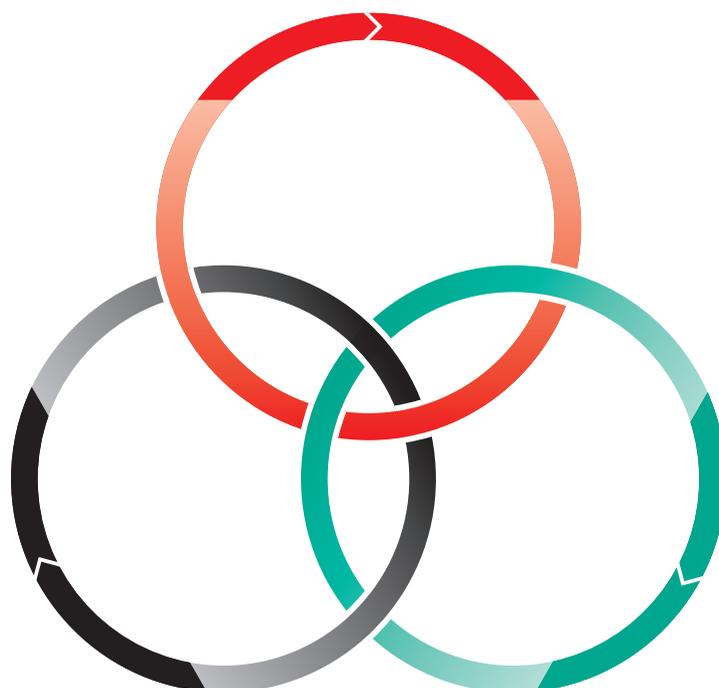




2012 Annual Report



*promoting financial stability
ensuring long-term sustainability*

Prime Finance is a diversified financial service provider that is known for its quality products and services, outstanding customer service, prudent risk management and its focus on the future. Prime Finance has also been recognized as one of the most respected and trusted companies of the country.

Since its inception, Prime Finance has been committed to a set of core values that were embodied by the Company's founders and remains the cornerstone of our philosophy. These values shape everything we do - from how we develop and market our products to how we serve our customers, employees, and communities. Our constant commitment to excellence has not only kept us at the pinnacle of the NBF's sector of the country but also earned us recognition at international level. With each passing year, we continue to expand and explore new horizons of success with a vision of rising higher and enhancing our expertise for serving you better.



promoting financial stability
ensuring long-term sustainability

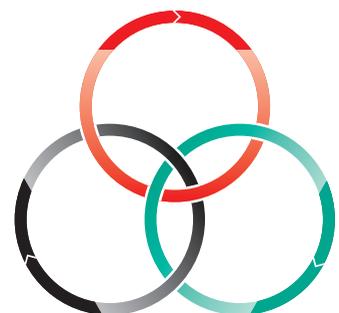
Prime Finance started its journey in the year 1996 backed by some leading corporate houses and individual entrepreneurs in the country. Since inception, among others the focus was on the diversity of business which was found as main strength of Prime Finance. Its growth strategy was aimed at increasing income through diversification of operations and broadening the service offered to the customers. The Company has a well diversified asset base and investment portfolio and the asset quality has been improving every year. The diversification of the earnings stream has also been increasing consistently. This year the main focus of the management was for *"promoting financial stability, ensuring long-term sustainability"*.

Sustainable development is about finding better ways of doing things, both for the future and the present and development is driven by particular approaches without fully compromising the future impacts. Prime Finance has been trying to achieve this sustainability by diversified way of operating approaches. Sustainable growth would be largely dependent on proper

Human Resource Management and revamping of the Treasury Department. In a Service Sector, Human Resources are the greatest assets and form the backbone of a sound enterprise. With this end in mind, organizational restructuring has been made to ensure that a proper pool of talents is available all the time.

In an environment where the traditional funding source from banks almost dried up, the company decided that efforts to mobilize funds from non-banking sources had to be stepped up. By 2015, we are designing plans to cover eighty percent of our fund requirements from our Treasury Department.

Prime Finance is confident that all these approaches will ensure long-term consistent results over the years ...



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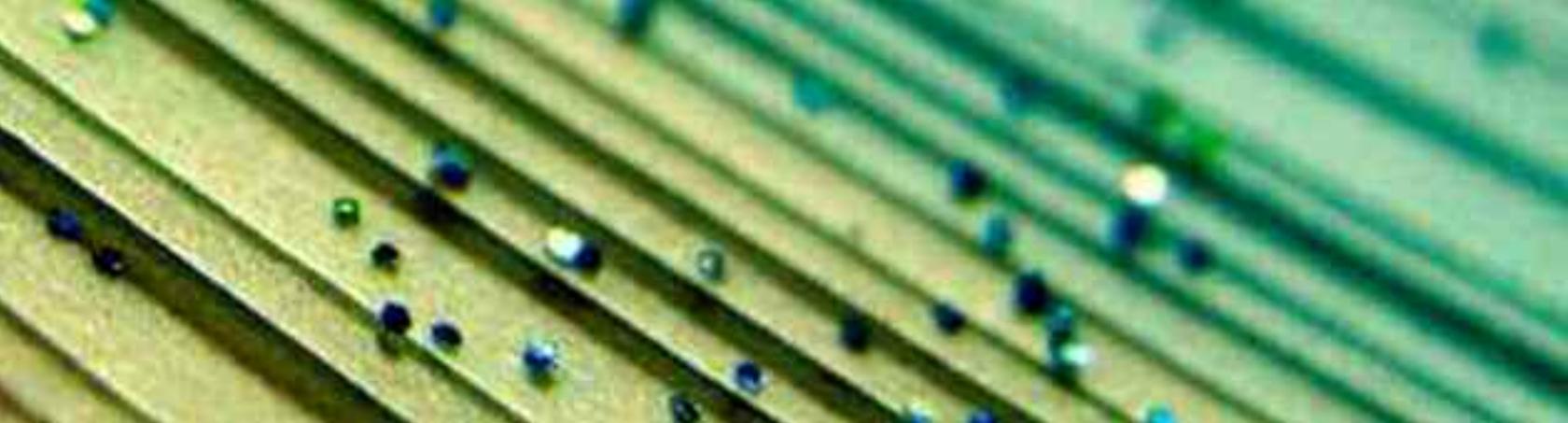
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Awards & Recognition

Prime Finance & Investment Limited is proud of its effort to make the Company one of the best run financial institutions in the country. It is a testament to our standards of governance, compliance and transparency that we won a number of prestigious awards over the years. Some of the notable awards achieved are:



SAFA Award 2011
Winner for
Best Investment Accounts



SAFA Award 2011
Certificate of Merit
SAIB, Merit Award
for Corporate Governance
Excellence



Best Presented Accounts Awards 2010
Overall Winner (Among all categories)
Presented by: South Asian Federation of
Accountants (SAFA)



Best Presented Accounts Awards 2010
Winner Retail
Presented by: South Asian Federation of
Accountants (SAFA)



Best Presented Accounts Awards 2009
Presented by: South Asian Federation of
Accountants (SAFA)



Best Presented Accounts Awards 2008
Presented by: South Asian Federation of
Accountants (SAFA)



Best Presented Accounts Awards 2007
Presented by: South Asian Federation of
Accountants (SAFA)



Best Presented Accounts Awards 2006
Presented by: South Asian Federation of
Accountants (SAFA)

2003

Best Merchant Bank -
Islamic Banking Award 2003

2005

First Prize - ICAB National Award 2005
SAFA Merit Award 2005

2006

First Prize - ICAB National Award 2006
Runner Up - SAFA Award 2006

2007

First Prize - ICAB National Award 2007
Silver Award - SAFA Award 2007



ICMAA Best Corporate Award 2012



12th ICAI National Award for Best Published Accounts and Reports 2011
Financial Services Sector



12th ICAI National Award for Best Published Accounts and Reports 2011
Corporate Governance Disclosure



11th ICAI National Award for Best Published Accounts and Reports 2010



ICMAA Best Corporate Performance Award 2010



10th ICAI National Award for Best Published Accounts and Reports 2009



ICMAA Best Corporate Performance Award 2008



8th ICAI National Award for Best Published Accounts and Reports 2008



8th ICAI National Award for Best Published Accounts and Reports 2007



7th ICAI National Award for Best Published Accounts and Reports 2006



6th ICAI National Award for Best Published Accounts and Reports 2005

2008

First Prize - ICAI National Award 2008
First Runner Up - SAA Award 2008
Second Position - ICMAA Best Corporate Performance Award 2008

2009

First Prize - ICAI National Award 2009
First Runner Up - SAA Award 2009

2010

Special Winner - SAA Award 2010 (Account category)
First Prize - SAA Award 2010 (Financial Services Sector)
Second Position - ICAI National Award 2010
ICMAA Best Corporate Performance Award 2010

2011

SAA Award 2011 (Runner Up)
SAA Award 2011 (Certificate of Merit)
SAC Honorary Award for Corporate Governance Disclosure
ICAI National Award 2011 (1st)
ICAI National Award (2nd) - Corporate Governance Disclosure (2nd)
ICMAA Best Corporate Award 2011 (2nd)

Awards & Recognition From...

South Asian Federation of Accountants (SAFA)



South Asian Federation of Accountants (SAFA) was formed in the year 1984 to serve the accountancy profession in the South Asian Region and uphold its eminence in the world of accountancy. SAFA is an Apex Body of the South Asian Association for Regional Cooperation (SAARC) and a Regional Grouping of International Federation of Accountants (IFAC). SAFA represents over 170,000 accountants having membership of the national chartered accountancy and cost and management accountancy institutions in the South Asian countries namely Bangladesh, India, Nepal, Pakistan and Sri Lanka. SAFA came into existence at the initiative of the accounting professional bodies in the South Asian Region, which has a bond of culture and homogeneity of professional environment.

SAFA shall, in the public interest work towards strengthening the accountancy profession and serve in the interest of the broad economic development of SAARC Region.

Institute of Chartered Accountants of Bangladesh (ICAB)



The Institute of Chartered Accountants of Bangladesh (ICAB) is the national professional accountancy body in Bangladesh. It is the only organization in Bangladesh with the right to adopt and implement the International Accounting Standards (IAS), International Financial Reporting Standards (IFRS), and International Standards on Auditing (ISA). ICAB has the only right to award the Chartered Accountant designation to the qualified one.

It was established under the Bangladesh Chartered Accountants Order passed in 1973 (Presidential Order No. 2 of 1973). The Ministry of Commerce, Government of the People's Republic of Bangladesh is the administrative Ministry of the ICAB. The mission of the ICAB is to provide leadership in the development, enhancement and coordination of the accountancy profession in Bangladesh in order to enable the profession to provide services of consistently high quality in the public interest.

ICAB is the honorable member of various accounting body in the world, like the International Accounting Standards Board (IASB), the International Federation of Accountants (IFAC), the Confederation of Asian and Pacific Accountants (CAPA), the South Asian Federation of Accountants (SAFA), Asia Oceania Tax Consultants' Association (AOTCA) etc.

Institute of Cost and Management Accountants of Bangladesh (ICMAB)



The Institute of Cost and Management Accountants of Bangladesh (ICMAB), is the institution in the country dedicated to Cost and Management Accounting education and research. It is managed as an autonomous professional body under the Ministry of Commerce.

As well as education, it is also engaged in regulating and promoting the profession of cost and management accounting in Bangladesh. The Institute is managed by a National Council of 16 members. It is a member of the International Federation of Accountants (IFAC), Confederation of Asian and Pacific Accountants (CAPA), and South Asian Federation of Accountants (SAFA).

Financial Snapshot

Revenue +48.93%

Average yearly growth (2006 to 2012)

2012 : 1,969
2011 : 2,245
2006 : 445

Total Assets +46.99%

Average yearly growth (2006 to 2012)

2012 : 16,020
2011 : 15,116
2006 : 3,735

Net Profit +27.35%

Average yearly growth (2006 to 2012)

2012 : 300
2011 : 773
2006 : 103

EPS (Restated) +18.80%

Average yearly growth (2006 to 2012)

2012 : 1.04
2011 : 2.96
2006 : 0.45

No. of Shareholders +85.94%

Average yearly growth (2006 to 2012)

2012 : 20,564 nos.
2011 : 18,962 nos.
2006 : 2,931 nos.

Shareholders Equity +132.20%

Average yearly growth (2006 to 2012)

2012 : 5,107
2011 : 4,684
2006 : 498

Market Value +113.30%

Average yearly growth (2006 to 2012)

2012 : 7,460
2011 : 15,985
2006 : 837

Net Assets +132.20%

Average yearly growth (2006 to 2012)

2012 : 5,107
2011 : 4,684
2006 : 498

Market Capitalization +113.30%

Average yearly growth (2006 to 2012)

2012 : 7,460
2011 : 15,985
2006 : 837

Zoom - in long run perspective

Assuming a shareholder got an IPO during 2005, his total return upto 2012 -

Initial investment during 2005 (50 shares @ Tk. 100 each) = Tk. 5,000

Year	Rate of dividend	Dividend		Cumulative holding
		Bonus (nos)	Cash (Tk)	
Initial Public Offering (IPO) at 2005				50
2006	10% B, 20% Cash	5	1,000	55
2007	40% B	22	-	77
2008	40% B	30	-	107
2009	40% B, 10% Cash	42	1,070	149
2010	80% B	119	-	268
Converted to Tk.10 per share in 2010 (268x100/10)				2,680
2011	40% B	1,072	-	3,752

Total return as on 30 December, 2012 (Last trading date) = $(3,752 \times \text{Tk. } 32.80) + 1,000 + 1,070 = 125,136$

Increased by 25.36 times

Return on Individual Shareholder investment +343.24%, 3.58 times

Average yearly growth (2005 to 2012)

(Figures in million Taka except ratios and per share data)

Vision

Our vision at Prime Finance is to be a market leader providing integrated financial solutions with special focus on creating value -

For our clients	<i>Working closely with our clients</i>
For our shareholders	<i>Maximizing shareholders' wealth achieving superior performance;</i>
For our employees	<i>Providing a workplace in which employees are rewarded and respected properly;</i>
For our communities	<i>Supporting community initiatives in health, education, arts and economic & social development.</i>

Mission

Our mission is to -

Grow prolifically	<i>Through partnership with our clients, delivering innovative solutions to cater their financial needs.</i>
Create Shareholders' value	<i>Through client satisfaction and employee commitment to excellence.</i>
Enhance the ability of our employees	<i>Giving every opportunity to have access to adventurous experience through which they can raise their self-esteem, realise their full potential and achieve more than they ever thought possible.</i>
Serving communities	<i>With integrity and pride.</i>

Goal



Our goal is to be an undisputed leader in financial services creating long-term shareholders' value, aiming to achieve this by:

- Building *quality investment portfolio*;
- Focusing on *minimizing default loans* within the portfolio;
- Developing and maintaining *dependable and long-term relationship* with our clients;
- Sustaining *solid growth* without compromising profitability;
- Achieving *higher return on equity*;
- Maintaining *strong relationship* with a wide variety of partners;
- *Responding quickly* to new opportunities;
- Assessing and *managing business risk* prudently.

Purpose

We help individuals and businesses across communities achieve their aspirations by providing innovative financial services that meet their needs.

Core Values

We believe we stand stronger than before. These nine key values drive us in delivering excellent results to our stakeholders.

1 Professional excellence

- > We are fair and honest and we deliver on our commitments;
- > We assume everything we do is in full public view.

2 Integrity

- > We are professional in all we do, continually developing our skills and expertise.

3 Transparency

- > We are focused on the highest level of transparency providing accurate and timely information about our products, performance and financial results to meet the expectations of the stakeholders.

4 People

- > We treat each other fairly and with respect;
- > We support our colleagues and invest in their development to help them realise their full potential;
- > We recognise and reward outstanding performance.

5 Client

- > We listen to our clients and understand their needs;
- > We build enduring relationship with them by delivering superior products and quality services.

6 Teamwork

- > We work together to deliver excellent performance, taking responsibility, holding ourselves accountable and respecting the contribution of others
- > We communicate effectively and give each other the space to do the job.

7 Prudent risk taking

- > We are prudent risk takers because our clients rely on us for safety and soundness.

8 Effectiveness

- > We actively invest in infrastructure, process improvement and skills to lower our delivery costs;
- > We do the right things right the first time, on time, every time.

9 Focus on sustainability

- > We take a measured approach in our business strategy and in our acceptance and management of risk to secure the long-term viability of the business.



Business Principles

Long-term relationship

Developing and maintaining long-term relationship with our clients giving priority to their need and interest and thus establishing a common goal.

Teamwork

Working together with the clients as a team to achieve best result.

Fun & Flair

Maintaining a positive moral support, a sense of community and ambitious approach to working.

Trumping bureaucracy

Short and straight lines of communication, a clear definition of responsibility and the devolution of power enables us to respond quickly to our clients' needs.

Efficient decisions

Effective services to clients are based on quick and efficient decision making, achieved through a flat hierarchy, the devolution of power and open communication.

Welcoming change

In order to assist our clients in gaining a competitive advantage, Prime Finance keeps abreast of changing business practices and seeks to implement changes ahead of the competition.

Identifying opportunities

By identifying opportunities where others see business as usual, Prime Finance is able to advise its clients effectively and provide them with exceptional choices.

Embracing competition

We view competition as a powerful motivator, as a spur to keep the Company's business ahead of the times and providing clients with the best possible service in the industry.

Efficient risk assessment

Our powerful information systems and highly qualified personnel, and its clients at heart, ensure efficient risk assessment and decision making.

Passion for building business

We are determined to build our clients' businesses for the benefit of both the parties through a strong and committed team of Company personnel and clients working in unison, focusing on the task at hand.

Rewarding talents

Company's greatest resource is its personnel, and it places great emphasis on retaining good employees. Prime Finance rewards those employees who perform most successfully providing the best services to our valued clients.

Ethical Principles

Ethical Principle is based on our corporate values and it expresses basic ethical code, attitudes and rules that the Company's employees follow at their work. We always have a firm and clearly defined corporate culture. It is the way we talk to each other, cooperate, create, behave in certain circumstances and at the same time it expresses what is important for us.

	Fairness	Transparency	Respect
Colleagues	<ul style="list-style-type: none"> • Ban discrimination on the grounds of sex, race and political opinion; • Practice respect and care towards employees at all time; • Ban favoritism in recruitment, promotion, training and incentive policies. 	<ul style="list-style-type: none"> • Share your knowledge without monopolizing it to your own advantage; • Ensure transparency in career path. 	<ul style="list-style-type: none"> • Clearly define duties and responsibilities for all employees; • Listen and pay constant attention to employees, respecting their values, feeling, moral stance; never use any form of undue pressure or offense.
Clients	<ul style="list-style-type: none"> • Strive for client satisfaction at all times; • Pay appropriate attention to each of our clients. 	<ul style="list-style-type: none"> • Ensure timely information on products and services at all times. 	<ul style="list-style-type: none"> • Maintain confidentiality of any information acquired, both in relation to clients and the company itself and its decisions; safeguard its assets.
Investors	<ul style="list-style-type: none"> • Pay appropriate attention to the investors, without discrimination or favoritism. 	<ul style="list-style-type: none"> • Aim to be clear, complete and timely; • Use most effective communication channel for investors; • Turn market communication into an economic and cultural value. 	<ul style="list-style-type: none"> • Behave with investors in line with corporate values and professional ethics as required by market's highest standards.
Communities	<ul style="list-style-type: none"> • Establish suitable relations with stakeholders in order to offer assistance, service and opportunities without discrimination. 	<ul style="list-style-type: none"> • Keep the community we work informed of what we do and how we do it. 	<ul style="list-style-type: none"> • Promote growth which is ecologically and socially sustainable.



Reciprocity

- Trying to have a positive influence in our working environment;
- Co-operate, sharing knowledge to generate value and find legitimation of our professional identity beyond organizational boundaries;
- Taking care of colleagues' needs.

Freedom

- Create proper environment, freedom of dissent and freedom to express what one thinks;
- Offer everybody the chance to practice the values of leadership and develop his/her own professional personality.

Trust

- Keep our commitment, admitting the possibility of mistakes made in good faith.

- Offer a good return and a feeling of certainty to clients, to receive the equivalent in return;
- Listen to requirements and transform them into products and services.

- Handle interpersonal relations in free and equal terms without being in awe of those who are stronger and without arrogance towards those who are weaker.

- Build-up confidence through behaviors that constantly confirm our reputation.

- Listen without prejudice to any indications that investors may communicate.

- Achieve freedom of action such that we can keep the promises we make to the market without undue conditioning.

- Develop lasting and continuous relationship with the financial community;
- Safeguard our consistency and credibility;
- Willingly accept any criticism expressed by the market.

- Create spaces for discussion and dialogue in which mutual exchange of information may increase our legitimacy and reputation.

- Respect individual moral codes and culture.

- Establish social and cultural relations with communities, whose distinctive features should be reciprocity.



Objective and Strategy

Every company has to realistically understand where it is currently positioned and where it wishes to go in the near future. The company's objective has to be set based on the resources that it has and a roadmap for the future. The aim of strategic planning is to shape the company's businesses and products so that they yield target profits and growth.

Much has been achieved by the company over the years. When we look forward, we find that a lot more needs to be done to achieve our rightful place in the financial sector of the country. We constantly keep on scanning the horizon and constantly redefine our objective setting and strategies to shape and win the market.

OBJECTIVE

Creating value for our shareholders is our prime objective. We can do so only if we achieve operational excellence and continue to improve our financial performance. We invest for future sustainable growth and are financially disciplined and we develop, recruit and retain skilled, talented and motivated people. In each area we aim to increase our focus. As a consequence, we have identified specific objectives in the following areas:

Performance

By improving efficiency, we can improve our key financial indicators. Among other measures, we have identified that multiple skill development hold the key to our future. This will enable us to improve our operational efficiency and cut costs. At the same time, job satisfaction is likely to improve significantly.

Growth

We aim to generate value from our investments by moving into a sustainable growth model. This can be achieved through improvement in operating performance of our systems, by selecting investments that will provide the best returns, or in case of diversification, by selecting businesses where we can obtain synergies for the benefit of our customers and shareholders.

In order to deliver sustainable growth, we must be disciplined in the way we manage our Balance Sheet. This means that we will return cash to shareholders to the extent it is not required for our investment objectives.

Talent

In order to recruit, develop and retain talented people, we aim to achieve a more inclusive and diverse workforce. A number of areas have been identified to help achieve our vision of developing and operating our business in a way that results in a more inclusive and diverse profile, and to be seen as an employer of choice. Performance measures are used to monitor our objective of promoting inclusion and diversity, contain the employee turnover ratio and pursuit of gender equality in our organisation.

Relationship

We build and maintain relationships with our customers, regulators, fund providers and the communities by providing quality services, prompt responses when things go wrong and dedication to continued improvement.

One of the critical elements in our regulatory relationship is in building trust. This involves being responsive to the need of our regulators for accurate information, complying with rules and regulations, operating in an ethical way and most importantly, delivering on our promises.

We aim to work in partnership with our lenders developing constructive relationship, and working together effectively. Our objective is to developing contractual arrangements with our lenders and depositors that align their interests with our own as far as possible and share financial risk appropriately.

Prime Finance's role as a good corporate citizen supports our strategic ambitions and is delivered through a sustained and consistent approach. In all our investment, we aim to develop our business, support our employees, support our communities and enhance our reputation. Our approach is based on two principles: Investment in our communities and investment in our people. Sharing of best practices across our business and working collaboratively with key partners and stakeholders enable us to maximize how communities benefit from our activities.

Responsibility

Responsibility and accountability underpins everything we do. Although our activities have no direct impact on environment, we are committed to taking positive action to reduce our contribution to climate change and our other impacts on the environment. We want to operate to the highest standards of corporate governance and we believe in strong business ethics, based on our core values.

We are committed to continuous improvement in our environmental performance. Our objective is to help protect the environment for future generations. In addition we are committed to:

- Being cautious in financing our clients with special focus on how and for what purpose the fund will be utilized
- Financing clients which are compliant to environmental issues.

We are committed not only to ensuring that all our behaviors are lawful and that we comply with our policies and regulatory guidelines, we also expect all of our employees to live up to our core values.

STRATEGY

For a Financial Institution like PFI, the objective and strategies can never remain static. It is a dynamic concept that constantly requires readjustment of the priorities based on the money market situation and above all the macroeconomic situation prevailing in the country. It is based on this underlying spirit that on account of the contractionary monetary policy, we changed our priorities from business growth to balancing of our profit centres. Among the host of changes that took place, the following should be a true reflection of our intent and purpose:

Performance

Key performance indicators have been identified and implemented as a measure of performance. The company has slowly but surely moved into a result oriented organization where objective setting and strategy is being defined and implemented. In association with the company's strategic think tank, each of the functional departments have formulated strategies for achieving the objectives.

Growth

We have partially moved away from the capital market operation and focused on the core business. Our strategy has moved from sporadic growth to sustainable development. There is a gradual shift in our priorities in terms of investments from corporate organizations to small and medium enterprises. The main reason is that the small and medium sector holds nearly 90% of the total business entities.

Talent

Transparent recruitment through creative ads in the national dailies and job sites and head hunting is the cornerstone of our HR policy. In certain situations, head hunting would appear to be the logical choice in the senior positions. PFI has not only been able to

Objective and Strategy - *continued*

hunt talent but also to retain them. At the same time, skill levels are constantly being upgraded through meaningful training programmes at home and abroad.

Relationship

Relationship with our stakeholders is continually being built through integration and interaction. PFI has been able to establish a positive image among the shareholders, regulators and the banking community through constructive engagements at every level. Our Corporate Social Responsibility has been stepped up and we aim to have a more constructive role in future in the nation building activities.

Responsibility

Being a responsible corporate citizen is the hallmark of our business motto. As a result, we have been at the forefront in adopting measures for Bangladesh Financial Intelligence Units Money Laundering and Terrorist Financing measures. At the same time in every investment activity, strict adherence to environmental matters is central to our business objectives. Today we can say we have laid the foundation for the highest standards of corporate governance.

Five-year financial summary

(Figures in million Taka except ratios and per share data)

As of and for the years ended 31 December

Results of operations	2012	2011	2010	2009	2008
Operating revenue	1,969.11	2,244.77	3,078.53	1,425.36	819.62
Operating expenses	1,556.03	1,290.56	1,085.40	714.73	531.07
Profit before tax	413.08	954.20	1,993.14	710.63	288.55
Net profit	300.19	772.81	1,731.66	683.13	286.05

Balance sheet

Total investments	13,836.13	12,827.06	11,621.04	9,275.31	5,092.67
Total deposits	5,614.80	4,315.61	3,760.31	4,632.59	2,177.79
Total liabilities	10,913.06	10,431.84	9,018.36	8,546.79	4,700.36
Paid up capital	2,274.30	1,624.50	902.50	644.64	460.46
Capital employed ¹	13,565.83	13,073.94	11,340.74	9,224.69	4,830.75
Shareholders' equity	5,106.59	4,684.40	3,893.58	1,826.39	921.31
Property, Plant and Equipment	327.62	327.67	323.62	321.63	14.21
Net Current Assets	432.17	288.88	1,398.54	2,191.59	404.53

Ordinary shares information

EPS	1.04	4.14	19.13	10.60	6.21
EPS (restated) ²	1.04	2.96	7.60	3.00	1.26
Dividend	10, 20B	40B	80B	10, 40B	40B
Book value per share of Tk. 10 (end of period)	22.45	28.84	43.14	28.33	20.01
Ordinary shares outstanding of Tk. 10 (end of period)	227.43	162.45	90.25	64.46	46.05
Year end market price per share of Tk. 10	32.80	98.40	465.90	186.03	110.55
Market capitalisation	7,459.72	15,985.11	42,047.55	11,991.99	5,088.08

Financial ratios (%)

Return on average investment (PBT/average investment)	3.10	7.81	19.08	9.89	6.23
Return on average assets (PBT/average asset)	2.65	6.81	17.12	8.89	5.71
Return on average equity (PAT/average equity)	5.88	16.50	44.47	49.72	36.75
Equity to assets	31.88	30.99	30.15	17.61	16.39
Efficiency ratio ³	26.62	15.42	7.35	12.66	17.10
Current ratio (times)	1.06	1.05	1.25	1.54	1.31
Price earning ratio (times)	31.69	23.77	24.35	17.55	17.80
Deposit investment ratio	40.58	33.64	32.36	47.40	46.43
Debt equity ratio (times)	1.66	1.79	1.91	4.05	3.94
Coverage/reserve against NPL	43.37	57.52	65.70	60.61	82.42
Non performing assets to loans/leases ⁴	9.89	6.48	6.23	7.04	7.06

Others

No. of branches	03	03	03	03	03
EVA	1.56	283.76	1,397.76	592.23	243.26
Enterprise value ⁵	16,123.14	24,957.68	49,937.62	19,068.31	8,617.12

(1) Capital employed represents shareholders' equity and long term borrowings

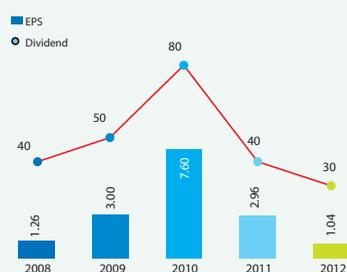
(2) Adjusted to reflect the 40 percent bonus share declared in 2011

(3) Efficiency ratio represents management expenses as a percentage of net interest income (total interest income minus financial expenses) plus non-interest income.

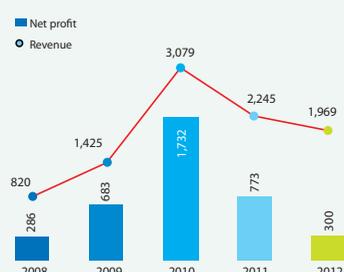
(4) Non-performing assets means all overdue rentals/installments past due in excess of 5 months plus future outstanding principals not fallen due of those loans/leases.

(5) Enterprise value represents market capitalization plus debt minus cash and cash equivalents.

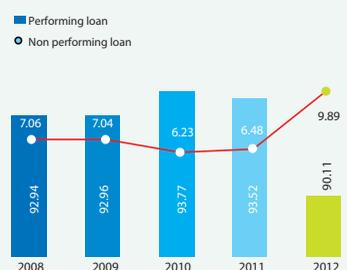
Graphical Presentation of Financial Performance and Condition



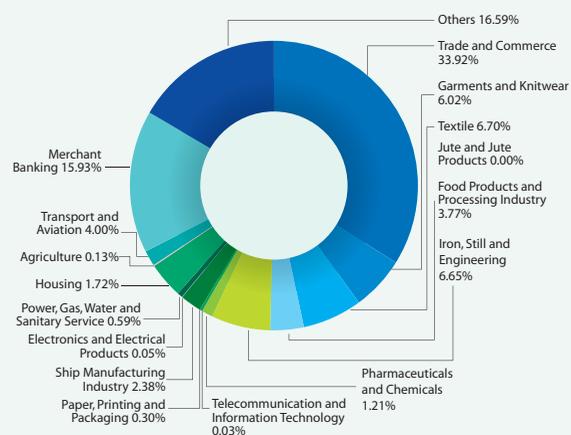
Company's Earning per Share (EPS) was Tk. 1.04 in 2012, which was Tk.2.96 (restated) in 2011. To maintain reward to the valued shareholders, the board in its meeting held on 23 February 2013 recommended 30 percent dividend (20 percent stock, 10 percent cash).



Total revenue and net profit was Tk. 1,969 million and Tk. 300 million respectively in 2012, which was Tk. 2,245 million and Tk. 773 million respectively in 2011. In 2012 net profit was 15.24 percent of total revenue, representing a competitive result in the industry.

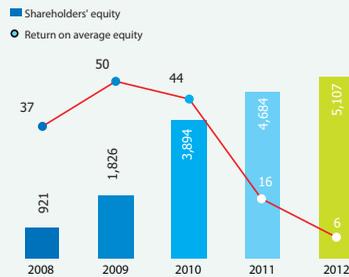


As a focal point of gradually balancing of Balance Sheet items, the Company could improve its conditions regarding loans, advances and leases. The graph shows that non-performing loans, advances and leases were 9.89 percent in 2012, which was 6.48 percent in 2011. The rate of non-performing loan increased due to overall non-performance in the economy, non-performance of clients and overall market instability.

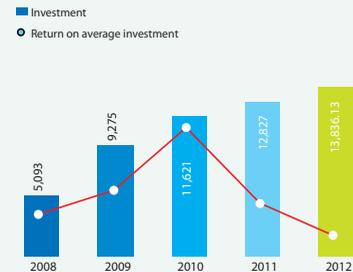


Diversification was the main focus of Prime Finance. During the year, the company could maintain its portfolio well diversified as well. Highest exposure was 33.92 percent in Trade & commerce followed by other 16.59 percent, Merchant banking 15.93 percent, Textile 6.70 percent, Iron, Still and Engineering 6.65 percent, Garments & Knitwear 6.02 percent, Transport and Aviation 4.00 percent and so on.

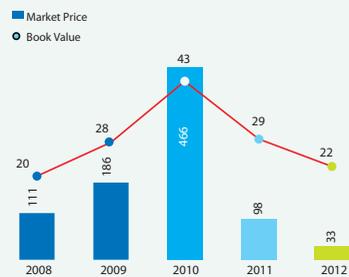
figures in million Taka except ratios and per share data



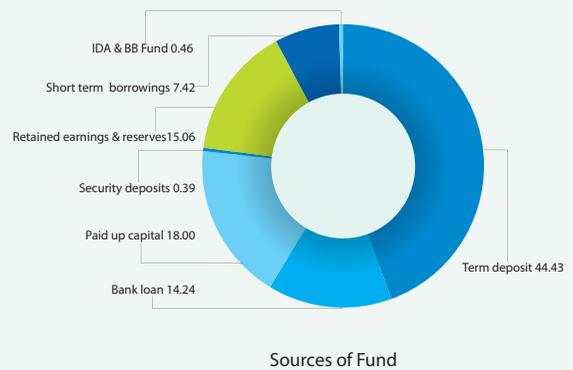
The shareholders' equity was highest in Prime Finance's history. In 2012, shareholders' equity was Tk.5,107 million compared to Tk. 4,684 million in 2011 showing a growth of 9.01 percent over last year. Return on average shareholders' equity was 5.88 percent in 2012.



In 2012, investment of the company was reached to Tk. 13,836 million which was Tk. 12,827 million in 2011 showing a growth of 7.87 percent. Return of average investment was 3.10 percent in 2012.



Market price per share at 30 December 2012 (as the closing date of the year) was Tk. 32.80. Book value at the end of the year was 22.45 per share, after adjusting stock dividend of 40 percent of 2011.



Company's source of fund was well diversified. In 2012, term deposit was the top provider (in term deposit Tk.4,777 million from institutions and Tk.838 million from individuals), equivalent as 44.43 percent, followed by bank loan 14.24 percent, retained earnings and reserve 15.06 percent, paid up capital 18 percent, short term borrowing 7.42 percent and so on.

Board of Directors



The Board of Directors is responsible for supervision of the overall affairs of the Company. Prime Finance's Board of Directors has long adherence to governance principles designed to assure the continued vitality of the Board and excellence in the execution of its duties.



K. M. Khaled

Chairman of the Board of Directors
Representing Khaled Textile Mills Ltd.
Age: 71 years

Educational Qualification: B. Sc Engineer (Bangladesh University of Engineering & Technology)

Appointment to the Board: He was first appointed to the Board on 10 March 1996 and last re-appointed on 28 March 2012.

Committee Membership: He is a member of the Audit Committee of Prime Bank Ltd. and Chairman of the Executive Committee of Prime Bank Foundation.

Experience: Mr. Khaled started his career in 1962 as Assistant Engineer in East Pakistan Water and Power Development Authority and retired as Executive Engineer. He started his business career as a Sponsor Director of Greenland Engineers & Tractors Co. Ltd (GETCO), dealer of Caterpillar Inc. – a world leader in the manufacture of construction equipments, diesel and gas engine and generators. A versatile business personality, Mr. Khaled established various organizations in the field of tele-communication, power generation, engineering, trading etc.

Association with other Organization: Greenland Engineers & Tractors Co. Ltd., Machinery & Equipment Trading Co. Ltd., Eurasia Gate Ltd., Acorn Trading Co. Ltd., K. S. Engineering & Technology Ltd., GETCO Ltd., Prime Bank Ltd., Prime Prudential Fund Limited, PFI Properties Ltd., Easy Fly Express Ltd., Fareast Finance & Investment Ltd., Fareast Stock & Bond Ltd., GETCO Telecommunications Ltd., GETCO Agro Vision Ltd., GETCO Online Ltd., GETCO Business Solutions Ltd., GETCO Elevator Company Ltd., GETCO Agri Technologies Ltd., Greenland Technologies Ltd., Khaled Textile Mills Ltd., Primeasia University.

Md. Aminul Haque

Director
Representing Acorn Limited
Age: 72 years

Educational Qualification: B. Sc Engineer (Bangladesh University of Engineering & Technology)

Appointment to the Board: He was first appointed to the Board as Director on 10 March 1996 and last re-appointed on 29 March 2011.

Committee Membership: He is a member of the Audit Committee and Executive Committee of the Company.

Experience: After graduation from BUET in 1962, Mr. Haque started his career with the Industrial Development Bank of Pakistan and subsequently joined the then East Pakistan Water and Power Development Authority as Assistant Engineer. In the year 1972, he established Greenland Engineers & Tractors Co. Ltd. (GETCO), dealer of Caterpillar Inc. - a world leader in the manufacture of construction equipments, diesel and gas engines and generators. A diversified and successful business personality, Mr. Haque is actively associated with a number of companies in the areas of banking, insurance, telecommunication, manufacturing etc.

Association with other Organization: Prime Bank Ltd., Acorn Limited, Asia Gate L td., Fareast Stocks & Bonds Ltd., B-Trac Engineering Ltd., Prime Prudential Fund Ltd., THANE Technology, Bangla Trac Oil & Gas Ltd., Anirban Enterprise Ltd., Bangla Trac Power Ltd.



Muslima Shirin

Director
Representing Mawsons Limited
Age: 60 years

Educational Qualification: Matriculation

Appointment to the Board: She was first appointed to the Board on 23 October 2005 and last re-appointed on 29 March 2011.

Committee Membership: She is a member of the Audit Committee and Executive Committee of the Company. She is also a member of the Executive Committee of Prime Bank Ltd. and Prime Bank Foundation.

Experience: Mrs. Muslima Shirin a dynamic and visionary lady is the Chairperson of Mawsons Limited. She has also established a good number of business entities including bank, non-banking financial institution and insurance company.

Association with other Organization: Mawsons Limited and Prime Bank Limited.



Z. M. Kaiser

Director
Representing Maksons (Bangladesh) Limited
Age: 50 years

Educational Qualification: Master of Science

Appointment to the Board: He was first appointed to the Board on 8 October 2006 and last re-appointed on 29 March 2011.

Committee Membership: He is a member of the Audit Committee and Executive Committee of the Company.

Experience: Mr. Kaiser has been associated with a number of trading concerns. He has significant exposures in business management with his strategic and visionary leadership capacity.

Association with other Organization: Nil.



Board of Directors - *continued*



Mohammad Masudur Rahim

Director
Representing East Coast Shipping Lines Limited
Age: 42 years

Educational Qualification: Masters in Economics from the University of Dhaka and Masters in Business Administration major in Finance & Marketing from East West University, Dhaka.

Appointment to the Board: He was first appointed to the Board on 9 January 2008 and last re-appointed on 28 March 2012.

Committee Membership: He is a member of the Executive Committee of the Company.

Experience: Mr. Rahim is a highly experienced professional with successful track record in International Trading, Marketing of FMCG, Plastic Manufacturing and Lubricating Oil industry. He held different positions with different capacities in his more than 15 years of career. Presently, he serves as the Chief Operating Officer (COO) of EC Distribution Limited, a subsidiary of East Coast Group of Companies.

Association with other Organization: Radiant Alliance Ltd.



M. Shahadat Hossain Kiron

Director
Representing Agami Apparels Limited
Age: 63 years

Educational Qualification: Bachelor of Commerce

Appointment to the Board: He was first appointed to the Board on 19 April 1998 and last re-appointed on 28 March 2012.

Committee Membership: He is a member of the Audit Committee of the Company.

Experience: Mr. Kiron is a successful entrepreneur. He has established a good number of business entities in the areas of trading, indenting, manufacturing, paints, garments, accessories etc.

Association with other Organization: Dekko Garments Ltd., Dekko Apparels Ltd., Glubus Garments Ltd., Agami Fashions Ltd., Dekko Fashion Ltd., Dekko Accessories Ltd., Roxy Paints Ltd., Agami Accessories Ltd., Dekko Foods Ltd., Dekko Airtel Ltd., Agami Distribution Ltd., Agami Apparels Ltd., Dekko Designs Ltd., Dekko Washing Ltd., Volk Apparels Ltd., Shamrin Tex Ltd., Dekko Holdings Ltd., Dekko Ready wears Ltd., Dekko Textile Mills Ltd., Dekko Oil Refinery Ltd., Singardighi Fish Park Ltd.



Tauseef Iqbal Ali

Director
Age: 40 years

Educational Qualification: Bachelor of Business Administration major in Finance & Economics and Masters in Business Administration major in International Business from Maastricht School of Business, Netherlands.

Appointment to the Board: He was first appointed to the Board on 7 September 1997 and last re-appointed on 29 March 2011

Committee Membership: He is the Chairman of the Executive Committee of the Company.

Experience: Mr. Tauseef has long experience of working in Financial Institution and Securities Brokerage House. Currently, Mr. Tauseef is serving as Deputy Managing Director of Nouvelle Securities Ltd. - a Stock Broker of Dhaka Stock Exchange Limited.

Association with other Organization: Prime Finance Capital Management Limited.

Prof. Dr. Parimal Chandra Datta

Independent Director
Age: 65 years

Educational Qualification: Mr. Datta did his Masters in Accounting from Dhaka University and PhD in Accounting & Finance from Preston University, USA.

Appointment to the Board: He was first appointed to the Board on 26 February 2012 and last re-appointed on 28 March 2012

Committee Membership: He is the Chairman of the Audit Committee of the Company.

Experience: Mr. Datta leads his career in the profession of teaching in both Public and Private Universities. He served as Professor and Registrar in renowned Private University. Currently, he has been serving as Professor in the School of Business in Primeasia University, Dhaka. Mr. P.C. Datta was the Ex. Chairman in the Department of Accounting, Govt. Jagannath College, Dhaka, presently known as Jagannath University.

Association with other Organization: Prime Finance Capital Management Limited.

**Kazi Md. Mortuza Ali**

Independent Director
Age: 64 years

Educational Qualification: Mr. Ali did his Masters in Accounting. He is an associate member of the Chartered Insurance Institute (London) and fellow member of Norwegian Shipping Academy, Oslo.

Appointment to the Board: He was first appointed to the Board on 31 December 2012.

Committee Membership: Nil

Experience: Mr. Ali is the Managing Director of Prime Islami Life Insurance Company Limited. He was the ex-Chief Executive of the Bangladesh Insurance Academy (BIA) and also served as Editor of "Insurance Journal". He has more than thirty five years of experience as an Insurance expert.

Association with other Organization: Prime Finance Capital Management Limited.

**Mahibul Islam Chowdhury**

Independent Director
Age: 68 years

Educational Qualification: Mr. Chowdhury did his postgraduate from Dhaka University and also completed M.S. in Agriculture from University of Wisconsin, Madison, U.S.A.

Appointment to the Board: He was first appointed to the Board on 31 December 2012.

Committee Membership: He is the Chairman of the Audit Committee of Delta Brac Housing Corporation Limited.

Experience: Mr. Chowdhury is a former Secretary, Government of Bangladesh. He served in the Government service for thirty three years under various capacities. After his retirement, he has enrolled his knowledge, experience in various private sector organizations. Currently, he is the Chairman of the Managing Committee of Rajdhani Mohila College, Dhaka and also the advisor of ENT Foundation & Cancer Hospital, Dhaka.

Association with other Organization: Prime Finance Capital Management Limited and Delta Brac Housing Corporation Limited.



Senior Management



Prime Finance is managed by a team of qualified and experienced professionals in consonance with the strategy of the Board of Directors. These seasoned veterans offer a very clear vision and mission, evident by the incredible turnaround and new growth that the Company has experienced in recent years



Asad Khan
Managing Director
With Prime Finance: Since 2011

Mr. Asad Khan, assumed the position of Managing Director of Prime Finance & Investment Limited on June 01, 2011. Before joining Prime Finance, Mr. Khan served as the Managing Director in Fareast Finance & Investment Limited from October 2005 till May 2011.

All through his professional career, Mr. Khan occupied a good number of prestigious and high profile offices in different organizations. Starting his career in the year 1980 in an industrial organization, Mr. Khan moved into the financial sector in the year 1993 when he joined United Leasing Company Limited as a Deputy Manager. In 1998, he joined Prime Finance & Investment Limited as Senior Vice President and in the year 2003, he joined Industrial Promotion & Development Company of Bangladesh Limited as Director - Investment.

Mr. Asad Khan completed his Masters in Business Management from Institute of Social Welfare and Business Management under the University of Kolkata. For outstanding academic result in MBM, he was awarded with a distinction certificate. He has also completed M. Com in Accounting from the same university. Apart from academic attainment, Mr. Khan is associated with many social organizations. Currently he is the Chairman of Bangladesh Leasing and Finance Companies Association.

Mr. Asad Khan served as the Honorary Literary Secretary of the Muslim Institute (Kolkata) and the Honorary Secretary of Rotary Club of Islamabad, Chittagong. The National Service Scheme of India awarded Mr. Khan in recognition of his services to Don Bosco Night School, India.



Md. Ahsan Kabir Khan MBA
Deputy Managing Director
With Prime Finance: Since 1998

Mr. Md. Ahsan Kabir Khan has in his credit more than a decade of experience in financial institutions.

Mr. Khan has been successfully performing different responsibilities at different times. He worked as Head of Risk Officer managing and controlling credit risk, also oversaw special assets management with monitoring activities. In addition, he has a long experience in credit administration, operation and marketing.

Utilizing his professional experience and expertise Mr. Khan contributed towards the achievement of the organizational goal and business. He was the Managing Director (Current Charge) of Prime Finance in 2011 for the period of 6 months and led this organization with his visionary leadership capability.

Mr. Khan attended numerous seminars, training, and workshop at home and abroad. He visited UK, Dubai, Indonesia, Malaysia, Singapore, Thailand, Turkey, India, Nepal for different programs both professional and personal.

Mr. Khan completed his masters in Management from the University of Dhaka in the year 1992. He also did his MBA major in Finance. Mr. Khan completed his Chartered Accountancy course from a reputed firm in Dhaka, Bangladesh. Mr. Khan is the Director of PFI Securities Limited, Prime Prudential Fund Ltd., Prime Finance Capital Management Ltd., Prime Islami Life Insurance Ltd.

Mr. Khan is involved in different social and professional society. He is life member of 'Bangladesh-Chaina People's Friendship Association', and 'Lions Club of Dhaka Imperial'



A K M Nozmul Haque M.Sc
Head of R & D
With Prime Finance: Since 2006

Mr. A K M Nozmul Hauqe, a senior banker of the country, joined Prime Finance in January 2006 and worked as Managing Director for two years. Then he was appointed as Consultant to the Board. He served more than 46 years in Central Bank, Development and commercial Banks both in public and private sector and leasing companies. He started his career as a lecturer of Rajshahi University in 1965 and then joined State Bank of Pakistan in 1967. He served Bangladesh Bank for almost fifteen years.

Mr. Haque was the Managing Director of Agrani Bank, Rupali Bank and IIDFC. He was the Advisor of Bank Asia Limited.

Mr. Haque proved his academic feat all through his academic life. He completed his M.Sc. in Statistics from Rajshahi University, securing first class first position in 1965.

Mr. Haque did his MA in Economics from New York University, USA.

Mr. Haque has also published articles in a number of journals, books and newspapers.



Md. Rezaul Haque MBA
Head of Operations Division

With Prime Finance: Since 1996

Mr. Haque, an expert and experienced person in capital market started his career as an Investment Executive with Corporate Securities Management Limited, a private sector Issue Management Company in 1994. Then he joined Prime Finance in 1996 and since then he has been contributing his professional knowledge to this Company. His contribution to put forward Prime Finance as a leading Merchant Bank is inevitable. Now he is working as the Head of Operations Division.

His professional exposures and expertise contribute a lot for the achievement of organizational goals & sustainability in the business. His extra ordinary leadership quality shapes the Operations Division in such a structured way which ensures the highest level of contribution towards Prime Finance for achieving the apex position in the NBF sector.

Mr. Haque attended numerous seminars, workshops and trainings in both home and abroad. He visited Shenzhen Stock Exchange, China for dialogue about RPCF in Nov 2009. He visited United Kingdom for the purpose of developing and attracting non-resident Bangladeshi's to capital market.

Mr. Haque is a member of 'the Association of Accounting Technicians of Bangladesh', Lions Club of Dhaka Imperial' and Bangladesh-China People's Friendship Association'. He is a Director of PFI Securities Ltd and Prime Finance Capital Management Ltd.



Gazi Nilufar Yeasmin MBA
Vice President
With Prime Finance: Since 2009

Ms. Yeasmin has 15 years of work experience in both bank and financial institution. She started her career as a credit analyst in ICB Islamic Bank (then Al Baraka Bank), a joint venture Islamic bank. She joined as Head of Operations Department in 2001 in IDLC Finance Ltd, a leading multi product financial institution of the country. There, she was responsible for managing operational activities for wide variety of products starting from Corporate Finance, SME Finance, Syndicate Finance and Short Term Financing such as Factoring, Bill Discounting & Work Order.

After IDLC, she joined as Relationship Manager in Payments & Cash Management Department of HSBC Ltd. At HSBC, Ms. Yeasmin was Account Manager of foreign accounts under Foreign Direct Investment. She joined Prime Finance in May 2009 as Assistant Vice President in Operations and Marketing Department. She was promoted to Vice President in July 2010 and became Head of Corporate Finance. Currently she is working as Head of CRM.

Ms. Yeasmin graduated with Bachelor of Commerce in 1993 and obtained MBA, major in Marketing, from the Institute of Business Administration (IBA) of Dhaka University in 1997. She attended numerous trainings, seminars organized by reputed local and foreign organizations in both home and abroad.



Gulshan Ara Hafiz MBM
Assistant Vice President
With Prime Finance: Since 2002

Ms. Gulshan Ara Hafiz is one of the experienced members of the professional team of Prime Finance and has gathered immense acquaintance in her work of area in Operations and Marketing department. At present, she is acting as Head of the Business & SME department as well as the Branch Coordinator of the Company. As a branch Coordinator, she is responsible in day-to-day operational and marketing related affairs of Chittagong and Rajshahi Branch. Her expertise lies in marketing clients of SME, woman entrepreneurs and different medium size clients.

She completed her graduation from Dhaka City College in the year 1998 and Masters in Bank Management from Bangladesh Institute of Bank Management (BIBM) in the year 2002. She accomplished her internship in United Commercial Bank Limited and after finishing of her Masters she joined Prime Finance. She has also attended a number of training courses on core risk management, product diversification, effective supervisory management and team building and other related fields of her concentration.



Ahsanullah M Dewan MIT
Assistant Vice President
With Prime Finance: Since 2011

Ahsanullah M Dewan, Head of Information and Technology, has been working at Prime Finance since May 2011. He is responsible for core system development and overseeing existing IT infrastructure.

Mr. Dewan has experience in working different government and multinational organizations where he was involved as team lead for MIS development, compliance with IT policy & audit, databases design, and IT administration. He has served as MIS/IT Consultant for projects funded by both GoB and donor agencies including World Bank and DFID. He has worked for Ministry of Planning, Microcredit Regulatory Authority (previously known as MRRU of Bangladesh Bank), Privatization Commission under Prime Minister's Office, BSCIC under Ministry of Industries. He has co-authored several articles on IT issues which were published in Australian Journals and Conference Proceedings.

Mr. Dewan did his Bachelor of Information Technology from University of Canberra and MSc in IT with Distinction from University of New South Wales, Australia.

Mr. Dewan started his career as a Research Scholar in Australian Defence Force Academy in 2001. His academic achievements and social activities was recognized by the Australian Capital Territory Government through appointing him as the Honorary International Student Ambassador for Canberra, the Nation's Capital.

Senior Management



Rupak Nasrullah Zaidi

Assistant Vice President
With Prime Finance: Since 2011

Mr. Zaidi is an HR professional having 13 years experience in the field of HR, Training & Administration. He is an MBA major in HR and Marketing and also got Post Graduate Diploma in Human Resource Management (PGDHRM). He is an accredited Management Consultant accredited Management Consultant and having Post Graduate Diploma in Management Consulting (PGDMC). He is also a certified Trainer from City & Guild – UK.

He is taking classes in MBA program in leading Private Universities in Bangladesh. He started his career in 2000 and continuing his services in Govt. & different local & multinational corporate organizations. His expertise areas are HRM, Training, Administration and Organization Development. In his career he conducted number of trainings with different corporate, private & Govt. organizations.

To contribute to the professional development in the HR field, Mr. Zaidi conducted five research based study. Some of his research based articles have been published in national and international journals. He also attended national and International conference as paper presenter. He has very good professional network. He is Fellow Member and member of Executive Council of national HR Association in the country named Bangladesh Society for Human Resources Management (BSHRM). He is the Secretary General of Professional Society of Bangladesh. He is also member of Worldwide Trainers Forum and Associate Member of Institute of Management Consultants Bangladesh (IMCB)



Lingkon Mondal, ACA

AVP & Chief Financial Officer (CC)
With Prime Finance: Since 2011

Mr. Lingkon Mondal, Chief Financial Officer (CC) has been working in Prime Finance since December 2011.

He is responsible for finance and accounts, budget and budgetary control, financial planning & analysis, day-to-day affairs of financial matters of the Company, preparation of the statutory accounts, annual report, treasury management, regulatory reporting and compliance, implementing short & long term departmental goals, dealing tax related matters & compliance, management information systems, creating coordinating & evaluating financial programs, manage cash flows, control costs and expenses etc.

Mr. Mondal, a qualified Chartered Accountant, has working experience with Rahman Rahman Huq (RRH), a member firm of KPMG International, one of the big4 audit and accounting firms in the world. He passed Chartered Accountancy within the article-ship period. He has vast working knowledge on accounting, auditing, taxation and legal matters. Mr. Mondal, obtained BBA and MBA from the University of Dhaka with major in Accounting & Information Systems with an excellent academic record. During his career; he attended numerous trainings, seminars and workshops on different aspects. He has also worked as trainer in the various seminars, trainings and workshop. Mr. Mondal is a member of the Institute of Chartered Accountants of Bangladesh (ICAB).



Syed Moniruzzaman, ACS

AVP & Company Secretary
With Prime Finance: Since 2012

Syed Moniruzzaman, a qualified Chartered Secretary has joined Prime Finance in 2012 in the rank of Assistant Vice President. Mr. Zaman has in depth work experience in the field of Corporate Affairs and Human Resource. He has around ten years working experience in national and multinational listed companies in Bangladesh. Prior to joining Prime Finance he served in Grameenphone, Keya group, GSP Finance, Jago Corporation and CP Bangladesh.

Mr. Zaman did his Masters in Management and MBA in Finance. He is an associate member of the Institute of Chartered Secretaries of Bangladesh.

Mr. Zaman is the Company Secretary and Chief Anti Money Laundering Compliance Officer of Prime Finance.



Farhana Mahejabin, ACA

Assistant Vice President
With Prime Finance: Since 2011

Ms. Farhana Mahejabin, a qualified Chartered Accountant is working in Finance & Accounts Department as second-in-command with the responsibility of core accounts preparation, budget & budgetary control, financial planning & analysis, reporting to regulatory bodies, management information systems development and day-to-day financial affairs of the Company.

Prior to joining Prime Finance she worked with Rahman Rahman Huq (RRH), a member firm of KPMG International - one of the big4 audit and accounting firms in the world. She has vast knowledge and expertise on accounting, auditing, taxation and legal matters.

She completed her Bachelor of Business Administration (BBA) from University of Dhaka major in Accounting & Information Systems (AIS) with an excellent academic result in the year 2007. During her career, she attended numerous seminars, trainings and workshops on different aspects which lead her professional development.

Ms. Mahejabin is a member of the Institute of Chartered Accountants of Bangladesh (ICAB).

2012 Social Indicators

Staffing level	2012	2011	2010
Management Cadre	43	41	45
Non-management Cadre	13	8	7
Support Staff	18	17	15
Total workforce	74	66	67
Male	62	53	55
Female	12	13	12

Average age of employees

Management Cadre	36	35	35
Non-management Cadre	30	30	31

Salary & allowance (in million Taka)

Total Salary	880.09	103.69	86.32
MD's Salary	5.40	3.92	7.02
Total Benefits	885.49	107.61	93.34

Change in staffing level

Total employee at the beginning	66	67	63
Recruitment during the year	14	19	4
Departures (retirement/resignation etc.)	5	12	-
Transferred to Subsidiary Company (Prime Finance Capital Mgt. Ltd.)	1	8	-
Changes during the year	8	1	-
Total employee at the end	74	66	67

Training

Average number of days spent in training per employee	2.47	3.44	3.3
% of employees who participated in at least one training program during the year	43	51	45
No. of employees who participated in at least one training program during the year	32	25	30
No. of training programs participated by employees during the year	30	42	34

Message from
The Chairman

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Prime Finance's total assets remained at a better position with a year-on-year growth of 5.98%, attributed mainly to a moderate growth in loans, advances and financing (which increased by 9.97% compared to 2011).

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K. M. Khaled
Chairman

On behalf of the Board of Directors, I am pleased to present the Annual Report and the audited financial statements for the financial year 2012.

The year 2012 was a turbulent year for banks and financial institutions alike. The volatility tested the resolve and strength of many institutions. In a contractionary money market and liquidity crisis, Financial Institutions are most vulnerable since the sourcing of funds is mainly bank driven. The severe liquidity crunch tested the sensitivities of your company and the entire company resolutely faced the onslaught through reinventing, restructuring of its priorities and above all redefining its profit centres.

By nature of its business, Financial Institutions cannot operate like banks since its target market and products are defined in a distinctly different model. Retail business is not its priority and the business model is selective in nature. As a result, the style is lean and mean administration, rapid enhancement of the employees' skills, multiple skill development and constant reinvention of the roadmap. In addition, the objective is highest per capita output and productivity to compensate the lack of higher employee induction.

In 2012, despite experiencing limited growth, we have been able to strengthen the basic foundation of our profit centres for a rapid and sustainable growth in future. Your company was heavily skewed in favour of capital market operations. This has been substantially changed to accommodate the changing investment scenario. Your company has now been sufficiently restructured so that swings in business would not significantly affect its profitability. If capital market operation does not give good returns, other investments would compensate for the desired profits. In future profits may fluctuate on a year to year basis, but it is safe to say that volatility would be greatly reduced.

OVERALL PERFORMANCE

We are pleased to report that Prime Finance made revenue of BDT 1,969 million, achieved Profit after Tax of BDT 300 million, recorded an EPS of 1.04 compared to 2.96 (restated) in the

previous year. Prime Finance's total assets remained at a better position with a year-on-year growth of 5.98%, attributed mainly to a moderate growth in loans, advances and financing (which increased by 9.97% compared to 2011). With more effective processes, stringent procedures, capable people and relevant technology, Prime Finance was able to return to a better financial footing and grow its business in a more sustainable manner.

SUBSIDIARY & ASSOCIATES

Subsidiary and associates have continued to contribute to the bottom line of the company. However, the profits have slowed down considerably due to the capital market meltdown since the subsidiary and associates have a strong footprint in the capital market. The lone subsidiary, Prime Finance Capital Management Ltd. (PFCML) recommended a stock dividend of 10% for the year 2012. The fortunes of PFI Securities Ltd. (PFISL), an associate company, were not so upbeat on account of an anemic capital market since their only source of income is commission on brokerage. PFISL ended the year with a net profit after tax of Tk 51.49 million and recommended 5% cash dividend for the year.

Downswing in the capital market adversely affected the business of Prime Finance Asset Management Company Ltd. (PFAMCL). The company recommended 10% stock dividend for the year 2012. Prime Prudential Fund Ltd. is another associate of Prime Finance dealing with funds specified for secondary market.

RETURN TO SHAREHOLDERS

Your company has always believed in giving good returns to the shareholders. This has been demonstrated time and again in the past. The track record is unparalleled and has been consistent over the years. In an effort to maintain this trend, we have proposed to give 30% dividend (20% Stock and 10% Cash) for the year 2012. Then again, the value given to our stakeholders is utmost in the perception of the company. We can safely assure you that in future with the blessings of the Almighty, we shall enter

Message from The Chairman - *continued*

into a higher growth trajectory in the coming years to continue the legacy of above average returns to our shareholders.

CORPORATE GOVERNANCE

Your Company has always endeavored to implement and maintain high standards of Corporate Governance norms and has been practicing the principles of good Corporate Governance. Corporate Governance principles as practiced by the Company rests upon the foundation of transparency, adequate disclosures, absolute compliance with the laws, fairness, professionalism, accountability and ultimately the target of maximizing the shareholders value besides catering to the interests of the creditors, employees, the environment and the society at large. Your company is committed to conduct its business in a manner, which will ensure sustainable, capital efficient and long-term growth and in order to achieve this the Company has built up a strong foundation for making Corporate Governance a way of life by having an independent board with experts of eminence and integrity, forming a core team of top level executives with proper delegation of executive powers, inducting competent professionals across the organization and putting in place best systems, process and technology.

REGULATORY ENVIRONMENT

Strong supervisory role of Bangladesh Bank (BB) continued in the year 2012. Timeline for mandatory Capital requirement of Tk 100 crore for Financial Institutions was extended once again by BB till December 2012 for failure of many NBFIs to raise the minimum capital. Your company, with a paid up capital of Tk 227 crore is far above the minimum capital regulatory limit.

During the year BB, as elsewhere in the world, introduced sensitivity tests to examine the health of the financial institutions. In all these tests, Prime Finance's score has been satisfactory. We are on course to achieve the highest score within the year 2014.

Bangladesh Financial Intelligence Unit (BFIU) has brought the Financial Institutions under the

purview of Money Laundering and Terrorist Financing rules. A number of seminar and awareness programs have been held in different venues with the objective of eradicating the curse from our society.

During the year, Money Laundering was included by the Central Bank as the fifth in the list of Core Risks. Your company has identified the risk elements in the company and suitable personnel have been placed in sensitive areas to identify and manage the risks.

BRANDING

Concerted attempt has been made to improve the image of the institution through the process of branding. As a result, creative promotional efforts have been geared up to have a strong positioning in the minds of the stakeholders. One of the means has been involving the general people in the development activities of the company. Our sourcing of funds is more inclined towards the general masses and in future funding sources will be more tuned towards mobilization from general people and the capital market instead of reliance on banks. This will become more pronounced in future through greater interaction with the masses. Our objective is to make the people the driving force of the institutions through greater integration with the development activities of the company. In 2012 the process has been heightened through launch of creative liability products.

RISK MANAGEMENT

Risk management is an integral part of our business operations. Our goal is to set a tone and create a risk management culture in which every employee is empowered to raise an issue or express a concern. That means having a well-defined, clear-cut business model, a strategy that puts that model into practice, and operating principles to guide the thousands of daily decisions that are made by managers across the company. We have taken a number of steps to strengthen and sustain a strong risk management culture. We have developed a clear understanding of our risk appetite across all businesses. This includes seven major categories:

Message from The Chairman - *continued*

credit risk, market risk, operational risk, compliance risk, liquidity risk, strategic risk and reputational risk. We are putting specific emphasis on improving operational risk awareness and execution throughout the company this year.

PROSPECTS

The uncertain conditions arising from global developments and the subsequent impact on Bangladesh's own economic conditions and improvement, pose a challenging landscape for the Prime Finance's prospects in 2013. We will continue to monitor these trends. Nevertheless, with the strong foundation that we have created, whilst continuously working on operational and people excellence to enhance the Prime Finance's resilience and competitiveness, we are confident that we can successfully meet the challenges ahead. As competitions continue to intensify during these global economic uncertainties, we will step up efforts to introduce a wider range of new and innovative products and services to cater for the need of our valued clients.

CHANGES IN THE BOARD

We appointed two new Independent Directors during the year. This appointment was made to comply with the BSEC's Corporate Governance Notification and both the Directors have requisite qualification and exposure. We will be proposing in 17th AGM for approval of the aforesaid appointment. Our previous Directors- Mr. Md. Aliuzzaman, Prof. Salma Rahman and Mr.

M. N. H. Bulu (representing Abeeco Industries Ltd.) were unable to acquire minimum percentage of shareholding within the stipulated time frame provided by the BSEC. Accordingly their positions of Directorship were vacated w.e.f. May 22, 2012. They made an extremely valuable contribution to the Board and we benefitted greatly from their experience and wisdom. We wish them well for the future.

ACKNOWLEDGEMENTS

We wish to thank all our Board members who have contributed to the continuing success of Prime Finance. Their invaluable insights have provided guidance for the direction that the Prime Finance is heading. To those Directors who have left Prime Finance, we wish them all the very best in their future undertakings. We would also like to welcome the new Directors to the Board and look forward to their contributions for the years to come.

We also thank the Bangladesh Bank, our shareholders, business associates, various regulatory authorities and other stakeholders for their continuing support in their interactions with Prime Finance. Last but not least, we would like to thank all our Management and staff, for their dedication and contribution to the success of this Financial Institution.



K M Khaled
Chairman

Diversified Investment

through a set of versatile

Products & Services



Winning value excellence has been the spirit of Prime Finance. Keeping the varied nature of client base and their unique needs in mind, the Company has been constantly diversifying its products which is evidenced from the following list of versatile products and services:

Financial segments

- Lease finance
- Term finance
- Real estate finance
- Bill discounting
- Bridge/equity finance
- Syndicated finance
- SME finance
- Hire purchase

Deposit Products

- Semi annual deposit
- Annual income deposit
- Cumulative income deposit
- Monthly income deposit
- Quarterly income deposit
- Half-yearly income deposit
- Double income deposit
- Triple income deposit
- Earn ahead deposit
- Priority fixed deposit
- Professional fixed deposit
- Doctors' fixed deposit
- Contribution FDR

DPS Products

- Housing deposit scheme
- Fortune DPS



Products & Services of our
Subsidiary & Associate Companies

Prime Finance Capital Management Ltd.

- Issue Management
- Underwriting
- Portfolio Management
- Corporate Advisory Services
- Mergers & Acquisition

PFI Securities Ltd.

- Securities Trading Services
- Custodian Services
- Research Services
- Margin Loans
- Advisory Services

Prime Prudential Fund Ltd.

- Sponsor of Mutual Funds
- Capital Market Operation

Prime Finance Asset Management Co. Ltd.

- Operate, conduct, accomplish, and establish services for industrial trading
- Investment in shares and securities
- Act as financial and monetary agent
- Merchandise shares and other securities

Agriculture	0.13%
Electronics and Electrical Products	0.03%
Telecommunication and Information Technology	0.03%
Others	16.59%

Message from

The Managing Director

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Many initiatives have been launched to nurture talent, to boost efficiency, effectiveness, productivity and innovation, and to inculcate the spirit of service. All these initiatives are based on the recognition that each of our employees is an important asset with a part to play in our long-term sustainable future.

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Asad Khan
Managing Director

We passed another year of modest growth in 2012. In the backdrop of the prevailing money market situation, the element of sustainability of our growth was foremost in our minds. The growth was somewhat subdued. However, it gave us an opportunity to focus on restructuring the organization, redefining our profit centres, development of our Human Resources and improvement of compliance and core risks. We believe that our efforts would help the company to meet unforeseen shocks and achieve sustainable growth in the coming years.

In 2012 the money market situation witnessed major changes. Contractionary monetary policy started towards the end of 2011, continued well into the year 2012 ostensibly for reining in inflationary pressures. This resulted in credit squeezes, slowdown in investments and immediate hike in borrowing rates. This adversely affected the profitability of the company. Prime Finance & Investment Limited (PFI) had to use all its creative skills, resources and experience to stay in the race.

With a subsidiary and three associates, your company was heavily skewed in favour of capital market operations. All the subsidiary and associates are directly involved in capital market operations. As a result, the fortunes of the companies fluctuated with the tide and ebb in the capital market. This in turn affected the profitability of the parent company.

In the absence of enabling environment, the company made major strategic decisions that helped in maintaining the company as a going concern. The company focused on mobilizing funds from internal sources and geared up the collection of overdue. We are pleased to share with you some of the changes that have taken place during the year 2012.

ORGANISATIONAL RESTRUCTURING

Early during the year, the company identified that sustainable growth of Prime Finance would be largely dependent on proper Human Resource Management and revamping of the

Treasury Department. In a Service Sector, Human Resources are the greatest assets and form the backbone of a sound enterprise. Again in a Financial Institution, Treasury is a key department which merit close interaction between the top management and the Treasury Department since most of the decisions have to be immediate. The organogram of Prime Finance was suitably changed to bring both Human Resource Management and Treasury Department under the direct supervision of the Managing Director.

RESOURCE MANAGEMENT

In 2011, your company made a major stride in setting up a Liability Management Unit manned by a team of highly skilled professionals with many years of hard earned experience behind them. Sourcing of fund was the greatest challenge in 2012. In an environment where the traditional funding source from banks almost dried up, it was time for a strategic change. The company decided that efforts to mobilize funds from non banking sources had to be stepped up. At the end of the year results have been highly encouraging. Liability Management Unit has contributed significantly to the sourcing of the funds and helped to move away significantly from banks. By 2015, we are designing plans to cover 80% of our fund requirements from the Liability Management Unit.

OUR EMPLOYEE-OUR ASSET

In 2012, we continued to focus on communicating our vision, mission and strategies to our employees, so as to achieve a real cultural transformation fuelled by our shared values of Teamwork, Integrity, Growth, Excellence, Efficiency and Relationship Building. Many initiatives have been launched to nurture talent, to boost efficiency, effectiveness, productivity and innovation, and to inculcate the spirit of service. All these initiatives are based on the recognition that each of our employees is an important asset with a part to play in our long-term sustainable future. We hire the best people

Message from the Managing Director - *continued*

for the job and strive to retain, motivate, empower and reward them for their contribution. In this way, and through our shared, humanizing spirit, I believe our people find meaning in their work and will strive to serve from the heart.

In 2012, Human Resource Department was strengthened through the induction of a seasoned professional as head of the Department. This has brought in major changes to the thought process of the company in terms of development of skilled professionals. To start with, Prime Finance has inducted executives in a transparent manner based on the merit of the candidates. The need of the organization has been matched with the skills of the incumbent. The entire Manpower Planning has been designed judiciously taking a meticulous look into the gaps prevailing at the time and likely situation that may emerge in the near future.

Another development that has taken place is multiple skill development. Employees have been encouraged to move to other departments so that each of the employees has more than one skill. This move has been highly successful. Executives have enthusiastically accepted the challenge it gives them a new playground for unearthing of hidden talents and breaking the drudgery of routine jobs.

Again, employees have been brought to the Head Office from Regional office in a regular manner. This has helped to decrease the gap in the skill level between the Branch office and the Head Office.

RESULTS

Like other institutions in the financial sector, Prime Finance's profit was subdued in 2012. Contractionary monetary policy disabled even many corporate from making timely repayments. Only in the second half of the year, Prime Finance investments started showing positive signs. The year 2012 was a major test of sustainability for a majority of NBFIs including many banks. The real impact will be more evident when the financials of the entire banking and Financial Institutions

are released.

One important lesson that we have learnt is that profit and risk averse growth are not necessarily compatible. All along Prime Finance has been targeting high profit growth without giving much importance to risk elements and sustainability. A major share of Prime Finance has been historically coming from the Capital Market operations. With the slump in the Capital Market, investments are not giving adequate returns.

We have used 2012 as a lesson for good corporate governance, fine tuning of the risk averse techniques and above all to sacrifice profit for long term sustainable growth. All we are saying is that the worst is over.

OPERATIONAL EFFICIENCY

Towards increasing operational effectiveness and efficiency, Prime Finance has restructured its processes, procedures (and governance), people (talent management) and technology to work holistically to facilitate acquiring new business, loan applications, disbursements, collections, advisory and a host of other services in a seamless manner. We segregated Credit Administration from the Operations Dept to make our financial institution further compliant.

STRATEGIC DIRECTION

Our strategic direction encompasses the following: amassing high quality assets, continuous preservation of capital, ensuring sufficient liquidity of funds all times, talent management in line with capacity building and business expansion. At the same time, it is our endeavour to have the highest per capita investment and profitability in the sector in which we operate.

PROSPECTS

The continuing pressure of an ever changing global economic and financial conditions and

Message from the Managing Director - *continued*

stronger competition pose strong challenges for Prime Finance in achieving its targets. However we have identified the sectors and markets that will command priority in an effort to be more focused which will then eventually be translated into charting future sustainable growth.

We expect Bangladesh to record GDP growth above 6% in FY13. As a result, we anticipate loans growth will be strong, specially loan requirement from the ever growing SME sector. Competition will remain intense; as a result, net interest margins could still be under pressure as competition for loans and deposits becomes more challenging.

Although it will be a challenging year, we are committed to supporting our existing as well as potential customers and partners who are eager to participate in deposit and investment.

OUR HUMBLE SUBMISSION

Everything we are today, everything we stand for, and everything we achieved last year is a tribute to the commitment of our stakeholders. We are profoundly grateful for the dedication of all our staff and the loyalty of our customers, the trust of our partners and associates, and the support of Bangladesh Bank, the Securities Commission and the other regulatory authorities that have guided us over the years.

On a personal note, my heartfelt thanks to our Chairman and Board members for their support and guidance and for entrusting me to continue to lead the Prime Finance. Likewise, my thanks also to my fellow management colleagues for their support and commitment in steering the company forward.



Asad Khan
Managing Director



Financial Review, Segmental Analysis and Outlook

Financial Review, Segmental Analysis & Outlook (FRSAO) is provided to enable readers to assess Prime Finance's results of operations and financial condition for the year ended December 31, 2012, compared with prior years. The FRSAO should be read in conjunction with the audited consolidated and separate financial statements, which have been prepared in accordance with Bangladesh Financial Reporting Standards (BFRS). Unless otherwise indicated, all amounts in the FRSAO are expressed in Bangladeshi Taka. Certain comparative amounts have been reclassified to conform to the presentation adopted in the current year.

ECONOMIC OUTLOOK

Bangladesh has been experiencing a relatively moderate but sustained rate of growth in real GDP at around 5-percent and above for the last two decades. The most crucial macro economic challenge which Bangladesh is facing is that, it has to achieve the dual target of sustained rate of growth in real GDP on the one hand and of keeping the rates of inflation within a modest level on the other hand. Though the economy has performed reasonably in maintaining a stable level in rate of growth in GDP in recent times, the challenge of maintaining the rates of inflation within a modest level has become tough.

Manufacturing growth picked up slightly from 9.5 percent in FY 2011 to 9.8 percent in the FY 2012. This came entirely from a pick-up in small scale manufacturing from 5.8 percent in the FY 2011 to 7.2 percent in FY 2012.

Weaker growth in large scale manufacturing is attributable to a significant reduction in export growth. Bangladesh is likely to struggle to achieve the 15 percent official export growth targets because of weak demand in Europe and deteriorating efficiency of trade logistics infrastructure, slower growth in woven garments knitwear and leather, and declining export of frozen food and jute goods, underpinned the slower export growth so far.

The national savings rate has declined from 26 percent of GDP in the FY 2011 to 25.2 percent in FY 2012. This reflected a decline in both private and public savings rates. Private savings rate declines from 22.6 percent of GDP in FY 2011 to 22.1 percent in FY 2012, when public savings declined from 3.4 percent of GDP to 3.1 percent.

The financial sector has been somewhat stressed and bank stability has deteriorated in last six months. There are continued liquidity shortages in banking system evident from the Banks' persistence use of repo window of the Central bank. This has arisen from the need to pay petroleum imports and to facilitate the

Financial Review, Segmental Analysis & Outlook - *continued*

major increase in Government borrowing. In addition, the licensing of the new banks will add to competition for deposit.

CHALLENGES FOR 2012

Bangladesh's Economic outlook is subject to several short term risks:

- Further intensification of the EURO area crisis and stagnation of the US economy may deepen Bangladesh's export slump of the last six months;
- Escalation of global food prices may reverse the recent decline in food inflation;
- Increase in global Oil price will place the balance of payments under pressure again and shrink fiscal space;
- Banks are susceptible to credit and market risk and global economic vulnerabilities;
- Increased political instability and labor unrest may depress investment further;
- Uncertainty in Bangladesh's leading trade markets poses risks to accelerated growth;
- Energy shortage poses as much of a risk to growth as do global uncertainties;

Coordinated macroeconomic strategies and stabilizing along with rejuvenating structural reforms are needed to attain the expected growth rate.

FINANCIAL INDICATORS

- Shareholder's equity increased to Tk. 5,106.59 million as against Tk. 4,684.40 million of 2011;
- Consolidated net profit for this year is Tk. 300.19 million as against Tk. 772.81 million of 2011 representing 61.16 percent lessening over last year;
- Investment increased to Tk. 13,836.13 million from Tk. 12,827.06 million of the last year representing 7.87 percent growth.
- Deposit balance increased to Tk. 5,614.80 million from Tk. 4,315.61 million registering a growth of 30 percent over last year;

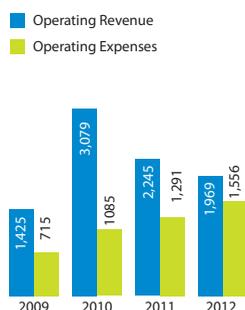
- Operating revenue decreased to TK.1,969.11 million from TK. 2,244.47 million of 2011.
- Market capitalization decreased to Tk. 7,459.72 million as against Tk. 15,985.11 million of 2011;
- Total loans, advances and leases increased to Tk.11,433.70 million as against 10,396.60 representing 9.98 percent growth compared to last year.
- Earnings per share decreased to Tk. 1.04 as against Tk. 2.96 (restated) of 2011 and
- Effective fund management to keep the cost of fund at reasonable level.

NON-FINANCIAL INFORMATION

- Overall winner in the SAFA Best Presented Accounts Awards in 2010 and SAFA Silver Award for consecutive fourth times till 2009;
- First runner ups in the "SAFA Best Presented Annual Report Awards 2011" and certificate of merit for "SAARC Anniversaries Awards for Corporate Governance Disclosures 2011";
- First prize of ICAB National Award for all the years in a row since its listing with stock exchanges from 2005 to 2009 and 2011 and Second prize in 2010;
- Remarkable verdict from Appellate Tribunal and various stages regarding tax exemption on capital gain (FY-2004 & 2006 to 2010)

FOCAL POINTS:

- Ensure quality investment;
- Improving the recovery position;
- Diversification;
- Maintaining profit growth;
- Lowering NPL rate;
- Reducing cost of fund;
- Professional tax management;
- Maintaining consistent dividend policy;
- Enriches own deposits funds;
- Ensuring compliance;
- Enhancing CSR ;



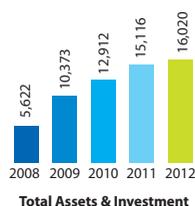
FINANCIAL HIGHLIGHTS

Revenue & Expenses

(Figures in million Taka) as at 31 December	2012	2011	% of increase/ (decrease)
Revenue from loans, advances and leases	1,951.05	1,830.53	6.58
Revenue from Capital Market activities	280.65	682.09	(58.85)
Income from associates	23.50	87.09	(73.01)
Total revenue	2,255.20	2,599.69	(13.25)
Financial expenses	1,327.49	1,006.61	31.88
Depreciation on lease assets	286.09	354.93	(19.39)
Management expenses	170.77	190.95	(10.57)
Provision for doubtful losses	57.77	93.01	(37.88)
Total expenses	1,842.12	1,645.49	11.95
Profit before tax	413.08	954.20	(56.70)
Provision for taxation	112.89	181.39	(37.76)
Net profit after tax	300.19	772.81	(61.16)

Assets and Investments

(Figures in million Taka)	2012	2011	% of increase/ (decrease)
Loans, advances and leases	11,433.70	10,396.60	9.98
Investment in securities	1,193.61	1,300.16	(8.20)
Equity investment	2,108.82	2,090.29	0.89
Fixed assets	327.62	327.67	(0.02)
Cash & cash equivalent and other assets	955.91	1,001.51	(4.55)
Total assets and investments	16,019.65	15,116.24	5.98



Shareholders' equity and liabilities

(Figures in million Taka)	2012	2011	% of increase/ (decrease)
Shareholders' equity	5,106.59	4,684.40	9.01
Deposits	5,614.80	4,315.61	30.10
Borrowings from banks and NBFIs	2,795.52	4,019.15	(30.44)
Provisions and others liabilities	2,502.75	2,097.08	19.34
Total shareholders' equity & liabilities	16,019.65	15,116.24	5.98

LOANS, ADVANCES AND LEASES

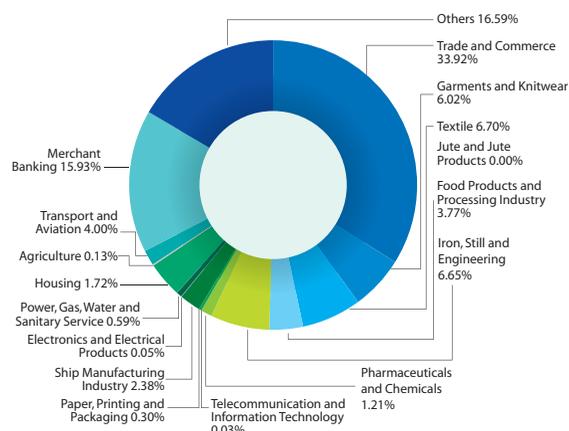
Total loans, advances and leases were Tk. 11,433.70 million at 31 December 2012 representing 9.98 percent higher than 2011 worth Tk. 10,396.60 million.

Outstanding balance (including advance against loans, advances and leases not yet executed) of different types of loans, advances and leases as on 31 December 2012 and 2011 is summarized as under:

(Figures in million Taka)	2012		2011	
	Amount	Percentage	Amount	Percentage
Lease finance	1,112.64	9.73	1,279.32	12.31
Term finance	6,762.94	59.15	5,943.32	57.17
Real estate finance	102.47	0.90	132.80	1.28
Margin loan (Net)	3,231.95	28.26	2,926.98	28.15
Other finance	223.70	1.96	114.18	1.10
Total	11,433.70	100.00	10,396.59	100.00

Despite many challenges in the economy during FY 2012, our main focus was given to ensure quality investment, improve recovery position, gradually cleaning up balance sheet rather than increase volume of investments. In 2012, total loans, advances and leases increased by 9.98 percent compared to FY 2011, mainly due to increase of term finance and other finance by 13.79 percent and 95.92 percent respectively. For the year 2012 margin loan has been given to beneficiary through our subsidiary. Term finance turned up as some new clients have been provided working capital finance. More and more endeavor was given to regularize the stuck up and slow moving loans, advances and leases. Some written off loans has already been realized. Management has always been trying to concentrate on adding quality investments in its portfolio rather achieving high target of business volume, keeping in mind our previous experiences.

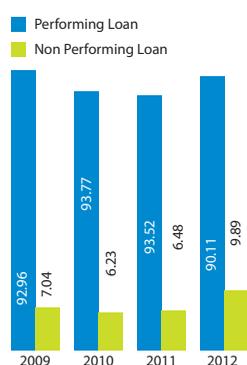
Diversification was the main strength of Prime Finance. Despite decrease of investment in lease finance, Prime Finance could achieve its investment target due to increase of margin loan and term finance significantly. Loans, advances and leases were also well diversified.



NON-PERFORMING LOANS, ADVANCES & LEASES (NPL)

Loans, advances & leases are classified as non-performing when it is booked as substandard category or worse even if there exists no reasonable doubts as to collectivity. The Company follows Bangladesh Bank guidelines for determining loans, advances and leases which should be placed on non-performing status. A loan or lease is placed on non-accrual status when it is classified as SMA. Interest income on non-accrual loans, advances and leases is credited to income when it is realized. Non-performing assets as of 31 December 2012 and 2011 were as follows (Consolidated):

(Figures in million Taka)	2012			2011		
	Outstanding amount	NPL	NPL (%)	Outstanding amount	NPL	NPL (%)
Lease finance	1,112.64	495.02	44.49	1,279.32	441.72	34.53
Term finance	6,762.94	455.87	6.74	5,943.32	88.34	1.49
Real estate finance	102.47	2.44	2.38	132.80	4.35	3.27
Margin loan	3,231.95	-	-	2,926.98	-	-
Other finance	223.70	11.52	5.15	114.18	29.66	25.98
Total	11,433.70	964.85	8.44	10,396.60	564.07	5.43



Non-performing loans, advances and leases increased to Tk. 964.85 million in the year 2012 compare to Tk. 564.07 million of 2011 reflecting an increase of 71.05 percent over previous year. Non-performing loans, advances and leases increased, because of overall economic downturn and in addition to that,

management was very strict as to follow guideline for rescheduling or restructuring of classified accounts, some accounts which were previously classified as SMA have been entered into the list of classification by central bank, some accounts which have been rescheduled in the previous years also added in the list of classified loans, advances and leases this year, back in mind the company always follow conservatism principle during classification and above all the recovery environment of the country was not very satisfactory. In FY 2012 Non-performing loans (NPL) rate is 9.89 percent (separate) and 8.44 percent for consolidated loans and advances.

During the year, the Company has written off Tk. 27.81 million as loans, advances and leases. Besides this the

Financial Review, Segmental Analysis & Outlook - *continued*

Company recovered Tk. 53.91 million from write-off loans, advances and leases and part of which is recognized as income for the period under reporting. Company's continuous endeavor is deployed to recover such loans. As on 31 December 2012 cumulative balance of write off loans, advances and leases was Tk. 356.71 million as compared to Tk. 328.90 million of 2011. However, as a part of cleaning up of balance sheet of the company, the management considered writing off some stuck up loans, advances and leases, that the management expects to execute in the year 2013. As written off loans, advances and

leases has been charged previous year into profit and loss statement, any proceed that will be recovered from write-off loans, advances and leases, will be shown as income under cash receipt basis unless otherwise disclosed in the report.

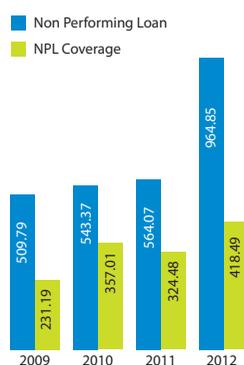
Coverage/reserve against non-performing loans, advances and leases

The following table summarizes the allocation of the provision and interest suspense against loans, advances and leases for 2012 and 2011 (in million taka)

Particulars	2012					2011				
	Provision for NPL	Interest Suspense	Total	NPL	% NPL	Provision for NPL	Interest Suspense	Total	NPL	% NPL
Lease finance	191.82	89.23	281.05	495.02	56.78	209.11	85.17	294.29	441.72	66.62
Term finance	73.79	58.46	132.25	455.87	29.01	14.96	10.33	25.02	88.34	8.32
Real estate finance	0.17	0.40	0.57	2.44	23.36	3.38	0.97	4.35	4.35	100
Margin loan(Net)	-	-	-	-	-	-	-	-	-	-
Loan against term deposit	-	-	-	-	-	-	-	-	-	-
HP finance	3.64	0.98	4.62	11.52	40.10	0.78	0.04	0.82	2.77	2.77
Total	269.42	149.07	418.49	964.85	43.37	227.96	96.52	324.48	564.07	57.52

The provision for doubtful losses increases by charging to profit, and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the adequacy of the allowances is based on the companies past loss experience, known and inherent risk in the portfolio, adverse situations that may affect the clients' ability to repay and current economic conditions.

We follow Bangladesh Bank guidelines strictly for making interest suspense and provisioning against loans, advances and leases. Interest amount is transferred to interest suspense account rather showing as income in the Profit & Loss Account when a loan/lease is classified as SMA and above. Base for provision is made after deducting interest suspense, value of eligible security from outstanding amount of a particular loan, advance and lease. Rate of provision for loans, advances and leases classified as Sub-standard,



Doubtful and Bad & Loss is 20%, 50%, and 100% respectively on base for provision amount.

Coverage ratio of loans advances and leases decreased slightly. As on 31 December 2012 coverage was 43.37 percent compared to 57.52 percent of 2011. We believe coverage is satisfactory as the company maintain adequate provision as per guidelines of Bangladesh Bank. While making provision we considered eligible security against the clients which will give comfort to the company other than on balance sheet coverage.

We take different measures to realize the classified/stuck-up loans, advances and leases. Among others we initiated legal action against the classified accounts. As at 31 December 2012 there were some lawsuits pending against classified loans and advances and our lawyer expects that in most of the cases we will win ultimately.

PROPERTY, PLANT AND EQUIPMENT

The Company purchased a piece of land measuring 15 kathas at Panthapath, Kawran Bazar, Dhaka, adjacent to Basundhara Shopping Mall in the year 2009. The Company has a plan to build its corporate office over there. The book value of the land was Tk. 305.15 million at the end of 2012.

LIQUIDITY STATEMENT

Loans, advances and leases

(Figures in million Taka)	Up to 1 month	1-3 months	3-12 months	1-5 years	Above 5 years	Total
Lease finance	-	116.89	297.54	499.44	148.77	1,062.64
Advance against lease finance	-	-	-	-	50	50
Term finance	67.63	270.52	1,690.73	4,734.06	-	6,762.94
Margin loan	436.31	1,308.94	969.59	-	517.11	3,231.95
Real estate finance	0.61	8.02	21.31	67.39	5.12	102.47
Housing finance	0.02	0.35	0.37	2.04	0.93	3.71
Loan against deposits	-	38.21	45.85	68.77	-	152.83
Hire purchase finance	0.12	0.69	2.3	7.48	0.92	11.5
Staff loan	9.46	13.92	13.92	2.23	16.14	55.66
Total	514.16	1,757.53	3,041.61	5,381.41	738.99	11,433.70

Borrowings from Bangladesh Bank, other banks, financial institutions and agents

(Figures in million Taka)	Up to 1 month	1-3 months	3-12 months	1-5 years	Above 5 years	Total
Bank Loan	18	36	485.95	755.92	503.94	1,799.80
ADB Fund	-	0.27	7.99	25.57	19.44	53.26
Fund from Bangladesh bank	-	-	0.26	2.69	2.23	5.18
Short term loan	10.31	23.43	46.86	575.49	281.18	937.28
Total	28.31	59.69	541.06	1,359.66	806.80	2,795.52

Maturity of assets and liabilities has been determined as per agreement with the parties concerned for assets and liabilities. Where there is no agreement, management considered its previous experience, nature of assets and liabilities, judgment of preparing the maturity analysis. Management always maintains long-term and short-term strategy to address the probable liquidity gap properly.

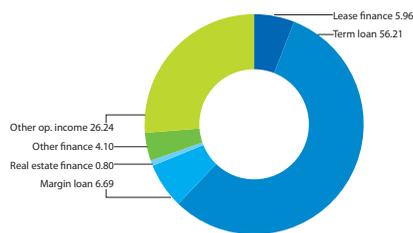
Liquidity is monitored daily to ensure the company's ability to support investment growth, deposit encashment, meet contractual obligations, maintain reserve requirements and otherwise sustain

operations. Prime Finance maintains its liquidity in the form of readily encashable deposits with banks, collection of rentals/installments and investment in listed securities. On the other hand, the company based on its net assets can borrow very significant amount in the form of money at call and short notice, which is another point of comfort as far as fund management is concerned. Present limit of borrowing as money at call and short notice is Tk. 987.37 million based on latest net asset report submitted to Bangladesh Bank. Management, however, believes that the company's present position is adequate to meet its current and future liquidity requirements.

REVENUE FROM LOANS, ADVANCES AND LEASES

The following table shows revenues from loans, advances and leases.

(Figures in million Taka)	2012		2011	
	Amount	%	Amount	%
Income from lease finance	117.32	5.96	499.94	27.31
Income from term loan	1,106.91	56.21	671.17	36.67
Income from margin loan	131.65	6.69	473.51	25.87
Income from real estate finance	15.83	0.8	16.82	0.92
Income from other finance	80.76	4.1	1.93	0.11
Other operational income	516.64	26.24	167.16	9.12
Total	1,969.12	100	1830.53	100.00



A substantial portion of Company's revenue is generated from loans, advances and leases like lease

finance, term finance, margin loan, real estate finance, SME finance. Earnings from loans, advances and leases represent 73.76 percent of total revenue earned by the Company during 2012 (2011: 70.41 percent). Income from loans, advances and leases increased by 7.57 percent i.e. Tk. 138.61 million in 2012 compared with

2011. This increase resulted from mainly increased income from term loan and income from margin loan.

Income from margin loan, which is a capital market related product, has decreased by TK. 341.86 compared to last year. The reason was mainly due to the unfavorable capital market of the country.

CAPITAL MARKET OPERATIONS AND EQUITY INVESTMENT

The country's capital market witnessed a rather disappointing year in 2012. Because of market instability we focused on the core business rather than investing more in capital market.

The following table shows size of capital market operations and equity investment by the Company:

(Figures in million Taka)	2012		2011	
	Amount	%	Amount	%
Listed companies	914.68	27.69	977.69	28.84
Unlisted companies	278.92	8.45	322.47	9.51
Associate companies	2,108.82	63.86	2,090.29	61.65
Total	3,302.42	100.00	3,390.46	100

INVESTMENT IN SHARES OF LISTED COMPANIES

Investment in listed securities was Tk. 914.68 million compare to Tk. 977.69 million of 2011 which represents a marginal decrease of 6.44 percent as Bangladesh Bank gave restriction to the banks and NBFIs to take part aggressively in the share markets. Accordingly the management is trying to decrease the exposure in listed shares & securities.

We believe we could get benefit out of the strategy we fixed at the beginning. The market conditions that we anticipate should, however, provide a favorable climate in which to continue growing our business with strong fundamentals. The existing performance underpins the believe, that we can continue to maximize shareholders value in future.

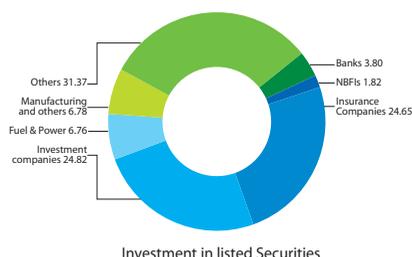
(Figures in million Taka)	2012		2011	
	Amount	%	Amount	%
Banks	45.46	3.8	71.41	5.49
NBFIs	21.75	1.82	58.13	4.47
Insurance companies	294.38	24.65	209.4	16.11
Investment companies	296.15	24.82	293.68	22.59
Fuel and power	80.58	6.76	110.6	8.51
Manufacturing companies and others	80.94	6.78	264	20.31
Other	374.34	31.37	292.94	22.53
Total	1,193.60	100	1,300.16	100

SECTOR-WISE INVESTMENT IN SECURITIES available for sale as at 31 December 2012, and 2011 at cost was as under:

Prime Finance invested in the shares diversifying its investment in different sectors with highest investment exposure in investment companies representing 24.82 percent, and insurance companies

represents 24.65 percents followed by manufacturing and others sector 6.78 percent, fuel and power 6.76 percent, banking sector 3.80 percent, and NBFIs 1.82 percent etc. Prime Finance is exposed to market risk since the Bangladesh capital market is volatile. The company minimizes the risk through diversification and investing mostly in fundamentally strong securities. The fair value of the securities available for

Financial Review, Segmental Analysis & Outlook - *continued*



Investment in listed Securities

sale at 31 December 2012 was Tk. 556.44 million. There was no requirement for provision for listed securities considering the net value as per Bangladesh Bank

Circular number Bangladesh Bank DFIM Circular number 02 dated 31 January 2012.

Provision for future losses on investment in shares & securities

Prime Finance follows guideline of Bangladesh Bank for making provision against probable future losses on investment in shares. As per Bangladesh Bank guidelines, no provision is required for listed securities as the net value of securities considering the market price and cost price is positive (Bangladesh Bank DFIM Circular number 02 dated 31 January 2012).

Name of the security	Nature of shares	2012	2011
CDBL	Ordinary	4.42	4.42
Confidence Salt Industries	Preference	15.00	15.00
Fareast Stock and Bond	Other	-	150
Prime Financial 1st unit fund	Unit fund	30.00	30.00
Bengal Windsor Limited	Ordinary	-	10.00
BD Welding Limited	Ordinary	-	0.29
Northern Power Solution Limited	Ordinary	-	5.00
United (Airways) BD Limite	Ordinary	-	99.50
Lafarge Surma Cement Limited	Ordinary	-	3.27
Bengal Meat Processing Cement Ltd	Ordinary	-	5.00
Investment in PFI 2nd Mutual Fund	Mutual Fund	200.00	-
Lanka Bangla Securities Ltd	Placement Share	5.00	-
Annada Shipyard	Placement Share	15.00	-
PFI Properties Limited	Ordinary	9.5	-
Total		278.92	322.48

Investment in unlisted securities has been recorded at cost and no provision was maintained against the investment.

INVESTMENT IN ASSOCIATES AND SUBSIDIARY COMPANY

Prime Finance is leading and large financial group of companies (Prime Financial Group). As guided by the Bangladesh Securities and Exchange Commission (BSEC), for separating the merchant banking operation, Prime Finance formed a subsidiary Company in the name and style of Prime Finance Capital Management Limited. Out of total paid up capital of Tk. 1,600 million

Prime Finance holds 60 percent, i.e. is Tk. 960 million. The Company was incorporated on 18 March 2010 reference incorporation no. C-83293/10 but started its operation from 01 January 2011. A consolidated financial statement has been presented with consolidation of operation of the Company as well as a separate financial statement has been given in the last part of this Annual Report. Moreover, the financial statements other than notes to the financial statements of all the associates are also been attached in the last part of this Annual Report. The list of the companies are listed below:

Name of the associates	Nature of the business	Nature of Shares	Amount Holding	% of share	Face Value	Book Value
PFI Securities Limited	Stock broker & dealer	Ordinary	1,102.16	46.15	10	13.72
Prime Finance Asset Management Co. Ltd.	Asset management	Ordinary	32.45	49	100	110.47
Prime Prudential Fund Ltd.	Investment in securities, debentures, bonds etc.	Ordinary	14.20	40	10	6.5
Prime Finance Capital Management Ltd.	Merchant banking	Ordinary	960.00	60	10	16.34
Total			2,108.82			

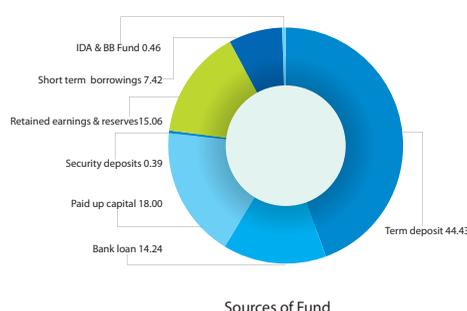
Public issue of shares

We assist corporate clients in meeting their financial needs and advising them on the most advantageous means of raising capital. We manage or co-manage public offerings of shares or arrange private placement

of shares with institutional or individual investors. In addition, we provide consulting services, including mergers and acquisitions and advising clients with respect to financing plans and related matters. During the year we earned Tk. 6.25 million as fees under this head as against Tk. 30.35 million of 2011.

Income from Capital Market Operation

(Figures in million Taka)	2012		2011	
	Amount	%	Amount	%
Capital gain from sale of listed securities	152.86	88.98	480.15	97.46
Dividend income	17.45	10.17	10.97	2.23
Other fees and charges	1.47	0.85	1.52	0.31
	171.78	100	492.64	100



Income from capital market comprises of income from capital gain on sale of securities, dividend income,

issue management fee, underwriting commission, portfolio management fee, income from associate companies, advisory services fee and others.

During 2012, total income from capital market operation was Tk. 171.78 million, which was Tk. 492.64 million in 2011. Income from capital market decreased due to unfavorable capital market through out the year, proper investment decision and diversified capital market services.

The Company maintains its own portfolio with a substantial amount of investment in listed securities and earned a total income of Tk. 117.78 million in the form of dividend and gain from sale of securities compare with Tk. 492.64 million in 2011.

Income from Associate Companies

(Figures in million Taka)	2012		2011	
	Amount	%	Amount	%
PFI Securities Limited	27.59	117.40	117.02	134.38
Prime Finance Asset Management Co. Ltd.	0.78	3.31	0.08	0.09
Prime Prudential Fund Ltd.	(4.86)	(20.69)	(13.37)	(15.35)
PFI Properties	-	-	(16.65)	(19.12)
	23.50	100.00	87.08	100.00

Under equity method Prime Finance recorded proportionate income on the basis of holding of associate companies into the books of accounts. During the year 2012, Prime Finance earned income from its associate companies TK. 23.50 million where in 2011 it was Tk. 87.08 million representing reduction of 73.23 percent. Return from associates company resulted from proportionate income booked from PFI Securities Limited, a 46.15 percent owned associate company of Prime Finance and Prime Finance Asset Management Co. Ltd, a 49 percent holding company

by Prime Finance. During the year PFI Properties has been divested by Prime Finance and delisted from associate companies.

SHAREHOLDERS' EQUITY AND CAPITAL

Capital maintenance

Strong earnings, controlled growth in investments, active balance sheet management and timely raising of capital have all contributed to our strong capital

position. In our ongoing capital management decisions, we consider a variety of factors, including expectations of investors, and rating agencies like lending institutions, requirement of our regulators and our capital position relative to our peers.

Maintaining high debt ratings is very important to us, and we believe we are well capitalized to underpin our risks and execute our business strategies while maintaining this rating. We have consistently strong internal capital generation capabilities. Our capital management plans allow us to respond to opportunities and absorb unexpected shocks.

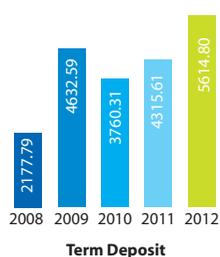
As at 31 December 2012, total shareholders' equity stood at Tk. 5,106.59 million (2011: Tk. 4,684.40 million).

The company is subject to maintenance of minimum capital required by Bangladesh Bank. Every year the Company is in compliance with the capital adequacy requirements from the inception. As at 31 December 2012, the Company's paid up capital was Tk. 2,274.30 million which is Tk. 649.80 million higher than previous year. The regulatory required level is Tk. 1,000 million.

Borrowings from other banks and financial institutions

As at 31 December 2012, total outstanding loan from banks was Tk. 1,799.79 million compared to Tk. 2,729.67 million in 2011. Interest on bank loans is paid monthly or quarterly as per terms of the loan. During the year 2012, a total amount of Tk. 1,585.17 million was repaid. In addition, interest amounting to Tk. 497.75 million was also paid.

Prime Finance has been enjoying credit facility from Bangladesh Bank under CBSF program co-sponsored by IDA and Bangladesh Bank, availed fund from Bangladesh Bank under refinancing scheme for financing in SME, women entrepreneurs and agro-based industries, received ADB fund under refinancing scheme through RPGCL, etc.



We continued our drive to expand our funding sources to cope up with increasing needs of fund for operational purpose. To ensure proper shaping of asset-liability, management has given emphasize on long-term source of funding. During the year 2012, Tk. 5,241.17 million has been received as term deposits from various sources such as banks, insurance companies, other organizations

as well as individuals compared with Tk. 4,294.56 million in 2011. As at 31 December 2012, total outstanding amount of term deposit was Tk. 5,614.79 million compared with Tk. 4,315.61 million in 2011. Interest amounting to Tk. 670.17 million was paid on term deposits during the year under reporting as against Tk. 494.22 million in 2011.

CASH FLOW ANALYSIS

A considerable portion of our total assets representing 6.15 percent is liquid in nature and consists mainly of cash and balance with various banks and financial institutions. The highly liquid nature of our assets provides us with flexibility in financing and managing our anticipated operating needs.

The company's asset and liability management policy is intended to manage interest rate risk. Prime Finance accomplishes this through management of the re-pricing of its interest earning assets and interest-bearing liabilities, though in some cases it is difficult to re-price the loans, advances and leases.

During the year under review the company had a total cash and cash equivalent of Tk. 947.51 million (separate). Cash and cash equivalent is maintained to meet the requirement of CRR and SLR as guided by the Bangladesh Bank.

CASH FLOW

Cash flow from operating activities

The major component of cash flow is the cash flow from operating activities. During the year 2012, net cash generated from operating activities is Tk. 181.48 million which was Tk. 15.06 million during the previous year.

Cash flow from investing activities

Net cash outflows from investing activities of Tk. 111.30 million was mainly due to net investment in securities, investment in newly formed subsidiary as well as acquisition of property, plant and equipment, investment in PFI securities Ltd, participation in the same of Prime Finance Asset Management Company Limited. These all are part of our endeavor taken towards continuous diversification strategy.

Cash flow from financing activities

Main cash flow from financing activities is from dividend payment from Prime Finance Capital Management Limited. However, other traditional financing activities such as received of deposits, borrowings and repayments of such liability was classified as operating activities as those are also main part of the company's operation.

OPERATING EXPENSES

Interest and other operating expenses

Interest paid on deposits, borrowing, etc comprises interest expenses for loans, deposits taken from different commercial banks, individuals, institutions, call loan, and security deposits etc. Interest expenses consist of 72 percent of total expenses (2011: 61.17 percent). Interest expenses in 2012 increased by 31.88 percent compared to that in the year 2011 mainly due to high cost bearing deposit collection, borrowing from banks and financial institutions. Financial

expenses were 67 percent of total operating revenue of 2012.

Management expenses include salaries and allowances, office maintenance, depreciation on fixed assets, legal and professional fee etc. Details of the expenses are given in the 'Notes to the Financial Statements of this Annual Report'. Management expenses decreased by 10.57 percent in 2012 amounting Tk. 170.77 million (2011: Tk. 190.95 million). During 2012, management expense was 8.67 percent of total revenue (2011: 8.50 percent).

(Figures in million Taka)			
For the year ended 31 December	2012	2011	% of increase/ (decrease)
Financial expenses	1,327.49	1,006.61	31.88
Depreciation on Lease assets	286.09	354.93	(19.39)
Management expenses	170.77	190.95	(10.57)
Provision for doubtful losses	57.77	93.01	(37.88)
Total expenses	1,842.12	1,645.49	11.97

Provision for doubtful losses has been made as per guidelines of Bangladesh Bank. During the year total provision of Tk. 57.77 million has been made. In 2011, the amount under the same head was Tk. 93.01 million.

Risk factors

Set out below are certain risk factors, which could affect the Company's future results; the Company's results are also affected by competition and other factors. The factors discussed below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties.

Company's business and earnings are affected by general business and political conditions

The performance of Prime Finance is influenced by economic conditions. Downturn in economies could result in a general reduction in business activity and a consequent loss of income of the Company. It could also cause a slow recovery of investments. Political conditions can also affect Company's earnings.

The financial performance of the Company is affected by borrowers' credit quality

Risks arising from changes in credit quality and the recoverability of loans/leases are inherent in a wide range of Company's business. Adverse change in credit quality of Company's borrowers or a general deterioration in Bangladesh and even global economic conditions, or events arising from systematic risks in

the financial systems could affect the recoverability and value of Company's assets. This would require an increase in the provision for doubtful losses.

Changes in interest rates and other market factors affect the company's business

Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realized between lending and borrowing costs. The performance of financial markets and monetary policy of Bangladesh Bank may cause changes in the value of Company's investments and portfolios. Prime Finance has implemented risk management methods to mitigate and control these and other market risks to which the Company is exposed. However, it is difficult to predict with accuracy, the changes in economic and market conditions and to anticipate the effects that such changes could have on the company's financial performance and business operations.

Operational risks are inherent in the Company's business

The Company's businesses are dependent on the ability to process a very large number of transactions efficiently and accurately. Operational losses can result from fraud, errors by employees, failure to document transaction properly, failure to comply with regulatory requirements and code of business conduct. Although, Prime Finance has implemented risk controls and loss mitigation actions and substantial resources are devoted to developing

efficient procedures and to staff training. It is only possible to be reasonably, but not absolutely, certain that such procedures will be effective in controlling each of the operational risks faced by Prime Finance.

Each of the Company's business is subject to substantial regulation and regulatory overseeing

The Company is subject to Financial Institutions Act, laws, regulations and administrative actions of Bangladesh Bank and Bangladesh Securities and Exchange Commission. This supervision and regulation, if changed could materially affect Company's business, the products and services offered or the value of assets.

Future growth of the Company's earnings and shareholders' value depend on strategic decisions

The Company devotes substantial management and planning resources to the development of strategic plans for organic growth. If these strategic plans do not meet with success, the Company's earnings could grow more slowly or decline.

The risk of litigation is inherent in the Company's operation

In the ordinary course of the Company's business, legal actions, claims by and against (in rare cases) Prime Finance arise; the outcome of such legal proceedings could affect the financial performance of the Company.

The Company is exposed to the risk of changes in tax legislation and its interpretation. The Company's activities are subject to tax at various rates. Action by government to withdraw any tax benefit or impose additional taxes would affect the profitability of the

Company. Revisions to tax legislation or its interpretation might also affect Company's results in future.

COMPETITION

Prime Finance faces intense competition in all the markets it serves. Its principal competitors are the other non-banking financial institutions, local and foreign commercial banks, and merchant banks operating in Bangladesh. Competition in merchant banking activities has intensified further as banks have increased their focus on competing for affluent and high net worth customers.

A detailed separate report named 'Risk Management Report' highlighting all types of possible risks and our endeavour to manage those risks is included as part of this Annual Report.

HUMAN RESOURCES

Talent attraction and retention remain our key areas of focus. Our compensation programmes remain market-driven and are designed towards rewarding our employees through increasingly incentive compensation programmes. In line with our objective of increasing share ownership among employees, we introduced among others employee Provident Fund, Gratuity, mobile facility, retirement benefit, hospitalization benefit, maternity benefit, lunch facility, performance bonus, leave fare assistance, home loan facility, furniture allowance, transport facility and so on. As on 31 December 2012, Prime Finance employed employees are 74 including 18 support staffs. Management considers relations amongst its employees to be satisfactory. The list of senior executive officers of Prime Finance is given below:

Name	Age on 31-Dec-12	Executive officer since	Present Position
Asad Khan	60	June 2011	Managing Director
Md. Ahsan Kabir Khan MBA	44	January 1998	Deputy Managing Director
A. K. M. Nozmul Haque M.Sc, M.A. (USA)	69	January 2006	Head of R&D
Md. Rezaul Haque MBA	41	July 1996	EVP & Head of Operations Division
Gazi Nilufar Yeasmin MBA	39	May 2009	Vice President & Head of CRM
Gulshan Ara Hafiz MBM	34	April 2002	AVP & Head of Business & SME
Ahsanullah M Dewan MIT(Australia)	30	May 2011	AVP & Head of IT
R M Nasrullah Zaidi MBA	34	November 2011	AVP & Head of HRM & Admin
Lingkon Mondol ACA	28	December 2011	AVP & CFO(CC)
Syed Moniruzzaman ACS	34	March 2012	AVP & Company Secretary
Farhana Mahejabin ACA	28	April 2011	AVP (Finance & Accounts)

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Md. Kamrul Islam Ratan MBA	35	May 1999	Senior Manager
Mohammad Zaved Lakiyet MBA	38	March 2002	Senior Manager
Mohammed Faruque M.Com	38	November 2005	Senior Manager
Mohammad Yeamin Kabir	34	June 2003	Senior Manager
Humayun Rashid MBA	38	April 2007	Senior Manager
Tarana Yasmin MBA	31	February 2006	Senior Manager
Md. Faqrul Islam Majumder MBA	32	September 2005	Senior Manager
Feroz Iftekhhar ACA	31	January 2012	Senior Manager

OPERATIONAL HUB

Our executive office and primary operations are located in approximately 12,300 square feet of leased space in a commercial building located at 63 Dilkusha Commercial Area, Dhaka. Our 2 branch offices are leased having 1,800 square feet of space at 38 Agrabad, Chittagong and 2,000 square feet of floor space at Zodiac Palace, 88 Shaheb Bazar, Rajshahi. We conduct our securities trading activities through our associate company, PFI Securities Ltd. from our office at Dilkusha, Dhaka.

Prime Finance's ordinary shares are traded on the Dhaka Stock Exchange Ltd. (DSE) and Chittagong Stock Exchange Ltd. (CSE) under the symbol of 'Primefin'.

ANNUAL REPORT AND OTHER IMPORTANT DOCUMENTS AVAILABLE IN WEBSITE

Prime Finance makes its Annual Report, prepared and presented on the basis of disclosure requirements by the regulatory authorities, available on its website at www.primefinancebd.com as soon as reasonably practicable after furnishing them to the Bangladesh Bank, Bangladesh Securities and Exchange Commission (BSEC), Dhaka Stock Exchange Ltd. (DSE) and Chittagong Stock Exchange Ltd. (CSE). Prime Finance's corporate governance guidelines, code of ethics and business conduct for employees, charter of the Board and its Committees are also available on the website.

OUTLOOK

As we look to the horizon, it appears that 2013 will undoubtedly be fraught with many of the same hazards we faced in 2012. Two factors, in particular, will continue to test our focus and acuity: the impact of economic factors on our portfolio credit performance and uncertainty about timing in the unstable capital market.

Entering into 2013, we find that economic indicators have deteriorated further - extreme unrest in the capital market, lower imports and exports, minimal implementation of ADP, low investors' confidence, tight money market situation, shortage of fuel and power and many more. Many regional economies are under even greater stress than ours. Our dedicated team remains focused on providing the highest level of customer services while seeking to maximize the overall performance of our portfolio.

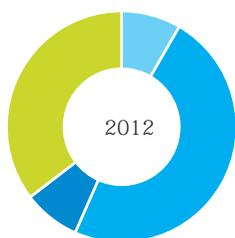
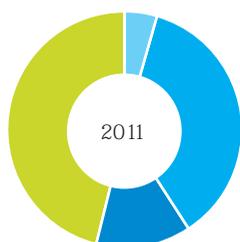
WEBSITE REFERENCE

Information contained in or otherwise accessible through the website mentioned in this document does not form a part of this document. All references in this document to website are inactive textual references and are for your information only.

Value Added Statement

The value added statement provides a detailed account of total value addition and the distribution of the value created by the organization. Prime Finance contributes positively to socio-economic development by empowering employees through the payment of

salaries and allowances; by paying attractive and consistent dividend to the providers of capital; by assisting the regulatory capacities through paying taxes and of course keeping in mind company's continuous expansion and growth.



- To government
- To shareholders
- To employees
- For expansion & growth

Figures in BDT	2012		2011	
	Amount	%	Amount	%
Value added				
Net interest income	124,990,614	30.26	306,628,795	32.13
Fees earned including VAT	110,334,181	26.71	190,966,083	20.01
Investment income	170,315,422	41.23	491,119,530	51.47
Other income	235,982,836	57.13	249,442,571	26.14
Mangement expenses	(170,768,923)	(41.34)	(190,945,617)	(20.01)
Provision for doubtful losses	(57,773,320)	(13.99)	(93,010,489)	(9.75)
Total value added by the company	413,080,810	100.00	954,200,873	100.00

Value added contributed to-

Employees:

As salaries and allowances	118,048,962	28.58	126,510,485	13.26
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Provider of capital:

Dividend to shareholders	682,291,209	165.17	649,801,152	68.10
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Government:

Corporate tax	112,890,583	27.33	181,388,330	19.01
Value added tax (VAT)	-	-	-	-

To expansion and growth:

Retained income	(508,517,426)	(123.10)	(10,721,124)	(1.12)
Depreciation	8,367,482	2.03	7,222,030	0.76
Total distribution	413,080,810	100.00	954,200,873	100.00

Market Value Added Statement



- Market value of shares
- Book value of shares
- Market value added

Unlike EVA, which measures internal performance, market value added (MVA) is a measure of external performance that indicate how the market has evaluated the company's performance in terms of market value of shares compared to book value of

shares. MVA is the difference between the market value of equity of a company and the book value of equity invested in the company. A positive MVA indicates that the company could add value to shareholders wealth. The following statement indicates the MVA at the year ended on 31 December 2012 and 2011 (in million Taka):

(in million Taka)	2012	2011
Market value of shares outstanding	7,459.72	15,985.11
Book value of shares outstanding	5,106.59	4,684.40
Market value Added	2,353.13	11,300.71

Economic Value Added

Economic value added (EVA) is the financial performance measure that attempts to measure the true economic profit of an organization. It provides a measurement of a company's economic success (or failure) over a period of time. Such a metric is useful for investors who wish to determine how well a company has added value for its investors and it can be compared against company's peers for a quick analysis of how well the company is operating in its industry. Economic value added is calculated by taking a company's net profit after tax, adding with it, the amount of provision charged against profit to absorb the losses inherent in the investments. EVA is calculated as under:

$$\text{EVA} = (\text{NPAT} - \text{Cost of average equity})$$

NPAT

NPAT is the net profit after tax plus the provision for doubtful losses charged against profit.

Equity

Shareholders' equity is the total amount of equity at the year end plus accumulated provision charged against profit for doubtful losses.

Cost of equity

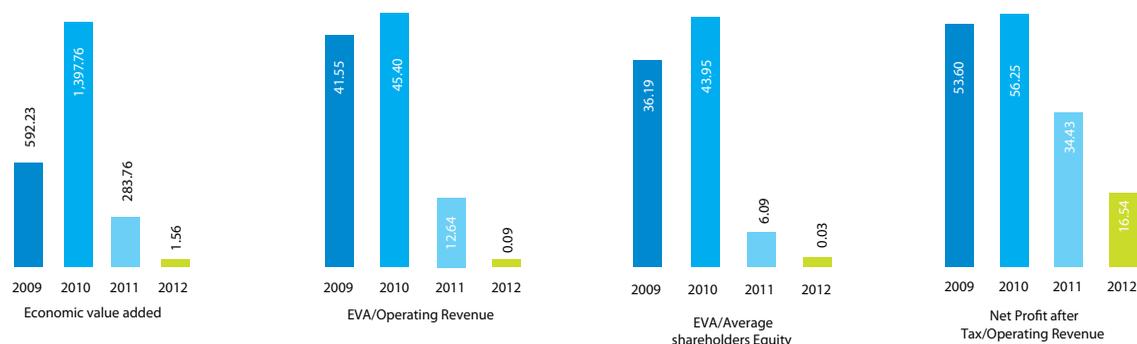
It is the opportunity cost i.e. the expected risk free return on investments, plus a risk premium. Interest on Bangladesh Government Sanchaya Patra plus risk premium has been assumed to be the cost of equity.

The following table indicates the EVA for the years from 2009 to 2012:

For the year ended	2012	2011	2010	2009
Shareholders' equity	5,106,587,219	4,684,396,992	3,893,584,449	1,826,389,977
Accumulated provision for doubtful losses	395,426,500	362,300,000	375,000,000	265,000,000
Average shareholders' equity	5,214,355,355	4,657,640,720	3,179,987,213	1,636,350,785
Cost of equity (%)	9.00	10.50	10.50	10.50
Economic value added	1,562,148	283,760,267	1,397,760,215	592,230,374
NPAT (before BB provision)	470,854,130	772,812,543	1,731,658,872	764,047,206
Less: Cost of equity	469,291,982	489,052,276	333,898,657	171,816,832

Key ratios

EVA/Operating revenue (%)	0.09	12.64	45.40	41.55
EVA/Average shareholders' equity (%)	0.03	6.09	43.95	36.19
Net profit after tax/Operating revenue (%)	16.54	34.43	56.25	53.60





Report on Human Resources

“Unless, not fully sentient with the significant role of the HR; An organization cannot attain evolution through its human capital”

One of Prime Finance’s principal strength is the quality and dedication of its employees and their shared sense of being part of a team. Their diverse vantage points and unique abilities create a broad range of skills and knowledge that underpin Company’s work. In order for Prime Finance to continue its steady growth, it is essential that it retains key employees and provides an attractive opportunity for new personnel.

A great part of success in the financial services industry depends, more than anything else on the know-how, experience, talent and commitment of a Company’s human capital. For Prime Finance to continue to succeed, the Company must be able to attract, develop and retain highly qualified people. Prime Finance’s employees should be able to benefit from its strong business principles, its fast-moving and entrepreneurial spirit and the broad opportunity for individual and team success.

Prime Finance places great emphasis on keeping employees informed about the Company’s vision, strategy and focus. Moreover, the Company provides regular communication to its employees with information regarding current-news of events and achievements.

HUMAN RESOURCE STRATEGY

- Attract qualified personnel by creating a motivated workplace;
- Retain competent employees by creating a superior workplace;
- Provide new employees with appropriate training from the outset;
- Encourage employees to maintain professional skills and give them the opportunity to develop and grow;
- Ensure maximum employees success -

empower the individual, provide an opportunity to show initiative and command independent initiative;

- Maintain a spirit of ambition, efficient decision-making, flexibility and quick responses to changes;
- Create a strong management team;
- Sustain an environment that supports a balance between work and life;
- Ensure equal opportunities, with regard to employment, work facilities, assignments, training, job development and salaries;
- Align the interests of employees with the interests of the organization.

STAFFING

Prime Finance comprises a league of enterprising women and men who are distinguished by their initiative, diligence, imagination, and ambition. The Company’s work is driven by a sense of teamwork and solidarity that transcends Company’s hierarchy. The people of Prime Finance are part of a culture of integrity and leadership, which they have an active role in creating. They form a community in which people’s potential and talents are cultivated with the aim of establishing lifelong careers. High quality employees are trained and fostered, with the goal of developing tomorrow’s leaders.

A career with Prime Finance demands a high level of diligence and dedication. The work of the Company requires individuals of unique ability and to this end great efforts have been made in assembling company’s current group of employees.

Prime Finance consistently seeks to recruit who can strengthen this diversity, but still support its corporate culture. Likewise, as the Company has grown and expanded its operations, the number of applications from highly qualified people has increased indicating interest from people who are attracted by Company’s distinct position and ideology.

Prime Finance believes that having a broad range of age and experience in its workforce helps the Company meet the varied needs of its clients. This is reflected in the structure of the workforce. 85 percent of the Company's employee population is in the 21-40 age range, with the average age of Prime Finance employee being 35 years.

Prime Finance places a special emphasis on ensuring that new positions are filled by the most accomplished candidates, in terms of their education, experience and ability.

Prime Finance's recruitment strategy is based on attracting highly qualified candidates through employee networks, selective head-hunting and advertisement. Management Committee is responsible to ensure the recruitment of diverse talent. The Human Resource Department is an important partner in achieving this.

SMART & BEST HR PRACTICES

We ensure one of the best HR practices in our organization which leads the attractiveness for new hires and also the retention of competent personnel with their wholehearted effort and loyalty towards the organization. The parameters of our best HR practices are as follows:

Congenial working environment: We believe that the congenial working environment is one of the best prerequisites for employees. We assured this prerequisite for employees.

Equal employment opportunity: We ensure equal employment opportunity in considering gender, region, religion etc.

Gender equality: We have significant number of female employees which indicates the gender equality in the organization.

Employee development: A strategic skills-improvement plan is a key factor in ensuring the company's success in a rapidly changing world. It's not enough to know what we can achieve

today-we must also ensure that we develop at a pace that makes us competitive in the future too. Each employee's development opportunities and willingness to change is of significant importance. In this perspective we are maintaining such working environment and management approaches that prioritizes these factors.

Career growth and progression: Prime Finance ensures the scope for career growth and progression. The best example is our Deputy Managing Director. He joined as Senior Principal Officer and after 15 years of his successful job, now he is the Deputy Managing Director of the Company. It's a milestone in the market regarding Career growth opportunity in Prime Finance.

Recognition of achievements: We recognize the achievements of employees in terms of monetary and non monetary values. We give appreciation letter and also promotions who deserve that in recognition of their performance.

Personal & professional life balancing: We encourage people to stay with family. We maintain the exact work time, we never discourage people to take leave when required. Even we encourage not to encash the annual leave for balancing the personal and professional life. Also we are arranging some social events where the family members are also invited.

Job satisfaction: Prime Finance seeks not only to attract the most qualified personnel, but to retain them by creating a superior working environment and attending to their needs. To ensure success for the Company as a whole, employees are encouraged to engage in synergetic teamwork, and every effort is made to facilitate communication and the flow of information. Employee initiative and responsibility are promoted through challenging assignments where rewards are determined by results.

Employee retention: The Management of Prime Finance believes on long term relationship with

Report on Human Resources - *continued*

the employees. In this connection we are having some strategy like: career progression opportunity, pension scheme, gratuity, provident fund, house loan policy etc.

Length of service: The average length of service within the Company is almost 6 years. The length of service distribution of the Company can be seen in page 56 of this Annual Report.

Employee Turnover: Employee turnover at the Company was at a comparable level to the previous year. The total turnover rate for the Company was 7.58 percent, which is largely dependent on external factors. The real challenge is to keep unwanted turnovers (resignation) at a minimum and we may state that we could meet this challenge with success.

Incentives & rewards: We are always giving incentives and rewards as per the recognition of their contribution towards organization's goal achievement.

Best corporate culture: Our Corporate culture based on common values & practices developed in recent years is a major factor behind our success.

Competent, standard and socially based HR policies: Our Management approach is 'Policy Talks'. The Management encourages to take all operational and functional decisions as per policy. In this regard we have competent, standard, updated and socially based policies to run the functions of the organization in a standard manner. Enabling people to harmonize working life with family life has been one of the strengths of our HR policies.

Remuneration policy, strategy and practices: The Remuneration Committee always considers the significant factor for setting the remuneration and benefit packages for the employees of Prime Finance. They have regard to

information on compensation and salary levels in companies in NBFIs sector and in other companies of comparable size, for executive with similar, skill, qualification and experience.

• **Employee welfare activities:**

We promote the well-being and performance of our employees through a good number of facilities and measures. Our welfare activities relates to the following:

- **Housing:** Financial facilities at a concessional rate are given to the employees for purchase of land/apartment or construction of building.
- **Food:** The Company provides lunch to all the employees.
- **Transport:** Full-time car is provided to the top Executives. Moreover, car loan along with adequate allowances is given to senior and mid level Executives. Transport facilities for other employees are provided to collect and bringing them to workplace by company's own vehicle.
- **Furniture & household:** Furniture allowance is given to Senior Executives for acquiring furniture & household goods.
- **Cultural and sporting events:** Annual picnic and annual dinner with all employees. We also attend in different corporate tournaments.
- **Annual health checkup:** The Company has an arrangement with a renowned hospital for checking-up of health of all the employees once in every year.
- **Pension scheme:** Prime Finance contributes to a recognized funded pension scheme for the employees serving more than 10 years in the Company.
- **Provident fund:** Amount spent on contribution @ 10% of basic equivalent to employees' contribution
- **Hospitalization benefits:** Amount spent to share the cost of hospitalization of employees and his/her dependent family members.
- **Maternity benefits:** Female employees and the spouses of male employees are entitled to this benefit.

Report on Human Resources - continued

Prime Finance continues to maintain a very satisfactory position in terms of people productivity. This is confirmed by the following indicators:

	2012	2011	2010
Total Employees	74	66	67
Net income per employee (Tk.)	3,894,651	7,910,192	25,767,450
Operating revenue per employee (Tk.)	24,526,794	27,523,971	45,808,966
Assets per employee (Tk.)	197,595,280	211,455,331	197,027,255

STAFF STRENGTH

	2012	2011	2010
Senior Management	4	5	11
Mid level Management	22	18	40
Junior level Management	30	26	1
Support Staff	18	17	15
Total	74	66	67

AGE ANALYSIS OF THE EMPLOYEES AS AT 31 DECEMBER

Age group	Senior Management	Mid level Management	Junior level Management	Support Staff	2012 Total	2011 Total	2010 Total
Above 60	1	-	-	-	1	1	1
51 – 60	1	-	1	1	3	3	2
41 – 50	2	1	-	4	7	4	6
31 – 40	-	17	15	8	40	34	38
21 – 30	-	4	14	5	23	23	20
20 & below	-	-	-	-	0	1	-
Total					74	66	67

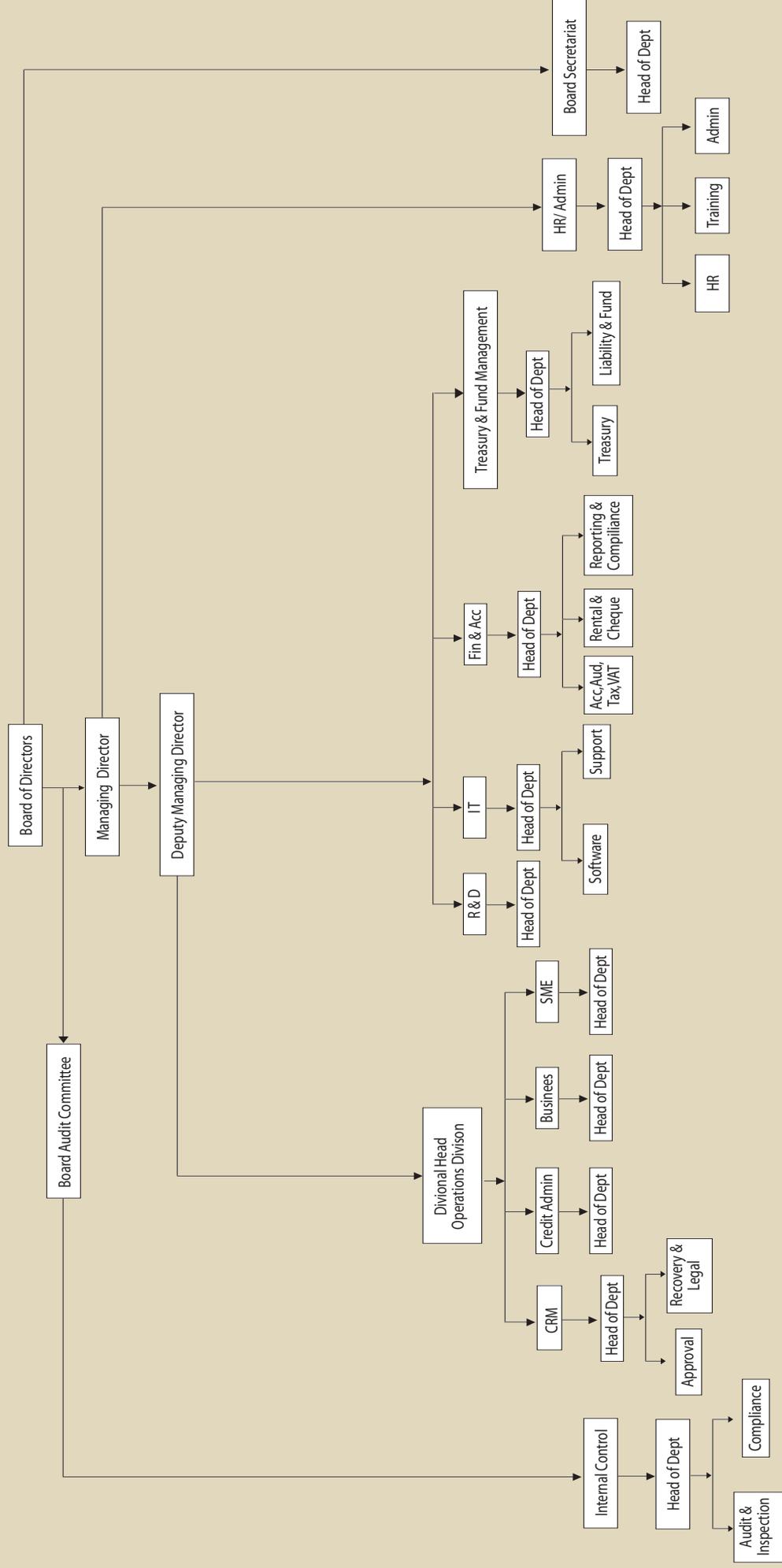
Average age of the employees as on 31 December 2012 was 34.54 years (2011:34.18)

SERVICE ANALYSIS OF THE EMPLOYEES AS ON 31 DECEMBER

Service group	Senior Management	Mid level Management	Junior level Management	Support Staff	2012 Total	2011 Total	2010 Total
Above 10	2	3	2	5	12	10	14
7 – 10	1	5	3	2	11	8	6
5 – 7	-	6	2	1	9	14	13
2 – 5	-	1	7	4	12	11	22
Below 2	1	7	16	6	30	23	12
Total					74	66	67

Average service life of the Employees as on 31 December 2012 was 5.29 years (2011: 5.14 years)

Functional Organogram



Meet the Faces of Prime Finance



Asad Khan
 Managing Director

 Md. Ahsan Kabir Khan
 Deputy Managing Director

 A. K. M. Nozmul Haque
 Head of R & D

 Md. Rezaul Haque
 Head of Operations Division



Gazi Nilufar Yeasmin
 Vice President & Head of CRM

 Mohammad Yeamin Kabir
 Senior Manager

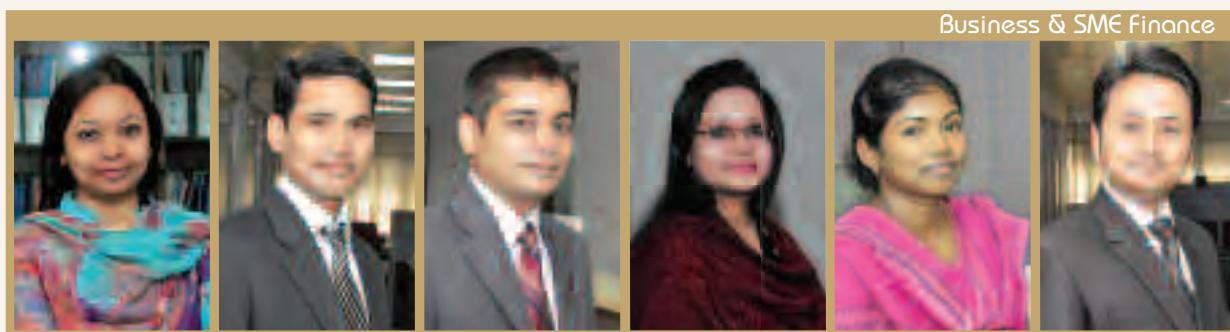
 Mohammed Zakirul Islam
 Manager



Humayun Rashid
 Senior Manager & Head of Credit Admin

 Md. Shofikul Islam
 Assistant Manager

 Tania Khan
 Assistant Manager



Gulshan Ara Hafiz
 AVP & Head of Business & SME

 Md. Faqrul Islam Majumder
 Senior Manager

 Muhammad Anisuzzaman
 Manager

 Tazrian Hoque
 Manager

 Umme Anowar Rebeka Sultana
 Assistant Manager

 Asif Raihan Chowdhury
 Assistant Manager



Ahsanullah M Dewan
 AVP & Head of IT

 Muhammad Saiful Alam
 Assistant Manager

 Md. Zahid Anwar
 Assistant Manager



Syed Moniruzzaman
 AVP & Company Secretary

 Md. Omar Faruque
 Assistant Manager

Finance & Accounts



Lingkon Mondal
AVP & CFO (Current Charge)

Farhana Mahejabin
Assistant Vice President

Mohammad Zaved Lakiyet
Senior Manager

Tarana Yasmin
Senior Manager



Md. Manowar Hossain
Management Trainee

Mahmudul Hasan Panna
Management Trainee

Naima Akter
Senior Officer

Md. Shahidul Islam
Officer

Internal Control & Compliance



Feroz Iftekher
Senior Manager

Md. Shakir Ul Haque
Assistant Manager

We believe that work is more than a place you go every day. It should be a place of exploration, creativity, professional growth and interpersonal relationships. It's about being inspired and motivated to achieve extraordinary things. We want our people to take pride in their work and in building ideas others love. After all, it's the combined talents, skills, knowledge, experience and passion of our people that make us who we are.

Treasury & Fund Management



Mansura Moin
Manager

Md. Anisuzzaman
Manager

Md. Rashadul Islam
Manager

Md. Masudur Rahman
Assistant Manager

Mohammad Munim Mansur
Management Trainee



Abu Shofian
Officer

Md. Shahidul Islam
Officer

Gopal Chandra Barman
Officer

S M Salahuddin Yusuf
Officer

HRM & Administration



R M Nasrullah Zaidi
AVP & Head of HRM & Admin

Md. Kamrul Islam Ratan
Senior Manager

Mohammed Faruque
Senior Manager

Md. Motaher Hossain
Assistant Manager

Sonia Akter
Junior Officer

Chittagong Branch



Shamrat Kabir
Manager & Branch-In-Charge

Rahatullah Zaheed
Assistant Manager

Ali Sayka Khanam
Assistant Manager

Didarul Islam
Assistant Manager

Jolly Chowdhury
Management Trainee

Rajshahi Branch



Adnan Wasim Mahmud Hasan
Officer

Md. Mizanur Rahman
Officer



Md. Abdul Hamid
Officer

Md. Shoheb Rana
Officer

Piyasha Barua
Junior Officer

Liability & Fund Management Team





Contribution to National Economy

Prime Finance & Investment Limited as corporate participant, recognizing that we have certain responsibilities to the development of the society and the country as a whole. We aspire to be known as an institution that builds enduring relationship and delivers value for our clients, shareholders, employees and the community where we work.

As a financial service provider, Prime Finance contributes to the economic prosperity by providing financial products and services to the industrial undertakings including SMEs. Based on the financials as on 31 December 2012, Prime Finance has a total credit exposure with around 1,300 clients of Tk. 11,433.70 million. Such facilities were extended mostly for importation of capital machineries, working capital, SMEs loan, margin loan etc. Prime Finance also manages IPOs of different companies to increase supply of securities in the capital market through its subsidiary company. This is how Prime Finance contributes to the industrialization, capital market development, economic growth of Bangladesh and thus helping in employment generation.

Prime Finance contributes to the economy paying out fair share of taxes, VAT, Supplementary Duty (SD), source taxes etc. to the Government. During the year 2012 the Company provided provision of Tk. 112.89 million for taxes, and total Tk. 263.63 million to the Government treasury including VAT and TDS. We make an economic impact by creating employment and a well-trained workforce. Prime Finance and its associate & subsidiary companies employed around 200 employees as on 31 December 2012 (2011:186). During the year 2012, Prime Finance spent total Tk. 0.31 million for training and HR development, and paid a total amount of Tk. 108.45

million as salaries and allowances to its employees (2011: Tk. 117.68 million). We recognize our fiduciary duty to our shareholders and seek to establish constructive relationships. We are focused on maximizing long-term shareholders' value through strong financial performance and returns, disciplined and profitable investments.

Besides, Prime Finance has achieved awards for best presented accounts for financial sectors as well as corporate governance over the past several years from abroad on behalf of Bangladesh which has improved the impressions of the country before the foreign forum.

Over the past many years, Prime Finance has been paying a satisfactory dividend to its shareholders placing it among the top ranking non-banking financial institutions. Prime Finance proposed 30 percent dividend of which 20 percent stock dividend equivalent to Tk. 454.86 Million and 10 percent cash dividend equivalent to TK. 227.43 million to its shareholders for the year 2012 (2011: 40 percent stock dividend equivalent to Tk. 649.80 million).

We always agree in building prosperity by supporting a broad range of causes through donation, sponsorship and supporting helpless peoples. We encourage our employees to participate in social and charitable programs. As a part of its social responsibility, the Company contributes to various funds, flood affected people, to hospitals and to the people who were affected by the natural calamities. We believe that sustainable economic growth and a healthy environment are inter-linked. We take supportive role in terms of providing financial services by restricting and discouraging those projects that cause pollution for environment and health hazards.



Corporate Social Responsibility

Prime Finance sees itself as an integral part of the communities in which it operates. This means that the Company recognizes that its activities have an impact on the community in which Prime Finance do business. The Company also realizes that the basis for any good business is trust and the society expects the highest standards from Prime Finance when it comes to ethics and corporate responsibility.

Prime Finance is and always has been founded on solid long-term relationships with all of its stakeholders. The Company achieves this by promoting a corporate culture that adheres to its business principles, and by generating good and sustainable returns for its shareholders. The objective of Company's involvement in CSR is to ensure mutual value creation for the Company as well as its employees and stakeholders. Every aspect of business has a social dimension. Prime Finance in carrying out its business activities is pursuing its commitments to sustainable development and transparent corporate conduct in social and ethical manner.

MAJOR CSR PRINCIPLES

Major CSR principles are applied alongside the principles of the company's Code of Ethics and are as follows:

- Dedication to the company's mission, shared values and vision;
- Provision of standard & competitive services based on top-ranked professionalism of the company's team;
- Respect for the worth and dignity of a human person;
- Fair play and mutual respect in communicating with stakeholders;
- Equitable decision-making in management;
- Compliance with law, and liability for actions taken;
- Profitability;
- Protection of employees' health;
- Openness in communicating with stakeholders.

Corporate Social Responsibility - *continued*

We define corporate responsibility as operating with integrity at all the times, sustaining our company's long-term viability while contributing to the present and future well being of all our stakeholders. In doing so, we strive to take active responsibility for this daily choices that our company faces:

- How should we best structure and govern our Company?
- How should we best serve our clients in terms of ethics, privacy and services?
- How should we attract the best talents and motivate our employees?
- How should we contribute to our communities in which we operate our business?
- How can we minimize the impact of our business activities on the environment?
- How can we grow our company in a sustainable way?

At Prime Finance, we recognize that we have certain responsibilities to our clients, shareholders, employees and to the communities. We aspire to achieve highly professional standards and integrity in all situations: managing our financial performances for the benefit of all our stakeholders, making a contribution to the community we live in and avoiding practices that directly or otherwise have a negative impact on others or the environment. We try to carry out these responsibilities properly and to improve our performance over time.

CSR MANAGEMENT

The Institution performs its CSR management alongside the following five directions



** Corporate Conduct: which is in the overlapped area of the above four directions and is a basic direction of the Institution's performance

PRIME FINANCE AND ITS CLIENTS

Prime Finance is committed to building its business and serving its clients, while at the same time improving the communities in which it does business. As a financial institution, people entrust Prime Finance with their funds, and therefore, with their aspirations for their families and businesses. This is a large responsibility and a great opportunity. The Company in turn strives to listen to and learn from its stakeholders and to take the appropriate action where it applies, since responsible behavior towards its clients, shareholders and employees is an essential element of Company's daily business.

Our commitments to clients

Professional expertise

Continually work to improve products and services by listening to clients in order to determine their needs Provide employees with the training they need to deliver sound advice to clients Ethical principles and code of conduct

Effective Service

Prime Finance organizes periodical meetings with respective departments at least once in every month for making continuous improvements whose aim is to achieve operational excellence and change internal business process through employees. Emphasis is given to note the voice of the client whenever employees meet clients that are what the clients say, they want and need. This program provides rational way for bringing about significant improvements in the quality of the service delivered, while empowering employees to make necessary changes.

Statement of professional ethics

Prime Finance adheres to the professional code of conduct in force where it operates. The Compliance Guidelines of Prime Finance are based on the following fundamental principles:

- *Professional advice:* We undertake to advise our clients after listening to them and a personalized analysis of their real needs;
- *Clear and honest information:* We undertake to always give our clients the information that is clear and honest, the service to which they are entitled, the status of their loan/lease, the position of clients investments etc.;

Corporate Social Responsibility - *continued*

- *Non-disclosure of confidential information of clients:* We undertake to refrain from disclosing any information that we may acquire on the personal life, assets and activities of our clients;
- *Fairness:* We undertake to manage faithfully the accumulated benefits and entitlement of our clients and to manage impartially all conflict of interests that arise between Prime Finance and also clients;

PRIME FINANCE & ITS SHAREHOLDERS

Our commitments to our shareholders

- Operating performance that ranks among the best in the industry;
- Effective corporate governance;
- Full and complete financial information;
- Giving attractive dividend.

Living up to these commitments

Operating performance that ranks among the best in the industry

Prime Finance uses three indicators in particular to measure shareholders' satisfaction. Usually those have been chosen because they are widely used by industry analysts to compare performances. Prime Finance seeks to achieve continuous improvement in those areas. The indicators are:

- **Efficiency ratio** : When this indicator improves this means the assets and liabilities have been managed efficiently;
- **ROI** : When this indicator improves this means the assets have been utilized efficiently;
- **EPS** : When this indicator improves this means the profitability increases.

High standards of corporate governance

Details on Prime Finance's structures of corporate governance are given on page 68 of this Report.

Fully informed shareholders

Prime Finance has highly diversified shareholder base. Committed to building and maintaining a relationship based on trust and accessibility with both individual and institutional investors, Prime Finance provides

timely and relevant information as we have dedicated employees to respond to their requests.

Shareholders' information

Prime Finance's goal is to deliver clear, complete and reliable information that meets the needs of all shareholders, regardless of their level of expertise as investors. Prime Finance ranks among the few listed companies that provide the most detailed possible information on business strategy, performance and earnings and has received awards for the quality of its disclosures. In all the years since its listing in 2005 with Stock Exchanges, Prime Finance received First Prize of ICAB National Award for best published Annual Reports. Prime Finance also received SAFA Merit Award in 2007 and Second Prize in 2008, 2009 and 2010 amongst SAARC Countries for the best published Annual Reports. Prime Finance got the 2nd prize in the 11th ICAB National Awards for Best Published Accounts & Reports 2010.

Prime Finance was the joint winner in the Best Presented Accounts Awards 2010 in Financial Service Sector and was the overall winner in the SAFA Best Presented Accounts Awards 2010.

PRIME FINANCE AND ITS EMPLOYEES

Prime Finance is committed to be equal opportunity employer, adhering to the highest social standards, the company seeks to provide a superior working environment for its employees based on diversity and respect for the importance of the individual. As a leading financial institution, one of the Company's main purposes is to create long-term value. Prime Finance firmly believes that sustainable growth and investment for any business is also dependent on what it does above and beyond what laws and regulations require. This is why Company is committed to create a working environment based on the values of equal opportunity, diversity and meritocracy. The Company has also adopted measures to protect the environment and contribute to the community where it operates. All the Company's activities are reinforced by its governance structure, which complies with the leading codes of best practices.

Our commitments to our employees

- Provide a workplace in which employees are respected;

Corporate Social Responsibility - *continued*

- Encourage a management style that empowers and develops employees;
- Measure progress in employment practices and employee morale.

Living up to these commitments

Prime Finance sets forth general guidelines in the area of employment and Human Resources. Specific action plans are implemented by Prime Finance to address issues relating to human resources.

A workplace where employees are respected

Prime Finance is not exposed to any social problems like child labor. With respect to issues that are relevant to its operating environment, Prime Finance promises to :

- Provide equal opportunity and respect diversity;
- Promote constructive dialogue between employees and senior Management;
- Support employee efforts to achieve a healthy work-life balance;
- An empowering Management style that develops employee and encourages performance;
- Prime Finance seeks to enhance employee motivation and performance in line with Company's strategic objectives and in accordance with Prime Finance brand promises: ethics, professionalism, innovation, pragmatism, team spirit and integrity.

In support of these, Prime Finance's management style encourages: **Quality information on key priorities:** Employees are kept informed of the strategies of their Company and its results. In this respect, internal communications play a key role in devising and disseminating published information resources and holding regular departmental meetings. **Clear individual objectives:** Departmental heads meet with their colleagues periodically to review past performance and set future objectives. These meetings help employees to understand how they contribute to achieving company objectives. **The support from managers needed to excel** professionally and contribute to improving company performance: Once again, the annual performance appraisal plays a key role in elucidating training needs related to current job performance as well as future

career development and opportunities. **Performance appraisal is made up of different traits** in Professional & Personal Area. 3 sets of appraisal sheets are used for 3 categories of employees that is Senior Management, Mid level Management and Junior level Officers. An employee is assessed by two senior executives and the score is considered to be an appropriate barometer of employee satisfaction. Working conditions are comparable to those enjoyed in best companies of the industry. Compensation levels also compare favorably to industry rates. Social indicator 2012 is given on page 27 of this Report.

PRIME FINANCE AND ITS COMMUNITY

CSR means voluntarily integrating social and environmental considerations into the business and these are an integral part of Company's corporate culture and fundamental business principles. Prime Finance believes that a prosperous community creates a prosperous business. By supporting charitable causes, Prime Finance seeks to help people achieve their goals.

Our commitments to community

Develop philanthropic initiatives that are related to our core business. Share our expertise with the community particularly in the area of prevention Contribute for the well-being of the Community

Social Impact Management

Priorities of the Institution in managing social impact are: upgrading quality of life in local communities, and reinforcing its reputation of a trustworthy and sound Institution, actively engaged in local developments.

- The Company is well aware of its economic role in local communities, and is committed to be a responsible citizen open to public opinion.
- The Company realizes that its wellbeing is directly derived from the wellbeing of the local community. Hence, the Company is actively involved in addressing most pressing social challenges facing people, and offering support to certain groups of local households.
- The Company credits its employees with participating in corporate social and charity activities of the Company, and encourages their initiatives meeting the principles of this Policy.

Environmental Impact Management

Priorities of the Institution in managing environmental impact is cost efficiency due to reduced consumption of resources.

- The Company is committed to be environmentally friendly, including efficient consumption of resources, such as energy, paper, fuel, etc.
- The Company shares the “green office” concept aimed at reducing negative impacts on environment, and also enhancing environmental awareness of employees.

Living up to these commitment

Prime Finance believes in building prosperity by supporting a broad range of community causes. Our employees also make contribution as volunteers sharing their time, financial and enthusiasm with the community.

Our commitments to environment

Prime Finance is engaged with stakeholders for scrutinizing the environmental & social impact of their proposed undertakings. Prime Finance encouraged the clients to set up Effluent Treatment Plan [ETP] and other measures to reduce the adverse environmental impact if any. Also we shared some laws & regulations regarding these issues for the awareness. Also Prime Finance representatives counsel the borrowers to keep the best social and environmental impact in connection with their business.

2012 HIGHLIGHTS

Employee Development

Prime Finance considers Human Resources as its main asset and it always put emphasis in developing the skills of its employees. Total 32 no of employees have been given training. Prime Finance spent Tk. 548,250 for training & development. For overseas training

Prime Finance spent Tk. 396,750 while the cost of local training was Tk. 151,500.

Donation

Donations are a cornerstone of our community programs, with a tradition of philanthropy dating back to our roots. We are committed to making a lasting social impact through inspiration, responsibility giving and building strong partnership with the charitable organization. As part of Corporate Social Responsibility, Prime Finance donated books and bookshelves for the Library of Bangladesh Bank School equivalent to Tk 2,00,000. Prime Finance also donated 1,200 numbers of Blankets to Dhaka Ahsania Mission for distributing to the cold affected people in the Northern Region of the Country.

Sponsorship

Sponsorship is an integral part of Prime Finance’s marketing and promotional activities and are selected to promote our image and reputation. In 2012, Prime Finance also participated in the community development by way of sponsoring some national & International programs.

Prime Finance was one of the core sponsors of ICAB National Award Giving Ceremony and the sponsorship amount was Tk. 300,000. Prime Finance also sponsored Tk. 50,000 to Institute of Chartered Secretaries of Bangladesh in the occasion of National Convention 2012. Other than this Prime Finance also contributed approximate Taka 350,000 by sponsoring different events, papers, magazines etc.

Encouraging & Promoting Education in underprivileged community

To promote Education in the underprivileged Community, Prime Finance has introduced Prime Finance Scholarship Scheme. Under this scheme around 50 students will be given financial support of 4.44 lac taka every year.

Chairman's Letter on **Governance**

Dear Shareholder,

The fundamental purpose of any company is the creation and delivery of long-term sustainable shareholder value in a manner consistent with its obligations as a responsible corporate entity. Corporate governance must be seen in this context – it is not an objective in its own right but a vital facilitator to the creation of long-term value for our owners. However, the creation of shareholder value is influenced by many factors, both internal and external.

As Chairman, a key part of my role is to ensure that the composition of the Board is appropriate; that appropriate behaviors are demonstrated in the Board room and that there is an environment in which challenge is expected and achieved. We continue to review our corporate governance processes and practices carefully to ensure they are fit for purpose. Governance processes were reviewed and a number of changes were made. These included revisions to the Board Charter, Audit Committee Terms of Reference, and approval of Code of Conduct for the Directors.

Good corporate governance is vital in supporting the delivery of our strategic priorities. Our Board and Board Committees play an important role to ensure our business is well-governed and that any risks are identified and mitigated. It is important to generate income in a sustainable way and manage our risks and costs properly. We take great pride in having built a solid foundation that stresses the importance of good governance and of achieving a fundamental balance among the interests of our three key stakeholders- our clients, our human resources and our shareholders.

In order to deliver strategy, we need the right people. To this end, one of our priorities is to ensure that we have a Board with appropriate skills, knowledge and experience to operate effectively in an ever challenging environment. Board composition is critical in ensuring effective and value-adding corporate governance. We continue to have the right people in right place and an effective succession planning process is in place for key management roles.

The review of corporate governance in the listed company by Bangladesh Securities and Exchange Commission, to which we are fully in line with the recommendations. We believe that our governance processes are sound and we will continue deploying our efforts for any enhancement require.

The report that follows sets out how we have complied with the Bangladesh Securities and Exchange Commission Code on Corporate Governance.



K. M. Khaled
Chairman



Report on Corporate Governance

“Sound corporate governance helps in ensuring delivery of our strategic priorities and thus creating the foundation for long term success”

CORPORATE GOVERNANCE PHILOSOPHY

Corporate governance is a set of policies, processes and procedures affecting the way a company is controlled and administered. It covers stakeholders, the relationship between them, the company and the strategic vision of the company. The stakeholders comprise shareholders, management, board of directors, employees, depositors, customers, creditors, suppliers, regulators and society at large.

The company believes that principles of corporate governance belong to the foundation of transparency, fairness, accountability, compliance with the laws, required disclosures, professionalism, maximizing shareholders value and protecting interest of the stakeholders.

Company's philosophy of corporate governance represents the dual goals of protecting the interests of all stakeholders while respecting duty of the board and management to oversee affairs of the company and promote long-term growth and profitability.

APPROACH TO CORPORATE GOVERNANCE

Prime Finance's approach to governance, which has remained largely consistent over time, is to:

- promote long term profitability of Prime Finance while prudently managing risk
- drive superior and sustainable shareholder value over long term through alignment of the interests of stakeholders and employee
- meet stakeholder expectations of sound corporate governance as part of Prime Finance's broader responsibility to clients, shareholders, investors and the community in which it operates.

Prime Finance recognizes that a key factor in delivering long term shareholder returns is providing superior services to clients. High standards in corporate governance are fundamental in maintaining Prime Finance's leading position within the non banking financial sector. Continuous review and adherence to strong corporate governance practices help enhance compliance levels according to standards and best practice. Prime Finance (the Company/Company) shall continue its endeavor to enhance shareholders value, protect their interests and defend their rights by practicing the pursuit of excellence in corporate life. The Company shall not only comply with all statutory requirements including the Corporate Governance Code of the Bangladesh Securities and Exchange Commission and the High Level Controls Module of the Central Bank of Bangladesh but also formulate and adhere to strong corporate governance practices. Prime Finance shall continuously strive to best serve the interests of its stakeholders including shareholders, customers, depositors, employees and the community at large.

STATEMENTS OF COMPLIANCE

Prime Finance being a listed company in Dhaka Stock Exchange and Chittagong Stock Exchange fully committed to uphold the highest standards of corporate governance. The adoption and implementation of corporate governance is the direct responsibility of the Board of Directors (Board), and this endeavor is in line with the policies of regulatory authorities and statutory requirements in Bangladesh.

The Board has adopted a comprehensive framework of corporate governance guidelines which are designed to properly balance performance and conformance and thereby allow the Company to undertake, in an effective manner, the prudent risk-taking activities which are the basis of its business. The guidelines and practices of the Company comply among other with the Guidelines issued by the Bangladesh Securities and Exchange Commission (BSEC) vide its notification dated August 07, 2012, as well as the Code of Corporate Governance as per DFIM circular no. 7 dated 25 September 2007 of Bangladesh Bank.

BANGLADESH SECURITIES AND EXCHANGE COMMISSION'S NOTIFICATION ON CORPORATE GOVERNANCE

As Prime Finance is listed on the Stock Exchanges in Bangladesh, we comply with the BSEC's notification on corporate governance. For the year ended 31st

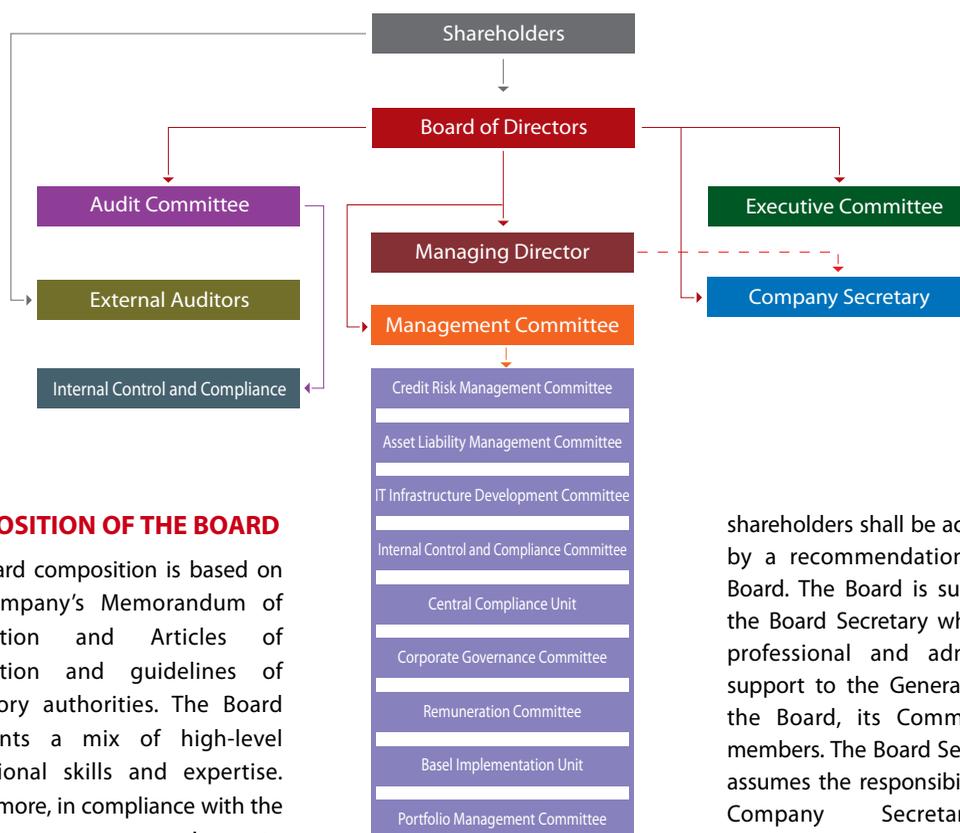
December 2012, we have complied with the relevant provisions set out in page 129 in this report.

BANGLADESH BANK'S GUIDELINE ON CORPORATE GOVERNANCE

Being a Financial Institution, Prime Finance is regulated under direct supervision of Bangladesh Bank and is also subject to the Guidelines on Corporate Governance of Bangladesh Bank circulated vide DFIM circular no. 7 dated 25 September 2007 which is published in page 91 of this report.

CORPORATE GOVERNANCE FRAMEWORK

Good corporate governance practices are not just a matter for the Board but are at the heart of everything that we do within the Company. The Company operates within a comprehensive governance framework, which is outlined in the diagram below and set out in the report that follows.



COMPOSITION OF THE BOARD

The Board composition is based on the Company's Memorandum of Association and Articles of Association and guidelines of regulatory authorities. The Board represents a mix of high-level professional skills and expertise. Furthermore, in compliance with the corporate governance requirements, the Board Committees consist of members with adequate professional background and experience. The Board has three Independent Directors as on December 31, 2012. Directors are elected / appointed by the shareholders at the AGM. Election or re-election of a Director to

shareholders shall be accompanied by a recommendation from the Board. The Board is supported by the Board Secretary who provides professional and administrative support to the General Assembly, the Board, its Committees and members. The Board Secretary also assumes the responsibilities of the Company Secretary. The appointment of the Board Secretary is subject to the approval of the Board. Chairman of the Board and Managing Director of the Company are different persons with different roles and responsibilities. The composition of Board of Directors as on December 31, 2012 is as follows:

Report on Corporate Governance - continued

Non-executive Directors

i)	Mr. K. M. Khaled, Representing Khaled Textile Mills Ltd.	Chairman
ii)	Mr. Md. Aminul Haque, Representing Acorn Limited	Director
iii)	Mrs. Muslima Shirin, Representing Mawsons Limited	Director
iv)	Mr. Mohammad Masudur Rahim, Representing East Coast Shipping Lines Ltd.	Director
v)	Mr. Z. M. Kaiser, Representing Maksons (Bangladesh) Limited	Director
vi)	Mr. M. Shahadat Hossain Kiron, Representing Agami Apparels Ltd.	Director
vii)	Mr. Tauseef Iqbal Ali	Director

Independent Directors

i)	Prof. Dr. Parimal Chandra Datta	Independent Director
ii)	Mr. Kazi Md. Mortuza Ali	Independent Director
iii)	Mr. Mahibul Islam Chowdhury	Independent Director

Executive Director

i)	Mr. Asad Khan	Managing Director
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NO. OF BOARD MEETINGS

During the year under review, the Board met 9 times on the following dates:

(i) February 26, 2012 (ii) June 25, 2012 (iii) July 12, 2012 (iv) July 26, 2012 (v) September 18, 2012 (vi) October 23, 2012 (vii) November 10, 2012 (viii) November 21, 2012 (ix) December 31, 2012.

ROLE OF THE BOARD

The role and responsibilities of the Board of Directors are set out in the Board Charter in addition to the responsibilities outlined in the Memorandum and Articles of Association. The Board's main roles are to define the Company's strategic objectives, to provide entrepreneurial leadership for the Company, to create value for shareholders and to ensure that the necessary financial and other resources are available to enable the Company and the Board to meet these objectives. The specific responsibilities reserved to the Board include the approval of all information supplied to shareholders in the annual and interim accounts; the setting of Company strategy, approving annual budgets; reviewing operational and financial performance; approving capital expenditure; the setting of borrowing limits; treasury policy; reviewing

the Company's systems of financial control and risk management; ensuring that appropriate management development and succession plans are in place; approving appointments to the Board and ensuring that a satisfactory dialogue takes place with shareholders over the Company's results and its aspirations for the future. Summary of the role and responsibilities as set out in the Charter can be found in page 88.

DIRECTORS' INDEPENDENCE

Other than Managing Director all directors in the Board are non-executive Director. The non-executive Directors are independent from management. Their role is to advise and constructively challenge management and monitor the success of management in delivering the agreed strategy within the risk appetite and control framework that is set by the Board. There are no such relationships or circumstances relating to any of the Directors, which might cause any of them not to be considered independent. The Board considers that its constitution brings an appropriate balance of experience and expertise in judging matters of strategy, performance, resources, internal controls and corporate governance. Their wide-ranging experience and particular areas of knowledge and expertise continue to add value to the

deliberations of the Board. The Directors biographies appear on page 20 illustrate that the Directors have complementary range of financial, operational and entrepreneurial experience which ensures that no single Director dominates in the decision making process.

DELEGATION OF AUTHORITY

The company runs under delegation of authority as approved by the Board. Bank accounts of the Company are being operated by constituting two groups from management considering one from each group. The Board has delegated certain responsibilities to the Management on some matters within defined parameters. These include development and recommendation of strategic plans for consideration by the Board reflecting the long term objectives and priorities established by the Board, including implementation of the strategies and policies of the Company as determined by the Board; monitoring the operating and financial results against plans and budgets; monitoring business operations against objectives; prioritizing allocation of capital, management and control of borrowing limits and treasury policy; technical and human resources and developing and implementing risk management systems.

SEPARATE ROLE OF THE CHAIRMAN & MANAGING DIRECTOR

The responsibilities of the Chairman and the Managing Director are separate, thereby preventing unfettered powers of decision making on a single hand. The Chairman is a non-executive Director while the Managing Director is an Executive Director.

ROLE OF THE CHAIRMAN

The Chairman is elected by the Board from the non-executive directors. The Chairman is responsible for the overall leadership and efficient functioning of the Board of Directors. The Chairman of the Board is also responsible of maintaining a role in recommending the skills and experience that the Board should contain and exhibit, for its effective operation, encourage active engagement and participation by all members

of the Board, promote the highest standards of corporate governance, ensure clear structure for the effective running of the Board Committees, ensure the long-term sustainability of the Company, set the Board's agenda, ensure that Directors receive accurate, timely and clear information to enable the Board to take sound decisions and to identify the development needs of the Board as a whole to enhance its overall effectiveness as a team.

ROLE OF THE MANAGING DIRECTOR

The Managing Director is responsible for the day-to-day management, operations and administration of the company. He is also responsible to implement, manage and administer corporate business strategy, ensure adherence to policies and procedures, applicable regulations and laws, and monitoring exceptions and serious deviations, manage the overall human resources and skills/competencies pool to ensure the effective and efficient running of the company, represent the company with customers, suppliers, governments, financial institutions, media, community and the public. He is also accountable to the Board for the financial and operational performance of the company.

ROLE OF THE COMPANY SECRETARY

The Company Secretary is responsible for ensuring appropriate information flow within and to the Board, the Board Committees and between the senior management and non-executive Directors. The Company Secretary plays a key role in ensuring that the Board procedures are followed and regularly reviewed. The Company Secretary ensures that all relevant information and documents are made available to the directors and senior management for effective decision making at the meetings. The Company Secretary is primarily responsible to ensure compliance with applicable statutory requirements and is the interface between the management and regulatory authorities for governance matters. The Company Secretary supports in designing and facilitating induction programs for new non-executive Directors and in putting together development program for Directors. The authority of the appointment of the Company Secretary is vested to the Board.

ROLE OF THE HEAD OF INTERNAL CONTROL & COMPLIANCE

The Head of Internal Control & Compliance is responsible for reporting to the Board Audit Committee regarding any deviation from accounting and internal control systems of the company. He is also responsible for ensuring regulatory compliance of the company. The authority of the appointment of the head of Internal Control & Compliance is vested to the Board.

APPOINTMENT/RE-APPOINTMENT TO THE BOARD

Appointment of Director requires approval by the shareholders at the AGM. Any new appointment is made within the purview of the Articles of Association and after obtaining prior consent of the Director. Newly appointed Director retires in the immediate next Annual General Meeting (AGM) and may offer himself for re-appointment. The Managing Director is also appointed by the Board subject to approval of the Central Bank. Any new appointment to the Board requires intimation to the Central Bank, the Bangladesh Securities and Exchange Commission and Stock Exchanges.

Except for the Managing Director, Articles of Association of the Company requires that at least one-third of the Directors to retire by rotation in each year. They are, however, eligible for reappointment by the Shareholders in the Annual General Meeting .

TENURE OF INDEPENDENT DIRECTORS

The tenure of Independent Directors on the Board of the Company shall not exceed six years, subject to their re-appointment on retirement by rotation as per statutory provisions.

NOMINATION OF INDEPENDENT DIRECTOR IN THE SUBSIDIARY

In accordance with the Corporate Governance Notification the Board has made nomination of Independent Director in the subsidiary.

BOARD COMMITTEES

The Board committees are formed and their members are appointed by the Board of Directors amongst the

non-executive and Independent Directors. They are considered the high level link between the Board and the Senior Management. The objective of these committees is to assist the Board in supervising the actual operations of the Company, by reviewing any issues that are submitted by the Senior Management and making recommendations to the Board for their final review. The Board reserves the right to form temporary committees and discontinue them, from time to time as necessary. Furthermore, the members of the Board are provided with copies of the meeting minutes of the said committees as required by the regulators. In accordance with the Central Bank circular no financial institution can form committees of the Board other than Audit and Executive Committee. The Company has also complied with this circular and formed the following two committees;

- Audit Committee
- Executive Committee

The Board also laid down specific roles and responsibility of the committees. Details of the Terms of Reference for the Board Committees can be found in the Company's website and summary can be found later of this annual report.

Audit Committee

Audit Committee comprises with four non-executive Directors and one Independent Director who is also the Chairman of the Committee. The members of the Committee are elected by the Board. In 2012, the mandate of the Audit Committee was updated to include additional corporate governance responsibilities.

The committee among others is also responsible for:

- Assisting the Board in its oversight of (i) the integrity and reporting of the Company's quarterly and annual financial statements, (ii) compliance with legal and regulatory requirements; and (iii) the qualifications, independence and performance of the Company's internal and external auditors.
- Assisting the Board in fulfilling its statutory and fiduciary responsibilities with respect to internal controls, accounting policies, auditing and financial reporting practices.
- Overseeing performance of the Company's

Report on Corporate Governance - continued

internal audit function, independent audits and regulatory inspections.

- Overseeing the Company's compliance with the rules of good corporate governance.

The mandate of the Audit Committee provides further particulars on financial reporting processes, process improvements, and additional ethical and legal compliance overview responsibilities. The Head of Internal Audit reports functionally to the Audit Committee and administratively to the Managing Director. The presence of Independent Director is must for forming quorum for the meeting. The Company Secretary acts as the secretary of the Committee. The Chief Financial Officer and the Head of Internal Control attends the meetings on invitation.

Executive Committee

Executive Committee comprises with five non-executive Directors. The members of the Committee are elected by the Board. The Company Secretary acts as the secretary of the Committee. The Chief Financial Officer and the Head of Internal Control attends the meetings on invitation. The mandate of the Executive Committee requires it, among other things, to:

- Assist the Board in formulating the executive policy of the Company and controlling its implementation.
- Assist the Board by reviewing, evaluating, and making recommendations to the Board with

regards to key strategic issues.

- Approve credit limits that exceed the authority of the Management Committee subject to the limits approved by the Board.
- Carry out additional responsibilities specifically mandated to the committee by the Board.
- Exercise, in circumstances in which it is impossible or impractical to convene a meeting of the Board and subject to applicable law and the Constitutional Documents, the powers of the Board on matters for which the Board has not otherwise given specific direction.

The Board may advise or modify or amend any decision of the committee. In all cases, the members of the committee must exercise their business judgment to act in what they reasonably believe to be in the best interests of the Company and its shareholders.

Members of the Board Committees

As mentioned earlier, each Committee of the Board has been formed with specific Charter. The Charter defines the extent of the authority delegated to each Committee. The Charter, including the composition of the Committee, are reviewed and updated as and when necessary to ensure ongoing compliance. The Board is kept fully informed of the work of those Committees from time to time. The list of different Board Committees and its members is given hereunder:

Name of the Members	Audit Committee	Executive Committee
Mr. Md. Aminul Haque	Member	Member
Mrs. Muslima Shirin	Member	Member
Mr. Z. M. Kaiser	Member	Member
Mr. Tauseef Iqbal Ali	---	Chairman
Mr. Mohammad Masudur Rahim	---	Member
Mr. M. Shahadat Hossain Kiron	Member	---
Prof. Dr. Parimal Chandra Datta	Chairman	---

CHARTER OF THE BOARD AND ITS COMMITTEE

Summary of the Charter of the Board of Directors and its Committees setting out its key functions has been given on page 88 of this Annual Report.

DISCLOSURE AND DECLARATION BY THE NEW DIRECTOR

Immediate after appointment of a non executive Director, detail biography along with a declaration on his non-engagement with other financial institutions is

required to submit to Bangladesh Bank. A declaration by non executive and other Director is also required to provide to the Central Bank that he is not a loan defaulter. As per Financial Institutions Act, 1993, a person cannot be a Director of more than one financial institution. A loan defaulter is also disqualified to become a Director of a financial institution. Any change in the Board is required to report to the regulators as per listing regulations.

INDUCTION, BUSINESS AWARENESS AND DEVELOPMENT

Each new Director receives an induction presentation, an information memorandum and a personalized induction program. The induction presentation explains their responsibilities as a Director of the company and sets out an overview of the company and its businesses. The information pack gives details of the disclosures that Directors are required to make to comply with various laws and regulations. The Company Secretary along with other existing Directors conducts the induction presentation session.

CONFLICT OF INTEREST

Directors are required to monitor continuously and disclose any potential conflicts of interest that may arise. Directors must:

- disclose any actual or potential conflicts of interest that may exist as soon as the situation arises;
- take necessary and reasonable steps to resolve any conflicts of interest within an appropriate period, if required by the Company's Board or deemed appropriate by that director;
- comply with the requirements of Companies Act 1994 about disclosing interests and restrictions on voting.

Any proposed board or executive appointments being considered by Directors must be discussed with the Chairman. Any related-parties transactions by Directors must be reported in writing to the Chairman/ Company Secretary and, where appropriate, raised for consideration at the next Board meeting.

RELATED PARTY TRANSACTIONS

During the year 2012, no transactions of material nature had been entered into by the Company with the Promoters or Directors or Management, their subsidiaries or their relatives that may have a potential conflict with interest of the Company. The related party transactions with subsidiary companies and others are disclosed in notes to accounts.

CODE OF CONDUCT

The Company has adopted the Code of Conduct for Directors. The Code has been circulated to all the members of the Board. The Board members shall require to have affirmed their compliance with the code on yearly basis.

DIRECTORS' REMUNERATION

The Directors do not get any performance based remuneration or incentive. The Board members get only fees for attending Board/Committee meetings to the maximum of Tk. 5,000 per meeting. The remuneration package of the Managing Director is determined by the Board which requires approval from the Central Bank.

The Managing Director is appointed for a period of three years during which the remuneration cannot be reviewed without the approval of Bangladesh Bank. Renewal is considered prior to the expiration of each term. The fixed compensation components are negotiated and determined at the time of appointment/renewal. The Managing Director may get yearly performance bonus not exceeding Tk. 1 (one) million.

DISCLOSURE OF DIRECTORS' REMUNERATION

Directors of the Company are not eligible for any remuneration other than the meeting attendance fee as prescribed by the Bangladesh Bank. During the year under review, Board of Directors was eligible for attendance fee of Tk. 5,000 per meeting of Board, Executive Committee and Audit Committee. Remuneration paid to the Managing Director is disclosed on page 139 of this Report. Remuneration paid to the Directors for attending Board/ Committee Meetings during the year 2012 is given below:

Report on Corporate Governance - continued

Name of the Directors	Board		Audit Committee		Executive Committee		Total
	Attendance	Fee	Attendance	Fee	Attendance	Fee	
Mr. K. M. Khaled	8	40,000	---	---	---	---	40,000
Mr. Md. Aminul Haque	9	45,000	4	20,000	2	10,000	75,000
Mrs. Muslima Shirin	9	45,000	6	30,000	5	25,000	100,000
Mr. Z. M. Kaiser	9	45,000	4	20,000	4	20,000	85,000
Mr. Mohammad Masudur Rahim	8	40,000	---	---	4	20,000	60,000
Mr. M. Shahadat Hossain Kiron	3	15,000	---	---	---	---	15,000
Mr. Tauseef Iqbal Ali	9	45,000	---	---	5	25,000	70,000
Prof. Dr. Parimal Chandra Datta	8	40,000	4	20,000	---	---	60,000
Mr. Kazi Md. Mortuza Ali	---	---	---	---	---	---	---
Mr. Mahibul Islam Chowdhury	---	---	---	---	---	---	---
Total		315,000		90,000		100,000	505,000

MANAGEMENT

The senior management is responsible for the day-to-day management of the Company entrusted to it by the Board. It is headed by the Managing Director, who is assisted by the Deputy Managing Director, Executive Vice President, Chief Financial Officer, Company Secretary and Head of Department of Corporate Finance, Lease & SME, CRM, Credit Admin, HR & Admin, IT and Treasury etc.. The biographies of the members of the senior management team are set out on page 24 of this Annual Report.

- Credit Risk Management Committee
- Asset and Liability Management Committee
- IT Infrastructure Development Committee
- Internal Control and Compliance Committee
- Central Compliance Unit
- Corporate Governance Committee
- Remuneration Committee
- Basel Implementation Unit
- Portfolio Management Committee

MANAGEMENT COMMITTEE

The Committee comprises of the top management of the Company including Managing Director and assists the Board and Board Committees to achieve the organizational objective. The Committee operates within the periphery of delegated authority from the Board and specific terms of reference. In fulfilling its principal responsibility for day-to-day management of the Company, the Management Committee is required to implement Board approved policies and effective controls, within the strategy and objectives set by the Board.

These committees derive their authorities from the Management Committee, based on the authorities and limits delegated by the Committee.

Letters of appointment are issued to the members of the senior management team setting out their specific responsibilities and accountabilities that include assisting with and contributing to the following:

- Formulation of the Company's strategic objectives and direction.
- Formulation of the Company's annual budget and business plan.
- Ensuring that high-level policies are in place for all areas and that such policies are fully applied. The setting and management of risk/return targets in line with the Company's overall risk appetite.
- Determining the Company's overall risk-based performance measurement standards.

Sub-Committee

Nine Committees assist the Managing Director and Management Committee in the management of the Company:

Report on Corporate Governance - continued

- Reviewing business units' performance and initiating appropriate action.
- Ensuring that the Company operates to the highest ethical standards and complies with both the letter and spirit of the law, applicable regulations and codes of conduct.
- Ensuring that the Company is an exemplar of good business practice and customer service.

Their attention is also drawn to the fact that these obligations are in addition to their specific functional responsibilities and objectives, and those set out in the Company's Corporate Policy Manual.

Members of the Management Committee and sub-committee are given on page 81 of this Annual Report.

APPRAISAL OF THE MANAGING DIRECTOR

The Managing Director is entrusted with the Management of the Company's operations and he is fully accountable to the Board. Performance of Managing Director including the top Management is assessed by the Board on half yearly basis.

REMOVAL OF THE MANAGING DIRECTOR

The Board is not authorized to remove the Managing Director without prior consent from the Central Bank.

RISK MANAGEMENT

In accordance with central bank, the Company has laid down five Risks Management Policy on Credit Risk, Anti Money Laundering and Combating Terrorist Financing, IT Policy, Asset Liability Management Policy and Internal Control and Compliance defining risk profiles involving strategic, technological, operational, financial, organizational, legal and regulatory risks within a well defined framework. The Risks Management Policy act as an enabler of growth for the Company by helping its businesses to identify the inherent risks, assess, evaluate and monitor these risks continuously and undertake effective steps to manage these risks.

The Committees especially formed for this purpose consisting of senior executives of the Company periodically reviews the robustness of the aforesaid

Risk Management Policies. The periodical update on the risk management practices and mitigation plan of the Company and subsidiaries are presented to the Audit Committee and Board of Directors. The Audit Committee and Board periodically review such updates and findings and suggest areas where internal controls and risk management practices can be improved. These Committees also ensure compliance of the respective policies approved by the Board.

COMPENSATION

The Company remunerates its officers fairly and responsibly. The remuneration of officers must be sufficient to attract, retain and motivate persons of the quality needed to run the Company successfully, and the Company must avoid paying more than is necessary for that purpose. The Board ensures that the remuneration policies are in line with the strategic objectives and corporate values of the Company, and do not give rise to conflicts between the objectives of the Company and the interests of individual Directors and key executives.

STAFF COMPENSATION

The total compensation package for employees comprises basic salary, contributory provident fund, gratuity scheme, hospitalization and other benefits plans, employee home loan, employee transport assistance scheme, employee furniture and household assistance scheme, maternity benefits, retirement benefit etc. In determining the composition of the package, the nature of the role performed and market practice are taken into consideration. To ensure that its remuneration package is competitive, the Company regularly reviews its base salary ranges and benefits package based on market data.

MEANS OF COMMUNICATION

Interim and final financial results are communicated to the concern regulators within the stipulated time line and also published in two national daily newspapers, one in Bangla and another in English. Half yearly financials are sent to the respective shareholders address and key information of the said financials published in national daily newspaper. Audited final financial statements along with Directors' report and notice of the AGM are sent to the respective

Report on Corporate Governance - continued

shareholders address. Audited financials except notes to the account also published in two national daily newspapers. All the financial results are also posted in the company website at www.primefinancebd.com.

Price Sensitive Information

Price Sensitive Information means any such information which if published, may influence market price of the concerned security. According to the guideline, price sensitive information is disseminated within 30 minutes of the decision or immediately upon getting such information to the BSEC and the Stock Exchanges. Besides, the price sensitive information also published in two widely circulated national daily newspapers, one in Bangla and the other in English.

Website:

The Company website contains a separate dedicated section 'Investor Relations'. It contains comprehensive database of information of interest to our investors including the financial results and Annual Report of the company, information on dividend declared by the company, any price sensitive information disclosed to the regulatory authorities from time to time. The basic information about the company is provided on the Company website and the same is updated regularly.

Annual Report:

Annual Report containing, inter alia, Audited Annual Accounts, Consolidated Financial Statements, Directors' Report, Auditors' Report and other important information is circulated to members and others entitled thereto.

AGM, Board and Board Committee Minutes Submission

In accordance with the requirement of regulatory authority minutes of the Board, Board Committee and Annual General Meeting are submitted to the respective regulators within the stipulated time line.

Communication with Shareholders

The investor relations activities of the Company are designed to provide a balanced level of communication between the Company and its stakeholders. Established procedures are in place to

ensure timely release of price sensitive information. The Company also publishes its quarterly, half yearly and annual results within the time periods stipulated by the Bangladesh Securities and Exchange Commission, Stock Exchanges and Bangladesh Bank.

The announcements and other important information are posted in the Company's website. The website also contains corporate information which is updated on a regular basis and includes a corporate governance section which contains details of the Company's adherence to the Code and the full terms of reference of the Board and its Committees.

ANNUAL GENERAL MEETING

The Annual General Meeting is normally attended by all Directors and shareholders are invited to put their queries on the agenda during the meeting. The seventeenth Annual General Meeting will be held on 27 March 2013. General Meeting is such an assembly where shareholders interact with the Directors and put their observation as well as suggestion regarding the development of the Company. In general meeting shareholders can exercise their right by giving vote for passing specific agenda. Shareholders also give approval for appointment of non-executive and Independent Director. A shareholder can appoint proxy for attending the meeting. In accordance with the provisions of the Companies Act, 1994, the Notice of the 17th Annual General Meeting along with Audited Accounts, Directors' Report, and Proxy Card are sent to shareholders 14 days before the meeting.

SHAREHOLDER'S RIGHT

A shareholder can appoint proxy for attending the meeting. In accordance with the provisions of the Companies Act, 1994, the Notice of the 17th Annual General Meeting along with Audited Accounts, Directors Report, and Proxy Card are sent to shareholders 14 days before the meeting. The notice also published in national dailies. The AGM may, in principle, pass resolutions without regard to the number of shareholders present at the meeting or represented by proxy as the case may be. Resolutions generally require the approval of a majority of the votes represented at the meeting.

Report on Corporate Governance - continued

The AGM/EGM is convened by the Board or, if necessary, by the shareholders' holding at least 10% of the issued share capital. Five members present in person or by proxy or any member or members holding not less than one-tenth of the issued capital which carries voting rights shall be entitled to demand a poll.

DIVIDEND ANNOUNCEMENTS

The Board of Directors of the Company have recommended 30% Dividend (20% stock and 10% cash) of 30% per equity share of Tk. 10 each of the Company for the financial year ended December 31, 2012, subject to the declaration by shareholders at the ensuing AGM. The dividend, if declared, will be paid within 30 days of Meeting.

RECORD DATE FOR THE PURPOSE OF DIVIDEND AND AGM

All the shares of the Company are in dematerialized form and to determine the entitlement of shareholders to attend the AGM and receive the Dividend, if any, for the year ended December 31, 2012, the Board of Directors has fixed the Record Date on 5 March 2013.

DIVIDEND REMITTANCE

Dividend on Equity Shares as recommended by the Directors for the financial year ended December 31, 2012, when declared at the AGM will be paid to all those equity shareholders whose names shall appear in the CDS Register as on 5 March 2013. The dividend will directly to be credited to the respective shareholders beneficiary owners account no. and through respective bank account. After completion of disbursement a paper announcement will be made informing the shareholders about the date of dividend disbursement.

SETTING OUT THE DIRECTORS RESPONSIBILITIES

A separate statement as to the preparation and presentation of financial statements is given on page 112 of this Report. A Management report on the operational review and segmental analysis of the Company is given on pages 38 of this Report.

SUBSIDIARY COMPANY

Prime Finance Capital Management Ltd. (PFCML) is a subsidiary of Prime Finance. PFCML is non-listed company doing business as merchant bank. According to Corporate Governance Notification Professor Dr. Parimal Chandra Datta, Mr. Kazi Mohammad Mortuza Ali and Mr. Mahibul Islam Chowdhury have been appointed as Independent Directors on the Board of PFCML. The minutes of the meetings of the Board of Directors of subsidiary company are placed before the meeting of Board of Directors of the Company and the attention of the directors is drawn to all significant transactions and arrangements entered into by subsidiary companies.

BUDGETARY PROCESS

Each year, the Board approves the annual budget. Performance is monitored and relevant actions are taken throughout the year through quarterly reporting to the Board on variances from the budget, together with information on key operational areas.

INTERNAL CONTROL

The Board has ultimate responsibility for establishing an effective system of internal control. It is designed to manage rather than eliminate the risk of failure to achieve the business objectives and to provide reasonable but not absolute assurance that assets are safeguarded against unauthorized use or material loss and those transactions are properly authorized and recorded. The internal control system embraces all business risks, including financial, operational and strategic risks. Accountability for managing risks is delegated to the Risk Committees who review and assess risk management matters as part of their business processes and risks controls and actions are regularly adjusted in response to the changing market environment.

Major elements of the control environment are as follows:

- Regular Board meeting with comprehensive agenda dealing with all major aspects of business;
- Regular Board Committee meeting to discuss issues as clearly defined in their charter;

- Regular Management Committee meetings with specific issues relating to operation of the Company;
- An established management structure and delegation of authorities with job descriptions for each division and section;
- Defined operating guidelines and procedures with authorization limits at appropriate levels;
- An internal audit department directly reporting to the Board Audit Committee in compliance with procedures and authority limits;
- A comprehensive annual budgetary system with ultimate approval by the Board;
- Accounting and operational manuals;
- Review and analysis of fund position on daily basis;
- Well defined policies relating to personnel issues;
- A comprehensive financial reporting system including actual performance with budget.

APPOINTMENT OF EXTERNAL AUDITORS

The Auditor is appointed by the shareholders in the AGM. Based on the recommendation of the Audit Committee, the Board of Directors recommends to the Shareholders for appointment of Auditors. The remuneration of the Auditors is also fixed by the shareholders in the AGM. The appointment of Auditors is subject to approval of Bangladesh Bank. We are required to obtain consent from Bangladesh Bank as to the appointment of Auditors in each year. As per Financial Institutions Act, 1993 and BSEC's order an Auditor cannot be appointed for more than three consecutive years.

ACCOUNTING TREATMENT

In the preparation of financial statements, the Company has followed the Accounting standards as prescribed under the Companies Act 1994, BAS and IAS as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB). The Accounting Policies followed by the Company, to the extent relevant, are set out elsewhere in this Annual Report.

ANTI-MONEY LAUNDERING

The Company's anti-money laundering and combating the financing of terrorism (AML/CFT) procedures and guidelines conform to the legal and regulatory requirements of the Bangladesh. These legal and regulatory requirements reflect the FATF recommendations on Money Laundering and special recommendations on Terrorist Financing.

Prime Finance AML/CFT procedures and guidelines apply to all of the offices, branches of the company. Systems are in place to ensure that business relationships are commenced with clients whose identity and activities can reasonably be established to be legitimate, to collect and record all relevant client information, to monitor and report suspicious transactions, to provide periodic AML/CFT training to employees, and to review with external auditors the effectiveness of AML/CFT procedures and controls. A proactive structure of officers is in place to ensure compliance with AML/CFT procedures, and the timely update of the same to reflect the changes in regulatory requirements. This structure consists of the Chief Anti Money Laundering Compliance Officer and Branch Anti Money Laundering Compliance Officers.

ENVIRONMENTAL AND SOCIAL COMPLIANCE

Prime Finance recognizes that it is part of a wider community of shareholders, customers, suppliers, employees and other stakeholders and recognizes that the Company has a responsibility to act in a way that respects the environment. It is the policy of Prime Finance, so far as is reasonably practical, to protect and conserve the local and wider environment from any adverse impacts caused by its operations.

Working environment

The Company provides its employees state of the art office equipments and encourages employees to save energy while working with these equipments. All the equipments are configured in such a way that consumes less power and energy. We also maintain better control of temperature. The promotion of electronic mail and telephone rather than paper mail is encouraged. Energy saving lamps are used wherever possible and steps are taken to ensure that all lights are turned off when they are not in use.

Recycling and waste reduction

Recycling is implemented where possible in relation to paper, glass and residual waste. Printing is carried out through central printers in order to reduce paper consumption. Employees are encouraged to separate waste.

Health and safety

The Company strives to provide and maintain a safe environment for all employees, customers and visitors to its premises and to comply with relevant health and safety legislation.

Transportation

Transport pool are regularly monitored and maintained properly with an objective to ensure reducing of carbon emission. Drivers are asked to conserve their speed as this is more energy efficient and ensure prevention of accident.

Social

Prime Finance always encourage its clients and suppliers to comply with relevant legislation to ensure environmental issues and before funding, properly scrutinize to ensure that the client may not have any direct/indirect influence in terrorist financing activities. Prime Finance take special monitoring before funding in the sectors which may have adverse impact on environment.

STANDARDS ISSUED BY ICSB

The Institute of Chartered Secretaries of Bangladesh has issued 'Secretarial Standards' on key corporate functions like Board Meetings and General Meetings. Although these standards are not mandatory, the Company adheres to them voluntarily.

CEO AND CFO CERTIFICATION

Certification required under the Corporate Governance Notification was provided by Mr. Asad Khan, Managing Director and Mr. Lingkon Mondal, CFO (current charge) of the Company and duly reported to the Board.

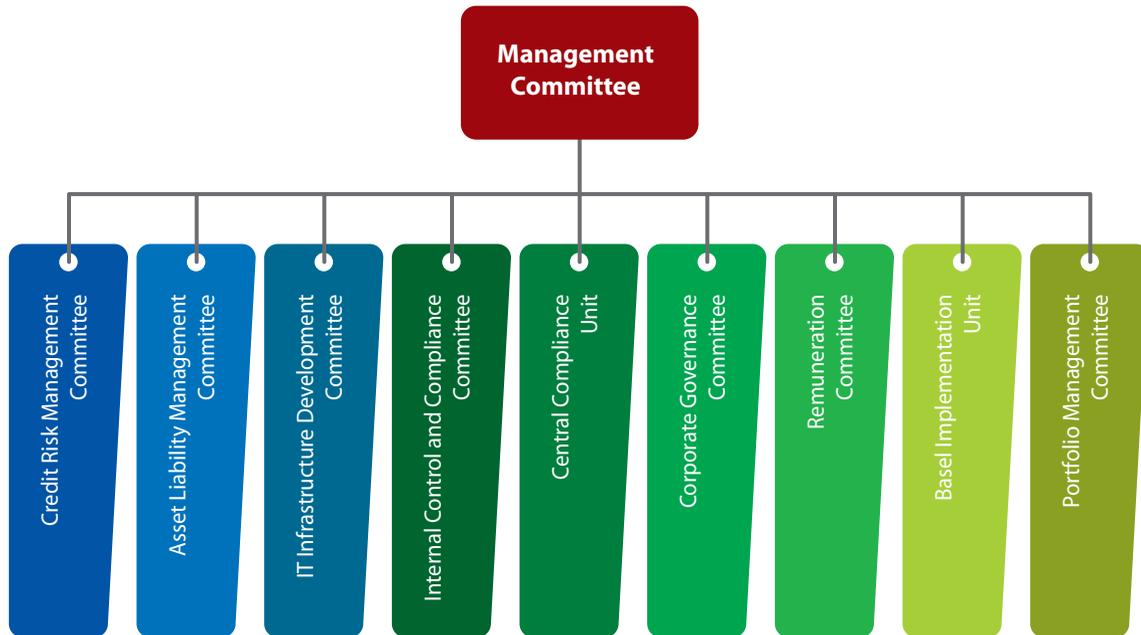
AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE

The Auditors' certificate on compliance of Corporate Governance Notification can be found in page 135 of this Annual Report.

REVIEW OF GOVERNANCE PRACTICES

It has been attempted in this Report to present the governance practices and principles being followed at Prime Finance, as evolved over the years, and as best suited to the needs of the Company's business and stakeholders. Disclosures and governance practices are continually revisited, reviewed and revised to respond to the needs of business and ensure that the standards are at par with the globally recognized practices of governance, so as to meet the expectations of all our stakeholders.

Report on Management Committee



MANAGEMENT COMMITTEE

The Board delegates responsibility for the day-to-day management of the Company to the Management Committee. The Committee is responsible for ensuring that the business is operating effectively within the strategy and risk appetite agreed by the Board. The Managing Director is the Chairman of the Committee.

Members:

Mr. Asad Khan
Managing Director

Mr. Md. Ahsan Kabir Khan
Deputy Managing Director

Mr. Md. Rezaul Haque
EVP & Head of Operations Division

Credit Risk Management Committee:

Credit Risk Management Committee is mainly responsible for developing credit risk policies, determining appropriate methods for measurement and management of risks associated, planning and controlling of credit risk based on clear and accurate assessments, supporting business decision-making and proactive identification of new risks, ensuring a robust recovery framework in place.

Members:

Mr. Asad Khan
Managing Director

Mr. Md. Ahsan Kabir Khan
Deputy Managing Director

Mr. Md. Rezaul Haque
EVP & Head of Operations Division

Ms. Gazi Niliufar Yeasmin
VP & Head of CRM

Ms. Gulshan Ara Hafiz
AVP & Head of Business & SME

Mr. Lingkon Mondal
AVP & CFO (CC)

Asset Liability Management Committee:

ALCO's responsibilities include developing investment, pricing and funding strategy and making decisions on day to day liquidity management. Monitor the Company's liquidity and interest rate maturity mismatch.

Members:

- Mr. Asad Khan
Managing Director
- Mr. Md. Ahsan Kabir Khan
Deputy Managing Director
- Mr. Md. Rezaul Haque
EVP & Head of Operations Division
- Mr. Lingkon Mondal
AVP & CFO (CC)
- Ms. Farhana Mahejabin
AVP (F&A)
- Mr. Md. Zaved Lakiyet
Senior Manager (F&A)
- All Dept. Head

IT Infrastructure Development Committee:

Mainly responsible for infrastructure, automation, development and security activities related to Information Technology in line with regulatory requirements.

Members:

- Ms. Gazi Niliufar Yeasmin
VP & Head of CRM
- Ms. Gulshan Ara Hafiz
AVP & Head of Business & SME
- Mr. Ahsanullah M. Dewan
AVP & Head of IT
- Mr. R M Nasrullah Zaidi
AVP & Head of HR and Admin
- Mr. Lingkon Mondal
AVP & CFO (CC)
- Mr. Syed Moniruzzaman
AVP & Company Secretary
- Ms. Farhana Mahejabin
AVP, Finance & Accounts
- Mr. Mohammad Faruque
Senior Manager (HR and Admin)
- Ms. Monsura Moin
Manager, Finance & Accounts

Internal Control and Compliance Committee:

Internal Control and Compliance Committee is mainly responsible for establishing and maintaining adequate internal control systems are in place to ensure compliance of the Company, developing internal control process, procedures and policies to ensure that the company's business activities and associated risks are well managed. Review effectiveness of internal control mechanism.

Members:

- Mr. Asad Khan
Managing Director
- Mr. Md. Ahsan Kabir Khan
Deputy Managing Director
- Mr. Md. Rezaul Haque
EVP & Head of Operations Division
- Mr. Syed Moniruzzaman
AVP & Company Secretary
- Mr. Feroz Iftekhar
Senior Manager & Head of ICC

Central Compliance Unit:

Mainly responsible to formulate policies, procedures for preventing money laundering and terrorist financing activities, identify suspicious transaction, report suspicious transaction to the regulators.

Members:

- Mr. Asad Khan
Managing Director
- Mr. Md. Ahsan Kabir Khan
Deputy Managing Director
- Mr. Md. Rezaul Haque
EVP & Head of Operations Division
- Mr. Lingkon Mondal
AVP & CFO (CC)
- Mr. Syed Moniruzzaman
AVP & Company Secretary
- Ms. Farhana Mahejabin
AVP, Finance & Accounts
- Mr. Md. Anisuzzaman
Manager, Treasury
- Mr. Md. Rashadul Islam
Manager (Liability & Fund Management)

Corporate Governance Committee:

Corporate Governance Committee is mainly responsible for ensuring that the Company adopts and enhances sound Corporate Governance practices, which are consistent with the regulatory requirements and also reflects the best market practices in Corporate Governance and make recommendations to the Board as appropriate.

Members:

- Mr. Asad Khan
Managing Director
- Mr. Md. Ahsan Kabir Khan
Deputy Managing Director
- Mr. Md. Rezaul Haque
EVP & Head of Operations Division
- Mr. R M Nasrullah Zaidi
AVP & Head of HR and Admin
- Mr. Syed Moniruzzaman
AVP & Company Secretary

Remuneration Committee:

Mainly responsible for setting policies, review competitiveness of the existing pay structure, review annual incentive plans, review performance appraisal process and recommend to the Board for yearly increment.

Members:

- Mr. Asad Khan
Managing Director
- Mr. Md. Ahsan Kabir Khan
Deputy Managing Director
- Mr. Md. Rezaul Haque
EVP & Head of Operations Division
- Mr. R M Nasrullah Zaidi
AVP & Head of HR and Admin

Basel Implementation Unit:

Mainly responsible for assessing risk associated with capital, credit, market and operation, ensuring supervisory review process, market disclosures and capital adequacy in line with regulatory requirement.

Members:

- Mr. Asad Khan
Managing Director
- Mr. Md. Ahsan Kabir Khan
Deputy Managing Director
- Mr. Md. Rezaul Haque
EVP & Head of Operations Division
- Ms. Gazi Niliufar Yeasmin
VP & Head of CRM
- Mr. Lingkon Mondal
AVP & CFO (CC)
- Ms. Farhana Mahejabin
AVP, Finance & Accounts

Portfolio Management Committee:

Mainly responsible for identifying potential securities in the capital market to invest and ensure divestment of the fund for minimizing risk.

Members:

- Mr. Asad Khan
Managing Director
- Mr. Md. Ahsan Kabir Khan
Deputy Managing Director
- Mr. Md. Rezaul Haque
EVP & Head of Operations Division
- Mr. Md. Omar Faruque
Assistant Manager (Corporate Affairs)

Board's Structure

SIZE OF THE BOARD

The Board of Directors Prime Finance comprises of eleven members including Managing Director . As per FID Circular No.# 9 dated 11 September, 2002 of the Bangladesh Bank, the size of the Board of a Non-banking Financial Institution shall be minimum of nine and maximum eleven excluding the Managing

Director. As per Bangladesh Securities and Exchange Commission's Corporate Governance Notification dated August 07, 2012, a listed Company should have Independent Director of at least one-fifth of the total number of Directors. As per Articles of Association of the Company the Managing Director is an Ex-officio Director.

COMPOSITION

The Board of Prime Finance comprises of eleven members as under:

None-executive Director	Mr. K. M. Khaled	Nominated Director
	Mr. Md. Aminul Haque	
	Mrs. Muslima Shirin	
	Mr. Mohammad Masudur Rahim	
	Mr. Z. M. Kaiser	
	Mr. M. Shahadat Hossain Kiron	Director
	Mr. Tauseef Iqbal Ali	
	Prof. Dr. Parimal Chandra Datta	Independent Director
	Mr. Kazi Md. Mortuza Ali	
	Mr. Mahibul Islam Chowdhury	
Executive Director	Mr. Asad Khan	Managing Director

NON-EXECUTIVE DIRECTOR

There are ten non-executive Directors. None of the Directors takes part in the day to day operations of the Company. They attend only in the Board/Board Committees meeting to discuss the agenda reserved for the Board/Committee.

INDEPENDENT DIRECTOR

In order for a Director to qualify as an Independent Director, the Board affirmatively determines that the Director has no material relationship with Prime Finance & Investment Limited (either as a partner, shareholder or officer of an organization that has a relationship with Prime Finance) that would preclude that nominee from being an Independent Director. For

the purpose of such determination, the Directors consider that the Independent Director does not hold any share or holds less than one percent shares of the total paid up capital of the Company, who is not connected with the Company's Promoters or Directors or Shareholders who holds one percent or more than one percent shares of the total paid up shares of the Company, on the basis of family subsidiary/associate companies, who is not a member, Director or Officer of any Stock Exchange and who is not a shareholder, director or officer of any stock exchange or an intermediary of the capital market.

TENURE AND RETIREMENT

The office of non-executive Directors is subject to retirement. At least one-third of the non-executive

Board's Structure - continued

Directors shall retire by rotation in every Annual General Meeting. The Managing Director is appointed for a period of three years subject to approval of the Bangladesh Bank, Central Bank of Bangladesh. The office of the Managing Director being an Ex-officio Director is not subject to retirement.

DIRECTORS REMUNERATION

Except the Managing Director, none of the Director holds any position of profit and does not receive any remuneration other than fees for attending the Board/Committee meetings. The maximum fees payable to a Director is Tk. 5,000 for attending each meeting. Managing Director is not entitled to receive fee for attending Board and its Committee Meetings.

MEMBERSHIP OF BOARD COMMITTEE

All the Board Committees are comprised entirely of non-executive Directors. Membership of Directors in the Board Committees is given on page 73 of this Annual Report.

COMMITTEE CHARTER

All the Board Committees have a written Charter that describes the Committees purposes, duties and responsibilities. The Committee Charters are available on page 88 of this Annual Report

BOARD MEETING

The Board holds at least four meetings each year. In the year 2012, the Board met nine times to resolve scheduled businesses of the Company.

DIRECTORS RESPONSIBILITY

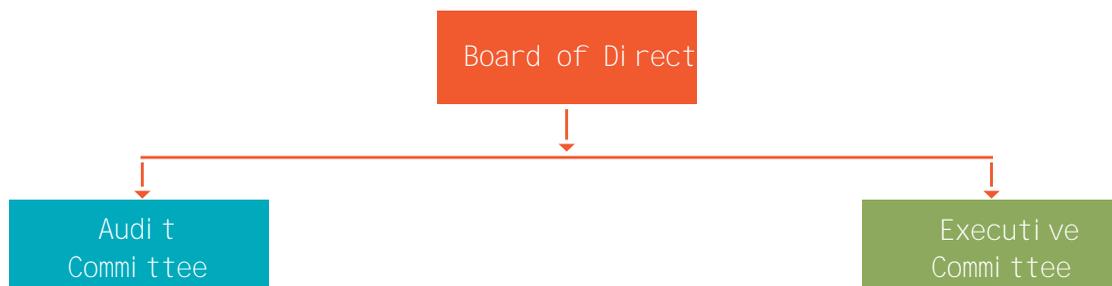
Board of Directors are appointed by the shareholders to act on behalf of them to run the affairs of the business. They are accountable to the shareholders and each year the company holds Annual General Meeting (AGM) in which a report on the performance of the Company is placed.

The Directors are responsible for developing and upgrading Prime Finance's Governance Principles, Code of Business Conduct, and the Charter of each Committee on which such Director serves. For review, materials are provided to the members in advance of Board/Committee meetings. Besides these they will ensure the adequacy of financial and operational systems and internal control as well as the implementation of corporate ethics.

COMMUNICATION TO DIRECTOR

Interested parties may communicate with any Director by sending mail addressing the Company Secretary, Prime Finance & Investment Limited, 63 Dilkusha C.A., Dhaka-1000.

Board's Structure of Prime Finance & Investment Limited



Corporate Culture

A good working environment is paramount to any Company's success and the well-being of its employees. At Prime Finance we strive to create a flexible and challenging framework that always attracts top quality candidates and encourages existing employees to continuously hone their skills and excel in their fields.

Prime Finance's corporate culture centers on the common interest of the company and its clients by seeking to establish strong long-term relationships between the two. Corporate culture places a premium on the Company's human resources through knowledge acquisition, job development, training and communication, leading to job satisfaction and a real sense of community. In this environment emphasis is placed on effective management, a clear definition of responsibility, straightforward work process and a minimum of bureaucracy. In this way Prime Finance is able to serve its clients as much as possible by helping them to achieve their goals.

In order to ensure that Prime Finance's clients are provided with exceptional guidance and receive that best possible service, the company has organized the tenets of its culture considering various business principles. These principles are undertaken by all the Company's operations and reviewed on a regular basis.

Long-term relationship

Prime Finance's main objective is to develop and maintain long-term relationship with its clients. Their

need and interests are given a priority since their success consequently fuels our success, thus establishing a common goal.

Teamwork

The best results are achieved when Prime Finance and its clients work together as a team. Effective corporate communication ensures fast and professional service and provides the basis for efficient teamwork.

Fun & Flair

Business becomes a pleasure when the Company can take part in celebrating its client's successes. Maintaining a positive morale supports, a sense of community and ambitious approach for a sound working environment. Providing effective advice and achieving excellent results lead to share enjoyment, to underscoring the company's commitment to its clients.

Trumping bureaucracy

Cutting bureaucracy enables Prime Finance to respond swiftly to its clients' needs. Short and straight lines of



Corporate Culture - *continued*

communication, a clear definition of responsibility and the devolution of power provide company's clients with sharp, swift and effective advice.

Efficient decisions

Effective services to Company's clients are based on swift and efficient decision-making, achieved through a flat hierarchy, the devolution of power and open communication. This also makes for an exciting and highly motivating work environment that attracts highly educated, top-quality candidate.

Welcoming change

The business environment is constantly undergoing changes, bringing the company up against new challenges as a leading financial company and adviser to ambitious clients. In order to assist its clients in gaining a competitive advantage, Prime Finance keeps abreast of changing business practices and seeks to implement changes ahead of the competition.

Identifying opportunities

By identifying opportunities where others see business as usual, Prime Finance is able to advise its clients effectively and provide them with exceptional choices. The Company ensures that its employees are able to perform. This task is done by providing them with training and education, building their confidence and encouraging their initiatives.

Embracing competition

Both Prime Finance and its clients face intense competition, as we are operating in a rapidly changing business environment. However, the Company views competition as a powerful motivator, as a spur to keep the Company's business ahead of the times and providing its clients with the best possible services in the industry.

Intelligent risk taking

Prime Finance uses its expertise to advise its clients on the risks they face and enable them to make decisions. Powerful information systems and highly qualified personnel, with the interest of the Company and its clients at heart, ensure intelligent risk assessment and decision making.

Passion for building business

Prime Finance is determined to build its clients businesses for the benefit of both parties. The best possible business results can be achieved through a strong and committed team of Company personnel and clients working in unison, focusing on the task at hand.

Rewarding talent

Prime Finance rewards those employees who perform most successfully. Company's greatest resource is its personnel, and it places great emphasis on retaining good employees, that is, those who provide the greatest benefits to the Company's clients. To boost motivation, we also recognize and reward top performers, long service employees, best managers, executives and non-executives.

Enabling Learning

We are constantly up-skill our people to enable a culture that thrives on innovation, high customer engagement and fast problem resolution. Training and development opportunities cater to the diverse needs and aspirations of employees; and detailed personal development plans form a key element of performance management.

Promoting Equal Opportunities

Our policy is to provide equal employment opportunities – whether for recruitment, promotion, transfer or development – with meritocracy and fairness as the underlying principles. In 2012, female to male ratios in top management positions increased to 30%, while the percentage of female representation in middle management increased to 23.8%.

Gender Representation: % Female

Job Level	Year 2012 (% Female)
Top Management	30%
Middle Management	23.8%

Fostering Health

Health and safety measures are in place to ensure that our people have an optimum work environment. During the year, we ran a variety of safety and wellness activities such as annual health checkup programmes in head office and branches. Prime Finance also extended the maternity leave from 90 days to 180 days for its employees.

Supporting Education

In order to contribute in national development as well as to ensure Corporate Social Responsibility "Prime Finance Scholarship Scheme" offers scholarships to meritorious but underprivileged group of students. Bangladeshi citizen and students of class VI to Class X from underprivileged group of any area in Bangladesh may apply for the scholarship. 30% quota will be preserved for female students.

Board and its Committees

The purpose of the Charter is to outline the principal roles, functions, responsibilities, authorities and powers of the Board and its various Committees to enhance coordination and communication between the Board and Management for the wellbeing of the Company and its stakeholders.

SUMMARY OF THE CHARTER OF THE BOARD OF DIRECTORS

Strategic planning process:

- Set the vision and mission of the Company.
- Determine the yearly goals of the Company and to draw up strategic plan and technique.
- Monitor quarterly implementation and effectiveness of the approved strategic plan and technique and make necessary changes, if any, after discussion with management.
- Review the Company's business plans and the inherent level of risk in these plans.
- Assess the adequacy of capital to support the business risks of the Company.
- Ensure that the processes are in place to identify the risk of Company's business
- Review the processes that ensure respect for and compliance with applicable regulatory, corporate, securities and other legal requirements

Financial Management:

- Approve the annual budget and targets, annual financials and interim results and monitor financial performance.
- Ensure financial results are reported fairly and in accordance with IFRS.
- Recommend to shareholders the Annual Report / financial statements released by Management and ensure that any reports issued by the Company, including the financial statements, present a 'true and fair' view of its position and performance.
- Approve the delegation of responsibilities and authorities to Board Committees and to Managing Director and Executive Management;
- Approve purchase/construction of land, building and vehicle.
- Approve authority for bank account operation.

Loan/Lease/Investment Management:

- Approve the policy related with proposal evaluation, acceptance, disbursement, collection

and monitoring of loan/lease/investment.

- Delegate approval authority of a certain limit to Managing Director & Executive Management for sanctioning of loan/lease/investment proposal.
- Approve large loan/lease/investment.

Risk Management:

- Approve and review the risk management guideline.
- Ensure principal risks are identified and Management has implemented appropriate systems to manage these risks.
- Ensure that the systems and controls framework, including the Board structure and organizational structure of the Company is appropriate for the Company's business and associated risks.
- Review the processes that ensure compliance with applicable regulatory, corporate, securities and other legal requirements.

Internal Control:

- Assess the adequacy of the systems of risk management, internal control, control environment and legal compliance.

Human Resource Management:

- Approve service rules of the Company and any amendment thereof.
- Ensure independence of the administrative system regarding recruitment, promotion, transfer and disciplinary action are governed under the service rules.
- Ensure that succession programs and plans are in place.

Governance:

- Approve the Company's corporate governance framework and ensure it conforms to best practices and regulatory and statutory requirements.
- Approve the organizational/management structure and responsibilities.
- Establish appropriate structures and procedures to allow the board to function independently of management.
- To the extent feasible, satisfying itself that the Managing Director and other senior officers create

a culture of integrity throughout the organization.

Performance Measurement Systems:

- Approve performance objectives and performance measurement systems.
- Review the performance of Board, Board Committees and Executive Management.

Business Decisions:

- Approve and monitor the progress of material financial restructurings, including mergers, acquisitions, annual budgets, dividends etc. affecting the balance sheet.
- Approve financings and changes in authorized capital.
- Approve entering into, or withdrawing from, businesses or service lines.

Compliance:

- Ensure the Company operates at all times within applicable laws and regulations, including an effective Code of Conduct and Anti Money Laundering and Countering Financing of Terrorism policies.
- Ensure that the Company's policies and procedures manuals comply with all government and regulatory requirements covering all operations.

Communications:

- Develop and implement an investor relations program or shareholder communications process for the Company.

Delegation of Authority:

- Approve the delegation of responsibilities and authorities to Board Committees and to Executive Management; and reserve certain powers for the Board.

External Auditors:

- Recommend the appointment of the external auditors (and the remuneration payable); to the shareholders and seek their no objection.

Listing Requirements:

- Oversee the ongoing obligations in respect of the listing requirements, including but not limited to issues relating to disclosure, dissemination of price sensitive information and other communication, and the prevention of market abuse and insider trading;

SUMMARY OF THE CHARTER OF THE AUDIT COMMITTEE

Risk Management and Internal Control:

- Evaluate whether the Management has been able to build up the appropriate administration culture regarding the importance of internal control system and risk management;
- Review all the policies developed by the Management regarding IT system and management information system (MIS);
- Review the recommendations as provided time to time by the internal and external auditors to build a strong internal control framework have been administered by the Management or not;
- Review the existing Risk Management process to ensure effective mitigation & control system;
- Inform the Board regularly after review of the steps taken against findings of forgery, limitations of internal control system or identification of similar sectors by the internal, external and inspection team of regulatory authority;
- Monitor the effectiveness of the Company's risk based internal control system.

Financial Reporting:

- Review whether the financial statements are contained with full & applicable disclosures and are prepared in accordance with the policies and procedures directed by the Bangladesh Bank and in compliance with accounting and reporting standards required by law or supported by appropriate professional or other authorities.;
- Monitor and recommend interim results announcements and any other formal announcement relating to its financial performance;

Internal Audit:

- Review and monitor management's responsiveness to the findings and recommendations of the internal auditor;
- Review and assess the annual internal audit plan;
- Monitor and review the expertise & effectiveness of the company's internal audit function in the context of the company's overall risk management system;
- Recommend to the Board for changing accounting principles, if any;

External Audit:

- Consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the company's external auditor;
- Review the annual audit activities and audit report;
- Approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- Assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non audit services;
- Review the management's response to the auditor's findings and recommendations.

Compliance with existing Laws & Regulations:

- Review compliance with existing laws & regulations of the relevant regulators and policies approved by the Board.

Reporting Responsibilities:

- The Committee Chairman shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- The Committee shall compile a report to shareholders on its activities to be included in the company's Annual Report.
- The Audit Committee shall immediately report to the Board of Directors on the following findings, if any:-
 - a) report on conflicts of interests;
 - b) suspected or presumed fraud or irregularity or material defect in the internal control system;
 - c) suspected infringement of laws, including securities related laws, rules and regulations;
 - d) any other matter which shall be disclosed to the Board of Directors immediately.

Others:

- Report to the Board quarterly, regarding corrective measures taken against error, fraud, deceit, or other irregularities identified by the auditors (internal or external) or regulatory authority;
- Undertake any other projects relating to its remit which it considers appropriate or as requested by the Board.

SUMMARY OF THE CHARTER OF THE EXECUTIVE COMMITTEE

The Executive Committee will review and evaluate the following matters:

- Review and preparation of short-term, medium-term and long-term plans and policies to fulfill Company's goals/objectives, as per the directions of the Board.
- Review business plans to be submitted to the Board. The Committee shall periodically review Company's achievements and recommend to Board appropriately;
- Review implementation of the business policy;
- Review significant risks and quality of credit portfolio;
- Review the overdue position of clients of the company;
- Review the write off loan/lease status of the company and recovery thereof;
- Review management succession plans for executive positions;
- Review major compensation policies and recommend incentive program;
- Evaluate effectiveness of the HR Policy in carrying out the duties specified in its charter.

the Committee have the following approval authority:

- Approve credit proposals and corporate guarantee up to certain limit;
- Approve all pre-IPO placement/underwriting proposals up to certain limit;
- Approve all administrative expenses up to certain limit;
- Approve reduction of interest rate of lease/loan up to certain limit;
- Approve waiver of unrealized delinquent charge up to certain limit;
- Approve purchase/disposal of the fixed/floating assets of the company as per the regulatory guideline in this regard.

Detail of these charters can be found in the Company's official website.
visit www.primefinancebd.com



Compliance Report on Bangladesh Bank's guidelines on Corporate Governance

Bangladesh Bank requires the Financial Institutions to comply with the guidelines on Corporate Governance as per the DFIM circular no. 7 dated 25 September 2007. The Board of Directors of the Company has

taken appropriate steps to comply with the guidelines and implemented the same. Status report on compliance with those guidelines is given below:

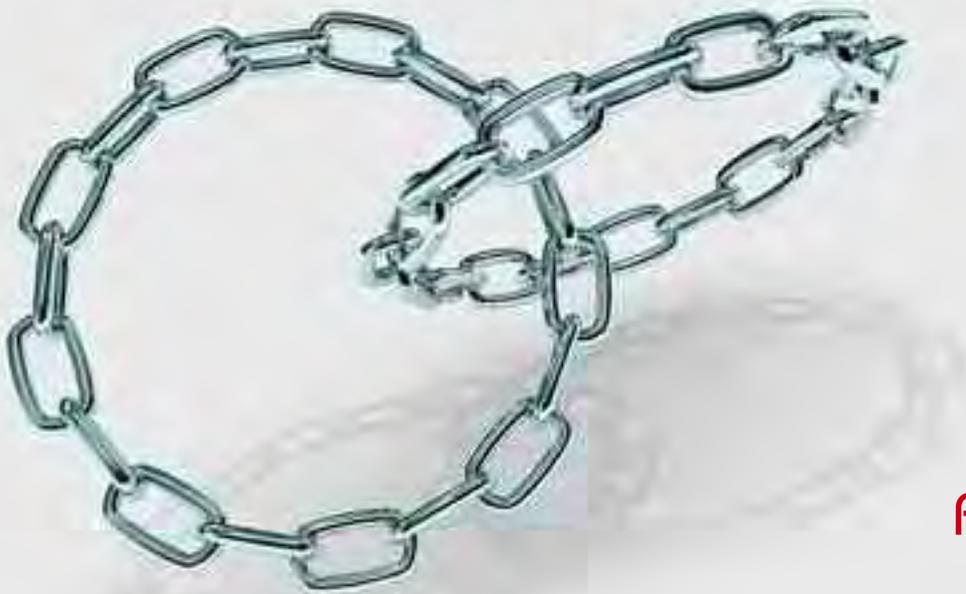
Sl. Particulars	Compliance status
01. Responsibilities and Authorities of Board of Directors	
The responsibilities of the Board of Directors are mainly related to evaluation and developing strategy. Those are as-	
A. Work-planning and Strategic Management:	
i. The Board shall determine the vision/mission of the Company. Board shall also determine the strategy and work-planning for enhancement of institutional efficiency and other policy matters on annual basis. The Board shall make necessary amendments on the strategy on quarterly basis.	Complied Refer to Charter of Board and its committee on page 88 to 90 of this Annual Report.
ii. The Board shall have its analytical review to be incorporated in the Annual Report as regard to the success or failure in achieving the target as set out in the annual work plan and inform the same to the shareholders in the Annual General Meeting (AGM).	Complied Refer to 'Operating results' and 'Significant deviation in operating results' of Directors report on pages 118 of this Annual Report.
iii. The Board shall determine Key Performance Indicators for chief executive along with other top level executives and re-assess on half-yearly basis.	Complied
B. Formation of Sub-committee:	
For making timely decision, executive committee can be formed. No alternative director shall be included in this committee.	Complied Refer to 'Board and its committee' on page 88 to 90 of this Annual Report.
C. Financial Management:	
i. Annual budget and statutory financial reports shall be authorized by the Board of Directors.	Complied Refer to 'Charter of the Board and its committees' on page 88 to 90 of this Annual Report.

Compliance Report on Bangladesh Bank's guidelines - *continued*

Sl. Particulars	Compliance status
ii. The Board shall review company's statement of income and expense, statement of loan/lease, liquidity requirement, capital adequacy, adequacy of provision, action taken for legal cases and recovery of default loan.	Complied Refer to 'Charter of the Board and its committees' on page 88 to 90 of this Annual Report.
iii. The Board shall approve the procurement policy and shall accordingly approve the delegation of power for making such expenditure. The maximum delegation of power shall rest on the CEO and top management. However, decision relating to purchase of land, building, and vehicle shall remain with the Board.	Complied Refer to 'Report on Corporate Governance' on page 68 of this Annual Report.
iv. Bank account of the Company shall be operated by a group constituted from amongst the Management which must be approved by the Board and having dual signatures (As amended through circular number 09, dated October 08, 2007).	Complied
D. Loan/Lease/Investment Management:	
i. The policies, strategies, procedures etc. in respect of appraisal of loan/lease/investment proposal, sanction, disbursement, recovery, rescheduling, and write-off shall be made with the Board's approval under the purview of the existing laws, rules and regulations. The Board shall specifically delegate the power of sanction of loan/ lease/ investment and such delegate should desirably be made among the CEO and other top management of the company.	Complied Refer to 'Report on Corporate Governance' on page 68 of this Annual Report.
ii. No Director shall interfere directly or indirectly in the process of loan approval.	Complied
iii. Core Risk Management Guidelines shall be approved by the Board of Directors of the Company.	Complied
E. Risk Management:	
Approval shall be taken from Board of Directors for syndicate loan/lease/ investment and large loan, lease or investment.	Complied
F. Internal Control & Compliance:	
Audit Committee shall be formed for effective implementation of an integrated internal control system of the Company and for keeping loan/lease/investment quality at a desired level. Board Audit Committee shall review the report provided by the Internal Control & Compliance Department, the external auditor and the Bangladesh Bank shall make comments thereon.	Complied Refer to Report on the Audit Committee on page 94 of this Annual Report.
G. Human Resources Management (HRM):	
Policies relating to recruitment, promotion, transfer, disciplinary and punitive measures, HR development etc. and service rule shall be framed and approved by the Board. The Chairman or the Board shall no way involve themselves or influence over any administrative affairs including recruitment, promotion, transfer and disciplinary measures as executed under the service rules. No member of the Board shall be included in the selection committees for recruitment and promotion of different levels except the positions MD, DMD and GM or equivalent.	Complied Refer to the 'Report on Human Resources' on pages 53 to 56 of this Annual Report.
H. Appointment of Managing Director and Increase of Salaries & Allowances:	
Board of Directors shall appoint a competent Managing Director with approval of the Bangladesh Bank. Board shall approve any increment of salaries and allowance of the Managing Director.	Complied

Compliance Report on Bangladesh Bank's guidelines - *continued*

Sl. Particulars	Compliance status
I. Benefit to Chairman: Chairman may be offered an office room, a personal secretary, a telephone at the office, a vehicle in the business-interest of the company subject to the approval of the Board.	Refer to 'Report on Corporate Governance' on page 68 of this Annual Report.
02. Responsibilities and Duties of Chairman:	
i. Chairman shall not personally possess the jurisdiction to apply policy making or executive or authority. He shall not participate in or interfere into the administrative or operational and routine affairs of the Company.	Complied Refer to 'Report on Corporate Governance' on page 68 of this Annual Report.
ii. The minutes of the Board meetings shall be signed by the Chairman	Complied Refer to 'Report on Corporate Governance' on page 68 of this Annual Report.
iii. Chairman shall sign-off the proposal for appointment of Managing Director and revision of his salaries & allowances.	Complied Refer to 'Report on Corporate Governance' on page 68 of this Annual Report.
03. Responsibilities of Managing Director	
The Managing Director or Chief Executive Officer of the company or whatsoever be called, shall work under the following area-	Complied
i. Managing Director shall discharge his responsibilities on matters relating to financial, business and administration vested by the Board upon him. He is also accountable for achievement of financial and other business targets by means of business plan, efficient implementation of administration and financial management.	
ii. Managing Director shall ensure compliance of Financial Institutions Act 1993 and other relevant circulars of Bangladesh Bank and other regulatory authorities.	Complied
iii. All recruitment/promotion/training, except recruitment/ promotion/ training of DMD & GM (as equivalent to EVP) shall be vested upon the Managing Director. He shall act such in accordance with the approved HR Policy of the Company.	Complied
iv. Managing Director may re-schedule job responsibilities of employees.	Complied
v. Managing Director may take disciplinary actions against the employees except DMD & GM (as equivalent to EVP).	Complied
vi. Managing Director shall sign all the letters/statements relating to compliance of policies and guidelines. However, Departmental/Unit heads may sign daily letters/statements as set out in DFIM circular no.2 dated 06 January 2009 if so authorized.	Complied



Report of the Audit Committee

The role and terms of reference of the Audit Committee is to assist the Board in fulfilling their oversight responsibilities regarding the integrity of Prime Finance's financial statements, risk management and internal control, compliance with legal and regulatory requirements, the external auditors' performance, qualifications and independence, and the performance of the internal audit function.

COMPOSITION AND MEETING:

The Audit Committee is comprised only of non-executive Directors including one Independent Director. The Independent Director is the Chairman of the Committee. During 2012 the Committee comprised of Professor Parimal Chandra Datta, PhD (Chairman), Mr. Md. Aminul Haque, Ms. Muslima Shirin, Mr. Z. M. Kaiser and Mr. M. Shahadat Hossain Kiron. The Committee met 5 (five) times in 2012. Attendance of the meetings is given on page 75. The Board has satisfied itself that the current members of the Audit Committee are competent in financial matters and have recent and relevant experience. For the purposes of the Corporate Governance Notification, all the members of Committee are financially literate and Professor Dr. Parimal Chandra Datta is a financial expert.

FUNCTIONS AND ACTIVITIES:

During the year, principal activities were as follows:

Control Issues

- reviewed internal control and risk management systems;

- considered the effectiveness of the Company's internal controls over financial reporting;
- reviewed impairment methodologies;

Financial Results

- reviewed reports from the Chief Financial Officer on the quarterly and annual financial statements, including other financial statements and disclosures prior to their publication;
- reviewed the Annual Report, these reviews incorporated the accounting policies and key judgments and estimates underpinning the financial statements as disclosed in Notes to the Account.

Internal Audit Matters

- received reports from the internal auditors;
- monitored the performance of the Internal Audit function;
- reviewed the Internal Audit Plan;
- reviewed appropriate systems and controls are in place for effectiveness of internal audit function;
- monitored independence of audit work.

External Audit Matters

- reviewed the effectiveness and independence of the statutory auditors;
- recommended re-appointment, remuneration of the statutory auditor;
- reviewed the annual audit activities and audit report.

Report of the Audit Committee - *continued*

Governance and Compliance

- reviewed issues concerning inspection report of Bangladesh Bank;
- reviewed compliance with existing laws & regulations;
- reviewed financials of subsidiary;
- reviewed its Terms of Reference to satisfy itself that they enable the Committee to fulfill its responsibilities.

Risk Management and Internal Control Arrangements

- reviewed Credit Risk Management Manual;
- reviewed Anti Money Laundering and Combating Terrorist Financing Policy;
- reviewed IT policy;
- monitored prevailing of appropriate administration culture as prevailing;
- monitored the steps taken against findings of inspection team of regulatory authority.

EXTERNAL AUDITORS

A. Qasem & Co., Chartered Accountants, Gulshan Pink City, Suit # 01-03 (Level-7), Plot # 15, Road # 103, Block – CEN(C), Gulshan Avenue, Dhaka, were re-appointed as auditors of the company at the 16th Annual General Meeting held on 28 March 2012. The Audit Committee conducted a formal evaluation of the effectiveness of the external audit process. The Committee has considered the tenure, quality and fees of the auditors and recommended to the Board the

reappointment of external auditors. On the recommendation of the Audit Committee, the Directors will be proposing the re-appointment of A. Qasem & Co. at the 17th AGM on 27 March 2013.

Independence of External Auditors

The Company's external auditors are prohibited from non-audit services as prescribed by the Bangladesh Securities and Exchange Commission vide its Notification dated 7 August 2012. Tax and other professional services of the Company are conducted by separate professional Firms to ensure the Auditors' independence. A. Hossain & Co., Chartered Accountants retains for company taxation services on the other hand A. Hossain & Associates and Hasan & Associates provides legal services to the Company. If there is uncertainty as to whether a matter falls within the permitted services, the matter is referred to the Head of Internal Control & Compliance, the Chief Financial Officer and the Company Secretary who will consult with the Audit Committee.

AUDIT COMMITTEE TERMS OF REFERENCE

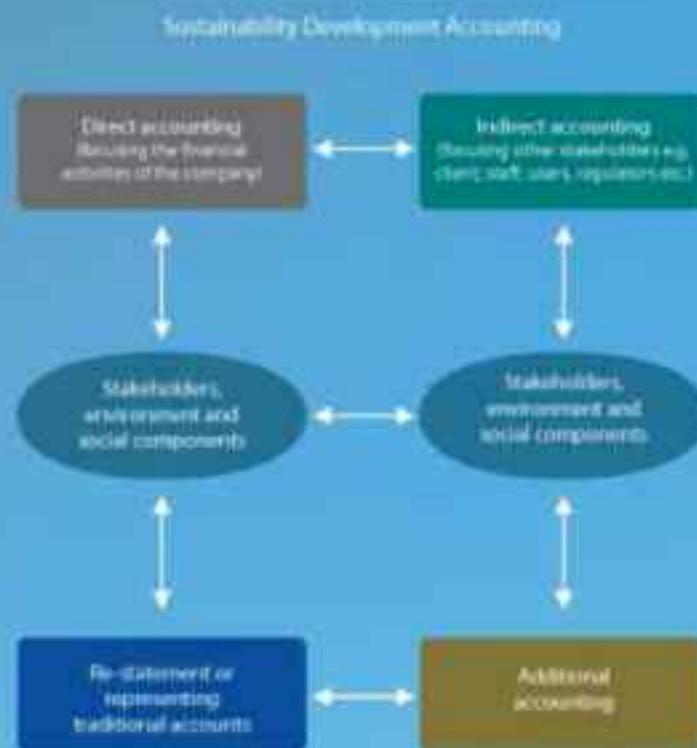
The Audit Committee's terms of reference are reviewed annually by the Committee taking into account relevant legislation and recommended good practice. The terms of reference may be found on 89 viewed on Company's website.

sd/-
Prof. Dr. Parimal Chandra Datta
Chairman
Audit Committee

Sustainability Development Accounting

Sustainability Development Accounting or SDA is a useful tool to identify, evaluate and manage social and environmental risks by identifying resource efficiency, cost savings and linked improvements in social and environmental issues with financial opportunities. It also allows comparison and benchmarking of performance and identification of best practice.

Prime finance as financial institution concentrates on the focal points of sustainability accounting for the large benefit of the company, the stakeholders and the economy as a whole. The following are the major areas of said SDA;



SUSTAINABILITY REPORTING

SI	Area of sustainability		Particulars		
1	Good governance		Prime Finance employs a comprehensive and well-founded corporate governance regime		
2.	Stakeholders' engagement	The scope of the company's stakeholders engagement is wide ranging and includes dialogue with shareholders, customers, directors, employees, depositors, lending agencies, our regulators etc.	Stakeholders' group	Desired outcome	Frequency & medium of engagement
			Shareholders	To ensure that their expectations are met.	Quarterly financial statements, regular annual report and AGM
			Directors	To ensure that stakeholders' expectations are met.	Monthly Board meetings and Board papers (sometimes more frequently)
			Employees	Loyalty, commitment and motivation. To create a great place to work and also to ensure that employees' values are aligned with corporate values. Moreover, as financial institution, we strive to create a unique value proposition in the industry through our staff.	Regularly; through the following methods: Team meetings, monthly departmental meetings, policy and procedure manuals, open-door policy, cross-functional teams surveys, software systems use, active staff recreation, use of intranet, informal group meetings across staff of varying grades, etc.
			Depositors	To attract new depositors and to maintain loyalty	Providing account statements, gift items, telephonic communication.
			Lending agencies	To keep them updated about the Company and report on progress.	Regular reports and quarterly visits
			Central Bank as regulator	Maintain a close working relationship and ensure compliance.	Regular meetings and reports - daily, weekly, monthly, quarterly and annually
			Auditors	Maintain a close working relationship and ensure compliance.	Regular Meetings - monthly and annual audit Exercise
			Market analysts	To keep them informed of the Company's performance.	Quarterly meetings and telephone conversations- quarterly

Sustainability Development Accounting - *continued*

			Stakeholders' group	Desired outcome	Frequency & medium of engagement
			Suppliers	Maintain a close working relationship.	Meetings on need basis
			Correspondent banks	Maintain a good relationship.	Daily; via telephone, SWIFT, E-mail, etc.
			Government agencies	Ensure compliance.	Reports, payments, meetings when necessary
			Implementing body of Financial Reporting Standards (ICAB)	Keeping communication and ensure compliance.	Submission of annual report and meeting as needed.
			Rating agencies	Ensure compliance.	Annual rating exercise and submission of accounts
3.	Economic performance	<p>The financial performance of Prime Finance over the years represents the economic prosperity and profitability that contribute to and enrich the sustainability.</p> <p>The most appropriate information in this regard is to be found in the Value Added Statement, Economic Value Added (EVA) statement and the Market Value Added Statement (MVA) in this Annual Report, Page 51 to 52.</p>			
4.	Participatory management and equity linked compensation plan	<p>The overall human resources management philosophy is attuned towards participatory management which creates a conducive environment for performance management and recognition. The remuneration structure is in fact linked with the performance management system.</p>			
5.	Going 'beyond the core' for public benefit	<p>Apart from what the Company can and does accomplish in its normal course of business, there are many instances of indirect economic value addition to the wider community in pursuit of true sustainability of the Company and stakeholders.</p>			
6.	Financial inclusion for the wider community	<p>In addition to strategic focus of building an entrepreneurial culture, Prime Finance has taken initiatives to move beyond our regular customer base and assist a wider community consisting of individuals and groups, including them in the financing system through unique products and schemes, assisting them to improve their savings from new ventures, helping develop the communities and empowering the people to develop or take up new business ventures. In doing so, we are laying the foundation towards sustainable livelihood development that will result in elevating their social standing while contributing towards national development.</p>			

Sustainability Development Accounting - *continued*

SI	Area of sustainability	Particulars
7.	Environmental Performance	Prime Finance accepts that the sustainable prosperity and well-being of our institution is closely intertwined with that of all stakeholders and importantly it is closely linked with the suitable environment. It is not enough to conduct business, we are also required to practice 'good living habits' along with the environment, minimizing harmful impacts.
8.	Sustainable lending and investment decisions	Prime Finance's lending policies ensure that lending facilities are not extended to industries engaged in illegal activities, industries that pollute the environment with no proper pollution control methods, industries involved in manufacturing and selling arms and production or activities involving harmful or exploitative forms of forced labour/child labour. Prime Finance conducts an individual social and environmental risk analysis for the borrowers' operations and takes measures to avoid, mitigate and minimize the risks identified before funding.
9.	Prime Finance as a good employer	From the inception, Prime Finance has strived to be a good employer, an employer of choice in a competitive market place. We did what was necessary; put the systems in place, the thinking in place and created our own culture which we felt would serve the needs of both the Company and employees.
10.	Upholding human rights	Prime Finance has ensured human rights of all its stakeholders.
11.	The whistle blowing policy	The whistle blowing policy of Prime Finance promotes employees to raise serious concerns of malpractice or misconduct internally and to ensure that such allegations are thoroughly investigated
12.	The open door policy	An open door policy guarantees an employee's right to seek assistance from any point in the chain of command, even superseding their immediate supervisor. The policy provides employee access to any manager or supervisor including the Managing Director. At Prime Finance, we practice open door policy for communication and we believe that an effective communication policy would increase the morale and motivation of employees.
13.	Tracking customer satisfaction	Prime Finance welcomes all customer complaints which are accounted from the complaints box. Many areas have been improved like customer service quality standards during the year under review.
14.	Protecting customer privacy	Prime Finance always avoids any breaches of customers' privacy or loss of customer data.

Continuity of business on a higher trajectory than in the past and formulation of strategies for sustainability in future are the hallmark of good institution. We are

committed to use our accounting and accountability for fine tuning the growth path of the institution.



Report on Internal Control

OBJECTIVES

The aim of internal control is to provide reasonable assurance, by means of system of processes and procedures implemented by Prime Finance, that the following three objectives may be achieved:

- Optimization of operational efficiency;
- Accuracy of financial information;
- Compliance with the laws and regulations currently in force.

As in the case with any control system, the Company's internal control system cannot guarantee that all risk of error or fraud is fully eliminated or controlled.

INTERNAL CONTROL PROCEDURE

Prime Finance believes on the principle of decentralization of authority and responsibility. Consequently, responsibility for the implementation of appropriate internal control procedures governing risk management, financial control and compliance with legislation is delegated to the managers of each department of the Company.

To ensure the consistency of Company's procedures with each department, senior management relies on the functional department to draw up the procedures necessary for the proper operation of controls, issue instructions regarding their implementation and ensure compliance with the said instructions.

The key operations and the internal control procedures applicable to them are described below:

Internal control procedures in respect of financial and accounting information

Financial and accounting information is prepared centrally on the basis of financial statements generated from the software application that is used by different departments and is in compliance with the IAS and IFRS as adopted by the ICAB.

Reports are produced monthly and prepared in the following month to which they relate whereas full accounting consolidation are produced quarterly and prepared within the following month to which they relate. The preparation of the annual financial statements is the responsibility of the Management under the control of the Audit Committee and Company's Auditor. The quarterly & half-yearly Financial Statements are prepared by the Management under the control of Audit Committee.

External financial information

Financial communication to external parties consists of financial statements prepared by the Management, submitted to the Board and reviewed and audited by the Auditors.

Cash position and financing

Responsibility for cash management is delegated to the treasury department by means of well defined procedures and delegation. Any departure from the general rules requires the prior authorization of ALCO.

The finance & accounts department is responsible for borrowings and investment with a term more than six months. Responsibility for borrowings and investment with a term of less than six months is delegated to the treasury department, which is required to comply with specific procedures: position of the banks involved, risk-free investment and monitoring of financial transactions.

Borrowings and investments are monitored on monthly basis by means of report produced by the treasury and finance & accounts department and submitted to Senior Management.

Procedures and inspections

With the objective of producing high quality financial and accounting information, Prime Finance has introduced procedures and instructions tailored to every section. These procedures are grouped by topic and deal mainly with accounting, treasury, regulatory and reporting issues.

Report on Internal Control - *continued*

The internal control & compliance department is independent from management. It audits the activities and systems of different departments in accordance with an audit plan, particularly in order to assess and improve the accuracy and reliability of the accounting and financial information. The internal control & compliance department coordinates relations with external auditors.

AREA OF INTERNAL CONTROL

Industrial investment

Industrial investments are made through different sections particularly the Corporate Finance, SME Finance and Real Estate Finance. Every project proposal passes through the Management Committee to the approving authority depending on the size of investment. The authorities are Executive Committee and the Board. The sanction limit for each level is defined and distinct. The proposal is also passed through the Risk Committee that assesses the probable risks associated with the project and gives a report on it which is attached to each proposal under the signature of the head of Risk Management.

Customer relation

With the aims of specifying and formalizing certain practices regarding contractual relations with its clients, Prime Finance has developed a procedure for managing client risk: limit in respect of credit, delegation of authority, security, insurance and documentation.

The legal department analyzes the legal provisions applicable to financing agreements executed between Prime Finance and the clients. We have standard documents defining the conditions with which the agreements should comply in order to reduce the level of risk. These standard documents are regularly reviewed by the concerned department.

Human resources

The Human Resources department organizes career and skills development for those positions requiring a high level of responsibility. It carries out the performance evaluation program in each year. This department provides industry information to the management as to the emolument and benefits. It also ensures that information for management reports is obtained and circulated. Human Resources department is responsible for ensuring compliance with the service rules and regulations.

Information technology

The information technology department is responsible for integrating and ensuring the consistency of the hardware and software used. In Prime Finance, most data processing is carried out by means of integrated software packages. Back up of the data base is stored in a safe custody on daily basis at outside business premises.

PROCEDURES TO ENSURE CONTINUOUS IMPROVEMENT

Research and Development

Prime Finance has taken initiative to strengthen further its Research and Development department to draw up Company's procedures concerning the management of programs for developing services and improving communication system.

Prime Finance has decided to carry out an assessment procedure to review internal control procedures in respect of accounting and financial information, human resources, research and development, information technology and terms & conditions applicable to financing agreements between clients and Prime Finance.

These assessment procedures enabled action points to be drawn up. It is expected that functional departments will begin to take action in respect of these points.

This gradual process of improving internal control procedures will continue in 2012 and onward.

INTERNAL CONTROL & COMPLIANCE COMMITTEE

Prime Finance has established Internal Control & Compliance Committee that is tasked with various duties & functions relating to Internal Control & Compliance Department. Internal Control & Compliance Committee also talk about audit report prepared by Internal Control & Compliance Department.

The Internal Control & Compliance Committee is chaired by the Managing Director and its members are Deputy Managing Director, Executive Vice President & Head of Operation, the head of Internal Control and such other members and/or Attendees as the Committee from time to time considers appropriate. The Committee's role is to review and monitor the duties and responsibilities of Internal Control & Compliance Department.



Report on

Risk Management

Risk has become a growing concern for most financial institutions today. Irrespective of whether this concern stems from an increasingly competitive marketplace or from more stringent regulations, financial institutions must have a robust risk management framework in place if they wish to survive in a more interconnected and complex world. In order to guarantee the appropriate management of activities, risk managers need to remain independent from the daily conduct of the business, possess the highest degree of integrity and empowerment within the organization, and rely on robust and validated risk systems. Generally speaking, a robust risk management framework is based on five essential components: a strong corporate governance that diffuses a positive risk culture from the top to the bottom of the organization, a coherent and exhaustive set of policies and procedures, the technological capability to extract data about the organization's performance and the risk of its uncertain environment, know-how in measuring this uncertainty, and finally, its ability to monitor risk on an ongoing basis in order to optimize the risk taking process.

With the use of relevant risk management measures, Prime Finance is likely to avoid most of its problems and can maximize its revenues and returns while minimizing the risk losing out. Responsibility and Accountability are 2 main principles of the risk management framework at Prime Finance. Prime Finance recently changed their risk management framework in several different areas. We have strengthened several key areas including risk management responsibilities for future needs, better understanding of risks and managing these risks using different scales, enhancing the overall risk management framework and managing the organization's exposure in order to stay safe. Credit risk management needs to be effective in order for the organization to stay well off and stable financially in the long term. The most common source of credit risk is due to the lending of loans, however, there are other factors leading to this specific risk including the books of the financial institution and the state of financial position.

Regulators are mainly concerned about minimising the risk that an organisation takes, while the organisation needs to be concerned about optimising this risk - achieving the greatest reward possible for an acceptable level of risk. Therefore, an organisation should develop its own set of procedures, which should be aligned with the organisation's goals and risk appetite. Procedures crystallise one's tasks and duties. Once risk management personnel have been matched to their level of competency, interest, and accountability, procedures empower them in the eyes of the rest of the organisation.

The main driver of a positive risk culture lies in individual accountability. In Prime Finance Individual accountability maintains individual awareness at every level of the organisation. A risk or set of risks should fall into one's duties, and individuals' performance should be assessed according to their effectiveness in managing them. Finally, a positive risk culture leads us to admit our own knowledge limits, which implies the identifying and managing our own capabilities. Here, defining appropriate training and encouraging the sharing of knowledge and experience maintains cohesion within and amongst teams. Accountability, creativity, transparency, and honesty are the key attributes of the employees of Prime Finance, working in a risk management function.

STEPS OF AN ACTIVE RISK MANAGEMENT SYSTEM:

1. Standards and Reports

A. Standards

- Underwriting standards
- Risk categorization
- Review standards

B. Financial Reporting

- Audits
- Regulatory reports
- Rating agency reports
- Internal portfolio

2. Position Limits/Rules

- Counter party exposures
- Credit limits
- Position concentration

3. Investment Guidelines

- Concentrations
- Commitments

4. Incentive Schemes

- Performance-based compensation contracts

RISKS IN PRIME FINANCE

The risks borne by Prime Finance as a financial institution can be broken into five generic types: systematic, credit, counterparty, operational, and legal. See Table 1. Briefly, we will discuss each of these risks facing by the institution.

Systematic Risk

Systematic risk is the risk of asset value change associated with systemic factors. As such, it can be hedged but cannot be diversified completely away. In fact, systematic risk can be thought of as undiversifiable risk. Financial institutions assume this type of risk whenever assets owned or claims issued can change in value as a result of broader economic conditions. As such, systematic risk comes in many different forms. For example, as interest rates change, different assets have somewhat different and unpredictable value responses. Energy prices affect transportation firms' stock prices and real estate values differently. Large scale weather effects can strongly influence both real and financial asset values for better or worse. These are a few types of systematic risks associated with asset values. Some financial institutions decompose systematic risk more finely. Prime Finance, have substantial balance sheet reactions to specific systemic changes try to estimate the impact of these particular systematic risks on performance, attempt to manage them, and thus limit their sensitivity to variation in these undiversifiable factors. Accordingly, many institutions heavily involved in the fixed income market attempt to track interest rate risk closely and more rigorously than those that have little rate risk in their portfolios. We measure and manage the firm's vulnerability to interest rate variation, even though they cannot do so perfectly. Likewise, international investors are aware of foreign exchange risk and try to measure and restrict their exposure to it.

DECOMPOSING ORGANIZATION RISK			
SYSTEMATIC			
Asset value change associated with systemic factor			
interest rate	foreign exchange	commodity pricing	other
CREDIT:			
Non-performance by debtor			
COUNTERPARTY:			
Non-performance by a trading partner (transaction oriented)			
OPERATIONAL:			
Problems of accurately processing and settling transactions			
LEGAL:			
Endemic to financial contracting			

Credit Risk

Credit risk arises from non-performance by a debtor. It may arise from either an inability or an unwillingness to perform in the pre-committed contracted manner. This can affect the lender who underwrote the contract, other lenders to the creditor, and the debtor's own shareholders. Credit risk is diversifiable but difficult to

hedge perfectly. This is because most of the default risk may result, in fact, from the systematic risk outlined above. The nature of some portion of these losses, however, remains a problem for creditors in spite of the beneficial effect of diversification on total uncertainty. This is particularly true for creditors that lend in local markets and take on highly illiquid assets.

Credit Risk Management Philosophy

- All credit facilities must comply regulatory requirements including Financial Institution Act and Bangladesh Bank guidelines & circulars as amended from time to time.
- Credit extension shall focus on the development and enhancement of customers long-term relationship and shall be measured on the basis of the total yield for each relationship with a customer.
- Extension of credit facilities only to productive and legitimate business activities, which are socially desirable, nationally important and financially viable; and will not lend for unproductive purposes, speculative ventures, or socially undesirable schemes.
- Constant thriving for building and maintaining quality portfolio.
- Discourage financing to low net worth, or highly leveraged customers-who might jeopardize their repayment commitment or even in worse situations may face liquidity problem.
- Pricing of various lending depend on the level of risk, types of security offered and prevailing cost of fund.
- Discourage funding to industrial organizations that do not have effluent treatment plants or units that contribute to environment pollution.

Operational Risk

Operational risk is associated with the problems of accurately processing, settling, and taking or making delivery on trades in exchange for cash. It also arises in record keeping, computing correct payment amounts, processing system failures and compliance with various regulations. As such, individual operating problems are small probability events for well-run organizations, but they expose a firm to outcomes that may be quite costly. Strategic risk, reputation risk, legal risk and compliance risk are considered subcategories of operational risk. Operational risk is therefore inherent in all activities within the Company. Operational risk is managed within acceptable levels through an appropriate level of management focus and resources. Failure to manage operational risk effectively leads to significant financial losses, regulatory fines, reputational damage, all of which directly impact shareholders value. Accordingly, prime

Report on Risk Management - *continued*

Finance's operational strategy aims to:

- Minimize the operational risks on its shareholders.
- Reduce the likelihood of occurrence of unexpected events by managing the risk factors
- Minimize the impact of unexpected and catastrophic events including related costs.
- Make all managers responsible for the management of operational risk and thus minimize actual or potential losses.

Legal Risks

Legal risks are endemic in financial contracting and are separate from the legal ramifications of credit, counterparty, and operational risks. New statutes, court opinions and regulations can put formerly well established transactions into contention even when all parties have previously performed adequately and are fully able to perform in the future. For example, the bankruptcy law enacted in 1979 created new risks for corporate bondholders. Environmental regulations have radically affected real estate values for older properties as well. A second type of legal risk arises from the activities of an institution's management or employees. Fraud, violations of securities laws, and other actions can lead to catastrophic loss, as recent examples have demonstrated. All financial institutions face these risks to some extent. Non-principal or agency activity primarily involves operational risk. Since institutions in this case do not own the underlying assets in which they trade, systematic, credit and counterparty risk accrues directly to the asset holder. Principals must weigh both the expected profit and the various risks enumerated above to assure stockholders that the result achieves the stated goal of maximizing shareholder value. The result of this exercise will permit a wide range of financial institutions to co-exist, as we shall see.

Counterparty Risk

Counterparty risk comes from non-performance of a trading partner. The non-performance may arise from counterparty's refusal to perform due to an adverse price movement caused by systematic factors, or from some other political or legal constraint that was not anticipated by the principals. Diversification is the major tool for controlling nonsystematic counterparty risk. Financial institutions are a clear example of such institutions. Therefore, they have devoted considerable energy to interest rate risk management. Accordingly, lending institutions actively manage their credit portfolios. Counterparty risk is like credit risk, but it is generally considered a transient financial risk associated with trading, rather than a standard creditor default risk associated with an investment portfolio. A counterparty's

failure to settle a trade can arise from many factors other than a credit problem.

Market Risk

Market risk relates to the potential loss arising from an adverse change in the market risk factors, including commodity prices, interest rates, credit spreads and equity prices. The major market risk components in Prime Finance are:

- Share price risk (risk of loss due to adverse change in capital markets) and
- Interest rate risk (risk of loss resulted from the change in market interest rates).

IT Security Risk

In Prime Finance information of assets are well protected in order to comply with the requirements of Bangladesh Bank and to secure the information and systems against the potential threats. Prime Finance has a board policy on IT Management approved by its Board of Directors. The policy covers major issues of Bangladesh bank guidelines related to IT risks management. There is a Domain Controller (DC) to manage domain users and deliver information and software services to other computers linked by network. We have dedicated Database Server and Application Server. All these servers are located in a secured server room. Proper security measures have been taken to ensure data security and data integrity. The sensitive information is kept in a restricted area in the networking environment. Unauthorized access and electronic tampering is controlled strictly. Security system of the network is under dual administrative control.

Political Risk

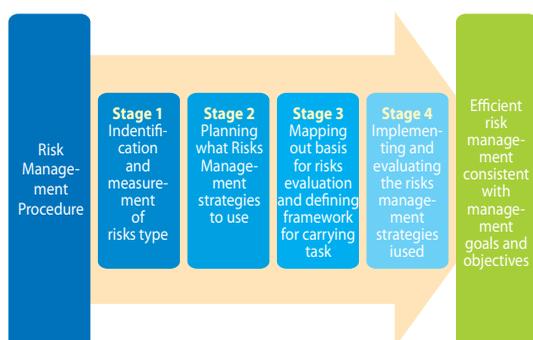
Political risks are uncertainties to business objectives created by political actors or political conditions while the management of financial, market and other types of risk has become a paramount business consideration since the economic crisis of 2008, a recent Global Risk Management Study found that most companies do not measure or manage political risk. Organizations tend either to accept these risks, or to avoid opportunities altogether when they pose large political risks.

Recently, the ongoing violence and political unrest in Bangladesh would only give wrong signals to investors and dent the reputation of the country. Investors like to see predictability and safe and easy working environment. Violence and shutdowns are considered to be difficult problems for investment. The ongoing situation on the political front would have a deeper and harmful effect on Bangladesh's reputation and its efforts to attract new investment.

Report on Risk Management - *continued*

This situation does not support any company to make an innovative idea. That's why local business can not be strong to be competitive in international business with such political system and government. That's why Bangladesh is lagging behind in international business competition.

THE RISK MANAGEMENT PROCESS IN PRIME FINANCE



RISK MANAGEMENT FRAMEWORK

Prime Finance strongly agrees to the principles of risk sensitive approach to capital adequacy as per the requirement of Basel-II framework. We assume with the coming implementation of Basel II, the entire sector of non-banking financial institutions will be upgraded to a common platform for continuous development of risk management activities. We take this pleasure to declare that Prime Finance has already acquired desired capital adequacy level as stipulated in Basel-II way before the deadline declared by the Bangladesh Bank. Prime Finance obtained "AA" in the year 2012, rated by Credit Rating Information Services Limited (CRISL).

The Company applies a modern framework for its risk management, having long since established independent risk control, credit analysis and credit approval functions. Board supervision, an explicit decision-making structure, a high level of risk awareness among staff, common definitions and principles, controlled risk-taking within established limits and a high degree of transparency in external disclosures are the cornerstones of Prime Finance's risk and capital management.

ROLE OF THE BOARD OF DIRECTORS

- Approve and periodically review risk strategy and policies;
- Ensure that senior management takes steps necessary to monitor and control risk;
- Ensure that management maintains an appropriate system of internal control and review its effectiveness;

- Approve and review changes/amendments to the risk management framework;
- Approve and review risk management procedures and control for new products and activities.

ROLE OF EXECUTIVE COMMITTEE

Review and preparation of short-term, medium-term and long-term plans and policies to fulfill Company's goals/objectives, as per the directions of the Board. The Committee also shall prepare/review business plans to be submitted to the Board. The Committee shall periodically review Company's achievements and recommend to Board appropriately;

- Review implementation of the business policy;
- Review significant risks and quality of credit portfolio;
- Review the overdue position of clients of the company;
- Review the write off loan/lease status of the company and recovery thereof;
- Review management succession plans for executive positions;
- Review major compensation policies and recommend incentive program;
- Approve credit proposals upto a certain limit ;
- Approve providing corporate guarantee upto T a certain limit ;
- Approve all pre-IPO placement/underwriting proposals upto a certain limit ;
- Approve all administrative expenses up to a certain limit ;
- Approve reduction of interest rate of lease/loan up to a certain limit ;
- Approve waiver of unrealized delinquent charge up to a certain limit ;
- Approve the requirements of Management personnel upto the rank of SVP for different sections of the Company;
- Approve purchase/disposal of the fixed/floating assets of the company as per the regulatory guideline in this regard;
- Evaluate effectiveness of the HR Policy in carrying out the duties specified in its charter.

ROLE OF THE AUDIT COMMITTEE

- Oversee the work of external auditors, internal auditors including matters of disagreement between management and the auditors;
- Review the findings of auditors, any disagreement and management responses;

Report on Risk Management - *continued*

- Review the financial and other systems including internal control and its reporting procedure.
- Detailed duties and responsibilities are set out on page 89 of this Annual Report.

ROLE OF INTERNAL CONTROL AND COMPLIANCE

Control Wing

- Conduct audit with the instruction contained in the internal control policy guideline and with the instruction of the Board/ the Board Audit Committee/ the management;
- This department performs first level and continuous independent verification of control measures put in place to manage all risks across the organization;
- Recommend for any change in policies or guidelines if necessary to the Management / Board Audit Committee;
- Report major lapses and irregularities to the proper authority;
- Internal control has the responsibility of auditing the risk management function to ensure that all units charged with risk management perform their roles effectively on a continuous basis.

Compliance Wing

- Ensure full compliance for regulatory requirements; Inspection of audited reports and follow up with the department/ branches for regularization of the irregularities;
- Ensure that corrective measures are taken and the appropriate response is made on timely manner.

ROLE OF MANAGING DIRECTOR

- Ensure implementation of risk strategy approved by the Board of Directors;
- Develop policies and procedures for identifying, measuring and controlling risk;
- Review of all reports on regular and timely basis;
- Establish and maintain an effective risk management environment in the organization;
- Review proposals in respect of credit policies and standards and endorse them to the Board of Directors for approval.

ROLE OF MANAGEMENT COMMITTEES (MANCOM)

- MANCOM members meet at regular intervals for addressing and discussing all strategic and technical decisions relating to business, credit, operations,

administration, HR, internal and financial control and compliance;

- Review and discuss policies and procedures of the Company and make changes if necessary before presenting to the Board;
- Discussion on due diligence regarding different compliance matters;
- Monthly review of control and compliance (internal and regulatory) issues;

ASSET LIABILITY MANAGEMENT COMMITTEE (ALCO)

- The ALCO controls the short-term and long-term liquidity to ensure that the Company has adequate liquidity at all times and to minimize the funding costs;
- ALCO conducts liquidity management in a manner that maintains stability and flexibility in day-to-day funding activities. Our liquidity risk management starts by managing daily payment cheques, daily cash inflow and out flow, maturity of deposits and our access to other funding sources as and when required;
- The ALCO is also responsible for the Balance Sheet structure and measures to optimize regulatory capital;
- Develop and review of policies, procedures and system relating to Market risk and recommend policies to the Board;
- Monitor asset and liability mismatch, pricing and interest rates;
- Ensure compliance with statutory and regulatory requirements relating to market risks.

CENTRAL COMPLIANCE UNIT

- Develop, oversee and maintain anti-money laundering compliance policy that ensures and monitors compliance with the prevention of Anti-Money Laundering Act 2012;
- Monitor and ensure reporting to Bangladesh Bank regarding any suspicious and doubtful transactions;
- Ensure all related employees get adequate training regarding prevention of money laundering;
- Ensure compliance with internal policies and procedures and external regulatory requirements.

CREDIT RISK MANAGEMENT COMMITTEE

- Provide all reports required by the Board and its Committees for the effective performance of risk management;

Report on Risk Management - *continued*

- Provide appropriate resources to evaluate and control risk;
- Review all reports regularly and timely;
- Establish and maintain an effective risk management environment in the organization;
- Review proposals in line with credit policies and standards and endorse them to the respective approving authorities for approval;
- Monitor on an ongoing basis the Prime Finance's risk quality and performance, review periodic credit portfolio reports and assess portfolio performance.

IT INFRASTRUCTURE DEVELOPMENT COMMITTEE

- The IT Audit Committee members meet at regular intervals for addressing and discussing all IT & software related issues of Prime Finance;
- The team makes periodical audit of IT products and their progress. Without prejudice to the roles of these above mentioned committees, the Board of Directors retains ultimate responsibility for risk management.

BASEL II IMPLEMENTATION UNIT

Basel-II implementation committee has already been formed under the supervision of the Managing Director of the Company. This committee is responsible for the implementation of Basel-II Accord. Prime Finance submitted report on Basel-II to the respective department of Bangladesh Bank on quarterly basis.

As a financial institution, Prime Finance understands the stringent requirements of Basel II. This international standard that drives FI regulations defines how much capital FIs need to put aside to guard against financial risks. Basel II also strives to reduce operational risks—that is, the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events. Through compliance, Prime Finance assured that it holds sufficient capital reserves for the risk which expose the company through its lending and investment practices. We are also protecting our IT systems and inherent business information.

STRESS TESTING

Stress testing is a process to evaluate the potential impact on company balance sheets of a specific event and/or movement in a set of financial variables. It is a simulation technique used on asset and liability portfolios to

determine their reactions to different financial situations. Stress testing is an effective tool for improving understanding of economic balance sheets. It is an effective risk management tool with its flexibility and the way it explicitly links potential impacts to specific events.

Stress-testing techniques fall into two general categories: sensitivity tests and scenario tests. Sensitivity tests assess the impact of large movements in financial variables on portfolio values without specifying the reasons for such movements. A typical example might be a 100 basis point increase across the yield curve or a 10 percent decline in stock market indexes. These tests can be run relatively quickly and are commonly used as a first approximation of the portfolio impact of a financial market move. However, the analysis lacks historical and economic content, which can limit its usefulness for longer term risk management decisions.

Here, in Prime Finance stress testing is mostly used in managing market risk, which deals primarily with traded market portfolios. These portfolios include interest rate, equity, foreign exchange, and commodity instruments and are amenable to stress testing because their market prices are updated on a regular basis. Stress-testing applications have expanded to considering credit risk in loan portfolios as well as the impact of sudden interest rate changes on funding sources.

Stress testing is an appealing risk-management tool because it provides risk managers with additional information on possible portfolio losses arising from extreme, although plausible, scenarios. In addition, stress scenarios can often be an effective communication tool within the firm and to outside parties, such as supervisors and investors.

Stress tests are modeled as specific directional shocks to market prices and rates, so stress profit and loss (P&L) values are more intuitive than VaR numbers and can provide a more concrete picture of the risks being taken, as well as a basis for more meaningful discussions about the risks in the portfolio. Stress testing brings flexibility to ERM and is used to meet the regulatory requirement and external disclosure. Once implemented in the corporate decision making process, stress testing can effectively increase enterprise economic profit. A good set of stress tests enables managers to proactively reduce unacceptable risk levels by indicating how to structure hedges for unacceptable risk exposures (i.e., where to take risk offsetting long or short positions). When implementing stress testing, challenges remain in modeling the interaction of different risk factors and their impacts; integrating stress testing at different levels; and how to make stress tests workable, realistic and timely.

Preparedness for BASEL-II

Risk is the vital issue that the Financial Institutions need to address properly to ensure sustainable growth in the financial market. Addressing of risk and prudent management to optimize the same can ensure sustainable growth in the industry. Now it has become obvious for the Financial Institutions to implement the advises as prescribed in the Basel Accord which will act as guide to develop a risk adjusted asset and liability portfolio and capital structure.

To cope with the international best practices and to make the capital more risks sensitive as well as more shock resilient, a Road Map was issued in August 2010 on Implementation of Basel Accord in the FIs. Being well pursuant with the Road Map guidelines namely 'Prudential Guidelines on Capital Adequacy and Market Discipline for Financial Institutions (CAMD)' had been introduced from January 01, 2011 on test basis. At the end of test run period, Basel Accord regime has been started and the guidelines on CAMD have come fully into force from 1 January 2012 with its subsequent supplements/revisions. Instructions regarding Minimum Capital Requirement (MCR), Adequate Capital, and Disclosure requirement as stated in this guideline have to be followed by all Financial Institutions for the purpose of statutory compliance.

FRAMEWORK OF

The Basel II framework consists of three pillars:

Pillar-1 (Minimum capital requirement)

Pillar-1 defines the rules for calculating the minimum regulatory capital requirement considering the different constituents of capital risk such as credit risk, operational risk and market risk.

Pillar-2 (Supervisory review)

Pillar-2 addresses the framework to the supervisory review process to ensure that the Company has sound internal processes to enable it to perform a thorough evaluation of its risks and therefore assess the required capital.

Pillar-3 (Market disclosure)

Pillar-3 specifies public disclosure requirements to enable market participants to assess key pieces of information on risk exposures and process of the Company.

PRIME FINANCE'S PREPARATORY MEASURES FOR IMPLEMENTATION

Prime Finance is always in the mode of complying all regulatory guidelines, preparedness for BASEL-II Accord is one of them. The implementation of risk

based regulatory capital adequacy framework for Financial Institutions will be followed on the basis of instructions that are articulated in the guideline for implementation of BASEL-II Accord issued by Bangladesh Bank.

FORMATION OF BASEL IMPLEMENTATION UNIT (BIU)

Organizational structure of BIU

The Basel Implementation Unit (BIU) is responsible for the implementation of BASEL-II Accord in Prime Finance. Managing risk based capital adequacy is the most important responsibility of the Company as it runs the risks. Specifically, the Basel Implementation Desk (BID) under the Risk Management Department manages the Basel activities.

Committee member

The management of the Company has already formed the BIU comprising of following members to address specific issues under BASEL-II:

Asad Khan
Managing Director

Md. Ahsan Kabir Khan
Deputy Managing Director

Md. Rezaul Haque MBA
Head of Operation & Marketing

Gazi Nilufar Yeasmin MBA
Vice President & Head of Credit Risk Management (CRM)

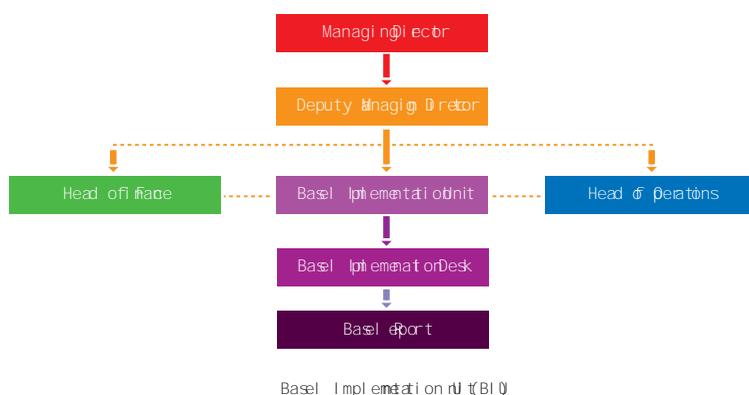
Lingkon Mondal ACA
AVP & CFO (Current Charge)

Farhana Mahejabin ACA
Assistant Vice President, Finance & Accounts

Terms of Reference of the Committee

- Apply the guiding requirements of BASEL-II in the Company and review thereof;
- Communicate issues related to BASEL-II implementation to the Management and the Board, if needed, of the Company;
- Help carrying out impact study, if necessary and the like;
- Capacity building program and training according to training need assessment for the concerned officials;
- Establish planning and supervisory review as required by pillar-2 of BASEL-II framework.

Report on Preparedness for BASEL-II - continued



QUANTITATIVE DISCLOSURE UNDER PRUDENTIAL GUIDELINES ON CAPITAL ADEQUACY AND MARKET DISCIPLINE FOR FINANCIAL INSTITUTIONS (CAMD)

Capital requirement from Credit Risk exposure

(Figures in million as on 31 December 2012)

Exposure type	Risk Weighted Assets (RWA)	RWA after factoring	Required capital on Credit Risk
On balance sheet	18,994.60	18,994.60	1,899.46
Off balance sheet	-	-	-
Total	18,994.60	18,994.60	1,899.46

Capital requirement from Market Risk exposure

(Figures in million as on 31 December 2012)

Exposure type	Capital charge for specific risk	Capital charge for general market risk	Total Capital Charge	RWA after factoring	Required capital on Market Risk
Interest rate related instruments	-	-	-	-	-
Equities	82.83	82.83	165.66	1,656.65	165.66
Foreign exchange position	-	-	-	-	-
Total	82.83	82.83	165.66	1,656.65	165.66

Capital requirement from Operational Risk exposure

(Figures in million as on 31 December 2012)

Year	Gross Income (GI)	Average Gross Income	Capital charge 15% of Avg. GI	RWA after factoring	Required capital on Operational Risk
2012	641.62				
2011	1,238.16	1,382.97	207.44	2,074.45	207.44
2010	2,269.12				
Total	4,148.90	1,382.97	207.44	2,074.45	207.44

Total Risk Weighted Assets (RWA) 22,725.70

Minimum Capital Requirement (MCR) as per the BASEL-II

(Figures in million as on 31 December 2012)

Total exposure	(Figures in million as on 31 December 2012)
Capital requirement from Credit Risk exposure	1,899.46
Capital requirement from Market Risk exposure	165.66
Capital requirement from Operational Risk exposure	207.44
Total capital requirement (10% of the risk weighted assets as above)	2,272.57
Total Eligible Capital of Prime Finance (Tier-1 & Tier-2) (actual)	5,121.62
Capital Adequacy Ratio (CAR)	22.54%
Core Capital to Risk Weighted Assets	21.49%
Supplementary Capital to Risk Weighted Assets	1.04%



Report on Going Concern

Listed Companies are required by SEC to report on its ability to continue as going concern. The Board of Directors of Prime Finance has made annual assessment about whether there exists a material uncertainty which may cast significant doubt upon the Company's ability to continue as going concern. The Directors' assessment of whether the company is a going concern entity involves making appropriate inquiries including review of budget and future outcome of inherent uncertainties in existence. The Directors are convinced from the following indications, which give reasonable assurance as to company's continuance as a going concern for the foreseeable future.

FINANCIAL INDICATIONS

→ Positive net current assets

Prime Finance has positive net current assets of Tk. 432.17 million as on 31 December 2012. It signifies Company's ability to meet its short-term obligations using the short-term assets.

→ Fixed term debt with realistic renewal or repayment

At the close of financial year 2012, total fixed term borrowings of the Company were Tk. 8,410.32 million. Based on past experience we can say that there is every possibility that major part of the debt would be renewed further.

→ Less reliance on short term borrowing

At the end of 2012, total short term borrowings of the Company were Tk. 937.28 million, representing only 8.59 percent of total liabilities that indicates the Company has least reliance on short term borrowings.

→ Continuous financial support by lenders

The Company has a very good track record and reputation in settlement of its obligation with its lenders/depositors. So, we enjoy easy and fair access to the funding sources to meet our increasing need for growth.

→ Positive operating cash flows

Cash flow statement of the Company for the year 2012 shows positive operating cash flows of Tk 181.48 million. Statement of liquidity also shows overall positive liquidity gap representing strong ability to meet current and future obligations.

→ Positive key financial ratios:

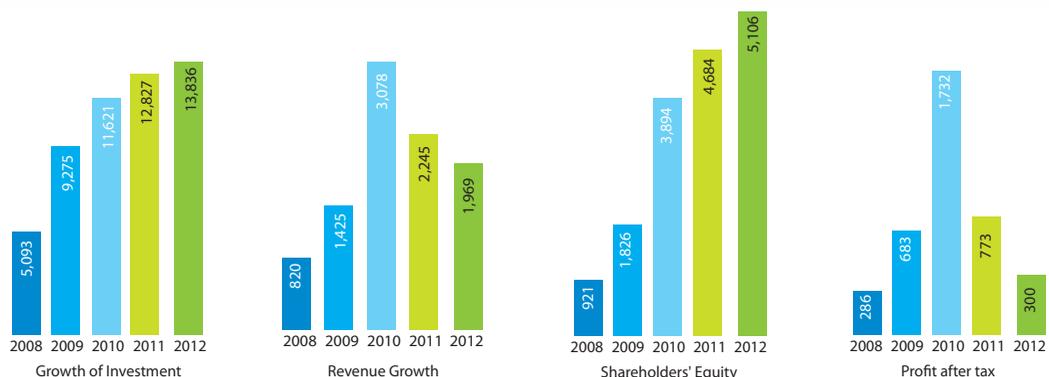
The Company has a very positive financial ratio as evident from financial summary given on page 17 of this Annual Report. Such positive financial ratios indicate Company's sound financial strength and good prospects.

→ Consistent payment of dividends

The Company has been paying dividend consistently to its shareholders over many years. Dividend payment record is given on page 17 of this Annual Report, which reflects company's long-term vision. Every year since listing, the Company has been continuously paying stock and/or cash dividend that reflects Company's long-term viability in operational existence.

→ Credibility in payment of obligations

The Company has strong credibility in terms of payment of its obligations to the lenders. The Company is very particular in fulfilling the terms of loan agreement.



Going concern - *continued*

→ Performance growth

Prime Finance has excellent growth in its operating performance. Company's total investment has increased from Tk.12,827.06 million to Tk. 13,836.13 million, indicating a growth of 9.89 percent over last year. Total consolidated operating revenue is Tk. 1,969.11 million and total profit after tax is TK. 300.19 .million. All those indicators support Company's continuance in foreseeable periods.

OPERATING INDICATIONS

→ Expansion of business

Company has also expanded its products/services line by introducing new product like Triple money program, Earned ahead, Periodical Income Deposit, Prime Priority FD account, Prime Doctor's FD, Prime Professional FD, Prime Contribution FD etc. Business expansion has also gained by investing in associated companies namely PFI Securities Ltd., Prime Finance Asset Management Company Ltd. and Prime Prudential Fund Ltd. and investing in subsidiary company, Prime Finance Capital Management Limited. These represent Company's intention for perpetuity.

→ Corporate environment and employee satisfaction

There exists a very good corporate environment in the Company. Prime Finance is an excellent work place with friendly environment. Communication among the employees is very excellent. The company endeavors to be honest and practices fair treatment to all employees which ensures good corporate environment. The Company pays a very competitive compensation package and there exists a good number of employee benefits like transport benefit, annual health check-up, death benefit, hospitalization benefit, disability benefit, maternity benefit, performance related bonus, pension, gratuity, provident fund etc., which considered to be instrumental for employee satisfaction.

OTHER INDICATIONS

→ Maintenance of sufficient capital

As on 31 December 2012, the Company's total consolidated equity stands at Tk.5,106.59 million. While the minimum paid-up capital as required by Bangladesh Bank is Tk. 1,000 million. Company's paid-up capital as on 31 December 2012 is Tk. 2,274.30 million. The Board recommended 30 percent of dividend (20% stock and 10 percent cash) for the year 2012. Upon approval by the Shareholders in the next AGM to be held on 27th March 2013, the paid up capital would stand at Tk. 2,729.16 million one of the highest amongst NBFIs which reflects Company's long-term vision.

→ Strong equity base

As on 31 December 2012, total equity of the Company stands at Tk. 5,106.58 million (2011: 4,684.39 million) representing an increase of 9.01% over last year that reflects company's long-term viability.

→ Strong CAMEL rating

CAMEL rating is used by Bangladesh Bank as a tool for evaluating the strength and performance of a non-banking financial institution. The composite rating adjudged by Bangladesh Bank signifies satisfactory performance of Prime Finance. In that report, there was no adverse material observation of Bangladesh Bank on the activities of Prime Finance.

→ Changes in Government policy

Management anticipates no significant change in legislation or government policy, which may materially affect the business of the Company.

Based on the above indications, directors feel it is appropriate to adopt going concern assumption and there is no material uncertainty in preparing the financial statements. Adequate disclosures have been made in the financial statements and different sections of the annual report to understand the appropriateness of going concern basis in preparing financial statements.

Statement on Directors' Responsibility

The Directors are responsible for preparing the Directors' Report and the Financial Statements in accordance with applicable laws and regulations. In this regard, they prepare Financial Statements for each financial year. But the Directors have the power not to approve the accounts unless they have satisfied that the Financial Statements contain a true and fair view of the state of the affairs of the Company.

The Companies Act, 1994, states that the Directors are responsible to prepare the financial statements for presentation before the shareholder in each Annual General Meeting. They are responsible for preparing the financial statements in accordance with the Companies Act, 1994, International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB), Bangladesh Securities and Exchange Rules 1987, Notification and the Listing Regulations of the Dhaka and Chittagong Stock Exchanges.

The financial statements are required by law and International Accounting Standards to present fairly the financial position of the Company and the performance for the period. In preparing financial statements, the Directors are required:

- To select suitable accounting policies and then apply them consistently;
- To make reasonable and prudent judgments and estimates;
- To state that all applicable accounting standards have been followed i.e. the financial statements have been prepared in accordance with International Accounting Standards and International Financial Reporting Standards as adopted by the ICAB;
- To prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.
- To ensure that the viability of the company is supported by the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act, 1994. Under applicable laws and regulations, the Directors are also responsible for preparing a Directors' Report that complies with that laws and regulations.

The financial statements have been audited by a Chartered Accountant firm, which was given unrestricted access to all financial records and related data, including minutes of all meetings of the Board of Directors and Committees of the Board as well as in the minutes of the Annual General Meeting. The directors believe that all representations made to the independent external auditors during their audit were valid and appropriate.

In compliance with the requirements of the BSEC's Corporate Governance Notification, the Directors are also required to state certain matters, as applicable, in their report which inter alia include as under:

- relevant information regarding the industry outlook and possible future developments of the industry have been discussed;
- segment-wise or product-wise performance has been given;
- risks and concerns have been discussed;
- gross profit margin and net profit margin have been discussed;
- statement on related party transactions has been disclosed;
- remuneration paid to directors including independent directors has been disclosed;
- financial statements and other information included in the Annual Report fairly present in all material respects, the state of affairs of the Company;
- in preparing the financial statements, information has been obtained from the books of accounts, which have been maintained properly as required by the law;
- in preparing the financial statements, the Directors have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments;
- explanation on significant variance between quarterly financial performance and annual financial performance have been discussed;
- the financial statements have been prepared in observance of Bangladesh Accounting Standards, Bangladesh Financial Reporting Standards, the Companies Act, 1994, the Bangladesh Securities and Exchange Rules, 1987 and all other applicable rules and regulations;
- the Directors have the general responsibility for taking such measures as is reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities;
- it is the responsibility of the Directors to conduct appropriate enquires and analysis of financial reporting and other relevant indicators which give reasonable assurance as to the Company's ability to continue as going concern;
- significant deviation in operating results has been discussed;
- the system of internal control is sound in design and has been effectively implemented and monitored;
- key operating and financial data for the last five years are annexed;
- number of board meetings held during the year and attendance by each director have been disclosed.

The Directors confirm that the Directors' Report includes the report on above matters and further confirm that the Annual Report together with the Financial Statements have been prepared in compliance with the laws, rules and regulatory guidelines.



Directors' Report

On behalf of the Board of Directors, I am pleased to present the Annual Report and the Audited Financial Statements of the Company for the year ended 31 December 2012 together with the Auditors' Report thereon, for consideration and approval of our valued Shareholders. These were approved by the Board of Directors of the Company on 23 February 2013.

This Directors' Report is in compliance with the Section 184 of the Companies Act 1994, BSEC's Notification of 2012, the Listing Regulations of Dhaka and Chittagong Stock Exchanges, guidelines of Bangladesh Bank and other applicable rules and regulations in the country.

Relevant disclosures and explanations relating to certain issues have been given by the Directors, which they consider important to ensure transparency and good governance practices. We believe it is comprehensive enough to understand our business, operational procedures and overall performance at a glance.

GLOBAL ECONOMY

The global economy has deteriorated further. Indicators of activity and unemployment show increasing and broad-based economic sluggishness in 2012. Global manufacturing has slowed sharply. The euro area periphery has seen a marked decline in activity, driven by financial difficulties evident in a sharp increase in sovereign rate spreads. Activity has disappointed in other economies too, notably the United States and United Kingdom. Spillovers from advanced economies and homegrown difficulties have held back activity in emerging market and developing economies. These spillovers have lowered commodity prices and weighed on activity in many commodity exporters.

Euro Area

The euro area crisis has deepened mainly due to deep cutbacks in production in the periphery economies, because financial and fiscal conditions are very tight. Sovereign issuers and banks in the periphery are struggling to attract foreign investors. Their sovereign debt spreads have risen and their banks rely increasingly on the European Central Bank for funding. As a result, they have cut back domestic credit.

U.S. Economy

The U.S. economy also has slowed. Revised national accounts data suggests that it came into 2012 with more momentum than initially estimated. However, real GDP growth then slowed to 1.7 percent in the second quarter. The labor market and consumption have failed to garner much strength. On the positive side, the housing market may be stabilizing, albeit at depressed levels and private credit has continued to expand on account of frequent bouts of Quantitative Easing.

Key Emerging Market Economies

Economic activity in China slowed sharply, owing to a tightening in credit conditions in response to threats of a real estate bubble, a return to a more sustainable pace of public investment and weaker external demand. India's activity suffered from waning business confidence amid slow approvals for new projects, sluggish structural reforms, policy rate hikes designed to rein in inflation and flagging external demand. GDP growth also decelerated in Latin America, largely due to Brazil. This reflects the impact of past policy tightening to contain inflation pressure and steps to moderate credit growth in some market segments with increased drag recently from global factors. In Turkey, the slowdown has been driven by domestic demand, on the heels of policy tightening and a decline in confidence. Activity in Russia, which has benefited various economies in the region, has also lost some momentum recently.

Global Financial System

Confidence in the global financial system remains exceptionally fragile. Bank lending has remained sluggish across advanced economies. U.S. Credit standards have been easing modestly for some time, although not yet for residential real estate. In the euro area, by contrast, lending surveys point to a further tightening of standards and falling loan demand. Bank credit has contracted sharply in the periphery and credit growth slowed to a crawl in the core economies amid large increase in periphery credit spreads. Emerging market banks have been tightening lending standards in the face of rising non performing loans and worsening funding conditions.

Outlook

The world economy is expected to grow at around 4.1 percent in 2013. Europe is likely to continue with a slower growth with United Kingdom, Spain, Italy moving into negative territory towards the end of 2013. Slowdown in the Western Hemisphere is likely to continue for a long period, which in turn is likely to affect US growth rates. Outlook forecast includes only a modest reacceleration of activity, continued monetary accommodation and gradually easier financial conditions. Healthy nonfinancial corporate balance sheets and steady or slowing deleveraging by banks and households will encourage the rebuilding of the capital stock and a gradual strengthening of durables consumption. In emerging market and developing economies, monetary and fiscal policy easing will strengthen output growth.

In developing Asia, China's activity increased from accelerated approvals of public infrastructure projects. In India, with weak growth and continued investment slowdown but improvements in external conditions and confidence-helped by a variety of reforms announced very recently-are projected to raise GDP growth to about 6 percent in 2013.

In Latin America, GDP is expected to increase to 4.75 percent in 2013. The projected acceleration is strong for Brazil because of targeted fiscal measures aimed at boosting demand in the near term and monetary policy easing, including policy rate cuts.

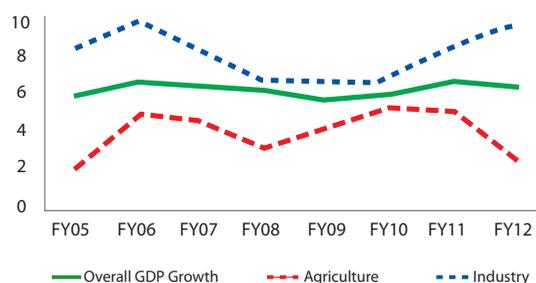
In the Central and Eastern European economies, improving financial conditions in the crisis-hit economies, somewhat stronger demand from the euro area and the end of a boom-bust cycle in Turkey are expected to raise growth back to 4 percent later in 2013. Growth is projected to stay above 5 percent in Sub Sahara Africa and above 4 percent in the

commonwealth of Independent States. In both regions, still high commodity prices and related projects are helping.

In the Middle East and North Africa (MENA), activity in the oil sector will likely be held back by continued uncertainty associated with political and economic transition in the aftermath of the Arab Spring and weak terms of trade-real GDP growth is likely to slow to about 1.25 percent in 2012 and rebound moderately in 2013. Due largely to the recovery in Libya, the pace of overall growth among oil exporters has risen sharply in 2012, to above 6.5 percent and may return to about 3.75 percent in 2013.

OUR ECONOMY

GDP growth of Bangladesh was 6.3 percent in FY12 despite an unfavorable global economy. This will place Bangladesh among the top 35 out of 150 countries in IMF's October 2012 World Economic Outlook. Bangladesh has maintained 6% plus growth over most of the last 10 years through strong export and remittance growth.



Inflation reduced to 7.69 percent in FY12 from 10.63 percent in FY11, due to a deceleration in both food and non-food price rises. Slowdown in global demand pushed both fuel and non-fuel commodity prices downward. Bangladesh has once again demonstrated its ability to overcome macroeconomic pressure through timely and adequate policy response notwithstanding the difficult political economy challenges associated with the needed policy adjustments. Food inflation in Bangladesh has been declining mainly because of falling rice prices. Adequate production in two consecutive years and higher government procurement have led to increased level of stock and supply of food grains.

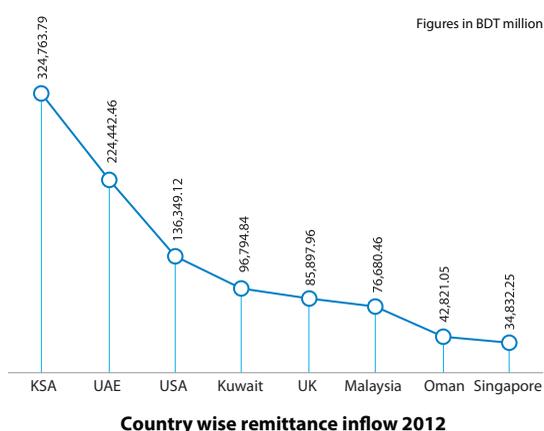
Bank stability has deteriorated in the last six months and capital market volatility has continued. However, banks have been resilient to market shocks such as

Directors' Report - continued

change in interest and exchange rates. The general tightening of liquidity has increased deposit and lending rates at commercial banks.

Balance of payments reversed from a moderate deficit in FY11 to a small surplus in FY12 due to much slower than projected import growth and strong growth in remittances. Taking advantage of these the Bangladesh Bank (BB) has built up its reserve buffer.

Country wise remittance inflow 2012



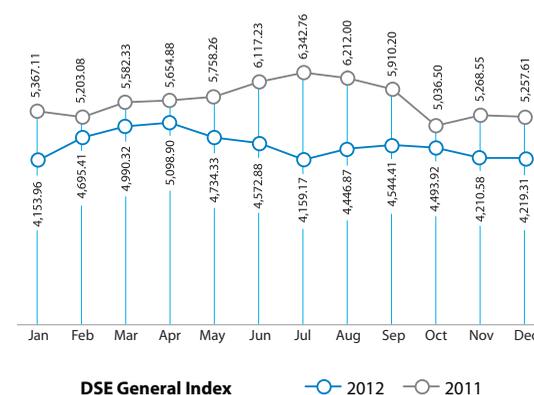
Foreign Direct Investment (FDI) increased in FY12. World Investment Report 2012 ranked Bangladesh 16th among 74 FDI-recipient countries with a record \$1.13 billion FDI inflow. This is only the second time Bangladesh's FDI has exceeded the billion dollar mark in a single year. However, to attract more FDI the country needs to remove infrastructure bottlenecks, make land more readily available, upgrade skills of the labour force, and address administrative impediments.

Capital Market Scenario

In 2012, stock market lost in every aspect. Daily average turnover of DSE has dropped significantly. P/E ratio has also decreased in every sector of the industry. As a whole, DSE has dropped at the floor. Amid such a depressing scenario, untimely Govt. announcement prohibiting public servants from investing in stock market and denouncing investment of black money in stock market created mass confusion and panic among investors. The panic caused DGEN to go below the psychological 5000 bar on 16 January 2012. The bourses and BSEC acted promptly to avoid any effect of such confusion on investors by halting trade on 17 January 2012. But the cloudy scene intensified due to confusing role of different organizations on interpreting whether public servants can invest in stock market or not.

DSE General Index

In the year January, 2012 DSE General Index was 4153.96 and stood at 4219.31 in December, 2012. On the other hand, in January 2011 DSE General Index was 5367.11 and stood at 5257.61 in December, 2011, which reflects 19.75 percent negative growth. In the year January, 2012 market capitalization was BDT 2,230.35 billion and Tk 2,403.55 billion in December, 2012. On the other hand, in January 2011 market capitalization was BDT 3,267.38 billion and Tk 2,616.73 billion in December, 2011, which reflects 8.15 percent negative growth.



The government has taken many steps to address the continuous declining trend of the capital market like tax rebate of capital market investors, exemption of credit for margin level investors and also taking steps to influence banks to generate more investment in capital market. The government has committed to strengthen the Bangladesh Securities & Exchange Commission's (BSEC) autonomy, ensuring it has sufficient supervisory mandate and capacity to properly oversee brokers, dealers, and merchant banks while developing the necessary contingencies to contain systemic risk. Options for demutualizing the Dhaka and Chittagong Stock Exchanges are under consideration. Banks' shareholdings limit is likely to be capped at 25 percent of the regulatory capital soon, subject to parliamentary approval of the amended Bank Companies Act. BSEC with the help of Merchant Bank Association is trying to resolve the problem of omnibus account. Public subscription of Tk 5,000 - crore "Bangladesh Fund" started its activities to stabilize the capital market. A time-bound implementation plan relating to these critical reform measures is key to stability and development of the capital market.

Outlook - The Challenges

Bangladesh's economic outlook is subject to several short-term risks:

Directors' Report - continued

- Further intensification of the Euro area crisis may deepen Bangladesh's export slump of the last six months
- Escalation of global food prices may reverse the recent decline in food inflation
- Increases in global oil price will place the balance of payments under pressure again and shrink fiscal space
- Banks are susceptible to credit and market risk and the global economic vulnerabilities
- Increased political instability and labour unrest may depress investments further.

Close surveillance of macroeconomic trends, stronger monitoring and supervision of banks, and building policy space are all that the government can do to guard against these risks.

While Bangladesh's growth is likely to remain healthy, it is yet below potential. Stabilization policies will need to hold ground on creating fiscal space and containing government borrowing from the banking system. The longer-term growth outlook depends on acceleration of reforms to increase investments rates, improve trade prospects, and ensure inclusion.

Most critical to growth will be energy policies that will enable better fuel mix, diversify the sources of power, provide a regulatory framework for private participation in power generation and distribution, and further exploit untapped gas reserves while modernizing and expanding the gas distribution channel.

There is also an urgent need to improve maintenance and management of Bangladesh's transport system, including ports.

NON-BANKING FINANCIAL INSTITUTIONS (NBFI) IN 2012

Currently total number of NBFI has been increased from 29 to 31 as Bangladesh Bank has approved two more financial institutions recently. Central bank instructed to increase paid up capital to Tk 1.0 billion by June, 2012. However, only 20 NBFIs were able to raise capital upto that level and the rest are in the process. Most of the NBFIs faced liquidity shortage starting from the beginning of the year. Although NBFIs increased the rate of interest on loans, they had to increase the deposit rates to collect fund. Severe liquidity crisis forced the NBFIs to squeeze loans. Overall, the business and investment scenario in private sector remained dull in 2012.

Way Forward NBFi

Cautionary Monetary Policy stance of the Central Bank means that funds would continue to be dear exacting a price whenever it would be desirable. NBFIs have to depend on their internal sources for their fund requirement and become less dependent on the Banks.

The Regulator has essentially ensured that investments are more on the core business activities with greater emphasis on the SME sector to move towards a more inclusive growth momentum.

Use of Assets has to be more rationalized, unproductive investments curtailed, funds from the Capital Market redeployed and belt tightening intensified to enable the Non Banks to give a decent return to their shareholders. Non Banks shall be required to use their skill and creativity to be able to maintain the growth path. The way forward is to move cautiously minimizing risks and keep up the growth momentum.

OPERATION OF THE COMPANY

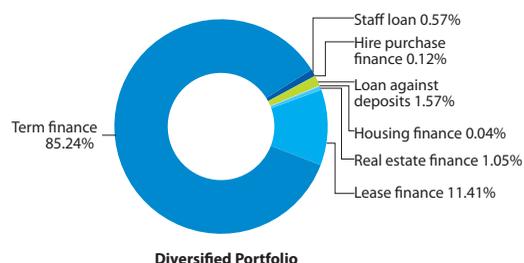
Prime Finance posted profit in 2012 amidst overall sluggish performance in the financial sector. Company's total operating profit is BDT 413.08 million which is 56 percent down from operating profit of the previous year. This reduction in profit was resulted from volatile capital market throughout the year, excessively high cost of fund. Also, due to severe liquidity crisis, investment remained stagnant resulting low interest income.

Business Activities

Prime Finance offers diversified products and services, which include lease finance, term finance, real estate finance, SME finance etc.

Diversified Portfolio

Well diversified portfolio of Prime Finance includes Term Finance that represents 85.25 percent of total portfolio, followed by Lease Finance 11.41 percent, Real Estate Finance 1.05 percent, etc.



FINANCING ACTIVITIES

Our main focus was to identify and select emerging sector for financing and maintaining quality portfolio. Due to continued global recession and subsequent impact on our economy, we slowed down financing to sectors such as RMG, Spinning etc. Real Estate sector financing also remained sluggish due to severe gas and electricity crisis. Major portion of financing was to Iron, Steel and Engineering, Textile, Shipyard and Food products and processing industry. Overall investment was squeezed because of dry money market and up soaring interest rate throughout the year. On the top of everything, highest priority was given and relentless effort was made to recover loans/lease at utmost level and in which the company performed well.

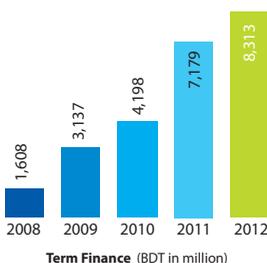
Lease Finance

Lease financing is the fund based product for managing corporate investments in movable equipment. We finance customers of different segments of the local market mainly to developing companies, SMEs and market-leading concerns. In 2012, total Lease finance was BDT 1,112.64 million. As on 31 December 2012 written down value of lease assets was BDT 871.55 million (2011 BDT 1,045.98 million). Lease Finance was reduced in 2012 compared to the previous year.



Long and Short Term Finance

We provide both long-term and short-term finance to the wide variety of customers depending on their needs. In 2012, Term finance continued to be the top financing products for Prime Finance. As a result, investment in term finance increased 15.79 percent compared to 2011. With our short term financing, customers can comfortably manage fund in case of need and ensure business growth. Our short term financing mainly includes:



- Direct finance for working capital
- Finance against term deposits

Real-Estate Finance

As mentioned before, we were slow and selective in financing Real Estate sector due to continued slow-down in real estate business since 2010. Mainly, prolonged stoppage of gas & electricity connection to the newly built apartments, liquidity crisis in the banking sector, decline in remittance earnings growth, the stock market crash and the ineffective role of REHAB have contributed to the present state of affairs in the real estate sector. In 2012, total investment in this product was BDT 102.47 million only which is 22.84 percent lower than the previous year.

Consortium Finance

Prime Finance raises fund and also participate in funding raised by other Bank/NBFI to implement projects that require large-scale investments in the form of debt and equity from multiple sources. All consortium partners negotiate and decide upon basic terms and conditions for specific projects.

GEOGRAPHICAL SEGMENTS

Prime Finance provides services through its three offices geographically diversified in the areas namely Dhaka, Chittagong and Rajshahi.

TREASURY

The treasury dept is responsible for the timely availability of funds when needed for the support of the business. The aim ought to be to improve the net worth of a company by managing funds in the most appropriate manner. Prime Finance & Investment Ltd. maintains sufficient facilities to meet its normal funding requirements. These facilities are primarily in the form of bank facilities arranged on a bilateral basis with a number of commercial banks and term deposits mobilized from individuals and institutions ranging for a period from six months to fifteen years. Prime Finance sometimes participates in the call money market to meet its immediate requirement of funds.

OPERATING RESULTS

Company generated BDT 1,969.11 million as Revenue in 2012. Out of which Profit from operation

Directors' Report - continued

is BDT 413.08 million. Net profit has decreased by 61.16 percent to BDT 300.19 million. Provision for Tax of BDT 112.89 million has been provided in 2012. Earnings per share was BDT 1.04 as against BDT 2.96 (restated) in the previous year. The weighted average number of ordinary shares outstanding during the year was 227.43 million (2011: 162.45 million). The financial results of the Company for the year 2012 with a comparison of 2011 and 2010 are summarized below:

(BDT in million except per share data)	2012	2011	2010
Operating revenue	1,969.11	2,244.76	3,078.53
Operating expenses	1,556.03	1,290.56	1,085.40
Profit before tax	413.08	954.20	1,993.14
Provision for tax	112.89	181.39	261.48
Profit after tax	300.19	772.81	1,731.66
Earnings Per Share (EPS) (restated)	1.04	2.96	7.60

Five Years Data

Key operating and financial data of preceding 5 (five) years of the Company shall be summarized on page no 17 of this Annual Report.

Significant deviation in Operating Results

Operating profit for the year 2012 has decreased by 56.71 percent to BDT 413.08 million (2011: BDT 954.20 million). The underlying main reasons for such reduction are:

- high cost of fund
- liquidity crisis
- volatile capital market throughout the year
- low interest income from stagnant investment in the current year compare to the previous year

Significant variance between quarterly and annual results

Early during the year 2012, contractionary monetary policy had a dampening effect on the investments of the company. Credit squeeze substantially

decreased fresh sourcing of the funds and also the cash inflow of the company. As a result, in the first and second quarters, much of the funds went to meet the debt obligations of the company leaving hardly any investible funds. This substantially reduced the profitability of the company in both the first and second quarters. Subsidiary and Associates of Prime Finance operating in the capital market could not contribute as in the previous years.

In the third and fourth quarter, money market eased when the central bank successfully reined in the runaway inflation. Money supply improved with the mopping up operation of foreign currency by the Central Bank. During this time, Prime Finance focused on increasing investments with greater emphasis on internal fund mobilization and recovery drive. The net result in the last quarter ended up in reducing the financial overheads, cost of funds and at the same time average rate of lending had a marked improvement. The company's consolidated EPS recorded till September 30, 2012 at 0.27 shot up to 1.04 at the end of the year.

SUBSIDIARY

Prime Finance Capital Management Limited (PFCML) is a subsidiary of country's leading financial institution-Prime Finance & Investment Limited. Since 1996, PFCML has been in the capital market as a full-fledged merchant bank in the name of merchant banking wing of Prime Finance & Investment Limited to serve individual clients, small and large companies with a full range of issue management, underwriting, portfolio management and corporate advisory services. Later on, as per BSEC's guidelines, the merchant banking wing was converted into separate subsidiary company and was incorporated in 18 March 2010 as a public limited company with initial authorized capital of BDT 2,500 (two thousand five hundred) million and an initial paid-up capital of BDT 1,000 (one thousand) million. Presently the company has BDT 1,600 million paid up capital.

PFCML is recognized across the country for its expertise in issue management service. It has a track record of managing 36 issues (25 IPOs and 11 Rights Issues) of as many 10 sectors ranging from manufacturing to power sector.

Directors' Report - continued

As a full-fledged merchant bank, Prime Finance Capital Management Ltd. actively participates in underwriting of Initial Public Offering (IPOs), Repeat Public Offering, Rights Issues, Alternative Securities like various types of Bonds. The company has so far underwritten 73 public issues. It is evident that PFCML has the attitude of complying the relevant laws very strictly. Thus, it has built hard earned image of "fully compliant Merchant Bank".

Besides, the company provides portfolio management services with high standard, excellent customer services, professionalism. Clients receive tailored financial solutions for trading securities. Currently it has more than a thousand portfolios managed through 4 designated brokerage houses.

PFCML offers industry leading support to its clients through a suite of innovative, easy-to-use services. Working with its clients as strategic partners, it creates and executes winning solutions, which address our clients' most pressing strategic, financial and investment needs—anywhere in Bangladesh.

The team members of PFCML stand by clients through building and maintaining solid partnerships. The team always places its client

relationships first and is proud to conduct its business based on Client Satisfaction, Respect to the Individual, Teamwork, Responsible Citizenship, and Integrity.

Share of income from Subsidiary and Associate Companies

Prime Finance provides comprehensive investment and financial services including full service securities brokerage, margin loan and advisory services through its 46.15 percent owned associated company - PFI Securities Limited. Total profit after tax of PFI Securities was BDT 59.77 million during the year 2012 while EPS was BDT 0.36. Prime Finance's share of income from PFI Securities Limited for the year 2012 was BDT 27.59 million. Besides PFI Securities Limited, Prime Finance has currently has two other associates namely Prime Finance Asset Management Company Limited and Prime Prudential Fund Limited. According to IFRS definition of associates, PFI Properties Ltd. is no longer our associates considering the shareholding. Separate audited financial statements of the associate companies are given on page 218 of this Annual Report.

Movement of investment in associates & subsidiary:

(Figures in BDT)	Balance as on 1 Jan 2012	Investment/ (Adjustment)	Revaluation Method	Profit/(loss) under equity method	Balance as on 31 Dec 2012
PFI Securities Ltd.	1,074,572,679	-	-	27,587,831	1,102,160,510
PFAMCL	31,676,038	-	-	776,591	32,452,629
Prime Prudential Fund Ltd.	19,067,883	-	-	(4,862,423)	14,205,460
PFI Properties Ltd.	4,976,541	(4,976,541)	-	-	-
Prime Finance Capital Mgt. Ltd.	960,000,000	-	-	-	960,000,000
Total	2,090,293,141	(4,976,541)	-	23,501,999	2,108,818,599

RELATED PARTY TRANSACTION

Information of related party transaction i.e. a statement of all related party transaction has been presented in note no. 36 on page no 189 of this Report.

EVENTS OCCURRING AFTER THE REPORTING DATE

As at the date of this report, the directors are not aware of any matter or circumstance that has arisen since the end of the year 2012 that has significantly affected or may significantly affect the operations of the

Directors' Report - *continued*

Company, the results of its operations or its state of affairs, which is not already reflected in this report other than the following:

- On 23 February 2013, Prime Finance announced 30 percent dividend (20% Stock and 10% Cash). Details of the announced dividend declared during the financial year are disclosed in note no. 45 on page no. 193 of this Report

- Declaration of dividend;
- Re-appointment of retiring Directors;
- Appointment of Auditors;
- Approval of appointment of Independent Directors.

Special Business : Nil

APPROPRIATIONS OF PROFIT

Taking into account the profit available for distribution after complying with the regulatory requirements, the Board recommended 30 percent (20% Stock and 10% Cash) dividend for the year ended 31 December, 2012 for approval of Shareholders in the Seventeenth Annual General Meeting. The Board proposed the following appropriations:

	Amount in million BDT
Net profit for the year 2012	288.20
Retained earnings at the beginning of 2012	758.46
Total profit available for appropriation	1,046.66
Proposed Appropriations	
Transferred to statutory reserve	57.64
Proposed stock dividend	454.86
Proposed cash dividend	227.43
Retained earnings	306.73

DIVIDEND

The Board of Directors in its meeting held on 23 February 2013 recommended 30 percent dividend (20% Stock and 10% Cash) for the year 2012. Moreover, the Company has been paying dividend consistently for many years.

ANNUAL GENERAL MEETING

The notice of the Seventeenth Annual General Meeting is given on page 236 of this Annual Report. A summary of the agenda is given below:

Ordinary Business

- Adoption of Directors' Report, Auditors Report and Audited Financial Statements;

OBSERVANCE OF IAS, BAS, BFRS & APPLICABLE LAWS

The Directors have the responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable us to ensure that the financial statements comply with the Companies Act, 1994, the Financial Institutions Act, 1993, and the Securities and Exchange Rules, 1987. The Directors also confirm that the financial statements have been prepared in accordance with the Bangladesh Accounting Standards and other applicable rules and regulations. A separate report on Directors' Responsibilities as to the preparation of financial statement is set out on page 112 in this Annual Report.

ACCOUNTING POLICIES AND MAINTENANCE OF BOOKS OF ACCOUNTS

The Directors consider that in preparing the Financial Statements, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates and that all International Accounting Standards as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB) have been followed. In preparing financial statements, information has been obtained from the books of accounts, which have been maintained properly as required by the applicable rules and regulations.

FAIRNESS OF THE ACCOUNTS

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS) and the requirements of Companies Act, 1994. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of their profits for the year ended 31 December, 2012.

DIRECTORS' STATEMENT PURSUANT TO THE DISCLOSURE AND TRANSPARENCY

The Directors confirm that to the best of each director's knowledge and belief:

- the financial statements, prepared in accordance with IAS/IFRS and BAS/BFRS as adopted by ICAB, give a true and fair view of the assets, liabilities, financial position and results of the Company, and
- the management report contained in the operational and financial review includes a fair review of the development and performance of the business and the position of the company, together with a description of principal risks and uncertainties that may face.
- the internal control system is properly designed, implemented and effectively monitored.

RISK AND CONCERNS

The Board of Directors is in charge of determining the Company's fundamental attitude toward risk while setting out the risk principles as well as the level of risk exposure. The Board of Directors are responsible for formulating risk policies, determining methods to measure and manage risk, setting commensurate risk limits and monitoring their performance.

Fundamental principles of Prime Finance's risk management philosophy are:

- Effectively managing and monitoring credit, interest rate, liquidity, market and operational risk and providing for appropriate allocation of capital among the types of risk.
- Managing risk in a forward-looking manner and identifying and analyzing risks from the beginning with the help of steering risk strategies, models and parameters.
- Creating maximum value for the shareholders, depositors and employees in long term
- Being financially reliable and strong and establishing business relations with the stakeholders that will last for many years by creating the image of a financial institution that will stay in business permanently
- Complying with Basel II and other guiding principles of Bangladesh Bank.

INTERNAL CONTROL

The Internal Audit function includes undertaking regular reviews of the Prime Finance's operations, the systems of internal control by performing regular reviews of the business processes to examine and evaluate the adequacy and efficiency of financial and operating controls and highlights significant risks. Management will follow up and review the status of actions on recommendations made by the internal control. The Board reviews regular reports from the management on the key operating statistics, as well as legal and regulatory matters. The Board also approves any changes or amendments to the company's policies.

There are policies and procedures in place to ensure compliance with internal control and the prescribed laws and regulations. These policies and procedures are set out in the company's Standard Practice Instruction and are updated from time to time in tandem with changes to the business environment or regulatory guidelines. A statement on Internal Control is given on page 100 in this Annual Report.

DIRECTORS' MEETING, ATTENDANCE & REMUNERATION

During the year ended 31 December 2012 a total nine meetings were held. During this year, aggregate attendance of the Directors were recorded more than 70 percent. The attendance in the Board meetings by each Director is given in Annexure-I on page 126 of this Annual Report. Please note that the amount of total remuneration which has paid to the Directors including Independent Directors is given in note- 26 on page 186 of this Annual Report.

DIRECTORS' RESPONSIBILITIES OF PREPARATION OF FINANCIAL STATEMENTS

The Directors are responsible for preparing the Company's financial statements in accordance with applicable laws and regulations. The Board confirms that the financial statements have been prepared under the applicable laws and regulations and as per requirements of regulatory authorities. A statement of the Directors' responsibility in relation to financial statements has been given on page 112 of this Annual Report.

CORPORATE AND FINANCIAL REPORTING FRAMEWORK

The Directors, in accordance with BSEC's notification No. SEC/CMRRCD/2006-158/134/Admin/44 dated 07 August 2012 confirm compliance with the financial reporting framework for the following:

- The financial statements prepared by the management of Prime Finance, present fairly its state of affairs, the results of its operations, cash flows and changes in equity;
- Proper books of accounts of the Company have been maintained;
- Appropriate accounting policies have been consistently applied, except for the changes disclosed in the financial statements in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Bangladesh, have been followed in preparation of financial statements and any departure there from has been adequately disclosed;
- The system of internal control is sound in design and has been effectively implemented and monitored; and
- There exists no significant doubts as to the Company's ability to continue as a going concern.

REPORT ON THE COMPLIANCE OF THE CONDITIONS OF BSEC'S NOTIFICATION

The Directors are required by the BSEC's Notification dated 7 August 2012 to report on the compliance of certain conditions. The notification was issued for the purpose of establishing a framework for ensuring good governance practices in the listed companies for the interest of the investors and the capital market. A statement on the compliance with the BSEC's conditions is given on Annexure-V on 129 page of this Annual Report.

GOING CONCERN

Directors feel it is appropriate to adopt going concern assumption and there is no material uncertainty in preparing the financial statements. A separate report on going concern has been set out on page 110 of this Annual Report.

SUBSTANTIAL SHAREHOLDINGS

BSEC's Revised Corporate Governance Notification dated 7 August 2012 requires a listed company to disclose in the Directors' Report, the list of shareholders holding ten percent or more voting interest in the Company. None of the shareholders hold ten percent or above shares in Prime Finance. The shareholding status of all sponsors shareholders as on 31 December 2012 is given in Annexure-II, page 127 of this Report.

Pattern and distribution of shareholding

Shareholding patterns of the Company as at the end of the year 2012 is shown in Annexure-III, page 127 of this Annual Report. The distribution of shareholdings as required by the regulatory authorities is also given in Annexure-IV, on page 128 of this Annual Report.

DIRECTORS TO RETIRE, RE-APPOINTMENT AND BIOGRAPHIES OF THE DIRECTORS

As per Article 67 of the Articles of Association of the Company, the following Directors will retire in the seventeenth Annual General Meeting and being eligible offered themselves for re-election as per Article 69 of the Articles of Association of the Company:

Mr. Md. Aminul Haque
Nominated by Acorn Limited;

Mrs. Muslima Shirin
Nominated by Mawsons Limited;

Mr. Tauseef Iqbal Ali

Biographies of the aforesaid Directors and the names of the Company where they have interest is mentioned in the Annual Report on page no. 21 to 22.

Appointment of Independent Directors

In Compliance with Bangladesh Securities and Exchange Commission's Notification regarding "Corporate Governance" dated August 07, 2012 the Board in its 206th Meeting appointed Mr. K.M. Mortuza Ali and Mr. M. I. Chowdhury as Independent Directors.

According to the said Notification this appointment requires shareholders approval and if it is approved then the appointment will be considered as effective from 31 December 2012 and the tenure of the independent directors will be as per BSEC notification.

Biographies of the Independent Directors and the names of the company where they have interest is mentioned in the Annual Report on page no. 23.

CORPORATE RESPONSIBILITY

Prime Finance defines Corporate Responsibility as operating with integrity at all the times, sustaining our Company's long-term viability while contributing to the present and future well being of all our stakeholders.

At Prime Finance, we recognize that we have certain responsibilities to our clients, shareholders, employees and to the communities. We aspire to achieve highly professional standards and integrity in all situations: managing our financial performances for the benefit of all our stakeholders, making a contribution to the community we live in and avoiding practices that directly or otherwise have a negative impact on others or the environment. We try to carry out these responsibilities properly and to improve our performance over time.

We value our shareholders and their rights. We are always committed towards our shareholders to preserve their rights and to enhance their return as much as possible. Considering this fact the management of Prime Finance gives its best effort to:

- Keep standard operating performance that ranks among the best in the industry;
- Ensure effective corporate governance;
- Provide full and complete financial information;
- Give attractive dividend.

Prime Finance is committed to be equal opportunity employer, adhering to the highest social standards, the company seeks to provide a superior working environment for its employees based on diversity and respect for the importance of the individual. Based on these Prime Finance is committed to:

- Provide a workplace in which employees are respected;
- Encourage a management style that empowers and develops employees;
- Measure progress in employment practices and employee morale.

Prime Finance is equally loyal for the responsibility towards the Community. Considering this Prime Finance organizes some CSR activities. CSR means voluntarily integrating social and environmental

considerations into the business and these are an integral part of Company's corporate culture and fundamental business principles. Prime Finance believes that a prosperous community creates a prosperous business. By supporting charitable causes, Prime Finance seeks to help people achieve their goals.

CHARITABLE DONATION

Donations are a cornerstone of our community programs, with a tradition of philanthropy dating back to our roots. We are committed to making a lasting social impact through inspiration, responsibility giving and building strong partnership with the charitable organization. The Contribution of Prime Finance in 2012 as Charity is detailed below:

- Prime Finance donated books and bookshelves for the Library of Bangladesh Bank School equivalent to Tk 2,00,000.
- Prime Finance also donated 1,200 numbers of Blankets to Dhaka Ahsania Mission for distributing to the cold affected people in the Northern Region of the Country.
- To promote Education in the underprivileged Community, Prime Finance has introduced PFI Scholarship Scheme. Under this scheme around 50 students will be given financial support of 4.44 lac taka every year.

CORPORATE GOVERNANCE

The Board of Directors of Prime Finance has always placed good corporate governance practices as one of its highest priorities when conducting the company's business activities. All our efforts are to protect our shareholders and other stakeholders at all times. A detailed report on corporate governance has been set out on page 68 of this Annual Report.

OUR EMPLOYEES AND ENVIRONMENT

We believe that Human Resources of any organization can make the difference in the Industry. Considering this thought Prime Finance recruits competent people, develop them as per the demand of the time and situation, retain them with socially based, competitive and standard motivation-award and retention policies and practices.

Directors' Report - *continued*

Company is committed to creating a working environment based on the values of equal opportunity, diversity and meritocracy. All the Company's activities are reinforced by its governance structure, which complies with the leading codes of best practices.

With respect to issues that are relevant to its operating environment, Prime Finance promises to :

- Avoid and discourage discrimination and Provide equal opportunity and respect diversity;
- Ensure frequent interaction between employees and senior Management for constructive development in systems & procedure;
- Support employee efforts to achieve a healthy work-life balance;
- Organizing Training & Seminar for employee development
- Ensuring best HR practices
- An empowering Management style that develops employee and encourages performance;
- Prime Finance seeks to enhance employee motivation and performance in line with Company's strategic objectives and in accordance with Prime Finance brand promises: ethics, professionalism, innovation, pragmatism, team spirit and integrity.

BUSINESS ETHICS

Our customer welfare comes first. We ensure understanding our client's need, extending facilities to the right clients at fair terms. We care our clients to enjoy consistent continuous service wherever we operate. We also opened a complain box for taking care of customer complaints with highest priority. All our Board, Management and employees strictly follows regulatory guidelines, instructions and all applicable laws, rules and regulations of the country.

CONTRIBUTION TO THE NATIONAL EXCHEQUER AND THE ECONOMY

During the year 2012, the company contributed a total amount of BDT 190.87 million as Corporate Tax, BDT 70.37 million as TDS & BDT 2.39 million as VAT, in total BDT 263.63 million was paid to the national exchequer. Prime Finance always uphold its responsibilities to the

development of the society and the country as a whole. We encourage our employees to participate in social and charitable programs. A detail report on the contribution to national economy has been given on page 61 of the Annual Report.

AUDIT INFORMATION

The Directors who held office at the date of this Director's Report confirm that:

- So far as the Directors are aware, there is no relevant audit information of which the company's auditors are unaware; and
- The Directors have taken all the steps that they themselves ought to have taken as Directors in order to make themselves aware of any relevant information and to establish that the company's Auditors are aware of that information.

AUDITORS

M/s A. Qasem & Co., Chartered Accountants have completed their 2 years as statutory auditor of the company. The Financial Institutions Act, 1993 stipulated that an Auditor of a Financial Institutions cannot be appointed for more than three consecutive years. Section 210(10) of the Companies Act, 1994 also gives authority to shareholders of the company to fix the Auditor's remuneration. The Board in its meeting held on 23 February 2013 recommended the shareholders to appoint M/s A. Qasem & Co, Chartered Accounts of Gulshan Pink City, Suits no.01-03, Level 7, Floor no.15, Road no.103, Gulshan Avenue , Dhaka at a remuneration of BDT 250,000 plus VAT.

OUTLOOK

The "Outlook" sections in this document are based on the Prime Finance's views and the actual outcome is uncertain. Stakeholders should consider the above-noted factors when reviewing these sections.

Prime Finance plans to focus more on its Core Business with a clear focus on providing greater customer satisfaction, ensuring business growth and improving internal controls. We also expect to expand our business activities beyond Dhaka and Chittagong this year. As always, competition will remain intense among the NBFIs and Banks both in terms of asset and liability. As a result, interest spreads will continue to be under pressure like the previous year.

Directors' Report - *continued*

We will concentrate more on diversifying our clients, improve asset quality and strict recovery programs. Overall, we are confident of recording a better financial performance for the current year.

ACKNOWLEDGEMENT

I would like to express my gratitude to our Shareholders, Customers and Board for their continuous assistance, support and confidence in Prime Finance. My sincere thanks go to the Management team and all the employees for their dedication, integrity, hard work to bring the company

to this level.

My heartiest thanks go to Bangladesh Bank, Bangladesh Securities and Exchange Commission, Dhaka and Chittagong Stock Exchanges, Lenders and Depositors for their continuous support and guidance for overall development of the company.



K. M. Khaled
Chairman
Dhaka, 23 February 2013

Director's Meeting & Attendance

Name of the Directors	Nominated by	No. of Meetings held during his/her tenure	Meeting Attended	(%)	Change during 2012
Mr. K. M. Khaled	Khaled Textile Mills Limited	9	8	89	
Mr. Md. Aminul Haque	Acorn Limited	9	9	100	
Mrs. Muslima Shirin	Mawsons Limited	9	9	100	
Mr. Mohammad Masudur Rahim	East Coast Shipping Lines Ltd.	9	8	89	
Mr. Z. M. Kaiser	Maksons (Bangladesh) Ltd.	9	9	100	
Mr. M. Shahadat Hossain Kiron	Agami Apparels Limited	9	3	33	
Mr. M. N. H. Bulu	Abeeco Industries Ltd.	1	1	100	Vacancy occurred for complying with BSEC's Notification
Mr. Tauseef Iqbal Ali	N/A	9	9	100	
Mr. Md. Aliuzzaman	N/A	1	1	100	Vacancy occurred for complying with BSEC's Notification
Professor Salma Rahman	N/A	1	1	100	Vacancy occurred for complying with BSEC's Notification
Prof. Dr. Parimal Chandra Datta	N/A	8	8	100	Re-appointed on 28 March 2012
Mr. Kazi Md. Mortuza Ali	N/A	0	0	---	Appointed on 31 December 2012
Mr. Mahibul Islam Chowdhury	N/A	0	0	---	Appointed on 31 December 2012

Shareholdings of Sponsor Shareholders

Name of Sponsor Shareholders	No. of shares held	% of Shareholding
Khaled Textile Mills Ltd.	22,027,017	9.69
Acorn Limited	20,767,017	9.13
Pedrollo Nk. Limited	22,307,493	9.81
Mawsons Limited	6,628,960	2.91
Maksons (Bangladesh) Ltd.	17,808,764	7.83
East Coast Shipping Lines Limited	20,339,449	8.94
GQ Enterprise Limited	19,351,785	8.51
Agami Apparels Ltd.	19,240,527	8.46
Abeeco Industries Ltd.	632,195	0.28
Mr. Tauseef Iqbal Ali	4,548,636	2.00
Professor Salma Rahman	2,350,555	1.03
Mr. Md. Aliuzzaman	264,523	0.12
Total	156,266,921	68.71

Pattern of Shareholdings

Name of the Companies	No. of shares held
Parent/Subsidiary/Associate Companies and other related parties	Nil

Directors	No. of shares held	Percentage
Mr. K. M. Khaled, Representing Khaled Textile Mills Ltd.	Nil	-
Mr. Md. Aminul Haque, Representing Acorn Limited	Nil	-
Mrs. Muslima Shirin, Representing Mawsons Limited	350	0.00015
Mr. Z. M. Kaiser, Representing Maksons (Bangladesh) Ltd.	Nil	-
Mr. Mohammad Masudur Rahim, Representing East Coast Shipping Lines Ltd.	Nil	-
Mr. M. Shahadat Hossain Kiron, Representing Agami Apparels Ltd.	Nil	-
Mr. Tauseef Iqbal Ali	4,548,636	2.00
Prof. Dr. Parimal Chandra Datta	Nil	-
Mr. Kazi Md. Mortuza Ali	Nil	-
Mr. Mahibul Islam Chowdhury	Nil	-

Executives	No. of shares held	Percentage
Mr. Asad Khan, Managing Director	Nil	-
Mr. Syed Moniruzzama, Company Secretary	Nil	-
Mr. Lingkon Mondal, CFO (CC)	Nil	-
Mr. Md. Feroz Iftekher, Head of ICC	Nil	-

Other top five Senior Executives

Mr. Md. Ahsan Kabir Khan	Nil
Mr. Md. Rezaul Haque	Nil
Ms. Gazi Nilufar Yeasmin	Nil
Ms. Gulshan Ara Hafiz	Nil
Mr. Ahsanullah M. Dewan	Nil

Shareholders Holding 10% or more voting right	No. of shares held
Shareholders holding ten percent (10%) or more voting interest in the Company	Nil

Range of Shareholdings

The distribution schedule of shareholdings as on 31 December 2012 was as under:

Shareholding range	No. of shareholders	No. of shares	Percentage
Less than 500 shares	10,699	1,857,885	0.81
500 to 5,000 shares	8,623	13,040,367	5.73
5,001 to 10,000 shares	631	4,370,412	1.92
10,001 to 20,000 shares	295	4,092,019	1.80
20,001 to 30,000 shares	91	2,212,769	0.98
30,001 to 40,000 shares	37	1,278,011	0.57
40,001 to 50,000 shares	27	1,228,100	0.54
50,001 to 100,000 shares	64	4,517,645	1.99
100,001 to 1,000,000 shares	78	21,771,309	9.57
Over 1,000,000 shares	19	173,061,886	76.09
Total	20,564	227,430,403	100

Status of compliance with the conditions imposed by the Bangladesh Securities and Exchange Commission's Notification No SEC/CMRRCD/2006-158/134/Admin/44 dated 07 August, 2012 issued under section 2CC of the Bangladesh Securities and Exchange Ordinance, 1969 is presented below:

(Report under Condition No. 7.00)

Condition No.	Title	Compliance Status ("✓" has been put in the appropriate column)		Remarks (If any)
		Complied	Not Complied	
1	Board of Directors (BoD)			
1.1	Board's Size (number of Board members – minimum 5 and Maximum 20)	✓		
1.2	Independent Directors	✓		
1.2 (i)	At least one fifth (1/5) of the total number of Directors shall be Independent Directors	✓		
1.2 (ii)	Independent Director means a director	✓		
1.2 (ii) (a)	who either does not hold any share in the company or holds less than one percent (1%) shares of the total paid-up shares of the company	✓		
1.2 (ii) (b)	who is not a sponsor of the company and is not connected with the company's any sponsor or director or shareholder who holds one percent (1%) or more shares of the total paid-up shares of the company on the basis of family relationship. His/her family members also should not hold above mentioned shares in the company	✓		
1.2 (ii) (c)	who does not have any other relationship, whether pecuniary or otherwise, with the company or its subsidiary/associated companies	✓		
1.2 (ii) (d)	who is not a member, director or officer of any stock exchange	✓		
1.2 (ii) (e)	who is not a shareholder, director or officer of any member of stock exchange or an intermediary of the capital market	✓		
1.2 (ii) (f)	who is not a partner or executive or was not a partner or an executive during the preceding 3 (three) years of the company's statutory audit firm	✓		
1.2 (ii) (g)	who shall not be an independent director in more than 3 (three) listed companies	✓		
1.2 (ii) (h)	who has not been convicted by a court of competent jurisdiction as a defaulter in payment of any loan to a bank or a Non-Bank Financial Institution (NBFI)	✓		
1.2 (ii) (i)	who has not been convicted for a criminal offence involving moral turpitude	✓		
1.2 (iii)	Independent Director(s) shall be appointed by BoD approved			To be placed for

Annexure-V - continued

Condition No.	Title	Compliance Status ("✓" has been put in the appropriate column)		Remarks (If any)
		Complied	Not Complied	
	by the shareholders in the Annual General Meeting (AGM)	✓		approval in the AGM
1.2 (iv)	The post of independent director(s) cannot remain vacant for more than 90 (ninety) days	---	---	No vacancy occurred
1.2 (v)	The Board shall lay down a code of conduct of all Board members and annual compliance of the code to be recorded	✓		
1.2 (vi)	The tenure of office of an independent director shall be for a period of 3 (three) years, which may be extended for 1 (one) term only	✓		
1.3 (i)	Independent Director shall be a knowledgeable individual with integrity who is able to ensure compliance with financial, regulatory and corporate laws and can make meaningful contribution to business	✓		
1.3 (ii)	Independent Director should be a Business Leader/Corporate leader/Bureaucrat/University Teacher with Economics or Business Studies or Law background/ Professionals like Chartered Accountants, Cost & Management Accountants, Chartered Secretaries. The independent director must have at least 12 (twelve) years of corporate management /professional experiences	✓		
1.3 (iii)	In special cases the above qualifications may be relaxed subject to prior approval of Commission	---	---	Not applicable
1.4	The Chairman of the Board and the Chief Executive Officer (CEO) shall be different individuals. The Chairman shall be elected from among the directors. The Board of Directors shall clearly define respective roles and responsibilities of the Chairman and the CEO	✓		
1.5	The Director's Report shall include the following additional statements			
1.5 (i)	Industry outlook and possible future developments in the industry	✓		
1.5 (ii)	Segment-wise or product-wise performance	✓		
1.5 (iii)	Risks and concerns	✓		
1.5 (iv)	A discussion on Cost of Goods sold, Gross Profit Margin and Net Profit Margin	✓		
1.5 (v)	Discussion on continuity of any Extra-Ordinary gain or loss	--	--	Not applicable
1.5 (vi)	Basis for related party transactions - a statement of all related party transactions should be disclosed in the annual report	✓		
1.5 (vii)	Utilization of proceeds from public issues, rights issues and/or through any others instruments	---	---	Not applicable
1.5 (viii)	An explanation if the financial results deteriorate after the company goes for Initial Public Offering (IPO)	---	--	Not applicable

Annexure-V - continued

Condition No.	Title	Compliance Status ("✓" has been put in the appropriate column)		Remarks (If any)
		Complied	Not Complied	
1.5 (ix)	If significant variance occurs between Quarterly Financial performance and Annual Financial Statements, the management shall explain about the variance	✓		
1.5 (x)	Remuneration to directors including independent directors	✓		
1.5 (xi)	The financial statements present fairly its state of affairs, the result of its operations, cash flows and changes in equity	✓		
1.5 (xii)	Proper books of account have been maintained	✓		
1.5 (xiii)	Adaptation of appropriate accounting policies & estimates	✓		
1.5 (xiv)	IAS/BAS/IFRS/BFRS, as applicable in Bangladesh, have been followed and adequate disclosure for any departure	✓		
1.5 (xv)	The system of internal control is sound in design and has been effectively implemented and monitored	✓		
1.5 (xvi)	Going Concern (ability to continue as a going concern)	✓		
1.5 (xvii)	Highlight and explain significant deviations from the last year's operating results	✓		
1.5 (xviii)	Key operating and financial data of at least preceding 5 (five) years shall be summarized	✓		
1.5 (xix)	Reason for non declaration of Dividend	---	---	Not applicable
1.5 (xx)	The number of Board meetings held during the year and attendance by each director	✓		
1.5 (xxi)	Pattern of shareholding and name wise details (disclosing aggregate number of shares)			
1.5 (xxi) (a)	Parent/Subsidiary/Associate Companies and other related parties	✓		
1.5 (xxi) (b)	Directors, Chief Executive Officer (CEO), Company Secretary (CS), Chief Financial Officer (CFO), Head of Internal Audit (HIA) and their spouses and minor children	✓		
1.5 (xxi) (c)	Top five executives other than mentioned above	✓		
1.5 (xxi) (d)	Shareholders holding ten percent (10%) or more voting interest in the company	✓		
1.5 (xxii)	In case of the appointment/re-appointment of a director, disclose			
1.5 (xxii) (a)	a brief resume of the director	✓		
1.5 (xxii) (b)	nature of his/her expertise in specific functional areas	✓		
1.5 (xxii) (c)	names of companies in which the person also holds the directorship and the membership of committees of the board	✓		
2.1	Appointment of CFO, HIA and CS and defining their respective roles, responsibilities & duties	✓		
2.2	The CFO and the CS shall attend the meetings of the Board of Directors	✓		

Annexure-V - continued

Condition No.	Title	Compliance Status ("✓" has been put in the appropriate column)		Remarks (If any)
		Complied	Not Complied	
3	Audit Committee			
3 (i)	The company shall have an Audit Committee as a sub-committee of the BoD	✓		
3 (ii)	The Audit Committee shall assist the BoD in ensuring that the financial statements reflect true and fair view of the state of affairs of the company and in ensuring a good monitoring system within the business	✓		
3 (iii)	The Audit Committee shall be responsible to the BoD. The duties of the Audit Committee shall be clearly set forth in writing	✓		
3.1 (i)	The Audit Committee shall be composed of at least 3 (three) members	✓		
3.1 (ii)	The BoD shall appoint members of the Audit Committee who shall be directors of the company and shall include at least 1 (one) Independent Director	✓		
3.1 (iii)	All members of the audit committee should be "financially literate" and at least 1 (one) member shall have accounting or related financial management experience	✓		
3.1 (iv)	Expiration of the term of service of Audit Committee members making the number lower than 3 (three) and fill up the vacancy (ies) by the Board not later than 1 (one) month from the date of vacancy(ies)	---	---	No vacancy occurred
3.1 (v)	The Company Secretary shall act as the secretary of the Audit Committee	✓		
3.1 (vi)	The quorum of the Audit Committee meeting shall not constitute without at least 1 (one) independent director	✓		
3.2 (i)	The BoD shall select the Chairman of the Audit Committee, who shall be an Independent Director	✓		
3.2 (ii)	Chairman of the audit committee shall remain present in the AGM	---	---	Chairman of the Audit Committee would be remained present at AGM
3.3	Role of Audit Committee			
3.3 (i)	Oversee the financial reporting process	✓		
3.3 (ii)	Monitor choice of accounting policies and principles	✓		
3.3 (iii)	Monitor Internal Control Risk management process	✓		
3.3 (iv)	Oversee hiring and performance of external auditors	✓		
3.3 (v)	Review the annual financial statements before submission to the board for approval	✓		
3.3 (vi)	Review the quarterly and half yearly financial statements before submission to the board for approval	✓		
3.3 (vii)	Review the adequacy of internal audit function	✓		

Annexure-V - continued

Condition No.	Title	Compliance Status ("✓" has been put in the appropriate column)		Remarks (If any)
		Complied	Not Complied	
3.3 (viii)	Review statement of significant related party transactions submitted by the management	✓		
3.3 (ix)	Review Management Letters/ Letter of Internal Control weakness issued by statutory auditors	✓		
3.3 (x)	Disclosure to the Audit Committee about the uses/applications of IPO funds by major category (capital expenditure, sales and marketing expenses, working capital, etc), on a quarterly basis, as a part of their quarterly declaration of financial results. Further, on an annual basis, shall prepare a statement of funds utilized for the purposes other than those stated in the prospectus	---	---	Not applicable
3.4.1 (i)	Reporting to BoD on the activities of the Audit Committee	✓		
3.4.1 (ii) (a)	Reporting to BoD on conflicts of interests	None		
3.4.1 (ii) (b)	Reporting to BoD on any fraud or irregularity or material defect in the internal control system	None		
3.4.1 (ii) (c)	Reporting to BoD on suspected infringement of laws	None		
3.4.1 (ii) (d)	Reporting to BoD on any other matter	None		
3.4.2	Reporting to BSEC (if any material impact on the financial condition & results of operation, unreasonably ignored by the management)	None		
3.5	Reporting to the Shareholders of Audit Committee activities, which shall be signed by the Chairman and disclosed in the Annual Report	✓		
4.00	External / Statutory Auditors			
4.00 (i)	Non- engagement in appraisal or valuation services or fairness opinions	✓		
4.00 (ii)	Non-engagement in designing and implementation of Financial Information System	✓		
4.00 (iii)	Non-engagement in Book Keeping or other services related to the accounting records or financial statements	✓		
4.00 (iv)	Non- engagement in Broker-Dealer services	✓		
4.00 (v)	Non- engagement in Actuarial services	✓		
4.00 (vi)	Non- engagement in Internal Audit services	✓		
4.00 (vii)	Non- engagement in any other services that the Audit Committee determines	✓		
4.00 (viii)	No partner or employees of the external audit firms shall possess any share of the company during the tenure of their assignment	✓		

Annexure-V - continued

Condition No.	Title	Compliance Status ("✓" has been put in the appropriate column)		Remarks (If any)
		Complied	Not Complied	
5	Subsidiary Company			
5 (i)	Provisions relating to the composition of the BoD of the holding company shall be made applicable to the composition of the BoD of the subsidiary company	✓		
5 (ii)	At least 1 (one) Independent Director on the BoD of the holding company shall be a director on the BoD of the subsidiary company.	✓		
5 (iii)	The minutes of the Board meeting of the subsidiary company shall be placed for review at the following Board meeting of the holding company	✓		
5 (iv)	The minutes of the respective Board meeting of the holding company shall state that they have reviewed the affairs of the subsidiary company also	✓		
5 (v)	The Audit Committee of the holding company shall also review the financial statements, in particular the investments made by the subsidiary company	✓		
6	The CEO and CFO shall certify to the Board that they have reviewed financial statements for the year and that to the best of their knowledge and belief			
6 (i) (a)	these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading	✓		
6 (i) (b)	these statements together present a true and fair view of the company's affairs and are in compliance with existing accounting standards and applicable laws	✓		
6 (ii)	there are, to the best of knowledge and belief, no transactions entered into by the company during the year which are fraudulent, illegal or violation of the company's code of conduct	✓		
7 (i)	Obtaining certificate from a practicing Professional Accountant /Secretary regarding compliance of conditions of Corporate Governance Guidelines of the BSEC and include in the Annual Report	✓		
7 (ii)	Directors statement in the directors' report whether the company has complied with these conditions	✓		

Certificate on

Compliance of Corporate Governance

S. Abdur Rashid FCS

BCom (Hons), MBS (Fin & Banking), MBA (Fin), PGD-HRM

Chartered Secretary in Practice

ICSB Membership No.: F-0104

Certificate of Practice No.: 003

Mobile # 01726-533655, 01193095297

Proprietor

SARashid & Associates
(Chartered Secretaries in Practice)

CRP Bhaban (11th Floor), Plot-A/5, Block-A
Mirpur-14, Dhaka-1216, Bangladesh

E-mail : sarashid12000@yahoo.com

Certificate on Compliance of Corporate Governance Guidelines

[Issued under Condition # 7(i) of Corporate Governance Guidelines of BSEC vide
Notification No. SEC/CMRRCD/2006-158/134/Admin/44 dated 07 August 2012]

I have reviewed the Compliance of Corporate Governance Guidelines by **Prime Finance & Investment Limited** ("the Company") for the year ended 31 December 2012. Such compliance is the responsibility of the Company as stipulated in the above mentioned notification issued by Bangladesh Securities and Exchange Commission (BSEC).

I have conducted my review in a manner that has provided me a reasonable basis for evaluating the compliances and expressing my opinion thereon. This review has been limited to the measures adopted by the Company in ensuring such compliances and this has not been for expression of opinion on the financial statements of the Company.

According to the information and explanations provided by the Company, I hereby certify that in my opinion, the Company has complied with all the conditions of Corporate Governance Guidelines issued by BSEC.



S. Abdur Rashid FCS
Chartered Secretary in Practice
SARashid & Associates



Dhaka, 04 March 2013

Auditors' Report to the Shareholders

of Prime Finance & Investment Limited

We have audited the accompanying consolidated financial statements of Prime Finance & Investment Limited (The company) and its subsidiary which comprise the Balance Sheet as at 31 December 2012 and the Profit & Loss Account, Statement of Changes in Equity and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Bangladesh Financial Reporting Standards (BFRSs), the Financial Institution Act 1993, the rules and regulations issued by the Bangladesh Bank, the Companies Act 1994, the Securities and Exchange Rules 1987 and other applicable laws and regulations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Bangladesh Standards on Auditing (BSAs). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our

audit opinion.

The financial statements of the subsidiary and associates have been audited by the other auditors and in our opinion the related amounts included in respect of the books of subsidiary and associates are based solely on the reports of the other auditors .

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company as at 31 December 2012 and its financial performance and its cash flows for the year then ended in accordance with Bangladesh Financial Reporting Standards and comply with the Financial Institution Act 1993, the rules and regulations issued by Bangladesh Bank, the Companies Act 1994, the Securities and Exchange Rules 1987 and other applicable laws and regulations.

We also report 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 and made due verification thereof;
- in our opinion, proper books of account as required by law have been kept by the Company so far as it appeared from our examination of those books;
- the Company's Balance Sheet and Profit and Loss Account dealt with by the report are in agreement with the books of account;
- the expenditure incurred and payment made were for the purpose of the Company's business;
- the Financial Statements have been drawn up in conformity with the rules and regulations issued by the Bangladesh Bank to the extent applicable to the Company;
- adequate provisions have been made for advances which are, in our opinion, doubtful of recovery;
- the Company has complied with the relevant laws pertaining to reserves and maintenance of liquid assets;
- the information and explanations required by us have been received and found satisfactory.



Dated: Dhaka
23 February, 2013

A. Qasem & Co.
Chartered Accountants

Consolidated Balance Sheet

as at 31 December

(Figures in BDT)	2012	2011	Notes
PROPERTY AND ASSETS			
Cash			
In hand (including foreign currencies)	45,000	45,000	
Balance with Bangladesh Bank and its agent bank (including foreign currencies)	204,147,495	59,523,740	
Total cash	204,192,495	59,568,740	4.a Page 162
Balance with other banks and financial institutions			
In Bangladesh	781,230,612	544,717,347	
Outside Bangladesh	-	-	
Total balance with other banks and financial institutions	781,230,612	544,717,347	5.a Page 164
Money at call and on short notice	-	-	
Investments			
Government	-	-	
Others	1,193,609,479	1,300,164,193	
Total investments	1,193,609,479	1,300,164,193	6.a Page 165
Loans, advances and leases			
Loans, advances and leases	11,433,699,033	10,396,598,999	
Bills purchased and discounted	-	-	
Total loans, advances and leases	11,433,699,033	10,396,598,999	7.a Page 171
Fixed assets including premises, furniture and fixtures	327,619,010	327,674,192	8.a Page 172
Other assets	2,079,301,138	2,487,518,286	9.a Page 174
Non - business assets	-	-	
Total assets	16,019,651,768	15,116,241,756	
LIABILITIES AND CAPITAL			
Liabilities			
Borrowings from other banks, financial institutions and agents	2,795,522,546	4,019,152,726	10.a Page 175
Deposits and other accounts			
Current and other accounts	-	-	
Bills payable	-	-	
Savings accounts	-	-	
Term deposits	5,614,795,490	4,315,609,590	11.a Page 176
Bearer certificates of deposit	-	-	
Other deposits	-	-	
Total deposits and other accounts	5,614,795,490	4,315,609,590	
Other liabilities	2,502,746,513	2,097,082,449	12.a Page 180
Total liabilities	10,913,064,549	10,431,844,765	

Consolidated Balance Sheet - *continued*

(Figures in BDT)	2012	2011	Notes
Capital/shareholders' equity			
Paid up capital	2,274,304,030	1,624,502,880	13 Page 180
Statutory reserve	813,352,812	755,711,970	
Share money deposit	-	18,000,000	
Other reserves	-	-	
Retained earnings	1,089,800,363	1,561,846,535	
Minority interest	707,186,264	502,391,856	
Revaluation reserve	221,943,750	221,943,750	
Total shareholders' equity	5,106,587,219	4,684,396,992	
Total liabilities and shareholders' equity	16,019,651,768	15,116,241,756	

OFF-BALANCE SHEET ITEMS

Contingent liabilities

Acceptances and endorsements	-	-
Letters of guarantee	-	-
Irrevocable letters of credit	-	-
Bills for collection	-	-
Other contingent liabilities	-	-
Total contingent liabilities	-	-

Other commitments

Documentary credits and short term trade-related transactions	-	-
Forward assets purchased and forward deposits placed	-	-
Undrawn note issuance and revolving underwriting facilities	-	-
Undrawn formal standby facilities, credit lines and other commitments	-	-
Total other commitments	-	-
Total off-balance sheet items including contingent liabilities	-	-

Notes:

The annexed notes 01 to 56 form an integral part of these financial statements. These financial statements were approved by the Board of Directors on 23 February 2013 and were signed on its behalf by:


Company Secretary


Managing Director


Chairman

Signed in terms of our separate report of even date annexed

Dated: Dhaka
23 February, 2013


A. Qasem & Co.
Chartered Accountants

Consolidated Profit and Loss Account

for the year ended 31 December

(Figures in BDT)	2012	2011	Notes
Interest income	1,452,480,283	1,313,236,929	17.a Page 183
Interest paid on deposits and borrowings etc.	(1,327,489,669)	(1,006,608,135)	18.a Page 183
Net interest income	124,990,614	306,628,795	
Investment income	170,315,422	491,119,530	19.a Page 184
Fees, commission, exchange and brokerage	110,334,181	190,966,083	20.a Page 184
Other operating income	235,982,836	249,442,571	21.a Page 184
	516,632,439	931,528,184	
Total operating income (A)	641,623,053	1,238,156,979	
Salaries and other employee benefits	108,448,962	117,684,531	22.a Page 185
Rent, taxes, insurance, electricity etc.	11,864,981	10,818,754	23.a Page 185
Legal expenses	609,476	1,683,197	
Postage, stamp, telecommunication etc.	2,222,448	15,160,917	24.a Page 185
Stationery, printing, advertisements etc.	8,478,578	10,147,248	25.a Page 186
Managing director's salary and fees	9,600,000	8,825,954	
Directors' fees	1,010,000	1,315,000	26.a Page 186
Auditors' fees	287,500	235,125	27.a Page 186
Depreciation and repair of assets	8,367,482	7,222,030	28.a Page 187
Other expenses	19,879,496	17,852,861	29.a Page 187
Total operating expenses (B)	170,768,923	190,945,617	
Profit before provision (C=A-B)	470,854,130	1,047,211,362	
Provision for loans and advances and leases			
General provision	38,529,899	(61,100,149)	12.1 Page 177
Specific provision	62,825,574	121,385,203	12.1 Page 177
Provision for diminution in value of investment	(43,582,153)	32,725,435	12.2.a Page 178
Total provision (D)	57,773,320	93,010,489	
Total profit before tax (C-D)	413,080,810	954,200,873	
Provision for taxation			
Current	112,931,394	181,364,264	12.4.a Page 179
Deferred	(40,811)	24,066	
	112,890,583	181,388,330	
Net profit after tax	300,190,227	772,812,543	

Consolidated Profit and Loss Account - *continued*

(Figures in BDT)	2012	2011	Notes
Attributable to			
Shareholders of the company	235,395,819	672,516,582	
Minority interest	64,794,408	100,295,961	
Appropriations			
Statutory reserve	57,640,842	104,414,528	
General reserve	-	-	
Proposed cash dividend	227,430,403	-	
Proposed stock dividend	454,860,806	649,801,150	
Retained surplus	(439,741,824)	18,596,862	
Weighted average no. of outstanding share	227,430,403	162,450,288	
Earnings per share (restated)	1.04	2.96	33.a Page 189

Notes:

The annexed notes 01 to 56 form an integral part of these financial statements. These financial statements were approved by the Board of Directors on 23 February 2013 and were signed on its behalf by:



Company Secretary



Managing Director



Chairman

Signed in terms of our separate report of even date annexed

Dated: Dhaka
23 February, 2013



A. Qasem & Co.
Chartered Accountants

Consolidated Cash Flow Statement

for the year ended 31 December

(Figures in BDT)

	2012	2011
A. OPERATING ACTIVITIES		
Interest receipts	1,290,624,479	1,273,080,700
Interest payments	(1,035,081,223)	(3,188,280,904)
Fee and commission receipts	15,328,078	3,225,317,438
Dividend receipts	169,853,565	10,969,908
Capital gains from sale of listed shares	93,254,230	480,152,322
Cash payments to employees	(48,580,224)	(73,434,787)
Cash payments to suppliers and management expenses	(153,438,912)	(89,634,964)
Income taxes paid	(191,999,598)	(124,577,121)
Receipts from other operating activities	552,041,256	596,002,423
Payments for other operating activities	(1,601,250)	(936,931,864)
Cash generated before changes in operating assets and liabilities	690,400,401	1,172,663,151
Increase/decrease in operating assets and liabilities:		
Net loans and advances to customers	(856,166,743)	(891,547,082)
Loans and deposits from banks and other customers	347,247,970	(266,048,186)
Cash generated from operating assets and liabilities	(508,918,773)	(1,157,595,268)
Net cash generated from operating activities	181,481,628	15,067,883
B. INVESTMENT ACTIVITIES		
Acquisition of property, plant and equipment	(8,332,580)	(11,347,715)
Disposal of fixed assets	-	40,000
Payments of employee home loan	(21,650,000)	-
Sale of securities	1,035,675,084	1,153,221,949
Investment in securities	(884,988,957)	(1,323,867,438)
Investment in PFI Securities Ltd.	10,000,000	-
Investment in Prime Finance Capital Management Ltd.	(19,393,947)	18,000,000
Net cash used in investing activities	111,309,600	(163,953,204)
C. FINANCING ACTIVITIES:		
Dividend paid	(250,000,000)	-
Share money deposit receipts	222,000,000	-
Payment for financial expense	(33,654,208)	-
Short term loan	150,000,000	-
Net cash used in financing activities	88,345,792	-
D. Net (decrease)/increase in cash and cash equivalents (A+B+C)	381,137,020	(148,885,321)
E. Effects of exchange rate changes on cash and cash equivalents	-	-
F. Cash and cash equivalents at beginning of the year	604,286,087	753,171,408
G. Cash and cash equivalents at end of the year (D+E+F)	985,423,107	604,286,087
Cash and cash equivalents at end of the year represents		
Cash in hand (including foreign currencies)	45,000	45,000
Balance with Bangladesh Bank and its agent bank (including foreign currencies)	204,147,495	59,523,740
Balance with other banks and financial institutions	781,230,612	544,717,347
Total	985,423,107	604,286,087
Supplemental schedule for non-cash financing activities		
Bonus share issued	649,801,150	722,001,280

Consolidated Statement of Changes in Equity

for the year ended 31 December

(Figures in BDT)

Particulars	Paid up capital	Statutory reserve	Other reserve	Retained earnings	Minority interest	Total
Balance as at 1 January 2012	1,624,502,880	755,711,970	221,943,750	1,561,846,535	502,391,856	4,666,396,992
Net profit for the year 2012	-	-	-	235,395,819	64,794,408	300,190,227
Transfer to statutory reserve	-	57,640,842	-	(57,640,842)	-	-
Issue of right share	-	-	-	-	240,000,000	-
Issue of bonus share (2011)	649,801,150	-	-	(649,801,150)	-	-
Payment of dividend	-	-	-	-	(100,000,000)	-
Balance as at 31 December 2012	2,274,304,030	813,352,812	221,943,750	1,089,800,363	707,186,264	4,966,587,219
Balance as at 1 January 2011	902,501,600	651,297,442	221,943,750	1,715,745,762	402,095,895	3,893,584,449
Net profit for the year 2011	-	-	-	672,516,581	100,295,961	772,812,543
Transfer to statutory reserve	-	104,414,528	-	(104,414,528)	-	-
Issue of bonus share (2010)	722,001,280	-	-	(722,001,280)	-	-
Balance as at 31 December 2011	1,624,502,880	755,711,970	221,943,750	1,561,846,535	502,391,856	4,666,396,992

Balance Sheet

as at 31 December

(Figures in BDT)	2012	2011	Notes
PROPERTY AND ASSETS			
Cash			
In hand (including foreign currencies)	40,000	40,000	
Balance with Bangladesh Bank and its agent bank (including foreign currencies)	204,147,495	59,523,740	
Total cash	204,187,495	59,563,740	4 Page 162
Balance with other banks and financial institutions			
In Bangladesh	743,337,530	523,511,653	
Outside Bangladesh	-	-	
Total balance with other banks and financial institutions	743,337,530	523,511,653	5 Page 163
Money at call and on short notice	-	-	
Investments			
Government	-	-	
Others	819,270,974	1,007,221,310	
Total investments	819,270,974	1,007,221,310	6 Page 164
Loans, advances and leases			
Loans, advances and leases	9,751,352,472	8,705,279,178	
Bills purchased and discounted	-	-	
Total loans, advances and leases	9,751,352,472	8,705,279,178	7 Page 165
Fixed assets including premises, furniture and fixtures	324,157,058	323,776,965	8 Page 172
Other assets	2,779,745,191	3,336,698,993	9 Page 172
Non - business assets	-	-	
Total assets	14,622,050,721	13,956,051,839	
LIABILITIES AND CAPITAL			
Liabilities			
Borrowings from other banks, financial institutions and agents	2,795,522,546	4,019,152,724	10 Page 174
Deposits and other accounts			
Current and other accounts	-	-	
Bills payable	-	-	
Savings accounts	-	-	
Term deposits	5,614,795,490	4,315,609,590	11 Page 176
Bearer certificates of deposit	-	-	
Other deposits	-	-	
Total deposits and other accounts	5,614,795,490	4,315,609,590	
Other liabilities	1,913,111,126	1,610,872,174	12 Page 177
Total liabilities	10,323,429,162	9,945,634,488	

Balance Sheet - *continued*

(Figures in BDT)	2012	2011	Notes
Capital/shareholders' equity			
Paid up capital	2,274,304,030	1,624,502,880	13 Page 180
Statutory reserve	813,352,812	755,711,969	14 Page 182
Other reserves	-	-	
Retained earnings	989,020,968	1,408,258,753	15 Page 182
Revaluation reserve	221,943,750	221,943,750	
Total shareholders' equity	4,298,621,559	4,010,417,352	
Total liabilities and shareholders' equity	14,622,050,721	13,956,051,839	

OFF-BALANCE SHEET ITEMS

Contingent liabilities

Acceptances and endorsements	-	-	34 Page 189
Letters of guarantee	-	-	
Irrevocable letters of credit	-	-	
Bills for collection	-	-	
Other contingent liabilities	-	-	
Total contingent liabilities	-	-	

Other commitments

Documentary credits and short term trade-related transactions	-	-	
Forward assets purchased and forward deposits placed	-	-	
Undrawn note issuance and revolving underwriting facilities	-	-	
Undrawn formal standby facilities, credit lines and other commitments	-	-	
Total other commitments	-	-	

Total off-balance sheet items including contingent liabilities - -

Notes:

The annexed notes 01 to 56 form an integral part of these financial statements. These financial statements were approved by the Board of Directors on 23 February 2013 and were signed on its behalf by:



Company Secretary



Managing Director



Chairman

Signed in terms of our separate report of even date annexed

Dated: Dhaka
23 February, 2013



A. Qasem & Co.
Chartered Accountants

Profit and Loss Account

for the year ended 31 December

(Figures in BDT)	2012	2011	Notes
Interest income	1,320,827,593	1,091,970,361	17 Page 183
Interest paid on deposits and borrowings etc.	(1,294,122,447)	(1,012,721,767)	18 Page 183
Net interest income	26,705,146	79,248,594	
Investment income	260,702,413	491,119,530	19 Page 184
Fees, commission, exchange and brokerage	1,475,779	1,521,398	20 Page 184
Other operating income	231,976,984	231,970,807	21 Page 184
	494,155,176	724,611,735	
Total operating income (A)	520,860,322	803,860,330	
Salaries and other employee benefits	88,008,807	103,690,944	22 Page 185
Rent, taxes, insurance, electricity etc.	7,618,990	7,472,711	23 Page 185
Legal expenses	557,226	343,372	
Postage, stamp, telecommunication etc.	2,027,666	13,243,679	24 Page 185
Stationery, printing, advertisements etc.	8,237,675	9,161,160	25 Page 186
Managing Director's salary and fees	5,400,000	3,922,621	
Directors' fees	565,000	820,000	26 Page 186
Auditors' fees	230,000	209,000	27 Page 186
Depreciation and repair of assets	7,311,511	6,335,343	28 Page 187
Other expenses	18,249,239	16,032,584	29 Page 187
Total operating expenses (B)	138,206,114	161,231,414	
Profit before provision (C=A-B)	382,654,208	642,628,916	
Provision for loans and advances and leases			
General provision	38,529,899	(61,100,149)	12.1 Page 177
Specific provision	62,825,574	121,385,203	12.1 Page 177
Provision for diminution in value of investment	(46,905,473)	28,271,220	12.2.1 Page 177
Total provision (D)	54,450,000	88,556,274	
Total profit before tax (C-D)	328,204,208	554,072,642	
Provision for taxation			
Current	40,000,000	32,000,000	12.4 Page 178
Deferred	-	-	
	40,000,000	32,000,000	
Net profit after tax	288,204,208	522,072,642	

Profit and Loss Account - *continued*

(Figures in BDT)	2012	2011	Notes
Appropriations			
Statutory reserve	57,640,842	104,414,528	14 Page 182
General reserve	-	-	
Proposed cash dividend	227,430,403	-	
Proposed stock dividend	454,860,806	649,801,150	
Retained surplus	(451,727,843)	(232,143,039)	
Weighted average no. of outstanding share	227,430,403	162,450,288	
Earnings per share (restated)	1.27	2.30	33 Page 188

Notes:

The annexed notes 01 to 56 form an integral part of these financial statements. These financial statements were approved by the Board of Directors on 23 February 2013 and were signed on its behalf by:



Company Secretary



Managing Director



Chairman

Signed in terms of our separate report of even date annexed

Dated: Dhaka
23 February, 2013



A. Qasem & Co.
Chartered Accountants

Cash Flow Statement

for the year ended 31 December

(Figures in BDT)	2012	2011	Notes
A. OPERATING ACTIVITIES			
Interest receipts	1,288,855,163	1,271,141,041	
Interest payments	(1,035,081,223)	(936,884,051)	
Fee and commission receipts	1,475,778	1,521,398	
Dividend receipts	167,448,183	10,967,208	
Capital gains from sale of listed shares	93,254,230	480,152,322	
Cash payments to employees	(48,580,224)	(73,434,787)	
Cash payments to suppliers and management expenses	(122,734,011)	(68,183,531)	
Income taxes paid	(190,869,887)	(124,542,780)	
Receipts from other operating activities	411,396,045	152,218,583	31 Page 188
Payments for other operating activities	(1,534,100)	(10,668,442)	32 Page 188
Cash generated before changes in operating assets and liabilities	563,629,954	702,286,961	
Increase/(decrease) in operating assets and liabilities			
Net loans and advances to customers	(856,166,743)	(1,035,332,820)	
Loans and deposits from banks and other customers	347,247,970	589,752,566	
Cash generated from operating assets and liabilities	(508,918,773)	(445,580,254)	
Net cash generated from operating activities	54,711,181	256,706,707	
B. INVESTMENT ACTIVITIES			
Acquisition of property, plant and equipment	(7,711,885)	(6,563,801)	
Disposal of fixed assets	-	40,000	
Sale of securities	1,035,675,084	1,293,221,949	
Investment in securities	(847,724,748)	(1,043,313,228)	
Investment in PFI Securities Ltd.	10,000,000	-	
Investment in Prime Finance Capital Management Ltd.	119,500,000	(360,000,000)	
Net cash used in investing activities	309,738,451	(116,615,080)	
C. FINANCING ACTIVITIES			
Dividend paid	-	-	
Issuance of shares	-	-	
Net cash used in financing activities	-	-	
D. Net (decrease)/increase in cash and cash equivalents (A+B+C)	364,449,632	140,091,627	
E. Effects of exchange rate changes on cash and cash equivalents	-	-	
F. Cash and cash equivalents at beginning of the year	583,075,393	442,983,766	
G. Cash and cash equivalents at end of the year (D+E+F)	947,525,025	583,075,393	
Cash and cash equivalents at end of the year represents			
Cash in hand (including foreign currencies)	40,000	40,000	
Balance with Bangladesh Bank and its agent bank (including foreign currencies)	204,147,495	59,523,740	
Balance with other banks and financial institutions	743,337,530	523,511,653	
Total	947,525,025	583,075,393	
Supplemental schedule for non-cash financing activities			
Bonus share issued	649,801,150	722,001,280	

Statement of Changes in Equity

(Figures in BDT)

Particulars	Paid up capital	Statutory reserve	Other reserve	Retained earnings	Total
Balance as at 1 January 2012	1,624,502,880	755,711,970	221,943,750	1,408,258,752	4,010,417,352
Net profit for the year 2012	-	-	-	288,204,208	288,204,208
Transfer to statutory reserve	-	57,640,842	-	(57,640,842)	-
Issue of bonus share (2011)	649,801,150	-	-	(649,801,150)	-
Balance as at 31 December 2012	2,274,304,030	813,352,812	221,943,750	989,020,968	4,298,621,560
Balance as at 1 January 2011	902,501,600	651,297,442	221,943,750	1,712,601,919	3,488,344,711
Net profit for the year 2011	-	-	-	522,072,641	522,072,641
Transfer to statutory reserve	-	104,414,528	-	(104,414,528)	-
Issue of bonus share (2010)	722,001,280	-	-	(722,001,280)	-
Balance as at 31 December 2011	1,624,502,880	755,711,970	221,943,750	1,408,258,752	4,010,417,352

Liquidity Statement (Assets and Liabilities maturity analysis)

as at 31 December 2012

(Figures in BDT)

Particulars	Up to 1 month	1-3 month	3-12 month	1-5 years	Above 5 years	Total
Assets						
Cash	204,187,495	-	-	-	-	204,187,495
Balance with other banks and financial institutions	153,337,530	10,000,000	580,000,000	-	-	743,337,530
Money at call and on short notice	-	-	-	-	-	-
Investments	41,537,038	57,758,604	77,724,663	505,608,582	136,642,087	819,270,974
Loans, advances and leases	587,031,419	2,544,127,860	2,637,740,844	3,515,362,568	467,089,781	9,751,352,472
Fixed assets including premises, furniture and fixtures	-	-	-	-	324,157,058	324,157,058
Other assets	670,926,593	-	119,518,561	-	1,989,300,038	2,779,745,192
Non banking assets	-	-	-	-	-	-
Total assets (A)	1,657,020,075	2,611,886,464	3,414,984,068	4,020,971,150	2,917,188,964	14,622,050,721
Liabilities						
Borrowings from other banks, financial institutions and agents	68,278,924	827,490,834	846,442,558	1,000,379,426	52,930,804	2,795,522,546
Deposits	695,641,885	1,041,295,149	1,989,550,878	1,871,794,082	16,513,496	5,614,795,490
Provision and other liabilities	769,070,673	669,588,984	344,360,003	95,655,556	34,435,910	1,913,811,126
Total liabilities (B)	1,532,991,482	2,538,374,967	3,180,353,439	2,967,829,064	103,880,210	10,323,429,162
Net liquidity gap (A - B)	124,028,593	73,511,497	234,630,629	1,053,142,086	2,813,308,754	4,298,621,559

Notes to the Financial Statements

As at and for the year ended 31 December 2012

1. GENERAL INFORMATION

1.1 Domicile, legal form and country of incorporation

Prime Finance & Investment Limited (Prime Finance) is a non-banking financial institution domiciled in Bangladesh. The Company was incorporated in Bangladesh in March 1996, as a public limited Company under the Companies Act 1994. Prime Finance started commercial operation in the year 1996, obtaining license from Bangladesh Bank under the Financial Institutions Act, 1993. Prime Finance also obtained license from the Securities and Exchange Commission in July 1999, to operate in the capital market as a full-fledged Merchant Bank. The Company was listed with the stock exchanges in 2005.

The registered office of the Company is located at 63 Dilkusha C.A., Dhaka-1000. The operations of the company are being carried out through its three branches located in Dhaka, Chittagong and Rajshahi.

1.2 Principal activities

The activities of the Company encompass a wide range of services, broadly classified as fund based services, depository custody, investment etc. The company also offers different deposit schemes as well.

Fund based services

Fund based services include lease finance, term finance, real estate finance, SME finance, hire purchase, bridge finance, bill discounting, factoring and margin loan etc.

Depository Custody Participant

Prime Finance & Investment Limited registered with the Securities and Exchange Commission to act as Custody Participant of Central Depository of Bangladesh Limited (CDBL). Under this license, Prime Finance is eligible to provide its clients the following services by maintaining and operating custody accounts:

- ❖ Safe keeping of securities of its clients;
- ❖ Collecting dividends, bonus shares etc. on behalf of its clients and depositing the same to their accounts;
- ❖ Collecting information of corporate declarations like rights issue, conversion of bond etc. and updating the account holders;
- ❖ Maintaining ledger and other documents of

securities and fund of the account holders.

- ❖ Prime Finance can operate Clearing Accounts of stockbrokers or stock dealers also.

Deposit schemes

The company offers various deposit schemes to cater the deposit from the valued customers. Deposit schemes include Housing Deposit, Fortune Deposit, Double Income Deposit, Triple Money Program, Earn Ahead and Periodical Income Deposit etc.

1.3 Information regarding subsidiary & associated companies

As on 31 December 2012 Prime Finance has only one subsidiary to include for preparation of consolidated financial statements as per Bangladesh Accounting Standard: 27 'Consolidated and Separate Financial Statements'. However, as on 31 December 2012 Prime Finance has 3 (three) associated companies. The results of operations of the associates have been included in these financial statements following the equity method as per Bangladesh Accounting Standard: 28 'Investment in associates'. A brief description of the companies is described below:

1.3.1 Prime Finance Capital Management Limited (Subsidiary Company)

Prime Finance Capital Management Limited is a public limited company incorporated on 18 March 2010 in Bangladesh under the Companies Act 1994. The main objectives of the company are to carry on business of merchant banking. Prime Finance holds 60 percent shares in the company. Out of 13 (thirteen) directors, 6 (six) directors have been nominated from Prime Finance.

1.3.2 PFI Securities Limited

Prime Finance provides share trading services through its 46.1538 percent owned associated brokerage company - PFI Securities Limited. PFI Securities Limited is engaged in buying and selling of securities for its customers. It also extends margin loan to its customers against their margin for investment in the listed securities. The required margin level is monitored daily and pursuant to established guidelines, customers are required to deposit

additional margin to reduce the position, where necessary. As Prime Finance owns 46.1538 percent of the voting shares of PFI Securities Limited and does not otherwise have the control, it is not a subsidiary.

Out of 10 (ten) directors, 03 (three) directors have been nominated by Prime Finance to represent in the Board of the company.

1.3.3 Prime Finance Asset Management Company Limited

Prime Finance Asset Management Company Limited was incorporated in Bangladesh on 9 June 2008 as a public limited company incorporated under the Companies Act 1994. The objective of the company is to manage the assets of any Trust or Fund of any type and/or character and hold, acquire, sell or deal in such asset or any trust funds, take part in the management of any mutual fund operation. Operate, conduct, accomplish and establish services for industrial trading and commercial activities, invest funds in shares and securities, carry on business, and act as financial and monetary agent and merchandise shares and other securities. The company has received license from the Securities & Exchange Commission on 18 March 2009.

Prime Finance owns 49 percent shares in the company. At present there are 08 (eight) directors in the Board of the Company.

1.3.4 Prime Prudential Fund Limited

Prime Prudential Fund Limited is a public limited company incorporated on 16 July 2009 in Bangladesh under the Companies Act 1994. The main objectives of the company are to manage funds of the company and its investors and provide other financial services including corporate advisory services, merger & acquisition, equity investment, joint venture sourcing and consummation, corporate restructuring, financial and socio-economic consultancy, corporate research and project studies, privatization and other related services in home and abroad. Prime Finance owns 40 percent shares in the company. Out of 09 (nine) directors, 03 (three) directors has been nominated by Prime Finance to represent in the Board of the company.

2. BASIS OF PREPARATION

The financial statements are prepared on the historical cost basis and therefore, did not take into consideration the effect of inflation. The financial statements have been prepared and the disclosures of information have been made in accordance with the DFIM circular no. 11 dated 23 December 2009 and requirement of the Financial Institutions Act, 1993, the Companies Act, 1994, the Securities and Exchange Rules, 1987, the Listing Rules of Dhaka Stock Exchange and Chittagong Stock Exchange, Guidelines from Bangladesh Bank, Bangladesh Accounting Standards (BAS) and Bangladesh Financial Reporting Standards (BFRS) and other applicable laws and regulations.

In the year 2009, Bangladesh Bank promulgated DFIM circular no. 11 dated 23 December 2009 suggesting uniform presentation and disclosure requirement within the industry. As a result, we compromised with the usual presentation of the financial statements.

There are some areas where application of BAS and BFRS differs from the application suggested by the Bangladesh Bank through DFIM circulars. As Bangladesh Bank is our primary regulator; we are required to follow the guidelines of Bangladesh Bank. At the same time we are also required to follow the guidelines issued by the Securities and Exchange Commission (SEC). For mitigating presentation and disclosure conflict we prepared the financial statements following DFIM circulars and present separate disclosure where deviations exists.

2.1 Accounting estimates

The preparation of financial statements requires Management to make judgments, estimates and assumptions that affect the reported amount of assets and liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual result could differ from estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of the accounting estimates are recognized in the period in which the estimates are revised.

Significant areas requiring the use of Management estimates in these financial statements relate to the useful life of depreciable assets and provisions for loans/leases. However, assumptions and judgments made by Management in the application of accounting policies that have significant effect on the financial statements are not expected the result in material adjustment to the carrying amounts of assets and liabilities in the next year.

2.2 Risk and uncertainty for use of estimates

The preparation of financial statements in conformity with Bangladesh Accounting Standards requires Management to make estimates and assumptions that affect the reported amounts of revenues and expenses, assets and liabilities, and disclosure requirements for contingent assets and liabilities during and the date of the financial statements. These financial statements contained information about the assumptions it made about the future and other major sources of estimation uncertainty at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amount of assets, liabilities, income and expenses within the next financial year.

In accordance with the guidelines as prescribed by BAS 37: Provisions, Contingent Liabilities and Contingent Assets, provisions are recognized in the following situations:

- ❖ When the company has an obligation as a result of past events;
- ❖ When it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- ❖ Reliable estimate can be made of the amount of the obligation.

2.3 Statement of compliance

The financial statements of Prime Finance include the Balance Sheet, Profit and Loss Account, Cash Flow Statement, Statement of Changes in Equity, Liquidity Statement and

Notes to the Financial Statements. These financial statements are required to be prepared and presented within a framework of rules and guidelines - some mandatory and some recommendatory. The Companies Act, 1994 requires the production of the following as a part of the annual report:

- ❖ Board of Directors' report
- ❖ Auditors' report
- ❖ Balance sheet and
- ❖ Profit and loss account

In addition to the above, the Securities and Exchange Rules, 1987 (as amended in 1997) requires the production of a Cash Flow Statement and Statement of Changes in Shareholders' Equity as a part of the Annual Report. The Companies Act, 1994 provides basic requirements for accounting and reporting applicable to all companies incorporated in Bangladesh. The Securities and Exchange Commission (SEC) of Bangladesh regulates financial reporting practices of listed companies. Listed companies are required to comply with SEC's accounting and disclosure requirements. The Rules 1987 as amended in 1997, requires listed companies to follow Bangladesh Accounting Standards (BAS)/Bangladesh Financial Reporting Standards (BFRS) as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB).

These financial statements have been prepared and presented in accordance with the approved accounting and reporting standards as applicable in Bangladesh. Approved accounting standards comprise of International Accounting standards (IAS) and International Financial Reporting Standards (IFRS) as adopted by the Institute of Chartered Accountants of Bangladesh. As of 31 December 2012 status and applicability of Bangladesh Accounting Standards (BAS) and Bangladesh Financial Reporting Standards (BFRS) in the case of Prime Finance are as under:

Notes to the Financial Statements - *continued*

SL No.	BAS/BFRS	Applicability	Remarks
	Framework	Applied	
BAS 1	Presentation of Financial Statements (2010)	Applied	See note 54 Page 194
BAS 2	Inventories	N/A	
BAS 7	Cash Flow Statement	Applied	
BAS 8	Accounting Policies, Changes in accounting Estimates & Errors	Applied	
BAS 10	Events after the Reporting period	Applied	
BAS 11	Construction Contracts	N/A	
BAS 12	Income Taxes	Applied	
BAS 14	Segment Reporting	Applied	
BAS 16	Property, Plant and Equipment	Applied	
BAS 17	Leases	Applied	
BAS 18	Revenue	Applied	
BAS 19	Employee Benefits	Applied	
BAS 20	Accounting for Government Grants and Disclosure of Government Assistance	N/A	
BAS 21	The Effects of changes in Foreign Exchange Rates	Applied	
BAS 23	Borrowing costs (2008)	Applied	
BAS 24	Related Party Disclosures	Applied	
BAS 26	Accounting and Reporting by Retirement Benefit Plans	Applied	
BAS 27	Consolidated and Separate Financial Statements	Applied	
BAS 28	Investments in Associates	Applied	
BAS 31	Interests in Joint Venture	N/A	
BAS 32	Financial Instruments: Presentation	Applied	See note 55 Page 194
BAS 33	Earnings Per Share	Applied	
BAS 34	Interim Financial Reporting	Applied	
BAS 36	Impairment of Assets	Applied	
BAS 37	Provisions, Contingent Liabilities and Contingent Assets	Applied	
BAS 38	Intangible Assets	Applied	
BAS 39	Financial Instruments: Recognition and Measurement	Applied	See note 55 Page 194
BAS 40	Investment Property	N/A	
BAS 41	Agriculture	N/A	
BFRS 1	First time adoption of BFRS	N/A	
BFRS 2	Share Based Payment	N/A	
BFRS 3	Business Combinations	N/A	
BFRS 4	Insurance Contracts	N/A	
BFRS 5	Non-current Assets Held for Sale & Discontinued Operations	N/A	
BFRS 6	Exploration for and Evaluation of Mineral Resources	N/A	
BFRS 7	Financial Instruments: Disclosures	Applied	See note 55 Page 194
BFRS 8	Operating Segments	N/A	
BFRS 9	Financial Instruments	N/A	Not yet adopted by ICAB (Under review process)

2.4 Consistency

In accordance with the BFRS framework for the presentation of financial statements together with BAS 1 and BAS 8, Prime Finance applies the accounting disclosure principles consistently from one period to the next. Where selecting and applying new accounting policies, changes in accounting policies applied, correction of errors, the amounts involved are accounted for and disclosed retrospectively in accordance with the requirement of BAS-8. We however have applied the same accounting and valuation principles in 2012 as in financial statements for 2011.

2.5 Segments

A segment is a distinguishable component of the company that engaged in providing different types of products and services, which is subject to requirement by local regulatory authority. The Securities & Exchange Commission of Bangladesh has directed to all banks and financial Institutions to separate Merchant Banking Unit by forming a new company. Accordingly Prime Finance has separated its Merchant Banking operation effective from 1 January 2011.

The Company provides different nature of services through its subsidiary and associate companies. Prime Finance Capital Management Limited as subsidiary company provides Merchant Banking services where Prime Finance itself provides financing services. Merchant banking operations include managing IPOs, underwriting of securities, management of investors' portfolio and other financial advisory services. Operating results of merchant banking operation have been presented separately as well as consolidated with that of the results of income from financing operations.

2.6 Basis of consolidation of operations of subsidiaries

The financial statements of the company and its subsidiaries have been consolidated in accordance with Bangladesh Accounting Standard 27 "Consolidated and Separate Financial Statements". The consolidation of the financial statement has been made after eliminating all material intra group balances, income and expenses arising from intra-group transactions.

The total profits of the company and its subsidiaries are shown in the consolidated

profit and loss account with the proportion of profit after taxation pertaining to minority shareholders being deducted as 'Minority Interest'. All assets and liabilities of the company and of its subsidiaries are shown in the consolidated balance sheet. The interest of minority shareholders of the subsidiaries are shown separately in the consolidated balance sheet under the heading 'Minority Interest'.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Lease Operations

Under BAS 17, lease operations are divided into finance leases and operating leases. Unlike operating lease, a finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset to the lessee. Title may or may not eventually be transferred.

Prime Finance as a Lessor

Under finance leases, Prime Finance recognizes the leased assets in the balance sheet as investment in lease assets at an amount equal to the net investment in the lease. The lease payments are broken down into the finance charge and the redemption payment. The redemption payment reduces the amount of the outstanding liability (net investment); the finance charge is treated as interest income. Interest and similar income is recognized on the basis of a constant, periodic rate of return relating to the net investment outstanding.

In contrast, assets held under operating leases are recognized and valued using the same principles as, property, plant and equipment. Prime Finance does not hold any property under operating lease.

Prime Finance as a Lessee

Under finance lease, the asset is recognized as property, plant and equipment, and the obligation as a liability. Each asset is stated at the lower of the following two values: either the fair value of the lease asset at the inception of the lease or, the present value of the minimum lease payments which ever is lower. In calculating the present value of the minimum lease payments, the interest rate implicit in the lease is applied.

Lease payments relating to finance leases are broken down into two components: the finance charge and the redemption payment. The redemption payment reduces the residual

liability and the finance charges are shown as interest expenses.

3.2 Term Finance and other finance

Such investments are stated at un-amortized amount. The recovery of principal amount is amortized and the carrying amount is adjusted with the principal recovery and stated at un amortized principal amount.

Investments are classified as non-accrual when there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. Whenever a payment is 3 months past due, investments are classified as non accrual even if they are fully secured and collection efforts are reasonably expected to result in repayment within 6 months.

When loans/leases are identified as non accrual, the recognition of accrued interest is discontinued and credited to interest suspense account. Interest received on non-accrual investments are credited to profit & loss account on cash basis. Non-accrual investments are returned to performing status when required amounts including interest need to classify as regular has been collected.

3.3 Margin loan

Prime Finance extends margin loan to the portfolio investors through its subsidiary at an agreed ratio (between investors deposit and loan amount) of purchased securities against the respective investor account. The investors are to maintain the margin as per set rules and regulations. The margin is monitored on daily basis as it changes due to change in market price of shares. If the margin falls below the minimum requirement, the investors are required to deposit additional fund to maintain the margin as per rules otherwise the securities are sold to bring the margin to the required level.

3.4 Investments in subsidiary and associates

A subsidiary is an entity in which the company has control as per as shareholding (more than 50 percent) or voting right is concerned. As on the reporting date Prime Finance has one subsidiary company named 'Prime Finance Capital Management Limited'. Consolidated Financial statements have been prepared for subsidiary investment as per Bangladesh Accounting Standards: 27 'Consolidated and

Separate Financial Statements'. Interest of the minority shown as minority interest as separate line item of the shareholders equity which includes share capital of minority portion as well as profit earned that goes to the minority.

An associate is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture. The Company's investment in associates is accounted for in the Financial Statements using the Equity Method in accordance with BAS 28: 'Accounting for investment in associates'. Such investments are classified as other assets in the balance sheet and the share of profit/loss of such investment is classified under other operating income in the profit and loss account.

Recognition of income on the basis of distributions received from associate may not be an adequate measure of the income earned by the Company on an investment in an associate because the distributions received may bear little relation to the performance of the associate. Because of the Company has significant influence over the associates; the Company has an interest in the associate's performance and, as a result the return of investment. The Company's accounts for this interest by extending the scope of its Financial Statements to include its share of profit/loss of such an associate. As a result, application of the equity methods provides more informative reporting of the net assets and profit or loss of the investor.

3.5 Investment in securities

Investment in securities are classified broadly in two categories and accounted for as under:

Investment in listed securities:

Investments in listed securities are carried at cost. Adequate provision has been made considering each individual investment (where market price is less than cost) as guided by Bangladesh Bank. Unrealized gain or losses are not recognized in the profit and loss account.

Investment in unlisted securities:

Investment in unlisted securities is reported at cost under cost method. Adjustment is given for any shortage of book value over cost for determining the carrying amount of investment in unlisted securities.

3.6 Receivables

Accounts receivables

The main item included rentals/installments due from the clients but not received. No such receivables are accounted for if the loans are classified as bad and loss. Receivables carry interest for the periods for which the delay continues in payments of the amounts due from the clients continues. Such interest is not recognized as income until it is received in cash. Receivables from clients are stated at their nominal value.

Other receivables

Others receivables includes mainly receivable from accrued IDCP (Interest During Construction Period) and interest receivable. These receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

3.7 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, balance with Bangladesh Bank and its agent bank, and balance with other banks and financial institutions.

3.8 Liquidity statement

The liquidity statement of assets and liabilities as on the reporting date has been prepared on residual maturity term as per the following bases-

- a) Balance with other banks and financial institutions, money at call and short notice, etc. are on the basis of their maturity term.
- b) Investments are on the basis of their respective maturity.
- c) Loans, advances and leases are on the basis of their repayment schedule.
- d) Fixed assets are on the basis of their useful lives.
- e) Other assets are on the basis of their realization/amortization.
- f) Borrowings from other banks, financial institutions and agents are as per their maturity/repayment terms.
- g) Deposits and other accounts are on the basis of their maturity term and past trend of withdrawal by the depositors.
- h) Provisions and other liabilities are on the basis of their payment / adjustments schedule.

3.9 Fixed assets including premises, furniture and fixtures

Freehold assets

The cost of an item of property, plant and equipment is recognized as an asset if, and only if, it is probable that the future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. Property, plant and equipments are stated at cost less accumulated depreciation in compliance with the Bangladesh Accounting Standards (BAS)-16: Property, Plant and Equipment. The cost of acquisition of an asset comprises its purchase price and any directly attributable cost of bringing the assets to its working condition for its intended use inclusive of inward freight, duties and non-refundable taxes if any.

Pre-operating expenses and borrowing costs

In respect of major projects involving construction, related pre-operational expenses form part of the value of assets capitalized. Expenses capitalized also include applicable borrowing cost considering the requirement of BAS 23: Borrowing Costs.

Subsequent expenditure

The company recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable, that the future economic benefits embodied with the item will flow to the company and the cost of the item can be measured reliably. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance is normally charged off as revenue expenditure in the period in which it is incurred. In situation where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefit expected to be obtained from the use of the fixed assets, the expenditure is capitalized as an additional cost of the assets. All other costs are recognized to the profit and loss account as expenses. All up-gradation/enhancement are generally charged off as revenue expenditure unless they bring similar significant additional benefits.

Disposal of fixed assets including premises, furniture and fixtures

On disposal of fixed assets, the cost and accumulated depreciation are eliminated and gain or loss on such disposal is reflected in the income statement, which is determined with reference to the net book value of the assets and net sales proceeds.

Depreciation on fixed assets including premises, furniture and fixtures

Depreciation of an asset begins when the asset is available for use. Depreciation is provided for the period in use of the assets. Full month's depreciation has been charged on additions irrespective of date when the related assets are put into use and no depreciation is charged for the month of disposal. Depreciation is provided at the following rates on straight-line basis over the periods appropriate to the estimated useful lives of the different types of assets:

Motor vehicles	20% per annum
Electric equipment	20% per annum
Furniture & fixtures	15% -20% per annum
Office decoration	20% per annum

3.10 Intangible asset

Components

The main item included in intangible asset is software.

Basis of recognition

An Intangible Asset shall only be recognized if it is probable that future economic benefits that are attributable to the asset will flow to the Company and the cost of the asset can be measured reliably in accordance with BAS 38: Intangible Assets. Accordingly, these assets are stated in the Balance Sheet at cost less accumulated amortization.

Subsequent expenditure

Subsequent expenditure on intangible asset is capitalized only when it increases the future economic benefits embodied in the specific assets to which it relates. All other expenditure is expensed as incurred.

Amortization

Intangible asset is valued at amortized cost and written down within 5 to 10 years.

3.11 Merchant Bank operation

As stipulated in the Securities and Exchange Commission (Merchant Banker and Portfolio Manager) Rules, 1996, the services of issue management, portfolio management, underwriting of shares and securities and advisory services fall under the purview of Merchant Banking operation. Accordingly, profit and loss account of Merchant Banking operation includes income under the heads stated above. Prime Finance & Investment Limited has established separate company named Prime Finance Capital Management Limited for its Merchant Banking Operation as required by the Securities and Exchange Commission.

3.12 Bank loans

Interest bearing bank loans are recorded at the proceeds received. Interest on bank loans is accounted for on an accrued basis to profit and loss account under the head of financial expense at the implicit rate of interest. The accrued expenses are not added to carrying amounts of the loans.

3.13 Borrowing costs

All borrowing costs are recognized in the profit or loss account in the period in which they are incurred.

3.14 Accrued expenses and other payables

Liabilities are recognized for the goods and services received, whether paid or not for those goods and services. Payables are not interest bearing and are stated at their nominal value.

3.15 Provisions

Provisions are recognized when Prime Finance has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimate can be made of the amount of the obligation.

3.16 Provision for doubtful losses

The provision for doubtful losses is maintained at a level that management considers adequate to absorb identified credit related losses in the portfolio as well as losses that have been incurred but are not yet identifiable.

The provision is increased by the provision for doubtful losses, which is charged to profit and loss account, and decreased by the amount of write-offs, net of reverses.

The provision is determined based on management's identification and evaluation of problem accounts, estimated probable losses that exist on the remaining portfolio and on other factors including the composition and quality of the portfolio and changes in economic condition.

The provision is estimated based on two principles: 1. Bangladesh Accounting Standards (BAS) 37: Provisions, contingent liabilities and contingent assets, and 2. Bangladesh Bank guidelines. Methodology for measuring the appropriate level of the provision relies on several key elements, which include both quantitative and qualitative factors as set forth in the Bangladesh Bank guidelines. FID circular 08 dated August 03, 2002 and subsequent updation by Bangladesh Bank in this regard is the basis for calculating the provision for doubtful losses.

3.17 Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

a. Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years or are never taxable or deductible. Company's liability for current tax is calculated using tax rates that have been enacted the balance sheet date.

b. Deferred tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that

taxable profits will be available against which such differences can be utilized.

Deferred tax is calculated at the tax rates, which are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited to profit and loss account.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and Prime Finance intends to settle its current tax assets and liabilities on a net basis.

3.18 Employees benefit plans

Prime Finance offers a number of benefit plans which includes contributory provident fund, gratuity plan, pension scheme, death and disability plan, hospitalization benefit including annual health check-up and maternity benefit.

a. Contributory provident fund

The Company operates a contributory provident fund for its permanent employees. The fund is approved by the National Board of Revenue (NBR), administered separately by a Board of Trustees and is funded by equal contribution from the Company and the employees. This fund is invested separately from the Company's assets.

b. Gratuity scheme

Prime Finance has a funded gratuity for all eligible employees who completed minimum 5 (five) years of continuous service with the Company. This scheme was approved by the National Board of Revenue (NBR) and is administered by an independent Board of Trustee. This fund is invested separately from the Company's assets. Required amount of gratuity is calculated on the basis, of last basic depending on the length of service for every completed year as well as proportionate to the fraction period of service as of the end of the respective financial year.

c. Funded pension scheme

Prime Finance has a funded pension scheme for employees who complete 10 years of service length. Obligation for contribution is recognized as expenses in the profit and loss account as incurred.

d. Hospitalization and other benefit plans

In addition to the above core benefit schemes Prime Finance also offers hospitalization benefit, annual health check up benefit and death & disability benefit. Prime Finance as part of its key strategy offers attractive bonus considering the pre tax profits, earnings per share and the return on average shareholders equity.

Prime Finance contributes funds to the plans and cost is accounted for in the period to which it relates. An Actuarial valuation has been performed to determine the present value of the accrued benefits. Actuarial report support that provision made against above-mentioned funds is adequate.

e. Employee home loan

To secure long-term commitment of deserving employees Prime Finance introduced 'PFI Employees Home Loan Policy 2008'. An employee served the company for continuous period of at least five years (3 years for the employees started from the position of AVP and above) is entitled to avail loan to purchase residential apartment, purchase of land and construction of house thereon etc. Interest rate of the loan is bank rate plus 1.5 percent.

f. Employee transport assistance scheme

Prime Finance provides car as well as car loan facility to the employee as per Transport Assistance Policy. Company provides full time car to the employees from the position of Senior Vice President. Employees in the position of Assistance Vice President and Vice President are entitled to avail interest free car loan facility. In addition to above facility the company provides pick and drop facility to the other employees.

g. Employee furniture and household assistance scheme

Prime Finance provides all confirmed employees ranking from Assistant Vice President up to Managing Director furnitures and household items. The facility is interest free and will be for a period of five years. An executive must serve for three years after availing this facility or he/she must surrender the un-amortized amount to the company.

h. Management of funds

The Board of Trustees administers the funds. Annual contribution to the gratuity and pension

fund is based on expected cost to the company.

3.19 Interest suspense account

Accrued interest on lease, term finance, real estate finance, hire purchase agreement classified as Special Mentioned Account, Sub-Standard, Doubtful and Bad loan are not recognized as income rather transferred to interest suspense accounts as complied with Bangladesh Bank guidelines. Recovery of overdue credited to interest suspense account is recognized as income on cash basis.

3.20 Revenue recognition

Revenue is recognized in accordance with Bangladesh Accounting Standard (BAS) 18: Revenue Recognition unless otherwise mentioned or otherwise guided by the separate BAS/BFRS.

a. Lease income

The excess of gross lease rentals receivable over the cost of the leased assets constitutes the total unearned income at the commencement of the execution of lease. This income is allocated over the period of lease that reflects a constant periodic return on the net investment. The pattern of the periodic return is, however, differs in case of structured lease finance depending on the structure of the particular lease contract. Income is recognized when it is earned, i.e. income on due installments on unclassified leases irrespective of whether received or not. Income is not taken into profit and loss account when a lease is classified as SMA and above and kept in interest suspense account. Interest on classified lease is accounted for on cash basis.

b. Income from term finance

Interest income on term finance is recognized on accrual basis. Installment comprises both interest and principal. Interest part of the installments that become receivable is recognized as income in the financial statements. Interest on term finance ceases to be taken into income when such term finance are classified as SMA and above and kept in interest suspense account. Interest on classified term finances is accounted for on cash basis.

c. Income from stock on hire

This consists of interest accrued on investment made under stock on hire scheme (hire purchase

investment). Income is recognized when the income is earned, i.e. interest on due installments on unclassified advances irrespective of whether received or not. Interest ceases to be taken into income when such investments are classified as SMA and above, and kept in interest suspense account. Interest on classified investment is accounted for on cash basis.

d. Income from real estate finance

Interest income from real estate finance is recognized on accrual basis. Interest portion of the installments that become receivable is recognized as income in the financial statements. Interest on such finance ceases to be taken into income when such finance is classified as SMA and above and kept in interest suspense account. Interest on classified finance is accounted for on cash basis.

e. Income from margin loan

Income from margin loan is recognized on accrual basis. Such income is calculated considering daily margin loan balance of the respective parties. Income is recognized on quarterly rest.

f. Income from secured term finance

Income from secured term finance is recognized on accrual basis.

g. Dividend income

Dividend on ordinary shares

Dividend income from ordinary shares is recognized when the shareholders' legal rights to receive payments have been established i.e. during the period in which dividend is declared in the Annual General Meeting. Dividend declared but not received is recognized as deemed dividend.

Dividend on preference shares

Dividend from preference shares is recognized on cash basis.

h. Share of Income from associates & subsidiary

As per BAS 28, equity method has been followed to recognize share of income from associates and is presented as a separate item in the Profit & Loss Account of the Company. Any distribution received from the associate reduces the carrying amount of investment. However,

consolidated financial statements has been prepared for the subsidiary.

i. Fee based income

Fee based income is recognized on cash basis.

j. Gain on sale of securities

Capital gain on disposal of securities listed in the stock exchanges is recorded on realized basis. i.e. only when the securities are sold in the market. Unrealized capital gains are not accounted for in the profit and loss account.

3.21 Payment of dividend

Interim dividends are recognized when they are paid to shareholders. Final dividend is recognized when it is approved by the shareholders.

The proposed cash dividend is not recognized as a liability in the balance sheet in accordance with the BAS 10: Events After the Balance Sheet date. Dividend payable to the Company's shareholders are recognized as a liability and deducted from shareholders equity in the period in which the shareholders right to receive payment is established.

BAS 1: Presentation of Financial Statements, also requires the dividend proposed after the balance sheet date but before the financial statements are authorized for issue, be disclosed in the notes to the financial statements. Accordingly, the Company has disclosed the same in the notes to the financial statements.

3.22 Impairment of assets

The carrying amounts of the company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated.

Any impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the income statement.

3.23 Related party transactions

All transactions involving related parties arising in normal course of business are conducted at arm's length at normal commercial rates on the same terms and conditions as third party transactions using valuation models.

3.24 Statutory reserve

Financial Institutions Regulations 1994 requires NBFIs to transfer 20 percent of its current year's profit to reserve fund until such reserve equals to its paid up share capital. In conformity with the above requirement, Prime Finance & Investment Limited transfers 20 percent of net profit to statutory reserve before declaration of dividend.

3.25 Guarantee, commitments and contingencies

Corporate guarantee represents irrevocable assurance that the Company will make payments in the event that a client cannot meet its obligation to third parties. The term of this guarantee is for one year and renewable at the expiry of the term.

In the normal course of operations, the Company provides indemnifications, which are often standard contractual terms to counter parties in transactions such as purchase agreements, service agreements, contract with employees and leasing transactions. This indemnification clause may require us to compensate the counter parties for cost incurred as a result of charges in laws and regulations or litigation claims that may be suffered by the counter party as a consequence of the transaction. The terms of these indemnifications clause vary based upon the contract.

3.26 Litigation

The Company is not a party to any lawsuits except those arising in the normal course of business, which were filed against the default clients for non-performance in loans/leases repayment and against various level of tax authority regarding some disputed tax issues. The Company, however, provides adequate provisions as per guidelines of BAS 37.

3.27 Earnings per share

The Company calculates Earnings Per Share (EPS) in accordance with BAS 33: Earnings Per Share, which has been shown on the face of Profit and Loss account, and the computation of EPS is stated in the notes to the financial statements.

a. Basic earnings per share

This represents earnings for the year attributable to ordinary shareholders. As there

was no preference dividend or extra ordinary items, the net profit after tax for the year has been considered as fully attributable to the ordinary shareholders.

b. Diluted earnings per share

Diluted earnings per share reflects the potential dilution that could occur if additional ordinary shares are assumed to be issued under securities or contracts that entitle their holders to obtain ordinary shares in future, to the extent such entitlement is not subject to unresolved contingencies.

Effect of dilution to weighted average number of ordinary shares is given for potential ordinary shares. At 31 December 2012, there was no scope for dilution and hence no diluted EPS is required to be calculated.

c. Weighted average number of ordinary shares outstanding during the year

This represents the number of ordinary shares outstanding at the beginning of the year plus the number of ordinary shares issued during the year multiplied by a time-weighting factor. The time-weighting factor is the numbers of days the specific shares were outstanding as a proportion of the total number of days in the year.

3.28 Uniform accounting policies

The financial statements of Prime Finance & Investment Limited, PFI Securities Limited and Prime Finance Asset Management Company Limited, Prime Prudential Fund Limited and Prime Finance Capital Management Limited have been prepared in accordance with the uniform principles of accounting.

3.29 Disclosure of deviations from few requirements of BAS/BFRS due to mandatory compliance of Bangladesh Bank's requirements

Bangladesh Bank is the prime regulatory body for all non-banking financial institutions in Bangladesh. Some requirements of Bangladesh Bank contradict with those of BAS/BFRS. As such the company has departed from those contradictory requirements of BAS/BFRS in order to comply with the rules and regulations of Bangladesh Bank, which are disclosed in note no. 54 and 55 of these financial statements.

Notes to the Financial Statements - *continued*

4. CASH

Cash in hand:

(Figure in BDT)

	2012	2011
Local currency	40,000	40,000
Foreign currencies	-	-
Total	40,000	40,000
Balance with Bangladesh Bank:		
Local currency	204,147,495	59,523,740
Foreign currencies	-	-
Total	204,147,495	59,523,740
Total	204,187,495	59,563,740

4.a Cash (consolidated)

	2012	2011
Prime Finance & Investment Limited	40,000	40,000
Prime Finance Capital Management Limited	5,000	5,000
Total	45,000	45,000
Balance with Bangladesh Bank:		
Prime Finance & Investment Limited	204,147,495	59,523,740
Prime Finance Capital Management Limited	-	-
Balance as on 31 December	204,192,495	59,568,740

4.1 Cash Reserve Requirement (CRR) and Statutory Liquidity Reserve (SLR)

Cash Reserve Requirement and Statutory Liquidity Ratio have been calculated and maintained in accordance with FID circular no. 6 dated 6 November 2003.

4.1.1 Cash Reserve Requirement (CRR)

2.5% of average balance of term deposits	2012	2011
Required reserve	91,094,000	60,267,000
Actual reserve held	145,573,000	71,490,000
Surplus/(deficit)	54,479,000	11,223,000

4.1.2 Statutory Liquidity Requirement (SLR)

5% of average liabilities excluding fund from Banks/FIs		
Required reserve	274,399,000	184,136,000
Actual reserve held (4.1.4)	947,525,025	583,075,393
Surplus/(deficit)	673,126,025	398,939,393

4.1.3 Held for Cash Reserve Requirement (CRR)

Balance with Bangladesh Bank and its agent bank(s) as per statement	204,147,495	59,523,740
Total	204,147,495	59,523,740

4.1.4 Held for Statutory Liquidity Requirement (SLR)

Cash in hand	40,000	40,000
Balance with Bangladesh Bank and its agent bank(s) as per statement	204,147,495	59,523,740
Balance with other banks and financial institutions (note-5)	743,337,530	523,511,653
Total	947,525,025	583,075,393

Notes to the Financial Statements - *continued*

4.1.5 Cash in hand

Cash in hand represents the amount under imprest system of petty cash to meet petty cash expenses both for head office and branch offices. Under this system the Company along with its subsidiary, maintains imprest of Tk. 45,000. As per Bangladesh Bank guidelines, NBFIs cannot make any cash transaction except petty cash.

4.1.6 Balance with Bangladesh Bank & its agent bank

Deposit with Bangladesh Bank is non-interest bearing and maintained to meet the Cash Reserve Requirement (CRR). As required by Bangladesh Bank, CRR @ 2.5% is required to maintain with Bangladesh Bank current account on all deposits taken from depositors other than Banks and Financial Institutions. On 31 December 2012 CRR have been maintained properly.

5. BALANCE WITH OTHER BANKS AND FINANCIAL INSTITUTIONS

This represents balance with various banks and financial institutions in Bangladesh.

(Figures in BDT)	2012	2011
Fixed Deposit Account		
First Security Islami Bank Limited	10,000,000	10,000,000
Social Islami Bank Limited	510,000,000	10,000,000
LankaBangla Finance Limited	90,000,000	90,000,000
Phoenix Finance & Investment Limited	-	7,095,437
Dhaka Bank Limited	-	20,000,000
Bangladesh Industrial Finance Company Limited	10,000,000	-
Reliance Finance Company Limited	20,000,000	-
Total	640,000,000	137,095,437
Current Account		
Dhaka Bank Limited	1	901
First Security Islami Bank Limited	-	620
Islami Bank Bangladesh Limited	1,003,503	153
Social Investment Bank Limited	1,445	
Bangladesh Development Bank Limited	5,000	
Bangladesh Commerce Bank limited	4,425	
Total	1,014,374	1,674
Short Term Deposit		
BRAC Bank Limited	27,905	27,905
Dhaka Bank Limited	5,184	6,073
Dutch Bangla Bank Limited	10,231,537	3,141,028
EXIM Bank Limited	6,021	5,734
ICB Islami Bank Limited	27,459	29,649
Jamuna Bank Limited	(672,789)	(86,951)
Mercantile Bank Limited	150,931	143,042
Mutual Trust Bank Limited	85,564	459,742
National Credit & Commerce Bank Limited	692	692
One Bank Limited	20,189	20,725
Premier Bank Limited	148,261	143,752
Prime Bank Limited	22,467,559	27,291,997
Shahajalal Islami Bank Limited	67,134,497	43,499,062
Social Islami Bank Limited	-	3,956
Southeast Bank Limited	1,231,097	741,816
Standard Bank Limited	1,104,215	1,064,381
The City Bank Limited	314,801	300,253,335

Notes to the Financial Statements - *continued*

(Figures in BDT)	2012	2011
Trust Bank Limited	15,614	15,614
First Security Islami Bank Limited	2	-
Al Arafa Islami Bank Limited	-	23,205
IFIC Bank Limited	24,418	9,629,785
Total	102,323,157	386,414,542
Total	743,337,530	523,511,653

Fixed deposits are maintained with commercial banks and Non-bank financial institutions for maintaining Statutory Liquidity Ratio as required by Bangladesh Bank. Bangladesh Bank regulations require to maintain Statutory Liquidity Ratio (SLR) @ 5% including the CRR of 2.5% on total liabilities, excluding loans from banks and financial institutions. Prime Finance maintains this reserve mostly in the form of deposits.

(Figures in BDT)	2012	2011
Maturity wise grouping		
Up to 1 month	153,337,530	436,416,216
1 month to 3 months	10,000,000	40,000,000
3 months to 1 year	580,000,000	47,095,437
1 year to 5 years	-	-
More than 5 years	-	-
Total	743,337,530	523,511,653

5.a. BALANCE WITH OTHER BANKS AND FINANCIAL INSTITUTIONS (consolidated)

(Figures in BDT)	2012	2011
Prime Finance & Investment Limited	743,337,530	523,511,653
Prime Finance Capital Management Limited	37,893,082	21,205,694
Balance as on 31 December	781,230,612	544,717,347

6. INVESTMENTS

This represents investment made by the company both in listed and unlisted securities. The investment is made up as under

(Figures in BDT)	2012	2011
Government securities	-	-
Other investments (note 6.1)	819,270,974	1,007,221,310
Total	819,270,974	1,007,221,310

6.1 Other investments

(Figures in BDT)			2012	2011
Ordinary share	No of Company	Market Value	Cost	Cost
Listed securities	35	556,441,526	540,354,274	807,804,610
Unlisted securities	5	233,916,700	233,916,700	154,416,700
Unit fund	1	30,000,000	30,000,000	30,000,000
Preference share	1	15,000,000	15,000,000	15,000,000
Balance at 31 December	42	835,358,226	819,270,974	1,007,221,310

Notes to the Financial Statements - *continued*

Listed Securities

Investments have been recorded at cost and adequate provision for probable future losses as per Bangladesh Bank guidelines has been made. Market value of securities has been determined on the basis of the value of securities at the last trading date of the year (Last trading date for 2012 was 30 December).

Sector wise investments in securities at cost

(Figures in BDT)	2012	2011
Banking companies	45,459,804	71,408,102
Non Banking Financial Institutions	21,750,093	58,131,574
Insurance companies	294,382,950	209,401,954
Investment companies	296,152,854	293,678,031
Fuel & power	80,588,075	110,599,694
Manufacturing companies and others	80,937,198	264,001,955
Total investment at 31 December	819,270,974	1,007,221,310

Maturity wise grouping	2012	2011
Up to 1 month	41,537,038	118,470,217
1 month to 3 months	57,758,604	157,960,288
3 months to 1 year	77,724,664	105,627,822
1 year to 5 years	505,608,582	621,601,100
More than 5 years	136,642,087	3,561,883
Total	819,270,974	1,007,221,310

Unrealized gain on investments in listed securities

At 31 December 2012, there was Tk. 16.09 million of gross unrealized gain on investment in listed security. This gain was not recognized as income in the financial statements (see note 55).

Unlisted Securities

Investment in unlisted share includes ordinary shares of Tk. 4.42 million in Central Depository Bangladesh Limited and Fareast Stock and Bonds Limited. The unlisted investments are shown at cost because the fair value cannot be measured reliably.

Preference shares

Investment in Preference shares includes investment in the preference shares of Confidence Salt Limited.

6.a INVESTMENTS (consolidated)

(Figures in BDT)	2012	2011
Prime Finance & Investment Limited	819,270,974	1,007,221,310
Prime Finance Capital Management Limited	374,338,505	292,942,883
Balance as on 31 December	1,193,609,479	1,300,164,193

7. LOANS, ADVANCES AND LEASES

This represents loans, advances and leases financed fully in Bangladesh.

(Figures in BDT)	2012	2011
Lease finance (note 7.1)	1,062,642,345	1,229,318,741
Advance against lease finance (note 7.2)	49,999,999	50,000,000
Term finance (note 7.3)	8,312,539,958	7,178,981,641

Notes to the Financial Statements - *continued*

(Figures in BDT)	2012	2011
Real estate finance (note 7.4)	102,467,921	132,800,244
Housing finance (note 7.5)	3,706,395	3,826,264
Loan against deposits (note 7.6)	152,831,924	35,621,684
Hire purchase finance (note 7.7)	11,503,895	11,503,895
Staff loan (note 7.8)	55,660,035	63,226,709
Total	9,751,352,472	8,705,279,178

7.1 Lease finance

Principal outstanding (note 7.1.1)	871,555,344	1,045,989,679
Accounts receivable	191,087,001	183,329,062
Total	1,062,642,345	1,229,318,741

7.1.1 Principal outstanding

Gross rental receivables	1,130,549,169	1,292,637,939
Unearned lease income	(258,993,825)	(246,648,260)
Net investment	871,555,344	1,045,989,679

Movement of lease finance as on 31 December 2012 and 2011 are as under:

Cost of lease assets (A)

Balance at 1 January	2,133,486,851	2,331,687,175
Addition during the year	178,785,616	231,417,938
Disposal during the year	(247,793,484)	(429,618,262)
Balance at 31 December	2,064,478,983	2,133,486,851

Accumulated depreciation (B)

Balance at 1 January	1,087,497,172	1,162,562,223
Addition during the year	418,457,509	497,660,557
Adjustment due to disposal	(313,031,042)	(572,725,608)
Balance at 31 December	1,192,923,639	1,087,497,172
Written down value of lease assets (A-B) at 31 December	871,555,344	1,045,989,679

7.2 Advance against lease finance

These represent amount paid for procurement of lease assets, which are yet to be executed. On execution of lease, advances will be transferred to lease finance.

7.3 Term finance

Principal outstanding	8,044,437,199	7,106,405,301
Accounts receivable	268,102,759	72,576,340
Total	8,312,539,958	7,178,981,641

Term finance includes finance already executed and advance to be executed on later date as per terms of agreement. Such advances carry interest at an agreed rate until the advances are executed.

Notes to the Financial Statements - *continued*

Movement of term finance (Principal outstanding) as on 31 December 2012 and 2011 are as under:

(Figures in BDT)	2012	2011
Balance at 1 January	7,106,405,301	4,131,288,877
Investment during the year	1,774,820,938	7,247,136,225
Recovery during the year	(836,789,040)	(4,272,019,801)
Balance at 31 December	8,044,437,199	7,106,405,301

7.4 Real estate finance

This represents disbursement made to the real estate developers usually for a period not exceeding 24 months. Details are as under:

(Figures in BDT)	2012	2011
Principal outstanding	96,906,092	132,029,039
Accounts receivable	5,561,829	771,205
Total	102,467,921	132,800,244

Real estate finance includes Tk. 10.00 million as advance to be executed on later date as per terms of agreement.

Movement of real estate finance (principal outstanding) as on 31 December 2012 and 2011 are as under:

(Figures in BDT)	2012	2011
Balance at 1 January	132,029,039	138,674,110
Investment during the year	20,000,000	5,000,000
Recovery/adjustment during the year	(55,122,947)	(11,645,071)
Balance at 31 December	96,906,092	132,029,039

7.5 Housing finance

This represents disbursement made against Bangladesh Bank Housing refinancing scheme. The usual term of the finance is matched with the facilities provided by the Bangladesh Bank. Details are as under:

(Figures in BDT)	2012	2011
Principal outstanding	3,706,395	3,826,264
Total	3,706,395	3,826,264

Movement of finance (principal outstanding) as on 31 December 2012 and 2011 are as under:

(Figures in BDT)	2012	2011
Balance at 1 January	3,826,264	3,935,852
Investment during the year	-	-
Recovery/adjustment during the year	(119,869)	(109,588)
Balance at 31 December	3,706,395	3,826,264

7.6 Loan against deposits

This represents outstanding loans given to depositors against term deposits. As per company's policy, Prime Finance finances to depositors as agreement done with the depositors on TDR value. Generally Interest is charged on such loan @ 2% above the interest offered on TDR.

Notes to the Financial Statements - continued

Movement of loan against term deposit as on 31 December 2012 and 2011 are as under:

(Figures in BDT)	2012	2011
Balance at 1 January	35,621,684	1,886,078
Investment during the year	221,084,803	34,326,621
Recovery/adjustment during the year	(103,874,563)	(591,015)
Balance at 31 December	152,831,924	35,621,684

7.7 Hire purchase finance

This represents outstanding loan under hire purchase scheme at the balance sheet date. Such loan was provided to the hire purchasers for procurement of motor vehicles, office equipment, household durables and others consumable items for the period ranging usually from 12 to 72 months. Details are as under:

(Figures in BDT)	2012	2011
Principal outstanding	8,885,995	8,885,995
Account receivable	2,617,900	2,617,900
	11,503,895	11,503,895

Movement of hire purchase finance (principal outstanding) as on 31 December 2012 and 2011 are as under:

(Figures in BDT)	2012	2011
Balance at 1 January	8,885,995	9,530,122
Investment during the year	-	-
Adjustment/Recovery during the year	-	(644,127)
Total	8,885,995	8,885,995

7.8 Staff loan

Staff loan includes loan provided to the eligible employees as per company's approved policy

(Figures in BDT)	2012	2011
Employees home loan	49,397,675	61,491,545
Employees car loan	6,262,360	1,735,164
Balance at 31 December	55,660,035	63,226,709

7.9 Classification wise loans, advances and leases

(Figures in BDT)	2012	2011
Unclassified :		
Standard	7,833,213,983	7,990,564,595
Special Mention Account	953,303,234	150,647,557
	8,786,517,217	8,141,212,152
Classified :		
Sub-standard	366,004,799	62,768,026
Doubtful	88,620,948	35,059,207
Bad/loss	510,209,508	466,239,793
	964,835,255	564,067,026
Total	9,751,352,472	8,705,279,178

7.10 Geographical location wise loans, advances and leases

(Figures in BDT)	2012	2011
Dhaka Division	8,425,449,928	7,560,619,941
Chittagong Division	1,325,902,544	1,144,659,237
Total	9,751,352,472	8,705,279,178

Notes to the Financial Statements - *continued*

7.11 Sector wise loans, advances and leases

As per Bangladesh Bank circular, sector wise loans and advances are as follows-

(Figures in BDT)	2012	2011
Sector		
Trade and Commerce	3,307,550,312	2,523,841,940
Industry		
Garments and knitwear	587,434,134	762,376,230
Textile	653,759,220	469,955,030
Jute and jute products	282,540	3,677,088
Food products and processing industry	367,493,264	483,222,470
Plastic industry	-	-
Leather and leather-goods	-	-
Iron, still and engineering	648,024,382	646,527,940
Pharmaceuticals and chemicals	118,418,839	139,390,620
Cement and allied industry	-	-
Telecommunication and information technology	2,448,356	-
Paper, printing and packaging	29,162,471	43,424,880
Glass, glassware and ceramic industry	-	-
Ship manufacturing industry	231,871,528	-
Electronics and electrical products	4,486,990	5,985,310
Power, gas, water and sanitary service	57,798,256	87,723,330
Transport and aviation	390,155,081	369,893,770
Agriculture	12,809,893	12,658,140
Housing	168,115,405	523,831,510
Others:		
Merchant banking	1,553,305,112	1,235,658,540
Margin loan	-	-
Others	1,618,236,689	1,397,112,380
Grand Total	9,751,352,472	8,705,279,178

7.12 Significant concentration wise loans, advances and leases

(Figures in BDT)	2012	2011
Loans, advances and leases to-		
Directors and their concerns	1,289,221,279	1,849,292,971
Chief executive and other senior executives	55,660,035	63,226,709
Customer groups	8,406,471,158	6,792,759,498
Total	9,751,352,472	8,705,279,178

7.13 Details of large loans, advances and leases

As per Section 14 (1) (ga) of the Financial Institutions Act 1993 a financial institution can not sanction any loan exceeding 30 percent of its capital (capital plus reserve) without permission from Bangladesh Bank. During the year 2012 Prime Finance has no such loan.

	2012	2011
No. of clients	-	-
Amount of outstanding loans, advances and leases	-	-
Amount of classified loans, advances and leases	-	-
Measures taken for recovery	N/A	N/A

Notes to the Financial Statements - *continued*

7.14 Particulars of loans, advances and leases

(Figures in BDT)

SI No	Particulars	2012	2011
I.	Loans considered good in respect of which the company is fully secured	7,919,554,111	5,017,884,075
II.	Loans considered good against which the company holds no other security than the debtors' personal guarantee	1,425,172,216	2,293,097,224
III.	Loans considered good secured by the personal undertakings of one or more parties in addition to the personal guarantee of the debtor	406,626,145	1,394,297,879
IV.	Loans/leases adversely classified; provision not maintained there-against	-	-
	Total	9,751,352,472	8,705,279,178
V.	Loans due by directors or officers of the company or any of them either severally or jointly with any other persons	1,344,881,313	1,912,519,680
VI.	Loans due by companies or firms in which the directors or officers of the company are interested as directors, partners or managing agents or, in case of private companies, as members	1,289,221,278	1,849,292,971
VII.	Maximum total amount of advances, including temporary advances made any time during the year to directors or managers or officers of the company or any of them either severally or jointly with any other persons	1,344,881,313	1,912,519,680
VIII.	Maximum total amount of advances, including temporary advances granted during the year to companies or firms in which the directors of the company are interested as directors, partners or managing agents or, in case of private companies, as members	1,289,221,278	1,849,292,971
IX.	Due from banking companies/financial institutions	-	-
X.	Classified loan for which interest not charged	964,835,255	564,067,026
A.	Increase/decrease of provision (specific)	62,825,574	121,385,203
	Amount of debts written off	27,819,427	101,256,274
	Amount realized against the debts previously written off	53,919,750	36,072,461
B.	Provision kept against the debt classified as bad/loss at the date of balance sheet	184,351,392	466,239,793
C.	Amount of interest creditable to the interest suspense account	149,065,182	96,519,166
XI.	Cumulative amount of the written off loans/leases:		
	Opening balance	328,895,370	191,896,891
	Amount written off during the year	27,819,427	121,631,740
	Cumulative to date	356,714,797	328,895,370
	The amount of written off loans for which law suit filed	356,714,797	328,895,370

7.15 Particulars of required provision for loans, advances and leases

Required provision has been made on the overdue as per Bangladesh Bank guidelines. As per guidelines, provisions at the following rate have been made in the accounts depending on the overdue status.

Investment up to 5 years term	Classification status	Provision (%)
Up to 2 months	UC	1
3 to 5 months	SMA	5
6 to 11 months	SS	20
12 to 17 months	DF	50
18 months and above	BL	100

Investment exceeding 5 years term	Classification status	Provision (%)
Up to 5 months	UC	1
6 to 11 months	SMA	5
12 to 17 months	SS	20
18 to 23 months	DF	50
24 months and above	BL	100

Required provision according to classification status is mentioned below:

(Figures in BDT)		2012	2011
Unclassified - General provision	Base for provision	Rate	Provision
Standard	7,832,644,572	1%	78,326,446
Special Mention Account (SMA)	953,303,234	5%	47,665,162
	8,785,947,806		125,991,607
Classified - Specific provision			
Sub-standard	234,784,611	20%	46,956,922
Doubtful	76,229,166	50%	38,114,583
Bad/loss	184,351,392	100%	184,351,392
	495,365,169		269,422,897
			227,932,820
Required provision for loans, advances and leases			395,414,505
Total provision maintained for loans, advances and leases			395,426,500
Excess provision for loans, advances and leases			11,995
			23,682

7.16 Maturity wise grouping

(Figures in BDT)	2012	2011
Repayable on demand	-	-
Not more than 3 months	3,131,159,279	3,153,733,732
3 months to 1 year	2,637,740,844	2,153,176,427
1 year to 5 years	3,515,362,568	3,350,897,407
More than 5 years	467,089,781	47,471,612
Total	9,751,352,472	8,705,279,178

7.a LOANS, ADVANCES AND LEASES (consolidated)

(Figures in BDT)	2012	2011
Prime Finance & Investment Limited	9,751,352,472	8,705,279,178
Prime Finance Capital Management Limited	3,231,949,462	2,926,977,704
Adjustment for dealing with subsidiary	(1,549,602,901)	(1,235,657,883)
Balance as on 31 December	11,433,699,033	10,396,598,999

8. FIXED ASSETS INCLUDING PREMISES, FURNITURE AND FIXTURES

(Figures in BDT)	2012	2011
Cost:		
Land	305,151,022	305,151,022
Furniture and fixtures	9,932,268	9,792,198
Office decoration	14,230,627	7,562,927
Electric equipment	15,837,622	14,933,507
Owned vehicles	9,015,641	9,015,641
Leased vehicles	14,306,104	14,326,385
Intangible assets (software)	1,250,000	1,250,000
Total cost	369,723,284	362,031,680
Less: Accumulated depreciation and amortization	45,566,226	38,254,715
Written down value at the end of the year	324,157,058	323,776,965

Details are shown in **Annexure - A**.

8.a FIXED ASSETS INCLUDING PREMISES, FURNITURE AND FIXTURES (consolidated)

(Figures in BDT)	2012	2011
Prime Finance & Investment Limited	324,157,058	323,776,965
Prime Finance Capital Management Limited	3,461,952	3,897,227
Balance as on 31 December	327,619,010	327,674,192

Land

Prime Finance acquired 15 kathas of land at a cost of Tk. 305.15 million at 10 Panthapath, Dhaka for constructing the company's corporate office.

9. OTHER ASSETS

(Figures in BDT)	2012	2011
Income generating other assets:		
Investment in associates and subsidiary (note 9.1)	2,108,818,599	2,090,293,141
Accrued interest	104,761,836	591,845,078
	2,213,580,435	2,682,138,219
Non income generating other assets:		
Advance office rent	-	535,880
Advance for office decoration of Rajshahi branch	-	7,496,077
Deposits with T & T, Petroleum Corporation etc.	385,500	385,500
Advance corporate tax	392,630,151	201,760,265
Receivable from brokerage houses against sale of Shares	334,620	382,374,035
Receivable from provident fund account	11,223,284	2,081,646
Receivable from associates and subsidiary company	11,278,009	10,985,763
Interest During the Construction Period (IDCP) receivable	29,850,146	2,392,595
Transfer price receivable	1,035,073	1,035,073
Advance against purchase of vehicles	-	1,426,722
Advance against advertisement	89,100	2,786,865
Others	119,338,873	41,300,353
Total	566,164,756	654,560,774

Grand Total	2,779,745,191	3,336,698,993
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9.1 Investment in associates & subsidiary

Investment in associates are recorded under the Equity Method as per BAS-28 "Investment in Associates". Under the equity method, the investments in the associates are carried in the Balance Sheet at cost plus post-acquisition changes in the company's share of net assets of the associates. Losses in excess of the cost of the investment in an associate are recognized when the company has incurred obligations on its behalf. Profit and Loss Account reflects the company's share of the results of operations of the associates. Where there has been a change recognized directly in the equity of the associate, the company recognizes its share of any changes and discloses this, when applicable, in the Statement of Changes in Equity. Prime Finance has three associates on the date of reporting. On the other hand Prime Finance has one subsidiary on the date of reporting. Consolidated financial statements has been prepared for subsidiary following the requirements of BAS 27.

Movement of investment in subsidiary & associates

(Figures in BDT)	Balance as on 01 Jan 2012	Investment/ (Adjustment)	Revaluation reserve	Profit- equity method	Balance as on 31 Dec'12
PFI Securities Ltd.	1,074,572,679	-	-	27,587,831	1,102,160,510
PFAMCL	31,676,038	-	-	776,591	32,452,629
Prime Prudential Fund Ltd.	19,067,883	-	-	(4,862,423)	14,205,460
PFI Properties Ltd.	4,976,541	(4,976,541)	-	-	-
Prime Finance Cap. Mgt. Ltd.	960,000,000	-	-	-	960,000,000
Total	2,090,293,141	(4,976,541)	-	23,501,999	2,108,818,599

(Figures in BDT)	Balance on 01 Jan 2011	Investment/ (Adjustment)	Revaluation reserve	Profit- equity method	Balance on 31 Dec'11
PFI Securities Ltd.	957,554,338	-	-	117,018,341	1,074,572,679
PFAMCL	31,594,107	-	-	81,931	31,676,038
Prime Prudential Fund Ltd.	32,437,444	-	-	(13,369,561)	19,067,883
PFI Properties Ltd.	21,626,594	-	-	(16,650,053)	4,976,541
Prime Finance Cap. Mgt. Ltd.	600,000,000	360,000,000	-	-	960,000,000
Total	1,643,212,483	360,000,000	-	87,080,658	2,090,293,141

A brief description of the associates and subsidiary, percentage of shareholding by Prime Finance, and book value of shares in brief are given below:

Name of the companies	Nature of the business	Type of Shares	Share holding %	Face value	Book value per share
PFI Securities Limited	Brokerage House	Ordinary	46.15	10	13.73
Prime Finance AMCL	Asset management	Ordinary	49.00	100	110.47
Prime Prudential Fund Ltd.	Investment in securities, debentures, bonds etc.	Ordinary	40.00	10	6.53
Prime Fin. Cap. Mgt. Ltd.	Merchant banking	Ordinary	60.00	10	11.05

The book value per share is calculated based on audited financial statements of the companies.

Summarized financial information:

Notes to the Financial Statements - *continued*

Summarized financial information of above companies, including the aggregated amounts of assets, liabilities, revenues and profit or loss are for the better understanding of the user attached in the Annual Report.

9.a. OTHER ASSETS (consolidated)

(Figures in BDT)	2012	2011
Prime Finance & Investment Limited	2,779,745,191	3,336,698,993
Prime Finance Capital Management Limited	266,157,127	117,420,470
Adjustment for dealing with subsidiary	(966,601,180)	(966,601,177)
Balance as on 31 December	2,079,301,138	2,487,518,286

10. BORROWINGS FROM OTHER BANKS, FINANCIAL INSTITUTIONS AND AGENTS

(Figures in BDT)	2012	2011
In Bangladesh		
Secured	-	-
Un secured		
Bank loan (note 10.1)	1,799,799,655	2,729,674,195
ADB fund (note 10.2)	53,264,206	60,994,787
Fund from Bangladesh Bank (note 10.3)	5,182,627	8,483,742
Short term borrowing (note 10.4)	937,276,058	1,220,000,000
Total	2,795,522,546	4,019,152,724
Outside Bangladesh	-	-
Grand Total	2,795,522,546	4,019,152,724

10.1 Bank loan

This represents long term loan taken from different commercial banks, and is made up as under:

(Figures in BDT)	2012	2011
Balance at 1 January	2,729,674,195	2,580,209,091
Received during the year	655,300,000	966,388,407
Repayment during the year	(1,585,174,540)	(816,923,303)
Balance at 31 December	1,799,799,655	2,729,674,195

Loans are secured by way of first charge on all fixed and floating assets of the company, ranking pari passu among all the lenders. The period of such loans ranges from three to six years.

10.2 ADB fund

Fund received from Asian Development Bank (ADB) through Rupantarita Prakritik Gas Company Limited (RPGCL). Details are as under:

(Figures in BDT)	2012	2011
Balance at 1 January	60,994,787	67,626,339
Received during the year	-	-

Notes to the Financial Statements - *continued*

Repayment during the year	(7,730,581)	(6,631,552)
Balance at 31 December	53,264,206	60,994,787

10.3 Fund from Bangladesh Bank

This fund was reimbursed from Bangladesh Bank under refinancing scheme against financing to small & medium enterprises as well as agricultural projects. The period of loan ranges from one to five years, matching the terms of respective projects. Details are as under:

(Figures in BDT)	2012	2011
Balance at 1 January	8,483,742	16,823,829
Received during the year	-	-
Repayment during the year	(3,301,115)	(8,340,087)
Balance at 31 December	5,182,627	8,483,742

10.4 Short-term borrowings

This represents money at call and on short notice, short-term borrowings and bank overdraft availed to meet short-term fund requirements.

Money at call and on short notice

As on the reporting date Tk. 450,000,000 was received from different banks as money at call and short notice. According to FID circular no. 05, dated June 08, 2005, non-banking financial institution can avail call money facility maximum up to 15% of its net assets. Based on the circular mentioned above, the maximum limit of call money for the company was Tk. 987.37 million (calculated based on the half yearly report of 2012 of the company).

Short-term borrowings

This represents Tk. 100,000,000 received as short term borrowing from various commercial banks.

Bank Overdraft

This represents Tk. 387,276,058 received as bank overdraft from various commercial bank.

10.5 Maturity wise grouping

(Figures in BDT)	2012	2011
Repayable on demand	-	-
Up to 1 month	68,278,924	974,745,276
1 month to 3 months	827,490,834	758,601,490
3 months to 1 year	846,442,558	778,444,931
1 year to 5 years	1,000,379,426	1,486,599,554
More than 5 years	52,930,804	20,761,473
Total	2,795,522,546	4,019,152,724

10.a BORROWINGS FROM OTHER BANKS, FINANCIAL INSTITUTIONS AND AGENTS (consolidated)

(Figures in BDT)	2012	2011
Prime Finance & Investment Limited	2,795,522,546	4,019,152,724
Prime Finance Capital Management Limited	1,341,488,573	1,235,657,883
Adjustment for dealing with subsidiary	(1,341,488,573)	(1,235,657,881)

Notes to the Financial Statements - *continued*

Balance as on 31 December	2,795,522,546	4,019,152,726
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11. DEPOSITS AND OTHER ACCOUNTS

This Comprises interest bearing deposits from individuals and organizations for period ranging from 6 months to 10 years.

(Figures in BDT)	2012	2011
Banks and other financial institutions		
Term Deposit	2,125,118,400	1,565,000,000
Other Institutions		
Term Deposit	2,651,421,173	2,230,496,285
Individuals		
Term Deposit	685,561,588	400,342,475
Housing Deposit	11,355,000	10,243,000
Fortune DPS	15,667,000	11,735,500
Monthly Income Deposit	125,672,330	97,792,330
Total	838,255,918	520,113,305
Grand Total	5,614,795,490	4,315,609,590

Movements of deposits as on 31 December 2012 and 2011 are as under:

(Figures in BDT)	2012	2011
Balance at 1 January	4,315,609,590	3,760,306,212
Received/renewed during the year	5,241,169,648	4,294,556,968
Repayment during the year	(3,941,983,748)	(3,739,253,590)
Balance at 31 December	5,614,795,490	4,315,609,590

Maturity wise grouping

(Figures in BDT)	2012	2011
Repayable on demand	-	-
Repayable within 1 month	695,641,885	300,446,100
1 month to 6 months	1,888,953,669	2,313,674,206
6 months to 1 year	1,141,892,358	1,575,045,630
1 year to 5 years	1,871,794,082	111,167,654
5 years to 10 years	14,878,496	13,958,000
More than 10 years	1,635,000	1,318,000
Unclaimed deposits for 10 years or more	-	-
Total	5,614,795,490	4,315,609,590

11.a DEPOSITS AND OTHER ACCOUNTS (consolidated)

(Figures in BDT)	2012	2011
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Notes to the Financial Statements - *continued*

Prime Finance & Investment Limited	5,614,795,490	4,315,609,590
Prime Finance Capital Management Limited	-	-
Balance as on 31 December	5,614,795,490	4,315,609,590

12. OTHER LIABILITIES

(Figures in BDT)	2012	2011
Provision for loans, advances and leases (note 12.1)	395,426,500	315,394,527
Provision for diminution in value of investments (note 12.2)	-	46,905,473
Interest suspense (note 12.3)	149,067,457	96,519,166
Provision for tax (note 12.4)	424,414,363	384,414,363
Financial expenses payable (note 12.5)	358,003,070	258,083,842
Payable to brokerage houses (note 12.6)	364,236,741	252,969,860
Obligation under capital lease (note 12.7)	2,762,997	9,117,510
Advance and security deposit (note 12.8)	132,577,533	137,867,419
Excise duty	1,445,132	1,356,941
Withholding tax payable	850,545	26,857
VAT payable	1,654	1,584
Accrued expenses and other payable (note 12.9)	84,325,134	108,214,632
Total	1,913,111,126	1,610,872,174

12.1 Provision for loans, advances and leases

Management, on the basis of analysis of portfolio and guidelines issued by Bangladesh Bank has determined provisions for doubtful losses. The provision is considered adequate to cover the possible future losses.

(Figures in BDT)	2012	2011
General provision on unclassified loans, advances and leases	125,991,607	87,461,708
Specific provision on classified loans, advances and leases	269,434,893	227,932,819
Provision as on 31 December	395,426,500	315,394,527

Movement in general provision on unclassified loans/leases:

Provision as on 1 January	87,461,708	148,561,857
Add: Provision made/(released) during the year	38,529,899	(61,100,149)
Provision as on 31 December	125,991,607	87,461,708

Movement in specific provision on classified loans/leases:

Provision as on 1 January	227,932,819	207,803,890
Less: Adjustment for write off	(21,323,500)	(101,256,274)
Add: Net charge to profit and loss account	62,825,574	121,385,203
Provision as on 31 December	269,434,893	227,932,819
Total	395,426,500	315,394,527

12.2 Provision for diminution in value of investments

(Figures in BDT)	2012	2011
Provision as on 1 January	46,905,473	18,634,253
Add: Provision made during the year (note 12.2.1)	(46,905,473)	28,271,220
Provision as on 31 December	-	46,905,473

12.2.1 Allocation of provision for diminution in value of investments

Notes to the Financial Statements - *continued*

(Figures in BDT)	2012	2011
Listed securities	(46,905,473)	28,271,220
Unlisted securities	-	-
Total	(46,905,473)	28,271,220

12.2.a Provision for diminution in value of investments (consolidated)

(Figures in BDT)		
Prime Finance & Investment Limited	(46,905,473)	28,271,220
Prime Finance Capital Management Limited	3,323,320	4,454,215
Balance as on 31 December	(43,582,153)	32,725,435

12.3 Interest suspense

(Figures in BDT)		
Balance as on 1 January	96,519,166	123,723,115
Add: Transferred during the year	65,558,696	-
Less:		
Amount of interest suspense recovered	(10,198,665)	(6,828,483)
Write off during the year	(2,811,740)	(20,375,466)
Balance as on 31 December	149,067,457	96,519,166

Bangladesh Bank FID circular no. 3 of 2006 requires that interest on loans/leases classified as SMA and above will be credited to interest suspense account, instead of crediting the same to income account. In accordance with the above circular interest on various facilities classified as SMA, SS, DF and BL, has been set-aside in this account.

Write-off of loans/leases

As per FID Circular no. 03 dated 15 March 2007 of Bangladesh Bank a financial institution should write-off its loans/leases to clean-up its financial statements subject to fulfillment of the following criteria:

1. Loans/leases classified as Bad and Losses against which 100% provision has been made;
2. Approval from the Board of Directors is required;
3. Best endeavors shall be made to recover the written-off loans/leases. Legal process should be initiated if not started before.

As per Bangladesh Bank guidelines, Prime Finance has written-off its loans/leases as under:

(Figures in BDT)		2012	2011
	Current	Cumulative	Cumulative
Net outstanding loans/leases written-off	27,819,427	356,714,797	328,895,370
No. of agreements written-off	3	31	28
No. of clients written-off	2	24	22
Interest suspense against written-off loans/leases	(3,651,675)	(63,695,220)	(60,043,545)
Provision adjusted against written-off loans/leases	(21,323,501)	(290,175,326)	(268,851,825)
Recovery against write-off loans/leases	53,919,750	105,758,949	51,839,199

12.4 Provision for tax

Provision for tax comprises provision for current tax and provision for deferred tax as well.

Provision for current tax

The company calculated taxable profit/losses based on Income Tax Ordinance 1984 and determined current tax liability as per applicable rate enacted through Finance Act 2012.

Tax on capital gain

The Government through Finance ACT 2010 imposed tax on capital gain from sale of listed companies shares @10 percent effective from 1st July 2010, which has been considered duly.

Provision for deferred tax

Deferred tax liabilities to the extent of Tk. 19,500,000 has been released in the year 2010 which is made for taxable temporary difference of leased assets on which depreciation allowance has been withdrawn by Finance Act 2007.

(Figures in BDT)	2012			2011		
	Current tax	Deferred tax	Total	Current tax	Deferred tax	Total
Balance at 1 January	384,414,363	-	384,414,363	352,414,363	-	352,414,363
Provision made during the year	40,000,000	-	40,000,000	32,000,000	-	32,000,000
Transferred to/(from)	-	-	-	-	-	-
Balance at 31 December	424,414,363	-	424,414,363	384,414,363	-	384,414,363

12.4.a. Provision for current tax (consolidated)

(Figures in BDT)	2012	2011
Prime Finance & Investment Limited	40,000,000	32,000,000
Prime Finance Capital Management Limited	72,931,394	149,364,264
Balance as on 31 December	112,931,394	181,364,264

12.5 Financial expenses

This comprises interest accrued on bank loans, bonds, term deposits and security deposits.

12.6 Payable to brokerage houses

This represents payable to various brokerage houses against purchase of shares under own portfolio as well as client portfolio. The transactions under this head are recurring in nature and have been paid in the due date.

12.7 Obligation under capital lease

This represents fixed assets acquired under capital lease. Lease rentals are payable on monthly basis which include principal repayment and financial charges as per repayment schedule. The Company has the option to purchase the assets upon completion of lease period and has the intention to exercise it.

(Figures in BDT)	2012			2011
	Minimum lease payments	Financial charges for future periods	Principal outstanding	Principal outstanding
More than one year	1,580,286	117,675	1,462,611	9,117,510
Within one year	1,649,640	349,254	1,300,386	-
Total	3,229,926	466,929	2,762,997	9,117,510

12.8 Advance and security deposit

The amount received from clients as advance against finance and cash security deposit on the stipulation that the amount will be either adjusted with the outstanding rentals/ installments or repaid at the end of term. This is made up as under:

Notes to the Financial Statements - *continued*

(Figures in BDT)	2012	2011
Balance at 1 January	137,867,419	112,190,397
Received during the year	37,214,146	94,600,225
Repayment during the year	(42,504,032)	(68,923,203)
Balance at 31 December	132,577,533	137,867,419

Breakup of advances and security deposits on the basis of category of finance is as under:

(Figures in BDT)	2012	2011
Lease advance	43,307,728	51,161,164
Term finance advance	39,835,105	31,415,555
Stock on hire advance	513,900	513,900
Cash security	48,920,800	54,776,800
Balance as on 31 December	132,577,533	137,867,419

Advance and security deposit reduce the exposure with the clients and thereby reduce the risks. No interest is payable on advances while cash security deposits are interest bearing.

12.9 Accrued expenses and other payable

(Figures in BDT)	2012	2011
Portfolio investment fund	-	-
Suspense receipts	24,664,284	45,709,702
Management expenses	23,038,283	59,033,341
Others payables	36,622,567	3,471,589
Balance as on 31 December	84,325,134	108,214,632

Portfolio investment fund

This represents fund of portfolio investors deposited with Prime Finance for investment in different listed securities at investors' discretion as per regulation 30 of the Securities and Exchange Commission (Merchant Bankers & Portfolio Manager) Regulations, 1996.

Suspense receipts

This represents amount received from clients for various reasons such as rentals adjustment, transfer price, advance rentals, IDCP, and other advances. When combined cheques are given by the clients that also initially posted into suspense receipts account.

12.a. OTHER LIABILITIES (consolidated)

(Figures in BDT)	2012	2011
Prime Finance & Investment Limited	1,913,111,126	1,610,872,174
Prime Finance Capital Management Limited	804,350,895	492,811,457
Adjustment for dealing with subsidiary	(214,715,508)	(6,601,182)
Balance as on 31 December	2,502,746,513	2,097,082,449

13. SHARE CAPITAL

As at 31 December 2012, a total of 227,430,403 (FY 2011: 162,450,288) ordinary shares of Tk.10 each were issued, subscribed and fully paid up. Details are as follows:

Authorized capital

(Figures in BDT)	2012	2011
300,000,000 Ordinary shares of Tk. 10 each	3,000,000,000	3,000,000,000

Notes to the Financial Statements - *continued*

Issued, subscribed and paid up capital

(Figures in BDT)

162,450,288 Ordinary shares of Tk.10 each	1,624,502,880	902,501,600
64,980,115 Bonus shares	649,801,150	722,001,280
Total	2,274,304,030	1,624,502,880

Pattern of shareholdings

Shareholders/Directors/Executives	Represented by	No. of shares held	Percentage
Khaled Textile Mills Limited	Mr. K. M. Khaled	22,027,017	9.69
Acorn Limited	Mr. Md. Aminul Haque	20,767,017	9.13
Mawsons Limited	Ms. Muslima Shirin	6,628,960	2.91
Maksons (Bangladesh) Limited	Mr. Z. M. Kaiser	17,808,764	7.83
East Coast Shipping Lines Limited	Mr. Mohammad Masudur Rahim	20,339,449	8.94
Pedrollo Nk. Limited	Mr. Mohammed Kafiluddin	22,307,493	9.81
GQ Enterprise Limited	Mrs. Salma Huq	19,351,785	8.51
Abeeco Industries Limited	Mr. M. N. H. Bulu	632,195	0.28
Agami Apparels Limited	Mr. M. Shahadat Hossain Kiron	19,240,527	8.46
Mr. Tauseef Iqbal Ali	Self	4,548,636	2.00
Professor Salma Rahman	Self	2,350,555	1.03
Mr. Md. Aliuzzaman	Self	264,523	0.12

Name of Directors	Designation	Nominated By
Mr. K. M. Khaled	Chairman	Khaled Textile Mills Limited
Mr. Md. Aminul Haque	Director	Acorn Limited
Mrs. Muslima Shirin	Director	Mawsons Limited
Mr. Z. M. Kaiser	Director	Maksons (Bangladesh) Limited
Mr. Mohammad Masudur Rahim	Director	East Coast Shipping Lines Limited
Mr. M. Shahadat Hossain Kiron	Director	Agami Apparels Limited
Mr. Tausif Iqbal ali	Director
Prof. Dr. Parimal Chandra Datta	Independent Director
Mr. Kazi Md. Mortuza Ali	Independent Director
Mr. Mohibul Islam Chowdhury	Independent Director

Composition of shareholdings

Composition of shareholdings as on 31 December 2012 & 2011 was under:

	No. of Shareholders		No. of Shares		Percentage	
	2012	2011	2012	2011	2012	2011
Sponsors (Institutions)	9	9	149,103,207	106,502,294	65.56	65.56
Sponsors (Individuals)	3	3	7,163,714	4,693,082	3.15	2.88
General Public (Institutions)	394	463	26,818,594	19,580,140	11.79	12.06
General Public (Individuals)	20,158	18,487	44,344,888	31,674,772	19.50	19.50
	20,564	18,962	227,430,403	162,450,288	100	100

Range of shareholdings

The distribution schedule of shareholdings as on 31 December 2012 & 2011 was as under:

Notes to the Financial Statements - *continued*

Shareholding range	No. of shareholders		No. of Shares		Percentage	
	2012	2011	2012	2011	2012	2011
Less than 500 shares	10,699	11,598	1,857,885	2,160,831	0.81	1.33
500 to 5,000 shares	8,623	6,601	13,040,367	9,154,561	5.73	5.64
5,001 to 10,000 shares	631	357	4,370,412	2,598,038	1.92	1.6
10,001 to 20,000 shares	295	161	4,092,019	2,273,190	1.8	1.4
20,001 to 30,000 shares	91	49	2,212,769	1,189,268	0.98	0.73
30,001 to 40,000 shares	37	37	1,278,011	1,265,090	0.57	0.78
40,001 to 50,000 shares	27	26	1,228,100	1,172,372	0.54	0.72
50,001 to 100,000 shares	64	58	4,517,645	3,980,438	1.99	2.45
100,001 to 1,000,000 shares	78	62	21,771,309	19,724,042	9.57	12.14
Over 1,000,000 shares	19	13	173,061,886	118,932,458	76.09	73.21
Total	20,564	18,962	227,430,403	162,450,288	100	100

Capital requirement

The Company is subject to the regulatory capital requirement as stipulated in DFIM circular no 05 dated 4 July 2011 of Bangladesh Bank. The Capital requirement for non-banking financial institutions is neither ratio-based nor risk based. The regulatory authority requires a non-bank financial institutions to have a minimum paid up capital of Tk. 1,000 million.

(Figures in BDT)	2012	2011
Paid up capital	2,274,304,030	1,624,502,880
Required capital	1,000,000,000	1,000,000,000
Excess capital	1,274,304,030	624,502,880

14. STATUTORY RESERVE

(Figures in BDT)	2012	2011
Balance as on 1 January	755,711,970	651,297,442
Add: Transferred from profit during the year	57,640,842	104,414,528
Balance as on 31 December	813,352,812	755,711,970

15. RETAINED EARNINGS

(Figures in BDT)	2012	2011
Balance as on 1 January	1,408,258,752	1,712,601,919
Less: Issuance of bonus shares (2011)	(649,801,150)	(722,001,280)
Add: Profit after tax for the year	288,204,207	522,072,642
Less: Transferred to statutory reserve	(57,640,842)	(104,414,528)
Balance as on 31 December	989,020,968	1,408,258,752

16. INCOME STATEMENT

(Figures in BDT)	2012	2011
Income:		
Interest, discount and similar income (note 17)	1,320,827,593	1,091,970,361
Dividend income	167,448,183	10,967,208
Gains less losses arising from dealing in securities	-	-
Fees, commission, exchange and brokerage (note 20)	1,475,779	1,521,398
Gains less losses arising from investment in securities (note 19.1)	93,254,230	480,152,322

Notes to the Financial Statements - *continued*

Gains less losses arising from dealing in foreign currencies	-	-
Income from non-banking assets	-	-
Other operating income (note 21)	231,976,984	231,970,807
Profit less losses on interest rate changes		
Nominal value of bonus share received		
Total	1,814,982,769	1,816,582,096

Expenses:

Interest paid on deposits, borrowings etc. (Note 18)	1,294,122,447	1,012,721,767
Losses on loans and advances	54,450,000	-
Administrative expenses	112,588,354	154,958,843
Depreciation and impairment on banking assets	7,311,511	6,335,343
Other operating expenses	18,306,249	-
Total	1,486,778,561	1,174,015,953

17. INTEREST INCOME

(Figures in BDT)	2012	2011
Income from lease finance	117,324,840	145,006,267
Income from term finance	1,106,910,836	923,415,993
Income from real estate finance	15,826,929	16,820,636
Income form other finance	80,764,988	6,727,465
Total	1,320,827,593	1,091,970,361

17.a INTEREST INCOME

(Figures in BDT)		
Prime Finance & Investment Limited	1,320,827,593	1,091,970,361
Prime Finance Capital Management Limited	328,398,100	473,509,531
Adjustment for dealing with subsidiary	(196,745,410)	(252,242,963)
Balance as on 31 December	1,452,480,283	1,313,236,929

18. INTEREST PAID ON DEPOSITS, BORROWINGS, etc.

(Figures in BDT)		
Interest on bank loan	497,788,243	323,746,039
Interest on IDA and ADB fund	3,203,110	3,613,528
Interest on bonds	-	-
Interest on fund from Bangladesh Bank	847,991	786,037
Interest on term deposits	670,178,591	494,220,041
Interest on money at call & short notice	114,474,744	184,974,536
Interest on cash security deposit	4,852,782	3,952,673
Interest on obligation under capital leases	910,319	1,428,913
Interest on short term loan	1,866,667	-
Total	1,294,122,447	1,012,721,767

Notes to the Financial Statements - *continued*

18.a INTEREST PAID ON DEPOSITS, BORROWINGS, ETC. (CONSOLIDATED)

(Figures in BDT)	2012	2011
Prime Finance & Investment Limited	1,294,122,447	1,012,721,767
Prime Finance Capital Management Limited	230,112,632	246,129,330
Adjustment for dealing with subsidiary	(196,745,410)	(252,242,963)
Balance as on 31 December	1,327,489,669	1,006,608,135

19. INCOME FROM INVESTMENT

(Figures in BDT)	2012	2011
Capital gain on sale of securities (note 19.1)	93,254,230	480,152,322
Dividend income	167,448,183	10,967,208
Total	260,702,413	491,119,530

19.1 Capital gain on sale of securities

(Figures in BDT)	2012	2011
Gain on sales of shares	105,041,191	491,402,983
Loss on sales of shares	(11,786,961)	(11,250,661)
Net gain from sale of securities	93,254,230	480,152,322

19.a. INCOME FROM INVESTMENT (consolidated)

(Figures in BDT)	2012	2011
Prime Finance & Investment Limited	260,702,413	491,119,530
Prime Finance Capital Management Limited	59,613,009	-
Adjustment for dealing with subsidiary	(150,000,000)	-
Balance as on 31 December	170,315,422	491,119,530

20. FEES, COMMISSIONS, EXCHANGE AND BROKERAGE

(Figures in BDT)	2012	2011
Advisory service fee and charges	1,475,779	1,521,398
Total	1,475,779	1,521,398

20.a. FEES, COMMISSIONS, EXCHANGE AND BROKERAGE (consolidated)

(Figures in BDT)	2012	2011
Prime Finance & Investment Limited	1,475,779	1,521,398
Prime Finance Capital Management Limited	108,858,402	189,444,685
Balance as on 31 December	110,334,181	190,966,083

21. OTHER OPERATING INCOME

(Figures in BDT)	2012	2011
Income from associates (Note 9.1)	23,501,999	87,080,658
Delinquent interest, IDCP etc.	136,584,616	62,265,481
Renewals and proceeds	604,110	1,325,208
Gain on sale of fixed assets	-	40,000
Others	71,286,259	81,259,460
Total	231,976,984	231,970,807

Notes to the Financial Statements - *continued*

21.a. OTHER OPERATING INCOME (consolidated)

(Figures in BDT)	2012	2011
Prime Finance & Investment Limited	231,976,984	231,970,807
Prime Finance Capital Management Limited	4,005,852	17,471,764
Balance as on 31 December	235,982,836	249,442,571

22. SALARIES AND OTHER EMPLOYEE BENEFITS

(Figures in BDT)	2012	2011
Salaries & allowances (a)	78,809,130	71,936,744
Medical & employee welfare (b)	9,199,677	31,754,200
Total	88,008,807	103,690,944

(a) Salaries and allowances include contribution to approved Provident Fund, Gratuity Fund and Superannuation Fund amounting to Tk. 2,447,504, Tk. 10,201,497 and Tk. 7,712,039 respectively.

(b) Medical and employee welfare includes among others provision for retirement benefits, death and disability benefits and hospitalization benefits. The funds are managed separately by a board of trustee and management believes that company's contribution to these funds are adequate.

22.a. SALARIES AND OTHER EMPLOYEE BENEFITS (consolidated)

(Figures in BDT)	2012	2011
Prime Finance & Investment Limited	88,008,807	103,690,944
Prime Finance Capital Management Limited	20,440,155	13,993,587
Balance as on 31 December	108,448,962	117,684,531

23. RENT, TAXES, INSURANCE, ELECTRICITY etc.

(Figures in BDT)	2012	2011
Office rent	6,339,176	6,454,964
Electricity bill	1,279,814	1,017,747
Total	7,618,990	7,472,711

23.a. RENT, TAXES, INSURANCE, ELECTRICITY etc. (consolidated)

(Figures in BDT)	2012	2011
Prime Finance & Investment Limited	7,618,990	7,472,711
Prime Finance Capital Management Limited	4,245,991	3,346,043
Adjustment for minority interest	-	-
Balance as on 31 December	11,864,981	10,818,754

24. POSTAGE, STAMP, TELECOMMUNICATION etc.

(Figures in BDT)	2012	2011
Postage, telephone, telex, fax, and e-mail	1,659,021	1,354,833
Charges, levies, stamps and duties (note 24.1)	368,645	11,888,846
Total	2,027,666	13,243,679

24.1. Charges, levies, stamps and duties

This comprises CDBL transaction fees and other expenses related to tax, levies, stamps & duties. Previously CDBL charges were charged on the client's account. From June 2009 the management decided to bear the

Notes to the Financial Statements - *continued*

expenses by the company on behalf of the clients.

24.a. POSTAGE, STAMP, TELECOMMUNICATION etc. (consolidated)

(Figures in BDT)	2012	2011
Prime Finance & Investment Limited	2,027,666	13,243,679
Prime Finance Capital Management Limited	194,782	1,917,238
Balance as on 31 December	2,222,448	15,160,917

25. STATIONERY, PRINTING, ADVERTISEMENTS etc.

(Figures in BDT)	2012	2011
Printing and stationery	4,176,685	3,675,558
Books and periodicals	64,221	103,432
Advertisement and publicity	3,996,769	5,382,170
Total	8,237,675	9,161,160

25.a. STATIONERY, PRINTING, ADVERTISEMENTS etc.(consolidated)

(Figures in BDT)	2012	2011
Prime Finance & Investment Limited	8,237,675	9,161,160
Prime Finance Capital Management Limited	240,903	986,088
Balance as on 31 December	8,478,578	10,147,248

26. DIRECTORS' FEES

The Company pays fees to its Directors for attending the Board meetings and its Committee meetings as permitted by the Bangladesh Bank. As per Bangladesh Bank Circular, a Director may be paid fees for attending Board or its Committee meetings which shall not exceed Tk. 5,000 for attending each meeting. Details are as under:

(Figures in BDT)	2012	2011
Total board meetings (nos.)	9	12
Total board audit committee meetings (nos.)	6	4
Total board executive committee meetings(nos.)	5	4
Total fees paid	565,000	820,000
Total members of the board (nos.)	10	10
Quorum for board meeting (nos.)	5	5
Average number of directors present in the board meetings (nos.)	7	7.40
Quorum for board audit committee Meeting (nos.)	3	2
Average number of directors present in the audit committee meetings (nos.)	3	2.80
Quorum for board executive committee meeting (nos.)	3	3
Average no. of directors present in the executive committee meetings (nos.)	4	5.75

26.a. DIRECTORS' FEES (consolidated)

(Figures in BDT)	2012	2011
Prime Finance & Investment Limited	565,000	820,000
Prime Finance Capital Management Limited	445,000	495,000
Balance as on 31 December	1,010,000	1,315,000

27. AUDITORS' FEE

(Figures in BDT)	2012	2011
Auditors' fee	200,000	200,000

Notes to the Financial Statements - *continued*

VAT on audit fee	30,000	9,000
Total	230,000	209,000

27.a. AUDITORS FEE (consolidated)

(Figures in BDT)	2012	2011
Prime Finance & Investment Limited	230,000	209,000
Prime Finance Capital Management Limited	57,500	26,125
Balance as on 31 December	287,500	235,125

28. DEPRECIATION AND REPAIR OF ASSETS

(Figures in BDT)	2012	2011
Depreciation of fixed assets-freehold	4,341,514	4,056,907
Depreciation of fixed assets-leasehold vehicle	2,844,997	2,153,436
Amortization of intangible assets	125,000	125,000
Total	7,311,511	6,335,343

28.a. DEPRECIATION AND REPAIR OF ASSETS (consolidated)

(Figures in BDT)	2012	2011
Prime Finance & Investment Limited	7,311,511	6,335,343
Prime Finance Capital Management Limited	1,055,971	886,687
Balance as on 31 December	8,367,482	7,222,030

29. OTHER EXPENSES

(Figures in BDT)	2012	2011
HR development	313,734	913,551
Travelling and conveyance	905,957	695,483
Motor vehicle expenses	3,939,799	3,441,053
Subscription and fees	4,462,962	7,576,307
Meeting expenses	49,500	67,500
AGM expenses (note 29.1)	2,523,586	2,432,703
Entertainment and public relation & others	848,760	905,987
Others	5,204,941	-
Total	18,249,239	16,032,584

29.1 AGM expenses

(Figures in BDT)	2012	2011
Rent for venue	283,400	400,000
Printing of annual report and database	145,000	125,000
Publication of notice	385,648	246,588
Entertainment	1,616,775	1,563,000
Others	92,763	98,115
Total	2,523,586	2,432,703

29.a. OTHER EXPENSES (consolidated)

(Figures in BDT)	2012	2011
Prime Finance & Investment Limited	18,249,239	16,032,584

Notes to the Financial Statements - *continued*

Prime Finance Capital Management Limited	1,630,257	1,820,277
Balance as on 31 December	19,879,496	17,852,861

30. MANAGEMENT EXPENSES

Management expenses include salaries, other employee benefits and proportionate other management expenses.

31. RECEIPTS FROM OTHER OPERATING ACTIVITIES

(Figures in BDT)	2012	2011
Net received/(payment) to Brokerage house	372,420,592	-
Net suspense receipt and others	10,200,940	139,697,108
Delinquent, Transfer price etc.	28,774,513	12,521,475
Total	411,396,045	152,218,583

32. PAYMENTS FOR OTHER OPERATING ACTIVITIES

(Figures in BDT)	2012	2011
Advance against office rent, renovation & decoration	-	(7,496,077.00)
Deposit to T&T	-	(385,500.00)
Advance against advertisement	(89,100)	(2,786,865.00)
Advance against home loan	(1,445,000)	-
Total	(1,534,100)	(10,668,442)

33. EARNINGS PER SHARE

Earnings Per Share (EPS) is calculated in accordance with Bangladesh Accounting Standard 33: Earnings Per Share, which has been shown on the face of Profit and Loss Account.

Basic earnings per share

The calculation of basic earnings per share at 31 December 2012 was based on the profit attributable to ordinary shareholders of Tk. 288,204,208 (2011: Tk. 522,072,642) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2012 of 227,430,403 (2011: 162,450,288)

Profits attributable to ordinary shareholders

(Figures in BDT)	2012	2011
Net profit for the year	288,204,208	522,072,641

Weighted average number of ordinary shares

Ordinary shares at 1 January	162,450,288	90,250,160
Bonus shares issued	64,980,115	72,200,128

Notes to the Financial Statements - *continued*

Weighted average number of ordinary shares at 31 December	227,430,403	162,450,288
Restated weighted average number of ordinary shares	227,430,403	227,430,403
Earnings per share	1.27	3.21
Earnings per share (restated)	1.27	2.30

Diluted earnings per share

The dilutive effect relates to the average number of potential ordinary share held under option of convertibility. There was no such dilutive potential ordinary share during the year 2012 and hence no diluted earnings per share is required to be calculated.

33.a EARNINGS PER SHARE (consolidated)

Profits attributable to ordinary shareholders

(Figures in BDT)	2012	2011
Net profit for the year (consolidated)	235,395,819	672,516,581

Weighted average number of ordinary shares

Ordinary shares at 1 January	162,450,288	90,250,160
Bonus shares issued	64,980,115	72,200,128
Weighted average number of ordinary shares at 31 December	227,430,403	162,450,288
Restated weighted average number of ordinary shares	227,430,403	227,430,403
Earnings per share- consolidated	1.04	4.14
Earnings per share- consolidated (restated)	1.04	2.96

34. CONTINGENT LIABILITIES

Contingent liabilities as on the balance sheet date were as under

(Figures in BDT)	2012	2011
Letter of credit	-	-
Corporate guarantee	-	-
Total	-	-

35. MARKET CAPITALIZATION AND SHARE PRICE

Market Capitalization of the Company, which is the number of ordinary shares in issued, multiplied by the market value of a share. Total number of ordinary shares outstanding as at 31 December 2012 was 227,430,403 and the market value per share of last trading day (30 December 2012) was Tk. 32.80 in DSE. Thus market capitalization based on DSE value was Tk. 7,459.72 million.

Market for Prime Finance's ordinary shares

Prime Finance's ordinary shares are traded on the Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) under the symbol of 'PRIMEFIN' and 'PFIL' respectively. The following table indicated the high and low prices for shares of Prime Finance, as reported by DSE and CSE sets forth for each quarter in the year 2012.

		DSE		CSE	
		High	Low	High	Low
High low share price	First quarter	112.90	56.30	113.00	55.10
	Second quarter	92.50	54.50	92.60	54.00

Notes to the Financial Statements - *continued*

	Third quarter	56.80	43.10	57.00	43.90
	Fourth quarter	47.30	30.70	48.40	30.30
No of shareholders	There were 20,564 shareholders as per Share Register as on 31 December 2012.				

36. RELATED PARTY TRANSACTIONS

Prime Finance in normal course of business carried out a number of transactions with other entities that fall within the definition of related party contained in Bangladesh Accounting Standard 24: Related Party Disclosures. The Company extends loans/leases to related parties including its directors and related companies. At 31 December 2012, related party loans/leases was Tk. 1,927.45 million representing 37.74 percent of shareholders equity. These related party loans/leases were made at the competitive terms including interest rates and collateral requirements, as those offered to other customers of similar credentials. During 2012, there were no loans/leases to related parties that were charged off. Moreover, at 31 December 2012, there were no loans/leases to related parties that were non-performing.

Prime Finance also takes deposits from its related parties. The rates on deposits offered to them also similar to those offered to other depositors. Total on-balance sheet exposure with the related parties as at 31 December 2012 was as under:

Name of the related party	Relationship	Nature of transaction	2012	2011
Prime Islami Life Insurance Company Limited	Common Directors	Term deposit	-	(182,230,364)
Fareast Islami Life Insurance Company Limited	Common Directors	Term deposit	-	(694,492,000)
Dhaka Bank Limited	Common Directors	Term deposit	(170,000,000)	-
East Coast Trading (Pvt.) Limited	Common Directors	Lease finance	-	114,919
EC Distribution Limited	Common Directors	Lease finance	-	165,662
PFI Properties Limited	Common Directors	Lease & Term finance	67,525,053	86,678,062
Prime Finance Asset Mgt Company Limited	Associate company	Lease & Term finance	168,760	(32,987,182)
Prime Finance Asset Mgt Company Limited	Associate company	Term deposit	(45,000,000)	-
PFI Securities Limited	Associate company	Lease & Term finance	1,869,789,201	1,469,405,538
Maksons (Bangladesh) Limited	Common Directors	Term finance	-	26,680,500
Fareast Stock & Bond Limited	Common Directors	Lease & Term finance	204,967,664	258,432,106
Total			1,927,450,678	931,767,241

37. PARTICULARS OF THE DIRECTORS

Sl. No.	Directors	Nominated By	Designation	Address	% of shares as at 31/12/2012
1	Mr. K. M. Khaled	Khaled Textile Mills Ltd.	Chairman	GETCO Group, 26, Shyamoli, Mirpur Road, Dhaka-1207	9.69
2	Mr. Md. Aminul Haque	Acorn Limited	Director	Acorn Limited, 4, Mohakhali C.A., (1st Floor), Dhaka-1212.	9.13
3	Mr. Mohammad Masudur Rahim	East Coast Shipping Lines Ltd.	Director	East Coast Centre, SW(G), 8 Gulshan Avenue, Gulshan-1, Dhaka-1212	8.94
4	Mrs. Muslima Shirin	Mawsons Limited	Director	House # 63, Avenue # 5, Block # A, Section # 6, Mirpur, Dhaka-1216.	2.91
5	Mr. Z.M. Kaiser	Maksons (BD) Ltd.	Director	House # 07, Road # 03 Baridhara R/A, Dhaka-1212.	7.83
6	Mr. M. Shahadat Hossain Kiron	Agami Apparels Ltd.	Director	Suvastu Zenim Plaza, House # 37(New), Road # 27 (Old), 16(New), Dhanmondi R/A, Dhaka -1209	8.46

Notes to the Financial Statements - *continued*

7	Mr. Tauseef Iqbal Ali	N/A	Director	House # CEN-C2, Road # 95, Gulshan-2, Dhaka-1212.	2
8	Prof. Dr. Parimal Chandra Datta	N/A	Independent Director	Flat # G-15, Z.A. Tower, 115 Shantinagar, Dhaka-1212	----
9	Mr. Kazi Md. Mortuza Ali	N/A	Independent Director	6/1, Eskaton Garden Trumph Tower, Flat No.B-8 District: Dhaka, Postal code-1217.
10	Mr. Mohibul Islam Chowdhury	N/A	Independent Director	Road. 19, House.67, Rupnagar R.A. Mirpur, Dhaka-1216.

38. DIRECTORS AND THE ENTITIES IN WHICH THEY HAVE INTEREST

Sl No.	Name of the Directors	Designation	Entities where they have interest
1	Mr. K. M. Khaled	Chairman	<ol style="list-style-type: none"> 1. Greenland Engineers & Tractors Co. Ltd. 2. Machinery & Equipment Trading Co. Ltd. 3. GETCO Ltd. 4. Eurasia Gate Ltd. 5. Acorn Trading Co. Ltd. 6. K. S. Engineering & Technology Ltd. 7. Prime Bank Ltd. 8. Prime Prudential Fund Limited 9. PFI Properties Ltd. 10. GETCO Telecommunications Ltd. 11. GETCO Agro Vision Ltd. 12. Khaled Textile Mills Ltd. 13. Easy fly Express Ltd. 14. Fareast Finance & Investment Limited 15. Fareast Stock & Bond Ltd. 16. GETCO Online Ltd. 17. GETCO Business Solutions Ltd. 18. GETCO Elevator Company Ltd. 19. GETCO Agri Technologies Ltd. 20. Greenland Technologies Ltd. 21. Primeasia University
2	Mr. Md. Aminul Haque	Director	<ol style="list-style-type: none"> 1. Prime Bank Ltd. 2. Asia Gate Ltd. 3. Prime Prudential Fund Ltd. 4. Acorn Limited 5. Fareast Stock & Bond Ltd. 6. B-Trac Engineering Ltd. 7. THANE Technology 8. Bangla Trac Oil & Gas Ltd. 9. Anirban Enterprise Ltd. 10. Bangla Trac Power Ltd.
3	Mr. Mohammad Masudur Rahim	Director	<ol style="list-style-type: none"> 1. Radiant Alliance Ltd.
4	Mrs. Muslima Shirin	Director	<ol style="list-style-type: none"> 1. Mawsons Limited 2. Prime Bank Limited
5	Mr. Z.M. Kaiser	Director	
6	Mr. M. Shahadat Hossain Kiron	Director	<ol style="list-style-type: none"> 1. Dekko Garments Ltd. 2. Dekko Apparels Ltd. 3. Glubus Garments Ltd. 4. Agami Fashions Ltd. 5. Dekko Fashion Ltd. 6. Dekko Accessories Ltd. 7. Roxy Paints Ltd. 8. Agami Accessories Ltd.

Notes to the Financial Statements - *continued*

9. Dekko Foods Ltd.
10. Dekko Ainet Ltd.
11. Agami Distribution Ltd.
12. Agami Apparels Ltd.
13. Dekko Designs Ltd.
14. Dekko Washing Ltd.
15. Yolk Apparels Ltd.
16. Sharmin Tex Ltd.
17. Dekko Holdings Ltd.
18. Dekko Ready Wears Ltd.
19. Dekko Textiles Mills Ltd.
20. Dekko Oil Refinery Ltd.
21. Singardighi Fish Park Ltd.

7	Mr. Tauseef Iqbal Ali	Director	1. Prime Finance Capital Management Limited
8	Prof. Dr. Parimal Chandra Datta	Independent Director	1. Prime Finance Capital Management Limited
9	Mr. Kazi Md. Mortuza Ali	Independent Director	1. Prime Finance Capital Management Limited
10	Mr. Mohibul Islam Chowdhury	Independent Director	1. Prime Finance Capital Management Limited 2. Delta Brac housing Finance Corporation Ltd.

39. DISCLOSURES ON THE BOARD AUDIT COMMITTEE

Composition of Audit Committee

The Audit Committee consists of the following directors of the Board:

Name	Status with the Company	Status with the Committee	Educational Qualification
Prof. Dr. Parimal Chandra Datta	Independent Director	Chairman	PhD in Accounting & Finance from Preston University, USA.
Mr. Md. Aminul Haque	Director	Member	B. Sc from BUET
Mr. Z. M. Kaiser	Director	Member	Masters in Science
Mrs. Muslima Shirin	Director	Member	Matriculation Standard
Mr. M. Shahadat Hossain Kiron	Director	Member	Bechelor of Commerce

Audit Committee meetings held during the year

Sl. No	Meeting no.	Meeting date
1	45 no. Audit Committee meeting	25-Jan-12
2	46 no. Audit Committee meeting	26-Feb-12
3	47 no. Audit Committee meeting	12-Apr-12
4	48 no. Audit Committee meeting	14-May-12
5	49 no. Audit Committee meeting	26-Jul-12
6	50 no. Audit Committee meeting	23-Oct-12

The Committee discussed the following issues during the year

- a) Reviewed the draft financial statements for the year ended 31 December 2012
- b) Reviewed the Credit Risk and Internal Control & Compliance Risk management procedure
- c) Recommendation to the Board for appointment of auditors and fixation of their remuneration
- d) Reviewed the tax status of the Company

- e) Reviewed the monthly financial statements
- f) Reviewed and discussed the inspection report of Bangladesh Bank and management's reply thereon
- g) Reviewed the systems of internal control and its reporting procedure
- h) Reviewed quarterly operation report of the company for the year 2012
- i) Reviewed Departmental Control Function Checklist etc.
- j) Reviewed the credit rating reporting done by Credit Rating and Information Services Limited (CRISL)

40. LEGAL PROCEEDINGS

The Company is not currently a defendant or a plaintiff in any material lawsuits or arbitration. From time to time, however, the Company is involved as a plaintiff in some actions taken against the default clients in the ordinary course of business for non-payment of rentals/installments. We believe that the ultimate dispositions of those matters will be favorable and will have no material adverse effect on business, financial conditions or results of operations.

41. BOARD MEETINGS AND NUMBER OF DIRECTORS

During the year 2012, 09 (nine) Board Meetings were held. As on 31 December 2012, there were 10 members in the Board, which include three Independent Directors. As per FID circular no. 09 dated 11 September 2002, a non-banking financial institution shall have maximum 11 (eleven) Directors in the Board. The Managing Director is an ex-officio Director having no voting right.

42. NUMBER OF EMPLOYEES

A total number of 74 employees, including 18 sub staffs were employed in Prime Finance & Investment Limited as of 31 December 2012. All the employees received salary of Tk. 36,000 and above per annum during the year 2012.

43. REPORTING CURRENCY AND LEVEL OF PRECISION

The figures in the financial statements represent Bangladesh currency (Taka), which has been rounded off to the nearest Taka.

44. IMPACT OF INFLATION AND CHANGING PRICES

Financial Institutions are affected differently by inflation than those of industrial ventures. While industrial and manufacturing companies generally have significant investments in inventories and fixed assets, financial institutions ordinarily do not have such investment. As a result, financial institutions are generally in a better position than industrial ventures to respond to inflationary trends by monitoring the spread between interest cost and interest income yields through adjustments of maturities and interest rates of assets and liabilities.

Financial Statements presented herein have been prepared in accordance with International Accounting Standards and International Financial Reporting Standards as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB), which required the measurement of the financial position and operating results in terms of historical costs. However, in some cases, particular BAS/BFRS specifically suggests to measure some assets/liabilities at fair value. Such as, BAS 39 suggests to measure investment in tradable securities at its fair value by crediting shareholders' equity.

45. EVENTS AFTER THE BALANCE SHEET DATE

Dividend

The Board of Directors in its meeting held on 23 February 2013 recommended 30 percent dividend (20% stock and 10% cash) for the year 2012.

Under BAS 10 : Events after the Balance Sheet Date, dividend declared after the Balance sheet date should not be classified as a liability at the balance sheet date as the proposed dividend does not represent a present obligation under BAS 37: Provisions, Contingent Liabilities and

Contingent Assets.

46. FOREIGN CURRENCY EXPOSURE PROFILE

There were no foreign currency monetary assets or liabilities that would give rise to gains or losses in the profit and loss account.

47. COMPARATIVE FIGURES

Comparative information has been disclosed in respect of the year 2012 for all numerical data in the financial statements and also the narrative and descriptive information when it is relevant for better understanding of the current year's financial statements. Figures of the year 2011 have been restated and rearranged whenever considered necessary to ensure comparability with the current period.

48. FINANCIAL HIGHLIGHTS

Key financial highlights of the company are annexed as **Annexure-B**.

49. SUBMISSION OF MATTERS TO A VOTE OF SHAREHOLDERS' SPECIAL RESOLUTION

The shareholders consented on the special resolution in the 15th Annual General Meeting (AGM) held on 29 March 2011 to amend clause V of the Memorandum of Association (MOA) and article 3(a) of the Articles of Association regarding change of Authorized Shares Capital of Tk. 1,000,000,000 (Taka one thousand million) divided into 100,000,000 (one hundred million) ordinary shares of Tk. 10 (Taka ten) each to
 o
 Tk. 3,000,000,000 (three thousand million) divided into 300,000,000 (three hundred million) ordinary shares of Tk. 10 (Taka ten) each.

50. GEOGRAPHICAL AREA OF OPERATION

In addition to its existing branch office at Dhaka and Chittagong, Prime Finance started its operation at Shaheb Bazar, Rajshahi in the year 2009.

51. INTERIM FINANCIAL STATEMENTS

Prime Finance publishes its interim financial statements quarterly as required by the Securities and Exchange Commission.

52. RESTRICTION ON PAYMENT OF CASH DIVIDEND

As per DFIM circular 09 dated 4 November 2009 of Bangladesh Bank a non-banking financial institution cannot declare cash dividend if its capital is below the required level. Prime finance however has met the requirement of Bangladesh Bank. As at 31 December 2012, Prime Finance has a surplus capital of Tk. 1,274.30 million.

53. CHANGES IN AND DISAGREEMENT WITH AUDITORS

There were no changes and disagreement with the Auditors on accounting and financial disclosures.

54. DEPARTURE FROM BAS 1

According to DFIM Circular no. 11 dated 23 December 2009 there is no scope to use the name or include Statement of Financial Position and Other Comprehensive Income. As such the company does not use the captioned and also not prepare the same.

55. DEPARTURE FROM BAS 39

The requirement of DFIM Circular no. 11 dated 23



Company Secretary



Managing Director



Chairman

Schedule of fixed assets including premises, furniture and fixtures as at 31 December 2012

Particulars	COST				DEPRECIATION				Written Down Value as at 31-12-2012	
	Balance as at 1 January 2012	Additions during the year	Disposal/adjustment during the year	Balance as at 31 December 2012	Rate of depreciation	Balance as at 1 January 2012	Charged during the year	Disposal/adjustment during the year		Balance as at 31 December 2012
Freehold assets:										
Land	305,151,022	-	-	305,151,022	-	-	-	-	-	305,151,022
Furniture and fixtures	9,792,198	140,070	-	9,932,268	15% -20%	9,314,927	265,272	-	9,580,199	352,069
Office decoration	7,562,927	6,667,700	-	14,230,627	20%	6,667,516	1,372,438	-	8,039,954	6,190,673
Electrical equipment	14,933,507	904,115	-	15,837,622	20%	11,256,821	1,397,856	-	12,654,677	3,182,945
Owned vehicles	9,015,641	-	-	9,015,641	20%	5,206,625	1,305,948	-	6,512,573	2,503,068
Intangible assets	1,250,000	-	-	1,250,000	10%	733,333	125,000	-	858,333	391,667
Leasehold assets:										
Leased vehicles	14,326,385	-	-	14,326,385	20%	5,075,493	2,844,997	-	7,920,490	6,405,895
As at 31 December 2012	362,031,680	7,711,885	-	369,743,565		38,254,715	7,311,511	-	45,566,226	324,177,339
As at 31 December 2011	357,277,624	6,563,801	1,809,745	362,031,680		33,660,099	6,335,343	1,740,727	38,254,715	323,776,965

Highlights

Sl. No	Particulars	2012	2011
1	Paid up capital	2,274,304,030	1,624,502,880
2	Shareholders' equity	5,106,587,219	4,684,396,992
3	Capital surplus/(shortage)	1,274,304,030	624,502,880
4	Total assets	16,019,651,767	15,116,241,757
5	Total deposits	5,614,795,490	4,315,609,591
6	Total investments	13,836,127,110	12,827,056,335
7	Loans, advances and leases	11,433,699,033	10,396,598,999
8	Contingent liabilities and commitments	-	-
9	Loans deposits ratio (%)	203.64	240.91
10	Non performing loans, advances and leases (%)	9.89	6.48
11	Net profit after tax and provision	300,190,227	772,812,543
12	Classified loans, advances and leases	964,835,255	564,067,026
13	Provision against classified loans, advances and leases	269,422,897	227,932,820
14	Surplus/(shortage) in provision against loans, advances and leases	11,995	23,682
15	Fund cost (%)	15.40	13.39
16	Interest earning assets	15,249,294,515	14,074,438,050
17	Non-interest earning assets	770,357,251	1,041,803,706
18	Return on average investment (PBT/average investment %)	3.07	7.81
19	Return on average assets (PBT/average assets %)	2.65	6.81
20	Income from debentures, bonds etc.	-	-
21	Net income per share	1.04	4.14
22	Earnings per share (restated)	1.04	2.96
23	Price earnings ratio (times)	31.69	23.77



Prime Finance Capital Management Limited

a member of Prime Financial Group

Registered Office

63 Dilkusha Commercial Area
Dhaka-1000

Date of Incorporation

18 March 2010

Authorized Share Capital

Tk. 5,000,000,000

Paid-up Capital

Tk. 1,600,000,000,

Products & Services

Carry on business of merchant banking in all its respect, including acting as manager to the issues and offers, whether by way of public offer or otherwise, of securities, underwriting and/or management of issues, managing portfolio of investors whether discretionary or non-discretionary, advising clients on merger and amalgamation, capital restructuring etc.

Chairman

Md. Aliuzzaman

Managing Director & CEO

Dr. M. Mosharraf Hossain FCA

Auditors

M. M. Rahman & Co. Chartered Accountants

Shareholding of Prime Finance

60 percent





Prime Finance
Capital Management Limited

Directors' Report

for the financial year 2012

Dear Shareholders,

The Directors have the pleasure in presenting their Report with the audited financial statements of the Company for the year ended on 31 December 2012 together with the Auditors' Report thereon for consideration and approval of our valued Shareholders. These were approved by the Board of Directors of the Company on 23 February 2013.

The Directors' Report has been prepared in compliance with Section 184 of the Companies Act 1994.

WORLD ECONOMY

Four years after the eruption of the global financial crisis, the world economy is still struggling to recover. During 2012, global economic growth has weakened further. A growing number of developed economies have fallen into a double-dip recession. Those in severe sovereign debt distress moved even deeper into recession, caught in the downward spiraling dynamics from high unemployment, weak aggregate demand compounded by fiscal austerity, high public debt burdens, and financial sector fragility. Growth in the major developing countries and economies in transition has also decelerated notably, reflecting both external vulnerabilities and domestic challenges. Most low-income countries have held up relatively well so far, but now face intensified adverse spillover effects from the slowdown in both developed and major middle-income countries. The prospects for the next two years continue to be challenging, fraught with major uncertainties and risks slanted towards the downside.

The global economy has yet to shake off the fallout from the crisis of 2008-2009. Global growth dropped to almost 3 percent in 2012, which indicates that about a half a percentage point has been shaved off the long-term trend since the crisis emerged. This slowing trend will likely continue. Mature economies are still healing the scars of the 2008-2009 crisis. But unlike in 2010 and 2011, emerging markets did not pick up the slack in 2012, and are not likely to do so in 2013. Uncertainty across the regions – from the post-election 'fiscal debate' question in the U.S. to the Chinese leadership transition and reforms in the Euro Area – will continue to have global impacts in sluggish trade and tepid foreign direct investment.

Across the advanced economies, the Outlook predicts 1.2 percent growth in 2013, compared to 1.1 percent in 2012. The slight uptick is largely due to Europe, which is expected to return to very slow growth of 0.3 percent after the -0.2 percent contraction in 2012. U.S. growth is expected to fall from 2.2 percent in 2012 to 1.6 percent in 2013.

In the medium-term, the outlook expects the U.S. and other advanced economies to go some ways toward closing large output gaps – that is, the difference between current output and the level of output an economy can produce in a noninflationary way, given the size of its labor force and its potential to invest in and create technological progress. The current output gap is a result of weak demand due to the 2008-2009 crisis. This development should allow the U.S. to average 2.3 percent annual growth during 2013-2018 before falling to 2.0 percent in 2019-2025. In the same two periods, Japan is expected to grow at 0.9 percent per annum.

A more significant slowdown is expected for less mature economies over the next year – and beyond. Overall, growth in developing and emerging economies is projected to drop from 5.5 percent in 2012 to 5.0 percent in 2013, with growth falling in China from 7.8 to 7.5 percent and in India from 5.5 to 4.7 percent. From 2019-2025 emerging and developing countries are projected to grow at 3.3 percent.

The long-term global slowdown as has been projected to 2025 will be driven largely by structural transformations in the emerging economies. As China, India, Brazil, and others mature from rapid, investment-intensive 'catch-up' growth to a more balanced model, the structural 'speed limits' of their economies are likely to decline, bringing down global growth despite the expected recovery in advanced economies after 2013.

The United States economy weakened notably during 2012, and growth prospects for 2013 and 2014 remain sluggish. On the up side, the beleaguered housing sector is showing some nascent signs of recovery, and further support is expected from the new round of quantitative easing recently launched by the Federal Reserve. The unemployment rate stayed above 8 percent for the most part of 2012, but dropped to just below that level from September onwards. However, the labour participation rate is at a record low, while the shares of long-term unemployment reached historic highs of 40.6 percent (jobless for 6 months or longer) and 31.4 percent (one year or longer).

The lingering uncertainties about the fiscal stance continue to hold back business investment. External demand is also expected to remain weak. In the baseline outlook, growth of GDP (gross domestic product) in the United States is forecast to decelerate to 1.7 percent in 2013 from an already anaemic pace of 2.1 percent in 2012. Risks remain high for a much bleaker scenario, emanating from the "fiscal cliff," which would entail a drop in aggregate demand by as much as 4 percent of GDP during 2013 and 2014, as well as from the spillover effects of a further intensification of the euro area crisis and a possible hard landing of the Chinese economy and further weakening of other major developing economies.

Japan's GDP is forecast to grow at 0.6 percent in 2013 and 0.8 percent in 2014, down from 1.5 percent in 2012. Economic growth in Japan in 2012 was up from a year ago, mainly driven by the reconstruction work

and recovery from the earthquake-related disasters of 2011. The Japanese government took additional measures to stimulate private consumption. Exports faced strong headwinds from the slowdown in global demand and appreciation of the yen.

Economies in developing Asia have weakened considerably during 2012, the UN report states, as the region's growth engines, China and India, have shifted into lower gear.

While a significant deceleration in exports has been a key factor behind the slowdown, both economies also face a number of structural challenges that hamper growth. Given persistent inflationary pressures and large fiscal deficits, the scope for policy stimulus in India and other South Asian countries is limited. China and many East Asian economies, in contrast, possess much greater space for countercyclical policy. In the outlook, average growth in East Asia is forecast to pick up mildly to 6.2 percent in 2013, from the estimated 5.8 percent in 2012. GDP growth in South Asia is expected to average 5.0 percent in 2013, up from 4.4 percent in 2012, led by a moderate recovery of India's economy.

Contrasting trends are found in Western Asia, according to the UN report. Most oil-exporting countries have experienced robust growth supported by record-high oil revenues and government spending. Social unrest and political instability, notably in the Syrian Arab Republic, continue to elevate the risk assessment for the entire region. On average, GDP growth in the region is expected to decelerate to 3.3 percent in 2012 and 2013, from 6.7 percent in 2011.

Economies in Africa are forecast to see a slight moderation in output growth in 2013 to 4.8 percent, down from 5.0 percent in 2012. Major factors underpinning this continued growth trajectory include the strong performance of oil-exporting countries, continued fiscal spending on infrastructure projects, and expanding economic ties with Asian economies. However, Africa remains plagued by numerous challenges, including armed conflicts in various parts of the region. Growth of income per capita will continue, but at a pace considered insufficient to accelerate poverty reduction.

BANGLADESH ECONOMY

The aforementioned uncertainties and volatilities in

the global economy are likely to have important implications for the increasingly globalised economy of Bangladesh. As may be recalled, during the last global economic crisis, a number of developing economies including Bangladesh were impacted significantly through various transmission channels including trade, remittances, foreign aid and financial flows.

Remittances from Bangladeshis working overseas, mainly in the Middle East, is the major source of foreign exchange earnings; exports of garments and textiles are the other main sources of foreign exchange earnings. Ship building and cane cultivation have become a major force of growth. GDP's rapid growth due to sound financial control and regulations have also contributed to its growth; however, foreign direct investment is yet to rise significantly. Bangladesh has made major strides in its human development index.

Agricultural growth has slowed from 5.1 percent in FY11 to 2.5 percent in FY12. The slower agricultural growth was driven by a decline in crop sector growth from 5.7 percent in FY11 to 0.9 percent in FY12. Although aman production had positive growth due to good rainfall nationwide during the aman growing season and sunny weather during the harvest, aus production was lower and the boro (largest rice crop) production is likely to have been marginally lower than the previous year's crop, due to slightly lower acreage. Growth in animal farming was also very sluggish at 3.4 percent in FY12, compared with 3.5 percent in FY11.

Manufacturing growth picked up slightly from 9.5 percent in FY11 to 9.8 percent in FY12. This came entirely from a pick-up in small scale manufacturing from 5.8 percent in FY11 to 7.2 percent in FY12. Fiscal incentives given to the SMEs in the FY12 budget together with credit support under the Equity and Entrepreneurship Fund implemented by Bangladesh Bank appears to have helped growth in small scale manufacturing. Growth in large scale manufacturing declined from 10.9 percent in FY11 to 10.8 percent in FY12.

Public investment increased from 5.6 percent of GDP in FY11 to 6.3 percent in FY12. The government's Annual Development Program is the single largest source of public investment. Nominal growth in ADP spending in the first ten months was only 8.6 percent. Capital expenditures outside ADP are significant in magnitude, but even assuming that spending will be

as per budget for these line items, it appears that total public investment in FY12 could be overstated.

Private investment growth slowed. Private investment to GDP ratio declined from 19.5 percent in FY11 to 19.1 percent in FY12. Investors appear to have gone into a wait-and-see mode because of volatilities in the global economic environment and the stresses and strains emanating from domestic sources. The latter include high variability in inflation, tightening credit conditions in the financial sector as reflected in a significant reduction in growth in industrial term loan disbursement, resulting in negative net disbursements, energy shortage and policy uncertainties in the run up to elections in early 2014.

The national savings rate has declined from 26 percent of GDP in FY11 to 25.2 percent in FY12. This reflected a decline in both private and public saving rates. Private savings rate declined from 22.6 percent of GDP in FY11 to 22.1 percent in FY12 while public savings declined from 3.4 percent of GDP to 3.1 percent. Private savings may have been hit by slower growth in real disposable income and the stock market debacle which hurt small investors generally. Slower revenue growth and large increases in subsidies contributed to the decline in public savings.

Bangladesh's textile industry, which includes knitwear and ready-made garments along with specialized textile products, is the nation's number one export earner, accounting for 80% of Bangladesh's exports of \$15.56 billion in 2009. Bangladesh is 2nd in world textile exports, and China which exported \$120.1 billion worth of textiles in 2009. The industry employs nearly 3.5 million workers. Current exports have doubled since 2004. Wages in Bangladesh's textile industry were the lowest in the world as of 2010. The country was considered the most formidable rival to China where wages were rapidly rising and currency was appreciating. As of 2012 wages remained low for the 3 million people employed in the industry, but labor unrest was increasing despite vigorous government action to enforce labor peace. Owners of textile firms and their political allies were a powerful political influence in Bangladesh.

In FY 2012-13, the government has targeted the rate of inflation at 7.2 percent while the business as usual scenario suggests that it might be a hard task to rein in inflation at single digit in FY 2012-13. The government has already taken the restrained monetary policy to

harness the rate of inflation which might increase further in the upcoming months due to such contraction. To achieve the targeted rate of growth in GDP, it is necessary to maintain the rate of inflation at a tolerable limit.

The banking system has had to borrow constantly from the Bangladesh Bank (BB). Continuation of the liquidity shortage in the banking system is evident from the banks' persistent use of the repo window of the central bank. This has arisen from the need to make payments for petroleum imports and to facilitate the major increase in government borrowing. Several private commercial banks and non-bank financial institutions are also over-exposed to credit relative to deposits.

Private-sector credit flow may be restricted as the bankers adopt a wait-and-see attitude. Bankers are likely to remain cautious about lending to the private sector, given the continued heavy demands from government and tightening by the BB. The state-owned commercial banks, the largest source of liquidity in the system, suffered most from the liquidity shortage.

The licensing of new banks will add to competition for deposits and challenge the supervisory capacity of BB. BB has issued license to 9 new banks which may add to pressures on the financial sector. Deposit growth in FY12 slowed to 12.2 percent, compared with 14.2 percent of previous year. Thus, a larger number of banks will have to compete for a smaller pie.

Also, lack of skilled human resources may make it hard for the new banks to find good managers and BB's supervision capacity will be challenged.

CAPITAL MARKET SCENARIO

The general index had a bumpy ride with a generally declining trend through 2012, with a recovery apparent since later part of 2012. The most recent period of decline was in mid-January 2012 in anticipation of further tightening by the central bank. The market reached its lowest level on February 6, 2012 when the benchmark index closed at 3,616, representing a 60 percent decline from the December 2010 peak of 8,919. Since then the market has been on a generally upward trend, crossing the 5,000 mark in the last week of March. Trade volumes have also picked up. The uptrend can be attributed to (i) market entry by some overseas private equity funds, as the fund

managers consider good stocks to have reached their bottomed out, (ii) re-entry by some of the local institutional buyers, as they find the stocks' current price attractive for long-term holding, and (iii) reaffirmation of a stable outlook for Bangladesh by Moody's and S&P in January and February 2012.

Raising financial resources from the equity market faced a number of challenges in 2012. The artificial bubble created in the capital market in 2009 and 2010 came to an end in December, 2010 (the boom and bust story). Manufacturing sector IPOs were rather few till FY2011. After the collapse of the market, a number of reform measures were undertaken to raise market efficiency particularly focusing on the primary market. As a result number of IPOs in FY2012, for setting up manufacturing enterprises, has increased significantly. New IPOs included engineering, textiles and food and allied products which accounted for about 18 percent of total IPOs in FY2012. However, number of IPOs for mutual funds in FY2012 and the amount to be raised by these through public offer were still high. In view of allegations about market manipulation, to ensure transparency and reduce malpractices, operations of the concerned companies should be properly audited. To address some of the attendant concerns, it is important to implement the Financial Reporting Act on an urgent basis.

Exposure of banks to the capital market was around 4 percent of their total liabilities at the end of 2011. This exposure was well below the exposure at the end of 2010, when the stock market surge began to subside. Nonetheless, the generous exposure limits set by the BB need to be modified from 10 percent of liabilities to, say, 25 percent of regulatory capital, which, if implemented, would result in a very significant decline in the absolute exposure to the stock market.

Regulatory reforms to ensure a stable trading environment are underway, but timely implantation is critical. The government has committed to strengthen the Bangladesh Securities & Exchange Commission's autonomy, ensuring it has sufficient supervisory mandate and capacity to properly oversee brokers, dealers, and merchant banks while developing the necessary contingencies to contain systemic risk. Options for demutualizing the Dhaka and Chittagong Stock Exchanges are under consideration. Banks' shareholdings limit is likely to be capped at 25 percent of the regulatory capital soon, subject to parliamentary approval of the amended Bank

Companies Act. A time-bound implementation plan relating to these critical reform measures is key to stability and development of the capital market.

BUSINESS & OPERATIONAL ACTIVITIES

The Company has made a net profit of TK. 161,986,021 during the year 2012. The Company made provision of TK. 72,890,583 as income tax. Total investment of the Company as margin loan was TK. 3,322,723,134 and investment in shares including underwritten shares was TK. 374,338,505 in the year 2012.

CORPORATE TAX

The Company paid Tk. 1,129,711 as advance income tax for the financial year 2012 as against TK. 294,671 of the year 2011. During 2012, the Company made provision of Tk. 72,890,583 as income tax against Tk. 149,388,330 of 2011.

RESERVE & SURPLUS

The reserve & surplus of the Company includes retained earnings only. As on 31 December 2012 balance of retained earnings stood at Tk. 167,965,661 which was Tk. 255,979,640 on 31 December 2011.

DIVIDEND

The Board of Directors in its 30th meeting held on 23 February 2013 recommended 10% stock dividend for the year 2012 subject to approval from Shareholders of the Company in its forthcoming Annual General Meeting.

BOOK CLOSURE

According to Section 42 of the Companies Act 1994, a Company may on giving seven day's previous notice by advertisement in some newspaper circulating in the district in which the registered office of the company is situated close the register of members for any time or times not exceeding in the whole forty-five days in each year but not exceeding thirty days at a time. Accordingly, Register of Members and Share Transfer Book of the Company will remain closed on Sunday, 4 March 2012.

ANNUAL GENERAL MEETING

The 3rd Annual General Meeting of the Company will be held on Monday, 25 March 2013 to transact the following ordinary businesses:

- To receive, consider and adopt the audited financial statements of the Company for the year ended on 31 December 2012 including the reports of the Directors and the Auditors
- To declare Dividend for the year 2012 as recommended by the Board
- To elect/ re-elect Directors in terms of the relevant provision of the Articles of Association of the Company
- To appoint the statutory auditors for the year 2013 and fixation of their remuneration

AUDITORS

M. M. Rahman & Co., Chartered Accountants of 54 Dilkusha Commercial Area, Dhaka-1000, was appointed as the Auditors of the Company for the year 2012 in the 2nd Annual General Meeting. The Auditors will retire in the 3rd Annual General Meeting. Being eligible under Section 212 of the Companies Act 1994, the Auditors have consented to continue their office for the year 2013. The Board recommended to the Shareholders to re-appoint the existing Auditors for the year 2013 at a remuneration of Tk. 50,000 plus VAT.

RETIREMENT AND APPOINTMENT OF DIRECTORS

Retirement by rotation:

As per Article-126 of the Articles of Association of the Company, one-third of the total number of Directors for the time being, shall retire from the office in every Annual General Meeting. Nominated directors are generally excluded from the calculation of number of directors under rotation. As per Article-128 of the Articles of Association of the Company, the retiring Directors are eligible for re-election.

Accordingly, following Directors as per Article 126 of the Article of Association of the Company shall retire by rotation from the Board in the 3rd Annual General Meeting:

- 1) Mr. Nazim Asadul Haque
- 2) Mr. Tauseef Iqbal Ali

3) Mr. Md. Rezaul Haque

As per Article 128 of the Article of Association of the Company the retiring directors are eligible for re-election. Hence, the Board recommend for re-appointment of the retiring directors in the 3rd Annual General Meeting of the Company.

Any Director appointed by the Board since last Annual General Meeting shall also retire in the next Annual General Meeting and accordingly, Prof. Dr. Parimal Chandra Datta, Mr. Mahibul Islam Chowdhury, Kazi Md. Mortuza Ali shall retire from the Board in the 3rd Annual General Meeting.

APPOINTMENT OF INDEPENDENT DIRECTORS:

Pursuant to the Bangladesh Securities and Exchange Commission notification no. SEC/CMRRCD/2006-158/134/Admin/44 dated 7 August 2012, the Board of Directors of the Company nominated following directors as Independent Director of the Company subject to appointment of the Shareholders in the 3rd Annual General Meeting of the Company.

- 1) Prof. Dr. Parimal Chandra Datta
- 2) Mr. Mahibul Islam Chowdhury
- 3) Kazi Md. Mortuza Ali

EVENTS OCCURRING AFTER THE REPORTING DATE

As at the date of this report, the Directors are not aware of any matter or circumstance that has arisen since the end of the year 2011 that has significantly affected or may significantly affect the operations of the Company except recommendation of 10 % stock dividend for the year 2012 in its 30th Board of Directors

meeting held on 23 February 2013.

CONCLUSION

There are a number of dynamics, both political and economic, which could significantly affect money market and capital markets in which the Company operates. As recent turmoil in the market indices, investors remain concerned about stock prices, interest rates, inflation and growth, all of which will inevitably determine capital markets' future directions. We are convinced of our ability to continue to thrive in all areas of our business.

Finally, we are thankful to you for having confidence on us. Your continued support is the driving force behind the growth and development of our business. Thanks to the commitment, dedication and hard work of the Company's employees who are core to our success. I also take this opportunity to recall with appreciations the support and cooperation we have received from our shareholders, clients, government agencies, regulatory bodies and everyone the company is connected to in conducting its business.

On behalf of the Board,

sd/-

(Md. Aliuzzaman)

Chairman
Board of Directors
Prime Finance Capital Management Limited

Independent Auditors' Report to the Shareholders

of Prime Finance Capital Management Limited

We have audited the accompanying financial statements of **Prime Finance Capital Management Limited** (the Company), which comprise the statement of financial position as at December 31, 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Bangladesh Financial Reporting Standards (BFRS). This responsibility includes: designing, implementing and maintaining internal control relevant to preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Bangladesh Standards on Auditing (BSA). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstance, but not for the purpose of

expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of **Prime Finance Capital Management Limited** as of December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with Bangladesh Financial Reporting Standard (BFRS) and comply with the applicable sections of the Companies Act, 1994 and other applicable laws and regulations.

We also report that

- a) 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 and made due verification thereof;
- b) In our opinion, proper books of account as required by the law have been kept by the Company so far as it appeared from our examination of those books;
- c) The Company's financial position and statement of comprehensive income dealt with by the report are in agreement with the books of account and returns; and
- d) The expenditure incurred was for the purposes of the Company's business.

Dhaka
23 February, 2013



M.M. Rahman & Co.
Chartered Accountants

Prime Finance Capital Management Limited

Statement of financial position

as at 31 December 2012

(Figures in BDT)	2012	2011	Notes
Non-current assets			
Property, plant and equipment	3,461,952	3,897,227	4 Page 211
Margin loan net of margin deposit	3,231,949,462	2,926,977,706	5 Page 211
Investment in shares	374,338,505	292,942,883	6 Page 211
Deferred tax asset	16,745	-	26 Page 216
Total non-current assets	3,609,766,664	3,223,817,816	
Current assets:			
Advance, deposit and prepayment	47,869,881	11,674,478	7 Page 211
Accounts receivable	218,270,501	105,745,992	8 Page 212
Cash and cash equivalents	37,898,082	21,210,694	9 Page 212
Total current assets	304,038,464	138,631,164	
Total assets	3,913,805,128	3,362,448,980	
Shareholders' equity:			
Share capital	1,600,000,000	1,000,000,000	10 Page 213
Share money deposit	-	378,000,000	11 Page 213
Retained earnings	167,965,660	255,979,640	12 Page 213
Total shareholder's Equity	1,767,965,660	1,633,979,640	
Non-current liabilities			
Obligation under finance lease	1,579,324	2,803,365	13 Page 213
Deferred tax liability	-	24,066	26 Page 216
Short term loan	150,000,000	-	14 Page 213
Total non-current liabilities	151,579,324	2,827,431	
Current liabilities:			
Current account with Parent Company	1,341,488,573	1,235,657,883	15 Page 213
Corporate tax liability	221,620,658	148,689,264	16 Page 214
Accounts payable	6,735,794	67,074,208	17 Page 214
Other payable	424,415,119	274,220,554	18 Page 214
Total current liabilities	1,994,260,144	1,725,641,909	
Total shareholders' equity and liabilities	3,913,805,128	3,362,448,980	

The annexed notes 1 to 32 form an integral part of these financial statements.

sd/-
Chairman

sd/-
Director

sd/-
Managing Director & CEO

As per our report of same date.

Dhaka
23 February, 2013

sd/-
M.M. Rahman & Co.
Chartered Accountants

Prime Finance Capital Management Limited

Statement of Comprehensive Income

for the year ended on 31 December 2012

(Figures in BDT)	2012	2011	Notes
Operating income:			
Fees and commission	108,858,402	189,444,685	19 Page 214
Interest on margin loan	328,398,100	473,509,531	20 Page 215
Capital gain on investment in shares	59,613,009	14,727,688	21 Page 215
Other income	4,005,852	2,744,076	22 Page 215
Total operating income	500,875,363	680,425,980	
Operating expenses:			
Financial expenses	230,112,632	246,129,330	23 Page 215
Management expenses	32,562,807	29,714,203	24 Page 215
Total operating expenses	262,675,439	275,843,533	
Profit before provision and tax	238,199,924	404,582,447	
Provision for doubtful loss	3,323,321	4,454,215	25 Page 216
Profit after provision and tax	234,876,603	400,128,232	
Income tax expenses:			
Current tax	72,931,394	149,364,264	26 Page 216
Deferred tax	(40,811)	24,066	26 Page 216
Total	72,890,583	149,388,330	
Profit after tax	161,986,020	250,739,902	

The annexed notes 1 to 32 form an integral part of these financial statements.

sd/-
Chairman

sd/-
Director

sd/-
Managing Director & CEO

As per our report of same date.

Dhaka
23 February, 2013

sd/-
M.M. Rahman & Co.
Chartered Accountants

Prime Finance Capital Management Limited

Statement of Changes in Equity

for the year ended on 31 December 2012

(Figures in BDT) Particulars	Share Capital	Share Money Deposit	Retained Earnings	Total
Balance as at 1 January 2011	1,000,000,000	-	5,239,738	1,005,239,738
Share money deposit receipts during the year	-	378,000,000	-	378,000,000
Profit after tax for the period	-	-	250,739,902	250,739,902
Balance as at 31 December 2011	1,000,000,000	378,000,000	255,979,640	1,633,979,640
Cash dividend for the year 2011	-	-	(250,000,000)	(250,000,000)
Share money deposit receipts during the year	-	222,000,000	-	222,000,000
Issuance of Rights share in 2012	600,000,000	-	-	600,000,000
Share money deposit transferred to share capital	-	(600,000,000)	-	(600,000,000)
Profit after tax for the period	-	-	161,986,020	161,986,020
Balance as at 31 December 2012	1,600,000,000	-	167,965,660	1,767,965,660

Prime Finance Capital Management Limited

Statement of cash flows

for the year ended on 31 December 2012

(Figures in BDT)	2012	2011
A. Cash flows from operating activities:		
Net receipt from/(payment to) portfolio customers	31,768,760	(482,479,582)
Net receipt from brokers	108,876,451	935,715,181
Receipt of issue management fees	7,199,780	28,872,788
Receipt of underwriting commission	6,137,520	8,422,597
Receipt of advisory fees	515,000	100,000
Payment for management expense	(30,704,901)	(21,451,433)
Receipt of dividend income	2,405,382	2,700
Receipt of interest income	1,769,316	1,939,659
Bank charge paid	(67,150)	(250,622)
Advance tax paid	(1,129,711)	(34,341)
Net cash used in operating activities	126,770,447	470,836,947
B. Cash flows from investing activities		
Payment for acquisition of fixed assets	(620,695)	(4,783,914)
Payment of employees home loan	(21,650,000)	-
Net payment for investment in shares	(37,264,209)	(280,554,210)
Net cash used in investing activities	(59,534,904)	(285,338,124)
C. Cash flows from financing activities:		
Receipt of share money deposit	222,000,000	378,000,000
Receipt of short term loan with BD Finance Ltd.	150,000,000	-
Receipt of lease finance from Parent Company	-	3,785,738
Payment for financial expenses	(33,654,208)	(460,757)
Payment of cash dividend for the year 2011	(250,000,000)	-
Net loan re-payment to Parent Company	(138,893,947)	(855,800,752)
Net cash provided by financing activities	(50,548,155)	(474,475,771)
D.Net increase/(decrease) in cash and cash equivalents (A+B+C)	16,687,388	(288,976,948)
E.Opening cash and cash equivalents	21,210,694	310,187,642
F.Ending cash and cash equivalents (D+E)	37,898,082	21,210,694

Prime Finance Capital Management Limited

Notes to the financial statements

as at and for the year ended on 31 December 2012

1. REPORTING ENTITY

Prime Finance Capital Management Limited ("the company") is a public limited company incorporated on 18 March 2010 in Bangladesh under the Companies Act 1994. The main objectives of the company are to carry on business of merchant banking in all respect, including acting as manager to the issues and offers, whether by way of public offer or otherwise, of securities, underwriting and/or management of issues, managing portfolio of investors whether discretionary or non-discretionary, advising clients on merger and amalgamation, capital restructuring etc. The registered office of the company is situated in Bangladesh.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with the Bangladesh Accounting Standards (BAS) and Bangladesh Financial Reporting Standards (BFRS), the Securities and Exchange Commission (Merchant Banker and Portfolio Manager) Rules 1996, and as per the requirements of the Companies Act 1994 and other applicable laws and regulations.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis under historical cost convention.

2.3 Functional and presentational currency

These financial statements are presented in Bangladeshi Taka (Taka/Tk.), which is the company's functional currency. All financial information presented in Taka has been rounded off to the nearest integer.

2.4 Use of estimates and judgments

The preparation of financial statements requires management to make judgment, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an on going basis.

2.5 Reporting period

The financial statements of the company covers

one year period from 1 January 2012 to 31 December 2012.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied in these financial statements.

3.1 Property, plant and equipment

3.1.1 Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of property, plant and equipment and bringing to the location and condition necessary for it to be capable of operating in the intended manner. The cost of self constructed asset included the cost of material and direct labour, any other cost directly attributable to bringing the assets to a working condition for their intended use.

3.1.2 Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

3.1.3 Depreciation

Depreciation is charged on all items of property, plant and equipment on straight line method over their estimated useful lives as summarized below:

Motor vehicles	20% p.a.
Electrical equipments	20% p.a.
Furniture and fittings	15%-20% p.a.

Upon retirement of assets, the cost and related accumulated depreciation are eliminated from the accounts and resulting gain or loss is charged or credited to statement of comprehensive income.

3.2 Investment in shares

Investment in shares is stated at cost. Required

provision is made for diminishing in value of investment. Dividend from investment is accounted for as income when right to receive is established.

3.3 Accounts receivable

Accounts receivable are considered good and realizable.

3.4 Employee benefits

The company operates a non-funded gratuity scheme, provision in respect of which is made annually for all eligible employees. Gratuity payable to all eligible employees at the end of each year has been determined on the basis of existing rules and regulations of the company, actuarial valuation is not hence deemed essential.

The company also maintains a contributory provident fund for its permanent employees which is administered by the Board of Trustees.

3.5 Financial instruments

Financial instrument includes non-derivative financial instruments such as cash and cash equivalents, other payables etc.

3.6 Provisions

Provision is recognized in the balance sheet when the company has a legal or constructive obligation as a result of past events, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation as per the BAS-37 'Provisions, contingent liabilities and contingent assets'.

3.7 Revenue recognition

Revenue is recognized in accordance with Bangladesh Accounting Standards (BAS) 18: Revenue recognition, unless otherwise mentioned or otherwise guided by the separate BAS/BFRS.

3.7.1 Income from margin loan

Income from margin loan is recognized on accrual basis. Such income is calculated considering daily margin loan balance of the respective parties. Income is recognized on quarterly rest.

3.7.2 Income from portfolio management fee

Income from management fee is recognized on accrual basis. Such income is calculated considering daily portfolio balance of the respective parties. Income is recognized on

quarterly rest.

3.7.3 Income from issue management fee, underwriting commission and corporate advisory fee

Income from issue management fee, underwriting commission and corporate advisory fee are recognized as income when invoices are raised and accepted by the customers.

3.7.4 Capital gain on listed shares

Capital gain is recognized on the basis of realization. Unrealized gain/losses are not recognized in the statement of comprehensive income.

3.8 Taxation

3.8.1 Current tax

Provision for income tax is made on the basis of the company's computation based on best estimate of taxable profit as per requirement of the Finance Act 2012.

3.8.2 Deferred tax

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they revised, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3.9 Events after the reporting date

Events after the balance sheet date that provide additional information about the company's position at the balance sheet date are reflected in the financial statements. Events after the balance sheet date that are non adjusting events

Notes to the Financial Statements - *continued*

are disclosed in the notes when material.

4. PROPERTY, PLANT AND EQUIPMENT

(Figures in BDT) Particulars	Furniture and fixtures	Motor vehicle	Electrical equipments	Total
Cost:				
As at 1 January 2012	19,000	3,785,738	979,176	4,783,914
Additions during the year	323,770	-	296,925	620,695
Disposals during the year	-	-	-	-
As at 31 December 2012	342,770	3,785,738	1,276,101	5,404,609
Depreciation:				
As at 1 January 2012	1,138	757,148	128,401	886,687
Charges during the year	56,197	757,148	242,626	1,055,970
Adjustments for disposal	-	-	-	-
As at 31 December 2012	57,335	1,514,296	371,027	1,942,657
Written down value:				
As at 31 December 2012	285,435	2,271,442	905,074	3,461,952
As at 31 December 2011	17,862	3,028,590	850,775	3,897,227

4.1 Motor vehicle includes 1 (one) office car under finance lease from Prime Finance & Investment Ltd.

5. MARGIN LOAN NET OF MARGIN DEPOSIT

	2012	2011
Margin loan	3,322,723,134	3,015,388,083
Less: Margin deposit	89,602,350	51,787,947
Less: Receivable in transit	15,381	36,172,844
Less: Cheque collection in transit	1,155,941	449,586
Total	3,231,949,462	2,926,977,706

6. INVESTMENT IN SHARES

	2012	2011
Quoted shares	354,963,505	272,942,883
Un-quoted shares (Note-6.1)	19,375,000	20,000,000
Total	374,338,505	292,942,883

6.1 Un-quoted shares

	2012	2011
Bengal Windsor Limited	10,000,000	10,000,000
Northern Power Solution Limited	4,375,000	5,000,000
Bengal Meat Processing Industries Limited	5,000,000	5,000,000
Total	19,375,000	20,000,000

The Company participated in Bond of Northern Power Solution Limited amounting to Tk. 50,000,000. The term of the bond is 5 years with interest of 18% p.a.

7. ADVANCE, DEPOSIT AND PREPAYMENT

	2012	2011
Advance income tax (Note-7.1)	1,424,382	294,671
Advance to Brokerage for purchase of listed company's shares	23,266,159	8,846,967
Other advances (Note-7.2)	23,179,340	2,532,840

Notes to the Financial Statements - *continued*

Total	47,869,881	11,674,478
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7.1 Advance income tax	2012	2011
Balance as at 1 January	3,033,514	933,164
Add:		
Advance income tax paid u/s-64 of Income Tax Ordinance, 1984	500,000	-
Tax paid u/s-74 of Income Tax Ordinance, 1984	-	1,805,679
Tax deducted at source	629,711	294,671
Total	1,129,711	2,100,350
	4,163,225	3,033,514
Less:		
Adjustment for completed assessment-Return of 2010 u/s 82BB (Note-16)	2,738,843	2,738,843
Balance as at 31 December	1,424,382	294,671

7.2 Other advances		
Advance against employee house building finance	22,406,140	1,686,240
Advance against employee car finance and others	773,200	846,600
Total	23,179,340	2,532,840

As per Company's service rules and regulations, the Company provides house building finance and car finance facilities to the employees. The house building finance and car finance shall be adjusted in 15 years and 6 years respectively.

8. ACCOUNTS RECEIVABLES

(Figures in BDT)	2012	2011
Receivable from PFI Securities Limited	197,131,725	26,017,708
Receivable from Vision Capital Management Limited	8,813,224	49,392,376
Receivable from Chowdhury Securities Limited	-	18,093,071
Receivable from Sharp Securities Limited	-	1,112,371
Receivable from Prime Islami Securities Limited	-	1,759,025
Accrued fees, commission etc.	1,215,400	6,053,504
Suspense receivables	215,600	225,600
Other receivables	10,894,552	3,092,337
Total	218,270,501	105,745,992

9. CASH AND CASH EQUIVALENTS

Cash in hand	5,000	5,000
Balance with banks:		
Mutual Trust Bank Ltd. Dilkusha branch - Short term deposit	37,259	638,037
Shahjalal Bank Ltd. Dhaka main branch-Short term deposit	8,311,099	6,067,804
Shahjalal Bank Ltd. Dhaka main branch-Short term deposit	25,458,506	12,482,173
Shahjalal Bank Ltd. Dhaka main branch-Short term deposit	39,614	986,571
Shahjalal Bank Ltd. Rajshahi Branch-Short term deposit	23,099	23,333
NCC Bank Ltd. Dilkusha branch-Short term deposit	3,574,947	337,217
First Security Islami Bank Ltd. Dilkusha branch-Short term deposit	30,781	29,979
Dutch Bangla Bank Ltd. Local office branch -Short term deposit	392,115	612,262
National Bank Ltd. Dilkusha Branch-Short term deposit	8,846	9,576
National Bank Ltd. Motijheel Branch-Short term deposit	8,408	9,371
National Bank Ltd. Motijheel Branch-Short term deposit	8,408	9,371

Notes to the Financial Statements - *continued*

Total	37,893,082	21,205,694
Total	37,898,082	21,210,694

10. SHARE CAPITAL	2012	2011
Authorized:		
500,000,000 ordinary shares of Tk 10 each	5,000,000,000	5,000,000,000
Issued and fully paid up:		
100,000,000 ordinary shares of Tk. 10 each issued for cash	1,000,000,000	1,000,000,000
60,000,000 ordinary shares of Tk. 10 each issued for cash as rights share	600,000,000	-
Total	1,600,000,000	1,000,000,000

10.1 Composition of shareholding

	No. of shares	Taka	Percentage
Prime Finance & Investment Limited	96,000,000	960,000,000	60%
Mr. K. M. Rakib Hasan	9,600,000	96,000,000	6%
Mr. Waheed Mahmud Khaled	9,600,000	96,000,000	6%
Mr. Nazim Asadul Haque	9,600,000	96,000,000	6%
Mr. Rubaiyat Khaled	9,600,000	96,000,000	6%
Mr. Tauseef Iqbal Ali	4,800,000	48,000,000	3%
Mr. Md. Aliuzzaman	3,200,000	32,000,000	2%
Syeda Tasnuva Khanam	4,800,000	48,000,000	3%
GQ Enterprise Limited	6,400,000	64,000,000	4%
Agami Apparels Limited	6,400,000	64,000,000	4%
Total	160,000,000	1,600,000,000	100%

11. SHARE MONEY DEPOSIT	2012	2011
Balance as at 1 January	378,000,000	-
Share money deposit received during this year	222,000,000	378,000,000
Share money deposit transferred to share capital	(600,000,000)	-
Balance as at 31 December	-	378,000,000

12. RETAINED EARNINGS	2012	2011
Balance as at 1 January	255,979,640	5,239,738
Profit after tax transferred to retained earnings	161,986,020	250,739,902
Dividend for the year 2011	(250,000,000)	-
Balance as at 31 December	167,965,660	255,979,640

13. OBLIGATION UNDER FINANCE LEASE

Motor car has been taken as finance lease from Prime Finance & Investment Limited for 5 years with initial interest rate of 15% p.a.

14. SHORT TERM LOAN

The Company availed short term loan from BD Finance Ltd. in the year 2012 for a period of 11 months against security of corporate guarantee of the Company.

15. CURRENT ACCOUNT WITH PARENT COMPANY

This amount represents receivable/payable from Prime Finance & Investment Limited, the parent company of Prime Finance Capital Management Limited. The amount has been arisen from expenses paid/short-term loan availed by Prime Finance Capital Management Limited and vice versa.

16. CORPORATE TAX LIABILITIES

	2012	2011
Tax provision for the year ended on 31 December 2010	2,063,843	2,063,843
Tax provision for the year ended on 31 December 2011	149,364,264	149,364,264
Tax provision for the year ended on 31 December 2012	72,931,394	-
Total tax provision till date	224,359,501	151,428,107
Less:		
Adjustment for completed assessment-Return of 2010 u/s 82BB (Note-7.1)	2,738,843	2,738,843
Total	221,620,658	148,689,264

17. ACCOUNTS PAYABLE

	2012	2011
Payable to PFI Securities Limited	3,255,780	22,706,944
Payable to Vision Capital Management Limited	3,480,014	40,615,120
Payable to Prime Islami Securities Limited	-	3,752,144
Total	6,735,794	67,074,208

Accounts payable represents balance outstanding with listed brokerage houses.

18. OTHER PAYABLE

	2012	2011
Office rent payable	106,125	169,582
Interest payable	195,458,424	245,668,572
Payable for unsubscribed shares	6,601,180	6,601,180
CDBL charge payable	868,103	3,944,948
Accrued fuel cost	16,746	24,000
Accrued mobile bill	15,529	16,750
Payable for employee training	-	35,000
Audit fee payable	57,500	26,125
Withholding tax payable	-	35,743
Withholding VAT payable	-	24,733
Suspense receipts PIA dividend income	3,130,884	2,026,314
Interest suspense account	194,223,000	-
Provident fund, Gratuity & Super Annuation Fund Payable	4,809,751	989,609
Accrued expenses	3,663,725	3,663,725
Provision for expenses	7,392,954	6,363,213
Provision for doubtful losses	7,777,535	4,454,215
Others	293,663	176,845
Total	424,415,119	274,220,554

19. FEES AND COMMISSION

	2012	2011
Issue management fees	6,087,780	30,357,788
Underwriting commission	2,620,970	12,295,897
Portfolio management fees	99,634,652	146,691,000

Notes to the Financial Statements - *continued*

Corporate advisory fees	515,000	100,000
Total	108,858,402	189,444,685

20. INTEREST ON MARGIN LOAN

Interest on margin loan includes interest earned on margin loan provided to portfolio investors against their margin deposit. Margin loan is provided under the guideline of the Bangladesh Securities and Exchange Commission.

21. CAPITAL GAIN ON INVESTMENT IN SHARES

Capital gain represents realized gain earned against investment in shares of listed companies under the own portfolio investment.

22. OTHER INCOME

	2012	2011
Income from bank interest of STD accounts	806,340	1,983,071
Dividend income	2,277,574	719,005
Documentation fees	36,000	42,000
Interest Income from Bond Investment	885,938	-
Total	4,005,852	2,744,076

23. FINANCIAL EXPENSES

	2012	2011
Interest on short term loan	229,732,142	245,668,572
Interest charge on obligation under finance lease	380,490	460,758
Total	230,112,632	246,129,330

24. MANAGEMENT EXPENSES

	2012	2011
Salaries and allowances	24,062,079	18,697,995
Legal and professional fees	52,250	1,339,825
Audit fees	57,500	26,125
CDBL charges	2,044,169	1,913,591
Office maintenances	1,349,005	2,799,668
Recruitment and human resources	42,250	515,170
Bank charges	67,150	138,013
Books and periodicals	23,284	10,894
Telephone, postage etc.	194,781	146,939
Printing and stationeries	240,903	612,468
Directors' fees	445,000	495,000
Car allowances	372,000	339,000
Office rent	314,312	314,312
Motor vehicle expenses	503,145	262,523
Meeting expenses	89,022	175,750
Subscription and fees	538,505	148,505
Medical and employee welfare	163,826	198,925
Utility expenses	103,565	88,771
Business Development & Publicity	406,686	541,755

Notes to the Financial Statements - *continued*

Brokerage commission and charges	437,405	62,287
Depreciation	1,055,970	886,687
Total	32,562,807	29,714,203

25. PROVISION FOR DOUBTFUL LOSS

Provision for doubtful loss has been made on the basis of directive of Bangladesh Securities and Exchange Commission.

26. INCOME TAX EXPENSES

Current tax:

Provision for tax has been made as per the requirement of Finance Act 2012.

Deferred tax:

Deferred tax liability is arrived at as follows:

	Carrying amount on balance sheet date	Tax base	Taxable/(deductible) temporary difference
Year: 2012 (A)			
Property, plant and equipment	3,461,952	3,417,299	44,653
Applicable tax rate			37.5%
Deferred tax - asset			16,745
Year: 2011 (B)			
Deferred tax - liability			24,066
Deferred tax expense/(income) (A-B)			(40,811)

Related deferred tax expense/(income) has been recognized in the statement of comprehensive income.

27. CONTINGENT LIABILITIES

As at 31 December 2012 the Company has no contingent liability except underwriting commitment of Tk. 4,201,462,100 arising from underwriting of public issue of various companies.

28. CAPITAL EXPENDITURE COMMITMENT

None at 31 December 2012

29. CLAIMS AGAINST THE COMPANY NOT ACKNOWLEDGED AS DEBT

None at 31 December 2012

30. NUMBER OF EMPLOYEES

The number of employees engaged for the whole year or part thereof who received a total remuneration of Tk. 36,000 per annum or above was 19 (2011 : 18).

31. EVENTS AFTER THE REPORTING DATE

Board of Directors in its 30th meeting held on 23 February 2013 recommended 10 % stock dividend for the year 2012 subject to approval from shareholders of the Company in its forthcoming Annual General Meeting.

32. GENERAL



About the Company

PFI Securities Limited is one of the leading brokerage houses in Bangladesh which was incorporated on 06 August 1997 as a Private Limited Company. The company converted to public limited company on 6 April 2010. It is operating with a group of highly trained & skilled manpower. The Company has refined its business model to constantly maintain a cutting-edge approach in the areas in which it operates. PFI Securities is a Security Broking company registered as member with both the bourses in Bangladesh; Dhaka Stock Exchange Limited (DSE) and Chittagong Stock Exchange Limited (CSE).

Nature of Business

The Company is engaged primarily to cater the service to the institutions and individual investors for trading of securities with both the bourses under Securities & Exchange Commission (Stock-Dealer, Stock-Broker & Authorized Representative) Rules 2000 and to extend margin loan facilities to the investors under Margin Rules 1999.

Chairman

Mr. M. A. Wahhab

CEO & Managing Director

Kazi Fariduddin Ahmed FCA

Authorized Capital

Tk. 5,000,000,000

Paid-up Capital

Tk. 1,674,400,000

Operating Profit for 2012

Tk. 94,356,301

Net Profit for 2012

Tk. 59,773,693

Earnings Per Share for 2012

0.36

Shareholdings of Prime Finance

46.15 percent



Auditors' Report to the Shareholders

of PFI Securities Limited

We have audited the accompanying financial statements of **PFI Securities Limited**, which comprise the statement of financial position as at December 31, 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Bangladesh Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Bangladesh Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies

used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of **PFI Securities Limited** as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with Bangladesh Financial Reporting Standards (BFRS) and comply with the applicable sections of the Companies Act, 1994 and other applicable laws and regulations.

We also report that

- a) 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 and made due verification thereof;
- b) In our opinion, proper books of account as required by the law have been kept by the Company so far as it appeared from our examination of those books;
- c) The Company's financial position and statements of comprehensive income dealt with by the report are in agreement with the books of account and returns; and
- d) The expenditure incurred was for the purposes of the Company's business.

Dhaka
23 February, 2013



M.M. Rahman & Co.
Chartered Accountants

PFI Securities Limited
Statement of Financial Position
as at 31 December

(Figures in BDT) 2012 2011

SOURCES OF FUND		
SHAREHOLDERS' EQUITY		
	2,298,420,801	2,238,647,108
Share Capital	1,674,400,000	1,456,000,000
General Reserve	50,000,000	50,000,000
Revaluation Reserve	443,887,500	443,887,500
Retained earnings	70,359,608	35,219,615
Current year's profit	59,773,693	253,539,993
APPLICATION OF FUND		
INVESTMENT AND ADVANCES		
	613,702,715	534,588,109
Membership of stock exchanges	456,500,000	456,500,000
Employees Loan	4,091,657	5,551,661
Investment in shares	153,111,058	72,536,448
CURRENT ASSETS		
	8,626,905,974	6,935,508,842
Advance, deposits and prepayments	151,311,883	99,509,714
Margin loan to clients	7,628,833,600	6,054,658,934
Account receivables	493,117,398	412,772,077
Advance corporate tax	335,902,782	307,839,486
Cash & Cash equivalents	17,740,311	60,728,632
CURRENT LIABILITIES		
	7,296,996,445	5,590,257,771
Accounts payables	898,492,414	884,342,486
Short term borrowing	5,960,774,860	4,302,940,453
Provision for Diminution in value of investment in share	171,731	-
Provision for tax	437,557,440	402,974,832
NET CURRENT ASSETS		
	1,329,909,529	1,345,251,071
Property, plant & equipments		
	354,808,557	358,807,928
TOTAL ASSETS AND INVESTMENTS		
	2,298,420,801	2,238,647,108

sd/-
Company Secretary

sd/-
CEO & Managing Director

sd/-
Chairman

As per our report of same date.

Dhaka
23 February, 2013

sd/-
M.M. Rahman & Co.
Chartered Accountants

PFI Securities Limited
Statement of Comprehensive Income
 for the year ended 31 December

(Figures in BDT)

	2012			2011
	U/Sec-82(c)	Other than U/Sec-82(c)	Total	Total
OPERATING INCOME	200,429,404	25,032,013	225,461,416	515,736,978
Commission on securities trading	200,429,404	-	200,429,404	384,443,026
Interest on margin loan	-	19,746,502	19,746,502	125,268,821
Dividend income	-	523,412	523,412	575,410
Other operating income	-	4,762,099	4,762,099	5,449,721
OPERATING EXPENSES	100,674,805	30,430,311	131,105,116	130,630,542
Laga and howla charges	9,212,141	-	9,212,141	15,736,272
Management expenses	91,290,932	30,430,311	121,721,243	114,894,270
Provision for Diminution in value of investment in share	171,731	-	171,731	-
Profit before tax	99,754,599	(5,398,298)	94,356,301	385,106,436
Provision for income tax	34,582,608	-	34,582,608	131,566,443
Net profit after income tax	65,171,991	(5,398,298)	59,773,693	253,539,993
Earning per share (EPS)			0.36	1.74
Restated Earning per share (EPS)				1.51

sd/-
Company Secretary

sd/-
CEO & Managing Director

sd/-
Chairman

As per our report of same date.

Dhaka
 23 February, 2013

sd/-
M.M. Rahman & Co.
 Chartered Accountants

PFI Securities Limited
Statement of Cash Flow
 for the year ended 31 December

(Figures in BDT)	2012	2011
Cash flows from operating activities		
Collection from commission, interest on trading on securities & Others	1,167,517,324	4,187,703,404
Payment of Laga, howla & management expenses	(103,965,827)	(2,841,561,816)
Income Tax Paid	(28,063,296)	(88,197,447)
Net Cash used by Operating Activities	1,035,488,200	1,257,944,141
Cash Flows from Investing activities		
Purchase of property, plant & equipment	(60,620,425)	(46,788,617)
Investment in Share	(80,574,610)	(6,588,899)
Net Cash used by Investing Activities	(141,195,036)	(53,377,516)
Cash Flows from Financing Activities		
Loan given to Employee	1,460,004	(1,519,996)
Loan given to clients	(1,574,174,666)	(1,287,631,260)
Short term loan receive	1,657,834,407	504,930,160
Dividend Income	523,412	575,410
Financial Expenses	(1,022,924,639)	(514,603,402)
Net Cash Provided by Financing Activities	(937,281,484)	(1,298,249,088)
Net increase in cash	(42,988,321)	(93,682,463)
Opening Cash & Bank Balance	60,728,632	154,411,095
Closing Cash & Bank Balance	17,740,311	60,728,632

PFI Securities Limited
Statement of Changes in Shareholders' Equity
 for the year ended 31 December

(Figures in BDT) Particulars	Share Capital	Share Issued	Right Share	Retained Earnings	Proposed Stock Dividend	General Reserve	Revaluation Reserve	Total
Balance as on 1st January 2012	1,456,000,000	-	-	288,759,608	-	50,000,000	443,887,500	2,238,647,108
Changes during the year 2012								
Net profit for the year 2012	-	-	-	59,773,693	-	-	-	59,773,693
Share Issued During the year 2012	-	-	-	-	-	-	-	-
Stock dividend for the year 2011	218,400,000	-	-	(218,400,000)	-	-	-	-
General Reserve	-	-	-	-	-	-	-	-
Right Share Issued during the year 2012	-	-	-	-	-	-	-	-
Proposed dividend	-	-	-	-	-	-	-	-
Total change in 2012	218,400,000	-	-	(158,626,307)	-	-	-	59,773,693
Balance as on 31 December 2012	1,674,400,000	-	-	130,133,301	-	50,000,000	443,887,500	2,298,420,801
Balance as on 31 December 2010	910,000,000	-	-	631,219,615	-	-	443,887,500	1,985,107,115
Changes during the year 2011								
Net profit for the year 2011	-	-	-	253,539,993	-	-	-	253,539,993
Stock dividend for the year 2010	546,000,000	-	-	(546,000,000)	-	-	-	-
General Reserve	-	-	-	(50,000,000)	-	50,000,000	-	-
Share Issued During the year 2011	-	-	-	-	-	-	-	-
Revaluation during the year 2011	-	-	-	-	-	-	-	-
Right Share Issued during the year 2011	-	-	-	-	-	-	-	-
Proposed dividend	-	-	-	-	-	-	-	-
Total change in 2011	546,000,000	-	-	(342,460,007)	-	50,000,000	-	253,539,993
Balance as on 31 December 2011	1,456,000,000	-	-	288,759,608	-	50,000,000	443,887,500	2,238,647,108



Prime Prudential Fund Limited

a member of Prime Financial Group

Registered Office

63 Dilkusha Commercial Area
Dhaka-1000

Date of Incorporation

23 July 2009

Authorized Share Capital

Tk. 500,000,000

Paid-up Capital

Tk. 24,600,000

Nature of Business

Manage funds of the company and its investors and provide other financial services including corporate advisory services, merger & acquisition, equity investment, joint venture sourcing and consummation, corporate restructuring, financial and socio-economic consultancy, corporate research and project studies, privatization and other related services in Bangladesh and overseas.

Chairman

Mr. M. A. Khaleque

AVP & In-Charge

Md. Abdul Muktedir

No. of Employees

02

Net loss for 2012

Tk. 12,156,058

Auditors

M. M. Rahman & Co.
Chartered Accountants

Shareholding of Prime Finance

40 Percent



Auditors' Report to the Shareholders

of Prime Prudential Fund Limited

We have audited the accompanying financial statements of **Prime Prudential Fund Limited** (the Company), which comprise the statement of financial position as at December 31, 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Bangladesh Financial Reporting Standards (BFRS). This responsibility includes: designing, implementing and maintaining internal control relevant to preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Bangladesh Standards on Auditing (BSA). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the

appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of **Prime Prudential Fund Limited** as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with Bangladesh Financial Reporting Standards (BFRS) and comply with the applicable sections of the Companies Act, 1994 and other applicable laws and regulations.

We also report that

- a) 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 and made due verification thereof;
- b) In our opinion, proper books of account as required by the law have been kept by the Company so far as it appeared from our examination of those books;
- c) The Company's financial position and statement of comprehensive income dealt with by the report are in agreement with the books of account and returns; and
- d) The expenditure incurred was for the purposes of the Company's business

Dhaka
23 February, 2013



M.M. Rahman & Co.
Chartered Accountants

Prime Prudential Fund Limited
Statement of Financial Position

as at 31 December

(Figures in BDT)	2012	2011
Non-current assets	64,952	81,896
Current assets:		
Cash and cash equivalents	442,975	998,683
Investment in shares	27,285,143	63,221,760
Advance corporate tax	241,115	156,787
Total current assets	27,969,233	64,377,230
Total assets	28,034,185	64,459,126
Shareholders' Equity:		
Share capital	24,600,000	24,600,000
Retained earnings	10,913,651	23,069,707
Revaluation reserve	(19,447,517)	(19,329,944)
Total Shareholders' equity	16,066,134	28,339,763
Non-current liabilities	-	-
Current liabilities:		
Payable to Prime Finance & Investment Limited	309,075	309,075
Margin loan	11,477,987	32,909,153
Provision for audit fee	12,550	11,500
Liability to employees	121,750	60,000
Corporate tax liability	34,854	2,826,099
Tax payable	11,835	3,535
Total current liabilities	11,968,051	36,119,362
Total shareholders' equity and liabilities	28,034,185	64,459,126

sd/-
 Director

sd/-
 Director

sd/-
 Chairman & Managing Director

As per our report of same date.

Dhaka
 23 February, 2013

sd/-
M.M. Rahman & Co.
 Chartered Accountants

Prime Prudential Fund Limited
Statement of Comprehensive Income
 for the year ended 31 December

(Figures in BDT)	2012	2011
Capital gain/(loss) from sale of shares	(6,139,440)	(26,363,172)
Cash dividend income	541,850	882,795
Bank interest income	34,218	38,040
Total operating income / (loss)	(5,563,372)	(25,442,337)
Salaries and allowances	1,669,483	1,239,800
Medical and employee welfare	50,089	127,083
Interest on BO account	4,522,863	5,932,224
Telephone and postage	8,149	5,505
Printing and stationery	4,493	10,127
License renewal fee	16,410	-
Internet Expenses	13,800	1,948
Entertainment and public relations	200,152	405,141
Audit fee	11,500	11,500
Professional fee	11,500	-
Books and periodicals	3,651	2,500
Fees and commission	-	1,946
Travel and conveyance	801	14,829
HR Development expenses	4,000	-
Fees and charges for sale of shares	25,576	223,989
Depreciation	16,944	2,824
Miscellaneous expenses	31,370	-
Bank charge and excise duty	2,465	2,150
Total operating expenses	6,593,246	7,981,566
other Income	560	-
Profit/(loss) before tax	(12,156,058)	(33,423,903)
Provision for tax	-	-
Profit/(loss) after tax	(12,156,058)	(33,423,903)

sd/-
Director

sd/-
Director

sd/-
Chairman & Managing Director

As per our report of same date.

Dhaka
23 February, 2013

sd/-
M.M. Rahman & Co.
Chartered Accountants

Prime Prudential Fund Limited
Statement of Cash Flow
for the year ended 31 December

(Figures in BDT)	2012	2011
A. Cash flows from operating activities		
Cash dividend income	462,730	761,205
Bank interest received	30,010	34,226
Cash received for sale of newspaper	560	-
Salaries and allowances paid	(1,503,733)	(1,141,400)
Arrear salary paid	(60,000)	(438,665)
Medical and employee welfare paid	(50,089)	(127,083)
Telephone and postage	(8,149)	(5,505)
Printing and stationery paid	(4,493)	(10,127)
License renewal fee paid	(17,410)	-
Internet expenses	(13,800)	(1,948)
Entertainment and Public Relation paid	(201,522)	(405,141)
Audit fee	(9,450)	(10,500)
Professional fee	(39,000)	-
Books and periodicals paid	(3,651)	(2,500)
Fees and commission	-	(1,946)
Paid for HR Development	(4,000)	-
Travel and conveyance paid	(801)	(14,829)
Bank charge and Excise duty paid	(2,350)	(2,150)
Tax deducted at source on salaries paid	(39,200)	(36,865)
VAT deducted amount paid	-	(4,201)
Corporate tax paid for assessment year 2011-2012	(2,791,360)	-
Net cash generated from operating activities	(4,255,708)	(1,407,429)
B. Cash flows from investing activities		
Payment for investment in share	-	(38,700)
Payment for purchases of computer	-	(83,352)
Withdrawal from portfolio account	3,700,000	2,100,000
Net cash used in investing activities	3,700,000	1,977,948
C. Cash flows from financing activities		
Introduction of capital	-	-
Net cash provided by financing activities	-	-
D. Net increase/(decrease) in cash and cash equivalents (A+B+C)	(555,708)	570,519
E. Opening cash and cash equivalents	998,683	428,164
F. Ending cash and cash equivalents (D+E)	442,975	998,683

Prime Prudential Fund Limited
Statement of changes in Equity
 for the year ended 31 December

(Figures in BDT) Particulars	Share capital	Revaluation reserve	Retained earnings	Total
Balance as at 1 January 2012	24,600,000	(19,329,944)	23,069,707	28,339,763
Profit/(loss) after tax for the period	-	-	(12,156,058)	(12,156,058)
Reserve on net changes in fair value of listed securities	-	(117,573)	-	(117,573)
Balance as at 31 December 2012	24,600,000	(19,447,517)	10,913,651	16,066,134
Balance as at 1 January 2011	24,600,000	(6,080,626)	56,493,610	75,012,984
Profit after tax for the period	-	-	(33,423,903)	(33,423,903)
Reserve on net changes in fair value of listed securities	-	(13,249,318)	-	(13,249,318)
Balance as at 31 December 2011	24,600,000	(19,329,944)	23,069,707	28,339,763



Prime Finance Asset Management Company Limited

a member of Prime Financial Group

About the Company

Prime Finance Asset Management Company Limited was incorporated in Bangladesh on 9 June 2008 as a public limited company under the Companies Act 1994.

Nature of Business

Manage the assets of any Trust of Fund of any type and/or character and hold, acquire, sell or deal in such asset or any trust funds, take part in the management of any mutual fund operation, operate, conduct, accomplish and establish services for industrial trading and commercial activities, invest funds in shares and securities, carry on business, and act as financial and monetary agent and merchandise shares and other securities.

Chairman
Mr. Sayed Tarek Kamal

Managing Director & CEO
Moin Al Kashem MBA

Authorized Capital
Tk. 250,000,000

Paid-up Capital
Tk. 60,000,000

Operating Income for 2012
Tk. 12,291,452

Net Profit for 2012
Tk. 1,584,879

Shareholding of Prime Finance
49 Percent



Auditors' Report to the Shareholders

of Prime Finance Asset Management Company Limited

We have audited the accompanying financial statements of **Prime Finance Asset Management Company Limited** (the Company), which comprise the statement of financial position as at December 31, 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Bangladesh Financial Reporting Standards (BFRS). This responsibility includes: designing, implementing and maintaining internal control relevant to preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Bangladesh Standards on Auditing (BSA). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness

of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of **Prime Finance Asset Management Company Limited** as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with Bangladesh Financial Reporting Standards (BFRS) and comply with the applicable sections of the Companies Act, 1994 and other applicable laws and regulations.

We also report that

- a) 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 and made due verification thereof;
- b) In our opinion, proper books of account as required by the law have been kept by the Company so far as it appeared from our examination of those books;
- c) The Company's financial position and statement of comprehensive income dealt with by the report are in agreement with the books of account and returns; and
- d) The expenditure incurred was for the purposes of the Company's business.

Dhaka
23 February, 2013



M.M. Rahman & Co.
Chartered Accountants

Prime Finance Asset Management Company Limited

Statement of Financial Position

as at 31 December

(Figures in BDT)

	2012	2011
ASSETS		
Non-current assets:		
Property, plant and equipment:		
Cost	6,215,602	6,162,998
Accumulated depreciation	(4,066,567)	(2,830,460)
WDV of property, plant and equipments	2,149,035	3,332,538
Loan to employee (Non - current portion)	1,127,784	-
Deferred tax asset	365,127	326,854
Total non-current assets	3,641,946	3,659,392
Current assets :		
Advance tax	3,946,260	3,412,317
Loan to employee (Current maturity)	233,328	-
Advance, deposits and prepayments	8,382,399	8,381,467
Investment	2,000,000	2,000,000
Receivable	6,221,613	13,556,486
Other asset	2,103,587	1,340,054
Short term investment	45,000,000	35,000,000
Cash and cash equivalents	4,379,246	7,184,039
Total current assets	72,266,433	70,874,363
Total assets	75,908,379	74,533,755
EQUITY & LIABILITIES		
Shareholders' equity		
Share capital	60,000,000	60,000,000
Retained earnings	6,284,393	4,699,514
Total shareholders' equity	66,284,393	64,699,514
Non-current liabilities		
Liability for gratuity	1,025,743	992,549
Liability for provident fund	1,967,679	1,593,528
Total non-current liabilities	2,993,422	2,586,077
Current liabilities		
Loan from Prime Finance & Investment Ltd. (Current maturity)	-	1,557,234
Obligation under finance lease (Current maturity)	-	455,586
Withholding Tax and VAT	148,938	130,513
Provision for income tax	4,080,754	3,352,181
Payables and accruals	239,395	273,534
Other liabilities	2,161,477	1,479,116
Total current liabilities	6,630,564	7,248,164
Total liabilities	9,623,986	9,834,241
Total equity and liabilities	75,908,379	74,533,755

sd/-

Managing Director & CEO

sd/-

Director

sd/-

Chairman

As per our report of same date.

sd/-

M.M. Rahman & Co.
Chartered Accountants

Dhaka
23 February 2013

Prime Finance Asset Management Company Limited
Statement of Comprehensive Income
for the year ended 31 December

(Figures in BDT)	2012	2011
OPERATING INCOME		
Income from fees	11,591,452	11,529,946
Income from consultancy	700,000	600,000
Total Operating Income	12,291,452	12,129,946
OPERATING EXPENSES		
Administrative expenses	(15,933,528)	(16,105,435)
Financial expenses	(186,412)	(528,794)
Total Operating Expenses	(16,119,940)	(16,634,229)
Profit/(Loss) from operating activities	(3,828,488)	(4,504,283)
Bank interest income	6,102,967	5,045,684
Miscellaneous income	700	-
Profit/(loss) before income tax	2,275,179	541,401
Income tax expense		
Current tax	(728,573)	(502,603)
Deferred tax income	38,273	182,945
Total Income tax expense	(690,300)	(319,658)
Net profit after tax for the year	1,584,879	221,743

sd/-
Managing Director & CEO

sd/-
Director

sd/-
Chairman

Dhaka
23 February, 2013

As per our report of same date.

sd/-
M.M. Rahman & Co.
Chartered Accountants

Prime Finance Asset Management Company Limited

Statement of Cash Flow

for the year ended 31 December

(Figures in BDT)	2012	2011
A. Cash flows from operating activities		
Cash received on account of Mutual Fund	14,351,446	23,686,755
Cash received from consultancy	1,049,879	-
Paid to suppliers and employees	(14,196,947)	(11,628,940)
Paid for other operating expenses	(540,782)	(900,513)
Directors fees paid	(247,044)	(370,566)
Received from Prime Finance Capital Management Company Ltd.	-	3,990,000
Received from PFI Securities Ltd.	4,225,000	300,000
Interest received	5,339,434	3,827,852
Income tax paid	(533,943)	(3,240,013)
Financial expenses	(186,412)	(528,794)
Net cash flows from operating activities	9,260,631	15,135,781
B. Cash flows from Investing activities		
Paid to purchase property, plant and equipments	(52,604)	(42,300)
Investment in FDR	(10,000,000)	(35,000,000)
Net cash used in investing activities	(10,052,604)	(35,042,300)
C. Cash flows from financing activities		
Paid to Prime Finance & Investment Ltd.	(2,012,820)	(2,450,803)
Net cash generated from financing activities	(2,012,820)	(2,450,803)
D. Net increase/(decrease) in cash and cash equivalents (A+B+C)	(2,804,793)	(22,357,322)
E. Opening cash and cash equivalents	7,184,039	29,541,361
F. Closing cash and cash equivalents (D+E)	4,379,246	7,184,039

Prime Finance Asset Management Company Limited

Statement of Changes in Equity

for the year ended 31 December

(Figures in BDT) Particulars	Share Capital	Share money Deposit	Retained Earnings	Total
Balance as at 01 January 2012	60,000,000	-	4,699,514	64,699,514
Net profit for the year	-	-	1,584,879	1,584,879
Balance as at 31 December 2012	60,000,000	-	6,284,393	66,284,393
Balance as at 01 January 2011	60,000,000	-	4,477,771	64,477,771
Net profit for the year	-	-	221,743	1,584,879
Balance as at 31 December 2011\	60,000,000	-	4,699,514	66,699,514

Events of AGM



Prime Finance & Investment Limited

Registered Office: 63, Dilkusha C.A., Dhaka-1000

Notice of the Seventeenth Annual General Meeting

Notice is hereby given that the Seventeenth Annual General Meeting of the Shareholders of Prime Finance & Investment Limited will be held on Wednesday, 27 March 2013 at 10:30 a.m. at Officers Club, 26, Baily Road, Dhaka to transact the following businesses:

- AGM 13-17-01 : To receive, consider and adopt the audited financial statements of the Company for the year ended 31 December 2012 together with the reports of the Directors' and Auditors' thereon;
- AGM 13-17-02 : To declare dividend for the year ended 2012 as recommended by the Board of Directors;
- AGM 13-17-03 : To elect/re-elect Directors in terms of the relevant provision of the Articles of Association of the Company;
- AGM 13-17-04 : To appoint Auditors and fixation of their remuneration;
- AGM 13-17-05 : To approve appointment of Independent Directors.

By order of the Board of Directors,
sd/-

Dated: 7 March 2013

Syed Moniruzzaman ACS
Company Secretary

Notes :

- i. 5 March 2013 being the 'RECORD DATE' will determine rights of Shareholders for dividend and to attend and vote at the meeting.
- ii. Pursuant to Section 85 of the Companies Act, 1994, the Company gives notice that only the Shareholders whose names appeared on the Depository Register on record date will be entitled to attend and vote at the meeting and at any adjournment thereof. Changes to entries on the register after the record date shall be disregarded in determining the rights of any person to attend and vote at the meeting and to receive dividend.
- iii. As per Article 47 of the Articles of Association of the Company, a shareholder may appoint Proxy to attend and on a Poll, to vote instead of him/her. The instrument appointing a Proxy and the Power of Attorney, where applicable, must be received at the Corporate Affairs Department of the Company at 63 Dilkusha Commercial Area, Dhaka-1000 at least 72 hours before the time for holding the meeting. Appointment of Proxy will not preclude a shareholder from attending and voting in person instead of his/her proxy.
- iv. Members are requested to submit to the Company on or before 18 March 2013, their written option to receive cash dividend. In case of non-submission of such option within the stipulated time, the dividend will be paid off as deemed appropriate by the Company.
- v. For convenience, the Shareholders/Proxy are requested to record their entry at the entrance of AGM on 27 March 2013 in between from 8:30 a.m to 10:00 a.m.

Item 1: Adoption of Directors' Report, Auditors Report and Audited Financial Statements

The Directors must present to the shareholders at each Annual General Meeting (AGM), the Financial Statements of the Company and report of the Directors' and Auditors' thereon. The Directors' Report, the Financial Statements and the report of the Auditors on the Financial Statements for the year ended 31 December 2012 are contained in this Annual Report.

Item 2: Declaration of Dividend

The Board in its meeting held on 23 February 2013 recommended 30% dividend (20% stock and 10% cash) for the year 2012 subject to the approval of the shareholders in the Annual General Meeting. The dividend will be paid to the shareholders' whose name will appear in the Central Depository System at the close of business on 5 March 2013 being the Record Date. Dividend will be transferred to the respective BO Account and through respective banking channel of the shareholders within April 2013.

Item 3: Election and Re-election of Directors

Article 67 of the Company's Articles of Association requires one-third of the Directors are subject to

retirement by rotation at each Annual General Meeting. Accordingly, Mr. Md. Aminul Haque, representing Acorn Ltd., Mrs. Muslima Shirin representing Mawsons Ltd., and Mr. Tauseef Iqbal Ali will retire by rotation and being eligible offer themselves for re-election.

Item 4: Appointment of Auditors

The Financial Institutions Act, 1993 and BSEC's order dated 27 July 2011 stipulated that an auditor of a Financial Institution cannot be appointed for more than three consecutive years. M/S A. Qasem & Co., Chartered Accountants has completed their second year of audit and hence eligible for re-appointment.

The Board in its meeting held on 23 February 2013 recommended for re-appointment of the existing Auditors at a remuneration of Tk. 250,000 plus VAT.

Item 5: Appointment of Independent Directors

In accordance with Bangladesh Securities and Exchange Commission's Notification regarding "Corporate Governance" dated August 07, 2012 the Board in its 206th Meeting appointed Mr. K. M. Mortuza Ali and Mr. M. I. Chowdhury as Independent Directors subject to approval of the shareholders in the AGM.

Prime Finance & Investment Limited

Registered Office: 63, Dilkusha C.A., Dhaka-1000

Proxy Form

Proxy no.

(This form is for use at the 17th Annual General Meeting of Prime Finance & Investment Limited to be held on 27 March 2013)

I/We address

..... of being a shareholder of

the Company do hereby appoint Mr./Ms.

address

..... to be my/ our proxy to attend and vote on my/our behalf at the 17th Annual General Meeting of the Company to be held on Wednesday, 27 March 2013 at 10:30 a. m. at Officers Club, 26, Baily Road, Dhaka and at any adjournment thereof.

Signed this..... day of2013.

Number of shares held:

BO ID No.

.....
Signature of the Shareholder
Dated:..... March 2013



.....
Signature of Proxy

Signature verified

**Authorized Officer
Prime Finance & Investment Limited**

Notes: The proxy form, duly filled and stamped, must be deposited at the Company's registered office at least 72 hours before commencement of the AGM.

Attendance Slip

Proxy no.

I/we do hereby record my/our attendance at the 17th Annual General Meeting of the Company to be held on Wednesday, 27 March 2013 at 10:30 a.m. at Officers Club, 26, Baily Road, Dhaka.

Name of the Shareholder/Proxy :

BO ID :

Number of shares held :

Signature of the shareholder/proxy :

Date :

Signature verified

**Authorized Officer
Prime Finance & Investment Limited**

Note : Shareholder/Proxy/Attorney is requested to present this slip at the registration corner on the AGM date in between 8:30 a.m. to 10:00 a.m. Signature of the member must be in accordance with the specimen recorded with depository register.

Useful Information for Shareholders

Raising of share capital

The history of raising of share capital of Prime Finance is given below:

Date	Particulars	No of shares	Value per share (Taka)	Value in Taka	Cumulative paid-up capital Value in Taka
19 February 1996	As per MOA & AOA	2,500	100	250,000	250,000
22 March 1996	Additional subscription	247,500	100	24,750,000	25,000,000
09 November 1997	Right shares 1:1	250,000	100	25,000,000	50,000,000
21 June 2001	Right shares 1:1	500,000	100	50,000,000	100,000,000
29 May 2003	Right shares 2:1	500,000	100	50,000,000	150,000,000
30 March 2004	20% Bonus share	300,000	100	30,000,000	180,000,000
05 September 2005	Initial Public Offer	500,000	100	50,000,000	230,000,000
12 April 2006	30% Bonus share	690,000	100	69,000,000	299,000,000
29 April 2007	10% Bonus share	299,000	100	29,900,000	328,900,000
30 April 2008	40% Bonus share	1,315,600	100	131,560,000	460,460,000
29 April 2009	40% Bonus share	1,841,840	100	184,184,000	644,644,000
22 April 2010	40% Bonus share	2,578,576	100	257,857,600	902,501,600
29 March 2011	80% Bonus share	72,200,128	10	722,001,280	1,624,502,880
28 March 2012	40% Bonus share	64,980,115	10	649,801,150	2,274,304,030
27 March 2013	20% Bonus share*	45,486,080	10	454,860,800	2,729,164,830

* Subject to the approval of shareholders in the 17th AGM to be held on 27 March 2013

Key share information

(As on 31 December)	2012	2011
Total no. of shareholders	20,564	18,962
Face value (Taka)	10	10
Share price (Taka)	32.80	98.40
No. of outstanding shares*	227,430,403	162,450,288
Market Capitalization (in million)	7,459	15,985

* Considering Tk 10 per share

*Share status : Demat

Key Communication Data 2012

Announcement of 2011 final results	26 February 2012
Record date	7 March 2012
Annual report 2011 dispatched	13 March 2012
Sixteenth Annual General Meeting	28 March 2012
Transfer/payment of 2011 dividends	10 April 2012
Announcement of first quarterly results	14 May 2012
Announcement of half yearly results	26 July 2012
Announcement of third quarterly results	23 October 2012

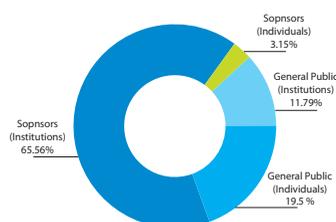
2013

Announcement of 2012 final results	23 February 2013
Record date	05 March 2013
Annual report 2012 dispatched	12 March 2013
Seventeenth Annual General Meeting	27 March 2013
Dividend will be paid	by 26 April 2013

Shareholders

At the end of 2012, there were 20,564 shareholders of Prime Finance & Investment Limited as against 18,962 shareholders at the end of 2011.

The Sponsor Shareholders hold 156,266,921 shares of Tk. 10 each which represent 68.71 percent of the total paid up shares of the Company.



Composition of shareholdings

Useful Information for Shareholders - *continued*

Registration number

C-30384 (1600)/96

Registered Office

63 Dilkusha Commercial Area
Dhaka-1000

Phone: 88-02- 9563883

Fax: 88-02-9653692

E-mail: info@primefinancebd.com

Chittagong Branch

C&F Tower (2nd floor)
1712 (New), Sk. Mujib Road
Agrabad C.A., Chittagong 4100

Phone: +88 031 2522663

Fax: +88 031 2522664

E-mail: ctg@primefinancebd.com

Rajshahi Branch

Zodiac Palace
88 Shaheb Bazar, Rajshahi

Phone: 88-0721-774801

Fax: 88-0721-774803

E-mail: raj@primefinancebd.com

Statutory Auditors

A Qasem & Co.
Chartered Accountants
Gulshan Pink City
Suites - 1-3, Level -7, Plot -15
Road 103, Gulshan Avenue, Dhaka-1212

Legal House

A Hossain & Associates
3/B Outer circular Road
Moghbazer, Dhaka.

Hasan & Associates
65-66 Motijheel C/A
Dhaka-1000.

Tax Consultant

A. Hossain & Co.
Chartered Accountants
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Stock Listing

<i>Bourse</i>	<i>Symbol</i>	<i>Date of listing</i>
DSE	PRIMEFIN	4 October 2005
CSE	PRIMEFIN	2 October 2005

Principal Bankers

Shahjalal Islami Bank Limited
Mercantile Bank Limited
Dutch Bangla Bank Ltd.
Prime Bank Ltd.

Corporate website & e-mail

www.primefinancebd.com

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Investors inquiries

Department of Corporate Affairs
Phone: 02-9563883
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Company Secretary

Syed Moniruzzaman, ACS

Glossary

Associate Company

An enterprise in which an investor has significant influence and which is neither a subsidiary nor a joint venture of the investor.

Bank Rate

The rate at which Bangladesh Bank discounts approved securities, treasury bills etc. Bank rate is used by Bangladesh Bank as a means of regulating the money on demand and checking the growth of inflation in the country.

Business risk

Business risk arises from the specific business activities of a company and the effects these could have on its earnings.

Book Value per share

Book value of shareholders equity divided by the number of ordinary shares outstanding.

CAMEL Rating

It is a measure for examining a financial institution or bank - the five things to examine are:

- . Capital adequacy
- . Asset quality
- . Management quality
- . Earnings
- . Liquidity

Cash Reserve Requirement (CRR)

CRR is a statutory requirement of maintaining cash balance with Bangladesh Bank applicable for banks and financial institutions. An NBFIs is required to maintain @ 2.5% of its average balance of term deposits with Bangladesh Bank current account. Deposits taken from banks and financial institutions are not considered in determining CRR.

Credit and counterparty risk

Credit and counterparty risk is the potential for loss due to the failure of a borrower, endorser, guarantor or counterparty to repay a loan or honor another predetermined financial obligation.

Collateral

Assets pledged as security for a loan or other obligation. Collateral is generally cash or a highly rated security.

Contingent liabilities

A situation existing at reporting date, where past events have led to a possible obligation the outcome of which depends on uncertain future events, but the outcome is not sufficiently probable or reliably measurable to warrant recognizing the liability at this reporting date

Default risk

The risk that a client may be unable to make payments of rentals/installments on time.

Diversification

Distribution of investments among various sectors and geographic region to minimize risk.

Earning Assets

Those assets of a bank or financial institution which earn an income for the institution i.e. loans and leases, advances and money at call & short notice to banks etc.

Efficiency ratio

Non-interest expenses (management expenses) expressed as a percentage of total operating revenue net of financial expenses. Used as a measure of productivity and for comparison with peers.

Equity method

Accounting method, under which the value of an investment in a company is recorded at the acquisition price and adjusted annually to reflect the proportionate share of net assets; the prorate share of annual profit or loss in the relevant company is recognized to the income statement.

Equity ratio/Capital ratio

Indicator showing the relation of equity to total assets.

Fair value

The amount of consideration that would be exchanged in an arm's length transaction between knowledgeable and willing parties, under no compulsion to act.

Failing to properly manage regulatory risk

Failing to properly manage regulatory risk may result in regulatory sanctions being imposed, and could harm our reputation.

Fiscal Year (FY)

FY means the fiscal year commencing from 1 July ending on 30 June.

Glossary - *continued*

Free Float Shares

The ordinary shares of the company which are free for trading in the stock exchanges. Shares on which there is no restriction or lock-in condition for transfer or sale imposed by the regulatory authorities are considered as free float shares. Sponsors shares of a listed company are locked-in for 3 years from the date of publication of prospectus.

Going Concern

The ability of a concern to continue its operation for a foreseeable future.

Gearing

Ratio of net debt to equity.

IDA

International Development Association set up in 1960 under the umbrella of World Bank. It takes money from rich countries of the world to lend interest free or at a very low rate long-term loan to the poor or developing countries.

Liquidity and Funding risk

Liquidity and funding risk is the potential for loss if Company is unable to meet financial commitments in a timely manner at reasonable prices as they fall due. Financial commitments include liabilities to depositors and suppliers, and lending, investment and pledging commitments.

Market capitalization

Number of ordinary shares in issue multiplied by the market value of a share on a particular date.

Market risk

Market risk is the potential for a negative impact on the balance sheet and/or income statement resulting from adverse changes in the value of financial instruments as a result of changes in certain market variables. These variables include interest rates, foreign exchange rates, equity and commodity prices and their implied volatilities, as well as credit spreads, credit migration and default.

Net interest income

The difference between interest earned on assets (such as loans and securities) and interest incurred on liabilities (such as deposits and subordinated indebtedness).

Net interest margin

Net interest income as a percentage of average assets.

Non-performing assets

Consists of total sum of non-accrual loans/leases, experiencing 6 months or more delinquent. A loan/lease is considered non-performing when the total or a part thereof is past due for 6 months or more even if the finance is well secured and in the process of collection.

Non-accrual loans/leases

A loan/lease is automatically classified as a non-accrual when it is past due for 3 months or more and no matter the Management is confident about its collectability of the entire amount at the time when a loan/lease is placed on nonaccrual status. A loan/lease is generally returned to accrual status when the loan/lease is less than 3 months past due and the Company has reasonable assurance that the loan will be fully collectible and is in the process of collection.

Operational risk

Operational risk is the potential for loss resulting from inadequate or failed internal processes or systems, human interactions or external events, but excludes business risk.

Past due

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Proxy

A proxy is a written document authorizing the person named therein to attend and vote at a meeting for and in place of the Original Shareholder.

Provision for doubtful debts

The amount of revenue charged to profit and loss account to absorb losses inherent in the investment portfolio. The provision is increased by the allowances for loans/leases which is charged against current year's operating results.

Record date

The date fixed by the Board having at least 7 market days gap after the Board meeting to determine the eligibility of shareholders to attend and vote at the meeting and the right to current dividend.

Related parties

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Glossary - continued

Repo rate

The rate at which Bangladesh Bank lends money to banks.

Return on average assets

An indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing profit before tax by its total average assets.

Return on average equity

Return on equity measures a corporation's profitability by revealing how much profit a company generates with the outstanding shareholders' money. Calculated by dividing net profit after tax by average shareholders' equity.

Return on average investment

A performance measure used to evaluate the efficiency of investment or to compare the efficiency of a number of different investments. To calculate ROI, profit before tax is divided by the cost of the average investment.

Reverse repo rate

The rate at which banks park surplus liquidity with Bangladesh bank.

Regulatory risk

Regulatory risk is the risk of not complying with regulatory requirements, regulatory changes or regulators' expectations.

Return on equity (ROE)

Net income, less preferred share dividends and premium on redemptions, expressed as a percentage of average common shareholders' equity.

Risk management

The process of identifying the level of risk an entity wants, measuring the level of risk the entity has, taking actions that bring the actual level of risk to the desired level of risk and monitoring the actual level of risk so that it continues to be aligned with the desired level of risk.

Statutory Liquidity Ratio (SLR)

Bangladesh Bank requires a non-bank financial institution to maintain liquid reserve @ 5% with banks/financial institutions on its total liabilities excluding funds from banks/financial institutions. This includes 2.5% of CRR.

Subsidiary company

A Company is a subsidiary of another company, if the parent company holds more than 50% of the nominal shares and controls the composition of its Board of Directors.

Thin market

The stock market where there are very few bids to buy and few offers to sell any shares, so the price is distorted.

Unrealized capital gains

Capital gains that reflect the price appreciation of currently held unsold shares; such gains are not accounted for until realized.

Company Chronicle

1996	10 Mar	Incorporation of the Company
	21 Apr	Commencement of Merchant Banking operation
	25 Apr	Licensed from Bangladesh Bank
1998	08 Feb	Commencement of financing operation
1999	25 Jan	Licensed as Merchant Bank by SEC
2002	01 Dec	Commencement of operation of PFI Securities Ltd.
2003	17 May	Opening of Chittagong Branch
2004	17 Sep	Best Merchant Bank Award 2003
2005	02 Oct	Listing with ESE
	04 Oct	Listing with DSE
2006	22 Dec	ICAB National Award 2005 (1st Position)
2007	16 Jan	SAFA Merit Award 2005
	08 Dec	ICAB National Award 2006 (1st Position)
2008	12 Jan	SAFA Award 2006 (Runner Up)
	21 Apr	Depository Custody Participant license
	15 Nov	SAFA Award 2007 (Runner Up)
	04 Dec	ICAB National Award 2007 (1st Position) ICMAB Best Corporate Award 2012 (2nd Position)
2009	18 Jan	Opening of Rajshahi Branch
	17 Mar	Listing of Prime Finance First Mutual Fund
	18 Mar	License of Prime Finance Asset Management Company Limited
	05 Oct	Acquisition of land for Corporate Office
	22 Oct	ICMAB Best Corporate Performance Award 2008 (2nd Position)
	05 Nov	SAFA Award 2008 (1st Runner Up)
30 Dec	ICAB National Award 2008 (1st Position)	
2010	18 Mar	Formation of Prime Finance Capital Management Limited
	12 Dec	SAFA Award 2009 (2nd Position)
	19 Dec	ICAB National Award 2009 (1st Position) ICMAB Best Corporate Award 2012 (2nd Position)
2011	04 Oct	ICAB National Award 2010 (2nd Position)
	29 Nov	SAFA Award 2010 (1st Position - Overall)
	29 Nov	SAFA Award 2010 (1st Position - Financial Services Sector)
2012	01 Oct	ICAB National Award 2011 (1st Position)
	01 Oct	ICAB National Award 2011 - Corporate Governance Disclosure (2nd Position)
	12 Dec	ICMAB Best Corporate Award 2011 (2nd Position)
	22 Mar-13	SAFA Award 2011 (Runner Up) Best presented Annual Report
	22 Mar-13	SAFA Award 2011 (Certificate of Merit) - SAAHC Anniversary Awards for Corporate Governance Disclosure

Future-oriented Statements

This statement is subject to the process of developing assumptions based on the surroundings. Assumptions and estimates are based upon information available and known to management at the time of development, reflect current business and economic conditions, and assume a continuation of current governmental priorities and consistency in organizational mandate and strategic objectives. Much of the future-oriented financial information is based on these assumptions, best estimates, and judgment and gives due consideration to materiality. At the time of preparation of these statements, management believes that, the estimates and assumptions to be reasonable. However, as with all such assumptions, there is a measure of uncertainty surrounding them. This uncertainty increases as the forecast horizon extends.

The report also covers future-oriented statements in the form of intentions, assumptions, expectations or forecasts. These statements are based on the plans, estimates, and predictions currently available to the management of Prime Finance. Future-oriented statements therefore only apply on the day on which they are made. We do not undertake any obligation to update such statements in light with new information or future events. By their nature, future-oriented statements contain risks factors and factors of uncertainty. A number of important factors can contribute to actual results deviating considerably from future-oriented statements. Such factors include but not limited to management of credit, market, liquidity & funding and operational risks; the strength of Bangladesh and global economics; the effects of changes in monetary policy including change in interest rate policy of Bangladesh Bank. The effects of competition in the market in which we operate; the impact of changes in the laws and regulations regulating financial products and services; our ability to obtain accurate and complete information from and on behalf of our clients. Other factors that may affect future results include changes in our estimates relating to provision; timely development and introduction of new products; changes in tax law, natural disaster, political conditions and the reliability of our principles and procedures and method of risk managements as well as other risks associated with our business activity. We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our future-oriented statements to make decisions with respects to the company, investors and other should carefully consider the foreign factors and other uncertainties and potential events in or out of the country including macro and micro economics.

The actual results achieved for the years covered in the accompanying future-oriented financial information will vary from the information presented and the variations may be material based on the basis of future uncertain factors and risk covenant.

this annual report is available at

www.primefinancebd.com