

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Advans Pakistan Microfinance Bank Limited (the Bank) as at December 31, 2014 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- a. in our opinion, proper books of account have been kept by the Bank as required by the Microfinance Institutions Ordinance, 2001 and the Companies Ordinance, 1984;
- b. in our opinion:
 - i. the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Microfinance Institutions Ordinance, 2001 and Companies Ordinance, 1984 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - ii. the expenditure incurred during the year was for the purpose of the Bank's business; and
 - iii. the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank;

- c. in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Microfinance Institutions Ordinance, 2001 and Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at December 31, 2014 and of the loss, its comprehensive loss, cash flows and changes in equity for the year then ended; and
- d. in our opinion, no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

M. Yousuf Adil Saleem

Chartered Accountants

Engagement Partner:
Mushtaq Ali Hirani

Date: March 02, 2015
Karachi

**Advans Pakistan
Microfinance Bank Limited**

**Financial Statements
For the year ended December 31, 2014**

ADVANS PAKISTAN MICROFINANCE BANK LIMITED
BALANCE SHEET
AS AT DECEMBER 31, 2014

	Note	2014 -----Rupees-----	2013
ASSETS			
Cash and balances with State Bank of Pakistan and National Bank of Pakistan	7	11,802,492	6,433,584
Balances with other banks and microfinance banks	8	258,332,330	445,505,288
Lendings to financial institutions		-	-
Investments - net of provisions	9	147,083,624	176,710,980
Advances - net of provisions	10	98,507,106	42,107,794
Operating fixed assets	11	78,395,830	60,583,414
Other assets	12	25,703,086	29,133,764
Deferred tax asset		-	-
Total assets		619,824,468	760,474,804
LIABILITIES			
Deposits and other accounts	13	14,634,633	10,563,416
Borrowings		-	-
Subordinated debt		-	-
Other liabilities	14	36,730,689	113,712,175
Deferred tax liabilities		-	-
Total liabilities		51,365,322	124,275,591
Net assets		568,459,146	636,199,213
REPRESENTED BY:			
Share capital	15	800,000,000	800,000,000
Reserves		-	-
Accumulated loss		(252,690,306)	(163,800,787)
		547,309,694	636,199,213
Surplus/ (deficit) on revaluation of assets		-	-
Deferred grants	16	21,149,452	-
		568,459,146	636,199,213
MEMORANDUM / OFF BALANCE SHEET ITEMS			
	17		

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

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Chief Executive


Director


Director


Director

ADVANS PAKISTAN MICROFINANCE BANK LIMITED
 PROFIT AND LOSS ACCOUNT
 FOR THE YEAR ENDED DECEMBER 31, 2014

	Note	2014 -----Rupees-----	2013
Mark-up / return / interest earned	18	65,768,319	61,117,153
Mark-up / return / interest expensed	19	(517,467)	(153,755)
Net mark-up / interest income		65,250,852	60,963,398
Provision against non-performing advances	10.3	6,967,797	2,378,241
Provision for diminution in the value of investments		-	-
Bad debts written off directly		-	-
Net mark-up / return / interest income after provisions		6,967,797	2,378,241
		58,283,055	58,585,157
Non mark-up / non interest income			
Fee, commission and brokerage income	20	5,645,543	2,039,483
Dividend income		-	-
Other income	21	14,711,988	90,796
Total non-mark-up / non-interest income		20,357,531	2,130,279
		78,640,586	60,715,436
Non mark-up / non interest expenses			
Administrative expenses	22	(166,680,466)	(152,188,994)
Other provision / write offs		-	-
Other operating expenses	23	(135,500)	(8,290,910)
Other charges		-	-
Total non mark-up / non interest expenses		(166,815,966)	(160,479,904)
Loss before taxation		(88,175,380)	(99,764,468)
Taxation - current	24	(714,139)	(633,035)
- prior		-	-
- deferred		-	-
Loss after taxation		(714,139)	(633,035)
		(88,889,519)	(100,397,503)
Accumulated loss brought forward		(163,800,787)	(63,403,284)
Appropriations:		(252,690,306)	(163,800,787)
Transfer to:			
Statutory reserve		-	-
Capital reserve		-	-
Depositors' protection fund		-	-
Revenue reserve		-	-
Proposed cash dividend		-	-
Accumulated loss carried forward		(252,690,306)	(163,800,787)
Loss per share-basic and diluted (Rupee)	25	(1.11)	(1.25)

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


 Chief Executive


 Director


 Director

Director

ADVANS PAKISTAN MICROFINANCE BANK LIMITED
 STATEMENT OF COMPREHENSIVE INCOME
 FOR THE YEAR ENDED DECEMBER 31, 2014

	2014	2013
	-----Rupees-----	
Loss for the year	(88,889,519)	(100,397,503)
Other comprehensive income		
Total comprehensive income for the year	<u>(88,889,519)</u>	<u>(100,397,503)</u>

Surplus / (deficit) on revaluation of available-for-sale investments, if any, is presented under a separate account below equity in accordance with the format of financial statements as prescribed under BSD Circular No. 11 dated December 30, 2003 issued by the State Bank of Pakistan (SBP).

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

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 Chief Executive


 Director



 Director

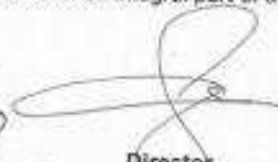
Director

ADVANS PAKISTAN MICROFINANCE BANK LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2014

	Note	2014 Rupees	2013
A. CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		(88,175,380)	(99,764,468)
Adjustments for non-cash charges and other items			
Depreciation			
Amortization of intangible assets	11.2	13,787,405	9,311,105
Gain on disposal of operating fixed assets	11.3	5,953,728	5,734,100
Markup on investments		-	(90,796)
Advances written off		-	(1,649,145)
Grant utilized against expenses	16	(10,574,726)	-
Provision against non performing advances	10.3	6,967,797	2,378,241
		<u>16,134,204</u>	<u>15,683,505</u>
(Increase)/ decrease in operating assets		(72,041,176)	(84,080,963)
Advances			
Other assets (excluding advance taxation)		(63,367,109)	(44,486,035)
		<u>3,163,936</u>	<u>(11,301,804)</u>
Increase / (decrease) in operating liabilities		(60,203,173)	(55,787,839)
Deposits and other accounts			
Other liabilities (excluding current taxation)		4,071,217	10,563,416
		<u>(76,981,486)</u>	<u>21,431,850</u>
		<u>(72,910,269)</u>	<u>31,995,266</u>
Income tax paid		(205,154,618)	(107,873,536)
Net cash used in operating activities		(447,397)	(621,333)
		<u>(205,602,015)</u>	<u>(108,494,069)</u>
B. CASH FLOWS FROM INVESTING ACTIVITIES			
Net investment in available for sale securities		-	-
Net investment in held-to-maturity treasury bills		29,627,336	(175,061,815)
Net investment in held-to-maturity term deposits		320,000,000	150,000,000
Proceeds from disposal of operating fixed assets		22,887	1,427,202
Investment in operating fixed assets		(37,576,436)	(28,348,101)
Net cash generated from / (used in) investing activities		312,073,787	(51,982,714)
C. CASH FLOWS FROM FINANCING ACTIVITIES			
Grant received from State Bank of Pakistan		31,724,178	-
Issue of share capital		-	-
Net cash generated from financing activities		31,724,178	-
Net increase / (decrease) in cash and cash equivalents		138,195,950	(160,477,583)
Cash and cash equivalents at beginning of the year		51,938,872	212,416,455
Cash and cash equivalents at end of the year	29	<u>190,134,822</u>	<u>51,938,872</u>

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


Chief Executive


Director


Director


Director


ADVANS PAKISTAN MICROFINANCE BANK LIMITED
 STATEMENT OF CHANGES IN EQUITY
 FOR THE YEAR ENDED DECEMBER 31, 2014

	Share capital	Capital Reserve		Accumulated loss	Total
		Statutory reserve	Depositors' protection fund		
Rupees					
Balance as at December 31, 2012	800,000,000	-	-	(63,403,284)	736,596,716
Comprehensive income for the year					
Loss for the year	-	-	-	(100,397,503)	(100,397,503)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	(100,397,503)	(100,397,503)
Transfer to statutory reserve	-	-	-	-	-
Balance as at December 31, 2013	800,000,000	-	-	(163,800,787)	636,199,213
Comprehensive income for the year					
Loss for the year	-	-	-	(88,889,519)	(88,889,519)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	(88,889,519)	(88,889,519)
Transfer to statutory reserve	-	-	-	-	-
Balance as at December 31, 2014	800,000,000	-	-	(252,690,306)	547,309,694

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

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 Chief Executive


 Director


 Director

Director

ADVANS PAKISTAN MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

1. STATUS AND NATURE OF BUSINESS

Advans Pakistan Microfinance Bank Limited (the Bank) was incorporated as a public limited company under the Companies Ordinance, 1984 on April 17, 2012 and was granted license by the State Bank of Pakistan on June 28, 2012 to operate as microfinance bank in the province of Sindh. The Securities and Exchange Commission of Pakistan and the State Bank of Pakistan granted permissions to the Bank for the commencement of business with effect from November 21, 2012 and January 04, 2013 respectively. The Bank's principal business is to provide microfinance banking and related services to the poor and under served segment of the society as envisaged under the Microfinance Institutions Ordinance, 2001. The registered office of the Bank is situated at Ground Floor, Bahria Complex 1, Lalazar Area, Moulvi Tamizzuddin Khan Road, Karachi. As at December 31, 2014, the Bank has 3 (2013: 3) branches and one permanent booth (2013: Nil) in operation in the province of Sindh.

The Bank is a subsidiary of Advans SA Sicar (incorporated in Luxembourg) that holds 70% (2013: 70%) share capital of the Bank.

In response to application filed by the Advans SA Sicar on March 22, 2011 for obtaining grant under Institutional Support Fund (ISF), State Bank of Pakistan (SBP) vide its letter dated February 21, 2014 informed that the Technical Committee has approved grant of Rs. 35,249,089 for the Bank. The SBP and the Bank entered into an agreement on April 28, 2014 (the Agreement) whereby it was agreed that SBP will provide a grant amounting to Rs. 35,249,089 under its Institutional Strengthening Fund (ISF) to the Bank, with matching contribution of atleast 25 percent of the project cost by the Bank, to support its institutional capacity building under the Project (Improving Productivity through Human Resource and Establishing Alternative Delivery Channels). The Bank has received an amount of Rs. 31,724,178 uptill year end (2013: Nil). Subsequent to year end, the SBP has provided remaining amount of Rs. 3,524,911 to the Bank.

2. BASIS OF PRESENTATION

These financial statements have been prepared in compliance with the format as prescribed under the Banking Surveillance Department (BSD) Circular No.11 dated December 30, 2003 issued by the SBP.

3. STATEMENT OF COMPLIANCE

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

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

4. BASIS OF MEASUREMENT

4.1 Accounting convention

These financial statements have been prepared under the historical cost convention.



4.2 Functional and presentation currency

These financial statements have been presented in Pakistan Rupees, which is the Bank's functional and presentation currency.

4.3 New accounting standards / amendments and IFRS interpretations that became effective during the year

The following standards, amendments and interpretations became effective for the year ended December 31, 2014. These standards, interpretations and the amendments are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures.

	Effective for accounting periods beginning on or after
Amendments to IAS 32 Financial Instruments: Presentation - Offsetting financial assets and financial liabilities	January 01, 2014
IAS 36 Impairment of Assets - Recoverable amount disclosures for non-financial assets	January 01, 2014
IFRIC 21 - Levies	January 01, 2014

4.4 New accounting standards, amendments and IFRS interpretations that are not yet effective

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

	Effective for accounting periods beginning on or after
Amendments to IAS 16 and IAS 38 Clarification of acceptable methods of depreciation and amortization	January 01, 2016
Amendments to IAS 16 and IAS 41 Agriculture: Bearer plants	January 01, 2016
Amendments to IAS 19 Employee Benefits: Employee contributions	July 01, 2014
IAS 27 (Revised 2011) - Separate Financial Statements, becoming applicable concurrently with IFRS 10	January 01, 2015
IAS 28 (Revised 2011) - Investments in Associates and Joint Ventures	January 01, 2015
IFRS 10 - Consolidated Financial Statements	January 01, 2015
IFRS 11 - Joint Arrangements	January 01, 2015
IFRS 12 - Disclosure of Interests in Other Entities	January 01, 2015
IFRS 13 - Fair Value Measurement	January 01, 2015

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

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

- IFRS 1 – First Time Adoption of International Financial Reporting Standards
- IFRS 9 – Financial Instruments
- IFRS 14 – Regulatory Deferral Accounts
- IFRS 15 – Revenue from Contracts with Customers

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires the use of certain critical accounting estimates. It also requires management to exercise its judgments in the process of applying the Bank's accounting policies. Estimates and judgments are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. In the process of applying the Bank's accounting policies, management makes the estimates and judgments that may have a significant risk of material adjustments to the financial statements which are as follows:

- Residual values and useful lives of property and equipment (note 6.2.1).
- Useful lives of intangible assets (note 6.2.3).
- Provision against non-performing advances (note 6.3).
- Taxation (note 6.4).
- Classification and valuation of investments (note 6.5).

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are consistent with those of the previous year's financial statements and are set out below.

6.1 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents represent cash in hand and balances held with State Bank of Pakistan and with other banks in current and deposit accounts.

6.2 Operating fixed assets

6.2.1 Property and equipment

These are stated at cost less accumulated depreciation and impairment, if any. Depreciation is charged using the straight line method over the estimated useful lives of assets at the rates stated in note 11.2 to the financial statements. Depreciation on additions is charged from the month when asset is available for use and on disposals upto the preceding month of disposal.

The assets residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date.

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

An item of fixed asset is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposals, if any, are determined by comparing the sale proceeds with the carrying amount of asset and are included in profit and loss account.

6.2.2 Capital work in progress

All expenditure connected with specific assets incurred during installation and construction period are carried under this head. These are transferred to specific assets as and when those assets are available for use. These are carried at cost less impairment loss, if any.

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6.2.3 Intangible assets

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

Amortization on additions is charged from the month in which the assets are available for use while no amortization is charged in the month in which the assets are disposed off.

The estimated useful lives and the amortization method are reviewed at the end of each balance sheet date, with the effect of any changes in the estimate being accounted for on a prospective basis.

Software and other development costs are only capitalized to the extent that future economic benefits are expected to flow to the Bank and that the cost can be measured reliably.

6.2.4 Impairment

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

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

6.3 Advances

Advances are stated net of specific and general provisions. Provision against non-performing advances are made in accordance with the requirements of the Prudential Regulations issued by SBP and Bank's provisioning policy and are charged to the profit and loss account. Advances are written off according to Prudential Regulations or when there is no realistic prospect of recovery.

6.4 Taxation

Income tax on the profit or loss for the year is comprised of the current and deferred tax. Income tax is recognized in the profit and loss account, except to the extent that it relates to the items recognized directly in the equity, in which case it is recognised in equity.

6.4.1 Current

Provision for current taxation is based on the taxable income for the year determined in accordance with the Income Tax Ordinance, 2001. The charge for tax also includes adjustments, where considered necessary relating to prior years.

6.4.2 Deferred

Deferred tax is recognised using the balance sheet liability method, on all temporary differences arising at the balance sheet date between the tax base of assets and liabilities and their carrying amount for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that the future taxable profits will be available against which the assets may be utilised.

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

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

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

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6.5 Investments

The investments of the Bank, upon initial recognition, are classified as held-for-trading, held-to-maturity and available-for-sale, as appropriate.

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

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

Held-for-trading

These represent securities, which are either acquired for the purpose of generating profit from short-term fluctuations in prices or dealer's margin or are securities included in the portfolio in which a pattern of short-term profit making exists. After initial measurement, such investments are carried at fair value and the surplus / (deficit) arising as a result of revaluation is taken to profit and loss account.

Held-to-maturity

These are securities with fixed or determinable payments and fixed maturities which the Bank has the intention and ability to hold till maturity. After initial measurement, such investments are carried at amortised cost.

Available-for-sale

These are investments which do not fall under the held-for-trading and held-to-maturity categories. After initial measurement, such investments are measured at fair value. The surplus / (deficit) arising on revaluation is shown in the balance sheet below equity which is taken to the profit and loss account when actually realised upon disposal.

Premium or discount on securities classified as available-for-sale and held-to-maturity is amortised using effective interest method and taken to the profit and loss account.

Provision for impairment in the value of equity securities is made after considering objective evidence of impairment. Provision for diminution in the value of debt securities is made as per the requirement of the Prudential Regulations.

6.6 Provisions

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

6.7 Statutory reserve

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

6.8 Depositor's protection fund

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

6.9 Deposits

Deposits are initially recorded at the amount of proceeds received. Mark-up on deposits is accrued to profit and loss account on time proportion basis. It is also recognized separately as part of other liabilities

6.10 Grants

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

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6.11 Revenue recognition

- Mark-up / return / interest on performing advances is recognised on accrual basis using effective interest method. Mark-up on advances classified under the Prudential Regulations is recognised on receipt basis.
- Return on investment is recognised on accrual basis using effective interest method.
- Fee, commission and brokerage income is recognised when services are rendered.
- Gains and losses on sale of investments are included in profit and loss account in the period in which sale / settlement occurs.
- Return on balances with other banks is recognized in profit and loss account on accrual basis.
- Other income are recognized on accrual basis.

6.12 Financial instruments

6.12.1 Financial assets and financial liabilities

Financial assets and financial liabilities are recognized at the time when the Bank becomes a party to the contractual provisions of the instrument. At the time of initial recognition, all the financial assets and liabilities are measured at cost, which is the fair value of the consideration given or received for it. The financial assets and financial liabilities are subsequently measured and carried at fair value, amortized cost or cost as the case may be. Financial assets are de-recognised when the contractual right to future cash flows from the asset expires or is transferred along with the risks and rewards of the asset. Financial liabilities are de-recognised when obligation specified in the contract is discharged, cancelled or expired. Any gain or losses on de-recognition of the financial assets and liabilities are recognised in the profit and loss account.

6.12.2 Derivative financial Instruments

These are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value using appropriate valuation techniques. All derivative financial instruments are carried as assets when fair value is positive and liabilities when fair value is negative. Any change in the fair value of derivative financial instruments is taken to the profit and loss account.

6.12.3 Off setting of financial assets and financial liabilities

Financial assets and financial liabilities are only off-set and the net amount is reported in the financial statements when there is a legally enforceable right to set-off the recognised amount and the Bank intends either to settle on a net basis, or to realize the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also off-set and the net amount is reported in the financial statements.

6.13 Foreign currencies transactions

Foreign currency transactions are translated into Pak Rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the exchange rates prevailing at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using exchange rates at the date when the fair value was determined. Exchange gains and losses are included in profit and loss account.

6.14 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS, if any, is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. There were no dilutive potential ordinary shares in issue at December 31, 2014.

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6.15 Dividend and other appropriations

Dividend and appropriation to reserves, except appropriations which are required by the law, are recognised as liability in the period in which these are approved.

	Note	2014 -----Rupees-----	2013
7. CASH AND BALANCES WITH STATE BANK OF PAKISTAN AND NATIONAL BANK OF PAKISTAN			
Cash in hand			
Balance with State Bank of Pakistan (SBP)	7.1	10,570,520	5,650,964
Balance with National Bank of Pakistan (NBP)		1,231,972	782,620
		<u>11,802,492</u>	<u>6,433,584</u>

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

8. BALANCES WITH OTHER BANKS AND MICROFINANCE BANKS

In Pakistan:

- Current accounts		10,023	13,743
- PLS deposit accounts	8.1	178,322,307	45,491,545
- Term deposits	8.2	80,000,000	400,000,000
		<u>258,332,330</u>	<u>445,505,288</u>

8.1 These include deposits with commercial banks carrying mark-up rates ranging from 6.5% to 7% (2013: 7% to 7.2%) per annum.

8.2 These represent term deposits with commercial banks carrying mark-up rates ranging from 8% to 8.75% (2013: 8.5% to 8.75%) per annum with maturities upto September 9, 2015.

9. INVESTMENTS - net of provisions

Held to maturity

Federal Government Securities - Treasury Bills

9.1	<u>147,083,624</u>	<u>176,710,960</u>
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9.1 These are three months treasury bills having maturity upto March 19, 2015.

10. Advances - net of provisions

	Note	2014		2013	
		Number of loans outstanding	Amount outstanding	Number of loans outstanding	Amount outstanding
		-----Rupees-----		-----Rupees-----	
Micro credit	10.1	1,495	102,609,969	886	44,486,035
Less Provision held					
- Specific	10.2 & 10.3	190	3,121,074	172	1,938,597
- General	10.3.3	-	981,789	-	439,644
			<u>(4,102,863)</u>		<u>(2,378,241)</u>
			<u>98,507,106</u>		<u>42,107,794*</u>

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10.1 All advances are secured by personal guarantees except certain advances which are secured against gold provided by the borrowers.

10.2 Particulars of non-performing advances

Advances include Rs. 4,305,919 (2013: Rs. 2,679,211) which have been placed under non-performing status as detailed below.

Category of classification	2014			2013		
	Amount outstanding	Provision required	Provision held (Note 10.3.1)	Amount outstanding	Provision required	Provision held (Note 10.3.1)
	Rupees			Rupees		
OAEM	1,172,542	-	288,739	1,171,738	-	468,695
Sub-standard	1,003,474	250,869	702,432	956,681	239,170	669,677
Doubtful	1,754,707	877,353	1,754,707	550,792	275,396	550,792
Loss	375,196	375,196	375,196	-	-	-
	<u>4,305,919</u>	<u>1,503,418</u>	<u>3,121,074</u>	<u>2,679,211</u>	<u>514,566</u>	<u>1,689,164</u>

10.3 Particulars of provision against non-performing advances

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

	2014			2013		
	Specific	General	Total	Specific	General	Total
	(Note 10.3.2)			(Note 10.3.2)		
	Rupees			Rupees		
Opening balance	1,938,597	439,644	2,378,241	-	-	-
Charge for the year						
-On non-performing advances	6,425,652	542,145	6,967,797	1,689,164	439,644	2,128,808
-On watchlist parties	-	-	-	249,433	-	249,433
Reversals	-	-	-	-	-	-
	<u>6,425,652</u>	<u>542,145</u>	<u>6,967,797</u>	<u>1,938,597</u>	<u>439,644</u>	<u>2,378,241</u>
Amount written off	(5,243,175)	-	(5,243,175)	-	-	-
Closing balance	<u>3,121,074</u>	<u>981,789</u>	<u>4,102,863</u>	<u>1,938,597</u>	<u>439,644</u>	<u>2,378,241</u>

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10.3.1 The provision held by the Bank includes following additional amounts in compliance with the Bank's internal provisioning policy:

Category of classification	Additional provision held	
	2014	2013
	—Rupees—	
OAEM		
Sub-Standard	288,739	468,695
Doubtful	451,593	430,507
Loss	877,354	275,398
	<u>1,617,656</u>	<u>1,174,598</u>

10.3.2 This represents general provision equivalent to 1% of the outstanding advances (other than gold loans) - net of provisions held in accordance with the requirements of the Prudential Regulations for Microfinance Banks.

	Note	2014	2013
		—Rupees—	
11. OPERATING FIXED ASSETS			
Capital work-in-progress			
Property and equipment	11.1	25,056,132	1,358,000
Intangible assets	11.2	43,341,844	43,273,832
	11.3	9,997,854	15,951,582
		<u>78,395,830</u>	<u>60,583,414</u>

11.1 Capital work-in-progress

Advance for purchase of:
- ATM Machines
- Furnitures and fixtures

25,056,132	-
-	234,340
<u>25,056,132</u>	<u>234,340</u>

Advance for leasehold improvements

-	1,123,660
<u>25,056,132</u>	<u>1,358,000</u>

11.2 Property and equipment

	2014							Annual rate of depreciation
	COST			DEPRECIATION			Net book value at December 31, 2014	
	At January 01, 2014	Additions / (disposals)	At December 31, 2014	At January 01, 2014	Charge for the year / (disposals)	At December 31, 2014		
	—Rupees—							%
Owned								
Leasehold improvements	14,789,058	1,581,450	16,350,508	1,244,701	1,518,793	2,861,494	13,489,014	10
Furniture and fixtures	4,101,654	1,546,374	5,648,028	751,611	894,525	1,746,136	3,901,892	20
Office and other equipment	10,311,884	2,382,462	12,694,346	2,098,568	2,409,318	4,507,884	8,186,462	20
Computer equipment	18,835,724	1,135,841 (82,374)	19,889,191	8,043,371	8,558,088 (59,487)	12,541,953	7,347,238	33
Vehicles	8,300,460	7,232,177	15,532,637	508,899	2,208,700	3,115,399	10,417,238	20
	<u>54,318,780</u>	<u>13,878,304</u> (82,374)	<u>68,114,710</u>	<u>11,044,948</u>	<u>13,787,405</u> (59,487)	<u>24,772,860</u>	<u>43,341,844</u>	

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	2013							Annual rate of depreciation
	COST			DEPRECIATION			Net book value at December 31, 2013	
	At January 1, 2013	Additions / (Disposals)	At December 31, 2013	At January 1, 2013	Charge for the year	At December 31, 2013		
Rupees								%
Owned								
Leasehold improvements	5,850,872	8,918,388	14,769,260	59,381	1,185,320	1,244,701	13,524,557	10
Furniture and fixtures	1,528,208	2,573,448	4,101,654	106,884	644,727	751,611	3,350,043	20
Office and other equipment	6,293,844	4,018,040	10,311,884	413,708	1,684,800	2,098,508	8,213,376	20
Computer equipment	14,448,879	5,397,047 (1,011,202)	18,835,724	1,272,210	4,872,598 (101,438)	8,043,371	12,782,353	33
Vehicles	462,500	6,300,460 (482,500)	6,300,460	18,858	923,588 (35,858)	908,699	5,383,761	20
	28,585,103	27,207,370	54,318,780	1,871,139	9,311,105 (137,296)	11,044,948	43,273,832	

11.2.1 Detail of property and equipment disposed with the original cost or book value in excess of Rs 1 million or Rs 250,000 respectively, whichever is less, are as under:

Description	Cost	Accumulated depreciation	Book Value	Sales proceeds	Mode of Disposal	Particular of buyers
Rupees						
2014	-	-	-	-	-	-
2013	1,473,702	137,298	1,336,404	1,427,202	-	-

11.3 Intangible assets

	2014							Annual rate of Amortisation
	COST			AMORTISATION			Net book value at December 31, 2014	
	At January 01, 2014	Additions	At December 31, 2014	At January 01, 2014	Charge for the year	At December 31, 2014		
Rupees								%
Core banking application and other licenses	21,720,869	-	21,720,869	7,501,651	5,430,220	12,031,871	8,788,998	25
Computer software	2,094,032	-	2,094,032	381,668	523,508	665,176	1,208,856	25
	23,814,901	-	23,814,901	7,883,319	5,953,728	13,817,047	9,997,854	

	2013							Annual rate of Amortisation
	COST			AMORTISATION			Net book value at December 31, 2013	
	At January 01, 2013	Additions	At December 31, 2013	At January 01, 2013	Charge for the period	At December 31, 2013		
Rupees								%
Core banking application and other licenses	21,368,424	352,445	21,720,869	2,100,805	5,400,846	7,501,651	14,219,218	25
Computer software	681,906	1,432,039	2,094,032	28,414	333,254	381,668	1,732,364	25
	22,030,420	1,784,481	23,814,901	2,129,219	5,734,100	7,883,319	15,951,582	

July 2014

12. OTHER ASSETS	Note	2014	2013
		—Rupees—	
Prepayments for			
- rent		7,349,419	7,051,958
- insurance		2,359,114	813,914
- subscription fee		4,457,833	-
- others		849,369	1,735,026
Mark-up / return / interest accrued		3,729,825	14,710,818
Receivable from a related party	12.1	1,421,713	582,629
Advances to staff		3,834,357	2,340,287
Security deposits		1,279,680	1,419,680
Advance tax (payments less provision)		156,636	423,378
Others		266,140	56,074
		<u>25,703,086</u>	<u>29,133,764</u>

12.1 This includes payment amounting to Rs. 1,080,000 (2013: Nil) made on behalf of a related party FMO (Nederlandse Financierings - Maatschappij voor Ontwikkelingsliden N.V.).

13. Deposits and other accounts

	2014		2013	
	Number of accounts	Rupees	Number of accounts	Rupees
Saving deposits	911	5,978,041	568	6,389,925
Current deposits	3,344	8,656,592	1,516	4,173,491
	<u>4,255</u>	<u>14,634,633</u>	<u>2,084</u>	<u>10,563,416</u>

13.1 Particulars of deposits by ownership

	2014		2013	
	Number of accounts	Rupees	Number of accounts	Rupees
Individual depositors	4,176	14,182,575	2,049	9,519,448
Institutional depositors	-	-	-	-
Corporation/firms etc	79	452,058	35	1,043,968
	<u>4,255</u>	<u>14,634,633</u>	<u>2,084</u>	<u>10,563,416</u>

14. OTHER LIABILITIES

	Note	2014	2013
		—Rupees—	
Markup/return/interest payable		5,980	1,117
Bills payable		400	75,573
Accrued expenses		4,963,939	9,767,732
Payable to related parties	14.1	21,160,507	98,978,820
Withholding tax payable		1,200,797	771,431
Provident fund payable		9,328,191	3,915,137
Payable to Employee Old Age Benefit Institution (EOBI)		69,570	200,960
Zakat payable		1,305	1,305
		<u>36,730,689</u>	<u>113,712,175</u>

14.1 This comprises of Rs. 17,105,243 (2013: Rs. 20,233,586) payable to Advans SA Sicar, holding company, in respect of preliminary expenses comprising of regulatory and other fees, and expenses incurred during the course of establishment of the Bank, Rs. 3,740,377 (2013: Rs. 77,862,223) payable to Horus Development Finance, a related party, for purchase of computer hardware, software / licenses, technical assistance fee under related agreements and other ancillary charges, Rs. 315,891 (2013: Rs. 251,662) payable to La Fayette Microfinance Bank Nigeria, a related party, against expenses incurred on behalf of the Bank and Rs. Nil (2013: Rs. 48,820) to a director on account of travelling expenses.

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15. SHARE CAPITAL

15.1 Authorised capital

	2014	2013		Note	2014	2013
	Number of shares				Rupees	
	<u>80,000,000</u>	<u>80,000,000</u>	Ordinary shares of Rs 10 each		<u>800,000,000</u>	<u>800,000,000</u>

15.2 Issued, subscribed and paid-up share capital

	2014	2013		Note	2014	2013
	Number of shares				Rupees	
	<u>80,000,000</u>	<u>80,000,000</u>	Ordinary shares of Rs 10 each fully paid in cash		<u>800,000,000</u>	<u>800,000,000</u>

15.2.1 Share capital has been subscribed by the following:

Advans SA Sicar - Luxembourg	15.3	55,999,999	55,999,999
FMO (Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (N.V.) - Netherlands	15.4	24,000,000	24,000,000
Claude Falgon - Chairman Advans Pakistan Microfinance Bank		1	1
		<u>80,000,000</u>	<u>80,000,000</u>

15.3 This represent shares owned by the holding company and have been deposited in blocked account with Central Depository Company of Pakistan Limited in terms of BPRD Circular No. 9 of 2009 and under SBP License No. MF1-012 dated June 28, 2012.

15.4 This represents shares owned by one of the sponsors which have been deposited with the State Bank of Pakistan as required under SBP-BPRD letter dated January 03, 2012.

16 DEFERRED GRANTS

	Note	2014	2013
		Rupees	
Grant received from State Bank of Pakistan	16.1	31,724,178	-
Grant income recognized during the year State Bank of Pakistan	16.2	(10,574,726)	-
		<u>21,149,452</u>	<u>-</u>

16.1 This represents grant received from State Bank of Pakistan under its Institutional Strengthening Fund (ISF) under an agreement entered into with SBP dated April 28, 2014 for the Project (Improving Productivity through Human Resource and Establishing Alternative Delivery Channels). The grant is to be used for the purpose of (i) improving productivity through Human Resource Development and (ii) Establishment of Alternate Delivery Channels. Under the agreement, the SBP would provide an amount of Rs. 35,249,089 with matching contribution of atleast 25 percent of the project cost by the Bank.

16.2 The Bank completed the activities covered under part (i) of the Project, through services obtained from the staff deputed by Horus Development Finance, under technical assistance agreement with it. This included activities such as assesment of training requirements, conduct of training program for field staff/branch managers/financial services supervisors, development of coaching program for best performers etc., which were completed during the year. Accordingly, as per requirements of International Accounting Standard (IAS) 20 Government Grants, an amount of Rs. 10,574,726 representing amount allocated for the completed activities under the Agreement, has been recognized as 'Other income'.

17 MEMORANDUM / OFF BALANCE SHEET ITEMS

	2014	2013
	Rupees	
Commitments for fixed capital expenditure	<u>15,946,021</u>	<u>682,220</u>

17.1 There were no contingencies as at December 31, 2014 and December 31, 2013.

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	Note	2014 -----Rupees-----	2013
18. MARK-UP / RETURN / INTEREST EARNED			
Interest / mark-up on			
Advances		21,792,145	5,645,443
Term deposits		22,630,753	41,078,118
Treasury bills		15,970,936	4,886,026
Deposit accounts		5,374,485	9,507,566
		<u>65,768,319</u>	<u>61,117,153</u>
19. MARK-UP / RETURN / INTEREST EXPENSED			
Interest / mark-up on deposits		<u>517,467</u>	<u>153,755</u>
20. FEE COMMISSION AND BROKERAGE INCOME			
Loan processing fee		2,347,529	1,205,860
Others fee and commission		3,298,014	833,623
		<u>5,645,543</u>	<u>2,039,483</u>
21. OTHER INCOME			
Grant Income		10,574,726	-
Exchange gain	16	4,046,604	-
Others		90,658	90,796
		<u>14,711,988</u>	<u>90,796</u>
22. ADMINISTRATIVE EXPENSES			
Salaries and other allowances		64,729,917	49,251,786
Staff welfare		1,085,045	410,349
Preliminary expenses		-	1,806,224
Training and business development		189,944	1,468,398
Rent, rates and taxes		13,794,466	13,524,358
Legal and professional		2,144,436	2,810,232
Utilities		3,151,989	2,224,702
Communication		4,297,021	3,312,782
Repairs and maintenance		2,267,996	1,398,539
Vehicle running and maintenance		4,158,564	2,759,268
Fuel for generator		2,512,661	1,557,643
Insurance		3,501,671	3,135,161
Travelling and conveyance		5,728,310	10,587,300
Printing and stationery		1,298,921	1,195,899
Fees and subscription		2,917,079	909,468
Technical assistance fee		23,017,033	31,276,767
Security charges	22.1	6,575,564	2,118,473
Advertisement and publicity		289,979	652,116
Auditors' remuneration		843,600	826,800
Depreciation	22.2	13,787,405	9,311,105
Amortisation of intangible assets	11.2	5,953,728	5,734,100
Bank charges	11.3	1,975,978	3,389,313
Office supplies		551,490	1,313,486
Other expenses		1,907,669	1,214,827
		<u>166,680,466</u>	<u>152,168,994</u>

22.1 This represents fee payable under relevant agreements to Horus Development Finance (a related party) for providing technical support and software maintenance services.

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	Note	2014 -----Rupees-----	2013
22.2 Auditors' remuneration			
Audit fee		734,220	579,000
Fee for other certification		51,600	190,000
Out of pocket expenses		57,780	57,900
		<u>843,600</u>	<u>826,900</u>
23. OTHER OPERATING EXPENSES			
Exchange loss		-	8,290,910
Penalty imposed by SBP		135,500	22,000
		<u>135,500</u>	<u>8,312,910</u>
24. TAXATION			
For the period			
- current	24.1	714,139	633,035
- deferred	24.2	-	-
		<u>714,139</u>	<u>633,035</u>

24.1 The current tax provision represents the minimum tax on turnover for the year under section 113 of the Income Tax Ordinance, 2001. Hence, the numerical reconciliation between tax expense and accounting loss has not been presented in these financial statements.

24.2 The Bank has not recognized deferred tax asset of Rs. 88,548,892 (2013: Rs. 55,881,467) in respect of net deductible temporary differences of Rs. 252,996,834 (2013: Rs. 159,661,335) on prudence basis.

		2014	2013
25. LOSS PER SHARE			
25.1 Basic			
Loss for the period	Rupees	<u>(88,889,519)</u>	<u>(100,397,503)</u>
Weighted average number of ordinary shares	Number	<u>80,000,000</u>	<u>80,000,000</u>
Basic loss per share		<u>(1.11)</u>	<u>(1.25)</u>

25.2 Diluted

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

26. NUMBER OF EMPLOYEES

	2014			2013		
	Credit / Sales staff	Banking / Support staff	Total	Credit / Sales staff	Banking / Support staff	Total
	-----Number-----			-----Number-----		
Permanent	61	77	138	46	66	112
Contractual	-	-	-	-	-	-
Total	<u>61</u>	<u>77</u>	<u>138</u>	<u>46</u>	<u>66</u>	<u>112</u>

Average number of employees during the year were 125 (2013: 84).

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27. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

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

	Chief Executive		Executives	
	2014	2013	2014	2013
	Rupees		Rupees	
Managerial remuneration	5,270,076	3,913,755	9,566,184	11,726,440
Utilities allowance	520,099	391,209	956,220	1,172,082
Medical allowance	520,099	391,209	956,220	1,172,082
Other benefits	1,646,836	4,614,483	953,289	-
	<u>7,957,110</u>	<u>9,310,656</u>	<u>12,431,913</u>	<u>14,070,604</u>
Number of persons during the year	2	2	6	14

The Chief Executive (CEO) is provided with use of a Company maintained car, free furnished accommodation, and utilities, whereas head of departments are provided with use of a Company maintained car.

There are five directors excluding CEO, who are not entitled to any remuneration from the Bank.

28. RELATED PARTY TRANSACTIONS

Related parties of the Bank comprise of the holding company, associates, directors and key management personnel and their close family members. Transaction with related parties are carried out as per agreed terms.

Transactions with related parties other than those which have been specifically disclosed elsewhere in the financial statements are as follows:

Party name	Relationship	Nature of transaction	2014	2013
			Rupees	
Advans SA SICAR	Holding Company	Expenses paid on behalf of Bank	-	137,374
		Regulatory and other fee paid on behalf of the Bank	-	-
		Insurance premium paid on behalf of the Bank	-	222,000
Horus Development Finance	Related party	Purchase of core banking application and other software	-	482,094
		Purchase of hardware equipment	-	1,672,651
		Travel and related expenses paid on behalf of the Bank	382,339	8,318,367
		Technical assistance fee	23,017,033	30,752,942
		Payment of advance	-	359,374
LA Fayette Microfinance Bank		Visa fees of IT expert paid on behalf of the Bank	103,138	-
FMO (Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.)		Payment on behalf of the related party	1,080,000	-
		Expenses paid by related party on behalf of the Bank	-	145,928
Key management personnel		Salaries and benefits	20,389,023	17,385,756

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	Note	2014 -----Rupees-----	2013
29. CASH AND CASH EQUIVALENTS			
Cash and balances with SBP / NBP	7	11,802,492	6,433,584
Balances with other banks and microfinance banks in current and deposit accounts	8 & 29.1	178,332,330	45,505,288
		<u>190,134,822</u>	<u>51,938,872</u>

29.1 As the term deposits of the Bank have original maturity of more than three months, therefore, these have been excluded from total balance of 'Balances with other banks and microfinance banks' and shown in investing activities as per requirements of IAS 7 Statement of Cash Flows.

30. CAPITAL RISK MANAGEMENT

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

30.2 Goals of managing capital

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

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

The Bank has no gearing risk in the current and prior year.

30.3 Statutory minimum capital requirement and management of capital

30.3.1 The minimum paid up capital requirement (MCR), free of losses, for Microfinance Banks operating at provincial level is Rs. 500,000,000. As of December 31, 2014, the share capital of the Bank stood at Rs. 800,000,000 and paid up capital of the Bank free of losses is Rs. 547,309,694 hence the bank is in compliance with the aforesaid requirement.

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

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

As at December 31, 2014, the Bank's net equity and Capital Adequacy Ratio stood at Rs. 547,309,694 (2013: Rs. 636,199,213) and 226% (2013: 308%) respectively as against the minimum requirement of Rs. 500,000,000 and 15% prescribed by SBP.

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31. FINANCIAL ASSETS AND LIABILITIES

2014

	Interest bearing					Non-interest bearing					Total
	Effective yield / interest rate	Upto 6 months	Over 6 months to one year	Over 1 year up to five years	Over five years	Upto 6 months	Over 6 months to one year	Over 1 year up to five years	Over five years	Sub total	
Financial assets											
Cash and balances with SBP / NBP											
Balances with other banks	6.5%-8.75%	178,322,307	80,000,000	-	-	11,802,492	-	-	-	11,802,492	11,802,492
Investments - net of provisions	9.4%	147,083,624	-	-	-	10,023	-	-	-	10,023	258,322,307
Advances - net of provisions	3.9%	15,879,818	53,661,925	29,015,565	-	-	-	-	-	98,507,106	147,083,624
Other assets		-	557,183	3,254,183	-	-	-	-	-	3,811,366	98,507,106
		341,235,547	134,219,108	32,269,748	-	507,724,403	19,301,864	230,000	-	6,719,348	10,530,715
Financial liabilities											
Deposits and other accounts	7%-7.8%	5,698,041	280,000	-	-	6,578,041	6,556,592	-	-	9,656,592	14,634,633
Other liabilities		5,938,041	280,000	-	-	5,978,041	35,459,017	-	-	35,459,017	35,459,017
		11,636,082	560,000	-	-	12,556,082	41,915,609	-	-	45,115,609	50,093,650

2013

	Interest bearing					Non-interest bearing					Total
	Effective yield / interest rate	Upto 6 months	Over 6 months to one year	Over 1 year up to five years	Over five years	Upto 6 months	Over 6 months to one year	Over 1 year up to five years	Over five years	Sub total	
Financial assets											
Cash and balances with SBP / NBP											
Balances with other banks	7%-7.2%	155,491,545	250,000,000	-	-	6,433,584	-	-	-	6,433,584	6,433,584
Investments - net of provisions	8.1%-8.35%	176,710,980	-	-	-	13,743	-	-	-	13,743	445,505,288
Advances - net of provisions	3.9%	24,761,843	14,769,719	2,578,112	-	-	-	-	-	42,107,794	176,710,980
Other assets		-	-	-	-	-	-	-	-	-	42,107,794
		395,054,468	264,769,719	2,578,112	-	664,310,258	15,201,707	9,172,479	-	18,526,859	18,526,859
Financial liabilities											
Deposits and other accounts	7%-7.5%	10,563,418	-	-	-	10,563,418	-	-	-	10,563,418	10,563,418
Other liabilities		-	-	-	-	-	100,912,713	-	-	100,912,713	100,912,713
		10,563,418	-	-	-	10,563,418	100,912,713	-	-	100,912,713	111,476,129

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31.1 Concentration of credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank's credit risk is primarily attributable to its advances, investments and balances with other banks. The credit risk on liquid fund is limited because the counterparties are banks with reasonably high credit rating. The credit quality of Bank's balances and term deposits can be assessed with reference to external credit ratings as follows:

	Rating Agency	Short Term Rating	Long Term Rating
Standard Chartered Bank (Pakistan) Limited	PACRA	A1+	AAA
Habib Bank Limited	JCR-VIS	A-1+	AAA

The Bank has an effective loan disbursement and recovery monitoring system which allows it to evaluate borrower's credit worthiness and identify potential problem loans. The Bank has a more stringent provisioning policy in comparison to Prudential Regulations for Microfinance Banks and therefore, the provision held is considered to be adequate to cover any anticipated loss that may arise due to the default of customers.

31.2 Liquidity risk

Liquidity risk represents the risk that the Bank will encounter difficulties in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial asset. At present the bank is not exposed to this risk as there is sufficient cash placed with various commercial banks at the year end.

31.3 Market risk

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risk. The Bank is not exposed to equity price risk as it does not hold any equity instruments. The exposure of the Bank to other two risks and their management are explained below:

31.3.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank's interest rate exposure stems mainly from its investments and balances with other banks. This Bank interest rate exposure is low due to the short term nature of the majority of business transactions.

31.3.2 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Bank's exposure to currency risk is due to amounts payable in Euros to related parties for expenses incurred during the year as disclosed in notes 14.1 to the financial statements. The average rate applied during the year is Rs. 133.58 / Euro (2013: Rs. 136.625 / Euro) and the spot rate as at December 31, 2014 was Rs. 122.37 / Euro (2013: Rs. 144.75 / Euro).

At December 31, 2014, if the Rupee had weakened/strengthened by 5% against the Euros with all other variables held constant, post-tax loss for the period would have been higher/lower by Rs. 1,052,868 mainly as a result of foreign exchange losses / gains on translation of Euro denominated related party payables.

31.3.3 Other price risk

The Bank is not currently exposed to other price risk.

31.4 Fair value of financial instruments

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

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32. SCHEDULE OF MATURITY DISTRIBUTION OF MARKET RATE ASSETS AND LIABILITIES

	2014				
	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
	Rupees				
Market rate assets					
Advances	98,507,106	950,734	14,878,881	53,661,925	29,015,566
Investments	147,083,624	-	147,083,624	-	-
Other earning assets	262,133,673	258,322,307	557,183	3,254,183	-
Total market rate assets	507,724,403	259,273,041	162,519,688	56,916,108	29,015,566
Other non-earning assets	112,100,065	18,897,278	14,558,385	19,989,704	58,654,697
Total assets	619,824,468	278,170,319	177,078,074	76,905,812	87,670,263
Market rate liabilities					
Deposits	14,634,633	14,354,633	280,000	-	-
Total market rate liabilities	14,634,633	14,354,633	280,000	-	-
Other non-cost bearing liabilities	36,730,689	36,730,689	-	-	-
Total liabilities	51,365,322	51,085,322	280,000	-	-

	2013				
	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
	Rupees				
Market rate assets					
Advances	42,107,794	3,326,662	21,435,281	14,769,739	2,576,112
Investments	176,710,960	-	176,710,960	-	-
Other earning assets	447,831,832	45,491,545	152,340,287	250,000,000	-
Total market rate assets	666,650,586	48,818,207	350,486,528	264,769,739	2,576,112
Other non-earning assets	93,241,589	12,627,418	8,687,719	10,814,958	61,111,494
Total assets	759,892,175	61,445,625	359,174,247	275,584,697	63,687,606
Market rate liabilities					
Deposits	10,563,416	10,563,416	-	-	-
Total market rate liabilities	10,563,416	10,563,416	-	-	-
Other non-cost bearing liabilities	113,712,175	113,712,175	-	-	-
Total liabilities	124,275,591	124,275,591	-	-	-

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33. **Corresponding figures**

The corresponding figures have been re-arranged and reclassified wherever necessary for the purpose of comparison and more appropriate presentation, the effect of which is not material.

34. **GENERAL**

34.1 Captions, as prescribed by BSD circular No. 11, dated December 30, 2003, in respect of which there are no amounts, have not been reproduced in these financial statements, except for the captions of the balance sheet and profit and loss account.

34.2 Figures have been rounded off to the nearest Rupee unless otherwise specified.

35. **DATE OF AUTHORISATION**

These financial statements were authorised for issue on _____ by the Board of Directors of the Bank.

14/11/15


Chief Executive


Director


Director

Director