



TAMEER MICRO FINANCE BANK LIMITED

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Progressive Plaza, Beaumont Road
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Tel: +9221 3565 0007
Fax: +9221 3568 1965
www.ey.com

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Tameer Micro Finance Bank Limited (the Bank) as at 31 December 2010 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, for the year then ended 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. The financial statements of the Bank for the year ended 31 December 2009 were audited by another firm of Chartered Accountants, whose report dated 24 February 2010 expressed an unqualified opinion on such financial statements.

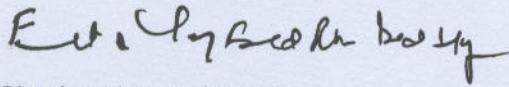
It is the responsibility of the Bank's Board of Directors to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Microfinance Institutions Ordinance, 2001 and the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said 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 Microfinance Institutions Ordinance, 2001 and 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 Microfinance Institutions Ordinance, 2001 and the Companies Ordinance, 1984 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied, except for the changes as stated in note 5.1 to the financial statements 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;

-:2:-

- (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 Microfinance Institutions Ordinance, 2001 and the Companies Ordinance, 1984 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 2010 and of the profit, its comprehensive income, 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.



Chartered Accountants

Audit Engagement Partner: Arslan Khalid

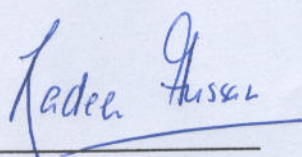
Date: 08 March 2011

Karachi

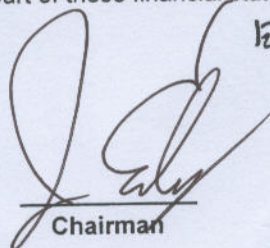
TAMEER MICRO FINANCE BANK LIMITED
BALANCE SHEET
AS AT 31 DECEMBER 2010

	Note	2010 (Rupees in '000)	2009
ASSETS			
Cash and balances with State Bank of Pakistan and National Bank of Pakistan	8	310,485	160,040
Balances with other Banks	9	926,107	666,128
Lending to financial institutions		-	-
Investments	10	177,724	56,459
Advances - net of provisions	11	3,045,537	1,513,247
Operating fixed assets	12	188,611	156,467
Other assets	13	341,431	199,317
Deferred tax asset - net	14	289,205	37,351
Total Assets		5,279,100	2,789,009
LIABILITIES			
Deposits and other accounts	15	2,954,653	1,267,829
Borrowings	16	661,608	309,939
Subordinated debt		-	-
Other liabilities	17	311,587	86,089
Deferred tax liabilities		-	-
Total Liabilities		3,927,848	1,663,857
Net Assets		1,351,252	1,125,152
REPRESENTED BY:			
Share capital	18	1,346,939	1,346,939
Reserves		405,812	343,469
Accumulated loss		(428,997)	(616,026)
		1,323,754	1,074,382
Deficit on revaluation of assets - net of tax	19	(289)	(473)
Deferred grants	20	27,787	51,243
		1,351,252	1,125,152
MEMORANDUM / OFF BALANCE SHEET ITEMS	21		


The annexed notes 1 to 40 form an integral part of these financial statements.



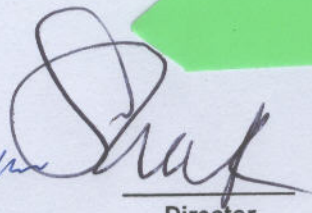
 President &
 Chief Executive Officer



 Chairman



 Director



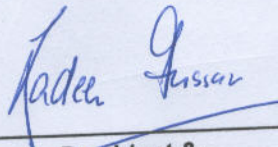
 Director

TAMEER MICRO FINANCE BANK LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2010

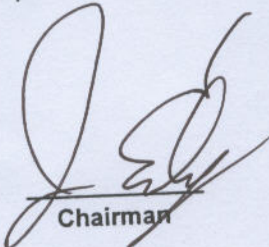
	Note	2010 (Rupees in '000)	2009
Mark-up / return / interest earned	22	753,406	439,691
Mark-up / return / interest expensed	23	<u>(181,769)</u>	<u>(88,395)</u>
Net mark-up / interest income		571,637	351,296
Provision against non-performing loans and advances	11.3	(24,864)	(9,331)
Provision for diminution in the value of investments	11.4	-	-
Bad debts written off directly - net of recoveries		(384)	-
		<u>(25,248)</u>	<u>(9,331)</u>
Net mark-up / interest income after provisions		546,389	341,965
Non mark-up / interest income			
Fee, commission and brokerage income	24	194,054	50,906
Dividend income	25	-	-
Other income		117,294	70,826
Total non mark-up / interest income		<u>311,348</u>	<u>121,732</u>
		857,737	463,697
Non mark-up / interest expenses			
Administrative expenses	26	(825,298)	(553,664)
Other provisions / write offs	27	(3,511)	(2,262)
Other charges		(21,861)	(27,207)
Total non mark-up / interest expenses		<u>(850,670)</u>	<u>(583,133)</u>
		7,067	(119,436)
Extraordinary / unusual items		<u>-</u>	<u>-</u>
		7,067	(119,436)
Profit / (loss) before taxation		7,067	(119,436)
Taxation - current	14.1	(9,647)	(2,543)
- prior years		-	-
- deferred	28	251,952	-
		<u>242,305</u>	<u>(2,543)</u>
Profit / (loss) after taxation		249,372	(121,979)
		<u>249,372</u>	<u>(121,979)</u>
			(Rupees)
Basic and diluted earnings / (loss) per share	29	<u><u>1.85</u></u>	<u><u>(0.91)</u></u>

Appropriations are reflected in the statement of changes in equity.

The annexed notes 1 to 40 form an integral part of these financial statements.



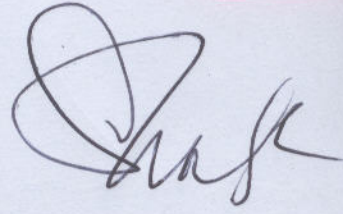
 President &
 Chief Executive Officer



 Chairman



 Director



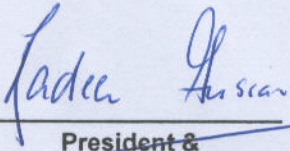
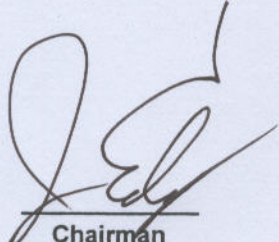
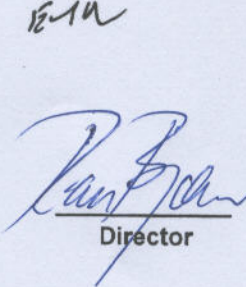
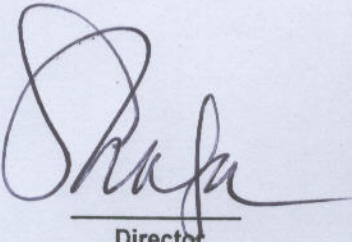
 Director

TAMEER MICRO FINANCE BANK LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	2010	2009
	(Rupees in '000)	
Net profit / (loss) for the year	249,372	(121,979)
Other comprehensive income	-	-
Total comprehensive income / (loss) for the year	249,372	(121,979)

Surplus / (deficit) on revaluation of available for sale investments is presented under a separate account below equity in accordance with the format of financial statements as prescribed under BSD Circular No. 11 dated 30 December 2003 issued by the State Bank of Pakistan (SBP).

The annexed notes 1 to 40 form an integral part of these financial statements.

 <hr style="width: 80%; margin: 0 auto;"/> <p>President & Chief Executive Officer</p>	 <hr style="width: 80%; margin: 0 auto;"/> <p>Chairman</p>	 <hr style="width: 80%; margin: 0 auto;"/> <p>Director</p>	 <hr style="width: 80%; margin: 0 auto;"/> <p>Director</p>
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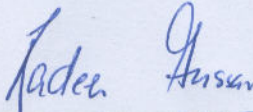
TAMEER MICRO FINANCE BANK LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

	Share capital	Capital reserves			Accumulated loss	Total
		Share premium	Statutory reserve	Depositors' Protection Fund		
(Rupees in '000)						
Balance as at 01 January 2009	1,346,939	343,469	-	-	(494,047)	1,196,361
Net loss for the year	-	-	-	-	(121,979)	(121,979)
Other comprehensive income / (loss)	-	-	-	-	-	-
Total comprehensive income / (loss) for the year	-	-	-	-	(121,979)	(121,979)
Balance as at 31 December 2009	1,346,939	343,469	-	-	(616,026)	1,074,382
Net profit for the year	-	-	-	-	249,372	249,372
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	249,372	249,372
Transfer to statutory reserve *	-	-	49,874	-	(49,874)	-
Contribution to Depositors' Protection Fund **	-	-	-	12,469	(12,469)	-
Balance as at 31 December 2010	1,346,939	343,469	49,874	12,469	(428,997)	1,323,754

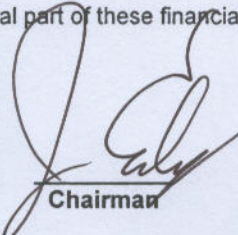
* In accordance with the requirements of the Microfinance Institution Ordinance, 2001 and the Prudential Regulations for Microfinance Banks issued by the SBP (Prudential Regulations), the Bank has transferred an amount equivalent to 20% of profit after tax to the statutory reserve.

** In accordance with the requirements of the Microfinance Institution Ordinance, 2001 and the Prudential Regulations, the Bank has transferred an amount equivalent to 5% of profit after tax to the Depositors' Protection Fund.

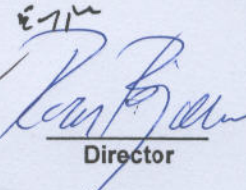
The annexed notes 1 to 40 form an integral part of these financial statements.




 President &
 Chief Executive Officer



 Chairman



 Director

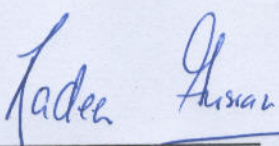


 Director

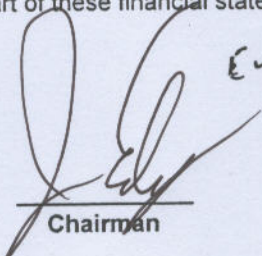
TAMEER MICRO FINANCE BANK LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 (Rupees in '000)	2009
CASH FLOW FROM OPERATING ACTIVITIES			
Profit / (loss) before taxation		7,067	(119,436)
Adjustments for non cash items			
Depreciation		43,860	34,767
Amortisation		3,582	2,341
Finance charges on leased assets		71	336
Provision against non-performing loans and advances		25,248	9,331
Provision for gratuity		11,854	6,940
Other provisions		3,511	2,262
Amortisation of discount on investments		(17,488)	(2,362)
Loss on derivative financial instrument		21,682	-
Grant income		(98,234)	(59,528)
Gain on sale of operating fixed assets		(1,639)	-
		(7,553)	(5,913)
Increase in operating assets			
Advances		(1,557,538)	(634,171)
Other assets		(150,585)	(51,797)
		(1,708,123)	(685,968)
Increase in operating liabilities			
Deposits and other accounts		1,686,824	628,304
Other liabilities		228,254	26,087
		1,915,078	654,391
Income tax paid		(2,743)	(3,001)
Gratuity paid		(12,703)	(5,028)
Net cash inflow from / (used in) operating activities		191,023	(164,955)
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in available-for-sale securities		(489,470)	(35,948)
Investments in operating fixed assets		(83,393)	(74,030)
Proceeds from redemption of available-for-sale securities		386,000	25,000
Sale proceeds from disposal of operating fixed assets		5,446	-
Net cash used in investing activities		(181,417)	(84,978)
CASH FLOW FROM FINANCING ACTIVITIES			
Issuance of share capital		-	(1,746)
Grant received		74,778	59,138
Borrowings from financial institutions		328,018	(49,542)
Payments of lease obligation		(1,978)	-
Net cash inflow from financing activities		400,818	7,850
Net increase / (decrease) in cash and cash equivalents		410,424	(242,083)
Cash and cash equivalents at beginning of the year		826,168	1,068,251
Cash and cash equivalents at end of the year	30	1,236,592	826,168

The annexed notes 1 to 40 form an integral part of these financial statements.




 President &
 Chief Executive Officer



 Chairman



 Director



 Director

**TAMEER MICRO FINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

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 obtained Microfinance banking license from the SBP on 05 August 2005 to operate on a nationwide basis and received the certificate of commencement of business from the Securities and Exchange Commission of Pakistan (SECP) on 05 September 2005. The Bank is a subsidiary of Telenor Pakistan (Private) Limited (the holding company) which owns 51% shareholding in the Bank. The Bank's registered and principal office is situated at 15-A, Block 7 & 8, KCHS, Union, Karachi. 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. In 2009, the Bank also started Branchless Banking services with the holding company under the Branchless Banking license from the SBP.

2. BASIS OF PRESENTATION

These financial statements have been prepared to comply with the format as prescribed under the BSD Circular No. 11 dated 30 December 2003 issued by the SBP.

3. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, the Microfinance Institution Ordinance, 2001 and the regulations / directives issued by the SECP and SBP. Wherever the requirements of the Companies Ordinance, 1984, the Microfinance Institution Ordinance, 2001 or the regulations / directives issued by the SECP and SBP differ with the requirements of IFRSs, the requirements of the Companies Ordinance, 1984, the Microfinance Institution Ordinance, 2001 or the requirements of the said regulations / directives shall prevail.

4. BASIS OF MEASUREMENT

- 4.1 These financial statements have been prepared under historical cost convention except for derivative financial instruments and available for sale investments which are measured at fair value.
- 4.2 These financial statements have been presented in Pakistani Rupee, which is the Bank's functional and presentation currency.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- 5.1 The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as follows:

The Bank has adopted the following new and amended IFRSs and related interpretations and improvements which became effective during the year:

IFRS 2 - Share based Payments: Amendments relating to Group Cash-settled Share based Payment Transactions

IFRS 3 - Business Combinations (Revised)

IAS 27 - Consolidated and Separate Financial Statements (Amendment)

IAS 39 - Financial Instruments: Recognition and Measurement - Eligible hedged items (Amendment)

IFRIC 17 - Distributions of Non-cash Assets to owners

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In May 2008 and April 2009, the IASB issued amendments to various standards primarily with a view to removing inconsistencies and clarifying wording. These improvements are listed below:

Issued in May 2008

IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations

Issued in April 2009

IFRS 2 – Share-based Payments

IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations

IFRS 8 – Operating Segments

IAS 1 – Presentation of Financial Statements

IAS 7 – Statement of Cash Flows

IAS 17 – Leases

IAS 36 – Impairment of Assets

IAS 38 – Intangible Assets

IAS 39 – Financial Instruments: Recognition and Measurement

IFRIC 9 – Reassessment of Embedded Derivatives

IFRIC 16 – Hedges of a Net Investment in a Foreign Operation

The adaptation of the above standards, amendments / improvements and interpretations did not have any material effect on these financial statements.

5.2 Cash and cash equivalents

These include cash in hand, balances with the SBP and NBP and balances with other banks.

5.3 Sale of securities under repurchase obligation

Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the balance sheet and are measured in accordance with accounting policies for investments. Amounts received under these agreements are recorded as repurchase agreement borrowings. The difference between sale and repurchase price is amortised as expense over the term of the repo agreement.

5.4 Investments

The investments of the Bank, upon initial recognition, are classified as held for trading, held to maturity or available-for-sale investment, as appropriate.

All investments, are initially measured at fair value plus 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 regular way purchases / sales of investments are recognised on the trade date, i.e. the date on which the Bank commits to purchase / sell the investment. Regular way purchases / sales of investments require delivery of securities within two days after transaction date as per the stock exchange regulations.

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. After initial measurement, such investments are carried at fair value and the surplus / (deficit) arising as a result of revaluation at market value on held for trading portfolio is taken to profit and loss account.

Held-to-maturity

These are securities with fixed or determinable payments and fixed maturities which the Bank has the intention and ability to hold till maturity. After initial measurement, such investments are carried at amortised cost.

Available-for-sale

These are investments which do not fall under the held for trading and held to maturity categories. After initial measurement, such investments are measured at fair value. The surplus / (deficit) arising on revaluation 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.

Premium or discount on securities classified as available-for-sale and held-to-maturity is amortised using effective interest method and taken to the profit and loss account.

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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 Regulations.

5.5 Advances

Advances are stated net of specific and general provisions which are determined on the basis of the Prudential Regulations. Advances are written off according to the Prudential Regulations or when there is no realistic prospect of recovery.

5.6 Derivative financial instruments

These 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.

5.7 Financial instruments

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 ownership of the asset. Financial liabilities are de-recognised when obligation is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liability is recognised in the profit and loss account of the current period.

5.8 Off setting

Financial assets and financial liabilities are only off-set and the net amount is reported in the financial statements when there is a legally enforceable right to set-off the recognised amount and the Bank intends either to settle on a net basis, or to realize the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also off-set and the net amount is reported in the financial statements.

5.9 Operating fixed assets

Tangible operating assets - owned

These are stated at cost less accumulated depreciation and impairment losses (if any). Depreciation is charged to income using the straight-line basis over the estimated useful lives of assets. 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 methods and useful lives are reviewed and adjusted (if appropriate) at each 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. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Tangible operating assets - leased

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 is charged on the basis similar to owned assets.

Capital work in progress

These are stated at cost less impairment loss (if any).

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.

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Impairment

The carrying value of the fixed assets is 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 recognised in profit and loss account whenever the carrying amount of an asset exceeds its recoverable amount. An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

5.10 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.

5.11 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, in which case it is recognised in equity.

Current

Provision for current taxation (if any) is based on the taxable income for the year determined in accordance with the Income Tax Ordinance, 2001. The charge for tax also includes adjustments, where considered necessary relating to prior years.

Deferred

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax asset is recognised only to the extent it is probable that future taxable profits will be available against which the asset can be realised. 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.

5.12 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.

5.13 Revenue recognition

Mark-up / interest / return on advances and investments is recognised on accrual basis, except in case of advances classified under the Prudential Regulations on which mark-up is recognised on receipt basis.

Return on bank balances is recognised on accrual basis.

Gain or loss on sale of securities is accounted for in the period in which the sales / settlement occur.

Fee, commission and brokerage income is recognised as services are performed.

5.14 Foreign currency transactions

Foreign currency transactions are translated into Pak Rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into rupees at the exchange rates prevailing at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using exchange rates at the date when the fair value was determined. Exchange gains or losses are included in income currently.

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5.15 Grant

The grant related to an asset is recognised in the balance sheet initially as deferred income when there is reasonable certainty 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 on a systematic basis over the useful life of the asset.

5.16 Dividend distribution

Declaration of dividend to holders of the equity instruments of the Bank is recognised as liability in the period in which it is declared.

6. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE

The following revised standards, amendments and interpretations with respect to approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

Standard or interpretation	Effective date (accounting periods beginning on or after)
IAS 32 - Financial Instruments: Presentation - Classification of Right Issues (Amendment)	01 February 2010
IAS 24 - Related Party Disclosures (Revised)	01 January 2011
IAS 12 - Income Taxes: Deferred Tax Amendment - Recognition of Underlying Assets	01 January 2012
IFRIC 14 - IAS 19 - The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction (Amendments)	01 January 2011
IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments	01 July 2010

The Bank expects that the adoption of the above revisions, amendments and interpretations of the standards will not materially affect the Bank's financial statements in the period of initial application.

In addition to the above, amendments to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after 01 January 2011. The Bank expects that such improvements to the standards will not have any material impact on the Bank's financial statements in the period of initial application.

7. ACCOUNTING JUDGMENTS AND ESTIMATES

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. The estimates and judgments that have a significant effect on the financial statements are in respect of the following:

	Note
Classification and valuation of investments	5.4 & 10
Provision against non-performing advances	5.5 & 11
Useful lives of assets and methods of depreciation	5.9 & 12
Current and deferred taxation	5.11 & 14
Defined benefit plan	5.12 & 33

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	Note	2010	2009
(Rupees in '000)			
8. CASH AND BALANCES WITH STATE BANK OF PAKISTAN (SBP) AND NATIONAL BANK OF PAKISTAN (NBP)			
Cash in hand		139,980	90,032
Balance with SBP		121,651	35,697
Balance with NBP		48,854	34,311
	8.1	170,505	70,008
		<u>310,485</u>	<u>160,040</u>

8.1 Represent current accounts maintained with SBP and NBP to meet the minimum balance requirement equivalent to 5% as cash reserve and 10% as liquidity reserve of the Bank's time and demand liabilities in accordance with the Prudential Regulations.

9. BALANCES WITH OTHER BANKS

In Pakistan

- Current accounts		32,825	43,105
- PLS deposit accounts	9.1	213,282	143,023
- Term deposit accounts	9.2	680,000	480,000
		<u>926,107</u>	<u>666,128</u>

9.1 Represent demand deposits with commercial banks carrying mark-up ranging from 5% to 12% (2009: 5% to 12%) per annum.

9.2 Represent term deposits with commercial banks carrying mark-up ranging from 12.5% to 13% (2009: 11.1% to 13.05%) per annum, having maturities upto January 2011.

10. INVESTMENTS

Federal Government Securities - available-for-sale

Pakistan Investment Bonds (PIBs)	10.1	19,983	19,936
Market Treasury Bills (MTBs)	10.2	158,186	37,250
		<u>178,169</u>	<u>57,186</u>
Deficit on revaluation of assets	19	(445)	(727)
		<u>177,724</u>	<u>56,459</u>

10.1 PIBs carry interest rates ranging between 9.42% to 9.68% (2009: 9.42% to 9.68%) per annum and will mature by May 2011. These securities have an aggregate face value of Rs. 20 million (2009: Rs. 20 million).

10.2 MTBs carry interest rates ranging between 11.78% to 12.32% (2009: 9.76% to 12.03%) per annum and will mature by March 2011. These securities have an aggregate face value of Rs. 160 million (2009: Rs. 40 million).

11. ADVANCES - net of provisions

	Note	2010		2009	
		Number of loans	(Rupees in '000)	Number of loans	(Rupees in '000)
Micro credit					
- Secured		37,076	2,222,339	17,259	764,606
- Unsecured		74,077	873,705	53,412	775,235
		<u>111,153</u>	<u>3,096,044</u>	<u>70,671</u>	<u>1,539,841</u>
Less: Provision held					
- Specific	11.1	1,144	(4,129)	502	(3,550)
- General	11.2	-	(46,378)	-	(23,044)
	11.3		(50,507)		(26,594)
			<u>3,045,537</u>		<u>1,513,247</u>

11.1 Particulars of non-performing advances

Advances include Rs. 14.613 million (2009: Rs. 18.412 million) which have been placed under non-performing status as detailed below:

	2010			2009		
	Amount outstanding	Provision required	Provision held	Amount outstanding	Provision required	Provision held
	(Rupees in '000)			(Rupees in '000)		
OAEM	6,194	-	-	10,611	-	-
Substandard	2,135	498	498	2,977	744	744
Doubtful	4,768	2,191	2,191	4,037	2,019	2,019
Loss	1,516	1,440	1,440	787	787	787
	<u>14,613</u>	<u>4,129</u>	<u>4,129</u>	<u>18,412</u>	<u>3,550</u>	<u>3,550</u>

11.2 General provision has been determined at the rate of 1.5% of advances net of specific provision in accordance with the requirements of the Prudential Regulations.

11.3 Particulars of provision against non-performing advances

Note	2010			2009		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)			(Rupees in '000)		
Opening balance	3,550	23,044	26,594	5,002	13,443	18,445
Charge for the year	14,564	23,334	37,898	19,091	9,601	28,692
Reversals	(13,034)	-	(13,034)	(19,361)	-	(19,361)
	1,530	23,334	24,864	(270)	9,601	9,331
Amount written off	(951)	-	(951)	(1,182)	-	(1,182)
Closing balance	<u>4,129</u>	<u>46,378</u>	<u>50,507</u>	<u>3,550</u>	<u>23,044</u>	<u>26,594</u>

11.4 Particulars of write offs

	Note	2010	2009
		(Rupees in '000)	
Against provisions		951	1,182
Directly charged to profit and loss account - net of recoveries		384	-
		<u>1,335</u>	<u>1,182</u>

12. OPERATING FIXED ASSETS

	Note	2010	2009
		(Rupees in '000)	
Capital work-in-progress	12.1	7,690	11,616
Property and equipment	12.2	170,155	140,417
Intangible assets	12.3	10,766	4,434
		<u>188,611</u>	<u>156,467</u>

12.1 Capital work-in-progress

	Note	2010	2009
		(Rupees in '000)	
Civil works		-	4,302
Advance against purchase of fixed assets		7,690	7,314
		<u>7,690</u>	<u>11,616</u>

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12.2 Property and equipment

	2010							Rate of depreciation per annum (%)
	Cost			Depreciation		Book value		
	As at 01 January 2010	Additions / (deletions) / transfers *	As at 31 December 2010	As at 01 January 2010	Charge / (deletions) / transfers *	As at 31 December 2010	As at 31 December 2010	
	(Rupees in '000)							
Owned								
Leasehold improvement	23,446	8,410	31,856	4,939	2,914	7,853	24,003	10
Office furniture and fixtures	46,766	12,497	59,263	10,184	5,827	16,011	43,252	10
Office equipment	47,204	15,526	62,583	19,374	10,966	30,325	32,258	20
Computer equipment	63,731	14,035	77,275	40,646	15,559	55,714	21,561	33
Vehicles	46,814	26,937	74,431	14,849	7,952	25,350	49,081	20
		(6,544)			(2,869)			
		7,224 *			5,418 *			
	227,961	77,405	305,408	89,992	43,218	135,253	170,155	
		(7,182)			(3,375)			
		7,224 *			5,418 *			
Leased								
Vehicles	7,224	-	-	4,776	642	-	-	20
		(7,224) *			(5,418) *			
	235,185	77,405	305,408	94,768	43,860	135,253	170,155	
		(7,182)			(3,375)			

	2009							Rate of depreciation per annum (%)
	Cost			Depreciation		Book value		
	As at 01 January 2009	Additions	As at 31 December 2009	As at 01 January 2009	Charge	As at 31 December 2009	As at 31 December 2009	
	(Rupees in '000)							
Owned								
Leasehold improvement	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 equipment	35,125	12,079	47,204	11,298	8,076	19,374	27,830	20
Computer equipment	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
	166,675	61,286	227,961	55,995	33,997	89,992	137,969	
Leased								
Vehicles	7,224	-	7,224	4,006	770	4,776	2,448	20
	173,899	61,286	235,185	60,001	34,767	94,768	140,417	

12.2.1 Property and equipment include assets amounting to Rs. 0.86 million (2009: Rs.12.775 million) received against grant during the year.

12.2.2 Property and equipment include assets costing Rs. 35.391 million (2009: Rs. 19.195 million) which are fully depreciated and still in use.

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12.2.3 Deletions of fixed assets during the year with original cost or book value in excess of Rs. 1,000,000/- or 250,000/- respectively (whichever is less).

Particulars	Cost	Accumulated	Written	Sale	Mode of disposal	Particulars of buyers
		depreciation	down value	proceeds		
-----Rupees in '000-----						
Suzuki Roma	470	132	338	292	Auction	Islam Sarwar, Karachi
Suzuki Roma	470	132	338	275	Auction	Abdul Jabbar, Karachi
Suzuki Roma	470	132	338	229	Auction	Islam Sarwar, Karachi
Suzuki Bolan	477	147	330	434	Auction	Murtaza Abbas, Khairpur
Toyota Corolla	1,100	556	544	876	Auction	Muhammad Anjum, Karachi
Toyota Corolla	1,100	556	544	915	Auction	Irfan Khan, Lahore
Suzuki Alto	637	136	501	564	Insurance claim	Adamjee Insurance Company Limited
	4,724	1,791	2,933	3,585		

12.3 Intangible assets

	2010							
	Cost		Amortisation		Book value		Rate of	
	As at 01 January 2010	Additions	As at 31 December 2010	As at 01 January 2010	Charge for the year	As at 31 December 2010	As at 31 December 2010	amortisation per annum (%)
	----- (Rupees in '000) -----							
Computer software	18,767	9,914	28,681	14,333	3,582	17,915	10,766	33

	2009							
	Cost		Amortisation		Book value		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	As at 31 December 2009	amortisation per annum (%)
	----- (Rupees in '000) -----							
Computer software	14,146	4,621	18,767	11,992	2,341	14,333	4,434	33

12.3.1 Intangible assets include software amounting to Rs. 5.311 million (2009: Rs. 4.382 million) received against grant during the year.

12.3.2 Intangible assets include software costing Rs. 13.312 million (2009: Rs. 12.793 million) which are fully amortised and still in use.

13. OTHER ASSETS

	Note	2010 (Rupees in '000)	2009
Mark-up / return / interest accrued		217,264	77,970
Advances to staff and executives		12,505	9,117
Security deposits		4,052	4,134
Prepayments - rent		19,508	16,088
- others		3,514	575
Fair value of derivative financial instrument	13.1	59,831	75,099
Taxation - (payments less provisions)		849	7,753
Branchless banking transaction fee receivable		17,305	800
Others		6,603	7,781
		341,431	199,317

13.1 Represents fair value of interest rate cross currency swap agreement with a commercial bank. The Bank has entered into the agreement to mitigate the exchange rate and interest rate risk associated with the borrowing from IFC (as disclosed in note 16.2). Under the agreement, the Bank has swapped all future USD cash flows related to the loan with PKR cash flows at a fixed foreign currency exchange rate. Further, the Bank will receive bi-annual interest payable to IFC at the relevant LIBOR plus 3% per annum against which the Bank will pay interest equal to the relevant KIBOR plus 3.65% per annum. This swap arrangement will expire on 15 January 2012.

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Note	2010	2009
	(Rupees in '000)	

14. DEFERRED TAX ASSET - net**Deductible temporary differences arising in respect of:**

Provision against non-performing loans and advances		17,678	2,763
Deferred grant		9,725	7,532
Deficit on revaluation of assets		156	254
Carry forward tax losses	14.2	293,905	35,673
Unrealised loss on derivative financial instrument		-	657
		<u>321,464</u>	<u>46,879</u>

Taxable temporary differences arising in respect of:

Accelerated depreciation allowance		(11,167)	(9,528)
Unrealised gain on derivative financial instrument		(21,092)	-
		<u>(32,259)</u>	<u>(9,528)</u>
		<u>289,205</u>	<u>37,351</u>

14.1 Reconciliation of deferred tax

	Balance as at 01 January 2009	Recognised in profit and loss account	Recognised in deficit on revaluation of assets	Balance as at 31 December 2009	Recognised in profit and loss account	Recognised in deficit on revaluation of assets	Balance as at 31 December 2010
	(Rupees in '000)						
Deductible temporary differences arising in respect of:							
Provision against non-performing loans and advances	2,763	-	-	2,763	14,915	-	17,678
Deferred grant	7,532	-	-	7,532	2,193	-	9,725
Deficit on revaluation of assets	903	-	(649)	254	-	(98)	156
Carry forward tax losses	35,673	-	-	35,673	258,232	-	293,905
Unrealised loss on derivative financial instrument	657	-	-	657	(657)	-	-
	<u>47,528</u>	<u>-</u>	<u>(649)</u>	<u>46,879</u>	<u>274,683</u>	<u>(98)</u>	<u>321,464</u>
Taxable temporary differences arising in respect of:							
Accelerated depreciation allowance	(9,528)	-	-	(9,528)	(1,639)	-	(11,167)
Unrealised gain on derivative financial instrument	-	-	-	-	(21,092)	-	(21,092)
	<u>(9,528)</u>	<u>-</u>	<u>-</u>	<u>(9,528)</u>	<u>(22,731)</u>	<u>-</u>	<u>(32,259)</u>
	<u>38,000</u>	<u>-</u>	<u>(649)</u>	<u>37,351</u>	<u>251,952</u>	<u>(98)</u>	<u>289,205</u>

14.2 As at the balance sheet date, the Bank has accumulated tax losses of Rs. 839.728 million (2009: Rs. 769.818 million).

14.3 The management, based on financial projections prepared during the year, estimates that sufficient taxable profits would be available in future against which the above deferred tax asset could be realised.

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15. DEPOSITS AND OTHER ACCOUNTS

	2010		2009	
	Number	(Rupees in '000)	Number	(Rupees in '000)
Current deposits	223,596	1,150,329	118,350	570,681
Fixed deposits	3,131	1,672,524	2,960	651,665
Saving deposits	1,907	131,800	1,228	45,483
	<u>228,634</u>	<u>2,954,653</u>	<u>122,538</u>	<u>1,267,829</u>

15.1 Include deposits from related parties amounting to Rs. 414.563 million (2009: Rs. 351.439 million).

15.2 Particulars of deposits by ownership

	2010		2009	
	Number	(Rupees in '000)	Number	(Rupees in '000)
Individual depositors	228,448	1,616,085	122,379	629,360
Institutional depositors				
- Corporations / firms etc	177	1,308,477	149	590,022
- Banks / financial institutions	9	30,091	10	48,447
	<u>228,634</u>	<u>2,954,653</u>	<u>122,538</u>	<u>1,267,829</u>

Note
2010
2009
(Rupees in '000)

16. BORROWINGS

Banks / financial institutions outside Pakistan	236,608	309,939
Banks / financial Institutions inside Pakistan	425,000	-
	<u>661,608</u>	<u>309,939</u>

16.1 Detail of borrowings

Unsecured

International Finance Corporation (IFC)	16.2	237,041	310,830
Unamortised transaction cost		(433)	(891)
		<u>236,608</u>	<u>309,939</u>
Microfinance Credit Guarantee Facility (MCGF)	16.3	225,000	-
Call borrowings	16.4	200,000	-
		<u>661,608</u>	<u>309,939</u>

16.2 Represents outstanding balance of the loan of USD 3,700,000 from IFC to provide medium term funding to support the growth of the Bank's micro finance portfolio. The loan is repayable in 5 years in 4 equal semi annual installments of USD 0.925 million starting from 15 July 2010 to 15 January 2012. The loan carries interest at LIBOR plus 3% payable semi annually (refer note 13.1).

16.3 The Bank has obtained financing from commercial banks under the MCGF scheme introduced by the SBP to facilitate and promote channelization of funds from banks / DFIs to Microfinance institutions. These carry mark-up rates ranging from KIBOR plus 2% to KIBOR plus 3% and are repayable in fixed installments over a period of 5 years.

16.4 These carry mark-up rates ranging from 13.3% to 15% per annum, having maturities upto February 2011.

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	Note	2010 (Rupees in '000)	2009
17. OTHER LIABILITIES			
Mark-up / return / interest payable	17.1	57,679	27,613
Accrued expenses	17.2	31,007	30,369
Payable to the holding company		157,119	4,282
Withholding tax payable		8,383	3,992
Liabilities against assets subject to finance lease		-	1,907
Payable to defined contribution plan		2,547	1,030
Payable to defined benefit plan	33.3	-	849
Payable to Workers' Welfare Fund		144	-
Payable against branchless banking transactions		44,591	7,542
Others		10,117	8,505
		<u>311,587</u>	<u>86,089</u>

17.1 Include Rs. 2.575 million (2009: Rs. 2.105 million) payable to the related parties.

17.2 Include Rs. 0.746 million (2009: Rs. 0.575 million) payable to the holding company.

18. SHARE CAPITAL

Authorised share capital	Note	2010	2009
(Number of shares in '000)		(Rupees in '000)	
<u>270,000</u> <u>270,000</u> Ordinary shares of Rs. 10 each		<u>2,700,000</u>	<u>2,700,000</u>
Issued, subscribed and paid-up capital			
(Number of shares in '000)			
<u>134,694</u> <u>134,694</u> Ordinary shares of Rs. 10 each fully paid in cash		<u>1,346,939</u>	<u>1,346,939</u>

19. DEFICIT ON REVALUATION OF ASSETS - net of tax

Available for sale investments			
Federal Government Securities		445	727
Related deferred tax		(156)	(254)
		<u>289</u>	<u>473</u>

20. DEFERRED GRANTS

Grant received from

State Bank of Pakistan	20.1	77,192	39,372
Consultative group to assist the poor	20.2	46,304	62,232
Soros Economic Development Fund	20.3	1,335	3,831
The Aga Khan Agency for Microfinance	20.4	971	2,142
Financial Sector Strengthening Programme	20.5	219	3,194
		<u>126,021</u>	<u>110,771</u>

Grant income recognised during the year

State Bank of Pakistan		(69,929)	(11,380)
Consultative group to assist the poor		(26,324)	(41,506)
Soros Economic Development Fund		(1,156)	(2,496)
The Aga Khan Agency for Microfinance		(825)	(1,171)
Financial Sector Strengthening Programme		-	(2,975)
	25	<u>(98,234)</u>	<u>(59,528)</u>
		<u>27,787</u>	<u>51,243</u>

- 20.1** Represents USD grant received from SBP under the Institutional Strengthening Fund (ISF) of the Financial Inclusion Program (FIP), sponsored by Department of International Development - UK for the inclusive economic growth and improved livelihood opportunities for poor and marginalized groups in Pakistan and improved access to financial services for these groups.
- 20.2** Represents USD grant received from International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA) for Consultative Group to Assist Poor (CGAP) to assist the Bank in achieving its growth goals for financial services to 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.
- 20.3** Represents USD grant 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.
- 20.4** Represents USD grant received from Aga Khan Agency for Microfinance (AKAM) to provide finance for life insurance of the depositors.
- 20.5** Represents USD grant received from Swiss Agency For Development and Corporation (SDC) under the Financial Sector Strengthening program (FSSP) to provide technical and financial support for development of various banking softwares and installing equipment of the Bank.

21. MEMORANDUM / OFF-BALANCE SHEET ITEMS	Note	2010	2009
		(Rupees in '000)	
Commitments for capital expenditure		-	7,562
22. MARK-UP / RETURN / INTEREST EARNED			
On loans and advances		694,151	347,393
On available for sale investments		17,488	4,128
On deposits with financial institutions		41,767	88,170
		<u>753,406</u>	<u>439,691</u>
23. MARK-UP / RETURN / INTEREST EXPENSED			
On deposits		148,175	74,060
On borrowings		33,594	14,335
		<u>181,769</u>	<u>88,395</u>
24. FEE, COMMISSION AND BROKERAGE INCOME			
Loan processing fee		97,147	48,693
Income from branchless banking	24.1	95,898	2,213
Others		1,009	-
		<u>194,054</u>	<u>50,906</u>
24.1 Represents income from branchless banking operations (Easy Paisa) carried out by the Bank together with the holding company under the SBP's Branchless Banking Regulations. As per the agreement with the holding company, income (net of agents' commission) from Easy Paisa is shared between the Bank and the holding company in the ratio of 25% and 75% respectively.			
25. OTHER INCOME			
Grant income	20	98,234	59,528
Cheque book fees, ATM fees and other service charges		17,421	11,298
Gain on sale of operating fixed assets		1,639	-
		<u>117,294</u>	<u>70,826</u>

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26. ADMINISTRATIVE EXPENSES	Note	2010 (Rupees in '000)	2009
Salaries and other allowances		429,281	305,147
Contribution to defined contribution plan		12,420	6,598
Charge for defined benefit plan	33.8	11,854	6,940
Staff welfare		7,528	3,932
Training and capacity building		662	5,395
Rent and taxes		37,470	28,294
Legal and professional charges		2,764	1,413
Utilities		14,265	10,268
Communication		32,201	22,462
Finance charges on leased assets		71	336
Travelling and conveyance		26,932	12,186
Insurance		25,998	17,110
Printing and stationery		19,831	10,894
Repairs and maintenance		32,140	24,428
Depreciation	12.2	43,860	34,767
Amortisation	12.3	3,582	2,341
Auditors' remuneration	26.1	1,158	1,891
Advertisement		22,179	8,340
Agents commission on Easy Paisa	24.1	44,952	785
Security services		13,642	9,690
Customer verification charges		19,397	5,618
Professional consultancy charges		14,499	24,026
Membership fee		-	168
Donations		15	-
Bank charges		4,586	1,724
Other expenses		4,011	8,911
		<u>825,298</u>	<u>553,664</u>
26.1 Auditors' remuneration			
Audit fee		1,000	800
Fee for special certifications and advisory services		-	200
Tax services		-	500
Out-of-pocket expenses		158	391
		<u>1,158</u>	<u>1,891</u>
27. OTHER CHARGES			
Net loss on derivative financial instrument	13.1	21,682	27,207
Penalty imposed by SBP		35	-
Workers' Welfare Fund		144	-
		<u>21,861</u>	<u>27,207</u>
28. TAXATION			
Current	28.1	(9,647)	(2,543)
Prior years		-	-
Deferred	14.1	251,952	-
		<u>242,305</u>	<u>(2,543)</u>

28.1 The income of the Bank is exempt from tax under clause 66 (XVIII) of Part 1 of the Second Schedule of the Income Tax Ordinance, 2001, for a period of five years starting from first day of July 2007, subject to the condition that the Bank shall not distribute its profit to its shareholders and that profits are utilised for microfinance operations only. The charge for current tax represents minimum tax in accordance with section 113 of the Income Tax Ordinance, 2001.

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	Note	2010	2009
29. BASIC AND DILUTED EARNINGS / (LOSS) PER SHARE			
Profit / (loss) for the year (Rupees in '000)		<u>249,372</u>	<u>(121,979)</u>
Weighted average ordinary shares (Numbers in '000)		<u>134,694</u>	<u>134,694</u>
Basic and diluted earnings / (loss) per share (Rupees)		<u>1.85</u>	<u>(0.91)</u>
		2010	2009
		(Rupees in '000)	
30. CASH AND CASH EQUIVALENTS			
Cash and balances with SBP and NBP	8	310,485	160,040
Balances with other Banks	9	<u>926,107</u>	<u>666,128</u>
		<u>1,236,592</u>	<u>826,168</u>

31. NUMBER OF EMPLOYEES

	2010			2009		
	Credit / sales staff	Banking / support staff	Total	Credit / sales staff	Banking / support staff	Total
	----- (Numbers) -----			----- (Numbers) -----		
Permanent	252	219	471	194	180	374
Temporary / on contractual basis	272	43	315	350	67	417
	<u>524</u>	<u>262</u>	<u>786</u>	<u>544</u>	<u>247</u>	<u>791</u>

32. NUMBER OF BRANCHES

	2010	2009
	(Numbers)	
As at 01 January	39	29
Opened during the year	<u>1</u>	<u>10</u>
As at 31 December	<u>40</u>	<u>39</u>

33. DEFINED BENEFIT PLAN**33.1 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.

33.2 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, 2010. Following are the significant assumptions used in the valuation:

	2010	2009
	(% per annum)	
- Discount rate		
- Salary increase rate	14	14
- Expected rate of return on plan assets	14	14
	14	14

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	2010	2009			
	(Rupees in '000)				
33.3 Movement in defined benefit plan					
Opening balance	849	(1,063)			
Charge for the year	11,854	6,940			
Contributions to the fund	(12,703)	(5,028)			
Closing balance	-	849			
33.4 Reconciliation of defined benefit plan					
Present value of defined benefit obligations	45,575	23,901			
Fair value of plan assets	(40,173)	(22,770)			
Unrecognised actuarial loss	(5,402)	(282)			
	-	849			
33.5 Movement in present value of defined benefit obligations					
Opening balance	23,901	18,422			
Current service cost	10,191	6,213			
Interest cost	4,851	2,763			
Actuarial loss / (gain) on obligation	7,427	(3,049)			
Benefits paid	(795)	(448)			
Closing balance	45,575	23,901			
33.6 Movement in fair value of plan assets					
Opening balance	22,770	15,029			
Contributions to the fund	12,703	5,028			
Benefits paid	(795)	(448)			
Expected return on plan assets	3,188	2,254			
Actuarial gain on plan assets	2,307	907			
Closing balance	40,173	22,770			
33.7 Movement in unrecognised actuarial loss					
Opening balance	(282)	(4,456)			
Amount recognised during the year	(7,427)	3,049			
Actuarial gain during the year	2,307	907			
Actuarial loss recognised	-	218			
Closing balance	(5,402)	(282)			
33.8 Charge for defined benefit plan					
Current service cost	10,191	6,213			
Interest cost	4,851	2,763			
Expected return on plan assets	(3,188)	(2,254)			
Actuarial loss during the year	-	218			
	11,854	6,940			
33.9 Actual return on plan assets	5,495	3,161			
33.10 Plan assets consist of					
Bank balances	40,173	6,032			
Term Finance Certificates	-	16,738			
	40,173	22,770			
33.11 Historical information					
	2010	2009	2008	2007	2006
	----- (Rupees in '000) -----				
Present value of defined benefit obligations	45,575	23,901	18,422	9,917	5,100
Fair value of plan assets	(40,173)	(22,770)	(15,029)	(10,949)	(5,805)
Deficit / (surplus)	5,402	1,131	3,393	(1,032)	(705)

33.12 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 plan for the year ending 31 December 2011 would be Rs. 13.876 million.

34. REMUNERATION OF DIRECTORS AND EXECUTIVES

	2010			2009		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
	(Rupees in '000)			(Rupees in '000)		
Fees	-	30	-	-	120	-
Managerial remuneration	18,007	-	60,932	13,068	-	40,432
Charge for defined benefit plan	1,117	-	4,626	1,089	-	3,369
Contribution to defined contribution plan	915	-	4,925	-	-	2,192
Rent and house maintenance	5,402	-	18,125	3,920	-	11,936
Utilities	1,801	-	6,093	1,307	-	4,044
Medical	1,801	-	6,093	1,307	-	4,044
Conveyance	-	-	1,883	-	-	1,082
Others	-	-	2,062	-	-	2,325
	<u>29,043</u>	<u>30</u>	<u>104,739</u>	<u>20,691</u>	<u>120</u>	<u>69,424</u>
Number of persons	<u>1</u>	<u>5</u>	<u>40</u>	<u>1</u>	<u>7</u>	<u>31</u>

34.1 In addition to the above, the Chief Executive and certain executives are provided with use of Company maintained car, security staff and house hold services.

35. RELATED PARTY TRANSACTIONS

Related parties of the Bank comprise of subsidiaries, associates (including entities having directors in common with the Bank), retirement benefit funds, major share holders, directors and key management personnel and their close family members.

Balances with related parties have been disclosed in respective notes. Transactions with related parties, other than those disclosed elsewhere in the financial statements, are summarised as follows:

	2010				2009			
	Holding company	Directors and key management personnel	Others	Total	Holding company	Directors and key management personnel	Others	Total
	(Rupees in '000)				(Rupees in '000)			
Advances								
At 01 January	-	1,874	-	1,874	-	669	-	669
Given during the year	-	3,818	-	3,818	-	3,637	-	3,637
Repaid during the year	-	(2,953)	-	(2,953)	-	(2,432)	-	(2,432)
At 31 December	-	<u>2,739</u>	-	<u>2,739</u>	-	<u>1,874</u>	-	<u>1,874</u>
Deposits								
At 01 January	345,815	1,103	4,521	351,439	-	5,997	5,568	11,565
Received during the year	477,716	15,110	23,307	516,133	397,853	6,437	17,282	421,572
Withdrawn during the year	(424,887)	(9,304)	(18,818)	(453,009)	(52,038)	(11,331)	(18,329)	(81,698)
At 31 December	<u>398,644</u>	<u>6,909</u>	<u>9,010</u>	<u>414,563</u>	<u>345,815</u>	<u>1,103</u>	<u>4,521</u>	<u>351,439</u>
Mark-up expensed	14,461	348	996	15,805	1,715	200	1,144	3,059
Communication expenses	4,166	-	-	4,166	5,742	-	-	5,742

Sum

36. MATURITIES OF ASSETS AND LIABILITIES

	2010				
	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
	(Rupees in '000)				
Market rate assets					
Balances with other Banks	893,282	893,282	-	-	-
Investments	177,724	49,772	127,952	-	-
Advances	3,045,537	219,616	1,195,718	1,455,248	174,955
Total market rate assets	4,116,543	1,162,670	1,323,670	1,455,248	174,955
Other non-earning assets					
Cash and balances with SBP and NBP	310,485	310,485	-	-	-
Balances with other Banks	32,825	32,825	-	-	-
Operating fixed assets	188,611	-	-	7,690	180,921
Other assets	341,431	55,596	86,052	163,306	36,477
Deferred tax assets	289,205	-	-	-	289,205
Total non-earning assets	1,162,557	398,906	86,052	170,996	506,603
Total assets	5,279,100	1,561,576	1,409,722	1,626,244	681,558
Market rate liabilities					
Deposits and other accounts	1,804,324	193,178	672,410	938,736	-
Borrowings	661,608	253,869	41,667	170,536	195,536
Total market rate liabilities	2,465,932	447,047	714,077	1,109,272	195,536
Other non-cost bearing liabilities					
Deposits and other accounts	1,150,329	1,150,329	-	-	-
Other liabilities	311,587	100,417	21,495	189,675	-
Total non-cost bearing liabilities	1,461,916	1,250,746	21,495	189,675	-
Total liabilities	3,927,848	1,697,793	735,572	1,298,947	195,536
	2009				
	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
	(Rupees in '000)				
Market rate assets					
Balances with other Banks	623,023	383,023	240,000	-	-
Investments	56,459	-	9,730	27,452	19,277
Advances	1,513,247	83,582	501,195	794,425	134,045
Total market rate assets	2,192,729	466,605	750,925	821,877	153,322
Other non-earning assets					
Cash and balances with SBP and NBP	160,040	160,040	-	-	-
Balances with other Banks	43,105	43,105	-	-	-
Operating fixed assets	156,467	-	189	20,334	135,944
Other assets	199,317	17,215	40,187	78,958	62,957
Deferred tax assets	37,351	-	-	37,351	-
Total non-earning assets	596,280	220,360	40,376	136,643	198,901
Total assets	2,789,009	686,965	791,301	958,520	352,223
Market rate liabilities					
Deposits and other accounts	697,148	136,425	342,854	209,780	8,089
Borrowings	309,939	-	-	77,485	232,454
Total market rate liabilities	1,007,087	136,425	342,854	287,265	240,543
Other non-cost bearing liabilities					
Deposits and other accounts	570,681	570,681	-	-	-
Other liabilities	86,089	48,204	24,902	12,351	632
Total non-cost bearing liabilities	656,770	618,885	24,902	12,351	632
Total liabilities	1,663,857	755,310	367,756	299,616	241,175

37. CAPITAL MANAGEMENT

The Bank's objectives when managing its capital are:

- To comply with the capital requirements set by the SBP.
- 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.
- To maintain a strong capital base to support the development of its business.

As of the balance sheet date, the Bank's net equity and Capital Adequacy Ratio (CAR) stood at Rs. 1,323 million and 39% respectively, as against the minimum requirement of Rs. 500 million and 15% prescribed by SBP.

38. CORRESPONDING FIGURES

Following figures have been reclassified for the purpose of better presentation:

	Reclassification				Nature	Rupees ('000)
	From	Note	To	Note		
Other liabilities	17	Borrowings	16	Current portion of foreign currency borrowing is included in borrowings.	77,708	
Other liabilities	17	Other assets	13	Unrealised loss on derivative financial instrument is netted off with unrealised gain on derivative financial instrument.	10,457	
Mark-up / return / interest expensed	23	Other charges	27	Net loss on revaluation of derivative financial instrument is included in other charges.	27,207	
Other income	25	Fee, commission and brokerage income	24	Income from branchless banking - Easy Paisa is included in Fee, commission and brokerage income.	2,213	

39. GENERAL

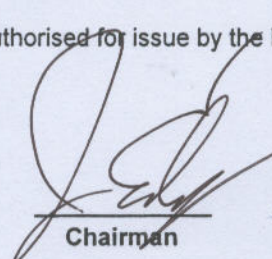
39.1 Captions, as prescribed by BSD Circular No. 11, dated 30 December 2003, in respect of which there are no amounts, have not been reproduced in these financial statements, except for the captions of the balance sheet and profit and loss account.

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

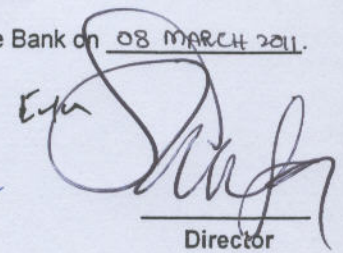
40. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Bank on 08 MARCH 2011.


 Tadee Hussain
 President &
 Chief Executive Officer


 Chairman


 Director


 Director