

**ADVANS PAKISTAN MICROFINANCE  
BANK LIMITED**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2017**



## AUDITORS' REPORT TO THE MEMBERS

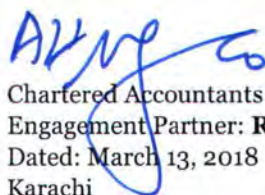
We have audited the annexed balance sheet of **Advans Pakistan Microfinance Bank Limited** (the Bank) as at December 31, 2017 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) in our opinion, proper books of accounts have been kept by the Bank as required by the Companies Ordinance, 1984 and the Microfinance Institutions Ordinance, 2001 and;
- (b) in our opinion:
  - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and the Microfinance Institutions Ordinance, 2001, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied;
  - (ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
  - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank.
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984 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, 2017, and of the loss, its comprehensive loss, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the Bank and was deposited subsequent to the year ended December 31, 2017 in the Central Zakat Fund established under section 7 of that Ordinance.

The financial statements of the Bank for the year ended December 31, 2016 were audited by another firm of Chartered Accountants. Their audit report dated March 9, 2017 contained emphasis of matter paragraph in respect of matters pertaining to temporary extension for meeting the minimum capital requirement as at December 31, 2016 and realisability of deferred tax asset amounting to Rs 13,464,946 based on management projections. The matter pertaining to complying with minimum capital requirement has been resolved during the year ended December 31, 2017 by injection of fresh capital which was also one of the significant factors in determining realisability of the deferred tax asset.

  
Chartered Accountants  
Engagement Partner: **Rashid A. Jafer**  
Dated: March 13, 2018  
Karachi

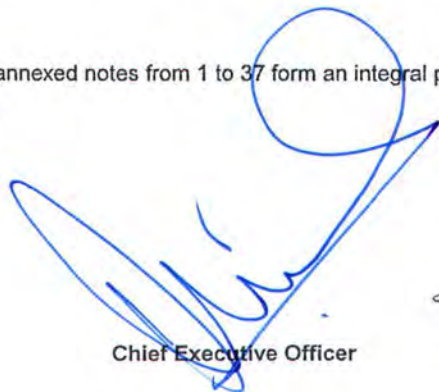
A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network  
State Life Building No. 1-C, I.I. Chundrigar Road, P.O. Box 4716, Karachi-74000, Pakistan  
Tel: +92 (21) 32426682-6/32426711-5; Fax: +92 (21) 32415007/32427938/32424740; <www.pwc.com/pk>

ADVANS PAKISTAN MICROFINANCE BANK LIMITED  
BALANCE SHEET  
AS AT DECEMBER 31, 2017

	Note	2017	2016
-----Rupees-----			
<b>ASSETS</b>			
Cash and balances with State Bank of Pakistan and National Bank of Pakistan	7	187,331,991	12,248,428
Balances with other banks and microfinance banks	8	134,833,529	307,172,795
Lendings to financial institutions		-	-
Investments	9	-	59,116,980
Advances - net of provisions	10	558,617,440	207,597,516
Operating fixed assets	11	56,399,355	57,375,012
Other assets	12	45,071,333	27,479,642
Deferred tax asset	13	20,847,220	13,464,946
<b>Total assets</b>		<b>1,003,100,868</b>	<b>684,455,319</b>
<b>LIABILITIES</b>			
Deposits and other accounts	14	301,625,765	21,469,277
Borrowings		-	-
Subordinated debt		-	-
Other liabilities	15	71,315,771	47,811,510
Deferred tax liabilities		-	-
<b>Total liabilities</b>		<b>372,941,536</b>	<b>69,280,787</b>
<b>Net assets</b>		<b>630,159,332</b>	<b>615,174,532</b>
<b>REPRESENTED BY</b>			
Share capital	16	1,290,163,100	974,000,000
Reserves		-	-
Accumulated loss		(665,620,870)	(536,243,091)
		624,542,230	437,756,909
Advance against issue of share capital		-	166,163,100
Surplus / (deficit) on revaluation of assets		-	-
Deferred grant	17	5,617,102	11,254,523
		<b>630,159,332</b>	<b>615,174,532</b>
<b>MEMORANDUM / OFF BALANCE SHEET ITEMS</b>	18		

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

AWG



Chief Executive Officer



Chairman



Director



Director

ADVANS PAKISTAN MICROFINANCE BANK LIMITED  
 PROFIT AND LOSS ACCOUNT  
 FOR THE YEAR ENDED DECEMBER 31, 2017

	Note	2017	2016
		-----Rupees-----	
Mark-up / return / interest earned	19	146,175,258	79,111,910
Mark-up / return / interest expensed	20	(7,908,965)	(830,070)
<b>Net mark-up / interest income</b>		<u>138,266,293</u>	<u>78,281,840</u>
Provision against non-performing advances - net	10.3	11,319,320	12,771,873
Provision for diminution in the value of investments		-	-
Bad debts written off		-	-
		<u>11,319,320</u>	<u>12,771,873</u>
<b>Net mark-up / return / interest income after provisions</b>		<u>126,946,973</u>	<u>65,509,967</u>
<b>Non mark-up / non interest income</b>			
Fee, commission and brokerage income	21	26,579,351	15,098,537
Dividend income		-	-
Other income	22	14,775,838	8,543,217
<b>Total non-mark-up / non-interest income</b>		<u>41,355,189</u>	<u>23,641,754</u>
		<u>168,302,162</u>	<u>89,151,721</u>
<b>Non mark-up / non interest expenses</b>			
Administrative expenses	23	295,896,494	243,716,179
Other provision / write offs		-	-
Other operating expenses	24	6,892,058	2,897,527
Other charges		-	-
<b>Total non mark-up / non interest expenses</b>		<u>302,788,552</u>	<u>246,613,706</u>
<b>Loss before taxation</b>		<u>(134,486,390)</u>	<u>(157,461,985)</u>
Taxation - current	25	2,273,663	972,198
- prior		-	-
- deferred	25	(7,382,274)	47,452,702
		<u>(5,108,611)</u>	<u>48,424,900</u>
<b>Loss after taxation</b>		<u>(129,377,779)</u>	<u>(205,886,885)</u>
Accumulated loss brought forward		<u>(536,243,091)</u>	<u>(330,356,206)</u>
		<u>(665,620,870)</u>	<u>(536,243,091)</u>
<b>Appropriations</b>			
<b>Transfer to:</b>			
Statutory reserve		-	-
Capital reserve		-	-
Depositors' protection fund		-	-
Revenue reserve		-	-
Proposed cash dividend		-	-
<b>Accumulated loss carried forward</b>		<u>(665,620,870)</u>	<u>(536,243,091)</u>
Loss per share - basic and diluted (Rupee)	26	(1.15)	(2.32)

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

AWG

Chief Executive Officer

Chairman

Director

Director

ADVANS PAKISTAN MICROFINANCE BANK LIMITED  
 STATEMENT OF COMPREHENSIVE INCOME  
 FOR THE YEAR ENDED DECEMBER 31, 2017

	2017	2016
	-----Rupees-----	
Loss for the year after taxation	(129,377,779)	(205,886,885)
Other comprehensive income	-	-
Total comprehensive loss for the year	<u>(129,377,779)</u>	<u>(205,886,885)</u>

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

The annexed notes from 1 to 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, 2017

	Note	2017	2016
-----Rupees-----			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before taxation		(134,486,390)	(157,461,985)
<b>Adjustments for non-cash charges and other items</b>			
Depreciation	11.2	13,862,117	15,734,493
Loss on disposal / impairment of operating fixed assets	24	2,628,573	1,985,464
Amortisation of intangible assets	11.3	9,065,656	12,290,755
Grant utilised against expenses	17	(5,637,421)	(5,669,267)
Provision against non performing advances - net	10.3	11,319,320	12,771,873
		31,238,245	37,113,318
		(103,248,145)	(120,348,667)
<b>(Increase)/ decrease in operating assets</b>			
Advances		(362,339,244)	(39,144,991)
Other assets (excluding advance taxation)		(17,725,454)	(1,169,513)
		(380,064,698)	(40,314,504)
<b>Increase / (decrease) in operating liabilities</b>			
Deposits and other accounts		280,156,488	6,842,114
Other liabilities (excluding current taxation)		23,343,287	(13,271,382)
		303,499,775	(6,429,268)
		(179,813,068)	(167,092,439)
Income tax paid		(1,978,926)	(1,575,944)
		(181,791,994)	(168,668,383)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net investment in held-to-maturity treasury bills		59,116,980	(59,116,980)
Term deposits matured during the year		-	80,000,000
Investment in operating fixed assets		(22,456,689)	(8,196,303)
Additions to capital work in progress		(2,124,000)	-
Proceeds from disposal of operating fixed assets		-	393,245
Net cash generated from investing activities		34,536,291	13,079,962
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Advance against issue of capital		-	166,163,100
Issue of share capital		150,000,000	174,000,000
Net cash generated from financing activities		150,000,000	340,163,100
Net increase in cash and cash equivalents during the year		2,744,297	184,574,679
Cash and cash equivalents at beginning of the year		319,421,223	134,846,544
Cash and cash equivalents at end of the year	31	322,165,520	319,421,223

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

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Chief Executive Officer

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Chairman

*Karim*  
Director

*[Signature]*

Director

ADVANS PAKISTAN MICROFINANCE BANK LIMITED  
STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2017

	Share capital	Capital Reserve		Accumulated loss	Total
		Statutory reserve	Depositors' protection fund		
Rupees					
Balance as at December 31, 2015	800,000,000	-	-	(330,356,206)	469,643,794
Issue of share capital	174,000,000	-	-	-	174,000,000
Comprehensive income / (loss) for the year					
Loss for the year	-	-	-	(205,886,885)	(205,886,885)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	(205,886,885)	(205,886,885)
Transfer to statutory reserve	-	-	-	-	-
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)
Transfer to statutory reserve	-	-	-	-	-
Balance as at December 31, 2017	<u>1,290,163,100</u>	<u>-</u>	<u>-</u>	<u>(665,620,870)</u>	<u>624,542,230</u>

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

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*[Signature]*  
Chief Executive Officer

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Chairman

*[Signature]*

Director

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Director

**ADVANS PAKISTAN MICROFINANCE BANK LIMITED**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

**1 STATUS AND NATURE OF BUSINESS**

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. As at December 31, 2017, 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% (2016: 75.36%) share capital of the Bank.

**2 BASIS OF PRESENTATION**

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

**3 STATEMENT OF COMPLIANCE**

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

3.2 The Companies Ordinance, 1984 has been repealed after the enactment of the Companies Act, 2017. However, as allowed by the SECP vide its circular No. 23 dated 04 October 2017, these financial statements have been prepared in accordance with the provisions of the repealed Companies Ordinance, 1984.

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 have been classified and valued in accordance with the requirements prescribed by SBP through various circulars / regulations.

**4 BASIS OF MEASUREMENT**

**4.1 Accounting convention**

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

**4.2 Functional and presentation currency**

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

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**4.3 Standards, interpretations and amendments to published approved accounting 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, 2017 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 approved accounting standards would be effective from the dates mentioned below against the respective standard, amendments or interpretation:

<b>Standard, Interpretations or Amendments</b>	<b>Effective date (accounting periods beginning on or after)</b>
- IFRS 9 - Financial Instruments	July 1, 2018
- IFRS 15 - Revenue from contracts	July 1, 2018
- IFRS 16 - Leases	January 1, 2019

The management is in the process of assessing the impact of these standards on the financial statements of the Bank.

There are certain other new and amended standards 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 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 approved accounting 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.

- Depreciation methods, residual values and useful lives of property and equipment (notes 6.2.1 and 11.2).
- Amortisation methods and useful lives of intangible assets (notes 6.2.3 and 11.3).
- Provision against non-performing advances (notes 6.3 and 10.3).
- Taxation (notes 6.4, 13, 15 and 25).
- Classification and valuation of investments (notes 6.5 and 9).

**6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**6.1 Cash and cash equivalents**

For the purpose of cash flow statement, cash and cash equivalents represent cash in hand and balances held with State Bank of Pakistan, 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 11.2 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.

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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 loss, 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 11.3.

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.

#### 6.4 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.

##### 6.4.1 Current and Prior

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 made during the year.

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#### 6.4.2 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.

The Bank also recognises deferred tax asset / liability on deficit / surplus on revaluation of fixed assets and securities which is adjusted against the related deficit / surplus in accordance with the requirements of International Accounting Standard (IAS) 12 'Income Taxes'.

#### 6.5 Investments

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

##### 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.

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.

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## 6.6 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.

## 6.7 Statutory reserve

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

## 6.8 Depositor's protection fund

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

## 6.9 Deposits

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

## 6.10 Grants

The grant related to an asset is recognised in the balance sheet initially as deferred income when there is reasonable certainty that it will be received and the Bank will comply with the condition(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.

## 6.11 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.
- 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.

## 6.12 Financial instruments

### 6.12.1 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.

### 6.12.2 Derivative financial Instruments

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

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### 6.12.3 Off setting of financial assets and financial liabilities

Financial assets and financial liabilities are only off-set and the net amount is reported in the financial statements when there is a legally enforceable right to set-off the recognised 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.

### 6.13 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.

### 6.14 Share capital

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

### 6.15 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, 2017 and December 31, 2016.

### 6.16 Dividend and other appropriations

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

	Note	2017	2016
-----Rupees-----			
<b>7</b>	<b>CASH AND BALANCES WITH STATE BANK OF PAKISTAN AND NATIONAL BANK OF PAKISTAN</b>		
	Cash in hand	40,768,689	8,486,192
	Balance with State Bank of Pakistan (SBP)	7.1 146,563,302	3,762,236
	Balance with National Bank of Pakistan (NBP)	-	-
		<u>187,331,991</u>	<u>12,248,428</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.

	Note	2017	2016
-----Rupees-----			
<b>8</b>	<b>BALANCES WITH OTHER BANKS AND MICROFINANCE BANKS</b>		
	In Pakistan:		
	- Current accounts	8,092,073	10,023
	- PLS deposit accounts	8.1 36,741,456	177,162,772
	- Term deposits	8.2 90,000,000	130,000,000
		<u>134,833,529</u>	<u>307,172,795</u>

8.1 These include deposits with commercial banks carrying mark-up rate of 3.75% (2016: 3.8% to 4.25%) per annum.

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- 8.2 These represent term deposits with commercial banks carrying mark-up at rates ranging from 5.25% to 5.85% per annum (2016: 5.10% to 5.65% per annum) and are due to mature latest by January 18, 2018.

9 INVESTMENTS	Note	2017	2016
		-----Rupees-----	
<b>Held to maturity</b>			
Federal Government Securities - Market Treasury Bills	9.1	-	59,116,980

- 9.1 This carried markup at the rate of 5.8% per annum and matured on March 2, 2017

#### 10 ADVANCES - NET OF PROVISIONS

	Note	2017		2016	
		Number of loans outstanding	Amount outstanding	Number of loans outstanding	Amount outstanding
		-----Rupees-----		-----Rupees-----	
Micro credit	10.1	7,296	567,782,937	2,922	212,108,721
Less: Provision held					
- Specific	10.2 & 10.3	168	3,867,181	133	2,583,346
- General	10.3	-	5,298,316	-	1,927,859
			(9,165,497)		(4,511,205)
			<u>558,617,440</u>		<u>207,597,516</u>

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

#### 10.2 Particulars of non-performing advances

Advances include Rs 12,419,432 (2016: Rs 5,576,744) which have been placed under non-performing status as detailed below.

Category of classification	2017			2016		
	Amount outstanding	Provision required	Provision held	Amount outstanding	Provision required	Provision held
	-----Rupees-----			-----Rupees-----		
OAEM	3,700,754	-	-	1,033,601	-	-
Sub-standard	2,527,984	631,996	631,996	967,499	241,872	241,872
Doubtful	5,911,002	2,955,493	2,955,493	2,434,446	1,200,276	1,200,276
Loss	279,692	279,692	279,692	1,141,198	1,141,198	1,141,198
	<u>12,419,432</u>	<u>3,867,181</u>	<u>3,867,181</u>	<u>5,576,744</u>	<u>2,583,346</u>	<u>2,583,346</u>

#### 10.3 Particulars of provision against non-performing advances

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

	2017			2016		
	Specific	General	Total	Specific	General	Total
	(Note 10.3.1)			(Note 10.3.1)		
	-----Rupees-----			-----Rupees-----		
Opening balance	2,583,346	1,927,859	4,511,205	18,678,353	1,845,432	20,523,785
Charge for the year						
- On non-performing advances	10,194,580	3,623,828	13,818,408	31,406,031	82,427	31,488,458
Reversals	(2,245,717)	(253,371)	(2,499,088)	(18,716,585)	-	(18,716,585)
	7,948,863	3,370,457	11,319,320	12,689,446	82,427	12,771,873
Amount written off	(6,665,028)	-	(6,665,028)	(28,784,453)	-	(28,784,453)
Closing balance	<u>3,867,181</u>	<u>5,298,316</u>	<u>9,165,497</u>	<u>2,583,346</u>	<u>1,927,859</u>	<u>4,511,205</u>

- 10.3.1 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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11 OPERATING FIXED ASSETS	Note	2017		2016	
		-----Rupees-----			
Capital work-in-progress	11.1	2,124,000		-	
Property and equipment	11.2	40,791,950		37,134,557	
Intangible assets	11.3	13,483,405		20,240,455	
		<u>56,399,355</u>		<u>57,375,012</u>	
<b>11.1 Capital work-in-progress</b>					
Advances to suppliers and contractors		<u>2,124,000</u>		-	

### 11.2 Property and equipment

	2017									
	COST				DEPRECIATION				Net book value at December 31, 2017	Annual rate of depreciation
	At January 01, 2017	Additions / (disposal)	Impairment	At December 31, 2017	At January 01, 2017	Charge for the year / adjustment*	Accumulated depreciation of impaired assets	At December 31, 2017		
	(Note : 11.2.3)				(Note : 11.2.3)					
	----- Rupees -----									%
<b>Owned</b>										
Leasehold improvements	21,146,026	3,443,718	(2,521,822)	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
	<u>93,825,137</u>	<u>20,148,083</u>	<u>(5,212,526)</u>	<u>108,760,694</u>	<u>56,690,580</u>	<u>13,862,117</u>	<u>(2,583,953)</u>	<u>67,968,744</u>	<u>40,791,950</u>	

\* This represents reclassifications within different categories of assets.

	2016									
	COST				DEPRECIATION				Net book value at December 31, 2016	Annual rate of depreciation
	At January 01, 2016	Additions / (disposals)	At December 31, 2016	At January 01, 2016	Charge for the year / (disposals)	At December 31, 2016				
	----- Rupees -----									%
<b>Owned</b>										
Leasehold improvements	20,861,405	2,413,194 (2,128,573)	21,146,026	4,715,656	1,859,885 (477,865)	6,097,676	15,048,350			10
Furniture and fixtures	7,276,835	671,812 (179,340)	7,769,307	2,985,997	1,673,723 (70,191)	4,589,529	3,179,778			20
Office and other equipment	16,119,798	1,966,809 (755,380)	17,331,227	7,406,231	3,370,896 (417,592)	10,359,535	6,971,692			20
Computer equipment	30,782,632	2,305,145 (61,337)	33,026,440	21,159,947	5,795,767 (14,073)	26,941,641	6,084,799			33
Vehicles	15,220,137	- (668,000)	14,552,137	6,102,177	3,034,222 (434,200)	8,702,199	5,849,938			20
	<u>90,260,807</u>	<u>7,356,960</u> <u>(3,792,630)</u>	<u>93,825,137</u>	<u>42,370,008</u>	<u>15,734,493</u> <u>(1,413,921)</u>	<u>56,690,580</u>	<u>37,134,557</u>			

11.2.1 Property and equipment include assets costing Rs 26,943,385 (2016: Rs 18,554,737) which are fully depreciated and are still in use.

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- 11.2.2 During the year, the management has reassessed the residual values in respect of vehicles which were previously recognised at nil. The revision has been made after taking into account the expected pattern of recovery of economic benefits associated with the use and disposal of those assets. The revision has been accounted for as a change in accounting estimate as defined in IAS-8 'Accounting Policies, Changes in Accounting Estimates and Errors'. Had this change in estimate not been made, the depreciation charge for the year would have been higher by Rs 2,457,580 resulting in increase in the loss for the year by Rs 2,027,504 (net of tax).
- 11.2.3 During the year, fire broke out in the premises of Mehmoodabad branch on October 8, 2017 which resulted in loss of certain fixed assets of the Bank having cost of Rs 5,212,526 and net book value of Rs 2,628,573. An impairment charge amounting to Rs 2,628,573 has been recognised in respect of the fixed assets damaged as a result of the fire. Insurance claim was filed for the above mentioned loss by the Bank on October 9, 2017. Subsequent to the year ended December 31, 2017, the Bank has received an amount of Rs 4,000,000 as insurance proceeds against the damage caused by the fire from the insurance company.
- 11.2.4 Deletions 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
Leasehold improvements	2,521,622	1,201,360	1,320,262	-	Loss due to fire	Not applicable
Furniture and	926,436	873,136	53,300	-	Loss due to fire	Not applicable
Office and other equipment	1,733,525	480,891	1,252,634	-	Loss due to fire	Not applicable
	<b>5,181,583</b>	<b>2,555,387</b>	<b>2,626,196</b>	<b>-</b>		

### 11.3 Intangible assets

	2017							
	COST			AMORTISATION			Net book value at December 31, 2017	Annual rate of amortisation
	At January 01, 2017	Additions	At December 31, 2017	At January 01, 2017	Charge for the year / adjustments	At December 31, 2017		
	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
	<b>58,218,526</b>	<b>2,308,606</b>	<b>60,527,132</b>	<b>37,978,071</b>	<b>9,065,656</b>	<b>47,043,727</b>	<b>13,483,405</b>	
	2016							
	COST			AMORTISATION			Net book value at December 31, 2016	Annual rate of amortisation
	At January 01, 2016	Additions	At December 31, 2016	At January 01, 2016	Charge for the year	At December 31, 2016		
	Rupees							%
Core banking application and other licenses	51,709,672	839,343	52,549,015	22,953,818	10,901,805	33,855,623	18,693,392	25
Computer software	5,669,511	-	5,669,511	2,733,498	1,388,950	4,122,448	1,547,063	25
	<b>57,379,183</b>	<b>839,343</b>	<b>58,218,526</b>	<b>25,687,316</b>	<b>12,290,755</b>	<b>37,978,071</b>	<b>20,240,455</b>	

\* Adjustments represent reclassifications within different categories of assets.

- 11.3.1 Intangible assets include software costing Rs 23,814,900 (2016: Rs 22,030,420) which are fully amortised and are still in use.

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12 OTHER ASSETS	Note	2017	2016
-----Rupees-----			
Prepayments for			
- rent		10,471,329	5,707,159
- insurance		3,228,002	2,596,127
- others		7,637,295	463,061
Mark-up / return / interest accrued		12,193,763	12,936,966
Receivable from a related party	12.1	688,282	482,922
Advances to staff		3,028,817	2,367,203
Security deposits		2,750,180	1,739,402
Advance tax (payments less provision)		-	133,763
Insurance claim receivable	11.2.3	4,000,000	-
Others		1,073,665	1,053,039
		<u>45,071,333</u>	<u>27,479,642</u>

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

### 13 DEFERRED TAX ASSET

Deferred tax asset comprises of deductible / (taxable) timing differences in respect of the following:

	Note	2017	2016
-----Rupees-----			
<b>Deductible temporary differences arising in respect of</b>			
- Unabsorbed tax depreciation and amortisation losses		19,411,781	15,160,033
- Provision for provident fund		-	2,275,987
- Property and equipment		974,782	-
- Intangible assets		239,458	-
- Provision against non-performing loans		221,199	1,578,922
		<u>20,847,220</u>	<u>19,014,942</u>
<b>Taxable temporary differences arising due to</b>			
- Property and equipment		-	(3,457,117)
- Intangible assets		-	(2,092,879)
		<u>-</u>	<u>(5,549,996)</u>
		<u>20,847,220</u>	<u>13,464,946</u>

13.1 The Bank has unabsorbed tax loss of Rs 661,045,361 [including unabsorbed tax depreciation and amortisation amounting to Rs 110,924,465] as at December 31, 2017. The management has recognised deferred tax asset of Rs 19,411,781 (2016: Rs 15,160,033) 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.

### 14 DEPOSITS AND OTHER ACCOUNTS

	2017		2016	
	Number of accounts	Rupees	Number of accounts	Rupees
Fixed Deposits	99	114,198,720	-	-
Saving deposits	1,108	161,723,694	1,006	12,015,383
Current deposits	14,168	25,703,351	7,652	9,453,894
	<u>15,375</u>	<u>301,625,765</u>	<u>8,658</u>	<u>21,469,277</u>

#### 14.1 Particulars of deposits by ownership

	2017		2016	
	Number of accounts	Rupees	Number of accounts	Rupees
Individual depositors	15,195	301,275,921	8,482	20,961,855
Corporation / firms etc.	180	349,844	176	507,422
	<u>15,375</u>	<u>301,625,765</u>	<u>8,658</u>	<u>21,469,277</u>

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15	OTHER LIABILITIES	Note	2017	2016
			-----Rupees-----	
	Mark-up / return / interest payable		2,677,117	14,190
	Accrued expenses		24,213,318	13,831,561
	Payable to related parties	15.1	35,832,081	17,314,795
	Withholding tax payable		4,965,541	2,729,392
	Provident fund payable		-	13,005,637
	Payable to Employee Old Age Benefit Institution (EOBI)		466,740	909,535
	Current taxation (provisions less payments)		160,974	-
	Bonus payable to executives		3,000,000	-
	Others		-	6,400
			<u>71,315,771</u>	<u>47,811,510</u>

15.1 This includes Rs 33,156,728 (2016: Rs 14,651,967) payable to Advans International (formerly Horus Development Finance) , a related party, for technical assistance fee under related agreements and other ancillary charges. Furthermore, this include amounts of Rs 2,669,026 (2016: Rs 2,662,828) and Rs 6,327 (2016: nil) 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

2017	2016	Note	2017	2016
Number of shares			-----Rupees-----	
<u>150,000,000</u>	<u>150,000,000</u>		<u>1,500,000,000</u>	<u>1,500,000,000</u>
Ordinary shares of Rs 10 each				

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

2017	2016	Note	2017	2016
Number of shares			-----Rupees-----	
<u>129,016,310</u>	<u>97,400,000</u>	16.3	<u>1,290,163,100</u>	<u>974,000,000</u>
Ordinary shares of Rs 10 each fully paid in cash				

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

	2017	2016	
	Number of shares		
Advans S.A. Sicar - Luxembourg	16.4	96,751,309	73,399,999
FMO (Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.) - Netherlands	16.5	32,265,000	24,000,000
Claude Falgon - Chairman Advans Pakistan			
Microfinance Bank Limited		1	1
	<u>129,016,310</u>	<u>97,400,000</u>	

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

	2017			2016			2017	2016
	Issued for cash	Issued as bonus shares	Total	Issued for cash	Issued as bonus shares	Total		
	-----Number of shares-----						-----Rupees-----	
Opening balance	97,400,000	-	97,400,000	80,000,000	-	80,000,000	974,000,000	800,000,000
Shares issued during the year	31,616,310	-	31,616,310	17,400,000	-	17,400,000	316,163,100	174,000,000
Closing balance	<u>129,016,310</u>	-	<u>129,016,310</u>	<u>97,400,000</u>	-	<u>97,400,000</u>	<u>1,290,163,100</u>	<u>974,000,000</u>

16.3 During the year, the Bank has issued 31,616,310 right shares of Rs.10 each.

16.4 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. MF1-012 dated June 28, 2012.

16.5 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	2017	2016
		-----Rupees-----	
<b>17 DEFERRED GRANT</b>			
Opening balance	17.1	11,254,523	16,923,790
Grant income recognised during the year	17.2	(5,637,421)	(5,669,267)
		<u>5,617,102</u>	<u>11,254,523</u>
<b>17.1</b>	This represents unrealized grant from the State Bank of Pakistan (SBP) under its Institutional Strengthening Fund (ISF) under an agreement entered into with SBP dated April 28, 2014 for the project "Improving productivity through human resource and establishing alternative delivery channels". The grant is to be used for the purpose of (I) improving productivity through Human Resource Development; and (II) Establishment of Alternate Delivery Channels. Under the agreement, the SBP would provide an amount of Rs 35,249,089 with matching contribution of at least 25 percent of the project cost by the Bank.		
<b>17.2</b>	The Bank completed the activities covered under part (I) improving productivity through Human Resource Development and part (II) of the Project, through obtaining IT equipments, software licenses and related IT services from various IT companies such as Jaffer Business System, Silicon Technologies etc. for the purpose of implementation of alternative delivery channels. Accordingly, as per the requirement of International Accounting Standards (IAS) 20 'Government Grants', Rs 5,637,421 (2016: Rs 5,669,267) grants related to depreciable assets i.e. Alternative Delivery Channels, has been recognised in the profit and loss of the Bank as "other income".		
	Note	2017	2016
		-----Rupees-----	
<b>18 MEMORANDUM / OFF BALANCE SHEET ITEMS</b>			
Commitments for fixed capital expenditure		<u>-</u>	<u>-</u>
<b>18.1</b>	There were no contingencies as at December 31, 2017 and December 31, 2016.		
<b>19 MARK-UP / RETURN / INTEREST EARNED</b>			
Interest / mark-up on:			
Advances		136,823,373	67,651,219
Government Securities - Market Treasury bills		4,625,235	1,632,836
Banks and financial institutions			
- Term deposits		2,586,581	6,686,395
- Deposit accounts		2,140,069	3,141,460
		<u>146,175,258</u>	<u>79,111,910</u>
<b>20 MARK-UP / RETURN / INTEREST EXPENSED</b>			
Interest / mark-up on deposits		<u>7,908,965</u>	<u>830,070</u>
<b>21 FEE, COMMISSION AND BROKERAGE INCOME</b>			
Loan processing fee		21,684,634	6,729,266
Other fee and commission		4,894,717	8,369,271
		<u>26,579,351</u>	<u>15,098,537</u>
<b>22 OTHER INCOME</b>			
Grant income	17	5,637,421	5,669,267
Recoveries against write-offs		2,069,526	2,001,871
Insurance proceeds	11.2.3	4,000,000	-
Liabilities no longer required written back		2,834,259	-
Others		234,632	872,079
		<u>14,775,838</u>	<u>8,543,217</u>

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23	ADMINISTRATIVE EXPENSES	Note	2017	2016
			-----Rupees-----	
	Salaries and other allowances	23.1 & 23.2	123,201,230	90,602,330
	Staff welfare		1,444,682	1,495,259
	Director's remuneration		609,271	314,571
	Training and business development		713,510	85,175
	Rent, rates and taxes		32,157,883	19,948,911
	Legal and professional charges		3,482,442	4,868,985
	Utilities		6,292,949	5,130,990
	Communication		4,826,188	4,973,853
	Repairs and maintenance		9,354,430	10,155,438
	Vehicles running and maintenance		3,085,707	4,371,005
	Fuel for generator		2,198,859	1,359,865
	Insurance		7,508,231	5,863,510
	Travelling and conveyance		16,933,692	7,839,998
	Printing and stationery		3,952,475	1,220,824
	Fees and subscription		3,298,799	4,289,783
	Technical assistance fee	23.3	37,413,034	38,006,892
	Security charges		5,648,931	4,749,719
	Advertisement and publicity		4,275,951	4,889,597
	Auditors' remuneration	23.4	1,429,015	1,246,362
	Depreciation	11.2	13,862,117	15,734,493
	Amortisation of intangible assets	11.3	9,065,656	12,290,755
	Bank charges		929,887	1,268,432
	Office supplies		299,649	264,603
	Janitorial charges		2,555,300	2,207,795
	Other expenses		1,356,606	537,034
			<u>295,896,494</u>	<u>243,716,179</u>

23.1 This includes amount of Rs 41,069,272 (2016: Rs 30,095,747) related to remuneration of key management personnel.

23.2 This includes amount of Rs 2,590,098 (2016: Rs 4,139,969) 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	Auditors' remuneration	Note	2017	2016
			-----Rupees-----	
	Audit fee		994,250	744,250
	Fee for other certifications		260,000	340,877
			1,254,250	1,085,127
	Sindh sales tax		100,340	86,810
	Out of pocket expenses		74,425	74,425
			<u>1,429,015</u>	<u>1,246,362</u>

## 24 OTHER OPERATING EXPENSES

Loss on disposal / impairment of operating fixed assets	2,628,573	1,985,464
Exchange loss	4,263,485	912,063
	<u>6,892,058</u>	<u>2,897,527</u>

## 25 TAXATION

For the year		
- Current	25.1	2,273,663
- Deferred		(7,382,274)
		<u>(5,108,611)</u>
		<u>972,198</u>
		<u>47,452,702</u>
		<u>48,424,900</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.

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26	EARNINGS PER SHARE		2017	2016
26.1	Basic			
	Loss for the period	Rupees	<u>(129,377,779)</u>	<u>(205,886,885)</u>
	Weighted average number of ordinary shares	Number	<u>112,599,930</u>	<u>88,700,000</u>
	Loss per share		<u>(1.15)</u>	<u>(2.32)</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

	2017			2016		
	Credit / Sales staff	Banking / Support staff	Total	Credit / Sales staff	Banking / Support staff	Total
	-----Number-----			-----Number-----		
Permanent	106	104	210	62	77	139
Contractual	-	-	-	-	-	-
Total	<u>106</u>	<u>104</u>	<u>210</u>	<u>62</u>	<u>77</u>	<u>139</u>

27.1 Average number of employees during the year were 175 (2016: 127).

## 28 NUMBER OF BRANCHES

	2017		2016	
	Branches	Service Centre	Branches	Service Centre
At the beginning of the year	7	1	7	1
Add: Opened during the year	1	-	-	-
Less: Closed during the year	-	1	-	-
At the end of the year	<u>8</u>	<u>-</u>	<u>7</u>	<u>1</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	
	2017	2016	2017	2016	2017	2016
	-----Rupees-----		-----Rupees-----		-----Rupees-----	
Managerial remuneration	12,953,629	10,750,571	-	-	14,501,026	14,193,379
Fee	-	-	609,271	314,571	-	-
House rent allowance	-	-	-	-	4,085,435	-
Utilities allowance	1,295,354	1,075,057	-	-	2,267,178	1,419,338
Medical allowance	1,295,347	1,075,057	-	-	1,450,097	1,419,338
Other benefits	4,677,925	96,735	-	-	4,912,507	66,272
	<u>20,222,255</u>	<u>12,997,420</u>	<u>609,271</u>	<u>314,571</u>	<u>27,216,243</u>	<u>17,098,327</u>
Number of persons during the year	<u>1</u>	<u>2</u>	<u>7</u>	<u>7</u>	<u>10</u>	<u>8</u>

The Chief Executive Officer (CEO) and head of departments are provided with use of Bank's maintained car and expatriate staff are provided fully furnished rent free accommodation.

## 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.

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	Note	2017	2016
-----Rupees-----			
<b>31 CASH AND CASH EQUIVALENTS</b>			
Cash and balances with State Bank of Pakistan and National Bank of Pakistan	7	187,331,991	12,248,428
Balances with other banks and microfinance banks in current and deposit accounts	8	44,833,529	177,172,795
Term deposits with commercial banks	31.1	<u>90,000,000</u>	<u>130,000,000</u>
		<u>322,165,520</u>	<u>319,421,223</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.

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

### 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, 2017, 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 624,542,230 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, 2017, the Bank's net equity and Capital Adequacy Ratio stood at Rs 624,542,230 (2016: Rs 437,756,909) and 88.33% (2016: 114%) 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

2017							
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-----							
<b>Financial assets</b>							
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	134,833,529
Advances - net of provisions	26%-45%	116,531,018	421,818,729	20,267,693	558,617,440	-	558,617,440
Other assets		1,827,746	-	-	1,827,746	21,906,961	23,734,707
		<u>245,100,220</u>	<u>421,818,729</u>	<u>20,267,693</u>	<u>687,186,642</u>	<u>219,283,784</u>	<u>904,517,667</u>
<b>Financial liabilities</b>							
Deposits and other accounts	6%-14%	168,758,564	70,583,850	36,580,000	275,922,414	25,703,351	301,625,765
Other liabilities		-	-	-	-	65,718,746	65,718,746
		<u>168,758,564</u>	<u>70,583,850</u>	<u>36,580,000</u>	<u>275,922,414</u>	<u>91,152,097</u>	<u>367,344,511</u>

2016							
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-----							
<b>Financial assets</b>							
Cash and balances with SBP / NBP	-	-	-	-	-	12,248,428	12,248,428
Balances with other banks	3.8%-4.25%	307,162,772	-	-	307,162,772	10,023	307,172,795
Investments - net of provisions		59,116,980	-	-	59,116,980	-	59,116,980
Advances - net of provisions	41%	49,239,542	132,117,123	26,240,851	207,597,516	-	207,597,516
Other assets		590,560	740,619	1,024,409	2,355,588	15,505,881	17,861,469
		<u>416,109,854</u>	<u>132,857,742</u>	<u>27,265,260</u>	<u>576,232,856</u>	<u>27,764,332</u>	<u>603,997,188</u>
<b>Financial liabilities</b>							
Deposits and other accounts	7.5%-9%	12,015,383	-	-	12,015,383	9,453,894	21,469,277
Other liabilities		-	-	-	-	44,172,583	44,172,583
		<u>12,015,383</u>	<u>-</u>	<u>-</u>	<u>12,015,383</u>	<u>53,626,477</u>	<u>65,641,860</u>

## 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, investments and balances with other banks. The credit risk on liquid fund is limited because the counterparties are banks with reasonably high credit rating. The credit quality of bank balances and term deposits can be assessed with reference to external credit ratings as follows:

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

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### 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. This 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 935,189 (2016 : Rs 1,949,107). This analysis assumes that all other variables remain constant. This analysis is performed on the same basis as for 2016.

#### 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 notes 15.1 to the financial statements. The average rate applied during the year is Rs 119.07 / Euro (2016: Rs 115.86 / Euro) and the spot rate as at December 31, 2017 is Rs 132.25 / Euro (2016: Rs 109.75 / Euro).

At December 31, 2017, 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 1,657,836 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.

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

	2017				
	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	558,617,440	7,403,848	109,127,170	421,818,729	20,267,693
Other earning assets	126,741,456	126,741,456	-	-	-
<b>Total market rate assets</b>	<b>685,358,896</b>	<b>134,145,304</b>	<b>109,127,170</b>	<b>421,818,729</b>	<b>20,267,693</b>
Other non-earning assets	317,741,972	195,424,064	-	45,071,333	77,246,575
<b>Total assets</b>	<b>1,003,100,868</b>	<b>329,569,368</b>	<b>109,127,170</b>	<b>466,890,062</b>	<b>97,514,268</b>
<b>Market rate liabilities</b>					
Deposits	301,625,765	189,277,045	5,184,870	70,583,850	36,580,000
<b>Total market rate liabilities</b>	<b>301,625,765</b>	<b>189,277,045</b>	<b>5,184,870</b>	<b>70,583,850</b>	<b>36,580,000</b>
Other non-cost bearing liabilities	71,315,771	71,315,771	-	-	-
<b>Total liabilities</b>	<b>372,941,536</b>	<b>260,592,816</b>	<b>5,184,870</b>	<b>70,583,850</b>	<b>36,580,000</b>
	-----Rupees-----				
	-----Rupees-----				
<b>Market rate assets</b>					
Investments	59,116,980	-	59,116,980	-	-
Advances - net of provisions	207,597,516	4,079,531	45,160,011	132,117,123	26,240,851
Other earning assets	309,518,360	207,283,992	100,469,340	1,765,028	-
<b>Total market rate assets</b>	<b>576,232,856</b>	<b>211,363,523</b>	<b>204,746,331</b>	<b>133,882,151</b>	<b>26,240,851</b>
Other non-earning assets	108,222,463	25,376,161	20,588,504	18,412,503	43,845,295
<b>Total assets</b>	<b>684,455,319</b>	<b>236,739,684</b>	<b>225,334,835</b>	<b>152,294,654</b>	<b>70,086,146</b>
<b>Market rate liabilities</b>					
Deposits	21,469,277	21,469,277	-	-	-
<b>Total market rate liabilities</b>	<b>21,469,277</b>	<b>21,469,277</b>	<b>-</b>	<b>-</b>	<b>-</b>
Other non-cost bearing liabilities	47,811,510	47,811,510	-	-	-
<b>Total liabilities</b>	<b>69,280,787</b>	<b>69,280,787</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 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 except for the following:

FROM	TO	2016 Rupees
<b>FEE, COMMISSION AND BROKERAGE INCOME</b>	<b>OTHER INCOME</b>	
Other fee and commission	Recoveries against write-offs	2,001,871
<b>ADMINISTRATIVE EXPENSES</b>	<b>ADMINISTRATIVE EXPENSES</b>	
Other expenses	Auditors' remuneration	86,810

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36 GENERAL

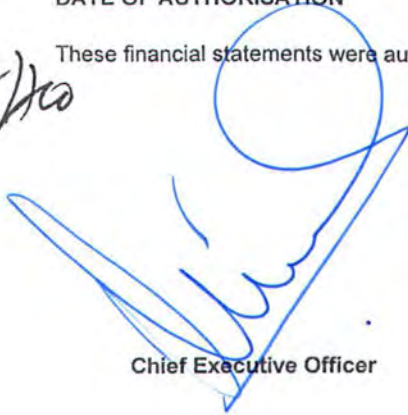
36.1 As prescribed by BSD circular No. 11, dated December 30, 2003, except for the captions of the balance sheet and profit and loss account, cash flow statement and statement of changes in equity, captions in respect of which there are no amounts have not been reproduced in these financial statements.

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 12-03-18 by the Board of Directors of the Bank.

*AKK*



Chief Executive Officer



Chairman

*Karim*  
Director



Director