PAK OMAN
MICROFINANCE BANK
LIMITED

Financial Statements

for the year ended December 31, 2012

Deloitte.

M. Yousuf Adil Saleem & Co
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AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **Pak Oman Microfinance Bank Limited** (the Bank) as at December 31, 2012 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 (herein-after referred to as the 'financial statements') for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

a. in our opinion, proper books of account have been kept by the Bank as required by the Companies Ordinance, 1984;

b. in our opinion:

   i. the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and the Microfinance Institutions Ordinance, 2001 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied, except for the change as stated in note 3.3 to the financial statements, with which we concur;

   ii. the expenditure incurred during the year was for the purpose of the Bank's business; and

   iii. the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank;

c. in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984 and the Microfinance Institutions Ordinance, 2001, in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at December 31, 2012 and of the loss, its comprehensive income, its cash flows and changes in equity for the year then ended; and

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M. Yousuf Adil Saleem & Co
Chartered Accountants

d. in our opinion, no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

We draw attention to note 1.3 to the financial statements where management has explained the plan of the Bank to meet the minimum capital requirement (free of losses) as per the Prudential Regulations for Microfinance Banks issued by State Bank of Pakistan as the Bank does not comply with the aforesaid requirement currently. Our opinion is not qualified in respect of this matter.

M. Yousuf Adil Saleem & Co
Chartered Accountants

Engagement Partner:
Nadeem Yousuf Adil

Place: Karachi
Date: March 26, 2013

Member of
Deloitte Touche Tohmatsu Limited

PAK OMAN MICROFINANCE BANK LIMITED
BALANCE SHEET
AS AT DECEMBER 31, 2012

	Note	2012	2011 (Restated)	2010 (Restated)
		Rupees		
ASSETS				
Cash and balances with SBP and NBP	6	**2,303,287**	3,138,469	3,566,960
Balances with other Banks/ NBFIs/ MFBs	7	**14,733,013**	15,893,834	21,737,254
Lendings to financial institutions	8	**445,747,375**	453,818,519	451,638,833
Investments - net of provisions	9	**80,628,809**	58,528,775	68,139,365
Advances - net of provisions	10	**137,462,428**	121,578,401	105,734,873
Operating fixed assets	11	**17,839,565**	13,391,695	18,814,383
Other assets	12	**25,559,819**	56,078,743	48,302,043
Deferred tax asset	13	**22,523,927**	25,034,569	27,338,717
Total Assets		**746,798,223**	747,463,025	745,272,428
LIABILITIES				
Deposits and other accounts	14	**26,805,667**	25,341,586	27,724,332
Borrowings		-	-	-
Subordinated debt		-	-	-
Other liabilities	15	**19,738,039**	22,229,337	18,041,360
Deferred tax liabilities		-	-	-
Total Liabilities		**46,543,706**	47,570,923	45,765,692
NET ASSETS		**700,254,517**	699,892,102	699,506,736
REPRESENTED BY:				
Share capital	16	**751,820,000**	751,820,000	751,820,000
Statutory and general reserves		**5,938,844**	5,938,844	4,925,729
Depositors' protection fund		**1,484,712**	1,484,712	1,231,433
Accumulated losses		**(53,539,963)**	(53,438,584)	(57,237,764)
		705,703,593	705,804,972	700,739,398
Deficit on revaluation of assets - net	17	**(5,449,076)**	(5,979,832)	(2,496,272)
Deferred grants	18	-	66,962	1,263,610
		700,254,517	699,892,102	699,506,736
MEMORANDUM / OFF BALANCE SHEET ITEMS	19			

The annexed notes from 1 to 37 form an integral part of these financial statements.

President / Chief Executive | Chairman | Director | Director

PAK OMAN MICROFINANCE BANK LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2012

	Note	2012	2011 (Restated)
		---------- Rupees ----------	
Mark-up / return / interest earned	20	102,066,073	101,928,713
Mark-up / return / interest expensed	21	(201,542)	(358,230)
Net mark-up / interest income		101,864,531	101,570,483
Provision against non-performing advances	10.3	5,253,665	5,197,699
Provision for diminution in the value of investments	9.5	860,747	-
Bad debts written off directly	10.3.1	-	-
		6,114,412	5,197,699
Net mark-up / return / interest income after provisions		95,750,119	96,372,784
NON MARK-UP / NON INTEREST INCOME			
Fee, commission and brokerage income		4,134,626	3,096,498
Dividend income		2,446,282	2,445,081
Other income	22	3,399,492	4,873,681
Total non-mark-up / non-interest income		9,980,400	10,415,260
		105,730,519	106,788,044
NON MARK-UP / NON INTEREST EXPENSES			
Administrative expenses	23	104,288,400	99,256,184
Other provision / write off	12	102,413	102,413
Other charges	24	28,185	142,239
Total non mark-up / non interest expenses		104,418,998	99,500,836
Extra ordinary/unusual items		-	-
PROFIT/(LOSS) BEFORE TAXATION		1,311,521	7,287,208
Taxation - current	25	25,182	1,055,706
- prior year	25	(1,019,294)	-
- deferred	25	2,407,012	1,165,928
		1,412,900	2,221,634
PROFIT/(LOSS) AFTER TAXATION		(101,379)	5,065,574
Accumulated losses brought forward		(53,438,584)	(57,237,764)
		(53,539,963)	(52,172,190)
APPROPRIATIONS:			
Transfer to:			
Statutory reserve		-	(1,013,115)
Capital reserve		-	-
Depositors' Protection Fund		-	(253,279)
Revenue reserve		-	-
Proposed cash dividend		-	-
Accumulated losses carried forward		(53,539,963)	(53,438,584)
(Loss) / Earnings per share	30	(0.001)	0.067

The annexed notes from 1 to 37 form an integral part of these financial statements.

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President / Chief Executive	Chairman	Director	Director

Ahmed Shah

PAK OMAN MICROFINANCE BANK LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2012

	2012	2011 (Restated)
	------ Rupees ------	
(Loss) / profit for the year	(101,379)	5,065,574
Other comprehensive income	-	-
Total comprehensive income for the year	(101,379)	5,065,574

Deficit / surplus on revaluation of assets has been reported in accordance with the requirements of Companies Ordinance, 1984 and directives of State Bank of Pakistan in separate account below equity.

The annexed notes from 1 to 37 form an integral part of these financial statements.

MYAK

President / Chief Executive | Chairman | Director | Director

PAK OMAN MICROFINANCE BANK LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2012

	Note	2012	2011 (Restated)
		------ Rupees ------	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		1,311,521	7,287,208
Less: Dividend income		(2,446,282)	(2,445,081)
		(1,134,761)	4,842,127
Adjustments for non-cash charges and other items			
Depreciation	11.2	4,008,473	5,298,745
Amortization of intangible assets	11.3	5,231	161,895
Amortization of deferred grant	18	(66,962)	(1,196,648)
Amortization of Pakistan Investment Bond	20	(17,946)	(17,897)
Provision against non-performing advances	10.3	5,253,665	5,197,699
Provision for diminution in the value of investments	9.5	860,747	-
Provision against other assets	12	102,413	102,413
Gain on disposal of fixed assets	11.2.1	(1,286,735)	(887,913)
Provision for gratuity	23	1,073,030	3,447,826
Provision for leave fare assistance	23	3,237,493	2,961,397
		13,169,409	15,067,517
		12,034,648	19,909,644
(Increase) / decrease in operating assets			
Lendings to financial institutions		8,071,144	(2,179,686)
Advances - net		(21,137,692)	(21,041,223)
Other assets (excluding advance taxation)		31,811,974	(8,541,447)
		18,745,426	(31,762,356)
Increase / (decrease) in operating liabilities			
Deposits		1,464,081	(2,382,746)
Other liabilities (excluding current taxation)		(3,192,539)	1,445,432
		(1,728,458)	(937,314)
		29,051,616	(12,790,026)
Income tax paid		(401,351)	(393,375)
Gratuity paid		(334,198)	(562,274)
Leave fare assistance paid		(3,275,084)	(3,104,404)
Net cash generated from / (used in) operating activities		25,040,983	(16,850,079)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available for sale securities		691,571	4,283,127
Net investments in held to maturity securities		(23,000,000)	3,000,000
Dividend income received		2,446,282	2,445,081
Investments in operating fixed assets	11.2	(8,875,939)	(1,908,486)
Sale proceeds of property, plant and equipment disposed off	11.2.1	1,701,100	2,758,446
Net cash generated from / (used in) investing activities		(27,036,986)	10,578,168
CASH FLOWS FROM FINANCING ACTIVITIES		-	-
Decrease in cash and cash equivalents		(1,996,003)	(6,271,911)
Cash and cash equivalents at the beginning of the year		19,032,303	25,304,214
Cash and cash equivalents at the end of the year	32	17,036,300	19,032,303

The annexed notes from 1 to 37 form an integral part of these financial statements.

President / Chief Executive   Chairman   Director   Director

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

	Share capital	Statutory reserve	Depositors' Protection Fund	Accumulated losses	Total
	.....	.....	Rupees	.....	.....
Balance as at January 1, 2011 - previously reported	751,820,000	4,873,322	1,218,331	(57,434,288)	700,477,365
Effect of change in accounting policy (Note 3.3)	-	52,407	13,102	196,524	262,033
Balance as at January 1, 2011 - restated	751,820,000	4,925,729	1,231,433	(57,237,764)	700,739,398
Comprehensive income:					
Profit after tax for the year ended December 31, 2011 - restated	-	-	-	5,065,574	5,065,574
Other Comprehensive Income - net of tax	-	-	-	-	-
Total comprehensive income - restated	-	-	-	5,065,574	5,065,574
Transfer to statutory reserve	-	1,013,115	-	(1,013,115)	-
Transfer to Depositors' Protection Fund	-	-	253,279	(253,279)	-
Balance as at December 31, 2011 - restated	751,820,000	5,938,844	1,484,712	(53,438,584)	705,804,972
Comprehensive income:					
Profit after tax for the year ended December 31, 2012	-	-	-	(101,379)	(101,379)
Other Comprehensive Income - net of tax	-	-	-	-	-
Total comprehensive income	-	-	-	(101,379)	(101,379)
Transfer to statutory reserve	-	-	-	-	-
Transfer to Depositors' Protection Fund	-	-	-	-	-
Balance as at December 31, 2012	**751,820,000**	**5,938,844**	**1,484,712**	**(53,539,963)**	**705,703,593**

The annexed notes from 1 to 37 form an integral part of these financial statements.

President / Chief Executive

Chairman

Director

Director

1. STATUS AND NATURE OF BUSINESS

1.1 Pak Oman Microfinance Bank Limited (the Bank) was incorporated on March 9, 2006 as a public limited company under the Companies Ordinance, 1984 and was granted license by the State Bank of Pakistan on April 12, 2006. The Bank received certificate of commencement of business on May 6, 2006, effective from May 8, 2006. The Bank's principal business is to provide microfinance services to the poor and under served segment of the society as envisaged under the Microfinance Institutions Ordinance, 2001. The registered office of the Bank is situated at 2nd Floor, Block-C, Finance and Trade Centre, Sharah-e-Faisal, Karachi, Pakistan. As at December 31, 2012, the Bank has 15 (2011: 16) branches and 6 service centers (2011: 5) in operation in all provinces of Pakistan, other than Gilgit Baltistan, including the Federal Capital Islamabad and is licensed to operate nationwide.

1.2 JCR-VIS has determined the Bank's medium to long-term rating as 'BBB+' and the short-term rating as 'A-3'.

1.3 During the year, the Bank incurred loss amounting to Rs. 0.1 million (December 31, 2011: Profit of Rs. 5.07 million) resulting in increase in accumulated losses to Rs. 53.54 million. The Bank's paid up capital (free of losses) as of December 31, 2012 stands at of Rs. 698.28 million (December 31, 2011: 698.38 million).

According to the Minimum Capital Requirements (MCR) as prescribed by regulation 4 of Prudential Regulations for Microfinance Banks issued by the State Bank of Pakistan (SBP), microfinance banks licensed to operate at national level shall maintain minimum paid up capital (free of losses) of Rs. 800 million and Rs. 1,000 million as at December 31, 2012 and December 31, 2013 respectively. However, the Bank's paid up capital (free of loses) is not in line with the said requirement. The Bank vide its letter MFB/HO/MS/00529/2012 dated December 17, 2012 requested SBP to grant extension till April 30, 2013 for meeting the requirement of minimum paid up capital (free of losses). The SBP through its letter number BPRD/BAID/670/2208/2013 dated February 25, 2013 has granted to the Bank extension till April 30, 2013 to meet the above said requirement.

In order to comply with the above mentioned requirement, the Board has decided to call fresh equity injection of Rs. 150 million from sponsors through right issue of shares and the Chairman of the Board of Directors has written a letter dated December 17, 2012 to Ministry of Finance, Sultanate of Oman, seeking approval for the said proposal. Management expects that Rs. 150 million would be injected through issue of right shares by April 30, 2013 to meet the requirement of minimum paid up capital (free of losses) as at December 31, 2012. Further, the steps are being taken to call further equity injection of Rs. 150 million to meet requirement of minimum paid up capital (free of losses) for the year ending December 31, 2013. Management expects the further equity injection would be completed latest by December 31, 2013.

2. BASIS OF PRESENTATION

These financial statements have been presented in accordance with the requirements of Banking Surveillance Department Circular No. 11 dated December 30, 2003 issued by the State Bank of Pakistan (SBP).

3. STATEMENT OF COMPLIANCE

3.1 These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the requirements of the Companies Ordinance, 1984, the Microfinance Institutions Ordinance, 2001, the Prudential Regulations for Microfinance Banks and directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan. Wherever the requirements of the Companies Ordinance, 1984, the Microfinance Institutions Ordinance, 2001, the Prudential Regulations for Microfinance Banks and directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan differ with the requirements of IFRSs, the requirements of the Companies Ordinance, 1984, the Microfinance Institutions Ordinance, 2001, the Prudential Regulations for Microfinance Banks or the requirements of the said directives shall prevail.

3.2 The State Bank of Pakistan has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property'. Further, the Securities and Exchange Commission of Pakistan (SECP) has deferred the applicability of International Financial Reporting Standard (IFRS) 7, 'Financial Instruments : Disclosures' through its notification S.R.O. 411(I)/2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by SBP through various circulars / regulations.

3.3 **Changes in accounting policy and disclosure**

Recognition of actuarial gains and losses on gratuity scheme directly into profit and loss account

During the year, the accounting policy for recognition of actuarial gains / losses has been changed in accordance with option allowed by IAS 19 'Employee Benefits' to appropriately reflect the operating results of the Bank. The actuarial gains and losses are now immediately recognised in the period in which they occur in profit and loss account. Previously the net cumulative actuarial gains / losses in excess of the higher of the following corridor limits, were recognised over the expected remaining average working lives of the employees on a straight line basis:

i) ten percent of the present value of the defined benefit obligation (before deducting plan assets); or
ii) ten percent of the fair value of plan assets.

The change in accounting policy has been recognized retrospectively and comparative information has been restated in accordance with the requirements of IAS-8 "Accounting Policies, Changes in Accounting Estimates and Errors". The change in accounting policy has the following impact on these financial statements:

	2012	2011	2010
	Rupees		
Balance Sheet			
Decrease in payable to defined benefit plan (other liabilities)	2,726,898	578,404	403,127
Decrease in deferred tax asset -net	954,414	202,441	141,094
Increase in statutory and general reserves	75,193	75,193	52,407
Increase in depositors' protection fund	18,799	18,799	13,102
Decrease in accumulated losses	1,678,492	281,971	196,524
	1,772,484	375,963	262,033

	2012	2011
	Rupees	
Profit and Loss Account		
Decrease in charge for defined benefit plan (administrative expenses)	2,148,494	175,277
Increase in deferred tax expense	751,973	61,347
Increase in profit for the year, net of tax	1,396,521	113,930
Increase in earnings per share	0.019	0.002
Statement of Comprehensive Income		
Increase in total comprehensive income for the year	1,396,521	113,930

3.4 **Adoption of New Standards, and Amendments and Interpretations to the published approved accounting standards**

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

Amendments to IAS 12 - Income Taxes – Deferred Tax: Recovery of Underlying Assets — **Effective from accounting period beginning on or after January 1, 2012**

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset.

3.5 **Standards, interpretations and amendments to the published approved accounting standards not yet effective:**

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

Amendments to IAS 1 - Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income

Effective from accounting period beginning on or after July 01, 2012

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gains on hedges of net investments, exchange differences on translation of foreign operations, net movements on cash flow hedges and net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans).

Amendments to IAS 1 - Presentation of Financial Statements – Clarification of Requirements for Comparative information

Effective from accounting period beginning on or after January 01, 2013

The amendment clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

Amendments to IAS 16 - Property, Plant and Equipment – Classification of servicing equipment

Effective from accounting period beginning on or after January 01, 2013

The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

Amendments to IAS 32 Financial Instruments: Presentation - Tax effects of distributions to holders of an equity instrument, and transaction costs of an equity

Effective from accounting period beginning on or after January 01, 2013

The amendment clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

Amendments to IAS 32 Financial Instruments: Presentation - Offsetting financial assets and financial liabilities

Effective from accounting period beginning on or after January 01, 2014

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". It will be necessary to . assess the impact to the entity by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right to set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right to offset in the event of default.

Amendments to IAS 34 - Interim Financial Reporting - Interim reporting of segment information for total assets and total liabilities

Effective from accounting period beginning on or after January 01, 2013

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine

Effective from accounting period beginning on or after January 01, 2013

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity.

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

- IFRS 1 – First Time Adoption of International Financial Reporting Standards
- IFRS 9 – Financial Instruments
- IFRS 10 – Consolidated Financial Statements
- IFRS 11 – Joint Arrangements
- IFRS 12 – Disclosure of Interests in Other Entities
- IFRS 13 – Fair Value Measurement
- IAS 27 (Revised 2011) – Separate Financial Statements due to not adoption of IFRS 10 and IFRS 11
- IAS 28 (Revised 2011) – Investments in Associates and Joint Ventures due to not adoption of IFRS 10 and IFRS 11

3.5.2 The potential impact of standards, amendments and interpretations not yet effective on the financial statements on the Bank is as follows:

The amendments to IAS 19, 'Employee Benefits' are effective for annual period beginning on or after January 1, 2013. The amendments eliminate the corridor approach and therefore require an entity to recognize changes in defined benefit plans obligations and plan assets when they occur. All actuarial gains or losses arising during the year are recognized immediately through other comprehensive income. The amendments also require additional disclosures and retrospective application with certain exceptions. Management anticipates that the amendments will be adopted in the Bank's financial statements for annual period beginning on or after January 1, 2013, and the application of amendments will be that instead of recognising actuarial gains or losses into profit and loss account, all actuarial gains or losses will be recognised into other comprehensive income. Based on actuarial results provided to date, actuarial gain amounting to Rs. 2,148,494 will be shown in Other Comprehensive Income and will be deducted from Profit and Loss Account in the financial statements for the year ending December 31, 2013.

4. BASIS OF MEASUREMENT

4.1 Accounting convention

These financial statements have been prepared under the historical cost convention except that investments have been marked to market and are carried at fair value and staff retirement benefits which are measured at present value.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below.

5.1 Cash and cash equivalents

Cash and cash equivalents for the purpose of cash flow statement represent cash in hand and balances held with State Bank of Pakistan and balances with other banks in current and deposit accounts. Cash and cash equivalents are carried at cost in the balance sheet.

5.2 Lendings to financiai institutions

Lendings includes term lendings and unsecured lendings to financial institutions. These are stated net of provision. Mark-up on such lendings is charged to profit and loss account on a time proportionate basis using effective interest rate method except mark-up on impaired / delinquent lendings, which are recognized on receipt basis.

5.3 Investments

Investments are classified as follows;

(a) Held for trading

These represent securities which are either acquired for generating a profit from short-term fluctuations in market prices, interest rate movements, dealers margin or are securities included in a portfolio in which a pattern of short-term profit taking exists.

(b) Held to maturity

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

(c) Available for sale

These are investments that do not fall under the 'held-for-trading' or 'held-to-maturity' categories.

Premium or discount on acquisition of held to maturity and available for sale investments are amortised using effective interest rate method and taken to profit and loss account.

Investments other than those categorised as 'held-for-trading' are initially recognised at fair value plus transaction costs associated with the investment. Investments classified as 'held-for-trading' are initially recognised at fair value while the related transaction costs associated with these transactions are expensed in the profit and loss account. Surplus / (deficit) arising on revaluation of securities classified as held-for-trading, is taken to profit and loss account. Investments classified as held-to-maturity are carried at amortised cost.

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

In accordance with the requirements of the SBP, quoted securities other than those classified as 'held-to-maturity' and 'investment in associates', are subsequently re-measured to market value. Surplus / (deficit) arising on revaluation of quoted securities classified as 'available for sale', is taken to a separate account shown in the balance sheet below equity.

Quoted securities are marked to market with reference to ready quotes on Reuters page (PKRV) or MUFAP or the Stock Exchange.

Impairment loss in respect of investments classified as 'available for sale' (except for term finance certificates / sukuk) is recognised based on management's assessment of objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of these investments. A significant or prolonged decline in the value of equity securities is also considered as an objective evidence of impairment. Provision for diminution in the value of term finance certificates /sukuks is made when there is evidence of deterioration in the financial health of the investee, industry or sector performance. In the event of impairment of available for sale securities, the cumulative loss that had been recognised directly in surplus on revaluation of securities on the balance sheet below equity is removed thereof and recognised in the profit and loss account. For investments classified as held-to-maturity, the impairment loss is recognised in the profit and loss account.

Gain / loss on disposal of investments made during the year is credited / charged to the profit and loss account.

5.4 Advances

These are stated at cost net of specific and general provisions which are determined on the basis of the Prudential Regulations (the Regulations) for Microfinance Banks issued by SBP and charged to profit and loss account. These regulations prescribe a time based criteria for classification of non-performing advances in to following categories;

a) Other Assets Especially Mentioned (OAEM)

These are advances in arrears (payment / installments overdue) of 30 days or more but less than 60 days.

b) Substandard

These are advances in arrears (payment / installments overdue) for 60 days or more but less than 90 days.

c) Doubtful

These are advances in arrears (payment / installments overdue) for 90 days or more but less than 180 days.

d) Loss

These are advances in arrears (payment / installments overdue) for 180 days or more.

In addition the Bank maintains a Watch List of all accounts delinquent by 5 - 29 days. However, such accounts are not treated as non-performing for the purpose of classification / provisioning.

In accordance with the Regulations, the Bank maintains specific provision for potential loan losses for all non-performing advances as follows:

OAEM:	Nil
Substandard:	25% of outstanding principal net of cash collaterals and gold (ornaments and bullion) realizable without recourse to a Court of Law.
Doubtful:	50% of outstanding principal net of cash collaterals and gold (ornaments and bullion) realizable without recourse to a Court of Law.
Loss:	100% of outstanding principal net of cash collaterals and gold (ornaments and bullion) realizable without recourse to a Court of Law.

In addition, a general provision is made in accordance with the requirements of the Prudential Regulations for Microfinance Banks issued by SBP equivalent to 1% (2011: 1%) of the net outstanding balance (advances net of specific provisions) for potential loan losses.

Non-performing advances are written off one month after the loan is classified as "Loss". However, the Bank continues its efforts for recovery of the written off balances.

Under exceptional circumstances management reschedules repayment terms for clients who have suffered catastrophic events and who appear willing and able to fully repay their loans. The classification made as per Regulation is not changed due to such rescheduling. The accrued markup till the date of rescheduling is received prior to such rescheduling.

5.5 Operating fixed assets and depreciation

5.5.1 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that are directly attributable to the acquisition of items.

Depreciation is charged to profit and loss account at the rates mentioned in note 11.2 applying the straight line method over estimated useful life of assets. The asset's residual values and useful lives are reviewed, and adjusted if required, at each reporting date.

Depreciation is charged on additions from the date the asset is available for use and on disposals up to the date of disposal.

Subsequent costs are included in the asset's carrying amounts or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Bank and the cost of the asset can be measured reliably. The carrying amount of the replaced asset is derecognized. All other repairs and maintenance are charged to the profit and loss account as and when incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains / losses on disposals of property and equipment are determined by comparing proceeds with the carrying amount. These are recognized in the profit and loss account.

5.5.2 Capital work in progress

All expenditure connected with specific assets incurred during installation and development period are carried under capital work in progress. These are transferred to specific assets as and when these are available for use. Capital work in progress is stated at cost less accumulated impairment losses, if any.

5.5.3 **Intangible assets**

Intangible assets with a definite useful lives are stated at cost less accumulated amortisation and accumulated impairment losses, if any. These are amortised using the straight line method at the rates mentioned in note 11.3 over their estimated useful life.

Amortisation is charged on additions from the date the asset is put to use and on disposals up to the date of disposal.

The asset's residual values and useful lives are reviewed, and adjusted if required, at each reporting date.

5.6 **Impairment**

The Bank assesses at end of each reporting period whether there is any indication that non-financial assets except deferred tax assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of the amount which would have been determined had there been no impairment. Reversal of impairment loss is recognized as income.

5.7 **Grants**

Grants are initially recognised at fair value in the balance sheet when there is a reasonable assurance that the grant will be received and that the Bank will comply with all the attached conditions.

Grants relating to operating fixed assets are recorded as deferred revenue in the balance sheet and recognised as income on a systematic basis over the useful lives of the assets acquired from grant proceeds.

5.8 **Staff retirement benefits**

5.8.1 **Defined contribution plan**

The Bank operates a contributory provident fund for its permanent employees. Equal monthly contributions are made by the Bank and its employees to the fund at the rate of 8.33% (2011: 8.33%) of basic salary per month.

5.8.2 **Defined benefit plan**

The Bank operates an unapproved unfunded gratuity scheme for all of its permanent employees. Provisions are made to cover the obligation under the scheme based on Projected Unit Credit Method. As discussed in note 3.3, from the current year actuarial gains / losses are recognised in 'Profit and Loss Account' in the year which they arise.

Gratuity is payable to staff on completion of the prescribed qualifying period of service under the scheme.

5.8.3 **Compensated absences**

Compensated absences (leaves) of employees are accounted for in the period in which these absences are earned. Provisions to cover the obligations are made using the current salary level of employees.

5.9 **Taxation**

5.9.1 **Current**

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account applicable tax credits, rebates and exemptions available, if any or minimum tax applicable in accordance with the Income Tax Ordinance, 2001. The charge for the current tax also includes adjustments where necessary, relating to prior years which arise from assessments framed / finalised during the year.

5.9.2 **Deferred**

Deferred tax is recognised using the balance sheet liability method on all temporary differences arising at the date of reporting between the amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax asset is recognised on all deductible temporary differences and carry forward of unused tax losses, if any, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax liabilities are recognised for all taxable temporary difference. Deferred tax asset is recognised on all deductible temporary differences and carry forward of unused tax losses, if any.

The carrying amount of the deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to the periods when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to gain / (loss) recognised in surplus / (deficit) on revaluation of assets is charged / credited to such account.

5.10 Deposits

Deposits are recorded at the proceeds received. Deposit costs are recognised as an expense in the period in which these are incurred using effective mark-up / interest rate method.

5.11 Statutory reserve

The Bank is required under the Microfinance Institutions Ordinance, 2001 to maintain a statutory reserve to which an appropriation equivalent to 20% of the annual after tax profit is made.

5.12 Provisions

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

5.13 Depositors' protection fund

The Bank is required under the Microfinance Institutions Ordinance, 2001 to contribute 5% of its annual after tax profit to the Depositors' protection fund for the purpose of providing security or guarantee to persons depositing money in the Bank.

5.14 Revenue recognition

- Return on investment / lending to financial institutions is recognised using effective interest rate method.
- Mark-up / interest / return on performing advances is recognised using effective interest rate method except that income suspended in accordance with the requirements of the Prudential Regulations for Microfinance Banks, is taken to income when actually received.
- Interest or mark-up recoverable on non-performing advances and classified investments is recognised on a receipt basis.
- Dividend income is recognised when the right to receive dividend is established.
- Processing fees is recognized when services are performed.
- Other income are recognised on an accrual basis.

5.15 Financial instruments

5.15.1 Financial assets and financial liabilities

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

5.15.2 Off setting

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

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

5.16 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates. The financial statements are presented in Pak Rupee, which is the Bank's functional and presentation currency.

5.17 Foreign currencies translation

Foreign currency transactions are translated into Pak Rupees (functional currency) using the exchange rate prevailing at the dates of transactions. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees using the exchange rate prevailing at the reporting date. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translations of monetary assets and liabilities denominated in foreign currencies at reporting date are included in profit and loss account.

5.18 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS, if any, is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. There were no dilutive potential ordinary shares in issue at December 31, 2012.

5.19 Dividend and other appropriations

Dividend and appropriation to reserves, except appropriations which are required by the law, are recognised as liability in the Banks' financial statements in the year in which these are approved.

5.20 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Bank's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. Revision to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The areas where various assumptions and estimates are significant to the Bank's financial statements or where judgment was exercised in the application of accounting policy are as follows:

i) **classification of investments (notes 5.3 and 9);**

Held-to-maturity securities

As described in note 5.3, held-to-maturity securities are investments where the management has positive intent and ability to hold to maturity. The classification of these securities involves management judgment as to whether the financial assets are held-to-maturity investments.

Held-for-trading securities

Investments classified as held-for-trading are those which the Bank has acquired with an intention to trade by taking advantage of short term market! interest rate movements and are to be sold within 90 days.

Available-for-sale securities

Investments which are not classified as held-for-trading or held-to-maturity are classified as available-for-sale.

ii) **provision against advances (notes 5.4 and 10);**

Apart from the provision determined on the basis of time based criteria given in the Prudential Regulations of the SBP, management also applies subjective criteria of classification and accordingly the classification of an advance may be downgraded on the basis of evaluation of the credit worthiness of the borrower, its cash flows, operations in its account and adequacy of security in order to ensure accurate measurement of the provision.

iii) **provision for current and deferred taxation (notes 5.9, 13 and 25); and**

In making the estimates for income taxes currently payable by the Bank, the management looks at the current income tax laws and the decisions of appellate authorities on certain issues in the past. In making the provision for deferred taxes, estimates of the Bank's future taxable profits are taken into account.

iv) **provision for staff retirement benefits (notes 5.8, 15 and 27).**

The key actuarial assumptions concerning the valuation of the defined benefit plan and the sources of estimation are disclosed in note 27 to these unconsolidated financial statements.

v) **fixed assets, depreciation and amortization (notes 5.5, 11 and 23)**

In making estimates of the depreciation / amorization method, the management uses method which reflects the pattern in which economic benefits are expected to be consumed by the bank.

		Note	**2012**	2011
			------ Rupees ------	
6.	CASH AND BALANCES WITH SBP AND NBP			
	Cash in hand			
	Local currency		**12,595**	10,366
	Balance with State Bank of Pakistan (SBP) in:			
	Local currency current account	6.1	**2,290,692**	3,128,103
			2,303,287	3,138,469

6.1 This represents balance maintained with SBP to meet the requirement of maintaining a minimum balance equivalent to 5% of the Bank's time and demand liabilities in accordance with the Prudential Regulations for Microfinance Banks.

		Note	**2012**	2011
			------ Rupees ------	
7.	BALANCES WITH OTHER BANKS AND MICROFINANCE BANK			
	In Pakistan			
	- local currency current accounts		**1,049,474**	515,932
	- local currency deposit accounts	7.1 & 7.2	**13,683,539**	15,377,902
			14,733,013	15,893,834

7.1 These represents deposits with commercial banks carry mark-up at rates ranging from 6% to 7.5% per annum (2011: 5% to 9% per annum) except as disclosed in note 7.2 below.

7.2 These include term deposits amounting to Rs. 2,000,000 (2011: Rs. 3,000,000) having maturity less than one year carrying mark-up rate 10.25% per annum (2011: 11.5% per annum).

	Note	2012	2011
		------ Rupees ------	
8. LENDINGS TO FINANCIAL INSTITUTIONS			
Letters of Placement (LoPs)	8.1	**4,000,000**	100,000,000
Certificates of Investment (CoIs)	8.2	**441,747,375**	353,818,519
		445,747,375	453,818,519

8.1 This represents unsecured investment made in LoPs. These LoPs are due for maturity within one month and carry mark-up at the rate of 9.4% per annum (2011 : 13.4% per annum).

8.2 This represents unsecured investments made in CoIs of Pak Oman Investment Company Limited, an associated company. All CoIs are due for maturity within two years and carry mark-up rate at 11.65% per annum (2011: 11.65% to 13.4% per annum).

	Note	2012	2011
		------ Rupees ------	
9. INVESTMENTS - net of provisions			
Available for sale			
Federal Government Securities - Pakistan Investment Bonds	9.1	**4,952,339**	4,934,393
Investment in associate	9.2	**24,035,000**	24,035,000
Term Finance Certificates	9.3	**17,874,729**	18,566,300
Sukuk Bond	9.3	**10,000,000**	10,000,000
		56,862,068	57,535,693
Held to maturity			
Term Deposit Receipts	9.4	**30,000,000**	7,000,000
		86,862,068	64,535,693
Less: Provision for diminution in value of Investments	9.5	**(860,747)**	-
		86,001,321	64,535,693
Less: Deficit on revaluation of available for sale investments	17	**(5,372,512)**	(6,006,918)
Investments- net of provisions		**80,628,809**	58,528,775

9.1 Federal Government Securities - Pakistan Investment Bonds

Particulars	Note	Face value	As at December 31, 2012 Amortised Cost of Investment	Provision held	Amortised Cost less Provision	Market value	Surplus on revaluation	As at December 31, 2011 Amortised Cost of Investment	Provision held	Amortised cost	Market value	Deficit on revaluation
			----Rupees----									
Pakistan Investment Bonds (PIB)	9.1.1	5,000,000	4,952,339	-	4,952,339	5,171,092	218,753	4,934,393	-	4,934,393	4,857,048	(77,345)

9.1.1 PIB was purchased from Pak Oman Investment Company Limited (POICL), an associated company on November 17, 2009 at a cost of Rs 4,896,390. It carries a markup rate of 11.75%(2011: 11.75%) and is due to be matured on August 30, 2015.

9.2 Investment in associate

Name of the investee fund	Note	Face value	No. of Units	As at December 31, 2012 Cost of Investment	Provision held	Value of investment after provision	Market Value	Deficit on revaluation	As at December 31, 2011 Cost of Investment	Provision held	Value of investment after provision	Market Value	Deficit on revaluation
				----Rupees----					----Rupees----				
Pak Oman Advantage Fund (POAF)	9.2.1	10	2,403,500	24,035,000	-	24,035,000	22,208,340	(1,826,660)	24035000	-	24,035,000	21,919,920	(2,115,080)

9.2.1 POAF is classified as associate due to common directorship. Since the Bank does not exercise significant influence, therefore, investment in POAF has been accounted for as normal investment and classified as available for sale in accordance with the policy of the Bank.

9.3 Investments in Term Finance Certificates / Sukuk

Name of the investee company	Profit / mark-up rate (per annum)	Maturity date	As at December 31, 2012 Number of certificates	Redeemed value	Provision held	Value of investment after provision	Market value	Deficit on revaluation	As at December 31, 2011 Number of certificates	Redeemed value	Provision held	Value of investment after provision	Market value	Deficit on revaluation
			----Rupees----						----Rupees----					
Term Finance Certificate														
Pakistan Mobile Communication Limited	6 month KIBOR + 1.65%	28-Oct-13	2,000	10,000,000	-	10,000,000	9,950,830	(49,170)	2,000	10,000,000	-	10,000,000	9,835,680	(164,320)
WorldCall Telecom Limited	6 month KIBOR + 1.6%	7-Oct-13	3,000	6,424,729	-	6,424,729	4,497,308	(1,927,421)	3,000	8,566,300	-	8,566,300	7,452,507	(1,113,793)
Agritech Limited	Zero rated	1-Jan-15	290	1,450,000	112,381	1,337,619	Non Traded	Non Traded	-	-	-	-	-	-
				17,874,729	112,381	17,762,348	14,448,138	(1,976,591)	5,000	18,566,300	-	18,566,300	17,288,187	(1,278,113)
Term Finance Certificates of Rs 5,000 each														
Sukuk														
Agritech Limited	6 month KIBOR + 2%	6-Aug-13	2,000	10,000,000	748,366	9,251,634	7,463,620	(1,788,014)	2,000	10,000,000	-	10,000,000	7,463,620	(2,536,380)

9.3.1 Based on subjective evaluation as per Regualtion 12 of Prudential Regulations for Microfinance Banks, investment in Agritech Limited has been classified as 'Loss'. The State Bank of Pakistan through its letter no. BPRD/BRD-(Policy)/2013-1857 dated February 15, 2013 has allowed relaxation in maintaining provisioning against the exposure of Agritech Limited upto December 31, 2012. The Bank has availed the exemption and has made a provision upto 10% of required provision as directed by SBP against its outstanding exposure after taking benefit of FSV. In accordance with SBP directives, after tax FSV benefit amounting to Rs. 184,765 will not be available for payment of cash or stock dividend.

9.4 These represents term deposit receipts having maturity of one year held with a microfinance bank carrying mark-up rate ranging from 12.5% to 14% per annum (2011: 13.34% per annum).

9.5 Particulars of Provision for Diminution in Value of Investments

	2012	2011
	------ Rupees ------	
Opening Balance	-	-
Charge for the year - Agritech Limited	(860,747)	-
Reversals	-	-
Closing Balance	(860,747)	-

10. ADVANCES - NET OF PROVISIONS	Note	2012 Number of loans outstanding	2012 Amount outstanding (Rupees)	2011 Number of loans outstanding	2011 Amount outstanding (Rupees)
Loan type					
Micro credit advances					
- Considered good	10.5	**5,411**	**109,860,641**	5,965	94,977,748
- Considered doubtful		**716**	**9,304,212**	604	6,252,952
	10.1		**119,164,853**		101,230,700
Less: Provision held					
Specific provision	10.2	**358**	**1,443,007**	331	1,331,173
General provision	10.4		**1,177,218**		998,995
	10.3		**2,620,225**		2,330,168
			116,544,628		98,900,532
Staff loan	10.6		**20,917,800**		22,677,869
Advances - net of provisions			**137,462,428**		121,578,401

10.1 All advances are secured by personal guarantees. Further, a mandatory deposit account equivalent to 10% of amount of advances is required to be kept with the Bank. The details of such deposits held with the Bank are disclosed in note 14. The interest rates on these advances ranges from 34.5% to 37% per annum (2011: 34.5% to 37% per annum).

10.2 Particulars of non-performing advances

Advances includes Rs. 9,304,212 (2011: Rs. 6,252,952) which have been placed under non-performing status as detailed below:

Category of classification	December 31, 2012 Amount outstanding	December 31, 2012 Provision required	December 31, 2012 Provision held	December 31, 2011 Amount outstanding	December 31, 2011 Provision required	December 31, 2011 Provision held
	Rupees			Rupees		
OAEM	**6,212,785**	**-**	**-**	3,456,901	-	-
Sub-standard	**1,186,665**	**296,666**	**296,666**	886,499	221,625	221,625
Doubtful	**1,516,843**	**758,422**	**758,422**	1,600,008	800,004	800,004
Loss	**387,919**	**387,919**	**387,919**	309,544	309,544	309,544
Total	**9,304,212**	**1,443,007**	**1,443,007**	6,252,952	1,331,173	1,331,173

10.3 Particulars of provision against non-performing advances

The movement of provision against non-performing advances is as follows:

	December 31, 2012 Specific	December 31, 2012 General	December 31, 2012 Total	December 31, 2011 Specific	December 31, 2011 General	December 31, 2011 Total
	Rupees			Rupees		
Opening balance	**1,331,173**	**998,995**	**2,330,168**	2,138,893	1,293,137	3,432,030
Charge / reversal for the year	**5,075,442**	**178,223**	**5,253,665**	5,491,841	(294,142)	5,197,699
Amounts written off	**(4,963,608)**	**-**	**(4,963,608)**	(6,299,561)	-	(6,299,561)
	111,834	**178,223**	**290,057**	(807,720)	(294,142)	(1,101,862)
Closing balance	**1,443,007**	**1,177,218**	**2,620,225**	1,331,173	998,995	2,330,168

10.3.1 Particulars of write offs

	2012	2011
	Rupees	
Against provision	**4,963,608**	6,299,561
Directly charged to profit and loss account	**-**	-
	4,963,608	6,299,561

10.4 This represents general provision equivalent to 1% (2011: 1%) of the net outstanding advances held in accordance with the requirements of the Prudential Regulations for Microfinance Banks.

		2012	2011
		------ Rupees ------	

10.5 Portfolio by type

	2012	2011
Micro business loan	**27,241,165**	34,635,535
Micro asset loan	**7,809,645**	9,191,254
Livestock loan	**13,263,202**	14,567,361
Micro agri loan	**19,514,685**	27,390,480
Micro enterprise loan	**42,031,944**	9,193,118
	109,860,641	94,977,748

10.6 This represents personal loans and house loans provided to employees as per the Bank's policy. The title documents of houses are held by the Bank as collateral and interest of 5% per annum (2011: 5% per annum) is charged on house loans on amount exceeding Rs. 200,000.

10.7 During the year, the Bank has restructured the advances provided to customers in flood affected areas of Sindh region. Grace period ranging from 1 month to 14 months was provided to 1068 customers for repayment of outstanding advances of Rs. 28,015,671. The classification of restructured parties was kept frozen during this period as per requirements of prudential regulations for Microfinance Banks.

	Note	2012	2011
		------ Rupees ------	

11. OPERATING FIXED ASSETS

	Note	2012	2011
Capital work-in-progress	11.1	**3,712,400**	3,712,400
Property and equipment	11.2	**14,127,165**	9,674,064
Intangible assets	11.3	**-**	5,231
		17,839,565	13,391,695

11.1 Capital work-in-progress

	2012	2011
Advances given for development of software	**3,712,400**	3,712,400
	3,712,400	3,712,400

11.2 Property and equipment

	2012							
	COST			DEPRECIATION			Book value as at December 31, 2012	Rate of depreciation
	As at January 01, 2012	Additions / (Disposals)	As at December 31, 2012	As at January 01, 2012	Charge for the year / (disposals)	As at December 31, 2012		
	Rupees							%
Owned								
Leasehold improvements (Building's fixtures)	2,308,849	538,075 (49,480)	2,797,444	2,090,709	191,015 (49,480)	2,232,244	**565,200**	20%
Office equipment	2,995,557	735,429 (110,083)	3,620,903	2,085,256	363,970 (49,193)	2,400,033	**1,220,870**	20%
Furniture and fixture	4,906,142	271,281 (20,000)	5,157,423	4,479,904	317,751 (20,000)	4,777,655	**379,768**	20%
Computers	8,486,951	2,328,492 -	10,815,443	7,037,060	1,262,625 -	8,299,685	**2,515,758**	33%
Vehicles	16,308,201	5,002,662 (1,767,375)	19,543,488	9,638,707	1,873,112 (1,413,900)	10,097,919	**9,445,569**	20%
	35,005,700	8,875,939 (1,946,938)	41,934,701	25,331,636	4,008,473 (1,532,573)	27,807,536	14,127,165	

	2011							
	COST			DEPRECIATION			Book value as at December 31, 2011	Rate of depreciation
	As at January 01, 2011	Additions / (Disposals)	As at December 31, 2011	As at January 01, 2011	Charge for the year / (disposals)	As at December 31, 2011		%
	Rupees							
Owned								
Leasehold improvements (Building's fixtures)	2,308,849	-	2,308,849	1,836,905	253,804	2,090,709	218,140	20%
		-			-			
Office equipment	2,826,201	175,318	2,995,557	1,623,192	464,348	2,085,256	910,301	20%
		(5,962)			(2,284)			
Furniture and fixture	5,040,917	19,500	4,906,142	3,967,109	643,496	4,479,904	426,238	20%
		(154,275)			(130,701)			
Computers	7,846,600	691,952	8,486,951	6,123,902	964,759	7,037,060	1,449,891	33%
		(51,601)			(51,601)			
Vehicles	20,842,216	1,021,716	16,308,201	10,378,819	2,972,338	9,638,707	6,669,494	20%
		(5,555,731)			(3,712,450)			
	38,864,783	**1,908,486**	**35,005,700**	**23,929,927**	**5,298,745**	**25,331,636**	**9,674,064**	
		(5,767,569)			**(3,897,036)**			

11.2.1 Details of disposal of fixed assets

Particulars of assets		Cost	Net Book Value	Sale proceeds	(Gain) / Loss
		Rupees			
Assets (having book value of less than Rs.250,000 or cost of less than Rs.1,000,000)		1,946,938	414,365	1,701,100	(1,286,735)
	2012	**1,946,938**	**414,365**	**1,701,100**	**(1,286,735)**
	2011	5,767,569	1,870,533	2,758,446	(887,913)

11.3 Intangible assets

	2012							
	COST			AMORTISATION			Book value as at December 31	Rate of Amortisation
	As at January 01	Additions	As at December 31	As at January 01	Charge for the year	As at December 31		
	Rupees							
Computer software								
2012	**1,894,608**	**-**	**1,894,608**	**1,889,377**	**5,231**	**1,894,608**	**-**	33%
2011	1,894,608	-	1,894,608	1,727,482	161,895	1,889,377	5,231	33%

11.3.1 This includes intangible assets costing Rs 1,894,608 (2011: 1,814,292) that have been fully amortised as at December 31, 2012 but are still in use.

	2012	2011
	------ Rupees ------	

12. OTHER ASSETS

	2012	2011
Income / mark-up accrued	14,614,536	48,319,668
Advances, deposits, advance rent and other prepayments	5,772,373	3,881,518
Refundable / advance taxation (payments less provision)	4,754,142	3,358,679
Others	623,594	621,291
	25,764,645	56,181,156
Less: Provision held against classified other assets		
Opening provision	102,413	-
Provision charge for the year	102,413	102,413
	204,826	102,413
Other assets - net of provision	25,559,819	56,078,743

13. DEFERRED TAX ASSET

	Balance as at January 01	Recognised in profit and loss account	Recognised in deficit in revaluation of assets account	Balance as at December 31
	------ Rupees ------			
For the year ended December 31, 2012				
Taxable temporary differences				
Amortisation of discount on investments	(13,301)	(6,281)	-	(19,582)
Surplus on revaluation of securities	-	-	(76,564)	(76,564)
	(13,301)	(6,281)	(76,564)	(96,146)
Deductible temporary differences				
Provision for other liabilities	5,424,863	(507,345)	-	4,917,518
Provision for diminution in value of investments	-	301,261	-	301,261
Difference between accounting book value of fixed assets and tax base	562,034	(519,236)	-	42,798
Deficit on revaluation of securities	27,086	-	(27,086)	-
Provision against non-performing loans and advances	349,648	62,378	-	412,026
Amortisation of deferred grant	23,421	(23,421)	-	-
Provision against other assets	35,845	35,844	-	71,689
	6,422,897	(650,519)	(27,086)	5,745,292
Unabsorbed depreciation and carry forward losses	18,624,993	(1,750,212)	-	16,874,781
	25,034,589	(2,407,012)	(103,650)	22,523,927
For the year ended December 31, 2011 - Restated				
Taxable temporary differences				
Amortisation of discount on investments	(7,037)	(6,264)	-	(13,301)
Deductible temporary differences				
Provisions for other liabilities	4,859,592	565,271	-	5,424,863
Difference between accounting book value of fixed assets and tax base	89,227	472,807	-	562,034
Deficit on revaluation of securities	1,165,286	-	(1,138,200)	27,086
Provision against non-performing loans and advances	452,598	(102,950)	-	349,648
Amortisation of deferred grant	-	23,421	-	23,421
Provision against other assets	-	35,845	-	35,845
	6,566,703	994,394	(1,138,200)	6,422,897
Unabsorbed depreciation and carry forward losses	20,779,051	(2,154,058)	-	18,624,993
	27,338,717	(1,165,928)	(1,138,200)	25,034,589

	2012	2011
	------ Rupees ------	

12. OTHER ASSETS

	2012	2011
Income / mark-up accrued	14,614,536	48,319,668
Advances, deposits, advance rent and other prepayments	5,772,373	3,881,518
Refundable / advance taxation (payments less provision)	4,754,142	3,358,679
Others	623,594	621,291
	25,764,645	56,181,156
Less: Provision held against classified other assets		
Opening provision	102,413	-
Provision charge for the year	102,413	102,413
	204,826	102,413
Other assets - net of provision	25,559,819	56,078,743

13. DEFERRED TAX ASSET

	Balance as at January 01	Recognised in profit and loss account	Recognised in deficit in revaluation of assets account	Balance as at December 31
	---- Rupees ----			
For the year ended December 31, 2012				
Taxable temporary differences				
Amortisation of discount on investments	(13,301)	(6,281)	-	(19,582)
Surplus on revaluation of securities	-	-	(76,564)	(76,564)
	(13,301)	(6,281)	(76,564)	(96,146)
Deductible temporary differences				
Provision for other liabilities	5,424,863	(507,345)	-	4,917,518
Provision for diminution in value of investments	-	301,261	-	301,261
Difference between accounting book value of fixed assets and tax base	562,034	(519,236)	-	42,798
Deficit on revaluation of securities	27,086	-	(27,086)	-
Provision against non-performing loans and advances	349,648	62,378	-	412,026
Amortisation of deferred grant	23,421	(23,421)	-	-
Provision against other assets	35,845	35,844	-	71,689
	6,422,897	(650,519)	(27,086)	5,745,292
Unabsorbed depreciation and carry forward losses	18,624,993	(1,750,212)	-	16,874,781
	25,034,589	(2,407,012)	(103,650)	22,523,927
For the year ended December 31, 2011 - Restated				
Taxable temporary differences				
Amortisation of discount on investments	(7,037)	(6,264)	-	(13,301)
Deductible temporary differences				
Provisions for other liabilities	4,859,592	565,271	-	5,424,863
Difference between accounting book value of fixed assets and tax base	89,227	472,807	-	562,034
Deficit on revaluation of securities	1,165,286	-	(1,138,200)	27,086
Provision against non-performing loans and advances	452,598	(102,950)	-	349,648
Amortisation of deferred grant	-	23,421	-	23,421
Provision against other assets	-	35,845	-	35,845
	6,566,703	994,394	(1,138,200)	6,422,897
Unabsorbed depreciation and carry forward losses	20,779,051	(2,154,058)	-	18,624,993
	27,338,717	(1,165,928)	(1,138,200)	25,034,589

13.1 The deferred tax debit balance recognised in the financial statements represents the management's best estimate of the potential benefit which is expected to be realized in future years in the form of reduced tax liability as the Bank would be able to set off the profits earned in these years against losses carried forward from prior years.

For the purpose of computing this benefit, management has prepared projected financial statements of the Bank using assumptions which are linked to various variable factors such as the economic outlook of the country, investment growth, interest rate movements, expansion in depositors / advances portfolio of the Bank etc.

14. DEPOSITS AND OTHER ACCOUNTS

	2012		2011	
	Number of Accounts	Amount Rupees	Number of Accounts	Amount Rupees
Saving deposits	**106**	**179,746**	110	120,796
Fixed deposits	**81**	**3,394,000**	83	1,327,000
Current deposits - mandatory	**16,967**	**21,552,704**	17,865	23,419,658
- normal	**731**	**1,679,217**	643	474,132
	17,885	**26,805,667**	18,701	25,341,586

14.1 Particulars of deposits by ownership

	2012		2011	
Individual depositors	**17,884**	**25,055,667**	18,700	24,241,586
Institutional depositor - Corporation	**1**	**1,750,000**	1	1,100,000
	17,885	**26,805,667**	18,701	25,341,586

14.2 As per policy of the Bank, borrowers are required to save and deposit 10% of the original loan amount in a non-remunerative deposit account. As at December 31, 2012, deposits under this requirement amount to Rs. 21,552,704 (2011: Rs 23,419,658).

15. OTHER LIABILITIES

	Note	2012	2011 (Restated)
		------ Rupees ------	
Mark-up / interest / return payable		**120,864**	107,451
Accrued expenses		**2,972,774**	4,015,847
Payable to defined benefit plan	27.1.4	**12,948,093**	12,209,261
Provision for compensated absences		**1,101,954**	3,290,346
Provision for leave fare assistance		**1,542,615**	1,580,206
Excess amount received from customers - refundable		**612,865**	700,000
Withholding taxes payable		**76,797**	8,500
Stale cheques		**61,303**	45,137
Payable to Workers' Welfare Fund		**300,774**	272,589
		19,738,039	22,229,337

16. SHARE CAPITAL

16.1 Authorised capital

2012	2011		2012	2011
Number of shares			------ Rupees ------	
80,000,000	80,000,000	Ordinary shares of Rs 10 each	**800,000,000**	800,000,000

16.2 Issued, subscribed and paid-up share capital

2012	2011		2012	2011
Number of shares			------ Rupees ------	
75,182,000	75,182,000	ordinary shares of Rs 10 each fully paid in cash	**751,820,000**	751,820,000

16.3 Share capital has been subscribed by the following:

	2012	2011
Ministry of Finance - Sultanate of Oman	**500,712,110**	500,712,110
Ministry of Commerce - Sultanate of Oman	**10**	10
Pak Oman Investment Company Limited	**251,107,880**	251,107,880
	751,820,000	751,820,000

	Note	2012	2011
		------ Rupees ------	
17. DEFICIT ON REVALUATION OF ASSETS - net			
Surplus / (deficit) on revaluation of securities			
Federal and Provincial Government securities			
- Pakistan Investment Bonds	9.1	**218,753**	(77,345)
Quoted securities			
- Pak Oman Advantage Fund	9.2	**(1,826,660)**	(2,115,080)
- Term Finance Certificates	9.3	**(1,976,591)**	(1,278,113)
- Sukuk Bonds	9.3	**(1,788,014)**	(2,536,380)
		(5,372,512)	(6,006,918)
Less: Related deferred tax effect	13	**(76,564)**	27,086
		(5,449,076)	(5,979,832)
18. DEFERRED GRANTS			
Grant from Asian Development Bank (ADB) / State Bank of Pakistan (SBP)	18.1	**66,962**	1,263,610
Less: Amortisation during the year		**(66,962)**	(1,196,648)
		-	66,962

18.1 This represents a grant for institutional strengthening under the Microfinance sector development program against an aggregate limit of Rs 12.5 million. The grant was availed for program related capital expenditure and was reimbursed by SBP, on behalf of Asian Development Bank, upon submission of statements of expenditure.

	2012	2011
	------ Rupees ------	
19 MEMORANDUM / OFF BALANCE SHEET ITEMS		
19.1 Commitments for fixed capital expenditure	**3,045,100**	3,045,100

19.2 There were no other outstanding contingencies and commitments as at December 31, 2012 except as disclosed in note 19.1 and note 25.3.

20. MARK-UP / RETURN / INTEREST EARNED

	Note	2012	2011
		------ Rupees ------	
Interest / mark-up on:			
Advances		**39,321,085**	33,078,324
Investment in Federal Government Securities		**591,519**	593,333
Amortisation of Pakistan Investment Bond		**17,946**	17,897
Lendings to financial institutions		**54,116,076**	61,139,782
Deposit accounts		**455,322**	914,878
Term deposit receipts		**3,011,714**	1,305,973
Term finance certificates		**3,663,989**	3,940,265
Others		**888,422**	938,261
		102,066,073	101,928,713

21. MARK-UP / RETURN / INTEREST EXPENSED

		2012	2011
Deposits		**201,542**	358,230

22. OTHER INCOME

	Note	2012	2011
Amortisation of grant	18	**66,962**	1,196,648
Gain on disposal of fixed assets	11.2.1	**1,286,735**	887,913
Recoveries against written off advances		**1,144,077**	2,243,757
Others		**901,718**	545,363
		3,399,492	4,873,681

23. ADMINISTRATIVE EXPENSES

	Note	2012	2011 (Restated)
		------ Rupees ------	
Salaries and other allowances		**52,611,428**	47,397,784
Bonus to employees		**6,967,397**	6,864,861
Contribution to defined contribution plan		**3,017,062**	2,800,824
Charge for defined benefit plan	27.1.2	**1,073,030**	3,447,826
Charge for leave fare assistance		**3,237,493**	2,961,397
Non-executive directors' allowances and other expenses		**1,493,325**	1,529,740
Training		**411,877**	282,340
Rent, rates and taxes		**10,111,054**	9,157,914
Legal and professional charges		**960,734**	974,445
Utilities		**708,832**	777,164
Communications		**1,689,710**	1,425,767
Repairs and maintenance		**383,741**	627,025
Vehicle running		**4,726,707**	4,083,816
Insurance		**2,444,856**	2,093,711
Travel and transportation		**5,911,440**	5,520,607
Stationery and printing		**2,222,765**	1,621,600
Fees and subscription		**328,035**	232,493
Advertisement and business promotions		**255,448**	212,690
Donations	23.1	**32,500**	46,000
Auditors' remuneration	23.2	**459,118**	457,000
Depreciation	11.2	**4,008,473**	5,298,745
Amortisation of intangible assets	11.3	**5,231**	161,895
Other expenses		**1,228,144**	1,280,540
		104,288,400	99,256,184

23.1 No donation was paid during the year in which any of the Directors or their spouses had any interest.

23.2 Auditors' remuneration

	2012	2011
	------ Rupees ------	
Audit fee	**320,000**	320,000
Special certifications	**40,000**	40,000
Out of pocket expenses	**99,118**	97,000
	459,118	457,000

24. OTHER CHARGES

	2012	2011
	------ Rupees ------	
Workers' Welfare Fund	28,185	142,239
	28,185	142,239

25. TAXATION

	2012	2011 (Restated)
	------ Rupees ------	
For the year		
- current	25,182	1,055,706
- deferred	531,940	1,165,928
	557,122	2,221,634
For prior year		
- current	(1,019,294)	-
- deferred	1,875,072	-
	855,778	-
	1,412,900	2,221,634

25.1 Relationship between tax expense and accounting profit

	2012	2011
Accounting profit before tax	1,311,521	7,287,208
Tax rate	35%	35%
Tax on accounting profit	459,032	2,550,523
Tax effect of permanent differences	98,089	(328,889)
Tax effect of prior year in current tax	(1,019,294)	-
Tax effect of prior year in deferred tax	1,875,072	-
	1,412,900	2,221,634

25.2 The Finance Act 2007 had introduced amendments to the Income Tax Ordinance, 2001, through which income of Microfinance Banks has been conditionally exempted from tax for five years commencing January 1, 2008 under clause 66 (viii) of Part I of the Second Schedule. However, the Finance Act 2007 has also introduced the Seventh Schedule to the Income Tax Ordinance, 2001 which is applicable to Banking Companies. Under Rule 8 of the Seventh Schedule, no exemptions of the Second Schedule are to apply to Banking Companies. The exemption of Clause 66 (viii) therefore appears to be overruled by Rule 8 of the Seventh Schedule. However, based on the opinion of the Bank's lawyer, the Bank continues to prepare and submit its tax returns as a microfinance institution and does not follow the Seventh Schedule.

25.3 The income tax returns for the tax year 2007, 2008, 2009, 2010 and 2011 have been filed. The Income Tax Returns for the tax years 2007, 2009 and 2011 are deemed to be assessed under the provisions of section 120 of the Income Tax Ordinance, 2001.

Show cause notices in respect of tax year 2008 and 2010 issued by the Additional Commissioner Inland Revenue (ACIR) vide orders dated February 17, 2009 and November 22, 2010 under Section 122 (5A) of the Income Tax Ordinance, 2001 whereby ACIR, for the tax year 2008 and 2010, raised concerns over admissibility of provision against non performing advances, bad debts written off, provision for leave fare assistance, amortisation of discount on Pakistan Investment Bonds, amortisation of government grant. Further, concerns were raised on the apportionment of expenses to dividend income, computation of minimum tax on turnover and non-payment of tax on dividend income. For the tax year 2010, ACIR raised an additional concern on incorrect claim of penalty imposed by State Bank of Pakistan. Aggregate effect of aforementioned show cause notices amounts to Rs. 13,981,664.

In response of the above concerns, the Bank has filed its responses via Letters No. CT 1846 and CT 2020 for the tax year 2008 and Letters No. CT 565 and CT 1319 for the tax year 2010, communicating their point of view. No orders have so far been issued by the ACIR. Based on the opinion of the tax consultant, the management expects positive outcome of the responses. Accordingly the effect of the show cause notices has not been considered in these financial statements.

26. NUMBER OF EMPLOYEES

	2012			2011		
	Credit / Sales	Banking / Support	Total	Credit / Sales	Banking / Support	Total
	----------Staff----------			----------Staff----------		
Permanent	43	28	71	41	34	75
Contractual	32	59	91	20	55	75
Total	75	87	162	61	89	150

27. DEFINED BENEFIT PLAN

27.1 Staff Gratuity Scheme

As disclosed in note 5.8.2, the Bank operates an unapproved unfunded gratuity scheme for its employees. The information in notes 27.1.1 to 27.1.8 relating to the 2012 and 2011 financial year has been obtained from the actuarial valuation report.

27.1.1 Principal actuarial assumptions used:

The following significant assumptions have been used for valuation of this scheme:

	2012	2011
- Expected rate of increase in salary level -Senior Executive	**11.5%**	17.0%
- Expected rate of increase in salary level -Other Employees	**11.5%**	10.0%
- Discount rate	**11.5%**	12.5%

27.1.2 Amount recognised in the profit and loss account:

The following amounts have been charged in the profit and loss account during the current year in respect of the scheme:

	Note	2012	2011 (Restated)
		------ Rupees ------	
Current service cost		**2,006,772**	2,357,143
Interest cost		**1,214,752**	1,265,960
Actuarial gain recognised		**(2,148,494)**	(175,277)
		1,073,030	3,447,826

27.1.3 Liability recognised in the balance sheet:

	Note	2012	2011
Present value of defined benefit obligation	27.1.5	**12,948,093**	12,209,261
Add: Unrecognised actuarial gains		-	-
Liability recognised as at December 31		**12,948,093**	12,209,261

27.1.4 Movement of liability:

	Note	2012	2011
Liability as at January 1		**12,209,261**	9,323,709
Add: Current year expense	27.1.2	**1,073,030**	3,447,826
Less: Payments made during the year		**(334,198)**	(562,274)
Liability as at December 31		**12,948,093**	12,209,261

27.1.5 Reconciliation of present value of defined benefit obligation:

	2012	2011
Present value of defined benefit obligation as at January 1	**12,209,261**	9,323,709
Current service cost	**2,006,772**	2,357,143
Interest cost	**1,214,752**	1,265,960
Actuarial (gain) / loss	**(2,148,494)**	(175,277)
Benefit paid	**(334,198)**	(562,274)
Present value of defined benefit obligation as at December 31	**12,948,093**	12,209,261

27.1.6 Five year data on the deficit / (surplus) of the plan is as follows:

	2012	2011	2010	2009	2008
	----------	----------	Rupees	----------	----------
Present value of defined benefit obligation	12,948,093	12,209,261	9,323,709	5,769,954	4,055,905
Fair value of plan assets	-	-	-	-	-
Deficit / (surplus)	12,948,093	12,209,261	9,323,709	5,769,954	4,055,905

27.1.7 Actuarial loss / (gain) on obligation:

Experience adjustments	(2,148,494)	(175,277)	545,462	(716,433)	544,409

27.1.8 Based on actuarial advice, the Bank estimates a gratuity expense of Rs 4,311,479 in year 2013.

		2012	2011
		------ Number ------	

28. NUMBER OF BRANCHES

	Note	2012	2011
Branches at the start of the year		16	14
Opened during the year		-	2
Closed during the year	28.1	1	-
Branches at the end of the year		15	16

28.1 In view of necessary realignment, branch situated at Qayyumabad, Karachi has been closed during the year.

28.2 The Bank also has 6 (2011: 5) service centers in operation along with branches.

29. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amounts charged in the financial statements for the period in respect of remunerations, including all benefits to the Chief Executive, Directors and Executives are as follows:

		2012			2011		
	Note	President / Chief Executive Officer	Directors	Executives	President / Chief Executive Officer	Directors	Executives
		---- Rupees ----					
Managerial remuneration		9,927,273	-	12,695,635	8,290,909	-	9,234,545
Contribution to defined contribution plan		827,240	-	1,057,927	690,881	-	769,515
Utilities allowance		63,061	-	114,000	122,827	-	108,000
Medical allowance		992,727	-	1,269,565	829,091	-	923,455
Conveyance		589,712	-	1,477,000	644,039	-	1,272,000
Bonus		2,810,000	-	1,979,100	2,285,000	-	1,656,500
Charge for defined benefit plans		(577,915)	-	(1,015,450)	2,226,267	-	3,056,131
Director Fees		-	1,493,325	-	-	1,529,740	-
Others		910,000	-	1,139,600	760,000	-	846,500
	28.1	15,542,098	1,493,325	18,717,377	15,849,014	1,529,740	17,866,646
Number of persons at year end		1	5	12	1	5	7

29.1 The Bank has provided free use of bank maintained car to the Chief Executive Officer. Some executives have also been provided with free use of bank owned cars in accordance with the terms of their employment.

29.2 Executive means employees other than the chief executive and directors, whose basic salary exceed five hundred thousand rupees in a financial year.

30 EARNINGS / (LOSS) PER SHARE

30.1 Basic

		2012	2011 (Restated)
(Loss) / Profit for the year - after taxation	Rupees	(101,379)	5,065,574
Weighted average number of ordinary shares	Number	75,182,000	75,182,000
Basic earnings / (Loss) per share	Rupee	(0.001)	0.067

30.2 Diluted

No figure for diluted earnings per share has been presented as the Bank has not issued any instrument which would have an impact on basic earnings per share when exercised.

31. RELATED PARTY TRANSACTIONS

The Bank has related party relationship with its parent, associates, employee benefit plans, and its key management personnel (including their associates). The details of investments in associate are stated in note 9 to these financial statements.

Contributions to the accounts in respect of staff retirement benefits are made in accordance with actuarial valuation / terms of the contribution plan. Remuneration of the key management personnel are in accordance with the terms of their employment. Other transactions are carried out as per agreed terms.

The details of transactions with related parties, other than those which have been specifically disclosed elsewhere in the financial statements are as follows:

	2012			2011		
	Key management personnel	Parent*	Associated company	Key management personnel	Parent*	Associated company
	Rupees					
Balances at the year end						
Advances - Staff loans						
As at January 01	20,473,984	-	-	19,920,229	-	-
Disbursement during the year	368,000	-	-	2,380,000	-	-
Repayments during the year	(2,743,656)	-	-	(1,826,245)	-	-
At December 31	18,098,328	-	-	20,473,984	-	-
Current Deposits						
As at January 01	-	-	-	-	-	-
Received during the year	1,165,300	-	-	-	-	-
Repayments during the year	-	-	-	-	-	-
At December 31	1,165,300	-	-	-	-	-
Investments	-	-	24,035,000	-	-	24,035,000
Lendings to financial institutions	-	-	441,747,374	-	-	453,818,419
Income / mark-up accrued on lendings to financial institution	-	-	3,016,645	-	-	38,121,296
Post-employment benefits	6,752,665	-	-	9,057,444	-	-
Transactions during the year						
Mark-up / return / interest earned	974,288	-	53,858,376	884,250	-	61,139,782
Dividend income received	-	-	2,446,282	-	-	2,445,081
Short-term employee benefits charge	4,645,233	-	-	5,147,999	-	-
Contribution to defined contribution plan	1,523,576	-	-	1,309,948	-	-
Lendings made during the year	-	-	383,888,856	-	-	453,818,519
Lendings settled during the year	-	-	395,960,000	-	-	451,638,833

* Ministry of Finance - Sultanate of Oman

	Note	2012	2011
		------ Rupees ------	

32. CASH AND CASH EQUIVALENTS

	Note	2012	2011
Cash and balances with SBP / NBP	6	**2,303,287**	3,138,469
Balances with other banks	7	**14,733,013**	15,893,834
		17,036,300	19,032,303

33. CAPITAL RISK MANAGEMENT

33.1 The objective of managing capital is to safeguard the Bank's ability to continue as a going concern, so that it could continue to provide adequate returns and benefits to stakeholders by pricing products and services commensurately with the level of risk. It is the policy of the Bank to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

33.2 Goals of managing capital

The goals of managing capital of the Bank are as follows:

- To be an appropriately capitalised institution, as defined by the regulatory authorities and comparable to peers;
- Maintain strong ratings and to protect the Bank against unexpected events;
- Availability of adequate capital (including the quantum) at a reasonable cost so as to enable the Bank to expand; and
- Achieve low overall cost of capital with appropriate mix of capital elements.

The Bank has no gearing risk in the current year.

33.3 Statutory minimum capital requirement and management of capital

33.3.1 The minimum paid up capital requirement (MCR), free of losses, for Microfinance Banks operating at national level is Rs. 1,000 million. Further, BSD Circular No. 7 of 2010 dated November 26, 2010 advised transitional arrangement to the Microfinance Banks (MFBs) licensed to operate nationally which do not meet the revised MCR to enhance their paid-up capital, free of losses, to Rs. 800 million as at December 31, 2012 and Rs. 1,000 million as at December 31, 2013. As of December 31, 2012, the share capital of the MFB stood at Rs. 751.820 million and paid up capital of the Bank free of losses is Rs. 698.28 million hence the bank is non-compliant with the aforesaid requirements as fully explained in note 1.3 of these financial statements together with the plan to meet shortfall.

33.3.2 At present, the Bank defines capital as shareholders' equity i.e. share capital and reserves. The capital of the Bank is managed keeping in view the minimum "Capital Adequacy Ratio" (15%) required by the Prudential Regulations for Microfinance Banks / Institutions. The adequacy of the capital is tested with reference to the risk-weighted assets of the Bank. The calculation of capital adequacy enables the Bank to assess the long-term soundness. As the Bank conducts business on a wide area network basis, it is critical that it is able to continuously monitor the exposure across the entire organisation.

The Bank manages its capital structure and makes adjustments to it in light of changes in regulatory and economic conditions. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend paid to shareholders, return capital to shareholders or issue new shares.

As at December 31, 2012 the Bank's CAR was approximately 222% (2011: 214%) of its weighted exposure. Further, there has not been any material change in the Bank's management or definition of capital during the period.

34. FINANCIAL ASSETS AND LIABILITIES

	Effective yield / interest rate	Interest bearing: Upto 6 months	Interest bearing: Over 6 months to one year	Interest bearing: Over 1 year upto five years	Interest bearing: Over five years	Interest bearing: Sub total	Non-Interest bearing: Upto 6 months	Non-Interest bearing: Over 6 months to one year	Non-Interest bearing: Over 1 year up to five years	Non-Interest bearing: Over five years	Non-Interest bearing: Sub total	Total
	%	Rupees										
December 31, 2012												
Financial assets												
Cash and balances with SBP / NBP		-	-	-	-	-	2,303,287	-	-	-	2,303,287	2,303,287
Balances with other banks/NBFIs/MFBs	6% - 10.25%	13,683,539	-	-	-	13,683,539	1,049,474	-	-	-	1,049,474	14,733,013
Lendings to financial institutions	9.4% - 11.65%	4,000,000	152,858,519	288,888,856	-	445,747,375	-	-	-	-	-	445,747,375
Investments - net of provisions	11.25% - 14%	1,715,571	40,920,173	37,993,065	-	80,628,809	-	-	-	-	-	80,628,809
Advances - net of provisions	5% - 37%	85,490,832	30,301,086	19,283,820	-	135,075,738	883,012	762,315	741,363	-	2,386,690	137,462,428
Other assets		-	-	-	-	-	14,810,424	3,381,193	-	-	18,191,617	18,191,617
		104,889,942	224,079,778	346,165,741	-	675,135,461	19,046,197	4,143,508	741,363	-	23,931,068	699,066,529
Financial liabilities												
Deposits and other accounts	6% - 11%	1,644,000	1,750,000	179,746	-	3,573,746	8,642,898	6,106,327	7,474,943	1,007,753	23,231,921	26,805,667
Other liabilities		-	-	-	-	-	2,224,457	3,268,164	1,101,954	12,948,093	19,542,668	19,542,668
		1,644,000	1,750,000	179,746	-	3,573,746	10,867,355	9,374,491	8,576,897	13,955,846	42,774,589	46,348,335
December 31, 2011												
Financial assets												
Cash and balances with SBP / NBP		-	-	-	-	-	3,138,469	-	-	-	3,138,469	3,138,469
Balances with other banks/NBFIs/MFBs	5% - 9%	15,377,902	-	-	-	15,377,902	515,932	-	-	-	515,932	15,893,834
Lendings to financial institutions	11.65% - 13.40%	282,960,000	-	170,858,519	-	453,818,519	-	-	-	-	-	453,818,519
Investments - net of provisions	11.75% - 15.37%	2,141,571	9,141,571	25,325,713	-	36,608,855	-	-	21,919,920	-	21,919,920	58,528,775
Advances - net of provisions	5% - 37%	80,058,300	17,269,882	9,247,664	12,016,274	118,592,120	1,172,268	1,034,371	779,642	-	2,986,281	121,578,401
Other assets		-	-	-	-	-	54,315,973	125,000	-	1,637,770	56,078,743	56,078,743
		380,537,773	26,411,453	205,431,896	12,016,274	624,397,396	59,142,642	1,159,371	22,699,562	1,637,770	84,639,345	709,036,741
Financial liabilities												
Deposits and other accounts	5% - 10%	1,447,796	-	-	-	1,447,796	19,342,866	3,905,959	644,965	-	23,893,790	25,341,586
Other liabilities		-	-	-	-	-	6,372,928	356,802	-	15,490,607	22,220,337	22,220,337
		1,447,796	-	-	-	1,447,796	25,715,794	4,262,761	644,965	15,490,607	46,114,127	47,561,923

34.1 **Concentration of credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank's credit risk is primarily attributable to its advances, investments and its lendings to financial institutions. However, the Bank believes that it is not exposed to major concentration of credit risk. The Bank's credit risk in lendings to financial institutions is limited because the counter party is an associated undertaking having high credit rating. The Bank has an effective loan disbursement and recovery monitoring system which allows it to evaluate borrowers credit worthiness and identify potential problem loans. A provision for potential loan losses is maintained as required by the Prudential Regulations for Microfinance Banks / Institutions.

34.2 **Liquidity risk**

Liquidity risk is the risk of being unable to raise funds at a reasonable price to meet commitments when they fall due, or to take advantage of investment opportunities when they arise. The management ensures that funds are available at all times to meet the funding requirements of the Bank. The Bank manages this risk by maintaining sufficient liquidity at Head Office and Branches.

34.3 **Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rate. The Bank's interest rate exposure stems mainly from its lendings to financial institutions. This risk is managed by regular review of market rates.

34.4 **Fair value of financial instruments**

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

35. **SCHEDULE OF MATURITY DISTRIBUTION OF MARKET RATE ASSETS & LIABILITIES**

	2012				
	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
	---------- Rupees ----------				
Market rate assets					
Advances	135,075,738	25,103,228	60,387,604	30,301,086	19,283,820
Investments	80,628,809	969,209	746,362	40,920,173	37,993,065
Other Earning Assets	459,430,914	15,683,539	2,000,000	152,858,519	288,888,856
Total market rate assets	675,135,461	41,755,976	63,133,966	224,079,778	346,165,741
Other non-earning assets	71,662,762	23,774,341	6,721,614	8,138,140	33,028,667
Total assets	746,798,223	65,530,317	69,855,580	232,217,918	379,194,408
Market rate liabilities					
Large Time Deposits Above Rupees 100,000	3,250,000	1,500,000	-	1,750,000	-
All Other Time Deposits -					
(Including Fixed Rate Deposits)	144,000	144,000	-	-	-
Other Cost Bearing Deposits	179,746	-	-	-	179,746
Borrowings	-	-	-	-	-
Total market rate liabilities	3,573,746	1,644,000	-	1,750,000	179,746
Other non-cost bearing liabilities	42,969,960	9,555,315	7,430,987	10,925,858	15,057,800
Total liabilities	46,543,706	11,199,315	7,430,987	12,675,858	15,237,546

	2011				
	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
	Rupees				
Market rate assets					
Advances	118,592,120	15,873,130	64,185,170	17,269,882	21,263,938
Investments	36,608,855	-	2,141,571	9,141,571	25,325,713
Other Earning Assets	469,196,421	298,337,902	-	-	170,858,519
Total market rate assets	624,397,396	314,211,032	66,326,741	26,411,453	217,448,170
Other non-earning assets	123,065,629	56,989,980	4,230,919	3,232,377	58,612,353
Total assets	747,463,025	371,201,012	70,557,660	29,643,830	276,060,523
Market rate liabilities					
Large Time Deposits Above 100,000 Rupees	1,100,000	-	1,100,000	-	-
All Other Time Deposits - (Including Fixed Rate Deposits)	227,000	227,000	-	-	-
Other Cost Bearing Deposits	120,796	120,796	-	-	-
Borrowings	-	-	-	-	-
Total market rate liabilities	1,447,796	347,796	1,100,000	-	-
Other non-cost bearing liabilities	46,123,127	10,168,761	15,547,033	4,262,761	16,144,572
Total liabilities	47,570,923	10,516,557	16,647,033	4,262,761	16,144,572

36. DATE OF AUTHORISATION

These financial statements were authorised for issue on 26 MAR 2013 by the Board of Directors of the Bank.

37. GENERAL

- Figures have been rounded off to the nearest Rupee unless otherwise specified.
- Where there are no amounts to be disclosed in the account captions as prescribed by BSD Circular No. 11 dated December 30, 2003 issued by the State Bank of Pakistan (SBP) in respect of forms of financial statements for Microfinance Institutions / Banks, these captions have not been reproduced in these financial statements except for the balance sheet and profit and loss account.

President / Chief Executive | Chairman | Director | Director