

**ADVANS PAKISTAN MICROFINANCE
BANK LIMITED**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018



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, 2018, 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 Companies Act, 2017 (XIX of 2017) and the Microfinance Institutions Ordinance, 2001, in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at December 31, 2018 and of the loss and comprehensive loss, 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 Annual Report or other document, 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 materially misstate. 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.

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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 Companies Act, 2017 (XIX of 2017) and the Microfinance Institutions Ordinance, 2001 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.

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.

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A.F. FERGUSON & 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 Companies Act, 2017 (XIX of 2017) and the Microfinance Institutions Ordinance, 2001;
- b) the balance sheet, the profit and loss account, the statement 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 Companies Act, 2017 (XIX of 2017) and the Microfinance Institutions Ordinance, 2001 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 8, 2019
Karachi

ADVANS PAKISTAN MICROFINANCE BANK LIMITED
BALANCE SHEET
AS AT DECEMBER 31, 2018


	Note	2018	2017
		-----Rupees-----	
ASSETS			
Cash and balances with State Bank of Pakistan and National Bank of Pakistan	7	101,998,500	187,331,991
Balances with other banks and microfinance banks	8	28,246,980	134,833,529
Lendings to financial institutions		-	-
Investments - net of provisions	9	978,030,637	558,617,440
Advances - net of provisions	10	97,994,443	56,399,355
Operating fixed assets	11	64,913,943	45,071,333
Other assets	12	25,416,095	20,847,220
Deferred tax asset		1,296,600,598	1,003,100,868
Total assets			
LIABILITIES			
Deposits and other accounts	13	552,310,868	301,625,765
Borrowings	14	100,000,000	-
Subordinated debt		-	-
Other liabilities	15	132,807,144	71,315,771
Deferred tax liabilities		-	-
Total liabilities		785,118,012	372,941,536
Net assets		511,482,586	630,159,332
REPRESENTED BY			
Share capital	16	1,290,163,100	1,290,163,100
Reserves		-	-
Accumulated losses		(779,829,667)	(665,620,870)
		510,333,433	624,542,230
Surplus / (deficit) on revaluation of assets		-	-
Deferred grant	17	1,149,153	5,617,102
		511,482,586	630,159,332
MEMORANDUM / OFF BALANCE SHEET ITEMS			
	18		

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
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2018

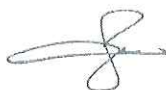
	Note	2018	2017
		-----Rupees-----	
Mark-up / return / interest earned	19	316,800,013	146,175,258
Mark-up / return / interest expensed	20	(51,337,851)	(7,908,965)
Net mark-up / interest income		<u>265,462,162</u>	<u>138,266,293</u>
Provision against non-performing loans and advances - net	9.3	33,603,375	11,319,320
Provision for diminution in the value of investments		-	-
Bad debts written off directly		-	-
		<u>33,603,375</u>	<u>11,319,320</u>
Net mark-up / return / interest income after provisions		<u>231,858,787</u>	<u>126,946,973</u>
Non mark-up / non interest income			
Fee, commission and brokerage income	21	48,577,015	26,579,351
Dividend income		-	-
Other income	22	8,206,338	14,775,838
Total non-mark-up / non-interest income		<u>56,783,353</u>	<u>41,355,189</u>
		<u>288,642,140</u>	<u>168,302,162</u>
Non mark-up / non interest expenses			
Administrative expenses	23	390,977,629	295,896,494
Other provision / write offs		-	-
Other operating expenses / Other charges	24	11,126,963	6,892,058
Total non mark-up / non interest expenses		<u>402,104,592</u>	<u>302,788,552</u>
Extra ordinary / unusual items		-	-
Loss before taxation		<u>(113,462,452)</u>	<u>(134,486,390)</u>
Taxation - current	25	4,595,620	2,273,663
- prior	25	719,600	-
- deferred	25	(4,568,875)	(7,382,274)
		<u>746,345</u>	<u>(5,108,611)</u>
Loss after taxation		<u>(114,208,797)</u>	<u>(129,377,779)</u>
Accumulated loss brought forward		<u>(665,620,870)</u>	<u>(536,243,091)</u>
		<u>(779,829,667)</u>	<u>(665,620,870)</u>
Appropriations			
Transfer to:			
Statutory reserve		-	-
Capital reserve		-	-
Depositors' protection fund		-	-
Revenue reserve		-	-
Proposed cash dividend		-	-
Accumulated loss carried forward		<u>(779,829,667)</u>	<u>(665,620,870)</u>
Loss per share - basic and diluted (Rupee)	26	(0.89)	(1.15)

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, 2018

	2018	2017
	Rupees	
Loss for the year after taxation	(114,208,797)	(129,377,779)
Other comprehensive income	-	-
Total comprehensive loss for the year	<u>(114,208,797)</u>	<u>(129,377,779)</u>

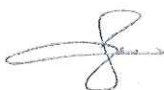
Surplus / (deficit) on revaluation of available-for-sale investments, if any, is presented under a separate account below equity in accordance with the format of financial statements as prescribed under BSD Circular No. 11 dated December 30, 2003 issued by the State Bank of Pakistan (SBP) for Microfinance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

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

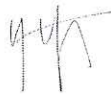
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Chief Executive Officer



Chairman



Director



Director

ADVANS PAKISTAN MICROFINANCE BANK LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2018

	Note	2018	2017
		Rupees	
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before taxation		(113,462,452)	(134,486,390)
Adjustments for non-cash charges and other items			
Depreciation	10.2	15,106,348	13,862,117
Gain on disposal operating fixed assets	22	(742,705)	-
Loss on disposal / Impairment of operating fixed assets	24	-	2,628,573
Amortisation of intangible assets	10.3	9,548,701	9,065,656
Grant utilised against expenses	17	(5,067,949)	(5,637,421)
Provision against non performing advances - net	9.3	33,603,375	11,319,320
		52,447,770	31,238,245
		(61,014,682)	(103,248,145)
(Increase)/ decrease in operating assets			
Advances		(453,016,572)	(362,339,244)
Other assets (excluding advance taxation)		(19,842,610)	(17,725,454)
		(472,859,182)	(380,064,698)
Increase / (decrease) in operating liabilities			
Deposits and other accounts		250,685,103	280,156,488
Borrowings		100,000,000	-
Other liabilities (excluding current taxation)		61,510,733	23,343,287
		412,195,836	303,499,775
		(121,678,028)	(179,813,068)
Income tax paid		(5,334,580)	(1,978,926)
Net cash used in operating activities		(127,012,608)	(181,791,994)
CASH FLOW FROM INVESTING ACTIVITIES			
Net investment in held-to-maturity treasury bills		-	59,116,980
Investment in operating fixed assets		(57,314,984)	(22,456,689)
Additions to capital work in progress		(10,866,448)	(2,124,000)
Proceeds from disposal of operating fixed assets		2,674,000	-
Net cash (used in) / generated from investing activities		(65,507,432)	34,536,291
CASH FLOW FROM FINANCING ACTIVITIES			
Grant received during the year	17	600,000	-
Issue of share capital		-	150,000,000
Net cash generated from financing activities		600,000	150,000,000
Net (decrease) / increase in cash and cash equivalents during the year		(191,920,040)	2,744,297
Cash and cash equivalents at beginning of the year		322,165,520	319,421,223
Cash and cash equivalents at end of the year	31	130,245,480	322,165,520

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 CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018

	Share capital	Statutory reserve	Capital Reserve	Accumulated losses	Total
	Rupees				
Balance as at December 31, 2016	974,000,000	-	-	(536,243,091)	437,756,909
Issue of share capital	316,163,100	-	-	-	316,163,100
Comprehensive income / (loss) for the year					
Loss for the year	-	-	-	(129,377,779)	(129,377,779)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	(129,377,779)	(129,377,779)
Balance as at December 31, 2017	1,290,163,100	-	-	(665,620,870)	624,542,230
Comprehensive income / (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

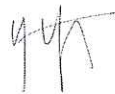
The annexed notes from 1 to 37 form an integral part of these financial statements.
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Chief Executive Officer



Chairman



Director



Director

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% (2017: 74.99%) share capital of the Bank.

- 1.2 The Bank's capital (free of losses) amounted to Rs 510.333 million as at December 31, 2018 which is above the minimum capital requirements as at December 31, 2018. 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.

- 3.2 The Companies Ordinance, 1984 was repealed through the enactment of the Companies Act, 2017. However, as directed by the Securities and Exchange Commission of Pakistan vide Circular No. 23 dated October 4, 2017, the financial reporting requirements of the Companies Act, 2017 were only made applicable for the reporting periods starting from July 1, 2018. The adoption of Companies Act, 2017 does not have any significant impact on these financial statements.
- 3.3 The SBP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property'. Further, the Securities and Exchange Commission of Pakistan (SECP) has also deferred the applicability of International Financial Reporting Standard 7, "Financial Instruments: Disclosures" on banking companies vide SRO 411(I) / 2008 till further orders. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments, if any, have been classified and valued in accordance with the requirements prescribed by SBP through various circulars / regulations.

4 BASIS OF MEASUREMENT

4.1 Accounting convention

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

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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.

4.3 Standards, interpretations and amendments to accounting and reporting standards that are effective in the current year

There are certain new standards, amendments and interpretations that are mandatory for the Bank's accounting periods beginning on or after January 1, 2018 but are considered not to be relevant or do not have any significant effect on the Bank's operations and are, therefore, not disclosed in these financial statements.

4.4 Standards, interpretations and amendments to published approved accounting 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 16 - Leases	January 1, 2019
- IFRS 15 - Revenue from contracts with customers	January 1, 2019
	Effective date (periods ending on or after)
- IFRS 9 - Financial Instruments: Classification and Measurement	June 30, 2019

IFRS 9: 'Financial Instruments' addresses recognition, classification, measurement and derecognition of financial assets and financial liabilities. The standard has also introduced a new impairment model for financial assets which requires recognition of impairment charge based on an 'Expected Credit Losses' (ECL) approach rather than the 'incurred credit losses' approach. The ECL has impact on all assets of the Bank which are exposed to credit risk. The Bank is in the process of assessing the full impact of this standard.

The SBP vide its Letter no. BPRD/ RPD / 2018-7837 dated April 10, 2018 required all Banks to conduct an impact and readiness assessment of the new standard based on the financial statements for the year ended December 31, 2017. The Bank has carried out an impact and readiness assessment exercise as per the above directive. The readiness and impact assessment exercise highlighted certain systems, policies, process and other gaps. The Bank has also identified adjustments to the provisioning requirements based on the requirement of the readiness and impact assessment exercise. The exact impact of the provisioning requirement will be determined after implementation of certain gaps and the Bank is in the process of assessing the full impact of this standard.

There are certain new and amended standards and interpretations that are mandatory for the Bank's accounting periods beginning on or after January 1, 2019 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.

5 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 and in any future periods affected.

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 6.2.1 and 10.2).
- Amortisation methods and useful lives of intangible assets (notes 6.2.3 and 10.3).
- Provision against non-performing loans and advances (notes 6.3 and 9.3).
- Taxation (notes 6.4, 12, 15 and 25).

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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6.1 Cash and cash equivalents

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

6.2 Operating fixed assets

6.2.1 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.

6.2.2 Capital work in progress

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

6.2.3 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.

6.2.4 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 they 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.

6.3 Advances

Advances are stated net of specific and general provisions. Provision against non-performing advances are made in accordance with the requirements of the Prudential Regulations 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.

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6.4 Impairment

The carrying amount of assets are reviewed at each reporting period to determine whether there is any indication of impairment of any assets or group of assets. If any such indication exists, the recoverable amount of such assets is estimated and impairment losses are recognised immediately in the financial statements. The resulting impairment loss is taken to profit and loss account except for impairment loss on revalued assets, which is adjusted against related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

An impairment loss is reversed, if there has been a change in the estimate used to determine the recoverable amount. Such reversals are only made to the extent that the asset's carrying amount does not exceed the amount the would have been determined if no impairment loss had been recognised.

6.5 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.

6.5.1 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.

6.5.2 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 utilized or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

6.6 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.

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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.

6.7 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.

6.8 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.

6.9 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.

6.10 Deposits

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

6.11 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.

6.12 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.
- Markup / 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.

6.13 Financial instruments

6.13.1 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.

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6.13.2 Derivative financial Instruments

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

6.13.3 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 realize the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also off-set and the net amount is reported in the financial statements.

6.14 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 profit and loss account.

6.15 Share capital

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

6.16 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS, if any, is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. There were no dilutive potential ordinary shares in issue at December 31, 2018 and December 31, 2017.

6.17 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.

6.18 Staff retirement benefits

6.17.1 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.

7	CASH AND BALANCES WITH STATE BANK OF PAKISTAN AND NATIONAL BANK OF PAKISTAN	Note	2018	2017
			-----Rupees-----	
	Cash in hand		49,364,936	40,768,689
	Balance with State Bank of Pakistan (SBP)	7.1	52,633,564	146,563,302
	Balance with National Bank of Pakistan (NBP)		-	-
			<u>101,998,500</u>	<u>187,331,991</u>
7.1	This represents current account maintained with SBP to meet the requirement of maintaining a minimum balance equivalent to 5% of the Bank's time and demand liabilities in accordance with the Prudential Regulations for Microfinance Banks.			
8	BALANCES WITH OTHER BANKS AND MICROFINANCE BANKS	Note	2018	2017
			-----Rupees-----	
	In Pakistan:			
	- Current accounts		14,515,967	8,092,073
	- PLS deposit accounts	8.1	13,731,013	36,741,456
	- Term deposits		-	90,000,000
			<u>28,246,980</u>	<u>134,833,529</u>

- 8.1 These include deposits with commercial banks carrying mark-up rate ranging from 5.5% to 9% (2017: 3.75%) per annum.

9 ADVANCES - NET OF PROVISIONS

Note	2018		2017	
	Number of loans outstanding	Amount outstanding	Number of loans outstanding	Amount outstanding
	-----Rupees-----		-----Rupees-----	
Micro credit	9.1	11,018 998,490,212	7,296	567,782,937
Less: Provision held				
- Specific	9.2 & 9.3	604 11,230,523	168	3,867,181
- General	9.3	- 9,229,052	-	5,298,316
		(20,459,575)		(9,165,497)
		<u>978,030,637</u>		<u>558,617,440</u>

- 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 28,394,151 (2017: Rs 12,419,432) which have been placed under non-performing status as detailed below.

Category of classification	2018			2017		
	Amount outstanding	Provision required	Provision held	Amount outstanding	Provision required	Provision held
	-----Rupees-----			-----Rupees-----		
OAEM	5,544,330	-	-	3,700,754	-	-
Substandard	6,994,431	1,748,601	1,748,601	2,527,984	631,996	631,996
Doubtful	12,746,938	6,373,470	6,373,470	5,911,002	2,955,493	2,955,493
Loss	3,108,452	3,108,452	3,108,452	279,692	279,692	279,692
	<u>28,394,151</u>	<u>11,230,523</u>	<u>11,230,523</u>	<u>12,419,432</u>	<u>3,867,181</u>	<u>3,867,181</u>

9.3 Particulars of provision against non-performing advances

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

	2018			2017		
	Specific	General	Total	Specific	General	Total
	(Note 9.3.1)			(Note 9.3.1)		
	-----Rupees-----			-----Rupees-----		
Opening balance	3,867,181	5,298,316	9,165,497	2,583,346	1,927,859	4,511,205
Charge for the year						
- On non-performing advances	29,869,822	3,931,389	33,801,211	10,194,580	3,623,828	13,818,408
Reversals	(197,183)	(653)	(197,836)	(2,245,717)	(253,371)	(2,499,088)
	29,672,639	3,930,736	33,603,375	7,948,863	3,370,457	11,319,320
Amount written off	(22,309,297)	-	(22,309,297)	(6,665,028)	-	(6,665,028)
Closing balance	<u>11,230,523</u>	<u>9,229,052</u>	<u>20,459,575</u>	<u>3,867,181</u>	<u>5,298,316</u>	<u>9,165,497</u>

- 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.

Note	2018	2017
	-----Rupees-----	
9.4 Particulars of Write Offs:		
Against Provisions	22,309,297	6,665,028
Directly charged to Profit and Loss account	-	-
	<u>22,309,297</u>	<u>6,665,028</u>

10 OPERATING FIXED ASSETS

Capital work-in-progress	10.1	12,990,448	2,124,000
Property and equipment	10.2	79,451,949	40,791,950
Intangible assets	10.3	5,552,046	13,483,405
		<u>97,994,443</u>	<u>56,399,355</u>

	2018	2017
	-----Rupees-----	
10.1 Capital work-in-progress		
Civil works	4,902,466	-
Advances to suppliers and contractors	8,087,982	2,124,000
	<u>12,990,448</u>	<u>2,124,000</u>

10.2 Property and equipment

	2018								
	COST			DEPRECIATION			Net book value at	Annual rate of	
	At January 01, 2018	Additions / (disposal)	At December 31, 2018	At January 01, 2018	Charge for the year / disposal	At December 31, 2018	December 31, 2018	depreciation	
	----- 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	
	<u>108,760,694</u>	<u>55,697,642</u> <u>(3,854,061)</u>	<u>160,604,275</u>	<u>67,968,744</u>	<u>15,106,348</u> <u>(1,922,766)</u>	<u>81,152,326</u>	<u>79,451,949</u>		

	2017									
	COST				DEPRECIATION					
	At January 01, 2017	Additions / (disposals)	Impairment	At December 31, 2017	At January 01, 2017	Charge for the year / adjustment	Accumulated depreciation of impaired assets	At December 31, 2017	Net book value at December 31, 2017	Annual rate of depreciation
	----- Rupees -----									%
Owned										
Leasehold improvements	21,146,026	3,443,718	(2,521,622)	22,068,122	6,097,676	2,217,558 196,865	(1,201,360) *	7,310,739	14,757,383	10
Furniture and fixtures	7,769,307	2,692,410	(926,436)	9,535,281	4,589,529	1,736,091 (196,865)	(873,136) *	5,255,619	4,279,662	20
Office and other equipment	17,331,227	9,525,938	(1,733,525)	25,123,640	10,359,535	4,054,431	(480,891)	13,933,075	11,190,565	20
Computer equipment	33,026,440	4,486,017	(30,943)	37,481,514	26,941,641	5,401,185	(28,566)	32,314,260	5,167,254	33
Vehicles	14,552,137	-	-	14,552,137	8,702,199	452,852	-	9,155,051	5,397,086	20
	93,825,137	20,148,083	(5,212,526)	108,760,694	56,690,580	13,862,117	(2,583,953)	67,968,744	40,791,950	

* This represents reclassifications within different categories of assets.

10.2.1 Property and equipment include assets costing Rs 45,081,354 (2017: Rs 26,943,385) which are fully depreciated and are still in use.

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10.2.2 Disposals of fixed assets during the year with original cost or book value in excess of Rs 1,000,000 or Rs 250,000 respectively (whichever is less) are as follows:

	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of buyers
	Rupees					
Vehicles	3,842,361	1,911,066	1,931,295	2,600,000	Negotiation	M/s International Kars
	<u>3,842,361</u>	<u>1,911,066</u>	<u>1,931,295</u>	<u>2,600,000</u>		

10.3 Intangible assets

	2018							
	COST			AMORTISATION			Net book value at	Annual rate of
	At January 01, 2017	Additions	At December 31, 2017	At January 01, 2017	Charge for the year	At December 31, 2017	December 31, 2017	amortisation
	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>	

	2017							
	COST			AMORTISATION			Net book value at	Annual rate of
	At January 01, 2017	Additions	At December 31, 2017	At January 01, 2017	Charge for the year / adjustments	At December 31, 2017	December 31, 2017	amortisation
	Rupees							%
Core banking application and other licenses	52,549,015	1,494,427	54,043,442	33,855,623	7,862,798 483,326 *	42,201,747	11,841,695	25
Computer software	5,669,511	814,179	6,483,690	4,122,448	1,202,858 (483,326) *	4,841,980	1,641,710	25
	<u>58,218,526</u>	<u>2,308,606</u>	<u>60,527,132</u>	<u>37,978,071</u>	<u>9,065,656</u>	<u>47,043,727</u>	<u>13,483,405</u>	

* Adjustments represent reclassifications within different categories of assets.

10.3.1 Intangible assets include software costing Rs 26,728,687 (2017: Rs 23,814,900) which is fully amortised and still in use.

	Note	2018	2017
		Rupees	
11 OTHER ASSETS			
Prepayments for			
- rent		29,284,636	10,471,329
- insurance		1,885,220	3,228,002
- others		1,146,705	7,637,295
Mark-up / return / interest accrued		22,489,104	12,193,763
Receivable from a related party	11.1	1,352,538	688,282
Advances to staff		3,667,873	3,028,817
Security deposits		5,033,300	2,750,180
Insurance claim receivable		-	4,000,000
Others		54,567	1,073,665
		<u>64,913,943</u>	<u>45,071,333</u>

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

Advans S.A.

12 DEFERRED TAX ASSET

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

	2018	2017
	-----Rupees-----	
Deductible temporary differences arising in respect of		
- Unabsorbed tax depreciation and amortisation losses	25,288,906	19,411,781
- Property and equipment	-	974,782
- Intangible assets	244,885	239,458
- Provision against non-performing loans	612,010	221,199
	26,145,801	20,847,220
Taxable temporary differences arising due to		
- Property and equipment	(729,706)	-
	(729,706)	-
	<u>25,416,095</u>	<u>20,847,220</u>

- 12.1 The Bank has unabsorbed tax loss of Rs 749,426,646 [including unabsorbed tax depreciation and amortisation amounting to Rs 144,508,032] as at December 31, 2018. The management has recognised deferred tax asset of Rs 25,288,096 (2017: Rs 19,411,781) on unabsorbed tax depreciation and amortisation losses. 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

	2018		2017	
	Number of accounts	Rupees	Number of accounts	Rupees
Fixed Deposits	288	290,065,702	99	114,198,720
Saving deposits	1,104	171,704,275	1,108	161,723,694
Current deposits	22,030	90,540,891	14,168	25,703,351
	<u>23,422</u>	<u>552,310,868</u>	<u>15,375</u>	<u>301,625,765</u>

13.1 Particulars of deposits by ownership

	2018		2017	
	Number of accounts	Rupees	Number of accounts	Rupees
Individual depositors	23,250	551,068,843	15,195	301,275,921
Institutional depositors				
- Corporation / firms etc.	172	1,242,025	180	349,844
- Banks and financial institutions	-	-	-	-
	<u>23,422</u>	<u>552,310,868</u>	<u>15,375</u>	<u>301,625,765</u>

14 BORROWINGS

	Note	2018	2017
		-----Rupees-----	
Borrowings from Banks / Financial Institutions in Pakistan	14.1 & 14.2	<u>100,000,000</u>	<u>-</u>

14.1 Details of borrowings from financial institutions

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

- 14.2 During the current year, the Bank entered into an agreement with the Pakistan Microfinance Investment Company (PMIC) - NBFC for a term finance facility of Rs. 300 million for a period of one 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. The agreement is valid for a period of one year starting from July 1, 2018 till June 30, 2019. The Bank has currently availed total amount of Rs 100 million (availed in two tranches of Rs 50 million each).

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	Note	2018	2017
		-----Rupees-----	
15 OTHER LIABILITIES			
Mark-up / return / interest payable		27,288,705	2,677,117
Accrued expenses		22,955,898	24,213,318
Payable to related parties	15.1	76,435,075	35,832,081
Withholding tax payable		3,854,157	4,965,541
Payable to Employee Old Age Benefit Institution (EOBI)		604,640	466,740
Current taxation (provisions less payments)		141,614	160,974
Bonus payable to executives		1,526,655	3,000,000
Others		400	-
		<u>132,807,144</u>	<u>71,315,771</u>

- 15.1** This includes Rs 72,092,145 (2017: Rs 33,156,728) payable to Advans International (formerly Horus Development Finance), a related party, for technical assistance fee under related agreements and Rs 1,667,577 as other ancillary charges. Furthermore, this include amounts of Rs 2,669,026 (2017: Rs 2,669,026) and Rs 6,327 (2017: 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

2018	2017		Note	2018	2017
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

2018	2017		2018	2017
Number of shares				
<u>129,016,310</u>	<u>129,016,310</u>	Ordinary shares of Rs 10 each fully paid in cash	<u>1,290,163,100</u>	<u>1,290,163,100</u>

16.2.1 Share capital has been subscribed by the following:

		2018	2017
		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		<u>1</u>	<u>1</u>
		<u>129,016,310</u>	<u>129,016,310</u>

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

	2018			2017			2018	2017
	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	97,400,000	-	97,400,000	1,290,163,100	974,000,000
Shares issued during the year	-	-	-	31,616,310	-	31,616,310	-	316,163,100
Closing balance	<u>129,016,310</u>	<u>-</u>	<u>129,016,310</u>	<u>129,016,310</u>	<u>-</u>	<u>129,016,310</u>	<u>1,290,163,100</u>	<u>1,290,163,100</u>

- 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.

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	Note	2018	2017
		-----Rupees-----	
17 DEFERRED GRANT			
Opening balance	17.1	5,617,102	11,254,523
Grant received during the year from:			
State Bank of Pakistan	17.2	600,000	-
Grant income recognised during the year	17.1 & 17.2	(5,067,949)	(5,637,421)
		<u>1,149,153</u>	<u>5,617,102</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 4,582,614 (2017: Rs 5,637,421) 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. The Bank is entitled to receive Rs. 1.2 million out of which the first tranche of Rs. 0.6 million has been received during the year. An amount of Rs. 485,335 has been recognised as income during the current year based on compliance of the conditions attached to the grant.		
	Note	2018	2017
		-----Rupees-----	
18 MEMORANDUM / OFF BALANCE SHEET ITEMS			
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, 2018 and December 31, 2017.		
19 MARK-UP / RETURN / INTEREST EARNED			
Interest / mark-up on:			
Advances		307,792,439	136,823,373
Government Securities - Market Treasury bills		4,394,599	4,625,235
Banks and financial institutions			
- Term deposits		4,446,260	2,586,581
- Deposit accounts		166,715	2,140,069
		<u>316,800,013</u>	<u>146,175,258</u>
20 MARK-UP / RETURN / INTEREST EXPENSED			
Interest / mark-up on deposits		50,098,810	7,908,965
Interest / mark-up on borrowing		1,239,041	-
		<u>51,337,851</u>	<u>7,908,965</u>
21 FEE, COMMISSION AND BROKERAGE INCOME			
Loan processing fee		39,817,136	21,684,634
Other fee and commission		8,759,879	4,894,717
		<u>48,577,015</u>	<u>26,579,351</u>
22 OTHER INCOME			
Grant income	17	5,067,949	5,637,421
Recoveries against write-offs		2,232,379	2,069,526
Recoveries from Credit Guarantee Scheme		123,113	-
Insurance proceeds		-	4,000,000
Liabilities no longer required written back		-	2,834,259
Gain on sale of Fixed Assets		742,705	-
Others		40,192	234,632
AM		<u>8,206,338</u>	<u>14,775,838</u>

	Note	2018	2017
		-----Rupees-----	
23 ADMINISTRATIVE EXPENSES			
Salaries and other allowances	23.1 & 23.2	164,032,292	123,201,230
Staff welfare		2,487,269	1,444,682
Director's remuneration		-	-
Non executive directors' fees, allowances and other expenses		982,360	609,271
Contribution to defined contribution plan		-	-
Training and business development		916,843	713,510
Rent, rates and taxes		38,140,666	32,157,883
Legal and professional charges		4,340,834	3,482,442
Utilities		9,064,853	6,292,949
Communications		5,635,796	4,826,188
Repairs and maintenance - others		12,034,248	9,354,430
Repairs and maintenance - Vehicles		3,911,201	3,085,707
Donations	23.4	10,000	-
Fuel for generator		5,034,521	2,198,859
Insurance		7,973,414	7,508,231
Travelling and conveyance		21,869,233	16,933,692
Printing and stationery		4,811,850	3,952,475
Fees and subscription		5,407,208	3,298,799
Technical assistance fee	23.3	45,478,287	37,413,034
Security charges		7,980,366	5,648,931
Advertisement and publicity		2,476,387	4,275,951
Auditors' remuneration	23.5	3,947,917	1,429,015
Depreciation	10.2	15,106,348	13,862,117
Amortisation of intangible assets	10.3	9,548,701	9,065,656
Bank charges		2,540,509	929,887
Office supplies		163,514	299,649
Janitorial charges		3,760,868	2,555,300
Other expenses		13,322,144	1,356,606
		<u>390,977,629</u>	<u>295,896,494</u>

23.1 This includes amount of Rs 66,913,146 (2017: Rs 41,069,272) related to remuneration of key management personnel.

23.2 This includes amount of Rs 3,550,494 (2017: Rs 2,590,098) related to Provident Fund.

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

23.4 Any Director / Executive of the Bank or their spouse does not have interest in the donee.

	Note	2018	2017
		-----Rupees-----	
23.5 Auditors' remuneration			
Audit fee		1,093,675	994,250
Fee for other certifications		2,486,000	260,000
		3,579,675	1,254,250
Sindh sales tax		286,374	100,340
Out of pocket expenses		81,868	74,425
		<u>3,947,917</u>	<u>1,429,015</u>

24 OTHER OPERATING EXPENSES / OTHER CHARGES

Loss on disposal / impairment of operating fixed assets	-	2,628,573
Exchange loss	11,126,963	4,263,485
	<u>11,126,963</u>	<u>6,892,058</u>

25 TAXATION

For the year			
- Current	25.1	4,595,620	2,273,663
- Prior		719,600	-
- Deferred		(4,568,875)	(7,382,274)
		<u>746,345</u>	<u>(5,108,611)</u>

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- 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.

26	LOSS / EARNINGS PER SHARE	2018	2017
26.1	Basic		
	Loss for the period	Rupees <u>(114,208,797)</u>	<u>(129,377,779)</u>
	Weighted average number of ordinary shares	Number <u>129,016,310</u>	<u>112,599,930</u>
	Loss per share	Rupees <u>(0.89)</u>	<u>(1.15)</u>

26.2 Diluted

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

27 NUMBER OF EMPLOYEES

	2018			2017		
	Credit / Sales staff	Banking / Support staff	Total	Credit / Sales staff	Banking / Support staff	Total
	-----Number-----			-----Number-----		
Permanent	183	174	357	106	104	210
Contractual	-	-	-	-	-	-
Total	<u>183</u>	<u>174</u>	<u>357</u>	<u>106</u>	<u>104</u>	<u>210</u>

- 27.1 Average number of employees during the year were 284 (2017: 175).

28 NUMBER OF BRANCHES

	2018		2017	
	Branches	Service Centre	Branches	Service Centre
At the beginning of the year	8	-	7	1
Add: Opened during the year	3	-	1	-
Less: Closed during the year	-	-	-	1
At the end of the year	<u>11</u>	<u>-</u>	<u>8</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	
	2018	2017	2018	2017	2018	2017
	-----Rupees-----		-----Rupees-----		-----Rupees-----	
Managerial remuneration	13,335,530	12,953,629	-	-	30,889,158	14,501,026
Contribution to defined contribution plan	-	-	-	-	1,785,110	1,015,072
Fee	-	-	982,360	609,271	-	-
Rent and house maintenance	-	-	-	-	11,004,061	4,085,435
Utilities	1,333,509	1,295,354	-	-	5,289,302	2,267,178
Conveyance	1,893,384	-	-	-	4,401,625	-
Medical	1,333,509	1,295,347	-	-	3,088,490	1,450,097
Other benefits	13,307,338	12,870,425	-	-	14,352,507	6,471,272
	<u>31,203,270</u>	<u>28,414,755</u>	<u>982,360</u>	<u>609,271</u>	<u>70,810,253</u>	<u>29,790,080</u>
Number of persons during the year	<u>1</u>	<u>1</u>	<u>2</u>	<u>2</u>	<u>47</u>	<u>10</u>

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

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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.

	Note	2018	2017
		-----Rupees-----	
31 CASH AND CASH EQUIVALENTS			
Cash and balances with State Bank of Pakistan and National Bank of Pakistan	7	101,998,500	187,331,991
Balances with other banks and microfinance banks in current and deposit accounts	8	28,246,980	44,833,529
Term deposits with commercial banks	31.1	-	90,000,000
		<u>130,245,480</u>	<u>322,165,520</u>

- 31.1 As the term deposits 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".

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, 2018, 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 510,333,433. Hence, the Bank is in compliance with the aforesaid requirement.

- 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, 2018, the Bank's net equity and Capital Adequacy Ratio stood at Rs 510,333,433 (2017: Rs 624,542,230) and 42.88% (2017: 88.33%) respectively as against the minimum requirement of Rs 500,000,000 and 15% prescribed by SBP.

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33 FINANCIAL ASSETS AND LIABILITIES

2018							
Effective yield / interest rate	Interest bearing					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	Sub total		
Rupees							
Financial assets							
Cash and balances with SBP / NBP	-	-	-	-	-	101,998,500	101,998,500
Balances with other banks	5.5% - 9%	13,731,013	-	-	-	13,731,013	14,515,967
Advances - net of provisions	26% - 49%	256,644,745	611,480,879	109,905,013	-	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
Financial liabilities							
Deposits and other accounts	8% - 14%	231,049,352	223,528,994	5,188,000	-	459,766,346	92,544,522
Borrowings	Kibor + 4%	100,000,000	-	-	-	100,000,000	-
Other liabilities	-	-	-	-	-	128,206,733	128,206,733
		231,049,352	223,528,994	105,188,000	-	559,766,346	220,751,255
2017							
Effective yield / interest rate	Interest bearing					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	Sub total		
Rupees							
Financial assets							
Cash and balances with SBP / NBP	-	-	-	-	-	187,331,991	187,331,991
Balances with other banks	3.75%-5.85%	126,741,456	-	-	-	126,741,456	8,092,073
Advances - net of provisions	26%-45%	116,531,018	421,818,729	20,267,693	-	558,617,440	-
Other assets	-	1,827,746	-	-	-	1,827,746	21,906,961
		245,100,220	421,818,729	20,267,693	-	687,186,642	217,331,025
Financial liabilities							
Deposits and other accounts	6%-14%	168,758,564	70,583,850	36,580,000	-	275,922,414	25,703,351
Other liabilities	-	-	-	-	-	65,718,746	65,718,746
		168,758,564	70,583,850	36,580,000	-	275,922,414	91,422,097

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	JCR-VIS	A1+	AAA
Habib Bank Limited	JCR-VIS	A-1+	AAA
United Bank Limited	JCR-VIS	A-1+	AAA
Samba Bank Limited	JCR-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:

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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 11,431 (2017: Rs 30,546). This analysis assumes that all other variables remain constant. This analysis is performed on the same basis as for 2017.

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. The Bank's exposure to currency risk is due to amounts payable in Euros to related parties for expenses incurred during the year as disclosed in note 15.1 to the financial statements. The average rate applied during the year is Rs 143.58 / Euro (2017: Rs 119.07 / Euro) and the spot rate as at December 31, 2018 is Rs 158.84 / Euro (2017: Rs 132.25 / Euro).

At December 31, 2018, if the Rupee had weakened / strengthened by 500 basis points against the Euro with all other variables held constant, pre-tax loss for the year would have been higher / lower by Rs 3,754,127 mainly as a result of foreign exchange losses / gains on translation of Euro denominated related party payables.

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

	Total	2018			
		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

ALL IN

	2018				
	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
	-----Rupees-----				
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-cost 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
	2017				
	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	558,617,440	7,403,848	109,127,170	421,818,729	20,267,693
Other earning assets	126,741,456	126,741,456	-	-	-
Total market rate assets	685,358,896	134,145,304	109,127,170	421,818,729	20,267,693
Other non-earning assets	317,741,972	195,424,064	-	45,071,333	77,246,575
Total assets	1,003,100,868	329,569,368	109,127,170	466,890,062	97,514,268
Market rate liabilities					
Deposits	301,625,765	189,277,045	5,184,870	70,583,850	36,580,000
Total market rate liabilities	301,625,765	189,277,045	5,184,870	70,583,850	36,580,000
Other non-cost bearing liabilities	71,315,771	71,315,771	-	-	-
Total liabilities	372,941,536	260,592,816	5,184,870	70,583,850	36,580,000

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 05 March 2019 by the Board of Directors of the Bank.

M/1 w

Chief Executive Officer

Chairman

Director

Director