,469
Accumulated losses	(616,026)
Deficit on revaluation of assets	(473)
Deferred grant	51,243
	<u>1,125,152</u>

2008

	2008					
	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year upto five years	Over five years
------(Rupees in '000)-----						
<b>Assets</b>						
Cash and balances with SBP and NBP	77,866	77,866	-	-	-	-
Balances with other banks/NBFIs / MFBs	990,385	215,385	775,000	-	-	-
Investments	41,812	-	14,595	9,785	17,432	-
Advances	888,407	7,363	223,537	556,773	100,734	-
Operating fixed assets	119,545	5,791	1,311	4,949	67,047	40,447
Other assets	139,694	32,751	16,713	7,610	3,987	78,633
Deferred tax assets	38,000	-	-	-	38,000	-
	<u>2,295,709</u>	<u>339,156</u>	<u>1,031,156</u>	<u>579,117</u>	<u>227,200</u>	<u>119,080</u>
<b>Liabilities</b>						
Deposits and other accounts	639,525	259,753	278,096	94,583	7,093	-
Borrowings	340,581	-	340,581	-	-	-
Other liabilities	69,335	51,278	721	13,792	1,907	1,637
	<u>1,049,441</u>	<u>311,031</u>	<u>619,398</u>	<u>108,375</u>	<u>9,000</u>	<u>1,637</u>
	<u>1,246,268</u>	<u>28,125</u>	<u>411,758</u>	<u>470,742</u>	<u>218,200</u>	<u>117,443</u>

#### Represented by :

Share capital	1,346,939
Statutory and general reserve	343,469
Accumulated losses	(494,047)
Deficit on revaluation of assets	(1,726)
Deferred grant	51,633
	<u>1,246,268</u>

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### 36. CURRENCY RISK

	2009			
	Assets	Liabilities and share holders' equity	Off-balance sheet items	Net foreign currency exposure
	----- (Rupees in '000)-----			
Pakistan rupee	2,799,484	2,567,253	-	232,231
United States dollar	-	232,231	-	(232,231)
	<u>2,799,484</u>	<u>2,799,484</u>	<u>-</u>	<u>-</u>
	2008			
	Assets	Liabilities and share holders' equity	Off-balance sheet items	Net foreign currency exposure
	----- (Rupees in '000)-----			
Pakistan rupee	2,295,709	2,005,128	-	290,581
United States dollar	-	290,581	-	(290,581)
	<u>2,295,709</u>	<u>2,295,709</u>	<u>-</u>	<u>-</u>

36.1 The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The table above summarises the Bank's exposure to foreign currency exchange rate at 31 December 2009. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by currency. The Bank has entered into cross currency swap arrangement for loan obtained from International Finance Corporation (IFC) to secure this position against the currency fluctuation.

### 37. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of the financial assets and financial liabilities are not significantly different from their carrying values since these are short term in nature.

### 38. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Bank makes estimates and assumptions, that affect the reported amounts of assets and liabilities within the next financial year. Critical accounting estimates and judgements are as follows:

#### 38.1 Useful life and residual value of property and equipments

The Bank estimates the useful life and the residual value of the property and equipments so as to systematically allocate the depreciable amount of property and equipment over the useful life of an asset.

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During the year, the management revised its estimate of the residual value of owned vehicles and leased vehicles. The management is of the view that the revised estimate of residual value will better reflect the inflow of economic benefits associated with the above mentioned assets. The effect of the said change has been reflected in note 12.2.3 to these financial statements.

### **38.2 Deferred tax**

In recognising deferred tax asset the management has carried out detailed review of projections of taxable profits for foreseeable future based on information considered to be most reliable in the circumstances.

### **38.3 Provision for gratuity**

The Bank has carried out actuarial valuation as at 31 December 2009 and has recognised a charge in the profit and loss account on an actuarial valuation basis. The actuarial assumptions are disclosed in note 18.

### **38.4 Provision against loans and advances**

The Bank reviews its loan portfolio to assess amount of non-performing loans and advances and provision required there against on a regular basis. While assessing this requirement various factors including the delinquency in the accounts, financial position of the borrowers and the requirements of the Prudential Regulations are considered.

The amount of provision is determined in accordance with the requirements of Prudential Regulations as explained in note 11.2.

## **39. CAPITAL MANAGEMENT**

### **39.1 The Bank's objectives when managing its capital are:**

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

The State Bank has prescribed a minimum paid up capital requirement free of losses of Rs. 500 million for all banks to be achieved by 31 December, 2008. The required minimum Capital Adequacy Ratio (CAR), on stand alone basis will remain at 15% of the risk weighted assets. As at 31 December 2009 the Bank meets its capital requirements.

The Bank's regulatory capital consists of tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings.

The Bank will continue to maintain the required regulatory capital either through its risk management strategies or by increasing the capital in line with the business and capital needs.

