

**Advans Pakistan
Microfinance Bank Limited**

**Financial Statements
For the year ended December 31, 2016**

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Advans Pakistan Microfinance Bank Limited (the Bank) as at December 31, 2016 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 (here-in-after referred to as the financial statements) for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- a. in our opinion, proper books of account have been kept by the Bank as required by the Microfinance Institution Ordinance, 2001 and the Companies Ordinance, 1984;
- b. in our opinion:
 - i. the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Microfinance Institutions Ordinance, 2001 and Companies Ordinance, 1984 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - ii. the expenditure incurred during the year was for the purpose of the Bank's business; and
 - iii. the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank;
- c. in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Microfinance Institutions Ordinance, 2001 and Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at December 31, 2016 and of the loss, its comprehensive loss, cash flows and changes in equity for the year then ended; and
- d. in our opinion, no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

We draw attention towards:

- a) note 13 to the financial statements relating to deferred tax asset where management has disclosed that the Bank, based on financial projections for taxable profits in forthcoming years as approved by the Board of Directors, will be able to realise the deferred tax asset amounting to Rs. 13,464,946. The preparation of projections involve management's assumptions regarding future business and economic conditions and capital injection and therefore any significant change in such assumptions or actual outcome that is different from assumptions, may have an effect on the realisability of the deferred tax asset in future.
- b) note 32.3.1 to the financial statements which states that the Bank has been granted exemption by SBP for meeting the minimum capital requirement of Rs.500,000,000 till February 28, 2017. On 23 December 2016 the Bank has received advance of Rs.150,000,000 against right issue from its holding company.

Our opinion is not qualified with respect of above matters.



Chartered Accountants

Engagement Partner:
Mushtaq Ali Hirani

Date: 09 MAR 2017
Karachi

ADVANS PAKISTAN MICROFINANCE BANK LIMITED
BALANCE SHEET
AS AT DECEMBER 31, 2016

		2016	2015
	Note	-----Rupees-----	
ASSETS			
Cash and balances with State Bank of Pakistan and National Bank of Pakistan	7	12,248,428	17,391,327
Balances with other banks and microfinance banks	8	307,172,795	197,455,217
Lendings to financial institutions		-	-
Investments	9	59,116,980	-
Advances - net of provisions	10	207,597,516	181,224,398
Operating fixed assets	11	57,375,012	79,582,666
Other assets	12	27,479,642	26,176,366
Deferred tax asset	13	13,464,946	60,917,648
Total assets		684,455,319	562,747,622
LIABILITIES			
Deposits and other accounts	14	21,469,277	14,627,163
Borrowings		-	-
Subordinated debt		-	-
Other liabilities	15	47,811,510	61,552,875
Deferred tax liabilities		-	-
Total liabilities		69,280,787	76,180,038
Net assets		615,174,532	486,567,584
REPRESENTED BY			
Share capital	16	974,000,000	800,000,000
Reserves		-	-
Accumulated loss		(536,243,091)	(330,356,206)
		437,756,909	469,643,794
Advance against issue of capital	17	166,163,100	-
Surplus/ (deficit) on revaluation of assets		-	-
Deferred grant	18	11,254,523	16,923,790
		615,174,532	486,567,584
MEMORANDUM / OFF BALANCE SHEET ITEMS			
	19		

The annexed notes from 1 to 36 form an integral part of these financial statements.

Signature

Signature
Chief Executive

Signature
Director

Signature
Director

Signature
Director

ADVANS PAKISTAN MICROFINANCE BANK LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2016

	Note	2016 -----Rupees-----	2015
Mark-up / return / interest earned	20	79,111,910	83,210,564
Mark-up / return / interest expensed	21	(830,070)	(551,591)
Net mark-up / interest income		78,281,840	82,658,973
Provision against non-performing advances	10.3	12,771,873	25,892,516
Provision for diminution in the value of investments		-	-
Bad debts written off		-	-
		12,771,873	25,892,516
Net mark-up / return / interest income after provisions		65,509,967	56,766,457
Non mark-up / non interest income			
Fee, commission and brokerage income	22	17,100,408	11,623,781
Dividend income		-	-
Other income	23	6,541,346	8,987,682
Total non-mark-up / non-interest income		23,641,754	20,611,463
		89,151,721	77,377,920
Non mark-up / non interest expenses			
Administrative expenses	24	(243,716,179)	(214,942,332)
Other provision / write offs		-	-
Other operating expenses	25	(2,897,527)	(69,887)
Other charges		-	-
Total non mark-up / non interest expenses		(246,613,706)	(215,012,219)
Loss before taxation		(157,461,985)	(137,634,299)
Taxation - current	26	(972,198)	(948,343)
- prior		-	(906)
- deferred	26	(47,452,702)	60,917,648
		(48,424,900)	59,968,399
Loss after taxation		(205,886,885)	(77,665,900)
Accumulated loss brought forward		(330,356,206)	(252,690,306)
		(536,243,091)	(330,356,206)
Appropriations			
Transfer to:			
Statutory reserve		-	-
Capital reserve		-	-
Depositors' protection fund		-	-
Revenue reserve		-	-
Proposed cash dividend		-	-
Accumulated loss carried forward		(536,243,091)	(330,356,206)
Earnings per share-basic and diluted (Rupee)	27	(2.32)	(0.97)

The annexed notes from 1 to 36 form an integral part of these financial statements.

Signature
Chief Executive

Signature
Director

Signature
Director

Signature
Director

ADVANS PAKISTAN MICROFINANCE BANK LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016

2016 2015
 -----Rupees-----

Loss for the year	(205,886,885)	(77,665,900)
Other comprehensive income	-	-
Total comprehensive loss for the year	<u>(205,886,885)</u>	<u>(77,665,900)</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 36 form an integral part of these financial statements.

Signature

Signature
 Chief Executive

Signature
 Director

Signature
 Director

Signature
 Director

ADVANS PAKISTAN MICROFINANCE BANK LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2016

	2016	2015
Note	-----Rupees-----	
A. CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before taxation	(157,461,985)	(137,634,299)
Adjustments for non-cash charges and other items		
Depreciation		
Amortization of intangible assets	11.1 15,734,493	17,723,016
Loss on disposal of operating fixed assets	11.2 12,290,755	11,870,269
Grant utilized against expenses	1,985,464	69,887
Provision against non performing advances	18 (5,669,267)	(7,750,573)
	10.3 12,771,873	25,892,516
	37,113,318	47,805,115
	(120,348,667)	(89,829,184)
(Increase)/ decrease in operating assets		
Advances		
Other assets (excluding advance taxation)	(39,144,991)	(108,609,808)
	(1,169,513)	(629,916)
	(40,314,504)	(109,239,724)
Increase / (decrease) in operating liabilities		
Deposits and other accounts		
Other liabilities (excluding current taxation)	6,842,114	(7,470)
	(13,271,382)	24,352,203
	(6,429,268)	24,344,733
	(167,092,439)	(174,724,175)
Income tax paid	(1,575,944)	(322,630)
Net cash used in operating activities	(168,668,383)	(175,046,805)
B. CASH FLOWS FROM INVESTING ACTIVITIES		
Net investment in held-to-maturity treasury bills	(59,116,980)	147,083,624
Term deposits matured during the year	80,000,000	-
Proceeds from disposal of operating fixed assets	393,245	98,639
Investment in operating fixed assets	(8,196,303)	(30,948,647)
Net cash generated from investing activities	13,079,962	116,233,616
C. CASH FLOWS FROM FINANCING ACTIVITIES		
Advance against issue of capital	166,163,100	-
Issue of share capital	174,000,000	-
Grant received from State Bank of Pakistan	-	3,524,911
Net cash generated from financing activities	340,163,100	3,524,911
Net increase / (decrease) in cash and cash equivalents	184,574,679	(55,288,278)
Cash and cash equivalents at beginning of the year	134,846,544	190,134,822
Cash and cash equivalents at end of the year	319,421,223	134,846,544

31

The annexed notes from 1 to 36 form an integral part of these financial statements.

Chief Executive

Director

Director

Director

ADVANS PAKISTAN MICROFINANCE BANK LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016

	Share capital	Capital Reserve		Accumulated loss	Total
		Statutory reserve	Depositors' protection fund		
Rupees.....				
Balance as at December 31, 2014	800,000,000	-	-	(252,690,306)	547,309,694
Comprehensive income for the year					
Loss for the year	-	-	-	(77,665,900)	(77,665,900)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	(77,665,900)	(77,665,900)
Transfer to statutory reserve	-	-	-	-	-
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 for the year					
Loss for the year	-	-	-	(205,886,885)	(205,886,885)
Other comprehensive income	-	-	-	-	-
Total comprehensive income 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

The annexed notes from 1 to 36 form an integral part of these financial statements.

Signature

Signature
Chief Executive

Signature
Director

Signature
Director

Signature
Director

1. STATUS AND NATURE OF BUSINESS

Advans Pakistan Microfinance Bank Limited (the Bank) was incorporated as a public limited company under the Companies Ordinance, 1984 on April 17, 2012 and was granted license by the State Bank of Pakistan on June 28, 2012 to operate as microfinance bank in the province of Sindh. The Securities and Exchange Commission of Pakistan and the State Bank of Pakistan granted permissions to the Bank for the commencement of business with effect from November 21, 2012 and January 04, 2013 respectively. The Bank's principal business is to provide microfinance banking and related services to the poor and under served segment of the society as envisaged under the Microfinance Institutions Ordinance, 2001. The registered office of the Bank is situated at Ground Floor, Bahria Complex 1, Lalazar Area, Moulvi Tamizzuddin Khan Road, Karachi. As at December 31, 2016, the Bank has 5 (2015:4) branches, 1 branch extension booth (2015: 2) and 1 service centres (2015:3) in operation in the province of Sindh.

The Bank is a subsidiary of Advans SA Sicar (incorporated in Luxembourg) that holds 75.36% (2015: 70%) 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 SBP.

3. STATEMENT OF COMPLIANCE

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

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

4. BASIS OF MEASUREMENT

4.1 Accounting convention

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

4.2 Functional and presentation currency

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

4.3 Amendments to published approved accounting standards that are effective in the current year

The following amendments to published approved accounting standards are effective from January 1, 2016. These amendments are, either not relevant to the Bank's operations or are not expected to have significant impact on the Bank's financial statements other than certain additional disclosures.

- Amendments to IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations': Clarification regarding changes in the method of disposal of an asset.

AM

- Amendments to IFRS 10 - Consolidated Financial Statements, IFRS 12 - Disclosure of Interests in Other Entities and IAS 28 (Revised 2011) - Investments in Associates and Joint Ventures: Application of consolidation exception
- Amendments to IFRS 11 - Joint Arrangements: Accounting for acquisitions of an interest in a joint operation
- Amendments to IAS 1 - Presentation of Financial Statements: Amendments resulting from the disclosure initiative
- Amendments to IAS 16 - Property, Plant and Equipment and IAS 41 - Agriculture: Bringing bearer plants in scope of IAS 16.
- Amendments to IAS 16 - Property, Plant and Equipment and IAS 38 - Intangible Assets: Clarification on acceptable methods of depreciation and amortisation.
- Amendments to IAS 19 'Employee Benefits': Clarification that the same currency bonds be used to determine the discount rate in which benefits are to be paid.
- Amendments to IAS 27 (Revised 2011) 'Separate Financial Statements': Use of equity method to account for investments in subsidiaries, joint ventures and associates in separate financial statements.
- Amendments to IAS 34 'Interim Financial Reporting': Clarification related to certain disclosures, i.e., if they are not included in the notes to interim financial statements and disclosed elsewhere should be cross referred.

4.4 New accounting standards, interpretations and amendments to published approved accounting standards that are not yet effective

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

	Effective from annual periods beginning on or after
Amendments to IFRS 2 'Share-based Payment': Clarification of the classification and measurement of share-based payment transactions	January 01, 2018
Amendments to IAS 7 'Statement of Cash Flows': Amendments as result of the disclosure initiative	January 01, 2017
Amendments to IAS 12 'Income Taxes': Recognition of deferred tax assets for unrealised losses	January 01, 2017
Amendments resulting from Annual Improvements 2014–2016 Cycle (clarifying certain fair value measurements)	January 01, 2018
IFRIC 22 'Foreign Currency Transactions and Advance Consideration': Provides guidance on transactions where consideration against non-monetary prepaid asset / deferred income is denominated in foreign currency.	January 01, 2018

In addition to the above, the following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

- IFRS 1 – First Time Adoption of International Financial Reporting Standards
- IFRS 9 – Financial Instruments
- IFRS 14 – Regulatory Deferral Accounts
- IFRS 15 – Revenue from Contracts with Customers
- IFRS 16 – Leases

RA

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

- Residual values and useful lives of property and equipment (note 6.2.1 and 11.1).
- Useful lives of intangible assets (note 6.2.3 and 11.2).
- Provision against non-performing advances (note 6.3 and 10.3).
- Taxation (note 6.4 and 26).
- Classification and valuation of investments (note 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 and with other banks in current and deposit accounts. These are carried at cost in balance sheet.

6.2 Operating fixed assets

6.2.1 Property and equipment

These are stated at cost less accumulated depreciation and impairment, if any. Depreciation is charged using the straight line method over the estimated useful lives of assets at the rates stated in note 11.1 to the financial statements. Depreciation on additions is charged from the month when asset is available for use and on disposals upto the preceding month of disposal.

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

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

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

6.2.2 Capital work in progress

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

6.2.3 Intangible assets

Intangible assets with definite useful lives are stated at cost less accumulated amortization and impairment losses, if any. These are amortized using the straight line method over their estimated useful lives at the rates mentioned in note 11.2.

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

The estimated useful lives and the amortization method are reviewed at the end of each 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 capitalized to the extent that future economic benefits are expected to flow to the Bank and that the cost can be measured reliably.

6.2.4 Impairment

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

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

6.3 Advances

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

6.4 Taxation

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

6.4.1 Current

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

6.4.2 Deferred

Deferred tax is recognised using the balance sheet liability method, on all temporary differences arising at the 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.

Deferred tax relating to surplus / (deficit) on revaluation of assets is charged / credited to such account. The movement of revaluation of surplus is routed through equity.

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 out in the profit and loss account.

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

Held-for-trading

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

Held-to-maturity

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

Available-for-sale

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

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

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

6.6 Provisions

Provisions are recognized when the Bank has a legal or constructive obligation as a result of past events and it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each 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 to profit and loss account on time proportion basis. It is also recognized separately as part of other liabilities.

6.10 Grants

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

6.11 Revenue recognition

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

6.12 Financial instruments

6.12.1 Financial assets and financial liabilities

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

6.12.2 Derivative financial Instruments

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

6.12.3 Off setting of financial assets and financial liabilities

Financial assets and financial liabilities are only off-set and the net amount is reported in the financial statements when there is a legally enforceable right to set-off the recognised 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 currencies 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, 2016 and December 31, 2015.

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.

7.	CASH AND BALANCES WITH STATE BANK OF PAKISTAN AND NATIONAL BANK OF PAKISTAN	Note	2016	2015
			-----Rupees-----	
	Cash in hand		8,486,192	12,838,571
	Balance with State Bank of Pakistan (SBP)	7.1	3,762,236	4,552,756
	Balance with National Bank of Pakistan (NBP)		-	-
			<u>12,248,428</u>	<u>17,391,327</u>

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

	Note	2016 -----Rupees-----	2015
8. BALANCES WITH OTHER BANKS AND MICROFINANCE BANKS			
In Pakistan:			
- Current accounts		10,023	10,023
- PLS deposit accounts	8.1	177,162,772	117,445,194
- Term deposits	8.2	130,000,000	80,000,000
		<u>307,172,795</u>	<u>197,455,217</u>

- 8.1 These include deposits with commercial banks carrying mark-up rates ranging from 3.8% to 4.25% (2015: 4% to 6%) per annum.

- 8.2 These represent term deposits with commercial banks carrying mark-up rate of 5.38% (2015: 5.85%) per annum with maturity on 2 March 2017.

	2016 -----Rupees-----	2015
9. INVESTMENTS		
Held to maturity		
Federal Government Securities - Treasury Bills	<u>59,116,980</u>	-

10. Advances - net of provisions

	Note	2016		2015	
		Number of loans outstanding	Amount outstanding	Number of loans outstanding	Amount outstanding
		-----Rupees-----		-----Rupees-----	
Micro credit	10.1	2,922	212,108,721	2,941	201,748,183
Less: Provision held					
- Specific	10.2 & 10.3	133	2,583,346	312	18,678,353
- General		-	1,927,859	-	1,845,432
			(4,511,205)		(20,523,785)
			<u>207,597,516</u>		<u>181,224,398</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. 5,576,744 (2015: Rs 23,425,898) which have been placed under non-performing status as detailed below.

Category of classification	2016			2015		
	Amount outstanding	Provision required	Provision held (Note 10.3.1 & 10.2.1)	Amount outstanding	Provision required	Provision held (Note 10.3.1 & 10.2.1)
	----- Rupees -----			----- Rupees -----		
OAEM	1,033,601	-	-	6,475,969	-	2,852,847
Sub-standard	967,499	241,872	241,872	5,297,590	1,191,216	3,445,439
Doubtful	2,434,446	1,200,276	1,200,276	9,181,621	4,488,264	8,976,528
Loss	1,141,198	1,141,198	1,141,198	2,470,718	2,155,146	2,155,146
	<u>5,576,744</u>	<u>2,583,346</u>	<u>2,583,346</u>	<u>23,425,898</u>	<u>7,834,626</u>	<u>17,429,960</u>

10.2.1 During last year in additions to the specific provision of Rs. 17,429,960, an additional provision of Rs 1,248,393 was provided for by the Bank on current and watchlist category as per Bank Policy, however in current year as the Bank has adopted SBP's provisioning policy therefore no such additional amount is provided for.

10.3 Particulars of provision against non-performing advances

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

	2016			2015		
	Specific	General	Total	Specific	General	Total
	(Note 10.3.2)			(Note 10.3.2)		
	----- Rupees -----			----- Rupees -----		
Opening balance	18,678,353	1,845,432	20,523,785	3,121,074	981,789	4,102,863
Charge for the year						
- On non-performing advances	31,406,031	82,427	31,488,458	23,780,480	863,643	24,644,123
- On watchlist/current parties	-	-	-	1,248,393	-	1,248,393
Reversals	(18,716,585)	-	(18,716,585)	-	-	-
	<u>12,689,446</u>	<u>82,427</u>	<u>12,771,873</u>	<u>25,028,873</u>	<u>863,643</u>	<u>25,892,516</u>
Amount written off	(28,784,453)	-	(28,784,453)	(9,471,594)	-	(9,471,594)
Closing balance	<u>2,583,346</u>	<u>1,927,859</u>	<u>4,511,205</u>	<u>18,678,353</u>	<u>1,845,432</u>	<u>20,523,785</u>

10.3.1 The provision held by the Bank includes following additional amounts in compliance with the Bank's internal provisioning policy, however during current year the bank has adopted SBP's provisioning policy.

Category of classification

	Additional provision held	
	2016	2015
	-----Rupees-----	
OAEM	-	2,852,847
Sub-Standard	-	2,254,223
Doubtful	-	4,488,264
Loss	-	-
	<u>-</u>	<u>9,595,334</u>

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

		2016	2015
		-----Rupees-----	
	Note		
11. OPERATING FIXED ASSETS			
Property and equipment			
Intangible assets			
	11.1	37,134,557	47,890,799
	11.2	20,240,455	31,691,867
		<u>57,375,012</u>	<u>79,582,666</u>

11.1 Property and equipment

	2016				
	COST		DEPRECIATION	Net book	Annual rate
	At January 01, 2016	At December 31, 2016	At January 01, 2016	value at December 31, 2016	of depreciation
			Charge for the year / (disposals)		%
Owned					
Leasehold improvements	20,861,405	21,146,026	1,859,885 (477,865)	15,048,350	10
Furniture and fixtures	7,276,835	7,769,307	1,673,723 (70,191)	3,179,778	20
Office and other equipment	16,119,798	17,331,227	3,370,896 (417,592)	6,971,692	20
Computer equipment	30,782,632	33,026,440	5,795,767 (14,073)	6,084,799	33
Vehicles	15,220,137	14,552,137	3,034,222 (434,200)	5,849,938	20
	<u>90,260,807</u>	<u>93,825,137</u>	<u>15,734,493 (1,413,921)</u>	<u>37,134,557</u>	

244

2015						
COST			DEPRECIATION			
At January 1, 2015	Additions / (disposals)	At December 31, 2015	At January 1, 2015	Charge for the year	At December 31, 2015	Net book value at December 31, 2015
Rupees						Annual rate of depreciation
Owned						%
Leasehold improvements	16,350,508	4,510,897	20,861,405	2,861,494	1,854,162	16,145,749
Furniture and fixtures	5,648,028	1,778,107 (149,300)	7,276,835	1,746,136	1,284,650 (44,789)	4,290,838
Office and other equipment	12,694,346	3,500,952 (75,500)	16,119,798	4,507,884	2,921,875 (23,528)	8,713,567
Computer equipment	19,889,191	10,963,041 (69,600)	30,782,632	12,541,953	8,675,551 (57,557)	9,622,685
Vehicles	13,532,637	1,687,500	15,220,137	3,115,399	2,986,778	9,117,960
	68,114,710	22,440,497 (294,400)	90,260,807	24,772,866	17,723,016 (125,874)	47,890,799

11.1.1 Property and equipment include assets costing Rs.18,554,737 (2015:11,791,651) which are fully depreciated and are still in use.

11.1.2 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
Office and other equipment	685,680	388,552	297,128	-	Scrap	
Leasehold Land Improvement						
	1,020,200	289,057	731,143	-	Scrap	
	295,603	41,877	253,726	-	Scrap	
	386,520	28,989	357,531	10,000	Scrap	
	1,702,323	359,923	1,342,400	10,000	Scrap	
	2,388,003	748,475	1,639,528	10,000		

DMA

2016

2015

11.2.1 Intangible assets include software costing Rs.20,030,420 (2015:NIL) which are fully depreciated and are still in use.

24

	Note	2016 -----Rupees-----	2015
12. OTHER ASSETS			
Prepayments for			
- rent		5,707,159	4,174,333
- insurance		2,596,127	2,262,133
- others		463,061	3,086,717
Mark-up / return / interest accrued		12,936,966	7,722,704
Receivable from a related party	12.1	482,922	341,713
Advances to staff		2,367,203	7,009,466
Security deposits		1,739,402	1,039,680
Advance tax (payments less provision)		133,763	-
Others		1,053,039	539,620
		<u>27,479,642</u>	<u>26,176,366</u>

12.1 This represents amount receivable from a related party Advans SA Sicar.

13. DEFERRED TAX ASSET

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

Deductible temporary differences arising in respects of

- Carried forward losses
- Provision for provident fund
- Intangible assets
- Provision against non-performing loans

15,160,033	58,659,880
2,275,987	2,175,487
-	271,709
1,578,922	-
19,014,942	61,107,076

Taxable temporary differences arising due to

- Property and equipment
- Intangible assets

(3,457,117)	(189,428)
(2,092,879)	-
(5,549,996)	(189,428)
13,464,946	60,917,648

13.1 The Bank, based on financial projections for taxable profits in forthcoming years as approved by the Board of Directors, will be able to realise the deferred tax asset amounting to Rs. 13,464,946 (2015: 60,917,648).

14. DEPOSITS AND OTHER ACCOUNTS

	2016		2015	
	Number of accounts	Rupees	Number of accounts	Rupees
Saving deposits	1,006	12,015,383	967	8,459,241
Current deposits	7,652	9,453,894	5,774	6,167,922
	<u>8,658</u>	<u>21,469,277</u>	<u>6,741</u>	<u>14,627,163</u>

14.1 Particulars of deposits by ownership

	2016		2015	
	Number of accounts	Rupees	Number of accounts	Rupees
Individual depositors	8,482	20,961,855	6,607	13,891,930
Corporation/firms etc.	176	507,422	134	342,683
	<u>8,658</u>	<u>21,469,277</u>	<u>6,741</u>	<u>14,234,613</u>

15. OTHER LIABILITIES

	Note	2016 -----Rupees-----	2015
Markup/return/interest payable		14,190	11,970
Accrued expenses		13,831,561	6,982,421
Payable to related parties	15.1	17,314,795	37,995,174
Withholding tax payable		2,729,392	1,398,286
Provident fund payable		13,005,637	12,261,323
Payable to Employee Old Age Benefit Institution (EOBI)		909,535	239,599
Current taxation(provisions less payments)		-	469,983
Others		6,400	2,194,119
		<u>47,811,510</u>	<u>61,552,875</u>

15.1 This comprises of Rs.2,662,828 (2015: Rs. 16,010,743) payable to Advans SA Sicar, holding company, Rs. 14,651,967 (2015: Rs. 21,887,892) payable to Advans International (formerly Horus Development Finance) , a related party, for technical assistance fee under related agreements and other ancillary charges. Subsequent to the year end amount of Rs.16,163,100 payable to holding company has been converted into equity as disclosed in note 17.

16. SHARE CAPITAL

16.1 Authorised capital

2016	2015		Note	2016	2015
Number of shares				-----Rupees-----	
<u>150,000,000</u>	<u>110,000,000</u>	Ordinary shares of Rs 10 each		<u>1,500,000,000</u>	<u>1,100,000,000</u>

16.2 Issued, subscribed and paid-up share capital

2016	2015		Note	2016	2015
Number of shares				-----Rupees-----	
<u>97,400,000</u>	<u>80,000,000</u>	Ordinary shares of Rs 10 each fully paid in cash	16.3	<u>974,000,000</u>	<u>800,000,000</u>

16.2.1 Share capital has been subscribed by the following:

Advans SA Sicar - Luxembourg	16.4	73,399,999	55,999,999
FMO (Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (N.V.) - Netherlands	16.5	24,000,000	24,000,000
Claude Falgon - Chairman Advans Pakistan Microfinance Bank		1	1
		<u>97,400,000</u>	<u>80,000,000</u>

16.3 During the year Bank has issued 17,400,000 right shares of Rs.10 each.

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

16.5 This represents shares owned by one of the sponsors deposited in blocked account with Central Depository Company of Pakistan Limited in terms of BPRD Circular No. 9 of 2009 and under SBP License No. MF1-012 dated June 28, 2012.

17. ADVANCE AGAINST ISSUE OF CAPITAL

This amount comprises of Rs. 150,000,000 received from Holding company on 23 December 2016 as advance against 15,000,000 right shares of Rs 10 each. During the year amount of Rs. 16,163,100 payable to Holding company in respect of preliminary expenses is converted into 1,616,310 shares of Rs. 10 each with approval of SBP vide letter number EPD/INT/A-30336/12(931)-2016 dated 21 December 2016.

18. DEFERRED GRANT	Note	2016 -----Rupees-----	2015
Opening balance	18.1	16,923,790	21,149,452
Grant received during the year from:			
State Bank of Pakistan		-	3,524,911
Grant income recognized during the year			
State Bank of Pakistan	18.2	(5,669,267)	(7,750,573)
		<u>11,254,523</u>	<u>16,923,790</u>

18.1 This represents unrealized grant from 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 atleast 25 percent of the project cost by the Bank.

18.2 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 requirement of international Accounting Standards (IAS) 20 Government Grants, Rs. 5,669,267 (2015:7,750,573) grants related to depreciable assets i.e. Alternative Delivery Channels, has been recognized in profit and loss of the Bank as "other Income".

19. MEMORANDUM / OFF BALANCE SHEET ITEMS	2016 -----Rupees-----	2015
Commitments for fixed capital expenditure	-	-

19.1 There were no contingencies as at December 31, 2016 and December 31, 2015.

			2016	2015
			-----Rupees-----	
20. MARK-UP / RETURN / INTEREST EARNED	Note			
Interest / mark-up on				
Advances			67,651,219	62,450,232
Term deposits			6,686,395	5,862,794
Treasury bills			1,632,836	11,945,752
Deposit accounts			3,141,460	2,951,786
			<u>79,111,910</u>	<u>83,210,564</u>
21. MARK-UP / RETURN / INTEREST EXPENSED				
Interest / mark-up on deposits			<u>830,070</u>	<u>551,591</u>
22. FEE COMMISSION AND BROKERAGE INCOME				
Loan processing fee			6,729,266	5,692,249
Others fee and commission			10,371,142	5,931,532
			<u>17,100,408</u>	<u>11,623,781</u>
23. OTHER INCOME				
Exchange gain			-	1,211,363
Grant income				7,750,573
Others	18		5,669,267	25,746
			872,079	
			<u>6,541,346</u>	<u>8,987,682</u>
24. ADMINISTRATIVE EXPENSES				
Salaries and other allowances				
Staff welfare	24.1		90,602,330	83,392,761
Director's remuneration			1,495,259	1,424,518
Training and business development			314,571	-
Rent, rates and taxes			85,175	473,050
Legal and professional			19,948,911	13,671,634
Utilities			4,868,985	3,861,610
Communication			5,130,990	4,253,903
Repairs and maintenance			4,973,853	5,724,911
Vehicles running and maintenance			10,155,438	2,628,770
Fuel for generator			4,371,005	5,102,692
Insurance			1,359,865	1,793,522
Travelling and conveyance			5,863,510	4,872,984
Printing and stationery			7,839,998	8,205,685
Fees and subscription			1,220,824	1,697,566
Technical assistance fee			4,289,783	8,747,298
Security charges	24.2		38,006,892	26,116,401
Advertisement and publicity			4,749,719	6,681,120
Auditors' remuneration			4,889,597	726,440
Depreciation	24.3		1,159,552	859,763
Amortisation of intangible assets	11.1		15,734,493	17,723,016
Bank charges	11.2		12,290,755	11,870,269
Office supplies			1,268,432	2,192,613
Software written off			264,603	307,278
Janitorial charges			-	609,600
Other expenses			2,207,795	1,597,468
			623,844	407,460
			<u>243,716,179</u>	<u>214,942,332</u>

24.1 This includes amount of Rs. 4,139,969 (2015: Rs 4,306,163) related to Provident Fund.

24.2 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. Included in the technical fee there is an amount of Rs.9,311,900 related to services of deputy CEO of the Bank.

	Note	2016 -----Rupees-----	2015
24.3 Auditors' remuneration			
Audit fee		744,250	744,250
Fee for other certification		340,877	41,088
Out of pocket expenses		74,425	74,425
		<u>1,159,552</u>	<u>859,763</u>
25. OTHER OPERATING EXPENSES			
Loss on disposal of fixed Assets		1,985,464	69,887
Exchange loss		912,063	-
		<u>2,897,527</u>	<u>69,887</u>
26. TAXATION			
For the period			
- Current	26.1	972,198	948,343
- Prior		-	906
- Deferred	26.2	47,452,702	(60,917,648)
		<u>48,424,900</u>	<u>(59,968,399)</u>

26.1 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.

		2016	2015
27. EARNINGS PER SHARE			
27.1 Basic			
Loss for the period	Rupees	<u>(205,886,885)</u>	<u>(77,665,900)</u>
Weighted average number of ordinary shares	Number	<u>88,700,000</u>	<u>80,000,000</u>
Basic earnings per share		(2.32)	(0.97)

27.2 Diluted

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

28. NUMBER OF EMPLOYEES

	2016			2015		
	Credit / Sales staff	Banking / Support staff	Total	Credit / Sales staff	Banking / Support staff	Total
	-----Number-----			-----Number-----		
Permanent	62	77	139	67	79	146
Contractual	-	-	-	-	-	-
Total	<u>62</u>	<u>77</u>	<u>139</u>	<u>67</u>	<u>79</u>	<u>146</u>

28.1 Average number of employees during the year were 127 (2015: 145).

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		Executives	
	2016	2015	2016	2015
	Rupees		Rupees	
Managerial remuneration	10,750,571	10,584,180	14,193,379	10,866,245
Utilities allowance	1,075,057	1,058,418	1,419,338	1,086,624
Medical allowance	1,075,057	1,058,418	1,419,338	1,086,624
Other benefits	96,735	258,915	66,272	1,194,804
	12,997,420	12,959,931	17,098,327	14,234,297
Number of persons during the year	2	1	8	9

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

The Bank has 7 directors excluding Chief Executive Officer. The Directors other than CEO, are not entitled to any remuneration from the Bank. Only one director is paid Rs. 25,000 for attending each directors meeting. During the year he is paid amount of Rs 125,000 for attending 5 board meeting.

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. Transaction with related parties are carried out as per agreed terms.

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

Party name	Relationship	Nature of transaction	Note	2016	2015
				Rupees	
Advans International (formerly Horus Development Finance)	Common Directorship	Technical assistance fee		38,006,892	26,116,401
LA Fayette Microfinance Bank	Group Company	Visa fees of IT expert paid on behalf of the Bank		-	194,375
FMO (Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.)	Sponsor	Received from FMO against charges for CDC account of FMO		-	1,080,000
Key management personnel		Salaries and benefits		30,095,747	27,194,228

31. CASH AND CASH EQUIVALENTS

Cash and balances with SBP / NBP	7	12,248,428	17,391,327
Balances with other banks and microfinance banks in current and deposit accounts	8 & 31.1	177,172,795	117,455,217
Term deposits commercial banks		130,000,000	-
		319,421,223	134,846,544

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

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, 2016, the share capital of the Bank stood at Rs. 974,000,000 and paid up capital of the Bank free of losses is Rs. 437,756,909 hence the Bank is not in compliance with the aforesaid requirement. On December 23, 2016 the bank has received advance for issuance right shares of Rs 150,000,000 from its holding company.

The Bank communicated its current status of compliance with minimum capital requirement to SBP vide letter ref: FIN/606/1801/2017 dated January 19, 2017. In response, SBP vide its letter No. BPRD/BA&CP/687/1951/2017 dated January 25, 2017 allowed exemption to minimum capital requirement till February 28, 2017. Subsequent to year end allotment of 15,000,000 right shares and 1,616,310 shares other than right shares of Rs 10 each were approved in BoD meeting held on January 20, 2017.

- 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 plan 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, 2016, the Bank's net equity and Capital Adequacy Ratio stood at Rs. 437,756,909 (2015: Rs. 469,643,794) and 114% (2015: 115%) respectively as against the minimum requirement of Rs. 500,000,000 and 15% prescribed by SBP.

33. FINANCIAL ASSETS AND LIABILITIES

2016

2010											
Effective yield / interest rate	Interest bearing					Non-Interest bearing				Total	
	Upto 6 months	Over 6 months to one year	Over 1 year up to five years	Over five years	Sub 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											
		-	-	-	-	-	12,248,428	-	-	-	12,248,428
3.8%-4.25%		307,162,772	-	-	-	307,162,772	10,023	-	-	10,023	307,172,795
		59,116,980	-	-	-	59,116,980	-	-	-	-	59,116,980
41%		49,239,542	132,117,123	26,240,851	-	207,597,516	-	-	-	-	207,597,516
		590,560	740,619	1,024,409	-	2,355,588	13,988,701	540,000	977,180	15,505,881	17,861,469
		416,109,854	132,857,742	27,265,260	-	576,232,856	26,247,152	540,000	977,180	27,764,332	603,997,188
Financial liabilities											

2015

2015										
Effective yield / interest rate	Interest bearing			Non-Interest bearing				Total		
	Upto 6 months	Over 6 months to one year	Over 1 year up to five years	Over five years	Sub total	Upto 6 months	Over 6 months to one year		Over 1 year up to five years	Over five years
Rupees										
Financial assets										
Cash and balances with SBP / NBP										
Balances with other banks	4%-6%	-	-	-	-	-	17,391,327	-	-	17,391,327
Investments - net of provisions		117,445,194	80,000,000	-	-	197,445,194	10,023	-	-	10,023
Advances - net of provisions	41%	-	-	-	-	-	-	-	-	-
Other assets		40,814,405	112,550,861	27,859,132	-	181,224,398	-	-	-	-
		828,818	2,864,550	3,180,982	-	6,874,350	8,333,216	110,324	1,335,893	9,779,433
		159,088,417	195,415,411	31,040,114	-	385,543,942	25,734,566	110,324	1,335,893	27,180,783
Financial liabilities										
Deposits and other accounts	7.5%-9%	8,359,241	100,000	-	-	8,459,241	6,167,922	-	-	6,167,922
Other liabilities		-	-	-	-	-	59,445,007	-	-	59,445,007
		8,359,241	100,000	-	-	8,459,241	65,612,929	-	-	65,612,929

Page 24

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

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

The Bank has an effective loan disbursement and recovery monitoring system which allows it to evaluate borrower's credit worthiness and identify potential problem loans. The Bank 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 asset. At present the bank is not exposed to this risk as there is sufficient cash placed with various commercial banks at the year end.

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 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 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 / profit for the year and shareholder's equity by Rs. 1,949,107 (2015: Rs.2,360,565). This analysis assumes that all other variables remain constant. The analysis is performed on the same basis as for 2015.

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. 115.86/Euro (2015: Rs. 114.02 /Euro) and the spot rate as at December 31, 2016 is Rs. 109.75 (2015: Rs. 114.54 / Euro).

At December 31, 2016, if the Rupee had weakened/strengthened by 5% against the Euros with all other variables held constant, post-tax loss for the period would have been higher/lower by Rs.426,356 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

(a) Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms' length transaction.

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.

NYA

(b) Fair value estimation

The Company discloses the financial instruments measured in the balance sheet at fair value in accordance with the following fair value hierarchy:

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).

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.

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

2016					
Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year	
-----Rupees-----					
Market rate assets					
Advances	207,597,516	4,079,531	45,160,011	132,117,123	26,240,851
Investments	59,116,980	-	59,116,980	-	-
Other earning assets	309,518,360	207,283,992	100,469,340	1,765,028	-
Total market rate assets	576,232,856	211,363,523	204,746,331	133,882,151	26,240,851
Other non-earning assets	108,222,463	25,376,161	20,588,504	18,412,503	43,845,295
Total assets	684,455,319	236,739,684	225,334,835	152,294,654	70,086,146
Market rate liabilities					
Deposits	21,469,277	21,469,277	-	-	-
Total market rate liabilities	21,469,277	21,469,277	-	-	-
Other non-cost bearing liabilities	47,811,510	47,811,510	-	-	-
Total liabilities	69,280,787	69,280,787	-	-	-
2015					
Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year	
-----Rupees-----					
Market rate assets					
Advances	181,224,398	1,807,727	39,006,678	112,550,860	27,859,133
Investments	-	-	-	-	-
Other earning assets	204,319,545	197,540,380	733,633	6,045,532	-
Total market rate assets	385,543,943	199,348,107	39,740,311	118,596,392	27,859,133
Other non-earning assets	177,203,679	27,955,274	18,300,989	18,677,063	112,270,354
Total assets	562,747,622	227,303,381	58,041,300	137,273,455	140,129,487
Market rate liabilities					
Deposits	14,627,163	14,527,163	100,000	-	-
Total market rate liabilities	14,627,163	14,527,163	100,000	-	-
Other non-cost bearing liabilities	61,552,875	61,552,875	-	-	-
Total liabilities	76,180,038	76,080,038	100,000	-	-

35. GENERAL

- 35.1 Except for the captions of the balance sheet and profit and loss account, cash flow statement and statement of changes in equity as prescribed by BSD circular No. 11, dated December 30, 2003, in respect of which there are no amounts, have not been reproduced in these financial statements.
- 35.2 Figures have been rounded off to the nearest Rupee unless otherwise specified.

36. DATE OF AUTHORISATION

These financial statements were authorised for issue on 09 MAR 2017 by the Board of Directors of the Bank.

Handwritten signature

Handwritten signature
Chief Executive

Handwritten signature
Director

Handwritten signature
Director

Handwritten signature
Director