

**Deloitte**

M. Yousuf Adil Saleem & Co  
Chartered Accountants

**NRSP MICROFINANCE  
BANK LIMITED  
ANNUAL AUDITED  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
DECEMBER 31, 2012**

## AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of NRSP Microfinance Bank Limited (the Bank) as at December 31, 2012 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (herein-after referred to as the 'financial statements') 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.

It is the responsibility of the Bank's management to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984 and the Microfinance Institutions Ordinance, 2001. Our responsibility is to express an opinion on these financial 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 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;
  - 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;
- 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, 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, 2011, in the

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manner so required and give a true and fair view of the state of the Bank's affairs as at December 31, 2012 and of the profit, 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, 1980.

The financial statements of the Bank for the year ended December 31, 2011, were audited by another firm of chartered accountants, who in their report dated February 27, 2012, expressed an unqualified opinion on those financial statements.

*M. Yousuf Adil Saleem & Co.*  
Chartered Accountants

**Talat Javed**  
Engagement Partner

Lahore  
March 04, 2013

# NRSP MICROFINANCE BANK LIMITED

## BALANCE SHEET

AS AT DECEMBER 31, 2012

	Note	2012 Rupees	2011 Rupees
<b>ASSETS</b>			
Cash and balances with SBP and NBP	6	143,503,180	61,626,119
Balances with other Banks / NBFIs / MFBs	7	1,234,409,417	1,615,869,221
Lending to financial institutions		-	-
Investments - net of provisions	8	1,470,847,646	61,455,668
Advances - net of provision	9	3,026,774,520	2,068,083,405
Operating fixed assets	10	243,245,281	214,302,363
Other assets	11	194,940,170	72,477,106
Deferred tax asset - net	12	29,452,510	5,478,532
<b>Total Assets</b>		<b>6,343,172,724</b>	<b>4,099,292,414</b>
<b>LIABILITIES</b>			
Deposits and other accounts	13	1,830,958,395	632,545,008
Borrowings	14	3,063,922,179	2,446,687,365
Subordinated debt		-	-
Other liabilities	15	179,377,464	117,765,569
Deferred tax liability		-	-
<b>Total Liabilities</b>		<b>5,074,258,038</b>	<b>3,196,997,942</b>
<b>Net Assets</b>		<b>1,268,914,686</b>	<b>902,294,472</b>
<b>REPRESENTED BY:</b>			
Share capital	16	1,000,000,000	840,000,000
Advance against issue of share capital		-	-
Statutory reserve	5.8	39,838,124	7,108,556
Depositors' protection fund		10,153,610	1,777,139
Accumulated profit / (loss)		110,570,451	(12,165,429)
		1,160,562,185	836,720,266
Surplus / (deficit) on revaluation of assets	17	28,624,181	(13,656)
Deferred grants	18	79,728,320	65,587,862
<b>Total capital</b>		<b>1,268,914,686</b>	<b>902,294,472</b>
<b>MEMORANDUM / OFF-BALANCE SHEET ITEMS</b>	19	-	-

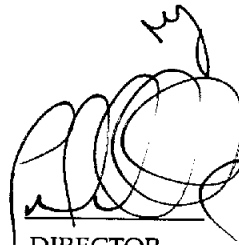
The annexed notes from 1 to 35 form an integral part of these financial statements.



PRESIDENT



CHAIRMAN



DIRECTOR



DIRECTOR

# NRSP MICROFINANCE BANK LIMITED

## PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 2012

	Note	2012 Rupees	2011 Rupees
Mark-up / return / interest earned	20	921,917,227	478,692,406
Mark-up / return / interest expensed	21	(495,658,086)	(261,360,172)
Net mark-up / interest income		426,259,141	217,332,234
Provision against non-performing loans and advances	9	(17,654,726)	(20,867,715)
Provision for diminution in the value of investments		-	-
Bad debts written off directly	9.6	(1,882,474)	(666,500)
		(19,537,200)	(21,534,215)
Net mark-up / interest income after provision		406,721,941	195,798,019
<b>NON MARK-UP / NON INTEREST INCOME</b>			
Fee, commission and brokerage income	22	174,278,574	183,818,725
Dividend income		-	-
Other income	23	93,744,483	10,861,228
Total non-markup / non interest income		268,023,057	194,679,953
		674,744,998	390,477,972
<b>NON MARK-UP / NON INTEREST EXPENSES</b>			
Administrative expenses	24	(531,461,991)	(337,548,614)
Loan processing fee paid to NRSP		-	(16,240,000)
Other charges		-	-
Total non-markup / non interest expense		(531,461,991)	(353,788,614)
<b>PROFIT BEFORE TAXATION</b>		143,283,007	36,689,358
Taxation - Current	25	(7,997,918)	(6,625,111)
- Prior years		1,208,308	-
- Deferred	25.1	27,154,443	5,478,532
		20,364,833	(1,146,579)
<b>PROFIT AFTER TAXATION</b>		163,647,840	35,542,779
Accumulated loss brought forward		(12,165,429)	(38,822,513)
Accumulated Profit / (loss)		151,482,411	(3,279,734)
<b>APPROPRIATIONS:</b>			
<b>Transfer to:</b>			
Statutory reserve	5.8	32,729,568	7,108,556
Depositors' protection fund	5.9	8,182,392	1,777,139
Contribution to MSDF/DPF/RMF		-	-
Revenue reserve		-	-
		40,911,960	8,885,695
Accumulated Profit / (Loss) carried forward		110,570,451	(12,165,429)
<b>Earnings per share</b>	26	1.72	0.54

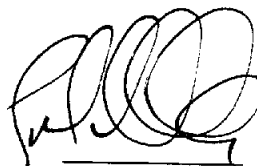
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CHAIRMAN



DIRECTOR



DIRECTOR


# NRSP MICROFINANCE BANK LIMITED


## CASH FLOW STATEMENT

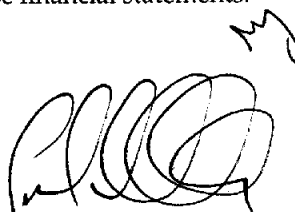
FOR THE YEAR ENDED DECEMBER 31, 2012

	Note	2012 Rupees	2011 Rupees
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit before taxation		143,283,007	36,689,358
Less: Dividend income		-	-
Gain realized on investments		(61,313,462)	-
		81,969,545	36,689,358
Adjustments for non-cash charges			
Depreciation		31,471,929	13,599,120
Amortization of intangible assets		15,515,208	2,005,040
Provision against non-performing advances		17,654,726	20,867,715
Amortization of deferred grant		(18,122,696)	(9,560,187)
(Gain) / loss on sale of operating fixed assets		(2,005,934)	655,594
Advances written off		4,414,410	666,500
		48,927,643	28,233,782
Increase in operating assets			
Advances		(980,760,251)	(2,089,617,620)
Other assets (excluding advance taxation)		(83,355,457)	(69,762,776)
		(1,064,115,708)	(2,159,380,396)
Increase in operating liabilities			
Borrowings from financial institutions		617,234,814	2,446,687,365
Deposits and other accounts		1,198,413,387	632,545,008
Other liabilities (excluding current taxation)		51,333,268	46,309,337
		1,866,981,469	3,125,541,710
Income tax paid		(35,618,590)	-
<b>Net cash flow from operating activities</b>		898,144,359	1,031,084,454
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Net investment in available-for-sale securities		(1,377,573,676)	(61,469,324)
Gain realized on investments		61,507,541	-
Investments in operating fixed assets		(79,083,276)	(174,271,458)
Sale proceeds of property and equipment disposed-off		5,159,155	1,146,554
Interest income		42,691	1,429,887
<b>Net cash flow from investing activities</b>		(1,389,947,565)	(233,164,341)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Issue of share capital		160,000,000	838,994,000
Grants received		32,220,463	39,569,549
<b>Net cash flow from financing activities</b>		192,220,463	878,563,549
<b>Net increase in cash and cash equivalents</b>		(299,582,743)	1,676,483,662
Cash and cash equivalents at beginning of the year		1,677,495,340	1,011,678
<b>Cash and cash equivalents at end of the year</b>	27	1,377,912,597	1,677,495,340

The annexed notes from 1 to 35 form an integral part of these financial statements.

  
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PRESIDENT

  
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CHAIRMAN

  
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DIRECTOR

  
\_\_\_\_\_  
DIRECTOR

**NRSP MICROFINANCE BANK LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	Capital reserves		Revenue reserves		Total
	Share capital	Statutory reserve	Depositors' protection fund	Accumulated profit/(loss)	
Balance as at January 1, 2011	1,006,000	-	-	(38,822,513)	(37,816,513)
Profit for the year	-	-	-	35,542,779	35,542,779
Transfer to statutory reserve	-	7,108,556	-	(7,108,556)	-
Transfer to depositors' protection fund	-	-	1,777,139	(1,777,139)	-
Issue of share capital	838,994,000	-	-	-	838,994,000
Balance as at December 31, 2011	840,000,000	7,108,556	1,777,139	(12,165,429)	836,720,266
Profit for the year	-	-	-	163,647,840	163,647,840
Transfer to statutory reserve	-	32,729,568	-	(32,729,568)	-
Transfer to depositors' protection fund	-	-	-	-	-
- 5% of the profit after tax for the year	-	-	8,182,392	(8,182,392)	-
- return on investments	-	-	194,079	-	194,079
Issue of share capital	160,000,000	-	8,376,471	(8,182,392)	194,079
Balance as at December 31, 2012	1,000,000,000	39,838,124	10,153,610	110,570,451	1,160,562,185

The annexed notes from 1 to 35 form an integral part of these financial statements.

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**PRESIDENT**

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**CHAIRMAN**

*[Signature]*

**DIRECTOR**

*[Signature]*

**DIRECTOR**

**NRSP MICROFINANCE BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

**1 STATUS AND NATURE OF BUSINESS**

NRSP Microfinance Bank Limited ("the Bank") was incorporated as a public limited company incorporated in Pakistan on October 22, 2008 under the Companies Ordinance 1984. The Bank received a license by the State Bank of Pakistan (SBP) to operate as a microfinance bank on February 18, 2009, and received certificate of commencement of business from Securities and Exchange Commission of Pakistan (SECP) on February 8, 2011. Further SBP approved the application of the Bank for commencement of business on February 28, 2011.

The Bank is established to mobilize funds for providing microfinance services to economically challenged people for mitigating poverty and promoting social welfare and economic justice through community building and social mobilization with the ultimate objective of poverty alleviation.

The Bank's registered office is situated at 46, Aga Khan Road, F/6-4, Islamabad and principal place of business is situated at Chak No 10 B/C, University Road, Bahawalpur. There are 39 branches of the Bank as at December 31, 2012 (2011: 19 branches).

National Rural Support Programme (NRSP) is the holding company of the Bank which holds 52% (2011: 76.47%) shares of the Bank.

**2 BASIS OF PRESENTATION**

These financial statements have been presented in accordance with requirements of format prescribed by the SBP Banking Supervision Department (BSD) Circular number 11 dated December 30, 2003.

**3 STATEMENT OF COMPLIANCE**

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 (IASB) as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, the Microfinance Institutions Ordinance, 2001, the Prudential Regulations for Microfinance Banks ("the regulations") and directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan. Wherever the requirements of the Companies Ordinance, 1984, the Microfinance Institutions Ordinance, 2001, the Prudential Regulations for Microfinance Banks and directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan differ with the requirements of IFRSs, the requirements of the Companies Ordinance, 1984, the Microfinance Institutions Ordinance, 2001, the Prudential Regulations for Microfinance Banks or the requirements of the said directives shall prevail.

SBP has clarified that International Accounting Standard 39, "Financial Instruments: Recognition and Measurement" and International Accounting Standard 40, "Investment Property" are not applicable to the banks through BSD Circular No. 10 dated August 26, 2002. Further, SECP has deferred the applicability of IFRS 7 - 'Financial instruments - disclosures' through its notification S.R.O. 411(I)/2008 dated April 28, 2008. Accordingly, the requirements of the said standards have not been considered in the preparation of these financial statements.

**3.1 Standards, interpretations and amendments to published approved accounting standards**

The following amendments to existing standards have been published that are applicable to the Bank's financial statements covering annual periods, beginning on or after the following dates:

**3.2 New accounting standards / amendments and IFRS interpretations that are effective for the year ended December 31, 2012**

The following standards, amendments and interpretations are effective for the year ended December 31, 2012. These standards, interpretations and the amendments are either irrelevant to the Bank's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures.

Amendments to IAS 12 - Income Taxes - Deferred  
Tax: Recovery of Underlying Assets

Effective from accounting period beginning on or after  
January 1, 2012



### 3.3 New accounting standards and IFRS interpretations that are not yet effective

The following standards, amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them. These standards, interpretations and the amendments are either not relevant to the Bank's operations or are not expected to have significant impact on the Bank's financial statements other than certain additional disclosures.

Amendments to IAS 1 - Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income	'Effective from accounting period beginning on or after July 01, 2012
Amendments to IAS 19 - Employee Benefits	Effective from accounting period beginning on or after January 01, 2013
Amendments to IAS 32 Financial Instruments: Presentation - Offsetting financial assets and financial liabilities	Effective from accounting period beginning on or after January 01, 2014
IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine	Effective from accounting period beginning on or after January 01, 2013

### 3.4 Annual Improvements

The following improvements are effective for annual periods beginning on or after January 1, 2013.

- IAS 1 Presentation of Financial statements
- IAS 16 Property, Plant and Equipment
- IAS 32 Financial Instruments: Presentation
- IAS 34 Interim Financial Reporting

Other than the aforesaid standards, interpretations and amendments, the International Accounting Standards Board (IASB) has also issued the following standards which have not been considered by the Bank as the standards and their relevant amendments have not been adopted locally by the Securities and Exchange Commission of Pakistan:

- IFRS 1 – First Time Adoption of International Financial Reporting Standards
- IFRS 9 – Financial Instruments
- IFRS 10 – Consolidated Financial Statements
- IFRS 11 – Joint Arrangements
- IFRS 12 – Disclosure of Interests in Other Entities
- IFRS 13 – Fair Value Measurement
- IAS 27 (Revised 2011) – Separate Financial Statements due to non-adoption of IFRS 10 & IFRS 11
- IAS 28 (Revised 2011) – Investments in Associates and Joint Ventures due to non-adoption of IFRS 10 & IFRS 11

## 4 BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention except for certain investments carried at fair value.

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires the use of certain accounting estimates and judgments in application of accounting policies. The area involving a high degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 5.19.

These financial statements are prepared in Pak Rupees which is Banks functional and presentation currency.

## 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 5.1 Cash and cash equivalents

Cash and cash equivalents for the purpose of cash flow statement represent cash in hand, balances held with treasury banks and balances held with other banks in current and deposit accounts.

## 5.2 Investments

All purchases and sale of investments are recognized using settlement date accounting. Settlement date is the date on which investments are delivered to or by the Bank. All investments are derecognized when the right to receive economic benefits from the investments has expired or has been transferred and the Bank has transferred substantially all the risks and rewards of ownership.

Investments are classified as follows:

### **Available for sale investments**

Investments which may be sold in response to need for liquidity or changes in interest rates, exchange rates or equity prices are classified as available for sale. Available for sale investments are initially recognized at cost and subsequently measured at fair value.

The surplus/ (deficit) arising on revaluation of available for sale investments is kept in "Surplus/ (deficit) on revaluation of assets" and is shown in the balance sheet below equity. The surplus / (deficit) arising on these investments is taken to the profit and loss account, when actually realized upon disposal.

### **Held for trading investments**

These represent securities acquired with the intention to trade by taking advantage of short-term market / interest rate movements. These are marked to market and surplus / deficit arising on revaluation of 'held for trading' investments is taken to profit and loss account.

### **Held to maturity investments**

Investments with fixed maturity, where management has both the intent and the ability to hold till maturity, are classified as held to maturity. Subsequent to initial recognition at cost, these investments are measured at amortized cost, less provision for impairment in value, if any, and revalued at balance sheet date as per the regulations based on the value of comparable instruments being traded if an active market exists. Profit on held to maturity investments is recognized on a time proportion basis taking into account the effective yield on the investments.

Premium or discount on acquisition of held to maturity investment's is amortized through profit and loss account over the remaining period till maturity.

## 5.3 Advances

Advances are stated net of provisions for non-performing advances. Advances that are overdue for 30 days or more are classified as non-performing and divided into categories as prescribed in the regulations.

The Bank maintains, in addition to the general provision over total advances, specific provision for potential losses for all non-performing advances on the basis of the regulations and other directives issued by the State Bank of Pakistan. General and specific provisions are charged to the profit and loss account.

In accordance with the Regulations, non-performing advances are written-off one month after the loan is categorized as Loss. However, the Bank continues its efforts for recovery of the written-off balances.

## 5.4 Operating fixed assets

### **Capital work-in-progress**

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

### **Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset and the costs of dismantling and removing the items and restoring the site on which they are located, if any.

Depreciation is charged on the straight line at rates specified in note 10.2 to the financial statements, so as to write off the cost of assets over their estimated useful lives. Depreciation is charged on acquisition and disposal based on number of months the assets are available for use. Full month's depreciation is charged in the month of acquisition while no depreciation is charged in the month of disposal.

Subsequent costs are included in the assets' carrying amount 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. Carrying amount of the replaced part is derecognized. All other repair and maintenance are charged to profit and loss account.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amounts of fixed asset and are recognized within "other income" in the profit and loss account.

#### **Intangible assets**

An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and that the cost of such asset can also be measured reliably. These are stated at cost less accumulated amortization and impairment losses, if any.

Intangible assets comprise of computer software and related applications. Intangible assets are amortized over their estimated useful lives at rate specified in note 10.3 to the financial statements. Subsequent expenditure is capitalized only when it increases the future economic benefit embodied in the specific asset to which it relates. All other expenditure is recognized in profit and loss account as incurred.

#### **5.5 Impairment - Non financial assets**

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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.

#### **5.6 Taxation**

##### **Current**

Current tax is the tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, taking into account tax credits, rebates and tax losses, if any, and any adjustment to tax payable in respect of previous years.

##### **Deferred**

Deferred tax is accounted for on all major taxable temporary differences between the carrying amounts of assets for financial reporting purposes and their tax base. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. At each balance sheet date, the bank reassesses the carrying and the unrecognized amount of deferred tax assets.

Deferred tax assets and liabilities are calculated at the rate that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred tax, on revaluation of investments, if any, is recognized as an adjustment to surplus/ (deficit) arising on such revaluation.

#### **5.7 Employee benefits**

The main features of the schemes operated by the Company for its employees are as follows:

##### **Defined benefit plan**

###### **- Staff gratuity**

The Bank operates an approved funded gratuity scheme for all its regular employees. The cost of providing benefits under the plan is determined using the projected unit credit actuarial valuation method. Estimate is made on the basis of expected period of service of employees, expected increase in salary, discount rate and other demographic assumptions. Six or more months of service are counted as one full year. Qualifying service period is two years.

#### **- Accumulating compensated absences**

The Bank provides annually for the expected cost of accumulating compensated absences on the basis of actuarial valuations. Regular employees of the Bank are entitled to accumulate the unutilized privilege leaves up to 60 days. The most recent valuations were carried out as on December 31, 2012 using the projected unit credit method. Actuarial gains and losses are recognized as income or expense immediately.

#### **Defined contribution plan**

The Bank operates an approved defined contribution provident fund for all permanent employees. Equal monthly contributions @ 10% of basic pay are made by the employees and the Company to the fund.

#### **5.8 Statutory reserve**

In compliance with the Regulations, the Bank is required to maintain a statutory reserve to which an appropriation equivalent to 20% of the profit after tax is made till such time the reserve fund equals the paid up capital of the Bank. Thereafter, the contribution is reduced to 5% of the profit after tax.

#### **5.9 Depositors' protection fund**

The Bank has a policy to maintain a depositors' protection fund for the purpose of mitigating risk of its depositors, to which the Bank is required to credit not less than 5% of its annual profit after taxes.

#### **5.10 Grants**

Grants that compensate the Bank for expenses incurred are recognised in the profit and loss account as other income 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 income on a systematic basis over the useful life of the asset.

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

#### **5.11 Revenue recognition**

Mark-up/return (service charge) on advances is recognized on accrual/ time proportion basis, except for income, if any, which warrants suspension in compliance with the Regulations. Mark-up recoverable on non-performing advances is recognised on a receipt basis in accordance with the requirements of the regulations. Application processing fee is recognized as income when service is performed.

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.

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

#### **5.12 Borrowing costs**


Mark up, interest and other charges on borrowings are charged to income in the year in which they are incurred.

#### **5.13 Operating leases**

Operating lease rentals are recorded in profit and loss account on a time proportion basis over the term of the lease arrangements.

#### **5.14 Financial instruments**

All financial assets and financial liabilities are recognised at the time when the Bank becomes a party to the contractual provisions of the instrument. At the time of initial recognition, all the financial assets and financial liabilities are measured at cost, which is the fair value of the consideration given or received for it. Subsequently, these are stated at their nominal values as reduced by appropriate allowances for estimated irrecoverable amounts, if any. All the financial assets are derecognised at the time when the Bank loses control of the contractual rights that comprise the financial assets. All financial liabilities are derecognised at the time when they are extinguished i.e. when the obligation specified in the contract is discharged, cancelled, or expired. Any gain or loss on derecognition of financial assets and financial liabilities is taken to profit and loss account.



### **Financial assets**

Financial assets are cash and balances with SBP and NBP, balances with other banks, lending to financial institutions, investments, advances and other receivables. Advances are stated at their nominal value as reduced by appropriate provisions against non-performing advances, while other financial assets excluding investments are stated at cost. Investments classified as available for sale are valued at mark-to-market basis.

### **Financial liabilities**

Financial liabilities are classified according to the substance of the contractual arrangement entered into. Financial liabilities include borrowings and other liabilities which are stated at their nominal value. Financial charges are accounted for on accrual basis.

Any gain or loss on the recognition and derecognition of the financial assets and liabilities is included in the net profit and loss for the year in which it arises.

#### **5.15 Impairment – financial assets**

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

#### **5.16 Off-setting**

Financial assets and financial liabilities and tax assets and tax liabilities are only off-set and the net amount is reported in the financial statements when there is a legally enforceable right to off set the recognized amount and the Bank intends either to settle on 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.

#### **5.17 Foreign currencies**


Transactions in foreign currencies are recorded at the rates of exchange ruling on the date of the transaction. All monetary assets and liabilities denominated in foreign currencies are translated into PKR at the rate of exchange ruling on the balance sheet date and exchange differences, if any, are charged to profit and loss account.

#### **5.18 Provisions**

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

#### **5.19 Use of Critical accounting estimates and judgments**

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires the use of certain accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The Bank uses estimates and assumptions concerning the future. The resulting accounting estimate will, by definition, seldom equal the related actual results. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas where assumptions and estimates are significant to the Bank's financial statements or where judgment was exercised in application of accounting policies are as follows:

- 1) Useful life of operating fixed assets;
  - 2) Income taxes;
  - 3) Staff retirement benefits;
  - 4) Classification of Advances and Investments;
  - 5) Provision of Advances; and
  - 6) Valuation and impairment of Investments.
- 

	Note	2012 Rupees	2011 Rupees
<b>6 CASH AND BALANCES WITH SBP AND NBP</b>			
Cash in hand		39,505,163	11,566,369
Balances with State Bank of Pakistan (SBP) in:			
Local currency current accounts	6.1	103,998,017	50,059,750
Balances with National Bank of Pakistan (NBP) in:			
Current accounts		-	-
Deposit accounts		-	-
		<u>143,503,180</u>	<u>61,626,119</u>

6.1 This represents balance maintained with SBP to meet the requirement of maintaining cash reserve equivalent to not less than 5% (2011: 5%) of the Bank's deposits, including demand deposits and time deposits with tenure of less than one year, in accordance with regulation 6A of the regulations.

**7 BALANCES WITH OTHER BANKS / NBFIs / MFBs**

In Pakistan

Current accounts		360,948	852,136
Deposit accounts	7.1	<u>1,234,048,469</u>	<u>1,615,017,085</u>
		<u>1,234,409,417</u>	<u>1,615,869,221</u>

7.1 This represents deposits with commercial banks payable on demand carrying mark-up ranging at 10.25% to 12.00% (2011 : 10.25% to 12.00%) per annum. This also includes term deposit receipts amounting to Rs. 220 million (2011: Rs. 450 million) with local commercial banks carrying markup ranging from 9.50% to 9.86% (2011: 12% to 12.25%).

**8 INVESTMENTS - NET OF PROVISIONS**

Federal Government securities

Pakistan Investment Bonds (PIBS)	8.1	133,068,876	-
Market Treasury Bills (T-Bills)	8.2	<u>70,563,410</u>	<u>61,455,668</u>
		203,632,286	61,455,668
Term finance certificates	8.3	199,016,600	-
Mutual Funds	8.4	1,068,198,760	-
Less: Provision for diminution in value of Investments		-	-
Investments - net of provision		<u>1,470,847,646</u>	<u>61,455,668</u>

8.1 These PIBs are due to be matured on August 18, 2014 and have a coupon rate of 11.25% per annum.

8.2 These T-Bills have more than six months maturity as at December 31, 2012 and have a yield of 9.3% (2011: 11.7%) per annum.

8.3 These represent term finance certificates issued by Pakistan Mobile Communication Limited and carries markup at the rate of 3 months Kibor plus 2.65% with a maturity period of 4 years from April 18, 2012 to April 18, 2016. The Bank holds 2,000 certificates with the face value of Rs. 100,000 each.

8.4 This represents investment in ABL Cash Fund. The Bank holds 106,822,256 units of Rs. 10 face value each.

**9 ADVANCES - NET OF PROVISION**

Loan type	Note	2012		2011	
		No. of loan outstanding	Amount outstanding Rupees	No. of loan outstanding	Amount outstanding Rupees
Micro credit	9.1	126,717	3,057,044,999	101,767	2,086,771,550
Others	9.2	288	5,720,026	103	2,179,570
<b>Less: Provision held</b>					
Specific		-	(5,417,025)	-	-
General	9.3	<u>126,960</u>	<u>(30,573,480)</u>	<u>101,870</u>	<u>(20,867,715)</u>
			(35,990,505)		(20,867,715)
Advances - net of provision			<u>3,026,774,520</u>		<u>2,068,083,405</u>

- 9.1 All advances are secured by personal guarantees. Further, a mandatory deposit account equivalent to 10% of amount of advances is required to be kept with the Bank. The details of such deposits held with the Bank are disclosed in note 13. The interest rates on these advances range from 28% to 30% (2011 : 28% to 30%) per annum.
- 9.2 This represents interest bearing loans made to employees of the Bank carrying interest at the rate of 10% (2011: 10%) per annum.
- 9.3 General provision is maintained at the rate of 1% of advances net of specific provision in accordance with the regulations.
- 9.4 Advances include Rs. 12,204,402 (2011: Rs. Nil) which as detailed below have been placed under non performing status:

Category of Classification	Amount Outstanding	Provision Required	Provision Held
OAEM	2,164,948	-	-
Sub - standard	574,893	143,722	143,722
Doubtful	8,382,517	4,191,259	4,191,259
Loss	1,082,044	1,082,044	1,082,044
Total	12,204,402	5,417,025	5,417,025

- 9.5 Particulars of provision against non performing advances

	2012		2011	
	Specific	General	Specific	General
Opening balance	-	20,867,715	-	-
Charge for the year	7,948,961	9,705,765	-	20,867,715
Amounts written off	(2,531,936)	-	-	-
Reversals	-	-	-	-
Closing balance	5,417,025	30,573,480	-	20,867,715

	Note	2012	2011
		Rupees	Rupees
9.6 Particulars of write offs			
Against provision		2,531,936	-
Directly charged to profit & loss account		1,882,474	666,500
		4,414,410	666,500

	2012		2011	
	No. of loan	Amount	No. of loan	Amount
9.7 Movement of advance				
Opening Balance	101,870	2,068,083,405	-	-
Disbursement during the year	294,424	6,730,448,880	225,187	4,659,347,000
	396,294	8,798,532,285	225,187	4,659,347,000
Recovered during the year	266,711	5,739,604,812	123,236	2,590,597,095
Loans written off	2,866	1,882,474	81	666,500
Closing	126,717	3,057,044,999	101,870	2,068,083,405

	Note	2012	2011
		Rupees	Rupees
10 OPERATING FIXED ASSETS			
Capital work-in-progress	10.1	165,000	128,957,932
Property and equipment	10.2	157,069,588	81,553,534
Intangible assets	10.3	86,010,693	3,790,897
		243,245,281	214,302,363
10.1 Capital work-in-progress			
Civil works		165,000	11,655,965
Software under implementation		-	71,248,360
Hardware under implementation		-	46,053,607
		165,000	128,957,932

10.2 Property and equipment

Particulars	COST			DEPRECIATION			Book value	Rate of depreciation (%)
	As at January 1, 2012	Additions / (deletion)	As at December 31, 2012	As at January 1, 2012	Charge / impairment	As at December 31, 2012		
Furniture and fixtures	23,031,810	25,630,554	48,662,364	1,829,869	3,782,206	5,612,075	43,050,289	10
Office equipment	22,640,811	12,295,123	34,493,282	3,346,128	5,356,820	8,563,852	25,929,430	20
Computer equipment	10,109,141	(442,652)	69,065,768	1,926,318	(139,096)	15,265,076	53,800,692	33.33
Vehicles	39,345,345	13,258,900	48,656,143	6,471,258	8,994,145	14,366,966	34,289,177	20
		(3,948,102)			(1,098,437)			
December 31, 2012	95,127,107	110,141,204	200,877,557	13,573,573	31,471,929	43,807,969	157,069,588	
		(4,390,754)			(1,237,533)			

Rupees-

Particulars	COST			DEPRECIATION			Book value	Rate of depreciation (%)
	As at January 1, 2011	Additions / (deletion)	As at December 31, 2011	As at January 1, 2011	Charge / impairment	As at December 31, 2011		
Furniture and fixtures	-	23,308,516	23,031,810	-	1,832,175	1,829,869	21,201,941	10
Office equipment	24,000	(276,706)	22,640,811	2,800	(2,306)	3,346,128	19,294,683	20
Computer equipment	12,296	22,903,414	10,109,141	4,714	3,348,105	1,926,318	8,182,823	33.33
Vehicles	-	(286,603)	39,345,345	-	(4,777)	6,485,287	32,874,087	20
		(430,191)			(11,949)			
		40,187,054			6,485,287			
		(841,709)			(14,029)			
December 31, 2011	36,296	96,926,020	95,127,107	7,514	13,599,120	13,573,573	81,553,534	
		(1,835,209)			(33,061)			

Rupees-

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10.3 Intangible assets

Particulars	COST			AMORTIZATION		Book value	Rate of amortization (%)
	As at January 1, 2012	Additions	As at December 31, 2012	As at January 1, 2012	Amortization / impairment		

Rupees-----

Computer Software	6,070,470	97,735,004	103,805,474	2,279,573	15,515,208	17,794,781	86,010,693	33.33
December 31, 2012	<u>6,070,470</u>	<u>97,735,004</u>	<u>103,805,474</u>	<u>2,279,573</u>	<u>15,515,208</u>	<u>17,794,781</u>	<u>86,010,693</u>	

Particulars	COST			AMORTIZATION		Book value	Rate of amortization (%)
	As at January 1, 2011	Additions	As at December 31, 2011	As at January 1, 2011	Amortization / impairment		

Rupees-----

Computer Software	1,084,320	4,986,150	6,070,470	274,533	2,005,040	2,279,573	3,790,897	33.33
December 31, 2011	<u>1,084,320</u>	<u>4,986,150</u>	<u>6,070,470</u>	<u>274,533</u>	<u>2,005,040</u>	<u>2,279,573</u>	<u>3,790,897</u>	

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11	OTHER ASSETS	Note	2012 Rupees	2011 Rupees
	Income / Mark-up accrued on advances		108,226,231	48,455,584
	Income / Mark-up accrued on bank deposits		7,022,878	9,181,812
	Income accrued on investments		4,839,549	-
	Advances to employees			
	- personal	11.1	1,309,496	826,709
	- operational		427,017	912,945
	Advances to suppliers		5,576,081	-
	Prepayments		22,472,594	10,090,831
	Advance tax		39,858,341	750,734
	Receivable from National Rural Support Programme (NRSP)		323,843	1,411,173
	Other receivables		4,884,140	847,318
			<u>194,940,170</u>	<u>72,477,106</u>

11.1 This represents advances to employees against salary and are subject to charge at the rate of 10%.

## 12 DEFERRED TAX ASSET - NET

Deferred debits arising in respect of

Amortization allowance	1,583,775	150,492
Provision against advances	12,596,677	7,303,700
Tax credit u/s 113c	2,904,763	-
Grants	27,904,912	-
	<u>44,990,127</u>	<u>7,454,192</u>

Deferred credits arising in respect of

Accelerated depreciation allowance	12,357,152	1,975,660
Revaluation surplus on investment	3,180,465	-
	<u>15,537,617</u>	<u>1,975,660</u>
	<u>29,452,510</u>	<u>5,478,532</u>

## 13 DEPOSITS AND OTHER ACCOUNTS

	Note	2012		2011	
		No. of accounts	Amount Rupees	No. of accounts	Amount Rupees
Fixed deposits	13.1	12,049	349,722,000	-	-
Saving deposits	13.2	68,494	1,413,385,410	14,683	632,545,008
Current deposits		80	67,850,985	-	-
		<u>80,623</u>	<u>1,830,958,395</u>	<u>14,683</u>	<u>632,545,008</u>

13.1 This represents term deposit receipts carrying interest rates ranging from 11.5 % to 12.1 % per annum.

13.2 This represents savings accounts carrying interest rates ranging from 5% to 9% per annum (2011: 5% to 8% per annum).

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13.3 Particulars of Deposits by Ownership

	2012		2011	
	No. of accounts	Amount Rupees	No. of accounts	Amount Rupees
1) Individual depositors	80,606	1,471,773,164	14,683	632,545,008
2) Institutional depositors	17	359,185,231	-	-
a) Corporation / firms	-	-	-	-
b) Banks and financial institutions	-	-	-	-
	<u>80,623</u>	<u>1,830,958,395</u>	<u>14,683</u>	<u>632,545,008</u>

14	BORROWINGS		2012 Rupees	2011 Rupees
	Borrowings from banks / financial institutions in Pakistan	14.1	1,200,000,000	-
	Borrowings from banks / financial institutions outside Pakistan		-	-
	Borrowings from Govt. of Pakistan		-	-
	Borrowings from SBP		-	-
	Others	14.2	1,863,922,179	2,446,687,365
			<u>3,063,922,179</u>	<u>2,446,687,365</u>
14.1	<b>Borrowing from financial institutions (Secured):</b>			
	JS Bank Limited	14.1.1	450,000,000	-
	Standard Chartered Bank (Pakistan) Limited	14.1.2	650,000,000	-
	Pak Oman Investment Company Limited	14.1.3	100,000,000	-
			<u>1,200,000,000</u>	-
14.1.1	This represents borrowing made from JS Bank of Rs. 500 million which carries interest at the rate of six months KIBOR plus 2% per annum. The loan will be repaid in ten equal installments of Rs. 50 million each to be made semi annually commencing from July 6, 2012.			
14.1.2	This represents borrowing from Standard Chartered Bank carrying interest at the rate of 6 Month KIBOR Plus 2% per annum. The loan will be repaid in four equal semi annual instalments of Rs. 162.5 million each to be made half yearly starting from July 31, 2014 .			
14.1.3	This represents borrowing made from Pak Oman Investment Company of Rs. 100 Million which carries interest at the rate of 6 Month KIBOR Plus 2% per annum. The loan will be repaid in ten equal instalments of Rs. 10 million each to be made semi annually commencing from October 15, 2012.			
14.2	<b>Others (Secured)</b>			
	Pakistan Poverty Alleviation Fund (PPAF) 1	14.2.1	350,000,000	350,000,000
	Pakistan Poverty Alleviation Fund (PPAF) 2	14.2.2	1,500,000,000	-
	NRSP	14.2.3	13,922,179	2,096,687,365
			<u>1,863,922,179</u>	<u>2,446,687,365</u>
14.2.1	This represents borrowing from PPAF amounting to Rs. 350 million (2011: Rs. 350 million) carrying interest at the rate of 14.25% (2011: 14.25%) per annum. Funds were received in two equal installments of Rs. 350 million each making the total amount of loan equal to Rs. 700 million. The loan is to be repaid in two equal installments of Rs. 350 million each out of which one installment has been paid during the year.			
14.2.2	This represents borrowing received from PPAF amounting to Rs. 1,500 million received during the year carrying interest at the rate of 12.36% per annum. The loan will be repaid in five installments starting from June 30, 2013.			
14.2.3	This represents the amount collected from customers on behalf of NRSP. The amount collected is subsequently used to finance operations of the Bank by providing advances to the Bank's customers. This carries mark-up at the rate of KIBOR plus 2%. The loan is repayable on demand on three months notice subject to the conditions mentioned in the loan agreement.			

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		2012 Rupees	2011 Rupees
<b>15 OTHER LIABILITIES</b>			
Mark-up payable to financial institutions		113,804,025	80,487,507
Mark-up payable on Deposits and Others		5,259,260	-
Payable to defined benefit plan			
Staff gratuity	15.1	7,510,978	7,434,265
Accumulated compensated absences	15.2	8,450,441	2,993,357
Withholding tax payable		7,919,200	13,614,375
Income tax payable		7,997,918	6,625,111
Accrued expenses		15,434,896	5,171,510
Payable to NRSF		-	270,681
Zakat payable		-	1,735
Insurance payable		9,320,200	-
Others		3,680,546	1,167,028
		<u>179,377,464</u>	<u>117,765,569</u>
<b>15.1 Staff gratuity</b>			
i) Amounts recognized in the balance sheet			
Present value of defined benefit obligations		20,574,912	7,434,265
Fair value of plan assets		(13,063,934)	-
Deficit		7,510,978	7,434,265
Unrecognized actuarial gain/(loss)		-	-
Net liability		<u>7,510,978</u>	<u>7,434,265</u>
ii) Amounts recognized in the profit and loss account			
Current service cost		10,700,969	7,434,265
Interest cost		929,283	-
Expected return on plan assets		-	-
Actuarial gain/(loss) recognised		1,896,461	-
		<u>13,526,713</u>	<u>7,434,265</u>
iii) Changes in present value of defined benefit obligation			
Opening defined benefit obligation		7,434,265	-
Current service cost for the year		10,700,969	7,434,265
Actuarial gain		-	-
Interest cost for the year		929,283	-
Benefits paid during the year		(450,000)	-
Actuarial gain/(loss)		1,960,395	-
Closing defined benefit obligation		<u>20,574,912</u>	<u>7,434,265</u>
iv) Changes in fair value of plan assets			
Opening fair value of plan assets		-	-
Total contribution made during the year		13,450,000	-
Expected return on plan assets for the year		-	-
Benefits paid during the year		(450,000)	-
Actuarial gain/(loss)		63,934	-
Closing fair value of plan assets		<u>13,063,934</u>	<u>-</u>
v) Significant actuarial assumptions were as follows:			
Discount rate - per annum		11.00%	12.50%
Expected rate of increase in salaries - per annum		10.00%	11.50%
Mortality rate		EFU 1961-66	EFU 1961-66
Average expected remaining working life of employees		11 years	11 years
vi) Amounts for the current and previous year			
Present value of defined benefit obligation		20,574,912	7,434,265
Fair value of plan assets		(13,063,934)	-
Deficit		<u>7,510,978</u>	<u>7,434,265</u>

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	2012 Rupees	2011 Rupees
<b>15.2 Accumulated compensated absences</b>		
i) Amounts recognized in the balance sheet		
Present value of accumulated compensated absences	8,450,441	2,993,357
Fair value of plan assets	-	-
Deficit	<u>8,450,441</u>	<u>2,993,357</u>
Unrecognized actuarial gain/(loss)	-	-
Net liability	<u><u>8,450,441</u></u>	<u><u>2,993,357</u></u>
ii) Amounts recognized in the profit and loss account		
Current service cost	2,886,398	2,993,357
Interest cost	374,170	-
Unrecognized actuarial gain/(loss)	2,850,258	-
	<u>6,110,826</u>	<u>2,993,357</u>
iii) Changes in present value of defined benefit obligation		
Opening defined benefit obligation	2,993,357	-
Current service cost for the year	2,886,398	2,993,357
Interest cost for the year	374,170	-
Benefits paid during the year	(653,742)	-
Actuarial gain/(loss)	2,850,258	-
Closing defined benefit obligation	<u>8,450,441</u>	<u>2,993,357</u>
iv) Significant actuarial assumptions were as follows:		
Discount rate - per annum	11.00%	12.50%
Expected rate of increase in salaries - per annum	10.00%	11.50%
Mortality rate	EFU 1961-66	EFU 1961-66
Average expected remaining working life of employees	11 years	11 years
Average number of leaves accumulated - per annum	10 days	11 days
v) Amounts for the current and previous year		
Present value of defined benefit obligation	8,450,441	2,993,357
Fair value of plan assets	-	-
Deficit	<u>8,450,441</u>	<u>2,993,357</u>

## 16 SHARE CAPITAL

### 16.1 Authorized Capital

2012 (Number of shares)	2011 (Number of shares)		2012 Rupees	2011 Rupees
<u>100,000,000</u>	<u>100,000,000</u>	Ordinary shares of Rs. 10 each	<u>1,000,000,000</u>	<u>1,000,000,000</u>

### 16.2 Issued, subscribed and paid-up capital

2012 (Number of shares)	2011 (Number of shares)		2012 Rupees	2011 Rupees
<u>100,000,000</u>	<u>84,000,000</u>	Ordinary shares of Rs. 10 each fully paid in cash	<u>1,000,000,000</u>	<u>840,000,000</u>

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16.2.1 The shareholders of the Bank are as follows:

2012 (Number of shares)	2011		2012 Rupees	2011 Rupees
51,999,600	51,999,800	NRSP	519,996,000	519,998,000
16,000,000	16,000,000	KFW Germany	160,000,000	160,000,000
16,000,000	16,000,000	Acumen Fund USA	160,000,000	160,000,000
16,000,000	-	IFC	160,000,000	-
100	100	Mr. Shoaib Sultan	1,000	1,000
100	100	Mr. Fazalullah Qureshi	1,000	1,000
100	-	Dr .Rashid Bajwa	1,000	-
100	-	Mr. Aziz Raj Kot Wala	1,000	-
<u>100,000,000</u>	<u>84,000,000</u>		<u>1,000,000,000</u>	<u>840,000,000</u>

17 **SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS**

Surplus on revaluation of fixed assets

- -

Surplus / (deficit) on revaluation of securities

- i) Federal and Provincial Government securities
- ii) Quoted shares
- iii) Other securities

4,589,286	(13,656)
-	-
27,215,360	-
<u>31,804,646</u>	<u>-</u>

18 **DEFERRED GRANTS**

Opening balance		65,587,862	34,148,613
Grant received from:			
State Bank of Pakistan	18.1	19,893,363	28,700,000
Shore Bank International Limited	18.2	12,327,100	10,869,549
Interest income		42,691	1,429,887
Amortization of grant during the year	23	(18,122,696)	(9,560,187)
		<u>79,728,320</u>	<u>65,587,862</u>

18.1 This represents grant received from SBP under the Institutional Strengthening Fund (ISF) amounting to Rs. 138.8 million for the following activities through the Project Document (the Document):

- i. Develop a Management Information System and supporting platforms for the Bank to track portfolio quality and conduct risk and financial management;
- ii. Develop corporate governance mechanism for the Bank;
- iii. Develop capacity of staff of the Bank; and
- iv. Develop manuals for the Bank to ensure standardization of policies and the related implementation.

18.2 This represents grant received from Shore Bank International Limited (SBI). SBI has provided financial assistance in the form of grant to the Bank in order to implement a Core Banking Application i.e. OFSS FLEXCUBE (Universal Banking System) by the partner of Oracle Corporation, USA and Techlogix Pakistan (Pvt) Limited who are authorized to implement and support OFSS FLEXCUBE (Universal Banking System).

19 **MEMORANDUM / OFF BALANCE SHEET ITEMS**

There are no known commitments and contingent liabilities at year end.

	2012 Rupees	2011 Rupees
<b>20 MARK-UP / RETURN / INTEREST EARNED</b>		
Mark-up / interest income on advances	808,372,654	357,861,296
Mark-up / interest income on investment in Government securities	-	1,499,392
Mark-up / interest income on bank deposits	<u>113,544,573</u>	<u>119,331,718</u>
	<u><u>921,917,227</u></u>	<u><u>478,692,406</u></u>
<b>21 MARK-UP / RETURN / INTEREST EXPENSED</b>		
Deposits	55,945,998	19,894,457
Loan processing fee	26,365,000	-
Interest on borrowings	<u>413,347,088</u>	<u>241,465,715</u>
	<u><u>495,658,086</u></u>	<u><u>261,360,172</u></u>
<b>22 FEE, COMMISSION AND BROKERAGE INCOME</b>		
Loan processing fee	154,134,601	97,054,940
Other transaction processing fee	485,268	-
Collection service income	<u>19,658,705</u>	<u>86,763,785</u>
	<u><u>174,278,574</u></u>	<u><u>183,818,725</u></u>

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23 OTHER INCOME		2012 Rupees	2011 Rupees
Amortization of deferred grant	18	18,122,696	9,560,187
Other services income		12,302,392	1,956,635
Gain / (loss) on disposal of operating fixed assets		2,005,933	(655,594)
Investment income		61,313,462	-
		<u>93,744,483</u>	<u>10,861,228</u>
24 ADMINISTRATIVE EXPENSES			
Staff salaries and benefits	24.1	244,753,689	168,435,126
Non-executive directors expense		555,343	239,531
Training		8,794,380	11,660,251
Legal and professional charges		11,433,859	11,186,675
Communication		24,675,569	11,284,836
Repair and maintenance		3,480,131	3,147,658
Stationary and printing		12,304,672	10,432,856
Advertisement and publicity		949,501	1,217,024
Depreciation	10.2	31,471,927	13,599,120
Amortization	10.3	15,515,206	2,005,040
Staff travel		16,693,650	11,965,042
Fuel and power		44,351,014	28,780,571
Vehicle running and maintenance		14,487,683	7,938,479
Office supplies		3,768,808	2,162,536
Meetings and conferences		5,904,425	1,906,124
Utilities		11,757,931	8,414,194
Rent expenses		20,820,380	13,922,298
Corporate Social Responsibility		600,950	
Insurance expenses		37,099,719	12,615,093
Security and administration		9,606,717	7,650,526
Auditor's remuneration	24.2	1,564,150	2,463,157
Miscellaneous expenses		10,872,287	6,522,477
		<u>531,461,991</u>	<u>337,548,614</u>

24.1 This includes Staff retirement benefits of Rs. 36,200,077 (2011 : Rs. 23,230,236)

#### 24.2 Auditors' Remuneration

Audit fee	450,000	450,000
Fee for review of financial statements	250,000	250,000
Fee for special certification and advisory services	-	1,325,000
Out-of-pocket expenses	864,150	438,157
	<u>1,564,150</u>	<u>2,463,157</u>

#### 25 TAXATION

25.1 For the year			
Current		7,997,918	6,625,111
Deferred		(27,154,443)	8,205,591
		(19,156,525)	14,830,702
For the prior year			
Current		(1,208,308)	-
Deferred		-	(13,684,123)
		(1,208,308)	(13,684,123)
		<u>(20,364,833)</u>	<u>1,146,579</u>



25.2 Relationship between tax expense and accounting profit

	2012 % age	2011 % age
Applicable tax rate	35	35
Tax effect of:		
Tax relating to prior years	0.84	37.30
Income charged at different rate of taxes	10.36	-
Tax exemption on account of tax holiday	(58.27)	(49.93)
Others	(2.12)	-
Average effective tax rate	<u>(14.19)</u>	<u>22.37</u>

25.3 With effect from July 1, 2007, pursuant to Clause (66- XVIII) of part I of Second Schedule to the Income Tax Ordinance, 2001, the Bank's income is exempt from tax for five years provided that no dividend is paid to the shareholders and profits are retained for the objectives of the Bank. Accordingly, the Bank has opted for the tax holiday pursuant to the provisions of the aforementioned clause.

However, as required under the provisions of section 113 of the Income Tax Ordinance, 2001, minimum tax at the rate of 0.5% (2011 : 1%) of the turnover has been provided in the current year for results upto June 30, 2012 and taxation for the remaining six months has been calculated as per normal provisions of the Income Tax Ordinance, 2001.

26 EARNINGS PER SHARE

	2012	2011
Profit for the year (Rupees)	163,647,840	35,542,779
Weighted average ordinary shares (Numbers)	95,147,541	65,931,248
Basic and diluted earning per share (Rupees)	<u>1.72</u>	<u>0.54</u>

27 CASH AND CASH EQUIVALENTS

		Rupees	Rupees
Cash and balances with SBP and NBP	6	143,503,180	61,626,119
Balances with other Banks / NBFIs / MFBs	7	1,234,409,417	1,615,869,221
		<u>1,377,912,597</u>	<u>1,677,495,340</u>

28 NUMBER OF EMPLOYEES

	Credit/ sales staff	Banking /support staff	Total
----- Numbers -----			
<b>For the year ended December 31, 2012</b>			
Permanent & Probationary	505	443	948
Contractual	29	56	85
<b>Total</b>	<u>534</u>	<u>499</u>	<u>1,033</u>
<b>For the year ended December 31, 2011</b>			
Permanent	403	334	737
Contractual	48	99	147
<b>Total</b>	<u>451</u>	<u>433</u>	<u>884</u>

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29 NUMBER OF BRANCHES	2012	2011
	-----Number-----	
As at beginning of the year	19	-
Add: Opened during the year	20	19
Less: Closed / Merged during the year	-	-
As at end of the year	<u>39</u>	<u>19</u>

30 REMUNERATION OF DIRECTORS AND EXECUTIVES

	President/CEO	Directors	Executives
<b>For the year ended December 31, 2012</b>			
	----- Rupees -----		
Fee	-	-	-
Managerial remuneration	2,666,664	-	23,587,640
Other benefits	30.1 1,257,530	-	8,052,478
Provident fund contribution	290,906	-	2,128,826
Rent and house maintenance	1,200,000	-	10,614,455
Medical	-	-	-
Utilities	266,672	-	2,358,737
Conveyance	266,664	-	2,358,792
Bonus	-	-	325,973
	<u>5,948,436</u>	<u>-</u>	<u>49,426,901</u>
Number of persons	<u>1</u>	<u>-</u>	<u>51</u>

	President	Directors	Executives
<b>For the year ended December 31, 2011</b>			
	----- Rupees -----		
Fee	-	-	-
Managerial remuneration	2,121,210	-	9,064,001
Other benefits	30.1 731,393	-	2,879,878
Rent and house maintenance	212,124	-	584,298
Rent and house maintenance	954,542	-	4,078,793
Medical	-	-	-
Utilities	-	-	-
Conveyance	212,124	-	970,025
Bonus	212,124	-	906,392
	<u>4,443,517</u>	<u>-</u>	<u>18,483,387</u>
Number of persons	<u>1</u>	<u>-</u>	<u>14</u>

30.1 The President and certain executives are provided with use of Company maintained car.

31 RELATED PARTY TRANSACTIONS

The Bank's related parties comprise of directors, key management personnel, shareholders and entities over which the directors are able to exercise significant influence and employee gratuity fund. The detail of Bank's shareholders is given in note 16.2.1 while remuneration of key employee personnel is disclosed in note 30 to the financial statements. Transactions with the Bank's shareholders during the period were under normal commercial banking terms.

Settlement of the liabilities of the Bank were mainly made by NRSP during the year ended December 31, 2012.

	2012 Rupees	2011 Rupees
<b>Transactions with shareholder during the year/ period</b>		
Interest income	-	-
Repayment of lending to NRSP	2,147,552,418	1,018,671,868
Loan processing fee paid	-	16,240,000
Interest expense NRSP	168,119,543	229,850,989
Assets acquired during the year	-	84,934,594
Collection Service Income	19,658,705	86,763,785
Payment of rent to NRSP including advances	3,480,000	3,480,000
Contributions to gratuity fund	13,000,000	-
Contributions to provident fund	19,012,400	12,874,720
<b>Funds Placement by (Graduity Fund)</b>	13,000,000	-
Repayment to (Graduity Fund)	-	-
Profit Paid to (Graduity Fund)	63,934	-
<b>Funds Placement by (PF Trust)</b>	31,672,436	-
Repayment to (PF Trust)	-	-
Profit Paid to (PF Trust)	179,243	-
<b>Funds Placement by (RSPN)</b>	132,500,000	-
Repayment to (RSPN)	-	-
Profit Paid to (RSPN)	-	-
<b>Funds Placement (SRSO)</b>	162,152,034	-
Repayment to (SRSO)	-	-
Profit Paid to (SRSO)	11,938,989	-
<b>Funds Placement (Employee Welfare Trust)</b>	6,749,007	-
Repayment to (Employee Welfare Trust)	538,301	-
Profit Paid to (Employee Welfare Trust)	386,397	-
<b>Balances outstanding at the period end</b>		
Advances receivable from executives	1,023,291	320,197
Balance payable to gratuity fund	20,574,912	7,434,265
Receivable from NRSP	323,843	1,411,173
Payable to NRSP	-	270,681
Markup payable on borrowing from NRSP	10,028,327	68,872,781
Institutional Deposits (RSPN)	132,500,000	-
Institutional Deposits (SRSO)	174,091,023	-
Institutional Deposits (Employee Welfare Trust)	7,673,705	-
Institutional Deposits (Graduity Fund Trust)	13,063,934	-
Institutional Deposits (PF Trust)	31,851,679	-
Borrowings outstanding to NRSP	13,922,179	2,096,687,365

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