

the ability to [be]

2011  
Annual Report

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Annual Report



the ability to [be]



Tameer Microfinance Bank Limited

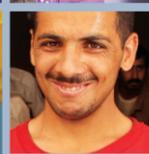
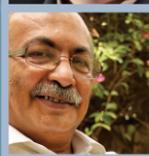
Tameer Microfinance Bank was founded in 2005 under the State Bank of Pakistan Microfinance Ordinance 2001.

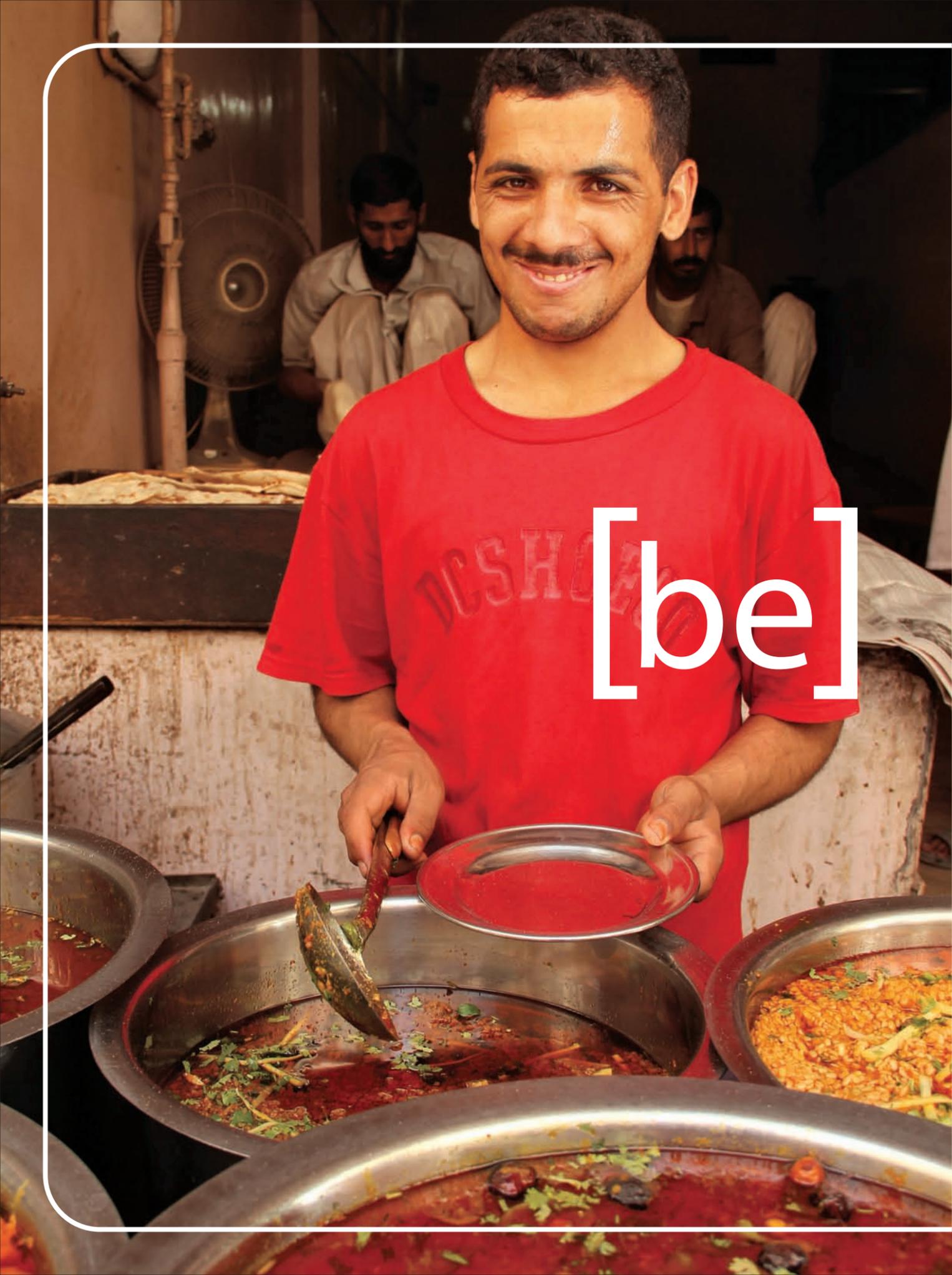
In keeping with our vision to enable and empower the unbanked population of Pakistan, Tameer Bank has moved from strength to strength, over the years.

We continue to offer a range of products and services tailor made to meet our customers requirements and their financial status.

the ability to **[be]**

**Our Annual Report will not only provide you with comprehensive information about our outstanding performance over the previous year, but also paint a vivid picture of what we really do – enable ordinary Pakistanis to realize their extraordinary dreams**





## Gold Equity Release Programme

Mehmood Azam had big dreams but, like most people he needed some help to realize them. He dreamt of owning a restaurant, and found a plot of land for it with the help of a friend. However, he realized he would need a substantial amount of money to open a road side restaurant and he searched for a way to do this.

## fruitful

Mr. Azam's search, as it turned out, was fruitful as he found Tameer Bank's Gold Equity Release Programme. In less than two hours, money in hand, he was well on the way to realizing the fruits of his labor.

Since then, Mr. Azam's dream has come to fruition; his restaurant does a roaring business every day. He has been able to realize his dream, and is satisfied in the knowledge that Tameer Bank is there for him.



**I am now able to make a healthy profit from my restaurant..."**

Mehmood Azam



**Growth in number of Accounts**

**71%**



[be]



## easypaisa

For Mr. Burhanuddin Rehman, a fish trader in Karachi, time is of the essence. A 4th generation fisherman from the Thatta coast, he's on his boat at dawn, sells his wares at the harbor front throughout the day, and drives a truck to a fertilizer factory in the evenings. With creditors to pay, bills to take care of and a family to support back in his village; he needed financial services that would work around his life and schedule.



**It's like having my bank in my pocket. If it wasn't for this innovation, I don't know what I would do...."**

Burhanuddin Rehman

# innovative

He knew he had found the solution when he learned of Tameer Bank and Telenor's easypaisa service, an innovative solution that meant he would never have to choose between his livelihood and his convenience. 24 hour, Over-The-Counter (OTC) Services at the Karachi Harbor itself made it possible for him to pay his creditors and his bills when he needed to. And with M-Wallet branchless banking on his mobile phone, he could send money back home to his family—24 hours a day, 7 days a week at the touch of a button. Mr. Rehman chose to avail this innovative service.

Today, Mr. Rehman has access to financial services that work for him; not the other way around, all thanks to the fact that that Tameer Bank is there for him.



Revenue growth since 2010

118 %



[be]

## Group Loan Facility

Azeema, Latifan and Sonan are women from the tiny village of Achar Chandio near Nawabshah, with big dreams of success.

They decided to start a small business in their hometown by weaving traditional rope, and have it sold in the cities. However because of their lack of capital, the three women were unable to make much as sales were sluggish. Most days they actually made a loss, all of which threatened to put them out of business forever.

# successful

They then found about Tameer Bank's Group Loan Facility, one of the few available sources of finance in their village, which allowed them to invest a substantial amount of money in their business, expand their outreach and steer it on to the road to success.

And today, thanks to Tameer Bank, Azeema, Latifan and Sonan are successful women in their own right. They are satisfied in the knowledge that Tameer Bank is there for them.



**Our success has changed our lives, thanks to Tameer..."**

Azeema



**Number of Active Women Borrowers**

**32,000**



[be]

## Housing Loan

Seema Masih, a lady in her early 40's dreamt of being able to live in a spacious home where she could raise her three children with ease. Like many of her dreams, this one also remained unrealized.

Tameer Bank's Housing Loan facility, provided her with the opportunity to build the house of her dreams, independently, without asking anyone for help.

# independent

Today her children can study, play and live in safety and comfort, in the house that she was able to build. She realizes that she only needs to depend on Tameer Bank.



**I am now able to live independently and provide my children with a house they can live in comfortably..."**

Seema Masih



Portfolio Growth

**12%**



[be]

## Karobar Loan

Like many businesses in uncertain economic times, Faraz ul Islam's pan shop was in dire straits, as his losses mounted. There came a period when he seriously considered selling his sole source of livelihood, the very means with which he supported his wife and their five children, just so he could make ends meet.

But Mr. Islam was determined to fight on and keep his business going and Tameer Bank gave him that very opportunity in the form of the Karobar Loan.

# motivated

Since then, Mr. Islam's life has taken a dramatic turn for the better. He expanded his pan shop into a general store, and eventually brought a warehouse which now supplies all the stores in his area. He is immensely proud of now being able to send all five of his children to school, Mr. Islam is content with life, satisfied in the knowledge that Tameer Bank is there for him.



**My family motivated me to turn my life around, and now all five of my children go to school..."**

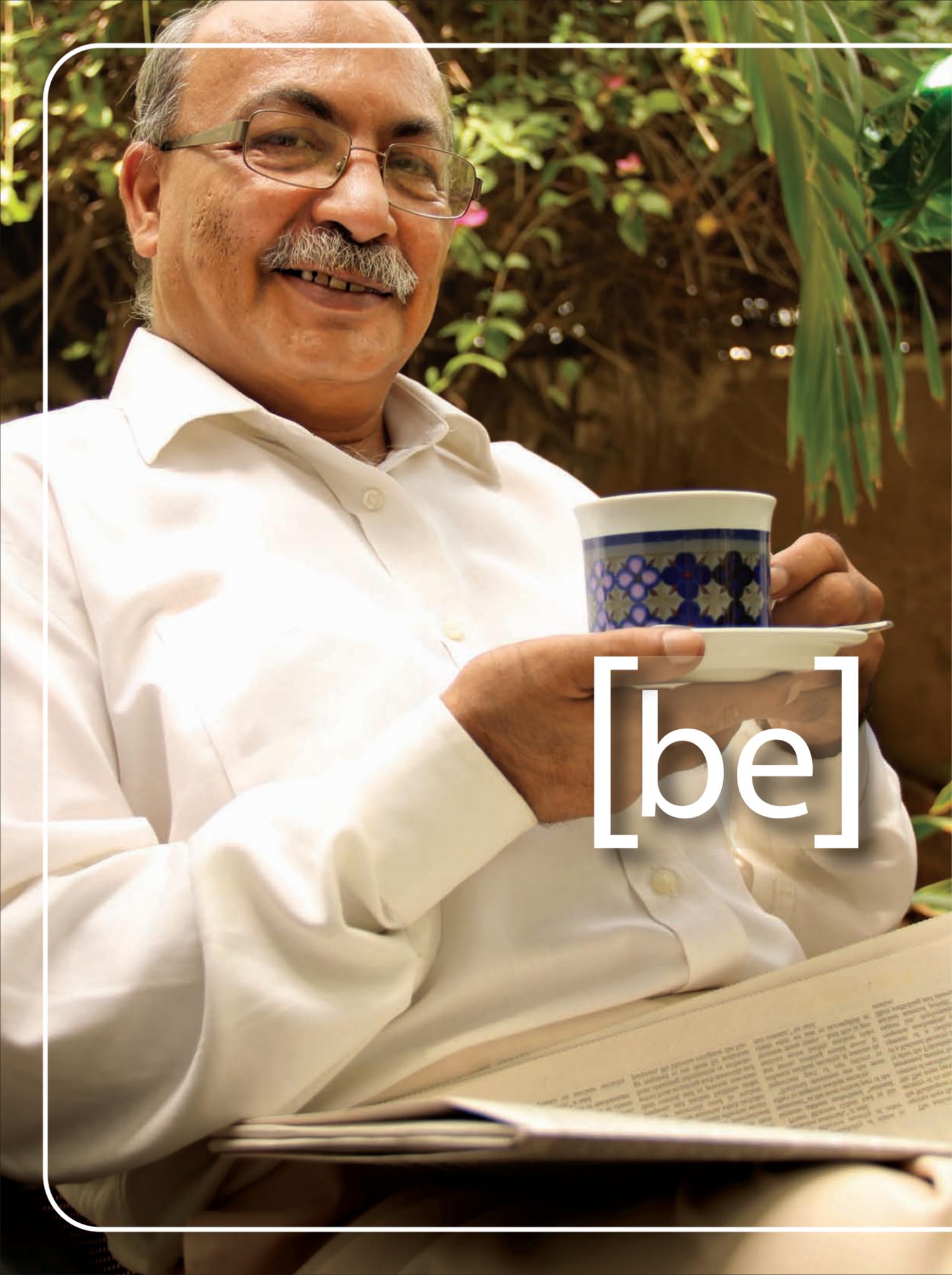
Faraz ul Islam



Disbursal Growth of

# 10%

over the last 2 years.



## Tameer Shajjar Account

Like many people, Mr. Jalal Habib, who had proudly taught English at a private school for nearly 40 years, worried about how he would support himself and his wife after he retired. A fiercely independent man, he did not want to be a burden to his children.

Mr. Habib then found out about Tameer Bank's Shajjar Account, which provided him with the opportunity to earn a return of 16% per month on his savings.

# wise

Mr. Habib made the wise choice and availed this service. Today, thanks to Tameer Bank, Mr. Habib is able to support himself and his wife independently, comfortably, and most importantly with dignity, satisfied in the knowledge that Tameer Bank is there for him.



**I am now able to support myself and my wife, without depending on others. Wisest decision I ever made."**

Jalal Habib



**Monthly Rate of Return on the Shajjar Account**

# 16%



[be]

## Accident Insurance

Like many people, Mr. Sharum Haroon, a businessman by profession, did not see the need to have an accident insurance policy. Despite his reservations, he subscribed to Tameer Bank's Accident Insurance Policy, Sehat-o-Sukoon.

As it turned out, it was a good thing he did. A few months later, Mr. Haroon met with an accident on his way to work, fracturing his arm and several ribs. He was rushed to a local hospital, where his medical bills

# able

amounted to more than Rs 20,000 – which he could not have been able to afford in ordinary circumstances.

Thanks to his insurance policy, Mr. Haroon was able to settle his bills in a matter of days and he could recover from his injury in peace, satisfied in the knowledge that Tameer Bank was there for him.



**“I am now well enough to be able to work and provide for my family...”**

Sharum Haroon



**Growth in the number of clients**

# 118%



## Salary Loan

Like all mothers, Mrs. Anjum Cheema, wanted nothing but the best for her daughters. She wanted them to be educated at the best schools, and do well in life.

Mrs. Cheema availed Tameer Bank's Salary Loan, which allowed her to be able to pay her daughters' admission fees.



**I am now able to educate my daughters, thanks to the resources I now have..."**

Anjum Cheema



# resourceful

Since then, her daughters have been enrolled at reputable schools and are studying hard. Mrs. Cheema is happy that she is able to watch them following their dreams. She is satisfied in the knowledge that Tameer Bank is there for her and her family.

Increase in Loan Portfolio

# 77%

# Vision

To emerge as a global benchmark for innovative and commercially viable microfinance solutions to the unbanked for their socio-economic empowerment.

# Mission

To set new standards of excellence in value added microfinance and related services through innovative technology and a highly skilled/professional staff for customer convenience and satisfaction.



## Equal Opportunity

Equal opportunity is our highest ideal. We are an Equal Opportunity Employer and do not hire on the basis of social status, creed, gender and ethnicity.

# Core Values

## Meritocracy

We take personal responsibility for our role as leaders in pursuit of excellence. We are a performance driven, result oriented organization where merit is the only criterion for reward and the true measure of greatness.

## Integrity

Pioneering commercially viable microfinance activity in Pakistan means we have a duty to serve both the community at large and our stakeholders with the highest standard of integrity.



## Respect

We believe that everyone deserves to be treated with equal dignity and regard, from the humblest loan applicant to the top level executive.

## Innovation

In order to provide financial access to those who have none, and retain a vital edge against all competition, we are firm believers in the power of innovation. Through cutting edge technology, innovative products and distribution systems, a vibrant workforce and culture, we work together for the fruition of the ideas that drive us forward.

# 2010-2011 Awards & Achievements

Since its humble start in 2005 as a small organization with a big dream, Tameer Bank has come a long way in a short while, amassing many accolades and impressive recognition for its efforts along the way. This is an overview of some of those achievements:



**Winner of 3 'Base of pyramid awards' from SBP 2010 & 2011**

**Tameer CTO wins CIO of the year by Pakistan Software Houses Association**

Ali Abbas Sikander, Group Executive Director of Technology at the Bank, won the Chief Information Officer of the Year award at the 2010 PASHA Awards.

**Tameer showcased by World Bank as a 'Model' at the 2010 Annual Meeting**

**CEO Selected as "Leader of the Year" at the 6th Global Microfinance Achievement Awards**

Our CEO Syed Nadeem Hussain was selected 'Leader of the Year' by an international panel of leading micro-financiers at the 6th Annual Global Microfinance Achievement Awards 2011 held in Geneva.

**Winner Global Mobile Money Transfer award for 'Best New Entrant'**

easypaisa won the award for 'Best Mobile Money Transfer Entrant of the Year' at the world's first Mobile Money Transfer (MMT) Awards held in Dubai in October 2010, beating out other esteemed companies such as Vodaphone and Grameenphone, making it the year's best service of its kind in the world.

**Tameer shortlisted by Financial Times and International Finance Corporation 2011 – Sustainable Finance Awards**

The Financial Times and IFC, a member of the World Bank Group, 2011 FT/IFC Sustainable Finance Awards, the major global awards for environmentally and socially responsible banking and investment, shortlisted Tameer as one of the Top 7 out of more than 200 banks in the category for 'Achievement in financing the Base of The Pyramid category'

# Products and Services

Loan Products

Branchless Banking

Deposit Products

Cash Management

Life and Health Insurance



## Loan Products

Our Loan products are designed to meet the specific needs of our customers.

### Karobar Loan

Our Karobar - or Entrepreneur Loan helps our consumers either support their existing business or open up new ones.

- Unsecured Loan
- Tenure: 12 months (extends upto 18 months)

### Housing Loan

Our Housing loan - secured by the deed of the house itself- is a collateral-backed and Equal Monthly Installment (EMI)-based product meant for house extension or improvement.

- Secured, Collateral-backed Loan
- Loan Amount up to Rs. 500,000
- Tenure up to 5 years

### Equity Release Programme

The Equity Release Programme offers customers the facility to borrow funds against assets owned by them, such as "gold" ornaments, government securities, Time Deposit Certificates of the Bank. The purpose ranges from inputs from agriculture to working capital. The loan is guaranteed the same day as the opening of an account.

- Secured Bullet Loan
- Quick Turnaround Time (Same Day Disbursement)
- Tenure 3-12 months

### Group Lending

Group Lending, also known as Solidarity Lending, is a lending practice in which small groups borrow collectively and group members cross-guarantee each other. This product is divided into 2 categories: Agri-group loans and General category loans.

- Equal Monthly Installments (EMI) based loan
- Tenure: 12 months (Maximum)
- Mandatory Savings (10% of loan amount for General Group – 5% of loan amount for Women Group)

### Salary Loan

Salary Loan was designed and launched keeping in mind that not every microfinance customer is self-employed. This loan differs from 'Karobar Loan' in that it is.

- EMI based loan
- Tenure: 1 year

### Tameer Zindagi Aasaan

Ownership of household items such as Television, Refrigerator, Washing Machine, Microwave Ovens and other household durables are no longer a luxury, but a necessity. With this in mind, Tameer 'Zindagi Aasaan' was launched for the financing of white goods with Haier.

- 12 month EMI loan for consumer Items.
- Pilot phase Launched in Karachi.
- Quick Turnaround Time
- Free Home Delivery

### Tameer Mua'ash

This is our CNG Rickshaw financing facility in order to help applicants purchase CNG fuelled Rickshaws for income generation.

- 2 year EMI loan purchase of Rickshaws.
- Up to Rs. 120,000 in financing

### Tameer Kamyab Kissan

This is essentially a warehouse receipt financing facility, for farmers who are often unable to secure their borrowing requirements due to a lack of sufficient conventional collateral. This product uses their produce itself as security for the loan.

## Deposit Products

Our deposit products offer unparalleled advantages to customers, giving them freedom and flexibility when it comes to smart saving.

### Super Checker Account

Tameer Super checker is a non-interest bearing checking account aimed at Small to Medium Shopkeepers/ Businesses and Individuals.

- Accounts opened with a minimum amount of Rs. 50,000 get a free ATM Card
- Owners of accounts with a quarter end balance of more than Rs. 100,000 get a free account statement mailed to them.

### Super Saver Account

Super Saver is a savings account aimed at Individuals (Salaried, Housewives, Retired Personnel etc.), Small to Medium shopkeepers, and Micro-entrepreneurs.

- 8.5% annualized return
- Minimum account opening as low as Rs. 5,000.

### Mahana Sukh Chain

Mahana Sukh Chain is a Term Deposit product which offers monthly profit, where the primary target market is housewives and retired personnel who require a regular income stream.

- 13.34% per annum
- Minimum Investment Amount: Rs. 50,000

### Super Aaj Munafa

Super Aaj Munafa is a Term Deposit product which offers monthly profit. The primary target market is composed of individuals who require up-front lump-sum profit on their investment.

- 11.12% per annum
- Minimum Investment Amount: Rs. 50,000



### **Khas Bachat Certificates**

Khas Bachat Certificate is a back-loaded Term Deposit product. Apart from carrying a highly attractive return, the product has also been bundled with value-added features including Life & Health Insurance, ATM Card, facility to avail Equity Release Programme', and an easypaisa account.

- 14.5% per annum
- Minimum Investment Amount: Rs. 5,000.

### **Tajir Current Account**

Tajir Current Account is a non-interest bearing checking account aimed at Horticulture traders operating in wholesale fruit/vegetable markets and in the supply chain. This product has been designed keeping in mind the needs of the target segments for frequent transactions and other banking services.

- Free Cheque Book
- Free ATM
- Free Pay Orders
- Free Bank Statements
- Free IBFT

### **Tameer Shajjar Account**

This is a Time Deposit product offered specifically for senior citizens with a truly exceptional rate of return.

- 16% per annum
- Flexible investment terms ranging from 1-3 years
- Minimum Investment Amount: Rs. 10,000



## Cash Management

Our Cash Management products are there to help customers and enterprises of all sizes offering services such as Efficient Cash Management through Mobile Service Vehicles (MSV's) and Real Time Gross Settlement (RTGS) to help facilitate large payments.

## 'Sahet O Sukoon' Insurance

This product provides financial security to those who cannot afford emergency health payments. This is especially designed for the low income sector with a focus on women.

### **Individual Health Insurance:**

- Being offered in partnership with AsiaCare (South) and FMiA (North)
- Individual in-patient coverage
- Rs. 650 (Gross Premium)
- Coverage up to Rs. 50,000

### **Life Insurance**

Our Life Insurance is mandatory for all borrowers, except Equity Release Programme Users and costs Rs. 7.5 per month

## Branchless Banking – 'easypaisa'

We are the pioneers of branchless banking in Pakistan and easypaisa is the largest such service in Pakistan. It offers the most convenient access to financial services for all Pakistanis. Whether you have a mobile phone or not, easypaisa offers services that would forever change the way you would perform your financial transactions.:

### **Utility Bill Payment**

### **Loan Repayments**

### **Donations**

### **Home and International Remittances**

### **Domestic Money Transfer facilities**

### **Corporate Solutions:**

We also offer tailor-made branchless banking services to corporate customers to help them make payment services and systems more efficient and lower their operating costs with services such as collection, payment and salary disbursal.

# Gold Equity Release Programme

## Not just for emergencies any more.

Microfinance is an industry with some distinct drivers which determine the flow of the business cycle. It is essentially focused on the individual. The needs of the customers, their usually modest means, how they utilize capital, create wealth and earn money are all factors in determining precisely how we model our business. Time is probably one of the most significant aspects of this. Most customers usually have little or no savings to cope with contingencies such as a hike in raw materials prices, seasonal demands to hasten production or even family emergencies like accidents, illness or death.

The process of due diligence for unsecured loans generally does not make it any easier to obtain funds on an immediate basis either. It usually extends over few days and does not match the delivery expectations of customers. Therefore, most people are either left wanting or forced to turn to the more traditional and far less scrupulous sources of funding such as money lenders. Time is critical as demonstrated by instances of approved loans remaining uncollected after the release of funds.

Keeping the needs of its customers and this large gap in the market in mind, Tameer Microfinance Bank launched what was known as the 'Emergency Loan (EL)' service in early 2008. The product was designed around the concept of 'equity release', which provides potential customers with an opportunity to unlock their savings out of otherwise illiquid assets. These could be in the form of government securities, time deposits and most commonly, gold jewelry.

The product had an immediate and positive response and demonstrated immense customer appeal. Gold jewelry soon emerged as the prime collateral, and now makes up over 80% of our loan portfolio with an outstanding amount of Rs 5.075 billion (US\$ 56.9 million) as of December 31st, 2011. Although this service had existed for decades in Pakistan, it was Tameer Bank which seized the opportunity and made it a viable mainstream financial offering for the low income group. Currently, all Micro-finance banks and some of the large commercial banks are exploring the option of providing a similar service.

### The Savings Psyche of the Subcontinent: A Golden Opportunity

Rapid growth of the portfolio and its analysis brought to light new dimensions of social behavior and the patterns of family savings. Gold, especially in the form of jewelry

has for many centuries been the central means of savings and investment in the sub-continent. It is assuredly the most favoured choice of savings by the low income groups in rural and urban areas. However this method is excluded from the formal measurement of the national savings rate calculation.

Most Pakistanis would rather save money in the form of gold, often bought in small increments of jewelry, rather than in a bank because of

- The stringent requirements of opening an account
- The low interest rate which is in most cases a negative rate of return.
- The lack of branch footprint in rural areas.

Interestingly, the nation's substantial appetite for gold is a cross sectional phenomenon and remains relatively undiminished despite a huge increase in price. This attests to the fiscal value of the gold. The benefits are that it is a unique means of savings being indestructible, liquid and gaining in value over time. This helps families build an asset base, while hedging against inflation, and provide themselves with a measure of financial security.

While Pakistan shows an overall low saving rate as a percentage of GDP, this may be an inaccurate reflection of reality since Pakistanis are thought to be among the top fifteen consumers of gold in the world. Ultimately this jewelry may constitute most family savings yet this remain hidden from formal savings statistics.

The pitfalls of keeping savings solely in the form of gold jewelry in the relative insecurity of one's house, given today's complex security situation, is obviously, less than ideal. The substantial increase seen in gold prices in recent years has

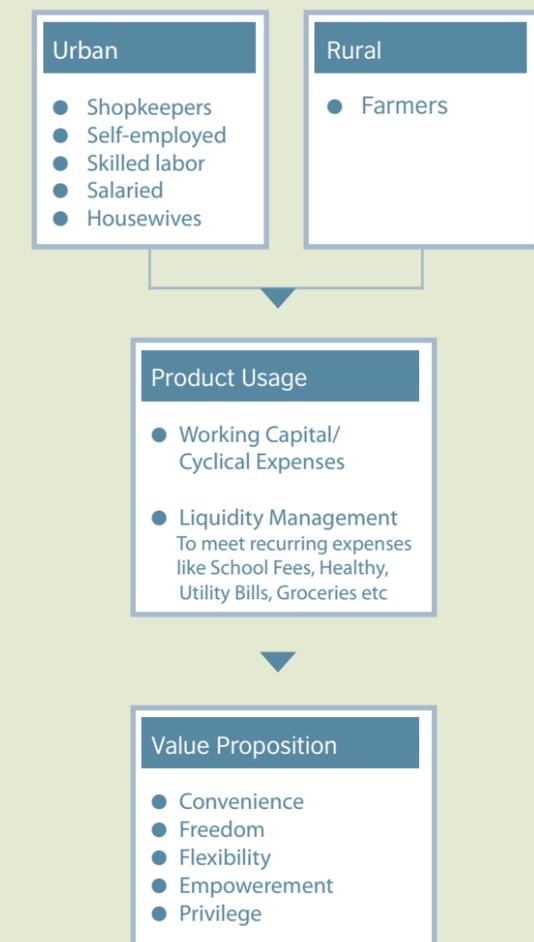
compounded the problem in some ways and, despite its undiminished popularity, has made the purchase of even small amounts of gold very difficult for the vast majority of Pakistanis. Another downside is 'insecurity' since there is no ownership title and when secured, its value is illiquid as there are few opportunities to unlock it from savings unless it is sold. This however, presents a substantial opportunity for Tameer in the form of an equity release service

A customer survey, conducted to understand the product usage, revealed that almost 65% of the product portfolio goes into income generation; whereas, 35% goes into consumption. On an overall basis, 55% of the portfolio rests with the rural segment and the majority uses it for crop financing. The product was originally designed to meet the 'emergency' needs with limited processing time; but that is not the case anymore. Keeping this in mind, the product is undergoing rebranding and will be marketed as the Gold Equity Release Programme to emphasize its evolution as an offering that is a flexible, convenient and rapid source of finance for the business and personal needs of people.

### The Way Forward: All that Glitters is Gold

These consumer insights have also led to development of a variant branded the 'Gold Card' under the pilot launch in 2011. It is a secured credit line designed on the model of running finance. It comes with a card usable on 1-link network having more than 4500 ATMs across the country.

At Tameer, a customer-driven approach forms the central role in product design and development. The traditional values and social impact of gold / jewelry offer immense opportunities for development of financial products aligned with the needs of the people covering both loans and deposit. The Gold Card has been under pilot since 2011 and it will be commercially launched by second quarter 2012 across the network. Similarly, offerings like Digitized Gold Certificates and Gold-linked saving products are under active consideration for development and respective pilots are planned for the third quarter 2012.



## Changing The Game: The easypaisa Revolution

### Changing The Game: The easypaisa Revolution

Tameer Bank and Telenor Pakistan, in their commitment to financial inclusion and providing access to services for all people of Pakistan, launched "easypaisa" together on October 15, 2009. In a country where more than 80% of the adult population is deprived of formal banking services, yet has over 111 million mobile phone users, easypaisa offers user-friendly and convenient mobile financial services that are revolutionizing the lives of millions across the country.

Within days of its launch, the worldwide media feted the easypaisa brand, with CNN.com terming it "the model for the future". By the end of 2011, easypaisa had seen over 39 million transactions worth Rs. 76 billion (USD 844 million). By January 2012, easypaisa conducted over 4 million transactions from approximately 2 million unique customers. The service is the second fastest growing branchless financial service for the unbanked worldwide.

easypaisa services are currently available through two channels: over-the-counter (OTC) or Assisted Services, where any person can go to any of our 17,000+ merchants for their financial transactions. These OTC services are available to any individual and are not restricted to Tameer Bank's Customers or Telenor or Mobile Phone subscribers. As a result, around 65% of easypaisa customers are non-Telenor customers.

OTC Utility Bill Payment and Money Transfer services were also launched along with the easypaisa brand in the 4th quarter of 2009. Instantly popular, the service gave people options to send and receive money to or from any person with a valid CNIC without the long queues and limited working hours that define the traditional branch banking experience. Until the end of December 2011, over 21 million Utility Bills had been paid through easypaisa with a value of over Rs. 23 billion. Similarly, more than 10 million money transfers had been completed with a value of over Rs. 39 billion.

The second channel is Mobile Accounts or self-service, in which registered Telenor subscribers can open a mobile account with Tameer Bank and use their mobile phones for financial transactions; anytime, anywhere and not have to visit easypaisa shops aside from withdrawing and depositing cash. All easypaisa customers are also

always just a phone call away with a dedicated team of banking professionals who provide support and answers.

Mobile Account, added to the easypaisa suite in February 2010, is a Tameer Bank account operated using a mobile phone and are available to all Telenor subscribers. With no minimum balance requirement, one simply has to have a valid CNIC and to visit to any Telenor Sahulat Ghar, Franchises, Sales and Service Centers or Tameer Bank Branches.

Mobile Account subscribers can send/receive up to Rs. 10,000 daily, Rs. 20,000 monthly and Rs. 120,000 yearly. At the end of December 2011, there were about 740,000 registered Mobile Account subscribers. easypaisa Mobile Accounts can be used by the customers to pay their bills, send or receive local remittances, top up the GSM service, and save in a secure manner.

The fourth addition to easypaisa's portfolio was International Home Transfer service Started in August 2010, IHT enables Pakistanis in 85 countries to remit money back to Pakistan. easypaisa has moved over Rs. 2.1 billion in over 383,000 completed transactions through a network of 350 locations comprising of Telenor Franchises, Sales and Service Centers and Tameer Bank branches.

#### **Ease of Access: The Key to Growth**

Our distribution coverage has played a pivotal role in positioning easypaisa as the most easily accessible financial service. There are over 17,000 easypaisa shops in over 750 cities that are strategically selected from 150,000 airtime merchants to cater to the financial needs of the under-served population of Pakistan.

easypaisa has been very successful in building the OTC channel and bringing in additional subscribers under its umbrella. In the future the focus of Tameer Bank is to build success on the Mobile Account product which offers additional benefit in terms of product offering and convenience.

With an aim to leverage the power of easypaisa, new business areas are a prime focus for the easypaisa team. These include, Disbursements (salaries for blue collar workers as well as facilitating social payments Government to Person), ticketing and loan repayments for the microfinance sector, online payments and retail purchase. These services not only represent a revenue opportunity but will also allow easypaisa to build a robust ecosystem.

Within 27 months of launch, by December 31 2011, easypaisa had been used by over 20 million users, delivering on the promise of changing the lives of common Pakistanis through convenience. A study conducted by BCG, shows that given a supportive environment, 35% of the adult population (41 million), could be Mobile Financial Service (MFS) users by 2020 increasing financial inclusion to 41% from the current level of 15%.

easypaisa's positive impact on the lives of common Pakistanis is evident from the survey conducted by CGAP, which shows:

- Around two-fifths (41%) of easypaisa users live on less than \$2.50 per day (in 2005 PPP adjusted dollars). Just under half (45%) of all easypaisa users did not have a bank account, with informal moneylenders providing the second highest tier of financial services.
- Over 90% of respondents rated easypaisa as highly effective.
- Three-quarters of the respondents (76%) feel the service has a positive impact on their lives and a high majority of users (88%) thought the service was easy to use.



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## Company Information

### Board of directors

Mr. Jon Eddy Abdullah	Chairman
Mr. Syed Nadeem Hussain	Chief Executive Officer/ President
Mr. Roar Bjaerum	Director
Mr. Karl Erik Broten	Director
Mr. Christian Albech	Director
Mr. Nizar Noor Mohammed	Director
Mr. Salim Raza	Director

### Chief Financial Officer and Company Secretary

Mr. Kabeer Naqvi

### Auditors

Ernst & Young Ford Rhodes  
Sidat Hyder & Co.  
Chartered Accountants

### Legal Advisors

Ebrahim Hosain

### Registered Office

Tameer Microfinance Bank Limited  
15-A Block 7-8, Central Commercial Area,  
K.C.H.S. Union, Karachi - 75350,  
Pakistan  
Tel: 0092-21-111-111-004  
Fax: 0092-21-34325575  
Email: info@tameerbank.com

### Website

<http://www.tameerbank.com>

### Audit Committee to the Board

Mr. Karl Erik Broten	Chairman
Mr. Roar Bjaerum	
Mr. Nizar Noor Mohammad	

### Branchless Banking Committee

Mr. Jon Eddy Abdullah	Chairman
Mr. Syed Nadeem Hussain	
Mr. Roar Bjaerum	
Mr. Karl Erik Broten	

### Risk Management Committee

Mr. Salim Raza	Chairman
Mr. Karl Erik Broten	
Mr. Roar Bjaerum	

### Human Resources Management & Planning Committee

Mr. Roar Bjaerum	Chairman
Mr. Syed Nadeem Hussain	
Mr. Nizar Noor Mohammed	

### Management Committee

Mr. Syed Nadeem Hussain	Chairman
Mr. Tariq Mohar	Head of Sales, Distribution & Business Support Group Executive Director
Mr. Shahid Mustafa	Chief Risk Officer Group Executive Director
Mr. Ali Abbas Sikander	Head of Technology & Operations Group Executive Director
Mr. Kabeer Naqvi	Chief Financial Officer/Company Secretary Group Executive Director
Ms. Tazeen Adnan	Head of Human Resource Group Executive Director
Mr. Naresh Karia	Head of Compliance

# Committee Functions

## Audit Committee

The Audit Committee was formed to assist the Board in fulfilling its oversight responsibilities. This includes reviewing the financial information, systems of internal controls and risk management and the audit process including the performance of internal and external auditors. It also allows management to access the Bank's process for adherence to the Code of Conduct; and for monitoring of compliance with laws, rules, regulations and directives issued by the regulatory authorities as well as the plans and policies issued by the Bank. The committee is meant to provide an open avenue of communication between the Board of Directors, Management, Internal Audit and the External Auditors.

## Branchless Banking Committee

The Branchless Banking Committee was set up to develop a framework for the future of the Branchless Banking and Mobile Banking Initiative, and help ease the path to implementation of said developments. The BBC provides a forum for discussion and proposal of solutions to any issues related to Branchless Banking that need to be decided by the Board of Directors

## Risk Management Committee

Banks are in the business of taking risk; therefore the RMC was constituted by the Board to perform the risk management activities on its behalf. The primary purpose of the committee is to formalize the Board's governance of the Bank's risk management process and to ensure compliance with the established risk tolerance guidelines. Furthermore the RMC facilitates a better understanding of the risk reward paradigm and helps the BOD to make more informed decisions on the quantum and kind of risk the Bank must take to meet its growth plans. This committee is chaired by Syed Salim Raza, who is the former Governor of State Bank of Pakistan and was also the CEO of Pakistan Business Council (PBC) since February 2006. Mr. Raza also brings to the committee 38 years of international banking experience. His business experience covers credit and corporate finance, real estate and global asset (bonds & equities) management.

### Human Resources Management and Planning Committee

Given that the Human Resources possessed by a banking company are amongst the most valuable factors of business management and expansion, it is imperative that HR function is strong. The HR committee exists in light of this and is entrusted with the task of establishing human resources strategies that ensure optimization of all factors affecting the performance and efficiency of the staff function to ensure hiring, training, re-training, and motivation of all Tameerians so as to maximize operational stability.

### Management Committee

While the business strategy and the direction of TMFB is the purview of the Board of Directors, it was important to constitute a body that provides the highest level of Management oversight to ensure that direction provided by the board is translated into actual business and management actions so the Bank achieves its corporate goals. In view of this, the Management Committee (MANCOM) was created, with the purpose of covering all aspects of control and coordination of the day-to-day running of the Bank's management and operations, and the practical implementation of Decisions. The MANCOM also reviews and appraises the BOD on the impact of regulatory decisions and business requirements to improve efficiency of policy creation and implementation.

### Assets and Liability Committee

The dynamic management of the Balance Sheet of the Bank is a core task. To ensure an efficient, transparent, forward looking and responsive review of this important function, Asset Liability Committee (ALCO) was created. It also ensures adherence to treasury, investment and regulatory policies and procedures. Furthermore it recommends and implement appropriate funding plans to solidify the orderly growth of the business.

## Chairman's Message



Despite the unstable economic and political situation of the country and the devastating floods in Pakistan in 2011, I am pleased to share that Tameer Microfinance Bank continued to deliver well ahead of plan in all aspects of the business. Easypaisa, the joint service offered by Tameer and Telenor Pakistan also continued to expand on the back of innovation and leveraging mobility and a low cost distribution model.

The partnership of Easypaisa that came about as a result of Telenor Pakistan's stake in Tameer, sustained its course of exploring new avenues and brought on

board a number of corporate clients; thus introducing innovative new products in partnerships with both government and private organizations. The growth of the model has been made possible due to the business-friendly and supportive regulations by the regulators of the two industries Pakistan Telecommunication Authority (PTA) and State Bank of Pakistan (SBP). The regulation has not only led to the model viewed as a success in the country and in the world context, but has also contributed towards establishing an ecosystem for branchless banking in Pakistan.

In overview, 2011 was a banner year for the bank. The bank undeniably cemented its position as a major player in the microfinance industry with 66% growth in its portfolio in the year 2011 (which stood at Rs. 5.1 billion at year end) and 53% growth in deposits. As a result of the strong growth, Tameer is now the largest microfinance bank in the country in terms of portfolio size. In parallel Easypaisa continued to enhance its footprint, growing its number of agents to 16,000 or incremental 4,600 agents added to the agent network last year. The growth in agents has helped to further solidify the bank's standing as the financial institution with the largest number of customer touch points and reaffirming its commitment to empower the unbanked through innovation.

Top line revenue growth for the year was exceptional, increasing 58%, while profitability demonstrated a similar advancement, growing from Rs. 7 million in 2010 to Rs. 227 million (before tax) in 2011. Not only did the bank show impressive growth rates but also managed a delinquency rate of less than 1 % which is a remarkable feat given the Sindh floods and challenging market.

2011 was also a year of opportunities for the bank. Microfinance Banks in Pakistan led the growth in microcredit outreach, with an 8% increase in share of active borrowers. For savings, the bank showed the largest net increase in active savers of all microfinance banks. This resulted in the Tameer having a 27% market share.

This year, the easypaisa service received a grant from Gates foundation to develop an insurance and saving product. This is further adding to the innovation that is being fueled under the portfolio of Easypaisa that offers exponential potential for growth to bring access to the unbanked people of Pakistan, in turn also making an impact on the economy of the country.

With organic growth coming through with the effective and efficient utilization of existing resources, the Bank is also looking to invest further into its human capital. The bank aims to build a skilled workforce while moving towards greater empowerment and leadership from within ranks; therefore emphasis has been placed on internal capacity building. The bank has set up an in-house training department to facilitate employee orientation, training and retraining. It is intended that the bank will continue to invest in its Human Resource in order to support the planned growth in a sustainable manner.

Tameer Bank is committed to its vision of bringing financial inclusion to the unbanked people of Pakistan and will continue to work on strengthening its portfolio and market positioning. Easypaisa will continue to explore the market and will build on innovation and reach to further enhance the branchless banking eco system.

I would like to thank our valued customers for their support and would like to reassure them of our commitment towards bringing financial inclusion to all. The management team and employees of Tameer Micro Finance Bank are driven by the vision of Inclusion and with the dedication of the Tameer board members, Tameer is well on its way.

**Jon Eddy Abdullah**  
Chairman

## President and CEO's Message



Tameer Bank continues to swim against the tide. 2011 was another challenging economic year for the country. As if double digit inflation and crippling power outages were not enough, the province of Sindh experienced another devastating flood. These events, combined with frequent strikes, reduced the number of working days. However; unlike the Microfinance Industry which managed a growth of 15 percent in its gross loan portfolio with a 3.7 per 30 day portfolio at risk, (PAR 30), Tameer grew its loan portfolio by 66 percent with PAR 30 days portfolio at 0.69 percent. I am pleased to announce that we ended the year as the largest and most profitable Microfinance Bank in the Industry within six years of our incorporation.

In our seventh year of operations we intend to not only become the dominant player in the micro and small market. Our objective is to be recognized for both our core banking as well as our Branchless banking business on a global scale. Our extensive list of goals includes becoming the principal architect of reducing financial exclusion, as well as gaining recognition for being an exemplar for financially sustainable Microfinance in the international framework.

Over the course of the last six years we have developed three unique selling propositions which have assisted us in reaching our current position of the largest and most profitable Microfinance Bank in Pakistan. In addition we hold the prestigious position of being included in the top ten institutions in the world for Branchless banking. It is our intention to continue to leverage these USPs as we move forward from completion and create a unique and complete-service Microfinance Bank.

Our first USP is low cost distribution. This distribution network, when fully leveraged, will over a period of three years enable us to become the dominant player in the lending business for Microfinance customers at the bottom of the pyramid. We aim to challenge retail banks for savings, cash management, insurance and international and domestic remittances. Our strategy is twofold. The first part incorporates a traditional bricks and mortar branch network. However; this will reside within a hub and spoke framework. A Branch can be supported by up to five or six financial centres within a 10 kilometre radius. A financial centre is a complete- service branch. It can take deposits, has a real time on-line connection to our system, provides withdrawals and will become a direct member of the clearing system. The only variation from a branch is that accounts opened at a financial centre, need to be reflected at its hub branch. The business impact difference from a branch is that a financial centre is usually located in smaller towns; hence its capital expenditure and operational cost are nominal compared to a complete- service branch. As we expand our hub branches, the spokes will grow in multiples, allowing us to reach our optimum physical footprint in the most cost effective manner. The traditional branch network is needed to generate low cost deposits as well as to provide cash management services. The second element of physical presence constitutes the easypaisa agents. Out of the 180,000 agents whom are dedicated Telenor Pakistan air time distribution agents, we have selected 16,000. At an easypaisa agent centre a customer may deposit and withdraw cash, pay utility bills and open mobile wallet accounts. For all practical purposes we have provided a bank branch for the common man as his needs do not exceed these basic services.

Easypaisa centres are located nationwide, including small towns. They are open late and are usually close to where our customers reside. . This network will continue to grow. It currently exceeds the combined branches and ATM network of the entire Banking industry. The third distribution channel is the mobile phone. Customers can migrate after having experienced our over the counter services at the easypaisa agent outlets or can directly open a mobile wallet account. All the services available at the easypaisa agent location are available through the mobile wallet . The account can be opened at an easypaisa outlet or at a branch of Tameer Bank. Deposits and withdrawals can be made in the same manner. Prior to the end of this year, a mobile wallet customer, through our One Link membership, will be able to pull and push money from any account in the banking system. The potential distribution points of this channel equal the number of mobile phones in the system. Therefore; our distribution presence starts with a traditional full service branch, shifts to dedicated Easypaisa agents and then reaches a truly Branchless position through the mobile wallet on a cell phone. At each stage the actual cost of establishing the customer point decreases exponentially, while catering to the core needs of the customer.

The second USP that we have developed over time is our credit underwriting and collection skill. Despite adverse macro- economic conditions which materially impacted the portfolio of consumer Banks and the crippling flood in the Sindh province which had an adverse impact on both commercial as well as microfinance banks, we ended the year with a write- off ratio of 0.32 percent and a portfolio at risk 30 days of 0.69 percent. The Microfinance industry ended the year with a portfolio at risk 30 days of 3.7 percent. The comparable number for the retail bank market was in excess of 15 percent. Our credit initiation process does not follow conventional Microfinance industry norms and has been developed internally. It is a combination of the Microfinance industry and the consumer bank industry process . It has a very high level of up- front filters. Credit decisions are centralized and strong client contact is maintained throughout the currency of the loan. While this process creates higher than normal underwriting costs , this is more than compensated by the high portfolio quality. Our lending methodology allows us to generate a loan size three times the industry. In addition, it gives us the confidence to scale in a challenging macro- economic environment through existing and launch of new unsecured products.

Our third USP is technology. From the inception our philosophy was to use technology to bring our cost of acquisition and maintenance down. A business which has small ticket loans and needs scale to

reach profitability cannot operate on a manual basis. The use of technology is pervasive within the organization. As a result all our customer touch points are real time on-line. We were the pioneers of introducing bio-metric ATMs in Pakistan and will again lead the field with the introduction of bio-metric Point of Sale machines for account opening and payments within our expanded distribution network. The use of smart cards for government to employee payments, including BISP and EOBI, will transform the lives of our customers. Technology is also extensively used internally for business management purposes. Daily MIS along with data mining has allowed us to manage the business more successfully. In time we will try to automate the bulk of our process. This will reduce cost, increase efficiency and aid in reducing the negative environmental impact which results from excessive use of paper.

The combination of the above will in the coming years enable us to achieve the status of a game changer and become the lead financial institution for reducing financial exclusion in Pakistan. The unique combination of our credit skills and our unparalleled distribution network will enable us to provide a wide range of financial services to both the banked and the previously unbanked in a customer friendly and financially feasible manner. In the first stage we will advance from using Easypaisa as a transactional channel to a financial services channel. This will include credit, savings and health services. Simultaneously we will examine new segments such as dairy, small farmers, alternative energy, white goods, motorcycles and private schools to determine if financial intervention can add value. By the end of the 3rd quarter we would have completed our pilot programs and be ready to scale. Prior to the end of this year we will also establish an Islamic bank window.

Tameer Bank is poised to create history in the financial sector. As we improve our bottom line exponentially, we will not forget that our objective is to create a social impact as well. I look forward to the possibilities that lie ahead of us and simultaneously have confidence that the young team we have built in the span of the previous six years is prepared to meet the challenge. Yet another beneficial factor is the access available to us in the global resources of the (previously) Telenor Group. The management has worked relentlessly to create a sustainable model, which when scaled disproportionately improves our pre-tax numbers. I am proud to report that we have reached that tipping point and I expect our pre-tax profit along with our social impact to outstrip the industry by a significant margin.

**Syed Nadeem Hussain**  
Founder, CEO and President

## Board of Directors



Jon Eddy Abdullah  
Chairman



Nadeem Hussain  
Founder, President and CEO



Roar Bjaerum  
Director



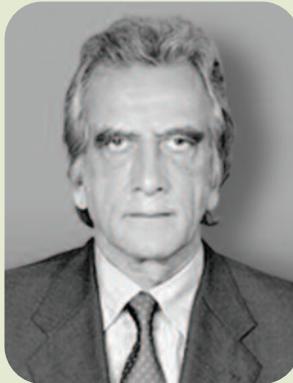
Karl Eric Broten  
Director



Christian Albech  
Director



Nizar Noor Mohammed  
Director



Salim Raza  
Director

## Management Committee





*As viewed from right to left:*

Mr. Kabeer Naqvi

Mr. Shahid Mustafa

Mr. Shyam Lal

Mr. Nadeem Hussain

Mr. Tariq Mohar

Mr. Ali Abbas Sikander

Ms. Tazeen Adnan

Mr. Naresh Karia

## Director's Report to the Shareholders

It is our privilege to present on behalf of the Board of Directors the audited financial statements of Tameer Micro Finance Bank Limited ('The Bank') for the year ended December 31, 2011. The Bank has shown tremendous progress as compared to the last year and is on the right track and fully committed to achieve its long-term goals of fast track growth and prosperity.

Overall the Bank has increased its balance sheet footing by 57% Rs. 5.279 billion last year to Rs. 8.281 billion in the current year. The increase is mainly attributable to the increase in net advances by 66% from Rs. 3.046 billion last year to Rs. 5.054 billion during this year. Apart from increase in core banking business, Branchless Banking business has also shown a huge growth as compared to the last year. On the other side deposits also increased by 53% from Rs. 2.955 billion to Rs. 4.512 billion during the current year.

Financial Results	Rupees '000	
	December 31, 2011	December 31, 2010
Profit before taxation	226,721	7,067
Less: Taxation-Current	(17,078)	(9,647)
-Deferred	(75,173)	251,952
Profit after taxation	134,470	249,372
Earnings per share	1.00	1.85

### Transfer to Reserves

As per the requirements of the Microfinance Institution Ordinance, 2001 and the Prudential Regulations for Microfinance Banks issued by the State Bank of Pakistan, the Bank has transferred an amount equivalent to 20% of profit after tax to the statutory reserve (Rs.26,893,949) and 5% of profit after tax to the Depositors' Protection Fund (Rs.6,723,487).

### Capital Adequacy Ratio

The Bank's Capital Adequacy Ratio as of 31.12.2011 stood at 60% compared to 39% as of the end of December 2010. The SBP regulation with regard to General Provision on Advances had been amended during the year. As per the revised regulation, no provisioning is required for the portfolio secured against Liquid Assets (Gold) and the provisioning requirement for the unsecured portfolio has changed from 1.5% to 1% as a result of which a one off provision reversal of PKR 56 M occurred.

### Board of Directors

One casual vacancy occurred during the year 2011, which was subsequently filled up by the Board during the year. However by the end of the year, one member of the Board of Directors resigned thereby creating a casual vacancy again.

### Corporate Governance

The Board of Directors of the Bank is responsible to the shareholders for the management of the Bank. It acknowledges the responsibility for the system of sound internal controls and is committed to uphold the highest standards of Corporate Governance.

## Statement of Corporate governance

The Directors are pleased to state that:

- a) The financial statements, prepared by the management of the Bank present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- b) Proper books of account of the Bank have been maintained.
- c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d) International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
- e) The system of internal control is sound in design and has been effectively implemented and monitored. The ultimate responsibility of the effectiveness of the internal control system and its monitoring lies with the Board. An Audit Committee has been formed for the purpose that meets periodically and independently throughout the year with the management and also the internal and external auditors to discuss the effectiveness of internal control system and other financial reporting matters. In addition, there are financial forecasts and budgetary control procedures in place, which are reviewed and monitored throughout the year to indicate and evaluate the variances from the budget.
- f) The Bank has successfully adopted the Group Policy Framework which has helped in further strengthening its governance structure.
- g) There are no significant doubts upon the bank's ability to continue.
- h) During the year, 5 board meetings were held. These meetings were attended by the directors as under:

Name of Directors	Designation	Number of meetings Held during the year	Attended
Mr. Jon Eddy Abdullah	Chairman	5	4*
Mr. Nadeem Hussain	Chief Executive	5	5
Mr. Karl Erik Broten	Director	5	4*
Mr. Roar Bjaerum	Director	5	5
Mr. Salim Raza	Director	5	5
Mr. Nizar Noor Muhammad	Director	5	3*
Mr. Christian Albech	Director	5	3

\* Leaves of absences were granted to Mr. Jon Eddy Abdullah, Mr. Karl Erik Broten and Mr. Nizar Noor Mohammed who could not attend certain Board Meetings.

The following changes have taken place in the Board of Directors during the year ending in December 31, 2011:

- Mr. Christian Albech joined the Board on March 14th, 2011 and resigned in the month of December 2011, thereby creating a casual vacancy.
- i) The key information as to operating and financial data of the bank is available in the annual report. The categories and pattern of shareholding as required by the Companies Ordinance, 1984, are also included in the annual report.
  - j) No executive has acquired any shares in the bank during the year and no trading was carried out in the shares of the bank during the year by the Directors, Chief Executive Officer, Chief Financial Officer, Company Secretary, Chief Internal Auditor or their spouses and Minor children.

### Audit Committee

The Audit Committee consists of three Non-Executive Directors, namely Mr. Karl Erik Broten, Mr. Roar Bjaerum and Mr. Nizar Noor Muhammad.

### Credit Rating

Based on the results for the year ending in December 31, 2011, the credit rating company JCR-VIS & PACRA has rated the Bank as A, A-1.

### Auditors

The present auditor Messrs Ford Rhodes Sidat Hyder & Co. Chartered Accountants retired and being eligible, offer themselves for re-appointment for the next term.

### Events after Balance Sheet Date

There have not been any material events that occurred subsequent to the date of the Balance Sheet that require adjustments to the enclosed financial statements, except those which have already been made or disclosed.

### Pattern of Shareholding

The pattern of Shareholding as of December 31, 2011 is annexed with this report.

### Financial Highlights

Key financial highlights are summarized and annexed to this report.

### Earnings Per Share

Earnings per share of the bank for the year ending in 2011 is 1.00 compared to 1.85 as of the end of year in 2010.

### Statement of Investments of Provident & Gratuity Fund

Value of investments including accrued income of provident and gratuity funds as of December 31, 2011 on the basis of un-audited accounts is:

Provident Fund	112,140,000
Gratuity Fund	47,150,000

### Appreciation & Acknowledgment

We take this opportunity to express our gratitude to our customers and business partners for their continued support and trust. We offer sincere appreciation to the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan for their guidance and cooperation extended to the bank. Finally, we are also thankful to our associates, staff and colleagues for their committed services provided to our valued customers.

On behalf of the Board,

**Syed Nadeem Hussain**  
President / Chief Executive Officer  
Karachi: March 26, 2012

**Jon Eddy Abdullah**  
Chairman

## Auditor's Report to the Members

We have audited the annexed balance sheet of Tameer Microfinance Bank Limited (the Bank) as of 31 December 2011 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, 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 purpose of our audit.

It is the responsibility of the Bank's Board of Directors to establish and maintain a system of internal control, and prepare and present the 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 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 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 expenditure incurred during the year were in accordance with the objectives of the Bank;
- (c) In our opinion and to the best of our knowledge 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 of 31 December 2011 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 Accountant**

Audit Engagement Partner: Arsalan Khalid

Date: 01 March 2012

Karachi

As of December 31st **2011**

Total Branch-Banking Touch-points	<b>106</b>
Total Mobile (Agent/Franchise) Banking Touch-points	<b>15,948</b>
Total Active Customers	<b>641,386</b>
Total Active Borrowers	<b>132,728</b>
Women Active Borrowers	<b>46,899</b>
Outstanding Loan Portfolio (In Rupees)	<b>5.0</b> Billion
Loan Disbursement Jan-Dec. 2011 (In Rupees)	<b>6.9</b> Billion
Total Deposits (In Rupees)	<b>4.5</b> Billion
Portfolio Delinquency (PAR) 30 days plus (In Percentage)	<b>0.69%</b>
Company Employees (Direct Payroll)	<b>744</b>

# Balance Sheet

As of December 31, 2011

	Note	Rupees '000	
		2011	2010
<b>ASSETS</b>			
Cash and balances with State Bank of Pakistan and National Bank of Pakistan	8	516,706	310,485
Balances with other banks	9	1,258,896	926,107
Lending to financial institutions		–	–
Investments	10	328,236	177,724
Advances - net of provisions	11	5,054,297	3,045,537
Operating fixed assets	12	252,812	188,611
Other assets	13	656,273	341,431
Deferred tax asset - net	14	213,886	289,205
<b>Total Assets</b>		<b>8,281,106</b>	<b>5,279,100</b>
<b>LIABILITIES</b>			
Deposits and other accounts	15	4,512,529	2,954,653
Borrowings	16	1,801,725	661,608
Subordinated debt		–	–
Other liabilities	17	491,007	311,587
Deferred tax liabilities		–	–
<b>Total Liabilities</b>		<b>6,805,261</b>	<b>3,927,848</b>
<b>Net Assets</b>		<b>1,475,845</b>	<b>1,351,252</b>
<b>REPRESENTED BY:</b>			
Share capital	18	1,346,939	1,346,939
Reserves		439,430	405,812
Accumulated loss		(328,145)	(428,997)
		1,458,224	1,323,754
Deficit on revaluation of assets - net of tax	19	(17)	(289)
Deferred grants	20	17,638	27,787
		1,475,845	1,351,252
<b>MEMORANDUM / OFF BALANCE SHEET ITEMS</b>			

The annexed notes 1 to 38 form an integral part of these financial statements.

President &  
Chief Executive Officer

Chairman

Director

Director

# Profit and Loss Account

For the year ending in December 31, 2011

	Note	Rupees '000	
		2011	2010
Mark-up / return / interest earned	21	1,277,002	753,406
Mark-up / return / interest expensed	22	(445,874)	(181,769)
<b>Net mark-up / interest income</b>		<b>831,128</b>	<b>571,637</b>
Reversal / (provision) against non-performing loans and advances	11.2	21,404	(24,864)
Provision for diminution in the value of investments		–	–
Bad debts written off directly - net of recoveries	11.4	(3,263)	(384)
		18,141	(25,248)
<b>Net mark-up / interest income after provisions</b>		<b>849,269</b>	<b>546,389</b>
<b>Non mark-up / interest income</b>			
Fee, commission and brokerage income		350,899	194,054
Dividend income		–	–
Other income	24	56,978	117,294
<b>Total non mark-up / interest income</b>		<b>407,877</b>	<b>311,348</b>
		1,257,146	857,737
<b>Non mark-up / interest expenses</b>			
Administrative expenses	25	(1,011,568)	(825,298)
Other provisions / write offs		(3,271)	(3,511)
Other charges	26	(15,586)	(21,861)
<b>Total non mark-up / interest expenses</b>		<b>(1,030,425)</b>	<b>(850,670)</b>
		226,721	7,067
Extraordinary / unusual items		–	–
<b>Profit before taxation</b>		<b>226,721</b>	<b>7,067</b>
Taxation - current	27	(17,078)	(9,647)
- prior		–	–
Taxation - deferred	14.1	(75,173)	251,952
		(92,251)	242,305
<b>Profit after taxation</b>		<b>134,470</b>	<b>249,372</b>
			(Rupees)
<b>Basic and diluted earnings per share</b>	28	<b>1.00</b>	<b>1.85</b>

Appropriations are reflected in the statement of changes in equity.  
The annexed notes 1 to 38 form an integral part of these financial statements.

President &  
Chief Executive Officer

Chairman

Director

Director

# Statement of Comprehensive Income

For the year ending in December 31, 2011

	Rupees '000	
	2011	2010
<b>Net profit for the year</b>	<b>134,470</b>	249,372
<b>Other comprehensive income</b>	-	-
<b>Total comprehensive income for the year</b>	<b>134,470</b>	249,372

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 38 form an integral part of these financial statements.

# Statement of Changes in Equity

For the year ending in December 31, 2011

Rupees '000

	Share capital	Capital reserves			Accumulated loss	Total
		Share premium	Statutory reserve	Depositors' Protection Fund		
<b>Balance as of 01 January 2010</b>	<b>1,346,939</b>	<b>343,469</b>	<b>–</b>	<b>–</b>	<b>(616,026)</b>	<b>1,074,382</b>
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)	–
<b>Balance as of 31 December 2010</b>	<b>1,346,939</b>	<b>343,469</b>	<b>49,874</b>	<b>12,469</b>	<b>(428,997)</b>	<b>1,323,754</b>
Net profit for the year	–	–	–	–	134,470	134,470
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	134,470	134,470
Transfer to statutory reserve *	–	–	26,894	–	(26,894)	–
Contribution to Depositors' Protection Fund **	–	–	–	6,724	(6,724)	–
<b>Balance as of 31 December 2011</b>	<b>1,346,939</b>	<b>343,469</b>	<b>76,768</b>	<b>19,193</b>	<b>(328,145)</b>	<b>1,458,224</b>

\* 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 38 form an integral part of these financial statements.

President &  
Chief Executive Officer

Chairman

Director

Director

# Cash Flow Statement

For the year ending in December 31, 2011

	Note	Rupees '000	
		2011	2010
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit before taxation		226,721	7,067
<b>Adjustments for non cash items</b>			
Depreciation		57,363	43,860
Amortisation		5,940	3,582
Finance charges on leased assets		576	71
(Reversal) / provision against non-performing loans and advances		(18,141)	25,248
Provision for gratuity		14,487	11,854
Other provisions		3,271	3,511
Amortisation of discount on investments		(41,975)	(17,488)
Loss on derivative financial instrument		10,950	21,682
Grant income		(17,448)	(98,234)
Gain on sale of operating fixed assets		(340)	(1,639)
		14,683	(7,553)
<b>Increase in operating assets</b>			
Advances		(1,990,619)	(1,557,538)
Other assets		(315,691)	(150,585)
		(2,306,310)	(1,708,123)
<b>Increase in operating liabilities</b>			
Deposits and other accounts		1,557,876	1,686,824
Other liabilities		151,907	228,254
		1,709,783	1,915,078
Income tax paid		(10,370)	(2,743)
Gratuity paid		(13,045)	(12,703)
Net cash (used in) / inflow from operating activities		(378,538)	191,023
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Investments in available-for-sale securities		(3,693,499)	(489,470)
Investments in operating fixed assets		(113,937)	(83,393)
Proceeds from redemption of available-for-sale securities		3,585,597	386,000
Sale proceeds from disposal of operating fixed assets		7,847	5,446
Net cash used in investing activities		(213,992)	(181,417)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Grant received		7,299	74,778
Borrowings from financial institutions		1,125,679	328,018
Payments of lease obligation		(1,438)	(1,978)
Net cash inflow from financing activities		1,131,540	400,818
<b>Net increase in cash and cash equivalents</b>			
		539,010	410,424
Cash and cash equivalents at beginning of the year		1,236,592	826,168
Cash and cash equivalents at end of the year	29	1,775,602	1,236,592

The annexed notes 1 to 38 form an integral part of these financial statements.

# Notes to the Accounts For the year ending in December 31, 2011

## 1 STATUS AND NATURE OF BUSINESS

- 1.1** Tameer Microfinance 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 a 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 office is situated at 15-A, Block 7 & 8, KCHS, Union, Karachi. The Bank's principal business is to provide microfinance 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.
- 1.2** The Bank is in the process of issuing redeemable capital in the form of rated, listed and secured Term Finance Certificates ('TFCs') under section 120 of the Companies Ordinance, 1984, of Rs. 1,000 million. The proceeds of the TFC's shall be utilized for overall business expansion of the Bank. The issue will be secured through the Microfinance Credit Guarantee Facility scheme, provided by the SBP.

## 2 BASIS OF PRESENTATION

These financial statements have been prepared in compliance 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 are comprised of the International Financial Reporting Standards (IFRS's), 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 IFRS's, 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 Rupees, which is the Bank's functional and presentation currency.

- 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 revised and amended IFRSs and related interpretations which became effective during the year:

IAS 24 - Related Party Disclosures (Revised)

IAS 32 - Financial Instruments: Presentation – Classification of Rights Issues (Amendment)

IFRIC 14 - Prepayments of a Minimum Funding Requirement (Amendment)

IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments

In May 2010, the IASB issued amendments to various standards primarily with a view to removing inconsistencies and clarifying wording. These improvements are listed below:

IFRS 3 - Business Combinations

- Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS
- Measurement of non-controlling interests
- Un-replaced and voluntarily replaced share-based payment awards

IAS 1 - Presentation of Financial Statements

- Clarification of Statements of changes in equity

IAS 27 - Consolidated and Separate Financial Statements

- Transition requirements for amendments made as a result of revision in IAS 27 "Consolidated and Separate Financial Statements"

IAS 34 - Interim Financial Reporting

- Significant events and transactions

IFRIC 13 - Customer Loyalty Programmes

- Fair value of award credits

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 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, as appropriate.

Investments (other than held-for-trading) are initially measured at fair value plus transaction costs associated with the investments. Held-for-trading investments are initially measured at fair value and transaction costs are expensed out in the profit and loss account.

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

**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 margins 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 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 which 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 an effective interest method and taken to the profit and loss account.

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 the 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 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.

**5.7 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.

**5.8 Off setting**

Financial assets and financial liabilities are 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**

**Property and equipment - owned**

These are stated at costless accumulated depreciation and impairment (if any). Depreciation is charged using the straight-line basis over the estimated useful lives of assets. A full month's depreciation is charged in the month of addition and no depreciation is charged for the month in which the disposal is made. The 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 which 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.

#### **Property and equipment - 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 end of their fair value and the present value of minimum lease payments at inception of the lease, less accumulated depreciation and impairment (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. Depreciation is charged on a similar basis to owned assets.

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

These are stated at costless impairment loss (if any).

#### **Intangibles**

Intangible assets with a definite useful life are stated at costless accumulated amortisation and impairment (if any). These 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.

#### **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 an 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 that occurred 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 is comprised 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.

#### **Current**

Provision for current taxation is based on the taxable income for the year determined in accordance with the Income Tax Ordinance, 2001. The charge for 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 so, at the balance sheet date.

## **5.12 Staff retirement benefits**

### **Defined benefit plan**

The Bank operates a funded gratuity scheme for its eligible permanent and contractual employees. Provision is made annually on the basis of actuarial recommendations based on projected unit credit method. 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 eligible employees. Equal monthly contributions are made, both by the Bank 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 are recognised on accrual basis, except in the case of advances classified under the Prudential Regulations on which mark-up is recognised on a receipt basis.

The 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 sale / settlement occurs.

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

## **5.14 Foreign currency transactions**

Foreign currency transactions are translated into Pakistani 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 profit and loss account.

## **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 period 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 a liability in the period in which it is declared.

## STANDARDS AND AMENDMENTS TO APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE

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

	<b>Effective date (accounting periods beginning on or after)</b>
IAS 1 - Presentation of Financial Statements – Presentation of items of comprehensive income	01 July 2012
IAS 12 - Income Taxes (Amendment) - Recovery of Underlying Assets	01 January 2012
IAS 19 - Employee Benefits – (Amendment)	01 January 2013

The Bank expects that the adoption of the above revisions and amendments of the standards will not materially affect the Bank's financial statements in the period of initial application other than the amendments to IAS-19 ' Employee Benefits'. Such amendments range from fundamental changes to simple clarifications and re-wording. The significant changes include the following:

- For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e. the corridor approach) has been removed. As revised, actuarial gains and losses are recognised in other comprehensive income when they occur. Amounts recorded in profit and loss are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). All other changes in the net defined benefit asset (liability) are recognised in other comprehensive income with no subsequent recycling to profit and loss.
- Objectives for disclosures of defined benefit plans are explicitly stated in the revised standard, along with new or revised disclosure requirements. These new disclosures include quantitative information of the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption.

The Bank is currently assessing the impact of the above amendments which are effective from 1 January 2013 on the financial statements . However, it is expected that the adoption of the said amendments will result in change in the Bank's accounting policy related to recognition of actuarial gains and losses as referred to in note 5.12 to the financial statements.

In addition to the above, following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan:

	<b>IASB effective date (annual periods beginning on or after)</b>
IFRS 9 - Financial Instruments: Classification and Measurement	01 January 2015
IFRS 10 - Consolidated Financial Statements	01 January 2013
IFRS 11 - Joint Arrangements	01 January 2013
IFRS 12 - Disclosure of Interests in Other Entities	01 January 2013
IFRS 13 - Fair Value Measurement	01 January 2013

## 7

## SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Estimates and judgments are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In the process of applying the accounting policies, management has made the following estimates and judgments which are significant to the financial statements:

	<b>Note</b>
Classification and valuation of investments	5.4 & 10
Provision against non-performing loans and advances	5.5 & 11
Residual values, useful lives of assets and methods of depreciation / amortisation	5.9 & 12
Recognition of current and deferred taxation	5.11 & 14
Provision for defined benefit plan	5.12 & 32

## 8

## CASH AND BALANCES WITH STATE BANK OF PAKISTAN (SBP) AND NATIONAL BANK OF PAKISTAN (NBP)

	Note	2011	2010
Cash in hand		<b>245,490</b>	139,980
Balance with SBP		<b>209,248</b>	121,651
Balance with NBP		<b>61,968</b>	48,854
	8.1	<b>271,216</b>	170,505
		<b>516,706</b>	310,485

Rupees '000

- 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

<b>In Pakistan</b>			
- Current accounts		<b>3,200</b>	32,825
- PLS deposit accounts	9.1	<b>405,696</b>	213,282
- Term deposit accounts	9.2	<b>850,000</b>	680,000
		<b>1,258,896</b>	926,107

- 9.1** Represent demand deposits with commercial banks carrying mark-up ranging from 5% to 12% (2010: 5% to 12%) per annum.

- 9.2** Represent term deposits with commercial banks carrying mark-up ranging from 11.6% to 12.3% (2010: 12.5% to 13%) per annum, with maturities upto February 2012.

## 10 INVESTMENTS

	Note	Rupees '000	
		2011	2010
<b>Federal Government Securities - available-for-sale</b>			
Pakistan Investment Bonds		–	19,983
Market Treasury Bills	10.1	<b>328,263</b>	158,186
		<b>328,263</b>	178,169
Deficit on revaluation of assets	19	<b>(27)</b>	(445)
		<b>328,236</b>	177,724

- 10.1** These carry interest rates ranging between 11.78% to 11.85% (2010: 11.78% to 12.32%) per annum and have matured in January 2012. These securities have an aggregate face value of Rs. 330 million (2010: Rs. 160 million).

## 11 ADVANCES - net of provisions

Micro-credit	Note	Rupees '000			
		2011		2010	
		Number of loans	(Rupees in '000)	Number of loans	(Rupees in '000)
- Secured		<b>62,162</b>	<b>4,229,077</b>	37,704	2,235,449
- Unsecured		<b>70,566</b>	<b>841,345</b>	73,449	860,595
		<b>132,728</b>	<b>5,070,422</b>	111,153	3,096,044
Less: Provision held					
- Specific	11.1	<b>962</b>	<b>(5,978)</b>	1,144	(4,129)
- General	11.3	–	<b>(10,147)</b>	–	(46,378)
	11.2		<b>(16,125)</b>		(50,507)
			<b>5,054,297</b>		3,045,537

### 11.1 Particulars of non-performing advances

Advances include Rs. 34.762 million (2010: Rs. 14.613 million) which have been placed under non-performing status as detailed below:

	Note	2011			2010		
		Amount outstanding	Provision required	Provision held	Amount outstanding	Provision required	Provision held
OAEM		13,354	–	–	6,194	–	–
Substandard		9,867	1,754	1,754	2,135	498	498
Doubtful		10,578	3,292	3,292	4,768	2,191	2,191
Loss		963	932	932	1,516	1,440	1,440
		<b>34,762</b>	<b>5,978</b>	<b>5,978</b>	<b>14,613</b>	<b>4,129</b>	<b>4,129</b>

## 11.2 Particulars of provision against non-performing advances

	Note	2011			2010		
		Specific	General	Total	Specific	General	Total
Opening balance		4,129	46,378	50,507	3,550	23,044	26,594
Charge for the year		17,786	20,201	37,987	14,564	23,334	37,898
Reversals		(2,959)	(56,432)	(59,391)	(13,034)	–	(13,034)
		14,827	(36,231)	(21,404)	1,530	23,334	24,864
Amount written off	11.4	(12,978)	–	(12,978)	(951)	–	(951)
Closing balance		5,978	10,147	16,125	4,129	46,378	50,507

11.3 During the year, the SBP, via its Circular Letter No.01 dated 16 September 2011, has amended the PR for provisioning requirements for Microfinance Banks. Under the new regulation, the general provisioning requirements for loans secured against gold or other cash collateral with an appropriate margin have been withdrawn. Further, in case of all other loans, general provision is required to be maintained at 1% of net outstanding advances. Previously, the Bank was required to maintain the general provision at the rate of 1.5% of net outstanding advances. This change in provisioning methodology has been applied prospectively with effect from 16 September 2011, which has resulted in a decrease in general provision for the year of Rs. 56.432 million, and consequent increase in profit before taxation for the year of Rs. 56.432 million.

## 11.4 Particulars of write offs

	Note	2011	2010
Against provisions		12,978	951
Directly charged to profit and loss account - net of recoveries		3,263	384
		16,241	1,335

## 12 OPERATING FIXED ASSETS

	Note	2011	2010
Property and equipment	12.1	227,503	170,155
Intangible assets	12.2	11,091	10,766
Capital work-in-progress - advance against purchase of fixed assets		14,218	7,690
		252,812	188,611

## 12.1 Property and equipment

Rupees '000

	2011								
	Cost			Depreciation			Book value		Rate of depreciation per annum (%)
	As of January 1, 2011	Additions/ (deletions)	As of December 31, 2011	As of January 1, 2011	Charge/ (deletions)	As of December 31, 2011	As of December 31, 2011		
<b>Owned</b>									
Leasehold improvement	31,856	11,796	43,652	7,853	3,612	11,465	32,187	10	
Office furniture and fixtures	59,263	14,794	74,057	16,011	6,922	22,933	51,124	10	
Office equipment	62,583	15,064	77,647	30,325	11,860	42,185	35,462	20	
Computer equipment	77,275	27,683	104,826	55,714	16,581	72,277	32,549	33	
		(132)			(18)				
Vehicles	74,431	42,920	92,013	25,350	18,089	25,494	66,519	20	
		(25,338)			(17,945)				
	305,408	112,257	392,195	135,253	57,064	174,354	217,841		
		(25,470)			(17,963)				
<b>Leased</b>									
Vehicles	–	9,961	9,961	–	299	299	9,662	20	
	305,408	122,218	402,156	135,253	57,363	174,653	227,503		
		(25,470)			(17,963)				

Rupees '000

	2010								
	Cost			Depreciation			Book value		Rate of depreciation per annum (%)
	As of January 1, 2010	Additions/ (deletions)/ transfers*	As of December 31, 2010	As of January 1, 2010	Charge/ (deletions)/ transfers*	As of December 31, 2010	As of December 31, 2010		
<b>Owned</b>									
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	
		(147)			(15)				
Computer equipment	63,731	14,035	77,275	40,646	15,559	55,714	21,561	33	
		(491)			(491)				
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 *				
<b>Leased</b>									
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)				

**12.1.1** Property and equipment include assets amounting to Rs. 0.20 million (2010: Rs.0.86 million) received against grant during the year.

**12.1.2** Property and equipment include assets costing Rs. 67.024 million (2010: Rs. 35.391 million) which are fully depreciated and still in use.

**12.1.3** 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) are as follows:

							Rupees '000
Vehicles	Cost	Accumulated depreciation	Book down value	Sale proceeds	Mode of disposal	Particulars of buyers	
Honda Citi	938	661	277	94	Bank's policy	Jouhar Naqvi, Employee	
Mercedes Benz	8,394	7,554	840	839	Bank's policy	Syed Nadeem Hussain, CEO	
Honda Civic	1,269	1,142	127	127	Bank's policy	Syed Nadeem Hussain, CEO	
Honda Civic	1,269	1,142	127	127	Bank's policy	Shahid Mustafa, Employee	
Honda Civic	1,269	1,142	127	127	Bank's policy	Ali Abbas Sikander, Employee	
Honda Civic	1,269	1,142	127	127	Bank's policy	Tariq Mohar, Employee	
Honda Citi	1,364	593	771	771	Bank's policy	Kabeer Naqvi, Employee	
Suzuki Cultus	893	295	598	826	Auction	Aman Ali, Karachi	
Suzuki Alto	680	143	537	693	Auction	Noman Ahmed, Karachi	
Suzuki Bolan	620	210	410	510	Auction	Akber Khan, Karachi	
Suzuki Bolan	620	210	410	507	Auction	Akber Khan, Karachi	
Suzuki Bolan	477	200	277	448	Auction	Imran Sheikh, Karachi	
Suzuki Bolan	528	172	356	497	Auction	Imran Sheikh, Karachi	
Suzuki Bolan	477	206	271	431	Auction	Jahangir Khan, Sargodha	
Suzuki Bolan	617	139	478	580	Auction	Adamjee Insurance Co. Ltd, Karachi	
Master Highland Trucks	1,943	1,039	904	450	Auction	Galaxy Exchange (Pvt) Ltd , Karachi	
Master Highland Trucks	1,655	1,107	548	425	Auction	Galaxy Exchange (Pvt) Ltd , Karachi	
2011	24,282	17,097	7,185	7,579			
2010	4,724	1,791	2,933	3,585			

**12.2 Intangible assets**

									Rupees '000
									2011
	Cost			As of January 1, 2011	Amortisation		Book value		Rate of amortisation per annum (%)
	As of January 1, 2011	Additions/	As of December 31,2011		Charge for the year	As of December 31,2011	As of December 31,2011		
Computer software	28,681	6,265	34,946	17,915	5,940	23,855	11,091	33	

									Rupees '000
									2010
	Cost			As of January 1, 2010	Amortisation		Book value		Rate of amortisation per annum (%)
	As of January 1, 2010	Additions/	As of December 31,2010		Charge for the year	As of December 31,2010	As of December 31,2010		
Computer software	18,767	9,914	28,681	14,333	3,582	17,915	10,766	33	

**12.2.1** Intangible assets include software costing Rs. 14.1452 million (2010: Rs. 13.312 million) which are fully amortised and still in use.

## 13 OTHER ASSETS

	Note	2011	2010
Rupees '000			
Mark-up / return / interest accrued		489,063	217,264
Loans to employees	13.1	21,511	12,505
Security deposits		4,902	4,052
Prepayments - rent		23,213	19,508
Prepayments - others		6,809	3,514
Fair value of derivative financial instrument	13.2	23,670	59,831
Taxation - net		-	849
Branchless banking transaction fee receivable		66,414	17,305
Others		20,691	6,603
		<b>656,273</b>	<b>341,431</b>

**13.1** Represent interest free loans to staff and executives of the Bank for a period of maximum 18 months. These are secured against the retirement benefits of the employees.

**13.2** 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 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.

## 14 DEFERRED TAX ASSET - NET

	Note	2011	2010
Rupees '000			
<b>Deductible temporary differences arising due to:</b>			
Carry forward tax losses	14.2	232,903	293,905
Provision against non-performing loans and advances		5,644	17,678
Deferred grant		6,174	9,725
Deficit on revaluation of assets		10	156
		<b>244,731</b>	<b>321,464</b>
<b>Taxable temporary differences arising due to:</b>			
Accelerated depreciation allowance		(22,560)	(11,167)
Unrealised gain on derivative financial instrument		(8,285)	(21,092)
		<b>(30,845)</b>	<b>(32,259)</b>
		<b>213,886</b>	<b>289,205</b>

## 14.1 Reconciliation of deferred tax

Rupees '000

	Balance as of January 01 2010	Recognised in profit and loss account	Recognised in in deficit on revaluation of assets	Balance as of December 31 2010	Recognised in profit and loss account	Recognised in in deficit on revaluation of assets	Balance as of December 31 2011
<b>Deductible temporary differences arising due to:</b>							
Carry forward tax losses	35,673	258,232	–	293,905	(61,002)	–	232,903
Provision against non-performing loans and advances	2,763	14,915	–	17,678	(12,034)	–	5,644
Deferred grant	7,532	2,193	–	9,725	(3,551)	–	6,174
Deficit on revaluation of assets	254	–	(98)	156	–	(146)	10
Unrealised loss on derivative financial instrument	657	(657)	–	–	–	–	–
	46,879	274,683	(98)	321,464	(76,587)	(146)	244,731
<b>Taxable temporary differences arising due to:</b>							
Accelerated depreciation allowance	(9,528)	(1,639)	–	(11,167)	(11,394)	–	(22,561)
Unrealised gain on derivative financial instrument	–	(21,092)	–	(21,092)	12,808	–	(8,284)
	(9,528)	(22,731)	–	(32,259)	1,414	–	(30,845)
	37,351	251,952	(98)	289,205	(75,173)	(146)	213,886

14.2 As of the balance sheet date, the Bank has accumulated tax losses of Rs. 665.438 million (2010: Rs. 839.728 million).

14.3 The management, based on financial projections of the Bank for future years, estimates that sufficient taxable profits will be available in future against which the above deferred tax asset can be realised.

## 15 DEPOSITS AND OTHER ACCOUNTS

	2011		2010	
	Number	(Rupees in '000)	Number	(Rupees in '000)
Current deposits	632,661	1,564,290	223,596	1,150,329
Fixed deposits	5,552	2,217,760	3,131	1,672,524
Saving deposits	3,173	730,479	1,907	131,800
	641,386	4,512,529	228,634	2,954,653

### 15.1 Particulars of deposits by ownership

	2011		2010	
	Number	(Rupees in '000)	Number	(Rupees in '000)
Individual depositors	641,153	836,427	228,448	1,616,085
Institutional depositors				
- Corporations / firms etc	225	3,656,191	177	1,308,477
- Banks / financial institutions	8	19,911	9	30,091
	<b>641,386</b>	<b>4,512,529</b>	228,634	2,954,653

## 16 BORROWINGS

	Note	Rupees '000	
		2011	2010
Banks / financial institutions outside Pakistan		83,200	236,608
Banks / financial Institutions inside Pakistan		1,718,525	425,000
		<b>1,801,725</b>	661,608

### 16.1 Details of borrowings - unsecured

International Finance Corporation (IFC)	16.2	83,200	237,041
Unamortised transaction cost		-	(433)
		<b>83,200</b>	236,608
<b>From commercial banks</b>			
Microfinance Credit Guarantee Facility (MCGF)	16.3	1,416,667	150,000
Unamortised transaction cost		(5,097)	-
		<b>1,411,570</b>	150,000
Term loan	16.4	75,000	75,000
Commercial papers	16.5	201,955	-
Call borrowings	16.6	30,000	200,000
		<b>1,801,725</b>	661,608

**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 microfinance portfolio. The loan carries an interest rate of 6 months' LIBOR plus 3% (2010: 6 months' LIBOR plus 3%) per annum and had been fully repaid on 15 January 2012. (refer note 13.2).

**16.3** The Bank has been financed by 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 a mark-up rate of 6 months' KIBOR plus 2% (2010: 6 months' KIBOR plus 2%) and are repayable in fixed installments over a period of 5 years.

**16.4** This carries a mark-up rate of 3 months' KIBOR plus 3% (2010: 3 months' KIBOR plus 3%) per annum with maturity upto October 2012

**16.5** This carries a mark-up rate of 6 months' KIBOR plus 2.25% per annum with maturity upto May 2012.

**16.6** This carries a mark-up rate of 12.25% per annum (2010: 13.3% to 15%) per annum and have matured in January 2012.

## 17

## OTHER LIABILITIES

	Note	2011	2010
Rupees '000			
Mark-up / return / interest payable		150,339	57,679
Accrued expenses		83,354	31,007
Withholding tax payable		4,356	8,383
Liabilities against assets subject to finance lease	17.1	20,212	–
Payable to defined contribution plan		3,248	2,547
Payable to defined benefit plan	32.3	1,442	–
Payable to Workers' Welfare Fund		4,780	144
Taxation - net		5,859	–
Payable against branchless banking transactions		201,767	201,710
Others		15,650	10,117
		491,007	311,587

## 17.1 Liabilities against assets subject to finance lease

Not later than one year	5,752	–
Later than one year and not later than five years	21,780	–
	27,532	–
Less: Financial charges allocated to future periods	(7,320)	–
Present value of minimum lease payments	20,212	–

**17.1.1** The Bank has entered into agreements with a 'Modaraba' for lease of vehicles. Lease rentals are payable on quarterly basis with a mark-up at the rate ranging from 6 months KIBOR plus 2%-2.25% per annum with a floor and cap of 12%-13% and 23% per annum respectively. The Bank intends to exercise its options to purchase the above assets upon completion of the lease periods.

## 18

## SHARE CAPITAL

## Authorized share capital

2011	2010		2011	2010
Number of share			Rupees '000	
270,000	270,000	Ordinary shares of Rs. 10 each.	2,700,000	2,700,000

## Issued, subscribed and paid-up capital

2011	2010		2011	2010
Number of share			Rupees '000	
134,694	134,694	Ordinary shares of Rs. 10 each fully Paid in cash	1,346,939	1,346,939

## 19 DEFICIT ON REVALUATION OF ASSETS - net of tax

	Note	2011	2010
Rupees '000			
<b>Available for sale investments</b>			
Federal Government Securities		27	445
Related deferred tax		(10)	(156)
		17	289

## 20 DEFERRED GRANTS

	Note	2011	2010
Rupees '000			
<b>Grant received from</b>			
State Bank of Pakistan	20.1	13,359	77,192
Consultative Group to Assist the Poor	20.2	19,980	46,304
Soros Economic Development Fund	20.3	179	1,335
The Agha Khan Agency for Microfinance	20.4	146	971
Financial Sector Strengthening Programme	20.5	219	219
Frankfurt School of Management	20.6	1,203	–
		35,086	126,021
<b>Grant income recognised during the year</b>			
State Bank of Pakistan		(4,434)	(69,929)
Consultative Group to Assist the Poor		(11,782)	(26,324)
Soros Economic Development Fund		(30)	(1,156)
The Agha Khan Agency for Microfinance		(78)	(825)
Frankfurt School of Management		(1,124)	–
	24	(17,448)	(98,234)
		17,638	27,787

- 20.1** Represents USD grant received from SBP under the Institutional Strengthening Fund of the Financial Inclusion Programme 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 and International Development Association for Consultative Group to Assist the Poor in order to aid the Bank in achieving its growth goals for financial services to lower income clients via institutional capacity building, 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 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 Agha Khan Agency for Microfinance to provide finance for life insurance premium of specific depositors.
- 20.5** Represents USD grant received from Swiss Agency For Development and Corporation under the Financial Sector Strengthening program to provide technical support for maintenance of IT infrastructure of the Bank.
- 20.6** Represents USD grant received from Frankfurt School of Management to provide financial support to implement a project on Promotion of Renewable Energy Technologies.

## 21 MARK-UP / RETURN / INTEREST EARNED

	Note	2011	2010
Rupees '000			
On loans and advances		<b>1,183,998</b>	694,151
On available for sale investments		<b>41,975</b>	17,488
On deposits with financial institutions		<b>37,398</b>	41,767
On call money lendings		<b>13,631</b>	–
		<b>1,277,002</b>	753,406

## 22 MARK-UP / RETURN / INTEREST EXPENSED

On deposits		<b>257,387</b>	148,175
On borrowings		<b>188,487</b>	33,594
		<b>445,874</b>	181,769

## 23 FEE, COMMISSION AND BROKERAGE INCOME

Loan processing fee		<b>125,363</b>	97,147
Income from branchless banking	23.1	<b>209,141</b>	95,898
Others		<b>16,395</b>	1,009
		<b>350,899</b>	194,054

**23.1** Represents income from branchless banking operations (easypaisa), 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 from easypaisa is shared between the Bank and the holding company at the ratio of 13% and 87% (2010: 25% and 75% net of agents' commission) respectively.

## 24 OTHER INCOME

Grant income	20	<b>17,448</b>	98,234
Cheque book fees, ATM fees and other service charges		<b>39,190</b>	17,421
Gain on sale of operating fixed assets		<b>340</b>	1,639
		<b>56,978</b>	117,294

## ADMINISTRATIVE EXPENSES

	Note	2011	2010
Rupees '000			
Salaries and other allowances		579,334	429,281
Contribution to defined contribution plan		22,761	12,420
Charge for defined benefit plan	32.8	14,487	11,854
Staff welfare		10,867	7,528
Training and capacity building		2,862	662
Rent and taxes		49,847	37,470
Legal and professional charges		2,854	2,764
Utilities		14,322	14,265
Communication		36,557	32,201
Finance charges on leased assets		576	71
Travelling and conveyance		26,917	26,932
Insurance		36,417	25,998
Printing and stationery		15,955	19,831
Repairs and maintenance		48,135	32,140
Depreciation	12.1	57,363	43,860
Amortisation	12.2	5,940	3,582
Auditors' remuneration	25.1	1,275	1,158
Advertisement		16,005	22,179
Agents commission on easypaisa		18,590	44,952
Security services		17,180	13,642
Customer verification charges		7,625	19,397
Professional consultancy charges		12,338	14,499
Donations		-	15
Bank charges		12,302	4,586
Other expenses		1,059	4,011
		<b>1,011,568</b>	<b>825,298</b>

## 25.1 Auditors' remuneration

Audit fee	1,000	1,000
Other certifications	100	-
Out-of-pocket expenses	175	158
	<b>1,275</b>	<b>1,158</b>

## OTHER CHARGES

Net loss on derivative financial instrument	13.2	10,950	21,682
Workers' Welfare Fund		4,636	144
Penalty imposed by SBP		-	35
		<b>15,586</b>	<b>21,861</b>

## 27 TAXATION

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 the minimum tax in accordance with section 113 of the Income Tax Ordinance, 2001.

## 28 BASIC AND DILUTED EARNINGS/(LOSS) PER SHARE

	Note	Rupees '000	
		2011	2010
Net profit for the year (Rupees in '000)		<b>134,470</b>	249,372
Weighted average ordinary shares (Numbers in '000)		<b>134,694</b>	134,694
Basic and diluted earnings per share (Rupees)		<b>1.00</b>	1.85

## 29 CASH AND CASH EQUIVALENTS

	Note	Rupees '000	
		2011	2010
Cash and balances with SBP and NBP	8	<b>516,706</b>	310,485
Balances with other banks	9	<b>1,258,896</b>	926,107
		<b>1,775,602</b>	1,236,592

## 30 NUMBER OF EMPLOYEES

	2011			2010		
	Credit/sales staff	Banking/ support staff	Total	Credit/sales staff	Banking/ support staff	Total
Permanent	<b>278</b>	<b>253</b>	<b>531</b>	252	219	471
Temporary / on contractual basis	<b>188</b>	<b>25</b>	<b>213</b>	272	43	315
	<b>466</b>	<b>278</b>	<b>744</b>	524	262	786

## 31 NUMBER OF BRANCHES

	Numbers	
	2011	2010
As of 01 January	<b>40</b>	39
Opened during the year	<b>2</b>	1
As of 31 December	<b>42</b>	40

## 32 DEFINED BENEFIT PLAN

### 32.1 General description

The Bank operates a funded gratuity scheme for all its employees, who have completed a minimum qualifying period of service. Contributions to the fund are made in accordance with its rules. 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.

### 32.2 Principal actuarial assumptions

The latest actuarial valuation of the gratuity scheme was carried out as of 31 December, 2011. Following are the significant assumptions used in the valuation:

	(% per annum)	
	2011	2010
- Discount rate	12.5	14
- Salary increase rate	12.5	14
- Expected rate of return on plan assets	13.5	14

### 32.3 Movement in defined benefit plan

Opening balance	-	849
Charge for the year	14,487	11,854
Contributions to the fund	(13,045)	(12,703)
Closing balance	1,442	-

### 32.4 Reconciliation of defined benefit plan

Present value of defined benefit obligations	62,978	45,575
Fair value of plan assets	(52,064)	(40,173)
Unrecognised actuarial loss	(9,472)	(5,402)
	1,442	-

### 32.5 Movement in present value of defined benefit obligations

Opening balance	45,575	23,901
Current service cost	14,944	10,191
Interest cost	5,987	4,851
Actuarial loss on obligations	2,093	7,427
Benefits paid	(5,621)	(795)
Closing balance	62,978	45,575

**32.6 Movement in fair value of plan assets**

	Note	2011	2010
Opening balance		40,173	22,770
Contributions to the fund		13,045	12,703
Benefits paid		(5,621)	(795)
Expected return on plan assets		6,360	3,188
Actuarial (loss) / gain on plan assets		(1,893)	2,307
Closing balance		52,064	40,173

Rupees '000

**32.7 Movement in unrecognised actuarial loss**

Opening balance	(5,402)	(282)
Amount recognised during the year	(2,093)	(7,427)
Actuarial (loss) / gain during the year	(1,893)	2,307
Actuarial loss recognised	(84)	–
Closing balance	(9,472)	(5,402)

**32.8 Charge for defined benefit plan**

Current service cost	14,944	10,191
Interest cost	5,987	4,851
Expected return on plan assets	(6,360)	(3,188)
Actuarial loss during the year	(84)	–
	14,487	11,854

**32.9 Actual return on plan assets**

Actual return on plan assets	4,468	5,495
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**32.10 Plan assets consist of**

Bank balances	55,155	40,173
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**32.11 Historical information**

	2011	2010	2009	2008	2007
Present value of defined benefit obligations	62,978	45,575	23,901	18,422	9,917
Fair value of plan assets	(52,064)	(40,173)	(22,770)	(15,029)	(10,949)
Deficit / (surplus)	10,914	5,402	1,131	3,393	(1,032)

Rupees '000

**32.12 Expected contribution to be paid to the fund in the next financial year**

Based on actuarial advice, the management estimates that the charge in the context of the defined benefit plan for the year ending 31 December 2012 would be Rs. 17.620 million.

## REMUNERATION OF DIRECTORS AND EXECUTIVES

Rupees '000

	2011			2010		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
Fees	–	75	–	–	30	–
Managerial remuneration	18,509	–	79,087	16,974	–	60,932
Charge for defined benefit plan	1,277	–	6,162	1,117	–	4,626
Contribution to defined contribution plan	3,850	–	10,462	915	–	4,925
Rent and house maintenance	8,132	–	23,464	5,402	–	18,125
Utilities	2,765	–	7,909	1,801	–	6,093
Medical	1,851	–	7,909	1,801	–	6,093
Conveyance	–	–	2,239	–	–	1,883
Security system installation	1,252	–	–	–	–	–
Others	105	–	1,713	1,033	–	2,062
	<b>37,741</b>	<b>75</b>	<b>138,945</b>	<b>29,043</b>	<b>30</b>	<b>104,739</b>
Number of persons	<b>1</b>	<b>7</b>	<b>51</b>	<b>1</b>	<b>5</b>	<b>40</b>

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

## RELATED PARTY TRANSACTIONS

Related parties of the Bank are comprised of the holding company, 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. Transactions with related parties, other than remuneration of directors and executives as disclosed in note 33 to the financial statements, are summarised as follows:

Rupees '000

	2011				2010			
	Holding company	Directors and key management personnel	Others	Total	Holding company	Directors and key management personnel	Others	Total
<b>Advances</b>								
At 01 January	–	2,739	–	2,739	–	1,874	–	1,874
Given during the year	–	8,738	–	8,738	–	3,818	–	3,818
Repaid during the year	–	(6,693)	–	(6,693)	–	(2,953)	–	(2,953)
At 31 December	–	4,784	–	4,784	–	2,739	–	2,739
<b>Deposits</b>								
At 01 January	398,644	6,909	9,010	414,563	345,815	1,103	4,521	351,439
Received during the year	322,916	–	–	322,916	477,716	15,110	23,307	516,133
Withdrawn during the year	(508,128)	(6,089)	(9,010)	(523,227)	(424,887)	(9,304)	(18,818)	(453,009)
At 31 December	213,432	820	–	214,252	398,644	6,909	9,010	414,563
Mark-up expense	21,364	321	214	21,899	14,461	348	996	15,805
Communication expenses	2,759	–	–	2,759	4,166	–	–	4,166
Sale of vehicles	–	2,299	–	2,299	–	–	–	–
Payable against branchless banking transactions	15,223	–	–	15,223	–	–	–	–
Mark-up payable	917	–	1,335	2,252	2,035	–	540	2,575
Rent and taxes	6,800	–	–	6,800	–	–	–	–
Accrued expenses	3,662	–	–	3,662	746	–	–	746

## MATURITIES OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the expected cash flows of the Bank's financial assets and liabilities. The demand deposits of the Bank are classified as payable within one month. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Rupees '000

	2011				
	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
<b>Assets subject to interest rates</b>					
Balances with other banks	1,255,696	1,105,696	150,000	–	–
Investments	328,236	328,236	–	–	–
Advances	5,054,297	299,236	1,757,933	2,813,323	183,805
	6,638,229	1,733,168	1,907,933	2,813,323	183,805
<b>Other non-earning assets</b>					
Cash and balances with SBP and NBP	516,706	516,706	–	–	–
Balances with other banks	3,200	3,200	–	–	–
Operating fixed assets	252,812	–	–	–	252,812
Other assets	656,273	93,728	257,509	294,721	10,315
Deferred tax assets	213,886	–	–	–	213,886
	1,642,877	613,634	257,509	294,721	477,013
<b>Total assets</b>	<b>8,281,106</b>	<b>2,346,802</b>	<b>2,165,442</b>	<b>3,108,044</b>	<b>660,818</b>
<b>Liabilities subject to interest rates</b>					
Deposits and other accounts	2,948,239	1,123,210	1,546,874	276,711	1,444
Borrowings	1,801,725	113,200	492,388	300,278	895,859
	4,749,964	1,236,410	2,039,262	576,989	897,303
<b>Other non-cost bearing liabilities</b>					
Deposits and other accounts	1,564,290	1,564,290	–	–	–
Other liabilities	491,007	351,783	68,168	26,015	45,041
	2,055,297	1,916,073	68,168	26,015	45,041
<b>Total liabilities</b>	<b>6,805,261</b>	<b>3,152,483</b>	<b>2,107,430</b>	<b>603,004</b>	<b>942,344</b>

Rupees '000

	2010				
	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
<b>Assets subject to interest rates</b>					
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
	4,116,543	1,162,670	1,323,670	1,455,248	174,955
<b>Other non-earning assets</b>					
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
	1,162,557	398,906	86,052	170,996	506,603
<b>Total assets</b>	<b>5,279,100</b>	<b>1,561,576</b>	<b>1,409,722</b>	<b>1,626,244</b>	<b>681,558</b>
<b>Liabilities subject to interest rates</b>					
Deposits and other accounts	1,804,324	193,178	672,410	938,736	–
Borrowings	661,608	253,869	41,667	170,536	195,536
	2,465,932	447,047	714,077	1,109,272	195,536
<b>Other non-cost bearing liabilities</b>					
Deposits and other accounts	1,150,329	1,150,329	–	–	–
Other liabilities	311,587	100,417	21,495	189,675	–
	1,461,916	1,250,746	21,495	189,675	–
<b>Total liabilities</b>	<b>3,927,848</b>	<b>1,697,793</b>	<b>735,572</b>	<b>1,298,947</b>	<b>195,536</b>

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## 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 an ongoing 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 stood at Rs. 1,458 million (2010: 1,324 million) and 60% (2010: 39%) respectively, as against the minimum requirement of Rs. 500 million and 15% prescribed by SBP.

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## GENERAL

- 37.1** Captions, as prescribed by BSD Circular No. 11, dated 30 December 2003, in the context 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.
- 37.2** Figures have been rounded off to the nearest thousand rupees.

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## DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Bank on 1 March 2012

President &  
Chief Executive Officer

Chairman

Director

Director