

**U Microfinance Bank Limited**

**Financial Statements for the year ended**

**December 31, 2015**

## AUDITOR'S REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **U Microfinance Bank Limited** (the Bank) as at December 31, 2015 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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 Companies Ordinance, 1984, Microfinance Institution Ordinance, 2001 and the directives issued by the State Bank of Pakistan. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by the 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 accounts have been kept by the Bank as required by the Companies Ordinance, 1984;
- b) in our opinion:
  - i) the balance sheet, profit and loss account and statement of comprehensive income together with the notes thereon have been drawn up in conformity with the requirement of the Companies Ordinance, 1984, Microfinance Institution Ordinance, 2001 and the directives issued by the State Bank of Pakistan, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied,
  - ii) the expenditure incurred during the year was for the purpose of the Bank's business; and

- iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and the 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 requirement of the Microfinance Institution Ordinance, 2001 and the requirements of the Companies Ordinance, 1984 in the manner so required, and respectively give a true and fair view of the state of the Bank's affairs as at December 31, 2015 and of the profit, comprehensive income, its cash flows and changes in equity for the year then ended; and
- d) in our opinion, Zakat deductible at source under the Zakat and Usher Ordinance, 1980 (XVIII of 1980) was deducted by the Bank and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

## Other matter

The annual financial statements for the year ended December 31, 2014 were audited by another firm of Chartered Accountants who had expressed unmodified opinion vide their report dated February 11, 2015.

*Deloitte Yousuf Adil*  
Chartered Accountants

**Engagement Partner:**  
Shahzad Ali

**Date: March 18, 2016**  
**Islamabad**



**U MICROFINANCE BANK LIMITED**  
**BALANCE SHEET**  
**AS AT DECEMBER 31, 2015**

	Note	2015 Rupees	2014 Rupees
<b>ASSETS</b>			
Cash and balances with SBP and NBP	6	136,676,155	74,142,780
Balances with other Banks/ NBFIs/ MFBs	7	555,408,074	452,986,322
Investments	8	180,482,925	517,956,219
Advances - net of provisions	9	912,901,433	344,127,634
Operating fixed assets	10	222,412,762	220,570,455
Other assets	11	165,016,473	128,883,296
Deferred tax asset	12	98,024,114	93,341,897
<b>Total Assets</b>		<b>2,270,921,936</b>	<b>1,832,008,603</b>
<b>LIABILITIES</b>			
Deposits	13	1,065,315,613	702,578,635
Other liabilities	14	157,550,566	172,681,284
<b>Total Liabilities</b>		<b>1,222,866,179</b>	<b>875,259,919</b>
<b>NET ASSETS</b>		<b>1,048,055,757</b>	<b>956,748,684</b>
<b>REPRESENTED BY:</b>			
Share capital	15	1,285,714,290	1,185,714,290
Discount on issue of share capital		(25,714,290)	(25,714,290)
Statutory and other reserve		4,049,326	2,041,825
Accumulated loss		(214,997,521)	(220,189,679)
		<b>1,049,051,805</b>	<b>941,852,146</b>
(Deficit) / Surplus on revaluation of assets	8.1	(996,048)	14,896,538
<b>Total Capital</b>		<b>1,048,055,757</b>	<b>956,748,684</b>
<b>MEMORANDUM / OFF BALANCE SHEET ITEMS</b>	16		

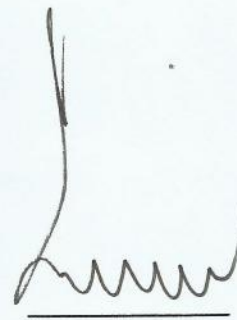
The annexed notes from 1 to 34 form an integral part of these financial statements.

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**PRESIDENT / CHIEF EXECUTIVE**

  
**CHAIRMAN**

  
**DIRECTOR**

  
**DIRECTOR**

**U MICROFINANCE BANK LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**


	Note	2015 Rupees	2014 Rupees
Mark-up / return / interest earned	17	236,598,470	144,577,745
Mark-up / return / interest expensed	18	(53,889,637)	(16,533,434)
Net mark-up / interest income		182,708,833	128,044,311
Provision against non-performing advances	9.4	(4,957,366)	(2,045,940)
Net mark-up / interest income after provisions		177,751,467	125,998,371
<b>NON MARK-UP / NON INTEREST INCOME</b>			
Fee, commission and brokerage income	19	282,773,470	135,227,496
Other income	20	755,970	1,053,033
Gain on available for sale		37,424,225	-
Total non-markup / non interest income		320,953,665	136,280,529
		498,705,132	262,278,900
<b>NON MARK-UP / NON INTEREST EXPENSES</b>			
Administrative expenses	21	468,366,192	398,518,113
Operating fixed assets written off		419,337	396,789
		468,785,529	398,914,902
<b>PROFIT / (LOSS) BEFORE TAXATION</b>		29,919,603	(136,636,002)
Worker welfare fund		598,392	-
		29,321,211	(136,636,002)
<b>TAXATION</b>			
Current		(17,169,471)	(2,798,052)
Deferred		(4,121,735)	42,468,961
	22	(21,291,206)	39,670,909
<b>PROFIT / (LOSS) AFTER TAXATION</b>		8,030,005	(96,965,093)
Accumulated loss brought forward		(220,189,679)	(123,224,586)
		(212,159,674)	(220,189,679)
<b>APPROPRIATIONS:</b>			
<b>Transfer to:</b>			
Statutory reserves		(1,606,001)	-
Depositor's Protection Fund		(401,500)	-
		(2,007,501)	-
<b>ACCUMULATED LOSS CARRIED FORWARD</b>		(214,167,175)	(220,189,679)
<b>EARNING / (LOSS) PER SHARE</b>	26	0.06	(0.82)

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**U MICROFINANCE BANK LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	2015 Rupees	2014 Rupees
Profit / (Loss) for the year	8,030,005	(96,965,093)
<b>Other comprehensive income</b>		
<b>Items that will not be reclassified to profit and loss:</b>		
Remeasurement loss on employees' retirement benefits	(1,186,209)	-
Tax effect of remeasurement loss on employees' retirement benefits	355,863	-
	(830,346)	-
<b>Comprehensive income (loss) for the year transferred to equity</b>	<b>7,199,659</b>	<b>(96,965,093)</b>
<b>Comprehensive income for the period not transferred to equity:</b>		
<b>Items that may be reclassified to profit and loss:</b>		
Surplus on revaluation of assets	13,083,550	22,917,750
Surplus on revaluation of assets transferred to profit and loss	(14,506,475)	-
Tax Impact	426,877	(8,021,212)
	(996,048)	14,896,538
<b>Total comprehensive income (loss) for the year - net of tax</b>	<b>6,203,611</b>	<b>(82,068,555)</b>

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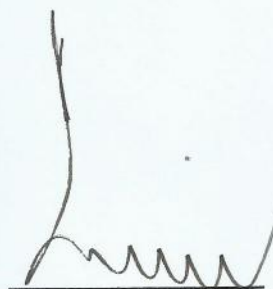
PRESIDENT / CHIEF EXECUTIVE



CHAIRMAN



DIRECTOR



DIRECTOR

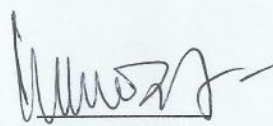
**U MICROFINANCE BANK LIMITED**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	Note	2015 Rupees	2014 Rupees
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit / (Loss) before taxation		29,321,211	(136,636,002)
Adjustments for:			
Depreciation		47,399,996	36,075,554
Amortization		11,692,076	9,064,174
Provision for gratuity		4,449,170	5,623,263
Provisions against non-performing advances		4,957,366	2,045,940
Operating fixed assets written off		489,765	396,789
		68,988,373	53,205,720
		98,309,584	(83,430,282)
(Increase) / decrease in operating assets			
Advances		(573,731,165)	(305,134,306)
Other assets (excluding advance taxation)		(35,596,896)	(66,109,371)
Increase / (decrease) in operating liabilities			
Deposits		362,736,978	497,400,403
Other liabilities		(6,961,353)	29,543,304
		(253,552,436)	155,700,030
Cash (used in) / generated from operations		(155,242,852)	72,269,748
Gratuity paid		(13,804,744)	-
Income taxes paid		(11,772,533)	(7,968,684)
Net cash (used in) / generated from operating activities		(180,820,129)	64,301,064
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Investments in Government securities		307,199,400	(495,038,469)
Investments in Term Deposits		(350,000,000)	
Investments in operating fixed assets		(61,424,144)	(67,222,594)
Net cash outflow from investing activities		(104,224,744)	(562,261,063)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Issuance of shares		100,000,000	-
Net cash inflow from financing activities		100,000,000	-
Net (decrease) in cash and cash equivalents		(185,044,873)	(497,959,999)
Cash and cash equivalents at beginning of the year		527,129,102	1,025,089,101
<b>Cash and cash equivalents at end of the year</b>	23	<b>342,084,229</b>	<b>527,129,102</b>

The annexed notes from 1 to 34 form an integral part of these financial statements.

  
**PRESIDENT / CHIEF EXECUTIVE**

  
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**U MICROFINANCE BANK LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	Statutory and other reserves					Total
	Share capital	Discount on issue of share capital	Statutory reserve	Depositors' protection fund	Accumulated loss	
	Rupees					
Balance as at December 31, 2013	1,185,714,290	(25,714,290)	1,633,460	408,365	(123,224,586)	1,038,817,239
Loss for the year ended December 31, 2014	-	-	-	-	-	-
Other Comprehensive income	-	-	-	-	-	-
<b>Total comprehensive income</b>	-	-	-	-	(96,965,093)	(96,965,093)
Transfer to:						
Statutory reserve	-	-	-	-	-	-
Depositors' Protection Fund	-	-	-	-	-	-
Balance as at December 31, 2014	1,185,714,290	(25,714,290)	1,633,460	408,365	(220,189,679)	941,852,146
Profit for the year ended December 31, 2015	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-
<b>Total comprehensive income</b>	-	-	-	-	7,199,659	7,199,659
Transaction with equity holders						
Issue of share capital	100,000,000	-	-	-	-	100,000,000
Transfer to:						
Statutory reserve	-	-	1,606,001	-	(1,606,001)	-
Depositors' Protection Fund	-	-	-	401,500	(401,500)	-
Balance as at December 31, 2015	1,285,714,290	(25,714,290)	3,239,461	809,865	(214,997,521)	1,049,051,805


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**PRESIDENT / CHIEF EXECUTIVE**

  
**CHAIRMAN**

  
**DIRECTOR**

  
**DIRECTOR**



**U MICROFINANCE BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

**1. STATUS AND NATURE OF BUSINESS**

On August 30, 2012, Pakistan Telecommunication Company Limited (PTCL) acquired 100% shareholding of Rozgar Microfinance Bank Limited, incorporated in Karachi on October 29, 2003 under the Companies Ordinance, 1984, and its name was changed to U Microfinance Bank Limited (the Bank) with effect from December 7, 2012. On January 31, 2013, the Bank was granted banking license by SBP for commencement of nationwide microfinance banking operations. Under the terms and conditions of the nationwide license, PTCL would reduce its shareholding in the Bank to 51% within a period of three years.

On July 11, 2013, approval for the nationwide commercial launch of Branchless Banking Services (BBS) was received from SBP. The Bank commenced commercial operations of BBS on July 23, 2013.

The Bank's principal business is to assist in stimulating progress, prosperity and social peace in society through creation of income generating opportunities for the small entrepreneur under the Microfinance Institutions Ordinance, 2001. The Bank also provides branchless banking services. The Bank's head office and the principal place of business is located at the Razia Sharif Plaza, Jinnah Avenue, Blue Area, Islamabad, Pakistan.

**2. BASIS OF PRESENTATION**

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

**3. STATEMENT OF COMPLIANCE**

These financial information has been prepared in accordance with the directives issued by SBP, the requirements of the Microfinance Institutions Ordinance 2001 (the MFI Ordinance), the Companies Ordinance, 1984 (the Companies Ordinance) and the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and interpretations issued by the Standards Interpretation Committee of IASB as adopted in Pakistan. In case where provisions of directives issued by the SBP, the MFI Ordinance and the Companies Ordinance differ with the requirements of these standards, such provisions of SBP directive, the MFI Ordinance and the Companies Ordinance shall take precedence.

SBP vide BSD Circular no. 10 dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, "Financial Instruments: Recognition and Measurement" and International Accounting Standard 40, till further instructions. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been measured in accordance with the requirements of SBP BSD Circular no. 11 dated December 30, 2003 and Prudential Regulations for Microfinance Banks (the Regulations). Further, the SECP vide its S.R.O. No. 411 (I) / 2008 dated April 28, 2008 has deferred the applicability of International Financial Reporting Standards (IFRS) 7 'Financial Instruments' till further orders, which is applicable for annual years beginning on or after July 1, 2009.

**4. Basis of measurement**

**4.1 Accounting convention**

These financial statements has been prepared under the historical cost convention except for available for sale investments which are measured at fair value and the recognition of employee's gratuity benefit on the basis of actuarial assumptions.

**a) New accounting standards / amendments and IFRS interpretations that are effective for the year ended December 31, 2015**

The following standards, amendments and interpretations are effective for the year ended December 31, 2015. These standards, interpretations and the amendments are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures.

	Effective date (years beginning on or after)
IFRS 10 – Consolidated Financial Statements	January 1, 2015
IFRS 11 – Joint Arrangements	January 1, 2015
IFRS 12 – Disclosure of Interests in Other Entities	January 1, 2015
Amendments to IAS 19 Employee Benefits: Employee contributions	July 1, 2014
IAS 27 (Revised 2011) – Separate Financial Statements	January 1, 2015
IAS 28 (Revised 2011) – Investments in Associates and Joint Ventures	January 1, 2015

Certain annual improvements have also been made to a number of IFRSs.

**b) New accounting standards / amendments and IFRS interpretations that are not yet effective**

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

	Effective date (years beginning on or after)
Amendments to IFRS 11 - Accounting for acquisitions of interests in joint operations	January 1, 2016
Amendments to IAS 1 - Disclosure initiative	January 1, 2016
Amendments to IAS 16 and IAS 38 Clarification of acceptable methods of depreciation and amortization	January 1, 2016
Amendments to IAS 16 and IAS 41 Agriculture: Bearer plants	January 1, 2016
Amendments to IAS 27 - Equity method in separate financial statements	January 1, 2016
Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture	January 1, 2016
Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the consolidation exception	January 1, 2016

Certain annual improvements have also been made to a number of IFRSs.

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 14 – Regulatory Deferral Accounts
- IFRS 15 – Revenue from Contracts with Customers



## 4.2 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires the use of certain accounting estimates and assumptions. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas where assumptions and estimates are significant to the Bank's financial statements or where judgment is exercised in application of accounting policies are as follows:

### a) Operating fixed assets

The Bank reviews useful life and residual value of operating fixed assets on regular basis. Any change in estimates may affect the carrying amounts of the respective items of operating fixed assets with a corresponding effect on the depreciation / amortization charge.

### b) Provision for income taxes

The Bank recognizes tax liabilities for pending tax assessments using estimates based on expert opinion obtained from tax / legal advisors. Differences, if any, between the income tax provision and the final tax liability is recorded when such liability is determined.

Deferred income tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantively enacted by the balance sheet date.

### c) Classification of investments

The classification of investments between different categories depends upon management's intentions to hold those investments. Any change in the classification of investments may affect their carrying amounts with a corresponding effect on the return and unrealized surplus / (deficit) on these investments.

### d) Provision against advances

The Bank maintains a provision against advances as per the requirements of the Regulations and assesses the adequacy of provision against delinquent portfolio. Any change in the criteria / rate for provision may affect the carrying amount of the advances with a corresponding effect on the markup/interest earned and provision charge.

### e) Provision and contingent liabilities

The management exercises judgment in measuring and recognizing provisions and exposures to contingent liabilities related to pending litigations or other outstanding claims. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the financial settlement. Because of inherent uncertainty in this evaluation process, actual losses may be different from the originally estimated provision.

## 4.3 Fair value measurements

Historical cost is generally based on the fair value of the consideration given in exchange for goods and orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, Share-based Payment, leasing transactions that are within the scope of International Accounting Standards IAS 17, Leases, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2, Inventories, or value in use in IAS 36, Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorized into Levels 1, 2, or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 — Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 — Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly.

Level 3 — Level 3 inputs are unobservable inputs for the asset or liability.



## **5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these financial statements are set out below:

### **5.1 Cash and cash equivalents**

Cash and cash equivalents are short term, highly liquid investments that are readily convertible to known amount of cash and subject to an insignificant risk of changes in value.

### **5.2 Sale and repurchase agreements**

Securities sold under repurchase agreement (repo) are retained in the financial statements as investments and a liability for consideration received is included in borrowings. Conversely, consideration for securities purchased under resale agreement (reverse repo) is included in lending to financial institutions. The difference between sale and repurchase / purchase and resale price is recognized as return / markup expensed and earned respectively. Repo and reverse repo balances are reflected under borrowings from and lending to financial institutions respectively.

### **5.3 Investments**

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

Investments are classified as follows:

#### **Held for trading**

These represent securities acquired with the intention to trade by taking advantage of short-term market/ interest rate movements. These securities are disposed off within 90 days from the date of their acquisition. These are measured in accordance with the requirements prescribed by SBP in the Regulations R-11.

#### **Held to maturity investments**

These are investments with fixed or determinable payments and fixed maturity and the Bank has positive intent and ability to hold the investment till maturity subsequent to initial recognition at cost, investments are measured at amortized cost, less provision for impairment in value, if any.

#### **Available for sale investments**

These are investments which do not fall under the held for trading and held to maturity categories. Such investments are initially recognized at cost and subsequently measured at market value. The surplus arising on revaluation is kept in a separate account titled 'Surplus on Revaluation of assets' through statement of comprehensive income, which is taken to profit and loss account when realized upon disposal. Impairment in the value of these investments is provided by charging it to the profit and loss account.



## 5.4 Advances

Advances are stated net of provisions for non-performing advances. The outstanding principal and mark-up of the loans and advances, payments against which are overdue for 30 days or more, shall be classified as Non- Performing Loans (NPLs). The unrealized interest / profit / mark-up / service charges on NPLs shall be suspended and credited to interest suspense account. Further the NPLs shall be divided into following categories:

### a) Other Assets Especially Mentioned (OAEM)

Loans (principal/mark-up) is overdue for 30 days or more but less than 60 days

### b) Substandard

Loans (principal/mark-up) is overdue for 60 days or more but less than 90 days.

### c) Doubtful

Loans (principal/mark-up) is overdue for 90 days or more but less than 180 days.

### d) Loss

Loans (principal/mark-up) is overdue for 180 days or more.

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

In accordance with the Regulation R-8, the Bank maintains specific provision of outstanding principal net of cash collaterals and Gold (ornaments and bullion) realizable without recourse to a Court of Law at the following rates:

OAEM:	Nil
Substandard:	25%
Doubtful:	50%
Loss:	100%

The bank maintains a general provision equivalent to 1% of the net outstanding advances (advances net of specific provisions). However, general provision shall not be required in cases where loans have been secured against gold or other cash collateral with appropriate margin.

General and specific provisions for the year charged to the profit and loss account.

In accordance with the Regulation R-10, non-performing advances are written-off one month after the loan is categorized as Loss. However, the Bank continues its efforts for recovery of the written-off balances.

## 5.5 Operating fixed assets

### Capital work-in-progress

Capital work-in-progress is stated at cost less impairment loss (if any). Cost includes expenditure that is directly attributable to the acquisition of the asset.

### Property and equipment - Owned

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment loss, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation is charged in the profit and loss account over estimated useful life of the related assets on straight line method at rates given in note 10 to these financial statements. Full month's depreciation is charged in the month of capitalization and no depreciation is charged in the month of disposal.



Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. Carrying amount of the replaced part is derecognized. All other repairs and maintenance are recognized in profit and loss account during the year in which these are incurred. Gains and losses on disposal of fixed assets are taken to profit and loss account for the period.

#### **Property and equipment - Leased**

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as assets subject to finance lease. These are stated at amounts equal to the lower of their fair value and the present value of minimum lease payments at inception of the lease, less accumulated depreciation and impairment (if any). Financial charges are allocated over the period of the lease term so as to provide a constant periodic rate of financial charge on the outstanding liability. Depreciation is charged on the basis similar to owned assets.

#### **Intangible assets**

Intangible assets are capitalized at cost and stated at cost less accumulated amortization and accumulated impairment loss (if any).

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

#### **5.6 Impairment of non-financial assets**

The carrying value of the Bank's assets is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount and the impairment losses are recognized in the profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

#### **5.7 Mark-up bearing borrowings**

Mark-up bearing borrowings are recognized initially at cost being the fair value of consideration received, less attributable transaction costs. Subsequent to initial recognition, these are stated at original cost less subsequent repayments.

#### **5.8 Grants**

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

#### **5.9 Taxation**

Income tax on the profit or loss for the year comprises of current and deferred tax. Income tax is recognized in the profit and loss account, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In such case the tax is also recognized in other comprehensive income or directly in equity, respectively.

##### **Current**

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account available tax credits and rebates, if any, or one percent of turnover, whichever is higher.

##### **Deferred**

Deferred tax is provided using the balance sheet liability method on all major temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amount used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profit will be available and the credits can be utilized.



## **5.10 Revenue recognition**

Mark-up / return on investment is recognized on accrual basis.

Mark-up/ return on advances is recognized on accrual/ time proportion basis, using effective interest rate, except for income, if any, which warrants suspension in compliance with the Regulations. Mark-up recoverable on non-performing advances is recognized on a receipt basis in accordance with the requirements of the Regulations. Loan processing fee is recognized as income at the time of disbursement of loan.

Income from interbank deposits in saving accounts is recognized in the profit and loss account as it accrues using the flat interest rate.

Fee, commission and other income is recognized when earned.

## **5.11 Financial Instruments**

All the financial assets and financial liabilities are recognized at the time when the Bank becomes a party to the contractual provisions of the instrument. These are derecognized when the Bank ceases to be a party to the contractual provisions of the instrument.

All financial assets and liabilities are initially measured at cost which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, amortized cost or cost, as the case may be.

### **Financial assets**

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

### **Financial liabilities**

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

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

## **5.12 Impairment of financial assets**

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

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

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

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

## **5.13 Offsetting of financial assets and financial liabilities**

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet if the Bank has legally enforceable right to set off the recognized amount and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.



#### **5.14 Staff retirement benefits**

##### **a) Gratuity**

The Bank operates an funded defined benefit gratuity scheme for all its regular employees. Gratuity equivalent to one month basic salary for each completed year of service is paid to entitled employees, if the period of their service is three years or above.

The company has engaged actuaries for the estimation of provision for gratuity and to incorporate the relevant transitional provisions the comparatives has been restated on the prospective basis that is not in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" considering the impact is not material. Effect of retrospective application of change in accounting policy are as follows:

If the impact has been incorporated retrospectively last year "accumulated loss" and "provision for gratuity" for the year ended December 31, 2015 would have been lower by Rs. 1.075 million.

##### **b) Provident fund**

The Bank operates a funded provident fund scheme for all its regular employees for which equal monthly contributions are made both by the Bank and employee at the rate of 8% of the basic salary of the employee. The Bank's contribution is charged to profit and loss account.

#### **5.15 Deposits**

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

#### **5.16 Statutory reserve**

In compliance with the requirements of the Regulation R-4, the Bank maintains statutory reserve to which an appropriation equivalent to 20% of the profit after tax is made till such time the reserve fund equals the paid up capital of the Bank. However, thereafter, the contribution is reduced to 5% of the profit after tax.

#### **5.17 Contributions**

In compliance with the requirements of section 19 of the Microfinance Institutions Ordinance 2001, the Bank contributes 5% of annual profit after tax to the Depositor's Protection Fund.

#### **5.18 Cash reserve**

In compliance with the requirements of the Regulation R-3A, the Bank maintains a cash reserve equivalent to not less than 5% of its deposits (including demand deposits and time deposits with tenor of less than 1 year) in a current account opened with the State Bank or its agent.

#### **5.19 Statutory liquidity requirement**

In compliance with the requirements of the Regulation R-3B, the Bank maintains liquidity equivalent to at least 10% of its total demand liabilities and time liabilities with tenor of less than one year in the form of liquid assets i.e. cash, gold, unencumbered treasury bills, Pakistan Investment Bonds and Government of Pakistan sukuk bonds. Treasury bills and Pakistan Investment Bonds held under depositor protection fund are excluded for the purposes of determining liquidity.

#### **5.20 Provisions**

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.



	Note	2015 Rupees	2014 Rupees
<b>6. CASH AND BALANCES WITH SBP and NBP</b>			
Cash in hand			
Local currency		46,417,854	24,624,804
Balances with State Bank of Pakistan (SBP)			
Local currency current accounts	6.1	89,258,301	48,517,976
Balances with National Bank of Pakistan (NBP)			
Local currency current accounts		1,000,000	1,000,000
		<u>136,676,155</u>	<u>74,142,780</u>

- 6.1** This represents balance held with SBP to meet the requirement of maintaining minimum balance equivalent to 5% (2014: 5%) of the Bank's time and demand deposits with a tenure of less than one year, in accordance with regulation R-3A of the Regulations. This includes Rs 809,865 (2014: 408,365) placed for the Depositors' Protection Fund.

	Note	2015 Rupees	2014 Rupees
<b>7. BALANCES WITH OTHER BANKS/ NBFIs/ MFBs</b>			
In Pakistan - Local currency			
Current accounts	7.1	9,473,224	12,516,383
Savings accounts	7.2	195,934,850	440,469,939
Term deposit receipts	7.3	350,000,000	-
		<u>555,408,074</u>	<u>452,986,322</u>

- 7.1** This includes Rs 6,365,151 (2014: 6,365,151) held as deposit under lien in respect of standby letter of guarantee issued to Union Pay International.

- 7.2** Savings accounts carry interest at rates ranging from 4.5% to 10.30% (2014: 7.0% to 10.25%) per annum.

- 7.3** Term Deposit Receipts (TDR) are due to mature on July 16, 2016 and September 09, 2016 carrying interest at the rate of 11.10% and 11.15% (2014: NIL) per annum respectively.

	Note	2015 Rupees	2014 Rupees
<b>8. INVESTMENTS</b>			
<b>Federal Government Securities</b>			
Available for sale			
Pakistan Investment Bonds (PIBs)	8.2	181,905,850	495,038,469
Surplus on revaluation of available for sale securities	8.3	(1,422,925)	22,917,750
		<u>180,482,925</u>	<u>517,956,219</u>
<b>8.1 (Deficit) / Surplus on revaluation of investment</b>			
Pakistan Investment Bonds (PIBs)		(1,422,925)	22,917,750
Related deferred tax asset / (liability)		426,877	(8,021,212)
		<u>(996,048)</u>	<u>14,896,538</u>

- 8.2** This represents PIB carried at market value maturing on March 26, 2020 carrying interest rate of 9.25% per annum (2014: 11.25% per annum).

- 8.3** In accordance with Regulation R-11, available for sale securities have been valued at market value and the resulting surplus is kept in a separate account titled 'surplus on revaluation of assets' through statement of comprehensive income.

## 9. ADVANCES - NET OF PROVISIONS

Loan type	Note	2015		2014	
		Number of loans outstanding	Amount outstanding Rupees	Number of loans outstanding	Amount outstanding Rupees
Micro credit					
Secured		4,523	320,655,569	1,616	111,465,614
Unsecured		17,731	598,725,632	7,170	235,027,571
		22,254	919,381,201	8,786	346,493,185
Provisions held					
Specific provision		50	(497,487)	5	(15,430)
General provision	9.1	17,731	(5,982,281)	7,170	(2,350,121)
			(6,479,768)		(2,365,551)
Advances - net of provisions			912,901,433		344,127,634

9.1 General provision is maintained at the rate of 1% (2014: 1%) of unsecured micro credit balance net of specific provision in accordance with the Regulations.

## 9.2 Particulars of non-performing advances

Advances include Rs. 4,229,668 (2014: Rs. 267,357) which have been placed under non-performing status.

Category of classification	Provision rate	2015		2014			
		Amount outstanding	Provisions required	Provisions held	Amount outstanding	Provisions required	Provisions held
Rupees							
OAEM	-	2,916,979	-	-	226,126	-	-
Sub-standard	25%	576,562	113,548	113,548	20,743	5,186	5,186
Doubtful	50%	239,581	37,393	37,393	20,488	10,244	10,244
Loss	100%	496,546	346,546	346,546	-	-	-
		4,229,668	497,487	497,487	267,357	15,430	15,430



### 9.3 Particulars of provisions against non-performing advances

	2015			2014		
	Specific	General	Total	Specific	General	Total
	Rupees			Rupees		
Balance at beginning of the year	15,430	2,350,121	2,365,551	10,984	330,595	341,579
Provision charge for the year	1,325,206	3,632,160	4,957,366	26,414	2,019,526	2,045,940
Reversals	-	-	-	-	-	-
Advances written off against provision	(843,149)	-	(843,149)	(21,968)	-	(21,968)
Balance at end of the year	497,487	5,982,281	6,479,768	15,430	2,350,121	2,365,551

### 9.4 Provision against non-performing advances

	2015 Rupees	2014 Rupees
Charge for the year	4,957,366	2,045,940
Reversal	-	-
	<u>4,957,366</u>	<u>2,045,940</u>

### 9.5 Particulars of write off

Against provisions	(843,149)	(21,968)
Directly charged to profit and loss account	-	-
	<u>(843,149)</u>	<u>(21,968)</u>

**10. OPERATING FIXED ASSETS**

	Note	2015 Rupees	2014 Rupees
Capital work-in-progress	10.1	9,711,052	14,446,732
Property and equipment	10.2	125,736,720	119,753,845
Intangible assets	10.3	86,964,990	86,369,878
		<u>222,412,762</u>	<u>220,570,455</u>
<b>Capital work-in-progress</b>			
Advances to suppliers / contractors	10.1.1	9,236,365	7,904,680
Leasehold improvements		<u>474,687</u>	<u>6,542,052</u>
		<u>9,711,052</u>	<u>14,446,732</u>

**10.1.1** This represents advance given for software and operating fixed assets.

**10.2 Property and equipment**

2015							Rate of depreciation % (per annum)		
Cost			Depreciation		Book value as at				
As at January 1, 2015	Additions	Deletion	As at December 31, 2015	Charge for the year	On deletions	As at December 31, 2015			
-----Rupees-----									
Furniture and fixture	16,530,306	6,191,596	22,721,902	1,885,955	2,233,113	4,119,068	18,602,834	10.00%	
Computers	72,576,130	9,547,960	81,630,317	37,450,506	26,198,109	(367,308)	63,281,307	18,349,010	33.33%
Electrical equipment	42,775,850	16,726,308	59,060,158	8,507,184	11,558,898	(78,700)	19,987,382	39,072,776	20.00%
Vehicles	9,074,179	-	9,074,179	2,877,616	1,814,834	-	4,692,450	4,381,729	20.00%
Office improvement	34,548,790	21,406,772	55,955,562	5,030,149	5,595,042	-	10,625,191	45,330,371	10.00%
	175,505,255	53,872,636	228,442,118	55,751,410	47,399,996	(446,008)	102,705,398	125,736,720	

2014							Rate of depreciation % (per annum)		
Cost			Depreciation		Book value as at				
As at January 1, 2014	Additions	Deletion	As at December 31, 2014	Charge for the year	On deletions	As at December 31, 2014			
Rupees									
Furniture and fixture	9,373,945	7,156,361	16,530,306	557,922	1,318,033	1,885,955	14,644,351	10.00%	
Computers	63,323,009	9,551,067	72,576,130	14,813,007	22,749,489	(111,990)	37,450,506	35,125,624	33.33%
Electrical equipment	14,542,747	28,463,103	42,775,850	1,705,603	6,820,748	(19,167)	8,507,184	34,268,666	20.00%
Vehicles	9,074,179	-	9,074,179	1,062,780	1,814,836	-	2,877,616	6,196,563	20.00%
Office improvement	20,361,421	14,187,369	34,548,790	1,657,701	3,372,448	-	5,030,149	29,518,641	10.00%
	116,675,301	59,357,900	175,505,255	19,807,013	36,075,554	(131,157)	55,751,410	119,753,845	

**10.2.1** The cost of fully depreciated property and equipment that are still in use is Rs 3,023,215 (2014: Rs 2,043,515).

**10.2.2** Deletion of fixed assets during the year with original cost or book value is excess of Rs. 1,000,000 or Rs. 250,000 respectively (whichever is less) are nil (2014: nil)



### 10.3 Intangible assets

#### 2015

	Cost			Amortization			Book value	Rate of amortization % (per annum)	
	As at January 1, 2015	Additions	Deletion	As at December 31, 2015	As at January 1, 2015	Charge for the year	On deletions		As at December 31, 2015
-----Rupees-----									
Branchless banking software Licenses Mail server	88,660,167	9,706,706	-	98,366,873	10,334,204	9,445,077	-	19,779,281	10.00%
	9,814,257	2,580,482	-	12,394,739	1,818,270	2,220,899	-	4,039,169	20.00%
	78,378	-	-	78,378	30,450	26,100	-	56,550	33.33%
	98,552,802	12,287,188	-	110,839,990	12,182,924	11,692,076	-	23,875,000	
								86,964,990	

#### 2014

	Cost			Amortization			Book value as at December 31, 2014	Rate of amortization % (per annum)
	As at January 1, 2014	Additions	Deletion	As at December 31, 2014	Charge for the year	On deletions		
Rupees								
Branchless banking software	56,535,577	32,124,590	-	88,660,167	7,537,255	-	78,325,963	10.00%
Licenses	6,349,015	3,465,242	-	9,814,257	1,500,819	-	7,995,987	20.00%
Mail server	78,378	-	-	78,378	26,100	-	47,928	33.33%
	62,962,970	35,589,832	-	98,552,802	9,064,174	-	86,369,878	

10.3.1 This includes operating system and microsoft office licenses.

	Note	2015 Rupees	2014 Rupees
<b>11. OTHER ASSETS</b>			
Income / mark-up accrued		93,168,291	53,528,270
Advances, deposits and other prepayments	11.1	36,622,592	53,109,619
Advance taxation (payments less provisions)		13,144,762	18,541,701
Receivable from Pak Telecom Mobile Limited (PTML), an associated company	11.2	6,444,146	-
Inventory of ATM cards & stationery		989,318	3,317,025
Advance to staff		1,066,517	346,183
Receivable from SBP	11.3	13,580,847	-
Others		-	40,498
		<u>165,016,473</u>	<u>128,883,296</u>

**11.1** This includes an amount of Rs. 5.6 million paid to PTCL, the parent company, for disaster recovery service.

**11.2** This represents net amount receivable from PTML, an associated company, related share of branchless banking income, prepaid and postpay bill collected and expenditure incurred by the Bank on behalf of PTML. Please refer to note 32 for detailed breakup.

**11.3** This represents the amount receiveable from SBP in respect of insurance premium paid by Ubank for livestock and crop loans under AC&MFD circular no. 01 of 2013 dated November 01, 2013

	2015 Rupees	2014 Rupees
<b>12. DEFERRED TAX ASSET</b>		
Deferred debits arising in respect of:		
Unused tax losses	89,415,210	105,470,427
Unused tax credit	9,382,430	4,223,932
Provision against advances	1,943,930	827,943
Deficit / (Surplus) on revaluation of available for sale securities	426,877	(8,021,212)
 Remeasurement of employees' retirement benefits	 355,863	 -
	<u>101,524,310</u>	<u>102,501,090</u>
Deferred credits arising in respect of:		
Accelerated tax depreciation / amortization	3,500,196	9,159,193
	<u>98,024,114</u>	<u>93,341,897</u>

**12.1** The deferred tax asset 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 those years against unused tax losses of prior years.

Deferred tax asset is recognised in view of projected taxable profits as per the Bank's five year business plan 2016 - 2020 approved by the board of directors using assumptions which are linked to various variable factors such as the economic outlook of the country, investment growth, interest rate movement, expansion in depositors / advances portfolio, other initiatives and increased branchless banking operations.



	2015		2014	
	Number of accounts	Rupees	Number of accounts	Rupees
<b>13. DEPOSITS</b>				
Fixed deposits	72	114,008,197	51	123,438,337
Saving deposits	3,303	548,248,877	2,279	312,461,257
Current deposits	149,664	403,058,539	52,129	266,679,041
	<u>153,039</u>	<u>1,065,315,613</u>	<u>54,459</u>	<u>702,578,635</u>

**13.1 Particulars of deposits by ownership**

Individual depositors	152,852	920,716,012	54,376	541,660,804
Institutional depositors				
Corporation/ firms	185	136,890,166	83	160,917,831
Banks / financial institutions	2	7,709,435	-	-
	<u>153,039</u>	<u>1,065,315,613</u>	<u>54,459</u>	<u>702,578,635</u>

	Note	2015	2014
		Rupees	Rupees
<b>14. OTHER LIABILITIES</b>			
Interest payable on deposits		6,036,118	3,287,728
Accrued expenses		35,287,184	43,468,296
Payable to Pak Telecom Mobile Limited (PTML), an associated company		-	37,150,374
Payable to utility companies for utility bills collection		4,124,688	4,559,525
Uncollected remittances		52,980,204	33,367,885
Provision for gratuity	14.1	2,198,524	10,367,889
Payable to provident fund	14.2	2,176	-
Payable for capital expenditure		1,571,135	3,728,124
Sales tax / federal excise duty payable		11,929,657	8,788,686
Bills payable		7,125,397	16,369,142
Others	14.3	36,295,483	11,593,635
		<u>157,550,566</u>	<u>172,681,284</u>

**14.1 Provision for Gratuity**

**(Income) / Charge for the profit and loss**

Current service cost	5,460,393	4,073,665
Net interest	538,375	-
	<u>5,998,768</u>	<u>4,073,665</u>

**Reconciliation of payable to / (receivable from) defined benefit plan**

Present value of defined benefit obligation	14.1.1	13,411,845	10,367,889
Fair value of plan assets	14.1.2	(11,213,321)	-
		<u>2,198,524</u>	<u>10,367,889</u>

	Note	2015 Rupees	2014 Rupees
<b>Movement in net liability / (asset) recognized</b>			
Opening net (asset) / liability		9,292,603	6,294,224
(Prepaid cost) / expense			
Current service cost		5,460,393	4,073,665
Net interest		538,375	-
		5,998,768	4,073,665
Accumulated other comprehensive income		711,897	-
Benefits paid on behalf of fund		(2,846,340)	-
Contributions to gratuity fund		(10,958,404)	-
Closing net (asset) / liability		2,198,524	10,367,889
<b>Acturial assumptions:</b>			
Valuation discount rate		11.00%	-
Salary increase rate		11.00%	-

#### 14.1.1 Present value of defined benefit obligation

Present value of obligation - opening	9,292,603	6,294,224
Current service cost	5,460,393	4,073,665
Interest Cost	924,658	-
Benefits paid during the year	(2,846,340)	-
Acturial (Gain) / loss on obligation	580,531	-
Present value of obligation - closing	13,411,845	10,367,889

#### 14.1.2 Fair value of plan assets

Total assets of fund - opening	-	-
Expected return on plan assets	386,284	-
Contributions to gratuity fund	10,958,404	-
Benefits paid on behalf of fund	2,846,340	-
Benefits paid	(2,846,340)	-
Acturial / (Gain) or loss on Asset	(131,367)	-
Total assets of fund - closing	11,213,321	-

#### 14.1.3 Sensitivity analysis

Particulars	Present value of defined benefit obligation
Current Liability	13,411,845
+1% Discount rate	11,153,240
-1% Discount rate	16,248,841
+1% Salary increase rate	16,293,400
-1% Salary increase rate	11,084,675



	2015	2014
<b>14.2 Employees provident fund</b>		
Size of the fund (total assets)	21,496,054	15,811,900
Cost of investments held	21,496,054	15,811,900
Percentage of investments held	100%	100%
Fair value of investments	21,496,054	15,811,900

Investments represent balances held with bank carrying interest at rate of 6.5% (2014: 9%) per annum.

Investments out of the provident fund have been made in accordance with the provisions of section 227 of the Companies Ordinance, 1984 and the rules formulated for this purpose.

**14.3** This includes an amount of Rs. 34.9 million (2014: Rs. 11.3 million) payable to 1 link on account of clearing facilities.

## **15. SHARE CAPITAL**

### **15.1 Authorized capital**

2015 Number	2014 Number		2015 Rupees	2014 Rupees
<u>140,000,000</u>	<u>125,000,000</u>	Ordinary shares of Rs. 10 each	<u>1,400,000,000</u>	<u>1,250,000,000</u>

### **15.2 Issued, subscribed and paid-up capital**

20,000,000	10,000,000	Ordinary shares of Rs. 10 each fully paid in cash	200,000,000	100,000,000
8,571,429	8,571,429	Fully paid shares of Rs. 10 each issued as right shares at discounted rate of Rs. 7 each	85,714,290	85,714,290
100,000,000	100,000,000	Fully paid ordinary shares of Rs. 10 each in cash issued as right shares at par	1,000,000,000	1,000,000,000
<u>128,571,429</u>	<u>118,571,429</u>		<u>1,285,714,290</u>	<u>1,185,714,290</u>

**15.3** Pakistan Telecommunication Company Limited (PTCL), parent company, holds 100% shares of the Bank.

## **16. MEMORANDUM / OFF BALANCE SHEET ITEMS**

### **CONTINGENCIES**

There were no material known contingencies at year end. (2014: nil)

### **COMMITMENTS**

	Note	2015 Rupees	2014 Rupees
Standby letter of guarantee	16.1	6,365,151	6,365,151
Property and equipment		3,097,623	37,858,281
Intangible assets		2,736,020	8,162,000
		<u>12,198,794</u>	<u>52,385,432</u>

16.1 This represents letter of guarantee issued by the Bank to Union Pay International Company Limited for interbank settlements.

	Note	2015 Rupees	2014 Rupees
<b>17. MARK-UP / RETURN / INTEREST EARNED</b>			
Mark-up on advances		138,126,856	49,249,347
Interest on investment in Government securities		45,022,643	39,583,002
Interest on deposit accounts/ placements with other banks/ financial institutions		53,448,971	55,745,396
		<u>236,598,470</u>	<u>144,577,745</u>
<b>18. MARK-UP / RETURN / INTEREST EXPENSED</b>			
This represents interest expense on deposits.			
<b>19. FEE, COMMISSION AND BROKERAGE INCOME</b>			
Fee from branchless banking		248,374,980	119,801,625
Other charges collected from customers	19.1	34,398,490	15,425,871
		<u>282,773,470</u>	<u>135,227,496</u>
<b>19.1</b>	This includes fee on loan processing and cheque book issuance collected from customers.		
<b>20. OTHER INCOME</b>	Note	2015 Rupees	2014 Rupees
Recovery against advances written off		314,561	688,130
Miscellaneous income		441,409	364,903
		<u>755,970</u>	<u>1,053,033</u>
<b>21. ADMINISTRATIVE EXPENSES</b>			
Staff salaries and benefits		202,523,467	167,856,150
Salaries of contracted / outsourced employees		10,176,668	19,127,415
Gratuity		4,449,170	5,623,263
Provident fund		6,000,219	5,294,457
Insurance		4,716,897	3,824,082
Rent, rate and taxes		49,364,481	45,705,852
Travelling and conveyance		5,337,053	6,123,055
Postage and courier		2,338,360	2,468,062
Utilities		18,846,218	14,710,075
Repair and maintenance		24,951,274	16,586,227
Depreciation and amortization	10	59,092,072	45,139,728
Software support and maintenance fee		31,060,398	22,863,208
Stationery and printing		7,362,917	12,228,350
Auditors' remuneration	21.1	950,000	1,701,640
Legal and professional fee		1,951,337	641,985
Security services		16,740,292	10,024,140
Office supplies		3,175,613	2,972,377
Internet and connectivity charges		6,921,303	5,940,176
NADRA verification charges		1,804,847	2,406,346
Bank charges		7,512,175	6,229,502
SBP penalty		120,000	30,000
Miscellaneous expenses		2,971,431	1,022,023
		<u>468,366,192</u>	<u>398,518,113</u>



	2015 Rupees	2014 Rupees
<b>21.1 Auditors' remuneration</b>		
Half year review	330,000	330,000
Annual audit	520,000	520,000
Tax services	-	751,640
Out of pocket expenses	100,000	100,000
	<u>950,000</u>	<u>1,701,640</u>
<b>22. TAXATION</b>		
Current - for the year	(17,169,471)	(2,798,052)
Deferred - for the year	5,352,616	47,878,033
- for prior years	(9,474,351)	(5,409,072)
	(4,121,735)	42,468,961
	<u>(21,291,206)</u>	<u>39,670,909</u>
<b>22.1 Tax rate reconciliation</b>		
Profit / (Loss) before tax (Rupees)	<u>29,321,211</u>	<u>(136,636,002)</u>
Applicable tax rate	32%	33%
Deferred tax	8.45%	(3.96%)
Effect of tax on capital gain on PIB's	40.84%	-
Effect of change in tax rate	(8.68%)	(0.01%)
Average effective tax rate charged to income	<u>72.61%</u>	<u>29.03%</u>
<b>23. CASH AND CASH EQUIVALENTS</b>		
Cash and balances with SBP and NBP	136,676,155	74,142,780
Balances with other banks	205,408,074	452,986,322
	<u>342,084,229</u>	<u>527,129,102</u>

	2015	2014
<b>24. NUMBER OF EMPLOYEES</b>		
Credit sales staff		
Permanent	57	45
Contractual	59	6
	<u>116</u>	<u>51</u>
Banking / support staff		
Permanent	209	195
Contractual	78	1
Outsourced	-	91
	<u>287</u>	<u>287</u>
Total number of employees at the end of the year	<u>403</u>	<u>338</u>
Average number of employees during the year	<u>371</u>	<u>294</u>

**25. NUMBER OF BRANCHES**

Branches at beginning of the year	25	15
Opened during the year		
- Branches	2	10
- Service Centers	11	-
	<u>38</u>	<u>25</u>
Branches / Service Centers at the end of the year		

**26. EARNING/ (LOSS) PER SHARE**

(a) Basic

Basic earnings / (loss) per share is calculated by dividing the profit/(loss) attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

	2015	2014
Profit / (loss) attributable to equity holders (Rupees)	<u>8,030,005</u>	<u>(96,965,093)</u>
Ordinary shares outstanding as at December 2014 (numbers)	118,571,429	118,571,429
Weighted average number of shares in issue (numbers)	<u>7,300,000</u>	<u>-</u>
Total shares (numbers)	<u>125,871,429</u>	<u>118,571,429</u>
Earning / (Loss) per share - basic (Rupees)	<u>0.06</u>	<u>(0.82)</u>

(b) Diluted

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



**27. REMUNERATION OF PRESIDENT / CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES**

	2015		2014	
	President / Chief Executive	Executives	President / Chief Executive	Executives
	Rupees *		Rupees	
Managerial remuneration	5,760,000	38,016,887	11,240,000	34,098,195
Gratuity fund	480,000	2,968,074	720,000	2,629,619
Provident fund	460,800	2,667,973	691,200	2,524,434
Rent and house maintenance	3,360,000	20,776,399	5,040,000	18,214,841
Utilities	480,003	2,968,512	720,000	2,602,122
Medical	170,807	1,727,861	166,007	1,627,683
Conveyance	440,000	5,503,708	660,000	5,135,000
Others	483,200	3,113,274	720,000	2,629,619
<b>Total</b>	<b>11,634,810</b>	<b>77,742,688</b>	<b>19,957,207</b>	<b>69,461,513</b>
<b>Number of person(s)</b>	<b>1</b>	<b>37</b>	<b>1</b>	<b>33</b>

- 27.1** The remuneration of president / chief executive represents the salary and allowance paid to ex-president / chief executive. The acting president / chief executive is also the head of operations, therefore full year's remuneration paid to him has been included in head of executives.
- 27.2** Executives mean employees, other than the president / chief executive and directors, whose basic salary exceeds five hundred thousand rupees in a financial year.
- 27.3** No remuneration and other benefits were paid to directors of the Bank. Further, no fees was paid to the directors for attending the Board or sub committee meetings.

## **28. FINANCIAL RISK MANAGEMENT**

### **28.1 Interest / mark-up rate risk**

"Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates."

The Bank interest rate exposure is low due to the short-term nature of the majority of business transactions. Interest rate risk is also controlled through flexible credit pricing mechanism and variable deposit rates. Optimization of yield is achieved through the Bank's investment strategy which aims on attaining a balance between yield and liquidity under the strategic guidance of Assets and Liability Committee of Management.

### **28.2 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, balances at banks and investments. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. 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 loan losses is maintained as required by the Prudential Regulations. Investments are mainly in the government securities or other securities having good credit rating. Maximum amount of financial assets which are subject to credit risk amount to Rs.1,607 million (2014: Rs.905 million).

### **28.3 Liquidity risk**

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

### **28.4 Fair value of financial Instruments**

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair value. For further details please refer to note 30.

## **29. CAPITAL MANAGEMENT**

The Bank's key objectives when managing its capital are:

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

As of the balance sheet date, the Bank's net equity and Capital Adequacy Ratio stood at Rs.1,048 million (2014: Rs. 956 million) and 88.04% (2014: 134%) respectively, as against the minimum requirement of Rs.1,000 million and 15% prescribed by SBP.



### 30. FINANCIAL ASSETS AND LIABILITIES

#### Accounting classifications and fair values

The table below sets out the Bank's classification of each class of financial assets and liabilities, and their fair values (excluding accrued interest).

		Fair value through profit or loss					
	Note	Held for trading	Designated at fair value	Held to maturity	Loans and receivables	Available for sale	Total carrying amount
		-----Rupees '000'-----					
2015							
<u>Financial Assets</u>							
Cash and cash equivalents	6 & 7	-	-	-	342,084,229	-	342,084,229
Investments	7 & 8	-	-	-	350,000,000	180,482,925	530,482,925
Loans and advances to customers	9	-	-	-	912,901,433	-	912,901,433
Other assets	11	-	-	-	150,882,393	-	150,882,393
		-	-	-	1,755,868,055	180,482,925	1,936,350,980

		Fair value through profit or loss	Amortised Cost	Total carrying amount
-----Rupees '000'-----				
<b>Financial Liabilities</b>				
Deposits from banks	13	-	7,709,435	7,709,435
Deposits from customers	13	-	1,057,606,178	1,057,606,178
Other liabilities	15	-	150,425,169	150,425,169
		-	1,215,740,782	1,215,740,782

		Fair value through profit or loss					
	Note	Held for trading	Designated at fair value	Held to maturity	Loans and receivables	Available for sale	Total carrying amount
		-----Rupees '000'-----					
2014							
<b>Financial Assets</b>							
Cash and cash equivalents	6 & 7	-	-	-	527,129,102	-	527,129,102
Investments	7 & 8	-	-	-	-	517,956,219	517,956,219
Loans and advances to customers	9	-	-	-	344,127,634	-	344,127,634
Other assets	11	-	-	-	107,024,570	-	107,024,570
		-	-	-	978,281,306	517,956,219	1,496,237,525

		Fair value through profit or loss	Amortised Cost	Total carrying amount
-----Rupees '000'-----				
<b>Financial Liabilities</b>				
Deposits from banks	13	-	-	-
Deposits from customers	13	-	702,578,635	702,578,635
Other liabilities	15	-	163,892,598	163,892,598
		-	866,471,233	866,471,233

The carrying amounts approximate fair values as mostly the assets and liabilities have short maturities and are expected to be recovered / settled at their carrying amounts.

31. SCHEDULE OF MATURITY DISTRIBUTION OF MARKET RATE ASSETS AND LIABILITIES AS AT DECEMBER 31, 2015

	Total	Up to one month	Over one month up to six months	Over six months up to one year	Over one year
Rupees					
<b>Market rate assets</b>					
Advances	912,901,433	22,449,346	280,492,624	609,685,663	273,800
Investments	180,482,925	-	-	-	180,482,925
Other earning assets					
Balances with other banks - deposit accounts	545,934,850	195,934,850	-	350,000,000	-
<b>Total market rate assets</b>	<b>1,639,319,208</b>	<b>218,384,196</b>	<b>280,492,624</b>	<b>959,685,663</b>	<b>180,756,725</b>
<b>Other non-earning assets</b>					
Cash in hand	46,417,854	46,417,854	-	-	-
Balances with SBP and NBP - current accounts	90,258,301	90,258,301	-	-	-
Balances with other banks - current accounts	9,473,224	9,473,224	-	-	-
Operating fixed assets	222,412,762	5,032,602	25,163,010	30,195,611	162,021,539
Other assets	165,016,473	98,201,464	37,117,981	8,676,986	21,020,042
Deferred tax asset	98,024,114	-	-	-	98,024,114
<b>Total non-earning assets</b>	<b>631,602,728</b>	<b>249,383,445</b>	<b>62,280,991</b>	<b>38,872,597</b>	<b>281,065,695</b>
<b>Total assets</b>	<b>2,270,921,936</b>	<b>467,767,641</b>	<b>342,773,615</b>	<b>998,558,260</b>	<b>461,822,420</b>
<b>Market rate liabilities</b>					
Large time deposits above Rs. 100,000	112,381,197	33,397,044	59,118,493	12,165,660	7,700,000
All other time deposits (including fixed rate deposits)	1,627,000	100,000	1,122,000	405,000	-
Other cost bearing deposits	548,248,877	548,248,877	-	-	-
<b>Total market rate liabilities</b>	<b>662,257,074</b>	<b>581,745,921</b>	<b>60,240,493</b>	<b>12,570,660</b>	<b>7,700,000</b>
<b>Other non-cost bearing liabilities</b>					
Deposits	403,058,539	403,058,539	-	-	-
Other liabilities	157,550,566	152,582,464	650,008	3,958,254	359,840
<b>Total non-cost bearing liabilities</b>	<b>560,609,105</b>	<b>555,641,003</b>	<b>650,008</b>	<b>3,958,254</b>	<b>359,840</b>
<b>Total liabilities</b>	<b>1,222,866,179</b>	<b>1,137,386,924</b>	<b>60,890,501</b>	<b>16,528,914</b>	<b>8,059,840</b>
<b>Net assets</b>	<b>1,048,055,757</b>	<b>(669,619,283)</b>	<b>281,883,114</b>	<b>982,029,346</b>	<b>453,762,580</b>



**SCHEDULE OF MATURITY DISTRIBUTION OF MARKET RATE ASSETS AND LIABILITIES AS AT DECEMBER 31, 2014**

	<b>Total</b>	<b>Up to one month</b>	<b>Over one month up to six months</b>	<b>Over six months up to one year</b>	<b>Over one year</b>
			<b>Rupees</b>		
<b>Market rate assets</b>					
Advances	344,127,634	9,340,813	143,550,909	191,024,896	211,016
Investments	517,956,219	5,933,219	-	-	512,023,000
Other earning assets	440,469,939	440,469,939	-	-	-
Balances with other banks - deposit accounts	1,302,553,792	455,743,971	143,550,909	191,024,896	512,234,016
<b>Total market rate assets</b>					
<b>Other non-earning assets</b>					
Cash in hand	24,624,804	24,624,804	-	-	-
Balances with SBP and NBP - current accounts	49,517,976	49,517,976	-	-	-
Balances with other banks - current accounts	12,516,383	12,516,383	-	-	-
Operating fixed assets	220,570,455	5,380,363	26,901,815	32,282,178	156,006,099
Other assets	128,883,296	33,163,772	37,055,271	47,365,184	11,299,069
Deferred tax asset	93,341,897	-	-	-	93,341,897
<b>Total non-earning assets</b>	529,454,810	125,203,298	63,957,086	79,647,362	260,647,065
<b>Total assets</b>	<b>1,832,008,603</b>	<b>580,947,269</b>	<b>207,507,995</b>	<b>270,672,258</b>	<b>772,881,081</b>
<b>Market rate liabilities</b>					
Large time deposits above Rs. 100,000	122,303,337	26,886,349	83,095,978	8,321,010	4,000,000
All other time deposits (including fixed rate deposits)	1,135,000	50,000	985,000	100,000	-
Other cost bearing deposits	312,461,257	312,461,257	-	-	-
<b>Total market rate liabilities</b>	435,899,594	339,397,606	84,080,978	8,421,010	4,000,000
<b>Other non-cost bearing liabilities</b>					
Deposits	266,679,041	266,679,041	-	-	-
Other liabilities	172,681,284	159,046,126	820,223	2,447,046	10,367,889
<b>Total non-cost bearing liabilities</b>	439,360,325	425,725,167	820,223	2,447,046	10,367,889
<b>Total liabilities</b>	<b>875,259,919</b>	<b>765,122,773</b>	<b>84,901,201</b>	<b>10,868,056</b>	<b>14,367,889</b>
<b>Net assets</b>	<b>956,748,684</b>	<b>(184,175,504)</b>	<b>122,606,794</b>	<b>259,804,202</b>	<b>758,513,191</b>

### 32. RELATED PARTIES TRANSACTIONS

Related parties of the Bank comprise of parent company, associated company, directors, key management personnel and employees retirement benefit funds. The detail of Bank's shareholders is given in note 15.3 while remuneration of key employee personnel is disclosed in note 27 to the financial statements. PTCL, the parent company, holds 100% shares of the Bank, therefore, all subsidiaries and associated undertakings of PTCL are related parties of the Bank. Also, the Bank has related party relationships with its directors, key management personnel, entities over which the directors are able to exercise significant influence and employees retirement benefit funds. Detail of transactions during the period and balances outstanding as at the period ended December 31, 2015 are as follows:

Transactions	2015 Rupees	2014 Rupees
Parent Company - PTCL		
Issue of share capital to PTCL	100,000,000	-
Payment for disaster recovery services	8,311,952	14,142,800
Internet, connectivity, utility & rental charges	4,403,433	3,435,730
Utility bill collected on behalf of PTCL	396,184,660	418,473,632
Utility bill collection charges	2,242,827	1,772,605
Associated Company - PTML		
Payment for administrative costs and fixed assets	10,527,526	41,196,970
Payment against branchless banking and bills collected	33,669,665	125,342,419
Amount received against reimbursement of agent's commission	81,626,482	22,569,506
Interest expense on deposits	1,572,348	1,826,733
Deposit incentive	360,754	-
Employees provident fund		
Contribution to provident fund	6,000,219	5,294,457
Employees gratuity fund		
Contribution to gratuity fund	13,804,744	-
Balances		
Parent Company - PTCL		
Prepaid for disaster recovery services	5,578,862	7,547,838
Payable against utility bills collected	837,450	690,510
Utility bills collection charges receivable	178,743	343,960
Associated Company - PTML		
Deposits	39,398,718	64,064,777
Receivable/ (Payable) against branchless banking and bills collected	6,444,146	(37,150,374)
Payable to PTML		
Interest payable on Deposits	162,902	281,790
Deposit Incentive	360,754	
Employees provident fund		
Payable to provident fund	2,176	-
Employees gratuity fund		
Payable to gratuity fund	2,198,524	10,367,889



33. GENERAL

Corresponding figures have been rearranged and reclassified where necessary for more appropriate presentation of transactions and balances. Account captions as prescribed by BSD circular No. 11 dated December 30, 2003 which have nil balances, have not been reproduced in these financial statements.

34. DATE OF APPROVAL

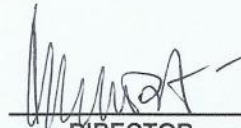
These financial statements were approved by the Board of Directors of the Bank in their meeting held on March 18, 2016.



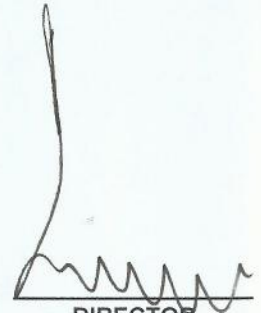
PRESIDENT / CHIEF EXECUTIVE



CHAIRMAN



DIRECTOR



DIRECTOR