

## **DIRECTORS' REPORT OF ADVANS PAKISTAN MICROFINANCE BANK LIMITED TO THE MEMBERS**

It is our pleasure to present, on behalf of the Board of Directors, the Audited Financial Statements of the Bank along with the Auditors' report thereon for the year ended December 31, 2019.

### ***Operational Review***

Advans Pakistan Microfinance Bank Limited (APMBL) is licensed by the State Bank of Pakistan to operate as a micro finance bank in the province of Sindh, for providing microfinance services, mobilizing deposits from the public and providing credit to poor persons and microenterprises. During 2019, disbursements of PKR 1,923.17 million were made to 11,466 borrowers with the gross portfolio of PKR 1,269.59 million at December 31, 2019. The bank was able to grow its deposit portfolio between 2018 and 2019 by PKR 401.41 million. The Bank closed the year with a deposit base of PKR 953.72 million. The Bank opened two new branches in Ghotki and Mirpur during the year.

The year 2019 has been a challenging year in terms of staff turnover, which affected our ability to build the capacity of our field staff. Amidst a challenging macro-economic and business environment, the portfolio quality deteriorated with respect to previous year with PAR 30 standing at 5.12% at end of December, which translated into a cost of risk of 5.36% of the average portfolio over 2019. Consequently, write-offs also increased during the year to PKR 54.54 million.

2019 was also a year of transition with a new CEO taking over from the one who had been steering the company since 2016. The new management is committed to maintain operational self-sufficiency and address challenges of staff turnover and capacity building.

On account of the continuous support from the Group, during the year, all the liability payable to Advans International and Advans SA on account of Technical Assistance (TA) services availed for 2017 and 2018 was waived. Further TA services availed during 2019 were also provided free of charge. This support was instrumental for the bank in achieving a positive net financial result at the end of 2019.

In 2019, the management has been working keenly towards resolving the HR issues. A set of measures and action plans were implemented to improve the turnover rate, which includes change of the remuneration structure, introduction of more performance-based variable remuneration, redesign of onboarding procedures and talent management policy and careful planning of staff trainings. These measures have started to show positive results in terms of

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improved turnover rate particularly in the last quarter of 2019 and such trend is expected to be sustained and further accentuated in 2020 and beyond.

The disclosure regarding the performance in relation to complaint handling as required by BC & CPD Circular No. 1 of 2016 is attached as annexure 1 to this report.

Adequate internal control systems commensurate with the nature of the Company's business and size and complexity of its operations are in place which have been operating satisfactorily. Internal control systems comprising of policies and procedures are designed to ensure reliability of financial reporting, timely feedback on achievement of operational goals, compliance with policies, procedure, applicable laws and regulations.

### ***Financial Review***

The Bank posted a profit before taxes of PKR 0.43 million (2018: (113.46) million) during the year 2019 which was mainly due to increase in business activity & reversal of liability (PKR: 73.76million) in respect of technical service fee provided by Advans International. The administrative expenses PKR 474.39 million (2018: 390.98 million) increased in 2019 particularly on expenses relating to the salaries and additional impact of IRFS 16 financial charges on lease asset & depreciation of right of use asset (representing 49%, 3% & 4% of administrative expenses respectively).

Interest income during the year amounted to PKR 521.26 million of which PKR 11.09 million (2.13% of interest earned) was earned on deposits with other banks, while earnings from the loan portfolio of PKR 500.12 million accounted for 95.94% of total interest. The Bank also earned PKR 10.05 million (1.93% of interest income) from investments. On account of profit incurred during the year, the net equity of the Bank at year end 2019 was PKR 525.28million (2018: 510.33million). The earnings per share for the year ended December 31, 2019 was 0.12 (2018: (0.89)).

Financing line of PKR 300 million was approved from Pakistan Microfinance Investment Company Limited (PMIC) in 2018 and PKR 100 million was received in the same year. The remaining amount was received in 2019. The principal repayment of the loan will start in 2020 through four equal quarterly installments.

The Bank has recognized additional PKR 23.9 million of deferred tax asset (DTA) taking the total to PKR 49.35 million. The DTA recognized pertains to unabsorbed tax depreciation and amortization as at December 31, 2019. As per current tax laws there is no time limit for claiming the tax benefit in respect of unabsorbed tax depreciation and amortization. The deferred tax asset has been recorded based on the financial projections of the Bank.

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### ***Minimum Capital Requirement***

During the year from January 2019 to May 2019 the equity of the bank was below the minimum amount of PKR 500 million. In order to restore compliance

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with MCR, it was decided to convert its outstanding liability to Advans International that was subsequently transferred Advans S.A SICAR, amounting to EUR 453,874 into equity. In this regard relaxation for the compliance of MCR until the completion of the transaction from SBP was requested.

While executing this transaction there were certain clarification regarding the valuation of the liabilities (as required under section 83 (1-b) of Companies Act 2017) required from the Securities and Exchange Commission of Pakistan (SECP). Despite various efforts to obtain the clarification, no conclusive response from SECP was received which hindered this transaction.

In order to resolve the MCR issue Advans SA, SICAR waived the outstanding liability of EUR 453,874 to APMBL in June 2019, which reduced the losses and increased the equity to MCR compliant level.

### ***Future Outlook***

2019 was a challenging year in terms of loan portfolio growth, CRO productivity and credit quality. Taking stock of these challenges, and building on past experience, the Board gave a mandate to the management to continue restructuring the Bank by going “back to the basics” of the core business both in terms of operational organization, methodology, control system and HR Management. Hence, no the bank will not undertake significant geographical expansion nor important diversification projects, but maintain its focus on serving urban entrepreneurs with adapted and efficient services.

In terms of deposit mobilization, the focus of 2020 will be on savings account and term deposits mobilization from a different target market with a particular attention to foster deposit stability and continue reducing concentration.

The loan portfolio is expected grow significantly in 2020 and cross PKR two billion mark that by the end of the year. Driven by related increase in revenue from lending activities, APMBL is expected to achieve monthly financial break-even by the end of the second quarter, and maintain profitability in 2020.

### **Parent Company**

As of December 31, 2019 Advans SA, SICAR holds 74.99% shares of APMBL. Advans SA is incorporated in Luxembourg with its operating headquarters in Paris. However, the entire shareholding of APMBL shares owned by FMO was transferred to Advans SA on February 17, 2020 and consequently APMBL became the wholly owned subsidiary of Advans SA, SICAR.

### ***Paid-up Capital***

The Bank’s paid up capital as at December 31, 2019 was PKR 1,290 million.

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## **Board of Directors**

During the year 2019, the all the directors were reelected in the election of the board of directors held in the month of March.

During the period following were present on the board of APMBL:

- Mr. Claude FALGON - Chairman
- Mr. Steven DUCHATELLE - Director
- Mr. Hugo MINDERHOUD – Independent Director (resigned during the year)
- Mr. Eelko BRONKHORST – Director
- Mr. Emmanuel ARIS – Director
- Ms. Isabelle MONTFORT - Director
- Mr. Masood Karim SHAIKH – Independent Director (resigned during the year)
- Ms. Yusra Arshad GILANI - Independent Director
- Mr. Zine El Abidine OTMANI – Chief Executive Officer (resigned during the year)
- Mr. Guillaume VALENCE – Chief Executive Officer

## ***Credit Rating***

JCR-VIS Credit Rating Company Limited has reaffirmed rating of “BBB+” and “A-3” to the Bank with “Stable” outlook in 2019.

## ***Transfer Pricing***

All transactions with the related parties undertaken during the financial year were at concessional rates or free of cost, as admissible in the best interest of the Bank.

## ***Auditors***

A.F. Ferguson Co. Chartered Accountant (a member firm of PWC) was appointed the auditors by the board for the current year.

## ***Pattern of Shareholding***

The Pattern of Shareholding of the Bank as at December 31, 2019 as required under Section 227 of the Companies Act 2017 is as Follow:

No. of Shareholder(s)	Shareholding from	Shareholding to	Total Shares Held
1	1	100	1
2	30,000,000	100,000,000	129,016,309
Total			129,016,310

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## Categories of the Shareholders

Particular	Number	Shares held	Percentage
Director(s)	1	1	0.01%
Corporate Entities	2	129,016,309	99.99%

### ***Acknowledgement***

We would like to take this opportunity to thank our valued clients, shareholders and other stakeholders for their patronage and confidence and our management and employees for their dedication and hard work.

We would also like to express our gratitude to the State Bank of Pakistan, the Securities and Exchange Commission of Pakistan for their continued guidance and support.

Karachi: March 09, 2020



**Guillaume VALENCE**  
Chief Executive Officer

On behalf of the Board



**Claude FALGON**  
Chairman of the Board

## Disclosure on Complaint Handling

As a responsible financial services provider which puts its clients first, Advans Pakistan aims to implement complaint mechanisms as part of its customer service standards and in line with the Client Protection Principles of the SMART Campaign. Our staff across the network values and recognize the "voice of the customer" that we receive through various touch points and we have made great strides to live up to the expectations of our clients on grievance management and complaint handling. We ensure to make efforts to educate our clients of their rights, collect feedback frequently on our customer services, and aware them of the complaint process. Client touch points were revised, enriched and communication via all of the Bank's communication channels; same were made part of the branch notice boards, social media pages and our website, as well. The following points are given special consideration:

- Clients are made aware of their right to complain and have access to at least two channels on top of in-branch staff to complain
- Each client complaint is acknowledged and taken seriously, with no discrimination
- Client complaints at branch level are sent to the Head Office and each client complaint is prioritised depending on severity
- Each client complaint is dealt with objectively, impartially and consistently and ensure Clients are given feedback on the resolution of their complaint
- Client complaint data is kept private and is only accessible to designated staff
- Client complaints are used to improve services, update policies and increase compliance

### New Initiatives taken to improve the Complaint Handling Mechanism:

- ⊕ Centralized System and Reporting of Complaints to monitor the efficiency.
- ⊕ Comprehensive Reports are produced regularly for Management Review.
- ⊕ Revised and improved Policy and Procedure for Complaint Handling encapsulating all critical elements, is in process.
- ⊕ Increased awareness among clients on complaint channels to ensure no grievance goes unaddressed
- ⊕ Ensure all staff are aware and trained on complaint management ethics/ work codes in order to capture the essence of customers' voice.

### Complaint Handling Performance – 2019

In the year 2019, total of 51 complaints were received (including feedback & inquires) where 50 were resolved and addressed. Advans has standard TATs in place and the average TAT for complaint resolution for 2019 was 05 working days, and compliant with the regulatory requirement.

### Client touch points are as follows:

- ⊕ Call Centre assistance: 111-ADVANS (111-238-267)
- ⊕ Email: customerservices@advanspakistan.com
- ⊕ Website: www.advanspakistan.com
- ⊕ Postal Address: Complaint Management Unit, Advans Pakistan Microfinance Bank Ltd. Bahria Complex 1, MT Khan Road. Lalazar. Karachi.
- ⊕ Social Media: www.facebook.com/advanspakistan
- ⊕ State Bank of Pakistan - Banking Mohtasib Pakistan
- ⊕ Securities and Exchange Commission of Pakistan

## ڈائریکٹر رپورٹ ایڈوانس پاکستان مائیکرو فنانس بینک لمیٹڈ برائے ممبران

ہم بورڈ کے ڈائریکٹرز کی جانب سے، بینک کی آڈٹ شدہ مالیاتی تفصیلات بشمول آڈیٹر رپورٹ برائے اختتام سال 31 دسمبر 2019ء پیش کرتے ہوئے خوشی محسوس کر رہے ہیں۔

### جائزہ برائے افعال

ایڈوانس پاکستان مائیکرو فنانس بینک لمیٹڈ (اے پی ایم بی ایل) صوبہ سندھ میں بحیثیت مائیکرو فنانس بینک کے طور پر کام کرنے کیلئے اسٹیٹ بینک آف پاکستان سے لائسنس یافتہ ہے جو مائیکرو فنانس خدمات کی فراہمی، عوام الناس سے رقوم کی منتقلی اور غریب افراد اور چھوٹے کاروباری اداروں کو قرضہ جات کی فراہمی کرنا ہے۔ 2019ء کے دوران، بینک نے 1,923.17 ملین پاکستانی روپے کا قرضہ 11,466 قرض خواہوں کو دیا نتیجتاً 31 دسمبر 2019ء کے اختتام پر بینک کا مجموعی پورٹ فولیو 1,269.59 ملین پاکستانی روپے رہا۔ سال 2018 اور 2019ء کے درمیان بینک اپنے ڈپازٹ پورٹ فولیو کو 401.41 ملین پاکستانی روپے سے بڑھانے کے قابل ہوا۔ بینک نے سال کا اختتام 953.72 ملین پاکستانی روپے کی ڈپازٹ کی بنیاد پر کیا۔ سال کے دوران بینک نے گھونگی اور میرپور خاص میں دو نئی شاخوں کا افتتاح کیا ہے۔

سال 2019ء اسٹاف ٹرن اوور کے حوالے سے دشوار گزار رہا، جس نے ہمارے فیلڈ اسٹاف کی گنجائش بنانے کی اہلیت کو متاثر کیا۔ دشوار گزار میکرو اکنامک اور کاروباری ماحول کے مابین، پورٹ فولیو کا معیار ابتر رہا بہ نسبت گزشتہ سال پی اے آر 30 جو دسمبر کے آخر تک 5.12% پر رہا، جو پورے 2019 تک اوسط پورٹ فولیو کے 5.36% فیصد لاگتی خطرہ کا باعث بنا۔ نتیجتاً، رائٹ آف میں بھی دوران سال 54.54 ملین پاکستانی روپے تک اضافہ ہوا۔

سال 2019ء ایک نئے سی ای او کی تبدیلی کا سال تھا نئے آنے والے سی ای او نے ایک ایسے سی ای او سے چارج لیا جو کمپنی میں 2016ء سے سی ای او تھے۔ نئی انتظامیہ خود انحصاری افعال اور اسٹاف ٹرن اوور کی دشواریوں سے نمٹنے اور گنجائش بڑھانے کا عزم رکھتی ہے۔

سال کے دوران گروپ کی جانب سے مسلسل حمایت کے باعث، ایڈوانس انٹرنیشنل اور ایڈوانس ایس اے کو قابل ادائیگی تمام واجبات جو 2017 اور 2018 کیلئے حاصل کردہ تکنیکی معاونت (ٹی اے) کی مد میں ہیں معاف کر دیئے گئے۔ مزید یہ کہ 2019 کے دوران حاصل کردہ تکنیکی معاونت بھی بلا معاوضہ فراہم کی گئیں۔ یہ حمایت بینک کیلئے مجموعی مالیاتی نتیجہ حاصل کرنے میں معاون تھی۔

2019ء میں، انتظامیہ ایچ آر مسائل حل کرنے کی جانب کام کرتی رہی۔ ٹرن اوور کی شرح میں بہتری کیلئے جامعہ اقدامات اور عملی منصوبہ بندی پر عملدرآمد کیا گیا جس میں معاوضہ جاتی ساخت میں تبدیلی، کارکردگی پر مبنی قابل تبدیل معاوضہ جات، آن بورڈنگ طریقہ کار کی از سر نو تشکیل اور انتظامی مہارت کے لائحہ عمل اور عملہ کی تربیت کیلئے محتاط منصوبہ بندی شامل ہے۔ ان اقدامات نے بہتر ٹرن اوور شرح کے لحاظ سے مثبت نتائج ظاہر کرنا شروع کر دیئے خصوصاً 2019ء کی آخری سہ ماہی میں اور یہ رجحان 2020ء اور اس سے آگے برقرار رہنے اور مزید واضح ہونے کی توقع ہے۔

بی سی اور سی پی ڈی سرکلر نمبر 1 برائے 2016ء کے تحت درکار ضرورت کے مطابق شکایت وصولی سے متعلق کارکردگی کے سلسلے میں انکشاف اس رپورٹ کے ساتھ بطور منسلک 1 ہے۔

موزوں اندرونی انضباطی نظام کمپنی کی کاروباری نوعیت سے ہم آہنگ ہے، اور اس کے افعال کا حجم اور پیچیدگی درست ہیں جو تسلی بخش طریقے سے کام کر رہے ہیں۔ اندرونی انضباطی نظام جو کہ لائحہ عمل اور طریقہ کار پر مشتمل ہیں جسے قابل بھروسہ مالیاتی معلومات کو یقینی بنانے، کام کے کامیاب اہداف پر بروقت جوابی رائے، لائحہ عمل کی تعمیل کرنے، طریقہ کار، قابل اطلاق قوانین اور ضوابط کی تعمیل کیلئے وضع کیا جاتا ہے۔

## مالیاتی جائزہ

بینک نے 0.43 ملین کے ٹیکس قبل از منافع حاصل کیا (2018: 113.46 ملین) دوران سال 2019ء جو خاص طور سے کاروباری سرگرمی میں اضافہ اور واجبات کی واپسی (پاکستانی روپے: 73.76 ملین) کے باعث تھا جو ایڈوانس انٹرنیشنل کی جانب سے فراہم کردہ تکنیکی خدماتی فیس کی مد میں ہیں۔ انتظامی اخراجات 474.39 ملین پاکستانی روپے (2018: 390.98 ملین) میں 2019ء میں اضافہ رہا خصوصاً تنخواہوں سے متعلق اخراجات پر اور لیز اثاثہ جات اور اثاثہ جات کے تخفیف استعمال پر آئی آر ایف ایس 16 کے مالیاتی واجبات کے اثرات (بالترتیب 49%، 3% اور 4% کے انتظامی اخراجات ظاہر کرتے ہوئے)۔

دوران سال سودی آمدنی 521.26 ملین پاکستانی روپے رہی اس میں سے 11.09 ملین پاکستانی روپے (2.13% سودی آمدن) دیگر بینکوں کے ساتھ ڈپازٹس پر حاصل کیئے، جبکہ 500.12 ملین پاکستانی روپے کے لون پورٹ فولیو سے کل انٹیرسٹ کے 95.94% فیصد کا حساب لگایا گیا۔ بینک نے بھی سرمایہ کاری سے 10.05 ملین پاکستانی روپے (سودی آمدنی کا 1.93%) حاصل کیئے۔ دوران سال منافع برداشت کیئے جانے کی مد میں بینک کی مجموعی ایکویٹی سال 2019ء کے اختتام پر 525.28 ملین پاکستانی روپے (2018: 510.33 ملین پاکستانی روپے) تھی۔ اختتام سال 31 دسمبر 2019ء کو آمدنی فی حصص 0.12 تھی (2018: 0.89)۔



سال 2018ء میں پاکستان مائیکروفنانس انویسٹمنٹ کمپنی لمیٹڈ (پی ایم آئی سی) سے 300 ملین کی فنانسنگ لائن منظور کی گئی جس میں سے 100 ملین پاکستانی روپے اسی سال وصول کیئے گئے۔ بقایا رقم 2019ء میں وصول کی گئی۔ قرض کی ابتدائی واپسی 2020 میں چار مساوی سہ ماہی اقساط کے ذریعے شروع ہوگی۔

بینک نے 23.9 ملین کے زیر التواء ٹیکس اثاثہ جات (ڈی ٹی اے) تسلیم کیئے کل 49.35 ملین پاکستانی روپے لیتے ہوئے۔ تسلیم کردہ ڈی ٹی اے جو غیر حسابی تخفیفی ٹیکس اور بے باقی قرضہ جات 31 دسمبر 2019ء سے متعلق ہے۔ موجودہ ٹیکس قوانین کے تحت غیر حسابی تخفیفی ٹیکس اور بے باقی قرضہ جات کے سلسلے میں ٹیکس کے بینیفٹ کلیم کرنے کیلئے کوئی مدت مقرر نہیں ہے۔ زیر التواء ٹیکس کے اثاثہ جات کا اندراج بینک کے مالیاتی تخمینے کی بنیاد پر کیا گیا ہے۔

### کم از کم درکار سرمایہ

دوران سال جنوری 2019 تا مئی 2019 بینک کی ایکویٹی 500 ملین پاکستانی روپے کی کم از کم رقم سے نیچے تھی۔ ایم سی آر کی تعمیل کرتے ہوئے اسے بحال کرنے کیلئے یہ فیصلہ کیا گیا کہ اس کے بقایا واجبات کو ایڈوانس انٹرنیشنل میں منتقل کر دیا جائے جسے بالآخر EUR Advans SA SICAR 453.874 کے ایڈوانس ایس۔ اے کو ایکویٹی میں منتقل کر دیا گیا۔ اس سلسلے میں ایس بی پی سے جب تک لین دین مکمل نہیں ہوتا ایم سی آر پر تعمیل کیلئے رعایت کی درخواست کی گئی تھی۔

معاهدہ کرتے ہوئے واجبات کے تخمینے سے متعلق وضاحت (جیسا کہ کمپنیز ایکٹ 2017 کی سیکشن 83(1-b) کے تحت درکار ہے) جو سکیورٹیز اینڈ ایکسچینج کمیشن آف پاکستان (ایس ای سی پی) سے درکار تھی۔ وضاحت طلب کرنے کیلئے متعدد بار کوششوں کے باوجود ایس ای سی پی کی جانب سے کوئی حتمی جواب موصول نہیں ہوا جس نے اس معاملے میں رکاوٹ ڈال دی۔

ایم سی آر کا مسئلہ حل کرنے کیلئے ایڈوانس ایس اے، سیکار نے Euro 453.874 کے بقایا واجبات اے پی ایم بی ایل کو جون 2019ء میں معاف کر دیئے، جس نے خسارے کو کم اور ایم سی آر کی شکایتی سطح پر ایکویٹی میں اضافہ کیا۔

### مستقبل کا خاکہ

2019ء لون پورٹ فولیو کی افزائش، سی آر او پیداوار اور کریڈٹ کے معیار کے حوالے سے ایک دشوار گزار سال تھا ان مجموعی دشواریوں کو لیتے ہوئے، اور ماضی کا تجربہ پر بورڈ نے انتظامیہ کو بنیادی کاروبار کی ”ابتداء کی جانب واپس“ جاتے ہوئے بینک کی ساخت کو از سر نو جاری رکھنے کیلئے مینڈیٹ دیا جو فعال تنظیم، طریقہ کار، کنٹرول سسٹم اور ایچ آر انتظامی

حوالے سے ہے۔ اگرچہ، کوئی بینک نمایاں جغرافیائی وسعت کی ذمہ داری نہیں لے گا نہ ہی اہم متفرق منصوبے، لیکن مہارت اور مؤثر خدمات کے ساتھ شہری کاروباری اداروں پر کام کرتے ہوئے توجہ مرکوز رکھے گا۔

ڈپازٹ کی منتقلی کے حوالے سے، 2020ء پر مرکزی توجہ سیونگ اکاؤنٹ اور مختلف مارکیٹ حدف سے ٹرم ڈپازٹس کی منتقلی خصوصاً پائیدار ڈپازٹ اپنانے اور کنسنٹریشن کو مسلسل کم کرنے پر ہوگی۔

لون پورٹ فولیو 2020 میں نمایاں طور پر بڑھنے اور اس سال کے اختتام تک دو بلین پاکستانی روپے سے عبور کرنے کی توقع ہے۔ قرض دینے کی سرگرمیوں سے محصول آمدنی میں نسبتاً اضافہ کے باعث، اے پی ایم بی ایل کو دوسری سہ ماہی کے اختتام تک ماہانہ مالیاتی بریک۔ ایون حاصل ہونے اور 2020ء میں منافع برقرار رہنے کی توقع ہے۔

## ملکیتی کمپنی

31 دسمبر 2019ء تک، ایڈوانس ایس اے، SICAR کے پاس اے پی ایم بی ایل کے 74.99% حصص موجود ہیں۔ ایڈوانس ایس اے کی تشکیل لکسمبرگ میں ہے جس کا ہیڈ کوارٹر پیرس میں ہے۔ تاہم، ایف ایم او کی ملکیت کے تمام اے پی ایم بی ایل حصص کو 17 فروری 2020ء میں ایڈوانس ایس اے SICAR میں منتقل کر دیا گیا اور بالآخر اے پی ایم بی ایل مکمل طور پر ایڈوانس ایس اے، SICAR کے ماتحت ادارہ کا مالک بن گیا۔

## وصول کردہ سرمایہ

بینک کا وصول کردہ سرمایہ 31 دسمبر 2019ء تک 1,290 ملین پاکستانی روپے تھا۔

## بورڈ کے ڈائریکٹرز

سال 2019ء کے دوران، مارچ کے مہینے میں منعقدہ بورڈ ڈائریکٹرز کے الیکشن میں تمام ڈائریکٹرز کا دوبارہ انتخاب کیا گیا۔

اس مدت کے دوران اے پی ایم بی ایل کے بورڈ پر درج ذیل حاضر تھے۔

■ جناب کلاڈ فیگلن - چیئرمین

■ جناب اسٹیون ڈوشیل - ڈائریکٹر

■ جناب ہوگو منڈرہوڈ - آزاد ڈائریکٹر (دوران سال مستعفی)

■ جناب ایلکو برنکوہورسٹ - ڈائریکٹر

■ جناب ایمانوئل ایرس - ڈائریکٹر

- مس ایزابیل مونٹ فورٹ - ڈائریکٹر
- جناب مسعود کریم شیخ - آزاد ڈائریکٹر (دوران سال مستعفی)
- مس سیرا ارشد گیلانی - آزاد ڈائریکٹر
- جناب زین العابدین عثمانی - چیف ایگزیکٹو آفیسر (دوران سال مستعفی)
- جناب گیوم ویلنس - چیف ایگزیکٹو آفیسر

### کریڈٹ کی درجہ بندی

JCR-VIS کریڈٹ ریٹنگ کمپنی لمیٹڈ نے 2019ء میں ”مستحکم“ خاکہ کے ساتھ بینک کیلئے "BBB+" اور "A-3" درجہ بندی کی دوبارہ توثیق کی ہے۔

### قیمت کا تعین

تمام متعلقہ فریقین سے مالیاتی سال کے دوران کیئے گئے لین دین رعایتی شرح پر یا بلا معاوضہ تھے، جیسا کہ بینک کے بہتر مفاد میں قابل قبول ہوں۔

### آڈیٹرز

اے ایف فرگوسن کمپنی چارٹرڈ اکاؤنٹینٹ (پی ڈبلیو سی ادارہ کے ایک ممبر) کو رواں سال کیلئے بورڈ کی جانب سے آڈیٹرز کا تقرر کیا گیا۔

### حصص کاری نمونہ

31 دسمبر 2019ء تک بینک کی حصص کاری نمونہ جو کمپنیز ایکٹ 2017ء کی سیکشن 227 کے تحت درکار ہے درج ذیل ہے۔

حصص یافتگان کی تعداد	حصص کاری سے	حصص کاری تک	مجموعی حصص کے حامل
1	1	100	1
2	30,000,000	100,000,000	129,016,309
			129,016,310

## حصص یافتگان کی اقسام

تفصیل	تعداد	حامل حصص	فی صد
ڈائریکٹر (ز)	1	1	0.01%
ادارتی شخصیات	2	129,016,309	99.99%

## توثیق

ہم اس موقع پر اپنے گرانقدر مؤکلین، حصص یافتگان اور دیگر کاروباری متعلقین کی معاونت اور اعتماد اور ہماری انتظامیہ اور ملازمین کا ان کی لگن اور محنت کیلئے شکریہ ادا کرنا چاہیں گے۔

ہم اسٹیٹ بینک آف پاکستان، سیوریٹیز اینڈ ایکسچینج کمیشن آف پاکستان کی مسلسل رہنمائی اور حمایت کا بھی شکریہ ادا کرنا چاہیں گے۔

کراچی: 09 مارچ 2020

منجانب

بورڈ



کلاؤنیلکن

چیئر مین بورڈ



گیوم ویلنس

چیف ایگزیکٹو آفیسر

## معلومات برائے وصولی شکایات

بحیثیت ایک ذمہ دار مالیاتی خدمات مہیا کنندہ جو اپنے کلائنٹس کو اولیت دیتا ہے، ایڈوانس پاکستان کا مقصد شکایتی طریقہ کار پر عملدرآمد کرنا ہے جیسا کہ یہ اس کے صارفین کی خدماتی معیار کا حصہ ہے اور اسمارٹ کمپین کے کلائنٹ پروٹیکشن پرنسپلز کے مطابق ہے۔ ہمارا عملہ پورے نیٹ ورک میں ”صارف کی آواز“ کو اہمیت دیتا ہے اور اسے تسلیم کرتا ہے جسے ہم مختلف مرکزی رابطوں کے ذریعے وصول کرتے ہیں اور ہم نے شکایتی ازالہ کا انتظام اور شکایت وصولی پر اپنے کلائنٹس کی توقعات پر پورا اترنے کیلئے بڑے اقدامات کیئے ہیں۔ ہم کلائنٹس کو ان کے حقوق، ہماری صارف خدمات پر بکثرت رائے حاصل کرنے، اور انہیں شکایتی طریقہ کار سے آگاہ کرنے پر تعلیم دینے کی کوششوں کو یقینی بناتے ہیں۔ کلائنٹ کے مرکزی رابطوں کا دوبارہ جائزہ لیا گیا، بہتر کیا گیا اور تمام بینک رابطہ ذرائع کو، جسے برانچ نوٹس بورڈ، سماجی رابطوں کے صفحات پر نیز ہماری ویب سائٹ کا حصہ بھی بنایا گیا۔ درج ذیل نکات پر خصوصی غور کیا گیا۔

- کلائنٹس کو ان کے شکایتی حق سے آگاہ کیا جاتا ہے اور شکایت کرنے کیلئے اہم برانچ کے اندر عملہ کی کم از کم دو رابطہ ذرائع تک رسائی دی جاتی ہے۔
- ہر ایک کلائنٹ کی شکایت کو منظور کیا جاتا ہے اور بغیر کسی تفریق کے سنجیدگی سے لیا جاتا ہے۔
- برانچ کی سطح پر کلائنٹ کی شکایات کو ہیڈ آفس بھیجا جاتا ہے اور ہر ایک کلائنٹ کی شکایت کو شدید نوعیت کے لحاظ سے ترجیح دی جاتی ہے۔
- ہر ایک کلائنٹ کی شکایت کو بامقصد، غیر جانبداری اور مستقل مزاجی سے وصول کیا جاتا ہے اور یقینی بنایا جاتا ہے کہ کلائنٹس کو ان کی شکایتی حل پر جوابی رائے دی گئی ہے۔
- کلائنٹ کی شکایتی معلومات کو مخفی رکھا جاتا ہے اور صرف تعینات عملہ تک قابل رسائی ہوتا ہے۔

## شکایات وصولی کے طریقہ کار کو بہتر کرنے کیلئے نئے اقدامات

- مرکزی نظام اور شکایتی اندراج کی موثر نگرانی۔
- انتظامی جائزہ کیلئے باقاعدہ جامعہ معلومات پیش کی جاتی ہیں۔
- شکایت وصولی کیلئے نظر ثانی اور بہتر لائحہ عمل اور طریقہ کار تمام اہم عناصر کو یکجا کرنا، زیر تکمیل ہے۔
- کلائنٹس کے مابین شکایتی رابطہ ذرائع پر اضافی آگاہی یہ یقینی بنانے کیلئے کہ کسی شکایت پر غیر سنوائی نہ رہے۔
- یقینی بنانا کہ تمام عملہ صارفین کی شکایت کی اصل روح کو سمجھنے کیلئے شکایتی انتظام کے اخلاقی اصول / کام کے رموز سے واقف اور تربیت یافتہ ہے۔

## کارکردگی برائے شکایات وصولی۔ 2019

سال 2019 میں، کل 51 شکایات وصول کی گئیں (بشمول جوابی رائے اور جانچ پڑتال) جہاں 50 کو حل کیا گیا اور سنا گیا۔ ایڈوانس کے پاس معیاری ٹی اے ٹی موجود ہے اور 2019ء کی شکایات کے حل کیلئے اوسط ٹی اے ٹی 05 کام والے دن تھے، اور درکار ضابطہ کی تعمیل کے پابند تھے۔

## کلائنٹ کے رابطہ مراکز درج ذیل ہیں:

- کال سینٹر معاونت: (111-238-267) 111-advans
- ای میل: customerservices@advanspakistan.com
- ویب سائٹ: www.advanspakistan.com
- ڈاک کا پتہ: کمپلیٹ مینجمنٹ یونٹ، ایڈوانس پاکستان مائیکروفنانس بینک لمیٹید، بحریہ کمپلیکس 1، ایم ٹی خان روڈ، لالہ زار، کراچی۔
- سماجی رابطہ: www.facebook.com/advanspakistan
- اسٹیٹ بینک آف پاکستان - بینکنگ محتسب پاکستان
- سکیورٹیز اینڈ ایکسچینج کمیشن آف پاکستان









# Directors report - 2019

Final Audit Report

2020-03-09

Created:	2020-03-09
By:	Awais Masood (awais.masood@advanspakistan.com)
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## "Directors report - 2019" History

-  Document created by Awais Masood (awais.masood@advanspakistan.com)  
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**ADVANS PAKISTAN MICROFINANCE BANK LIMITED**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019**



## INDEPENDENT AUDITOR'S REPORT

To the members of Advans Pakistan Microfinance Bank Limited

Report on the Audit of the Financial Statements

### Opinion

We have audited the annexed financial statements of **Advans Pakistan Microfinance Bank Limited** (the Bank), which comprise the balance sheet as at December 31, 2019, and the profit and loss account, the statement of comprehensive income, the statement of changes in equity, the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, 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 the audit.

In our opinion and to the best of our information and according to the explanations given to us, the balance sheet, the profit and loss account, the statement of comprehensive income, the statement of changes in equity and the cash flow statement together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan, and give the information required by the Microfinance Institutions Ordinance, 2001 and the Companies Act, 2017 (XIX of 2017), 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, 2019 and of the profit and comprehensive income, the changes in equity and its cash flows for the year then ended.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information included in the Directors' Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

AM

A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network  
State Life Building No. 1-C, I.I. Chundrigar Road, P.O. Box 4716, Karachi-74000, Pakistan  
Tel: +92 (21) 32426682-6/32426711-5; Fax: +92 (21) 32415007/32427938/32424740; <www.pwc.com/pk>

KARACHI LAHORE ISLAMABAD



### **Responsibilities of Management and Board of Directors for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting and reporting standards as applicable in Pakistan, and the requirements of the Microfinance Institutions Ordinance, 2001 and the Companies Act, 2017 (XIX of 2017) 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.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Board of directors are responsible for overseeing the Bank's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

AM: W



A F FERGUSON &amp; CO

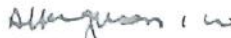
We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Report on Other Legal and Regulatory Requirements**

Based on our audit, we further report that in our opinion:

- a) proper books of account have been kept by the Bank as required by the Microfinance Institutions Ordinance, 2001 and the Companies Act, 2017 (XIX of 2017);
- b) the balance sheet, the profit and loss account, the statement of comprehensive income, the statement of changes in equity and the cash flow statement together with the notes thereon have been drawn up in conformity with the Microfinance Institutions Ordinance, 2001 and the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;
- c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Bank's business; and
- d) no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

The engagement partner on the audit resulting in this independent auditor's report is **Salman Hussain**.

  
A. F. Ferguson & Co.  
Chartered Accountants  
Dated: March 9, 2020  
Karachi



ADVANS PAKISTAN MICROFINANCE BANK LIMITED  
BALANCE SHEET  
AS AT DECEMBER 31, 2019

Note 2019 2018  
Rupees

ASSETS

Cash and balances with State Bank of Pakistan and  
National Bank of Pakistan  
Balances with other banks and microfinance banks  
Lendings to financial institutions  
Investments - net of provisions  
Advances - net of provisions  
Operating fixed assets  
Other assets  
Deferred tax asset  
Total assets

6	85,774,638	101,998,500
7	230,578,693	28,246,980
	-	-
8	98,482,460	-
9	1,234,713,701	978,030,637
10	180,330,598	97,994,443
11	67,016,896	64,913,943
12	49,349,164	25,416,095
	<u>1,946,246,150</u>	<u>1,296,600,598</u>

LIABILITIES

Deposits and other accounts  
Borrowings  
Subordinated debt  
Other liabilities  
Deferred tax liabilities  
Total liabilities  
Net assets

13	953,719,167	552,310,868
14	300,000,000	100,000,000
	-	-
15	166,533,177	132,807,144
	-	-
	<u>1,420,252,344</u>	<u>785,118,012</u>
	<u>525,993,806</u>	<u>511,482,586</u>

REPRESENTED BY

Share capital  
Reserves  
Depositors' protection fund  
Accumulated losses

16	1,290,163,100	1,290,163,100
	2,989,141	-
	747,285	-
	<u>(768,620,389)</u>	<u>(779,829,667)</u>
	525,279,137	510,333,433

Surplus / (deficit) on revaluation of assets  
Deferred grant

17	714,669	1,149,153
	<u>525,993,806</u>	<u>511,482,586</u>

MEMORANDUM / OFF BALANCE SHEET ITEMS

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



Chief Executive Officer



Chairman



Director



Director

ADVANS PAKISTAN MICROFINANCE BANK LIMITED  
 PROFIT AND LOSS ACCOUNT  
 FOR THE YEAR ENDED DECEMBER 31, 2019

	Note	2019	2018
		---Rupees---	
Mark-up / return / interest earned	19	521,259,166	316,800,013
Mark-up / return / interest expensed	20	(127,822,163)	(51,337,851)
Net mark-up / interest income		393,437,003	265,462,162
Provision against non-performing loans and advances - net	9.3	68,952,919	33,603,375
Provision for diminution in the value of investments		-	-
Bad debts written off directly		68,952,919	33,603,375
Net mark-up / return / interest income after provisions		324,484,084	231,858,787
Non mark-up / non interest income			
Fee, commission and brokerage income	21	70,420,700	48,577,015
Dividend income		-	-
Other income	22	80,917,239	8,206,338
Total non-mark-up / non-interest income		151,337,939	56,783,353
		475,822,023	288,642,140
Non mark-up / non interest expenses			
Administrative expenses	23	474,390,132	390,977,629
Other provision / write offs		-	-
Other operating expenses / other charges	24	1,000,000	11,126,963
Total non mark-up / non interest expenses		475,390,132	402,104,592
Extra ordinary / unusual items		-	-
Profit / (loss) before taxation		431,891	(113,462,452)
Taxation - current	25	9,419,256	4,595,620
- prior	25	-	719,600
- deferred	25	(23,933,069)	(4,568,875)
		(14,513,813)	746,345
Profit / (loss) after taxation		14,945,704	(114,208,797)
Accumulated loss brought forward		(779,829,667)	(665,620,870)
		(764,883,963)	(779,829,667)
Appropriations			
Transfer to:			
Statutory reserve		(2,989,141)	-
Capital reserve		-	-
Depositors' protection fund		(747,285)	-
Revenue reserve		-	-
Proposed cash dividend		-	-
Accumulated loss carried forward		(768,620,389)	(779,829,667)
Earnings / (loss) per share - basic and diluted (Rupee)	26	0.12	(0.89)

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

  
 Chief Executive Officer

  
 Chairman

  
 Director

  
 Director

ADVANS PAKISTAN MICROFINANCE BANK LIMITED  
STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2019

	Share capital	Capital reserve	Statutory reserve	Depositors' protection fund	Accumulated losses	Total
	Rupees					
Balance as at December 31, 2017	1,290,163,100	-	-	-	(665,620,870)	624,542,230
Issue of share capital	-	-	-	-	-	-
Comprehensive loss for the year						
Loss for the year	-	-	-	-	(114,208,797)	(114,208,797)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	-	(114,208,797)	(114,208,797)
Balance as at December 31, 2018	1,290,163,100	-	-	-	(779,829,667)	510,333,433
Comprehensive loss for the year						
Profit for the year	-	-	-	-	14,945,704	14,945,704
Transferred to statutory reserve	-	-	2,989,141	-	(2,989,141)	-
Transferred to depositors' protection fund	-	-	-	747,285	(747,285)	-
Other comprehensive income	-	-	-	-	-	-
Total comprehensive profit for the year	-	-	2,989,141	747,285	11,209,278	14,945,704
Balance as at December 31, 2019	1,290,163,100	-	2,989,141	747,285	(768,620,389)	525,279,137

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



Chief Executive Officer



Chairman



Director



Director

ADVANS PAKISTAN MICROFINANCE BANK LIMITED  
CASH FLOW STATEMENT  
FOR THE YEAR ENDED DECEMBER 31, 2019

	Note	2019	2018
		Rupees	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit / (loss) before taxation		431,891	(113,462,452)
<b>Adjustments:</b>			
Depreciation	10.2	23,975,604	15,106,348
Depreciation on right-of-use asset	10.2	21,274,373	-
Amortisation of intangible assets	10.3	3,772,712	9,548,701
Provision against non performing advances - net	9.3	68,952,919	33,603,375
Gain on disposal of operating fixed assets	22	-	(742,705)
Financial charges on lease liability against right-of-use asset		13,318,069	-
Payment of lease liability against right-of-use asset		(23,579,558)	-
Grant income	17	(1,034,484)	(5,067,949)
		106,679,635	52,447,770
		107,111,526	(61,014,682)
Increase in operating assets		(325,635,983)	(453,016,572)
Advances		(14,818,309)	(19,842,610)
Other assets (excluding advance taxation)		(340,454,292)	(472,859,182)
Increase in operating liabilities		401,408,299	250,685,103
Deposits and other accounts		200,000,000	100,000,000
Borrowings		(52,661,542)	61,510,733
Other liabilities (excluding current taxation)		548,746,757	412,195,836
		315,403,991	(121,678,028)
Income tax paid		(8,322,986)	(5,334,580)
		307,081,005	(127,012,608)
Net cash generated from / (used in) operating activities			
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Investment in operating fixed assets		(23,090,694)	(57,314,984)
Additions to capital work in progress		-	(10,866,448)
Proceeds from disposal of operating fixed assets		-	2,674,000
Net cash used in investing activities		(23,090,694)	(65,507,432)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Grant received during the year	17	600,000	600,000
Net cash generated from financing activities		600,000	600,000
		284,590,311	(191,920,040)
Net increase / (decrease) in cash and cash equivalents during the year		130,245,480	322,165,520
Cash and cash equivalents at the beginning of the year			
Cash and cash equivalents at the end of the year	31	414,835,791	130,245,480

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

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Chief Executive Officer



Chairman



Director



Director

ADVANS PAKISTAN MICROFINANCE BANK LIMITED  
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2019

	2019	2018
	Rupees	
Profit / (loss) for the year after taxation	14,945,704	(114,208,797)
Other comprehensive income		
Total comprehensive income / (loss) for the year	<u>14,945,704</u>	<u>(114,208,797)</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) for Microfinance institutions / banks.

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

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Chief Executive Officer



Chairman



Director



Director



**ADVANS PAKISTAN MICROFINANCE BANK LIMITED**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**1 STATUS AND NATURE OF BUSINESS**

- 1.1 Advans Pakistan Microfinance Bank Limited (the Bank) was incorporated as a public limited company under the repealed Companies Ordinance, 1984 (now Companies Act, 2017) on April 17, 2012 and was granted license by the State Bank of Pakistan on June 28, 2012 to operate as a 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. The Bank operates through branches and service centre spread within the province of Sindh as disclosed in note 28 to these financial statements.

The Bank is a subsidiary of Advans S.A. Sicar (incorporated in Luxembourg) which holds 74.99% (2018: 74.99%) share capital of the Bank.

- 1.2 The Bank's capital (free of losses) amounted to Rs 525.279 million as at December 31, 2019 which is above the minimum capital requirements of Rs. 500 million as at December 31, 2019. The management and sponsors of the Bank are working on a capital injection plan which will ensure that the Bank continues to comply with the minimum regulatory capital requirements in the future as well.

**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 State Bank of Pakistan.

**3 STATEMENT OF COMPLIANCE**

- 3.1 These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards comprise of:
- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Act, 2017;
  - Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Act, 2017;
  - Provisions of and directives issued under the Microfinance Institutions Ordinance, 2001 and the Companies Act, 2017; and
  - Directives issued by the State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP).

Whenever the requirements of the Microfinance Institutions Ordinance, 2001, the Companies Act, 2017 or the directives issued by the SBP and the SECP differ with the requirements of IFRS or IFAS the requirements of the Microfinance Institutions Ordinance, 2001, the Companies Act, 2017 and the said directives, shall prevail.

The SBP, vide its BSD Circular Letter no. 10 dated August 26, 2002 has deferred the applicability of International Accounting Standard 40, Investment Property, for banking companies till further instructions. Further, the SECP, through S.R.O 411(1)/2008 dated April 28, 2008, has deferred the applicability of IFRS 7, Financial Instruments: Disclosures, to banks. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. Additionally, as the SBP has deferred the applicability of IFRS 9 to banks to accounting periods beginning on or after January 1, 2021, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.

- 3.2 **Standards, interpretations and amendments to accounting and reporting standards that have become effective in the current year**

IFRS 16, Leases, became effective for annual reporting periods commencing on or after January 1, 2019. The impact of the adoption of IFRS 16 on the Bank's financial statements is disclosed in note 5.1.

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IFRS 15 introduces a single five step revenue recognition model for all contracts with customers, unless those contracts are in the scope of other standards and, accordingly, has superseded IAS 11 'Construction Contracts', IAS 18 'Revenue' and related interpretations. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to customers. The adoption of IFRS 15 does not have any material impact on the financial statements of the Bank.

In addition, there are certain other new standards and interpretations of and amendments to existing accounting and reporting standards that have become applicable to the Bank for accounting periods beginning on or after January 1, 2019. These are considered either to not be relevant or to not have any significant impact on the bank and are therefore have not been detailed in these financial statements.

### 3.3 Standards, interpretations and amendments to published accounting and reporting standards that are not yet effective

The following revised standards, amendments and interpretations with respect to the accounting and reporting standards would be effective from the dates mentioned below against the respective standard, amendments or interpretation:

Standard, Interpretations or Amendments	Effective date (accounting periods beginning on or after)
- IFRS 3: 'Business combinations' (amendments)	January 1, 2020
- IAS 1: 'Presentation of financial statements' (amendments)	January 1, 2020
- IAS 8: 'Accounting policies, change in accounting estimates and errors' (amendments)	January 1, 2020
- IFRS 9 - Financial Instruments: Classification and Measurement	January 1, 2021

Except for the implementation of IFRS 9 in Pakistan, the Bank expects that adoption of the amendments to existing accounting and reporting standards will not affect its financial statements in the period of initial application.

There are certain new and amended standards and interpretations that are mandatory for the Bank's accounting periods beginning on or after January 1, 2020 but are considered not to be relevant or will not have any significant effect on the Bank's operations and are therefore not detailed in these financial statements.

### 3.4 Critical accounting estimates and judgements

The preparation of financial statements in conformity with accounting and reporting standards, as applicable in Pakistan, requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Significant accounting estimates and areas where judgements were made by management in the application of accounting policies are as follows:

- Depreciation methods, residual values and useful lives of property and equipment (notes 5.3.1 and 10.2).
- Valuation of right-of-use assets and their related lease liability (note 5.3.2).
- Taxation (notes 5.5 and 25).
- Classification of investments (notes 5.6 and 8).

## 4 BASIS OF MEASUREMENT

### 4.1 Accounting convention

These financial statements have been prepared under the historical cost convention except for right-of-use assets and their related lease liability which are measured at their present values.

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## 4.2 Functional and presentation currency

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

## 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are same as those applied in the preparation of financial statements of the Bank for the year ended December 31, 2018 except for the change as mentioned in note 5.1 below:

### 5.1 Change in accounting policy

Effective from January 1, 2019, the Bank has adopted IFRS 16, "Leases" which replaces existing guidance on accounting for leases, including IAS 17 'Leases', IFRIC 4 'Determining whether an arrangement contains a Lease', SIC-15 'Operating Leases- Incentive and SIC-27 'Evaluating the substance of transactions involving the legal form of a Lease'. IFRS 16 introduces, an on balance sheet lease accounting model for lessees entered into by lessee. A lessee recognises a right-of-use asset representing its right-of-use of the underlying asset and a lease liability representing its obligations to make lease payments. Lessor accounting remains similar to the current standard i.e. lessor continues to classify leases as finance or operating leases.

The Bank has adopted IFRS 16 from January 1, 2019 using the modified retrospective restatement approach, and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard.

The Bank has recognised liabilities in respect of leases which had previously been classified as operating leases under IAS 17 except for certain short term leases as permitted under IFRS 16. These liabilities were initially measured at the present value of the remaining lease payments, discounted using the Bank's incremental weighted average borrowing rate of 16.50% per annum as of January 1, 2019. Remeasurement of lease liabilities only occur in cases where the term of the lease are changed during the lease tenor and are recognised as adjustments to the related right-of-use assets after the date of initial application.

The right-of-use assets were initially recognised at the amount equal to lease liability adjusted by the amount of prepaid lease payments recognised in the balance sheet before the date of initial application. On subsequent measurement, right-of-use assets are stated at cost less any accumulated depreciation / accumulated impairment losses and are adjusted for any remeasurement of the lease liability.

Right-of-use assets are depreciated over their expected useful lives using the straight-line method. Depreciation on additions (new leases) is charged from the month in which the leases are entered till the month of disposal.

The impact of change in accounting policy which has been applied with modified retrospective restatement approach is as follows:

	January 01, 2019 Rupees
Total lease liability recognised	<u>92,155,872</u>
The recognised right-of-use assets relate to the following type of asset:	
Property	<u>104,871,228</u>
<b>Impact of IFRS 16</b>	<b>January 01, 2019 Rupees</b>
<b>Impact on balance sheet</b>	
Increase in fixed asset - right-of-use assets	104,871,228
Decrease in other assets - prepayments	(12,715,356)
Increase in total assets	92,155,872
Increase in lease liability against right-of-use assets	92,155,872
<b>Decrease in net assets</b>	<u>-</u>

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## 5.2 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, National Bank of Pakistan and with other banks in current and deposit accounts. These are carried at cost in the balance sheet.

## 5.3 Operating fixed assets

### 5.3.1 Property and equipment

These are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is charged using the straight line method over the estimated useful lives of assets at the rates stated in note 10.2 to these financial statements. Depreciation on additions is charged from the month when the asset is available for use and on disposals upto the month preceding the month of disposal.

The assets residual values, useful lives and depreciation methods, are reviewed and adjusted, if appropriate, at each reporting date.

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

An item of fixed asset is derecognised 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 the profit and loss account.

### 5.3.2 Right-of-use assets and their related lease liability

#### 5.3.2.1 Right-of-use assets

On initial recognition, right-of-use assets are measured at an amount equal to initial lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to be incurred to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located.

Right of-use assets are subsequently stated at cost less any accumulated depreciation / accumulated impairment losses and are adjusted for any remeasurement of lease liability. The remeasurement of lease liability will only occur in cases where the terms of the lease are changed during the lease tenor.

Right-of-use assets are depreciated over their expected useful lives using the straight-line method. Depreciation on additions (new leases) is charged from the month in which the leases are entered till the month of disposal.

#### 5.3.2.2 Lease liability against right-of-use assets

The lease liabilities are initially measured as the present value of the remaining lease payments, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Bank's incremental borrowing rate.

The lease liability is subsequently measured at amortised cost using the effective interest rate method. The lease liability is also remeasured to reflect any reassessment or change in lease terms. These remeasurements of lease liabilities are recognised as adjustments to the carrying amount of related right-of-use assets after the date of initial recognition.

Each lease payment is allocated between a reduction of the liability and a finance cost. The finance cost is charged to the profit and loss account as financial charges over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

### 5.3.3 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 losses, if any.

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### 5.3.4 Intangible assets

Intangible assets with definite useful lives are stated at cost less accumulated amortisation and accumulated impairment losses, if any. These are amortised using the straight line method over their estimated useful lives at the rates mentioned in note 10.3.

Amortisation on additions is charged from the month in which the assets are available for use while no amortisation is charged in the month in which the assets are disposed of.

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

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

### 5.3.5 Impairment

The Bank assesses at the 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 these are recorded in excess of their recoverable amount. Recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognised in the profit and loss account.

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 recognised as income in the profit and loss account.

## 5.4 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 for Microfinance Banks issued by the State Bank of Pakistan and are charged to the profit and loss account. Advances are written off in accordance with the Prudential Regulations for Microfinance Banks or when there is no realistic prospect of recovery.

## 5.5 Taxation

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

### 5.5.1 Current and prior year taxation

Provision for current taxation is based on the taxable income at the current rates of taxation after taking into account available tax credits and rebates. The charge for current tax also includes adjustments, where considered necessary relating to prior years, which arises from assessments / developments finalised / made during the year.

### 5.5.2 Deferred

Deferred tax is recognised using the balance sheet liability method, on all temporary differences arising at the reporting 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 reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised.

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

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## 5.6 Investments

The investments of the Bank, upon initial recognition, are classified as held-for-trading, held-to-maturity and available-for sale, as appropriate, based on the purpose for which these are acquired.

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 in the profit and loss account.

All purchases and sales of investments that require delivery within the timeframe established by regulations or market conventions are recognised at the trade date. Trade date is the date on which the Bank commits to purchase or sell the investment.

### Held-for-trading

These are 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 the profit and loss account.

### Held-to-maturity

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

### Available-for-sale

These are securities which do not fall under the held-for-trading and held-to-maturity categories. After initial measurement, all 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 acquisition of securities classified as "available-for-sale" and "held-to-maturity" is amortised using the effective interest method and taken to the profit and loss account.

Impairment loss in respect of investments categorised as available for sale and held to maturity is recognised based on management's assessment of objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of the investments. Provision for impairment in the value of equity securities is made after considering objective evidence of impairment. A significant or prolonged decline in the fair value of a listed equity investment below its cost is also considered an objective evidence of impairment. In case of impairment of "available for sale" securities, the cumulative loss that has been recognised directly in surplus / deficit on revaluation of securities on the balance sheet below equity is removed therefrom and recognised in the profit and loss account. Impairment on equity instruments is not reversed through profit and loss account.

## 5.7 Provisions

Provisions are recognised 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 reporting date and are adjusted to reflect the current best estimate.

## 5.8 Statutory reserve

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

## 5.9 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.

## 5.10 Cash reserve

In compliance with the related regulatory requirements, the Bank is required to maintain a cash reserve equivalent to not less than 5% of its deposits (including demand deposits and time deposits with tenor of less than 1 year) in a current account opened with the State Bank of Pakistan or its agent.

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### 5.11 Statutory liquidity requirement

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

### 5.12 Deposits

Deposits are initially recorded at the amount of proceeds received. Mark-up on deposits is accrued on a time proportion basis.

### 5.13 Grants

The grant related to an asset is recognised in the balance sheet when there is a reasonable certainty that it will be received and the Bank will comply with the condition(s) 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 recognised in the profit and loss account on a systematic basis over the life of the asset.

### 5.14 Revenue recognition

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

### 5.15 Financial instruments

#### 5.15.1 Financial assets and financial liabilities

Financial assets and financial liabilities are recognised at the time when the Bank becomes a party to the contractual provisions of the instrument. At the time of initial recognition, all the financial assets and 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, amortised 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.

#### 5.15.2 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.

#### 5.15.3 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 amounts and the Bank intends either to settle on a net basis, or to realise the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also off-set and the net amount is reported in the financial statements.

### 5.16 Foreign currency transactions and translations

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 the profit and loss account.

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## 5.17 Share capital

Ordinary shares are classified as equity and are recorded at their face value.

## 5.18 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS, if any, is determined by adjusting the profit and loss account 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, 2019 and December 31, 2018.

## 5.19 Dividend and other appropriations

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

## 5.20 Staff retirement benefits

### 5.2.1 Contributory provident fund

The Bank operates an approved contributory provident fund for all employees. Monthly equal contributions are made to the fund by the Bank and the employees at the rate of 10% of basic salary.

	Note	2019	2018
		-----Rupees-----	
<b>6 CASH AND BALANCES WITH STATE BANK OF PAKISTAN AND NATIONAL BANK OF PAKISTAN</b>			
Cash in hand		56,942,308	49,364,936
Balances with State Bank of Pakistan (SBP)	6.1	28,832,330	52,633,564
Balance with National Bank of Pakistan (NBP)		-	-
		<u>85,774,638</u>	<u>101,998,500</u>

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

	Note	2019	2018
		-----Rupees-----	
<b>7 BALANCES WITH OTHER BANKS AND MICROFINANCE BANKS</b>			
In Pakistan:			
- Current accounts		473,663	14,515,967
- PLS deposit accounts	7.1	230,105,030	13,731,013
		<u>230,578,693</u>	<u>28,246,980</u>

7.1 These include deposits with commercial banks carrying mark-up rate ranging from 5.5% to 13% (2018: 5.5% to 9%) per annum.

## 8 INVESTMENTS - NET OF PROVISIONS

### 8.1 Investments by type:

2019				2018			
Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value
----- Rupees -----				----- Rupees -----			

#### Held-to-Maturity securities

##### Federal Government Securities

- Market Treasury Bills

98,482,460	-	-	98,482,460	-	-	-	-
<u>98,482,460</u>	<u>-</u>	<u>-</u>	<u>98,482,460</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Total Investments

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## 8.2 Investments by segments:

	2019				2018			
	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value
	----- Rupees -----				----- Rupees -----			
<b>Federal Government Securities</b>								
- Market Treasury Bills	98,482,460	-	-	98,482,460	-	-	-	-
<b>Total Investments</b>	<b>98,482,460</b>	<b>-</b>	<b>-</b>	<b>98,482,460</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 9 ADVANCES - NET OF PROVISIONS

	Note	2019		2018	
		Number of loans outstanding	Amount outstanding	Number of loans outstanding	Amount outstanding
		Rupees		Rupees	
Micro credit	9.1	11,466	1,269,590,951	11,018	998,490,212
Less: Provision held					
- Specific	9.1 & 9.2	1,302	23,342,151	604	11,230,523
- General	9.3	-	11,535,099	-	9,229,052
			(34,877,250)		(20,459,575)
			<b>1,234,713,701</b>		<b>978,030,637</b>

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

## 9.2 Particulars of non-performing advances

Advances include Rs 65,054,252 (2018: Rs 28,394,151) which have been placed under non-performing status as detailed below:

Category of classification	2019			2018		
	Amount outstanding	Provision required	Provision held	Amount outstanding	Provision required	Provision held
	Rupees			Rupees		
Other assets especially mentioned	16,351,827	-	-	5,544,330	-	-
Substandard	14,335,668	3,583,917	3,583,917	6,994,431	1,748,601	1,748,601
Doubtful	29,217,047	14,608,524	14,608,524	12,746,938	6,373,470	6,373,470
Loss	5,149,710	5,149,710	5,149,710	3,108,452	3,108,452	3,108,452
	<b>65,054,252</b>	<b>23,342,151</b>	<b>23,342,151</b>	<b>28,394,151</b>	<b>11,230,523</b>	<b>11,230,523</b>

## 9.3 Particulars of provision against non-performing advances

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

	2019			2018		
	Specific	General	Total	Specific	General	Total
	(Note 9.3.1)			(Note 9.3.1)		
	Rupees			Rupees		
Opening balance	11,230,523	9,229,052	20,459,575	3,867,181	5,298,316	9,165,497
Charge for the year						
- On non-performing advances	66,648,025	3,494,794	70,142,819	29,869,822	3,931,389	33,801,211
Reversals	(1,153)	(1,188,747)	(1,189,900)	(197,183)	(653)	(197,836)
	66,646,872	2,306,047	68,952,919	29,672,639	3,930,736	33,603,375
Amount written off	(54,535,244)	-	(54,535,244)	(22,309,297)	-	(22,309,297)
Closing balance	<b>23,342,151</b>	<b>11,535,099</b>	<b>34,877,250</b>	<b>11,230,523</b>	<b>9,229,052</b>	<b>20,459,575</b>

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

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9.4	Particulars of write offs:	Note	2019	2018
			-----Rupees-----	
	Against provisions		54,535,244	22,309,297
	Directly charged to profit and loss account		-	-
			<u>54,535,244</u>	<u>22,309,297</u>

## 10 OPERATING FIXED ASSETS

Capital work-in-progress	10.1	996,197	12,990,448
Property and equipment	10.2	176,553,427	79,451,949
Intangible assets	10.3	2,780,974	5,552,046
		<u>180,330,598</u>	<u>97,994,443</u>

### 10.1 Capital work-in-progress

Civil works	-	4,902,466
Equipment	996,197	-
Advances to suppliers and contractors	-	8,087,982
	<u>996,197</u>	<u>12,990,448</u>

### 10.2 Property and equipment

	2019								Annual rate of depreciation
	COST				DEPRECIATION			Net book value at December 31, 2019	
	At January 01, 2019	Impact of adoption of IFRS 16	Additions / (disposal)	At December 31, 2019	At January 01, 2019	Charge for the year / disposal	At December 31, 2019		
	-----Rupees-----								%
Owned									
Leasehold improvements	37,613,269	-	9,414,543	47,027,812	10,309,043	4,622,590	14,931,633	32,096,179	10
Furniture and fixtures	14,517,844	-	3,844,996	18,362,840	7,167,946	2,721,387	9,889,333	8,473,507	20
Office and other equipment	46,392,052	-	10,684,903	57,076,955	19,231,494	8,906,034	28,137,528	28,939,427	20
Computer equipment	46,891,334	-	10,019,363	56,910,697	36,681,992	7,207,243	43,889,235	13,021,462	33
Vehicles	15,189,776	-	119,500	15,309,276	7,761,851	518,350	8,280,201	7,029,075	20
Right-of-use asset (note 5.1)	-	104,871,228	3,396,922	108,268,150	-	21,274,373	21,274,373	86,993,777	13 - 100
	160,604,275	104,871,228	37,480,227	302,955,730	81,152,326	45,249,977	126,402,303	176,553,427	

	2018							
	COST			DEPRECIATION			Net book value at December 31, 2018	Annual rate of depreciation
	At January 01, 2018	Additions / (disposals)	At December 31, 2018	At January 01, 2018	Charge for the year / disposal	At December 31, 2018		
	-----Rupees-----							%
Owned								
Leasehold improvements	22,068,122	15,545,147	37,613,269	7,310,739	2,998,304	10,309,043	27,304,226	10
Furniture and fixtures	9,535,281	4,994,263 (11,700)	14,517,844	5,255,619	1,924,027 (11,700)	7,167,946	7,349,898	20
Office and other equipment	25,123,640	21,268,412	46,392,052	13,933,075	5,298,419	19,231,494	27,160,558	20
Computer equipment	37,481,514	9,409,820	46,891,334	32,314,260	4,367,732	36,681,992	10,209,342	33
Vehicles	14,552,137	4,480,000 (3,842,361)	15,189,776	9,155,051	517,866 (1,911,066)	7,761,851	7,427,925	20
	108,760,694	55,697,642 (3,854,061)	160,604,275	67,968,744	15,106,348 (1,922,766)	81,152,326	79,451,949	

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10.2.1 Property and equipment include assets costing Rs 48,955,780 (2018: Rs 45,081,354) which are fully depreciated and are still in use.

### 10.3 Intangible assets

	2019						Net book value at December 31, 2019	Annual rate of amortisation
	COST			AMORTISATION				
	At January 01, 2019	Additions	At December 31, 2019	At January 01, 2019	Charge for the year	At December 31, 2019		
	Rupees							%
Core banking application and other licenses	54,176,967	651,640	54,828,607	50,312,993	3,385,202	53,698,195	1,130,412	25
Computer software	7,967,507	350,000	8,317,507	6,279,435	387,510	6,666,945	1,650,562	25
	<u>62,144,474</u>	<u>1,001,640</u>	<u>63,146,114</u>	<u>56,592,428</u>	<u>3,772,712</u>	<u>60,365,140</u>	<u>2,780,974</u>	
	2018							
	COST			AMORTISATION			Net book value at December 31, 2018	Annual rate of amortisation
	At January 01, 2018	Additions	At December 31, 2018	At January 01, 2018	Charge for the year	At December 31, 2018		
	Rupees							
Core banking application and other licenses	54,043,442	133,525	54,176,967	42,201,747	8,111,246	50,312,993	3,863,974	25
Computer software	6,483,690	1,483,817	7,967,507	4,841,980	1,437,455	6,279,435	1,688,072	25
	<u>60,527,132</u>	<u>1,617,342</u>	<u>62,144,474</u>	<u>47,043,727</u>	<u>9,548,701</u>	<u>56,592,428</u>	<u>5,552,046</u>	

10.3.1 Intangible assets include software costing Rs 57,500,332 (2018: Rs 26,728,687) which is fully amortised and still in use.

11 OTHER ASSETS	Note	2019	2018
		Rupees	
Prepayments for			
- rent		16,489,729	29,284,636
- insurance		3,210,844	1,885,220
- others		1,680,404	1,146,705
Mark-up / return / interest accrued		34,252,214	22,489,104
Receivable from a related party	11.1	2,298,804	1,352,538
Advances to staff		3,338,355	3,667,873
Security deposits		3,254,780	5,033,300
Accrued income on PLS savings account		1,804,934	-
Others		686,832	54,567
		<u>67,016,896</u>	<u>64,913,943</u>

11.1 This represents amount receivable from Advans S.A. Sicar (holding company).

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## 12 DEFERRED TAX ASSET

Deferred tax comprises of deductible and taxable timing differences in respect of the following:

	2019	2018
	-----Rupees-----	
<b>Deductible temporary differences arising in respect of</b>		
- Unabsorbed tax depreciation and amortisation	45,232,751	25,288,906
- Intangible assets	-	244,885
- Provision against non-performing loans	5,275,808	612,010
	50,508,559	26,145,801
<b>Taxable temporary differences arising due to</b>		
- Property and equipment	(1,149,824)	(729,706)
- Intangible assets	(9,571)	-
	(1,159,395)	(729,706)
	<u>49,349,164</u>	<u>25,416,095</u>

- 12.1 The Bank has unabsorbed tax loss of Rs 688,627,355 [including unabsorbed tax depreciation and amortisation amounting to Rs 170,583,528 as at December 31, 2019]. The management has recognised deferred tax asset of Rs 45,232,751 (2018: Rs 25,288,096) on unabsorbed tax depreciation and amortisation. The deferred tax asset has been recorded based on the financial projections of the Bank which have been prepared by the management. The financial projections prepared by the management are based on assumptions which are linked to various variable factors such as growth in enterprise loans, expansion in gold-backed loans, microloans, productivity, growth in loan size, effective interest rate etc. expected to be achieved during the next three years.

## 13 DEPOSITS AND OTHER ACCOUNTS

	2019		2018	
	Number of accounts	Rupees	Number of accounts	Rupees
Fixed deposits	573	689,276,202	288	290,065,702
Saving deposits	1,168	185,936,939	1,104	171,704,275
Current deposits	29,739	78,506,026	22,030	90,540,891
	<u>31,480</u>	<u>953,719,167</u>	<u>23,422</u>	<u>552,310,868</u>

### 13.1 Particulars of deposits by ownership

Individual depositors	31,286	920,570,594	23,250	551,068,843
Institutional depositors				
- Corporation / firms etc.	194	33,148,573	172	1,242,025
- Banks and financial institutions	-	-	-	-
	<u>31,480</u>	<u>953,719,167</u>	<u>23,422</u>	<u>552,310,868</u>

	Note	2019	2018
		-----Rupees-----	
<b>14 BORROWINGS</b>			
Borrowings from Banks / Financial Institutions in Pakistan	14.1 & 14.2	<u>300,000,000</u>	<u>100,000,000</u>

### 14.1 Details of borrowings from financial institutions

<b>Secured</b>			
Borrowing from Non-Banking Finance Company (NBFC)	14.2	<u>300,000,000</u>	<u>100,000,000</u>

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- 14.2 During the year 2018, the Bank entered into an agreement with the Pakistan Microfinance Investment Company (PMIC) - NBFC for a term finance facility of Rs. 300 million. The Bank was entitled to obtain this facility during the period from July 1, 2018 till June 30, 2019 as per the agreement. The Bank has availed full facility in four tranches, two of Rs. 50 million each in the prior year and two further tranches of Rs. 100 million each in the current year. The facility carries mark-up at the rate of average six months KIBOR plus 4 percent (to be set at the start of each quarter). The facility is secured by way of hypothecation of fixed assets of the Bank and demand promissory notes and is repayable by September 2020.

	Note	2019	2018
		-----Rupees-----	
<b>15 OTHER LIABILITIES</b>			
Mark-up / return / interest payable		37,292,525	27,288,705
Accrued expenses		23,667,100	22,955,898
Payable to related parties	15.1	2,675,353	76,435,075
Withholding tax payable		15,063,311	3,854,157
Provident fund payable		907,897	-
Payable to employee old age benefit institution		397,402	604,640
Current taxation (provisions less payments)		1,237,884	141,614
Bonus payable to executives		-	1,526,655
Lease liability against right-of-use assets	5.1	85,291,305	-
Others		400	400
		<u>166,533,177</u>	<u>132,807,144</u>

- 15.1 This include amounts of Rs 2,669,026 (2018: Rs 2,669,026) and Rs 6,327 (2018: Rs 6,327) payable to Advans S.A. Sicar - holding company and FMO (Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.) - Netherlands respectively.

## 16 SHARE CAPITAL

### 16.1 Authorised capital

2019	2018		Note	2019	2018
Number of shares				-----Rupees-----	
<u>150,000,000</u>	<u>150,000,000</u>	Ordinary shares of Rs 10 each		<u>1,500,000,000</u>	<u>1,500,000,000</u>

### 16.2 Issued, subscribed and paid-up share capital

2019	2018			2019	2018
Number of shares				-----Rupees-----	
<u>129,016,310</u>	<u>129,016,310</u>	Ordinary shares of Rs 10 each		<u>1,290,163,100</u>	<u>1,290,163,100</u>
		fully paid in cash			

#### 16.2.1 Share capital has been subscribed by the following:

	Note	2019	2018
		Number of shares	
Advans S.A. Sicar - Luxembourg	16.3	96,751,309	96,751,309
FMO (Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.) - Netherlands	16.4	32,265,000	32,265,000
Claude Falgon - Chairman Advans Pakistan Microfinance Bank Limited		1	1
		<u>129,016,310</u>	<u>129,016,310</u>

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### 16.2.2 Movement in issued, subscribed and paid-up share capital

	2019			2018			2019	2018
	Issued for cash	Issued as bonus shares	Total	Issued for cash	Issued as bonus shares	Total		
	Number of shares			Rupees				
Opening balance	129,016,310	-	129,016,310	129,016,310	-	129,016,310	1,290,163,100	1,290,163,100
Shares issued during the year	-	-	-	-	-	-	-	-
Closing balance	129,016,310	-	129,016,310	129,016,310	-	129,016,310	1,290,163,100	1,290,163,100

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

16.4 This represents shares owned by one of the sponsors deposited in blocked account with the Central Depository Company of Pakistan Limited in terms of BPRD Circular No. 9 of 2009 and under SBP License No. MFI-012 dated June 28, 2012.

	Note	2019	2018
		-----Rupees-----	
<b>17 DEFERRED GRANT</b>			
Opening balance	17.1	1,149,153	5,617,102
Grant received during the year from:			
State Bank of Pakistan	17.2	600,000	600,000
Grant income recognised during the year	17.1 & 17.2	(1,034,484)	(5,067,949)
		<u>714,669</u>	<u>1,149,153</u>

17.1 This represents grant from the State Bank of Pakistan (SBP) as part of Institutional Strengthening Fund (ISF) under an agreement entered into by the Bank with SBP dated April 28, 2014 for the project relating to "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 agreed to provide an amount of Rs 35,249,089 with matching contribution of at least 25 percent of the project cost by the Bank. The Bank has completed the activities covered under the agreement. Accordingly, as per the requirement of International Accounting Standards (IAS) 20 'Government Grants', an amount of Rs. 1,034,484 (2018: Rs. 4,582,614) relating to depreciable assets i.e. Alternative Delivery Channels, has been recognised in the profit and loss account of the Bank as "other income".

17.2 This represents grant received from the State Bank of Pakistan (SBP) vide circular letter no. 4 of 2017 in respect of financial assistance. Accordingly, the Bank was entitled to receive Rs. 1.2 million out of which the first tranche of Rs. 0.6 million was received during the year ended December 31, 2018 and second tranche has been received during the current year.

	Note	2019	2018
		-----Rupees-----	
<b>18 MEMORANDUM / OFF BALANCE SHEET ITEMS</b>			
Bills for collection		-	-
Acceptances, endorsements and other obligations contingent liabilities		-	-
Commitments for fixed capital expenditure		-	-
		<u>-</u>	<u>-</u>

18.1 There were no contingencies as at December 31, 2019 and December 31, 2018.

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	Note	2019	2018
		-----Rupees-----	
<b>19 MARK-UP / RETURN / INTEREST EARNED</b>			
Interest / mark-up on:			
Advances		500,121,989	307,792,439
Government Securities - Market Treasury bills		10,050,213	4,394,599
Banks and financial institutions			
- Term deposits		-	4,446,260
- Deposit accounts		11,086,964	166,715
		<u>521,259,166</u>	<u>316,800,013</u>
<b>20 MARK-UP / RETURN / INTEREST EXPENSED</b>			
Interest / mark-up on deposits		85,062,766	50,098,810
Interest / mark-up on borrowing		42,759,397	1,239,041
		<u>127,822,163</u>	<u>51,337,851</u>
<b>21 FEE, COMMISSION AND BROKERAGE INCOME</b>			
Loan processing fee		60,989,383	39,817,136
Other fee and commission		9,431,317	8,759,879
		<u>70,420,700</u>	<u>48,577,015</u>
<b>22 OTHER INCOME</b>			
Grant income	17	1,034,484	5,067,949
Recoveries against write-offs		3,210,169	2,232,379
Recoveries from Credit Guarantee Scheme		2,296,874	123,113
Liabilities no longer required written back	22.1	73,759,722	-
Gain on disposal of operating fixed assets		-	742,705
Others		615,990	40,192
		<u>80,917,239</u>	<u>8,206,338</u>
<b>22.1</b>	This represents reversal of liability in respect of technical service fee provided by a related party, Advans International (formerly Horus Development Finance). The liability was transferred by Advans International to Advans S.A., Sicar. Thereafter, the Board of Directors of Advans S.A., Sicar in their meeting held on June 25, 2019 approved for waiver of the technical services liability and accordingly the liability was reversed.		
	Note	2019	2018
		-----Rupees-----	
<b>23 ADMINISTRATIVE EXPENSES</b>			
Salaries and other allowances	23.1 & 23.2	233,677,018	164,032,292
Staff welfare		2,241,840	2,487,269
Director's remuneration		-	-
Non executive directors' fees, allowances and other expenses		785,570	982,360
Training and business development		1,239,267	916,843
Rent, rates and taxes		22,100,328	38,140,666
Legal and professional charges		4,433,254	4,340,834
Utilities		12,436,765	9,064,853
Communications		9,305,669	5,635,796
Repairs and maintenance - others		16,790,901	12,034,248
Repairs and maintenance - Vehicles		5,107,220	3,911,201
Financial charges on leased assets		13,318,069	-
Donations	23.3	-	10,000
Fuel for generator		10,303,358	5,034,521
Insurance		8,556,621	7,973,414
Travelling and conveyance		37,886,180	21,869,233
Printing and stationery		8,733,262	4,811,850
Fees and subscription		7,517,531	5,407,208
Technical assistance fee	23.4	-	45,478,287
Security charges		12,057,965	7,980,366
Advertisement and publicity		4,291,800	2,476,387
Auditors' remuneration	23.5	2,343,802	3,947,917

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	Note	2019	2018
		-----Rupees-----	
Depreciation	10.2	23,975,604	15,106,348
Depreciation of ROUA	10.2	21,274,373	-
Amortisation of intangible assets	10.3	3,772,712	9,548,701
Bank charges		4,531,806	2,540,509
Office supplies		387,411	163,514
Janitorial charges		4,433,946	3,760,868
Other expenses		2,887,860	13,322,144
		<u>474,390,132</u>	<u>390,977,629</u>
23.1 This includes amount of Rs 93,511,376 (2018: Rs 66,913,146) related to remuneration of key management personnel.			
23.2 This includes amount of Rs 5,724,850 (2018: Rs 3,550,494) related to Provident Fund.			
23.3 Any Director / Executive of the Bank or their spouse does not have interest in the donee.			
23.4 This represents fee payable under relevant agreements to Advans International (formerly Horus Development Finance) (a related party) for providing technical support and software maintenance services.			
	Note	2019	2018
23.5 Auditors' remuneration		-----Rupees-----	
Audit fee		1,250,001	1,093,675
Half-yearly review fee		636,803	-
Fee for other certifications		200,000	2,486,000
		<u>2,086,804</u>	<u>3,579,675</u>
Sindh sales tax		166,944	286,374
Out of pocket expenses		90,054	81,868
		<u>2,343,802</u>	<u>3,947,917</u>
24 OTHER OPERATING EXPENSES / OTHER CHARGES			
Exchange loss		-	11,126,963
Penalties imposed by State Bank of Pakistan	24.1	1,000,000	-
		<u>1,000,000</u>	<u>11,126,963</u>
24.1 This was charged due to non-compliance with the relevant provisions of payment systems and electronic fund transfer Act, 2007 . Subsequently, the Bank has discontinued all the existing cards.			
	Note	2019	2018
25 TAXATION		-----Rupees-----	
For the year			
- Current	25.1	9,419,256	4,595,620
- Prior		-	719,600
- Deferred	25.2	(23,933,069)	(4,568,875)
		<u>(14,513,813)</u>	<u>746,345</u>
25.1 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.			
25.2 Deferred tax debit balance represents benefit of tax losses relating to prior years which relate to unabsorbed depreciation and amortisation and can be carried forward for an indefinite period.			
26 EARNINGS / (LOSS) PER SHARE			
26.1 Basic		2019	2018
Earnings / (loss) for the year	Rupees	<u>14,945,704</u>	<u>(114,208,797)</u>
Weighted average number of ordinary shares	Number	<u>129,016,310</u>	<u>129,016,310</u>
Earnings / (loss) per share	Rupee	<u>0.12</u>	<u>(0.89)</u>

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**26.2 Diluted**

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

**27 NUMBER OF EMPLOYEES**

	2019			2018		
	Credit / Sales staff	Banking / Support staff	Total	Credit / Sales staff	Banking / Support staff	Total
	-----Number-----			-----Number-----		
Permanent	150	168	318	183	174	357
Contractual	-	-	-	-	-	-
Total	<u>150</u>	<u>168</u>	<u>318</u>	<u>183</u>	<u>174</u>	<u>357</u>

27.1 Average number of employees during the year were 338 (2018: 284).

**28 NUMBER OF BRANCHES**

	2019		2018	
	Branches	Service Centre	Branches	Service Centre
At the beginning of the year	11	-	8	-
Add: Opened during the year	2	-	3	-
At the end of the year	<u>13</u>	<u>-</u>	<u>11</u>	<u>-</u>

**29 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		Directors		Executives	
	2019	2018	2019	2018	2019	2018
	-----Rupees-----		-----Rupees-----		-----Rupees-----	
Fee	-	-	785,570	982,360	-	-
Managerial remuneration	15,156,553	13,335,530	-	-	43,961,055	30,889,158
Contribution to defined contribution plan	-	-	-	-	2,821,435	1,785,110
Rent and house maintenance	-	-	-	-	14,107,206	11,004,061
Utilities	1,515,095	1,333,509	-	-	7,181,112	5,289,302
Medical	1,515,095	1,333,509	-	-	4,396,086	3,088,490
Conveyance Allowance	1,848,438	1,893,384	-	-	5,679,174	4,401,625
Other benefits	17,895,965	13,307,338	-	-	18,529,331	14,352,507
	<u>37,931,146</u>	<u>31,203,270</u>	<u>785,570</u>	<u>982,360</u>	<u>96,675,399</u>	<u>70,810,253</u>
Number of persons during the year	<u>2*</u>	<u>1</u>	<u>2</u>	<u>2</u>	<u>67</u>	<u>47</u>

\*New CEO was appointed during the year with effect from August 19, 2019.

The Chief Executive Officer (CEO) and head of departments are provided with use of Bank's maintained car.

**30 RELATED PARTY TRANSACTIONS**

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

Transactions with related parties have been specifically disclosed in the relevant notes to these financial statements.

**31 CASH AND CASH EQUIVALENTS**

	Note	2019	2018
		-----Rupees-----	
Cash and balances with State Bank of Pakistan and National Bank of Pakistan	6	85,774,638	101,998,500
Balances with other banks and microfinance banks in current and deposit accounts	7	230,578,693	28,246,980
Market treasury bills	8	<u>98,482,460</u>	<u>-</u>
		<u>414,835,791</u>	<u>130,245,480</u>

31.1 As the market treasury bills of the Bank have original maturity of less than three months, therefore, these have been classified as "Cash and cash equivalents" as per the requirements of IAS 7 "Statement of Cash Flows".

Annex

## 32 CAPITAL RISK MANAGEMENT

**32.1** 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.

### 32.2 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.

### 32.3 Statutory minimum capital requirement and management of capital

**32.3.1** 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, 2019, the share capital of the Bank stood at Rs 1,290,163,100 and paid up capital of the Bank free of losses is Rs 525,279,137. Hence, the Bank is in compliance with the aforesaid requirement. However, the paid up capital of the bank free of losses during the period from January 2019 to May 2019 was below the minimum amount of Rs.500,000,000 and the same was communicated to the State Bank of Pakistan.

**32.3.2** 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" as required by the Prudential Regulations for Microfinance Banks / Institutions which is 15% of risk weighted assets. The calculation of capital adequacy enables the Bank to assess the long-term financial viability. As the Bank has plans to establish a wide network of branches to conduct business therefore, it is critical that the Bank 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, 2019, the Bank's net equity and Capital Adequacy Ratio stood at Rs 525,279,137 (2018: Rs 510,333,433) and 31.22% (2018: 42.88%) respectively as against the minimum requirement of Rs 500,000,000 and 15% prescribed by the SBP.

## 33 FINANCIAL ASSETS AND LIABILITIES

2019							
Effective yield / interest rate	Interest bearing				Sub total	Non-interest bearing financial instruments	Total
	Upto 6 months	Over 6 months to one year	Over 1 year up to five years	Over five years			
-----Rupees-----							
	-	-	-	-	-	85,774,638	85,774,638
5.5% - 13%	230,105,030	-	-	-	230,105,030	473,663	230,578,693
	98,482,460	-	-	-	98,482,460	-	98,482,460
30% - 49%	301,104,909	580,780,592	352,828,200	-	1,234,713,701	-	1,234,713,701
	-	-	-	-	-	45,635,919	45,635,919
	629,692,399	580,780,592	352,828,200	-	1,563,301,191	131,884,220	1,695,185,411
8% - 17%	304,728,939	405,477,946	165,006,256	-	875,213,141	78,506,026	953,719,167
Kibor + 4%	-	150,000,000	150,000,000	-	300,000,000	-	300,000,000
	-	-	85,291,305	-	85,291,305	64,543,275	149,834,580
	304,728,939	555,477,946	400,297,561	-	1,260,504,446	143,049,301	1,403,553,747

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2018							
Effective yield / interest rate	Interest bearing				Sub total	Non-interest bearing financial instruments	Total
	Upto 6 months	Over 6 months to one year	Over 1 year up to five years	Over five years			

Rupees

**Financial assets**

Cash and balances with SBP / NBP	-	-	-	-	-	101,998,500	101,998,500	
Balances with other banks								
and microfinance banks	5.5% - 9%	13,731,013	-	-	-	13,731,013	14,515,967	28,246,980
Advances - net of provisions	26% - 45%	256,644,745	611,480,879	109,905,013	-	978,030,637	-	978,030,637
Other assets		-	-	-	-	-	32,597,382	32,597,382
		270,375,758	611,480,879	109,905,013	-	991,761,650	149,111,849	1,140,873,499

**Financial liabilities**

Deposits and other accounts	8% - 14%	233,052,983	223,528,994	5,188,000	-	461,769,977	90,540,891	552,310,868
Borrowings	Kibor + 4%	-	-	100,000,000	-	100,000,000	-	100,000,000
Other liabilities		-	-	-	-	-	128,206,733	128,206,733
		233,052,983	223,528,994	105,188,000	-	561,769,977	218,747,624	780,517,601

**33.1 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 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 balances and term deposits can be assessed with reference to external credit ratings as follows:

	Rating Agency	Short Term Rating	Long Term Rating
Allied Bank Limited	PACRA	A1+	AAA
Habib Bank Limited	VIS	A-1+	AAA
United Bank Limited	VIS	A-1+	AAA
Samba Bank Limited	VIS	A-1	AA

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 follows SBP provisioning policy therefore, the provision held is considered to be adequate to cover any anticipated loss that may arise due to the default of customers.

**33.2 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 assets. At present the Bank is not exposed to this risk as there is sufficient cash placed with various commercial banks at the year end.

**33.3 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 the other two risks and their management are explained below:

**33.3.1 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. The Bank's interest rate exposure is low due to the short term nature of the majority of business transactions.

A change of 100 basis points in interest rates at the year end would have increased or decreased the loss for the year and shareholders equity by Rs 29,462 (2018: Rs 11,431). This analysis assumes that all other variables remain constant. This analysis is performed on the same basis as for 2018.

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### 33.3.2 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. At December 31, 2019, the Bank is not exposed to currency risk. The Bank was exposed to currency risk at December 31, 2018, due to amounts payable in Euros to related parties. These amounts have been waived by related parties during the current year.

### 33.3.3 Other price risk

The Bank is not currently exposed to other price risk.

### 33.4 Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer / settle a liability in an orderly transaction between market participants at the measurement date.

Fair value estimation:

The Bank discloses the financial instruments measured in the balance sheet at fair value in accordance with the following fair value hierarchy that reflects the significance of inputs in making the measurements. The fair value hierarchy has the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at year end, there are no financial instruments carried at fair value which require classification in the above mentioned levels.

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values as the items are short term in nature.

### 34 SCHEDULE OF MATURITY DISTRIBUTION OF MARKET RATE ASSETS AND LIABILITIES

	2019				
	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
-----Rupees-----					
<b>Market rate assets</b>					
Advances - net of provisions	1,234,713,701	30,613,412	270,491,497	580,780,592	352,828,200
Other earning assets	328,587,490	230,105,030	98,482,460	-	-
<b>Total market rate assets</b>	<b>1,563,301,191</b>	<b>260,718,442</b>	<b>368,973,957</b>	<b>580,780,592</b>	<b>352,828,200</b>
Other non-earning assets	382,944,959	86,248,301	-	67,016,896	229,679,762
<b>Total assets</b>	<b>1,946,246,150</b>	<b>346,966,743</b>	<b>368,973,957</b>	<b>647,797,488</b>	<b>582,507,962</b>
<b>Market rate liabilities</b>					
Deposits	953,719,167	270,577,965	112,657,000	405,477,946	165,006,256
Borrowings	300,000,000	-	-	-	300,000,000
<b>Total market rate liabilities</b>	<b>1,253,719,167</b>	<b>270,577,965</b>	<b>112,657,000</b>	<b>405,477,946</b>	<b>465,006,256</b>
Other non-interest bearing liabilities	166,533,177	166,533,177	-	-	-
<b>Total liabilities</b>	<b>1,420,252,344</b>	<b>437,111,142</b>	<b>112,657,000</b>	<b>405,477,946</b>	<b>465,006,256</b>

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	2018				
Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year	
--Rupees--					
Market rate assets					
Advances - net of provisions	978,030,637	31,987,168	224,657,577	611,480,879	109,905,013
Other earning assets	13,731,013	13,731,013	-	-	-
Total market rate assets	991,761,650	45,718,181	224,657,577	611,480,879	109,905,013
Other non-earning assets	304,838,948	116,514,467	-	64,913,943	123,410,538
Total assets	1,296,600,598	162,232,648	224,657,577	676,394,822	233,315,551
Market rate liabilities					
Deposits	552,310,868	270,424,797	53,169,077	223,528,994	5,188,000
Borrowings	100,000,000	-	-	-	100,000,000
Total market rate liabilities	652,310,868	270,424,797	53,169,077	223,528,994	105,188,000
Other non-interest bearing liabilities	132,807,144	132,807,144	-	-	-
Total liabilities	785,118,012	403,231,941	53,169,077	223,528,994	105,188,000

### 35 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary for the purpose of better presentation and comparison. No significant reclassifications have been made during the current year.

### 36 GENERAL

36.1 As prescribed by BSD circular No. 11, dated December 30, 2003, except for the captions of the balance sheet and profit and loss account, cash flow statement and statement of changes in equity, captions in respect of which there are no amounts have not been reproduced in these financial statements.

36.2 Figures have been rounded off to the nearest rupee unless otherwise specified.

### 37 DATE OF AUTHORISATION

These financial statements were authorised for issue on 09 May 2021 by the Board of Directors of the Bank.



Chief Executive Officer



Chairman



Director



Director