FINCA Microfinance Bank Limited

Audit of financial statements for
the year ended 31 December 2018

KPMG Taseer Hadi & Co.
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INDEPENDENT AUDITOR'S REPORT

To the members of FINCA Microfinance Bank Limited Report on the Audit of the Financial Statements

Opinion

We have audited the annexed financial statements of **FINCA Microfinance Bank Limited** ("the Bank"), which comprise the balance sheet as at 31 December 2018, and the profit and loss account and statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, notes to the financial statements, including a summary of significant accounting policies and other explanatory information and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the balance sheet, the profit and loss account and statement of other comprehensive income, statement of changes in equity and cash flow statement together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Microfinance Institution Ordinance, 2001 and the Companies Act, 2017(XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at 31 December 2018 and of the profit and loss and statement of other comprehensive income, the changes in equity and its cash flows for the year then ended.

Basis for Opinion

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

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

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

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

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

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KPMG Taseer Hadi & Co.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting and reporting standards as applicable in Pakistan, the requirements of the Microfinance Institution Ordinance, 2001 and the Companies Act, 2017 (XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

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

a) proper books of account have been kept by the Bank as required by the Microfinance Institution Ordinance, 2001 and the Companies Act, 2017 (XIX of 2017);

b) the balance sheet, the profit and loss account and statement of other comprehensive income, statement of changes in equity and cash flow statement together with the notes thereon have been drawn up in conformity with the Microfinance Institution Ordinance, 2001 and the Companies Act, 2017(XIX of 2017) and are in agreement with the books of account and returns;

c) investments made, expenditure incurred and guarantees extended during the year were in accordance with the objects and powers of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank; and

d) zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Other Matter(s)

The financial statements of the Bank for the year ended 31 December 2017 were audited by another auditor who had expressed an unmodified opinion thereon vide their report dated 26 March 2018.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Kamran Iqbal Yousafi.

KPMG Taseer Hadi & Co.

Lahore

KPMG Taseer Hadi & Co.
Chartered Accountants

Date: 27 March 2019

FINCA MICROFINANCE BANK LIMITED

Balance Sheet

As at 31 December 2018

	Note	2018 Rupees	2017 Rupees
Assets			
Cash and balances with SBP and NBP	7	**1,639,249,051**	976,428,755
Balances with other banks/NBFIs/MFBs	8	**2,489,461,972**	1,556,694,589
Lending to financial institutions		-	-
Investments - net of provisions	9	**3,827,477,298**	5,209,160,227
Advances - net of provisions	10	**20,580,529,143**	14,863,341,016
Operating fixed assets	11	**1,748,345,423**	1,220,665,974
Other assets	12	**1,970,560,758**	1,306,807,645
Deferred tax asset	13	**24,136,895**	8,786,704
Total assets		**32,279,760,540**	25,141,884,910
Liabilities			
Deposits and other accounts	14	**23,741,811,865**	19,183,925,717
Borrowings	15	**3,318,500,544**	1,668,981,702
Subordinated debt		-	-
Other liabilities	16	**1,187,059,280**	1,005,746,247
Total liabilities		**28,247,371,689**	21,858,653,666
Net assets		**4,032,388,851**	3,283,231,244
Represented by:			
Share capital	17	**6,348,887,110**	6,348,887,110
Discount on issue of shares		**(4,089,040,293)**	(4,089,040,293)
Statutory reserve		**557,278,327**	365,982,212
Depositors' protection fund		**150,988,407**	96,448,556
Unappropriated profit		**1,061,863,072**	552,799,227
		4,029,976,623	3,275,076,812
Surplus on revaluation of fixed assets		-	-
Deferred grants	18	**2,412,228**	8,154,432
Total capital		**4,032,388,851**	3,283,231,244
Memorandum / Off-balance sheet items	19		

The annexed notes from 1 to 41 form an integral part of these financial statements.

Chief Executive Officer **Chairman** **Director** **Director**

FINCA MICROFINANCE BANK LIMITED
Profit and Loss Account
For the year ended 31 December 2018

	Note	2018 Rupees	2017 Rupees
Mark-up / return / interest earned	20	6,531,286,233	4,808,928,684
Mark-up / return / interest expensed	21	(1,828,404,826)	(1,256,380,927)
Net mark-up / interest income		4,702,881,407	3,552,547,757
Provision against non-performing loans and advances	10.4	(423,542,159)	(378,812,910)
Provision for diminution in the value of investments		-	-
Bad debts written off directly		(11,373,889)	(27,781,711)
		(434,916,048)	(406,594,621)
Net mark-up / interest income after provisions		4,267,965,359	3,145,953,136
Non mark-up / non interest income			
Fee, commission and brokerage income	22	675,657,653	564,058,024
Dividend income		-	-
Other income	23	126,227,546	129,420,187
Total non mark-up / non interest income		801,885,199	693,478,211
		5,069,850,558	3,839,431,347
Non mark-up / non interest expenses			
Administrative expenses	24	(3,453,480,483)	(2,437,691,875)
Other charges	25	(36,422,746)	(23,485,767)
Total non mark-up / non interest expenses		(3,489,903,229)	(2,461,177,642)
Profit before taxation		1,579,947,329	1,378,253,705
Taxation - Current year		(629,372,068)	(484,276,120)
Prior years		(4,977,481)	(39,944,328)
Deferred		10,882,797	764,907
	26	(623,466,752)	(523,455,541)
Profit after taxation		956,480,577	854,798,164
Other comprehensive loss			
Items that will not be reclassified subsequently to profit and loss account - net of tax		(8,296,588)	(2,785,152)
Total comprehensive income for the year		948,183,989	852,013,012
Unappropriated profit / (loss) brought forward		552,799,227	(85,514,244)
Profit available for appropriation		1,500,983,216	766,498,768
Appropriations:			
Transfer to:			
Statutory reserve		(191,296,115)	(170,959,633)
Capital reserve		-	-
Dividend		(200,000,000)	-
Contribution to depositors' protection fund		(47,824,029)	(42,739,908)
Revenue reserve		-	-
		(439,120,144)	(213,699,541)
Unappropriated profit carried forward		1,061,863,072	552,799,227
Earnings per share	30	1.51	1.35

The annexed notes from 1 to 41 form an integral part of these financial statements.

Chief Executive Officer **Chairman** **Director** **Director**

FINCA MICROFINANCE BANK LIMITED

Statement of Other Comprehensive Income

For the year ended 31 December 2018

	2018 Rupees	2017 Rupees
Profit after tax	**956,480,577**	854,798,164
Other comprehensive loss for the year		
Items that will not be reclassified subsequently to profit and loss account		
Remeasurement of post retirement defined benefit obligation	**(12,763,982)**	(4,284,850)
Related tax impact	**4,467,394**	1,499,698
	(8,296,588)	(2,785,152)
Items that may be reclassified subsequently to profit and loss account	-	-
Total comprehensive income for the year	**948,183,989**	852,013,012

The annexed notes from 1 to 41 form an integral part of these financial statements.

Chief Executive Officer **Chairman** **Director** **Director**

FINCA MICROFINANCE BANK LIMITED

Cash Flow Statement

For the year ended 31 December 2018

	Note	2018 Rupees	2017 Rupees
Cash flows from operating activities			
Profit before taxation		1,579,947,329	1,378,253,705
Adjustments for non-cash charges:			
Depreciation	*11.3*	161,622,952	103,106,408
Amortization	*11.2*	64,016,142	48,667,707
Provision against non-performing advances	*10.4*	423,542,159	378,812,910
Loss / (gain) on disposal of fixed assets	25	1,172,900	(39,080,151)
Amortization of discount on government securities	20	(339,234,428)	(196,451,223)
Deferred grant recognized as income	23	(8,516,106)	(4,447,317)
Provision for gratuity	*16.2.1*	65,182,257	46,526,417
		367,785,876	337,134,751
		1,947,733,205	1,715,388,456
Increase in operating assets:			
Net investments in held for trading securities		(200,000,000)	(2,241,491,077)
Advances		(6,140,730,286)	(5,159,889,952)
Others assets		(663,753,113)	(641,850,076)
		(7,004,483,399)	(8,043,231,105)
Increase / (decrease) in operating liabilities:			
Bills payable		(20,515,455)	67,247,260
Borrowings from financial institutions		1,649,518,842	318,979,946
Deposits		4,557,886,148	8,114,269,865
Other liabilities (excluding current taxation, and provision for gratuity)		206,356,929	267,807,819
		6,393,246,464	8,768,304,890
		1,336,496,270	2,440,462,241
Gratuity paid	*16.2.1*	(11,915,118)	(13,752,179)
Income tax paid		(704,547,437)	(556,512,706)
Net cash generated from operating activities		620,033,715	1,870,197,356
Cash flows from investing activities			
Net investments in held-to-maturity securities		1,920,917,357	(885,889,077)
Interest income on depositors protection fund		6,715,822	3,112,520
Investments in operating fixed assets		(766,521,068)	(576,835,848)
Sale proceeds of property and equipment disposed-off	*11.3.2*	12,029,625	164,323,160
Net cash generated from / (used in) investing activities		1,173,141,736	(1,295,289,245)
Cash flows from financing activities			
Dividend paid		(200,000,000)	(99,944,340)
Grant received from donors	18	2,412,228	-
Net cash used in financing activities		(197,587,772)	(99,944,340)
Increase in cash and cash equivalents		1,595,587,679	474,963,771
Cash and cash equivalents at beginning of the year		2,533,123,344	2,058,159,573
Cash and cash equivalents at end of the year	32	4,128,711,023	2,533,123,344

The annexed notes from 1 to 41 form an integral part of these financial statements.

Chief Executive Officer | **Chairman** | **Director** | **Director**

FINCA MICROFINANCE BANK LIMITED
Statement of Changes in Equity
For the year ended 31 December 2018

	Capital reserves				Revenue reserves	
	Share capital	**Discount on issue of shares**	**Statutory reserve**	**Depositors' protection fund**	**Unappropriated profit / (loss)**	**Total**
	Rupees					
Balance as at 31 December 2016	6,348,887,110	(4,089,040,293)	195,022,579	50,596,128	(85,514,244)	2,419,951,280
Profit for the year					854,798,164	854,798,164
Other comprehensive income						
Remeasurement of post defined benefit obligation - net of tax					(2,785,152)	(2,785,152)
Total comprehensive income for the year	-	-	-	-	852,013,012	852,013,012
Transfer to statutory reserve	-	-	170,959,633	-	(170,959,633)	-
Transfer to depositors' protection fund	-	-	-	42,739,908	(42,739,908)	-
Return on depositors' protection fund's investments - net of tax	-	-	-	3,112,520	-	3,112,520
Balance as at 31 December 2017	6,348,887,110	(4,089,040,293)	365,982,212	96,448,556	552,799,227	3,275,076,812
Profit for the year	-	-	-	-	956,480,577	956,480,577
Other comprehensive income						
Remeasurement of post defined benefit obligation - net of tax	-	-	-	-	(8,296,588)	(8,296,588)
Total comprehensive income for the year	-	-	-	-	948,183,989	948,183,989
Transfer to statutory reserve	-	-	191,296,115	-	(191,296,115)	-
Transfer to depositors' protection fund	-	-	-	47,824,029	(47,824,029)	-
Return on depositors' protection fund's investments - net of tax	-	-	-	6,715,822	-	6,715,822
Transactions with owners:						
- Dividend	-	-	-	-	(200,000,000)	(200,000,000)
Balance as at 31 December 2018	6,348,887,110	(4,089,040,293)	557,278,327	150,988,407	1,061,863,072	4,029,976,623

The annexed notes from 1 to 41 form an integral part of these financial statements.

Chief Executive Officer	Chairman	Director	Director

1 Status and nature of business

1.1 FINCA Microfinance Bank Limited, (the Bank) was incorporated on 26 June 2008 as a public limited company. The Bank obtained the Microfinance banking license from the State Bank of Pakistan (SBP) on 12 August 2008 under the provisions of Microfinance Institutions Ordinance, 2001 and certificate of commencement of business on 04 September 2008 from Securities and Exchange Commission of Pakistan. On 27 October 2008 the Bank received the certificate of commencement of business from the SBP.

The Bank's principal business is to provide microfinance services to the poor and under-served segments of the society as envisaged under the Microfinance Institutions Ordinance, 2001. The registered office of the Bank is situated at Building-36 Sector-XX Commercial Zone, Phase III, Khayaban-e-Iqbal. DHA, Lahore, Pakistan. Subsequent to takeover by FINCA International the Bank has changed its name from Kashf Microfinance Bank Limited to FINCA Microfinance Bank Limited with effect from 25 November 2013.

The Bank is licensed to operate nationwide. As at 31 December 2018, the Bank has 133 branches (2017: 116 branches) operating in the provinces of Punjab, Khyber Pakhtunkhwa, Sindh, Gilgit Baltistan and Azad Jammu & Kashmir.

The credit rating company PACRA and JCR-VIS assigned the long term entity rating of the Bank at 'A' and short term rating at 'A1'.

The holding company of the Bank is FINCA Microfinance Cooperatief U.A.,(a cooperative with exclusion of liability incorporated in the Netherlands). The ultimate holding company of the Bank is FINCA International, Inc., a not-for-profit corporation incorporated in the Washington DC, USA.

2 Basis of presentation

These financial statements have been presented in accordance with the requirements of SBP Banking Surveillance Department (BSD) Circular number 11 dated 30 December 2003.

3 Statement of compliance

3.1 These financial statements have been prepared in accordance with the directives issued by the State Bank of Pakistan (SBP) and Securities and Exchange Commission of Pakistan (SECP), the requirements of the Microfinance Institution Ordinance, 2001 (the MFI Ordinance), the provisions of and directives issued under the Companies Act, 2017, and the accounting standards (IFRSs) issued by the International Accounting Standards Board (IASB) and interpretations issued by International Financial Reporting Interpretation Committee, of the IASB as adopted in Pakistan.

Where the requirements of the Companies Act, 2017, the MFI Ordinance and the directives issued by the SBP and SECP differ with the requirements of IFRSs, the requirements of the Companies Act, 2017, the MFI Ordinance, or the requirements of the said directives shall prevail.

SBP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for Banking Companies through BSD Circular No. 10 dated 26 August 2002. Further, SECP has deferred applicability of IFRS 7 "Financial Instruments: Disclosures" through its notification S.R.O 633(1) / 2014 dated 10 July 2014. 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.

3.2 New accounting standards / amendments and IFRS interpretations that are effective for the year ended 31 December 2018

Annual Improvements to IFRS Standards 2015–2017 Cycle - the improvements address amendments to following approved accounting standards. These standards, interpretations and the amendments are either not relevant to the Bank's operations or are not expected to have significant impact on the Bank's financial statements other than certain additional disclosures.

Amendments to 'IFRS 3 Business Combinations and IFRS 11 Joint Arrangement.	The amendment aims to clarify the accounting treatment when a company increases its interest in a joint operation that meets the definition of a business. A company remeasures its previously held interest in a joint operation when it obtains control of the business. A company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
Amendment to 'IAS 12 Income Taxes.	The amendment clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transaction that generates the distributable profits.
Amendment to 'IAS 23 Borrowing Costs.	The amendment clarifies that a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

3.3 New accounting standards / amendments and IFRS interpretations that are not yet effective

The following International Financial Reporting Standards (IFRS Standards) as notified under the Companies Act, 2017 and the amendments and interpretations thereto will be effective for accounting periods beginning on or after 01 January 2019:

IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 1 January 2019) clarifies the accounting for income tax when there is uncertainty over income tax treatments under IAS 12.	The interpretation requires the uncertainty over tax treatment be reflected in the measurement of current and deferred tax. The application of interpretation is not likely to have an impact on Bank's financial statements.

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IFRS 9 'Financial Instruments' and amendment – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 July 2018 and 1 January 2019 respectively).	IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Bank has carried out an impact assessment as at 31 December 2018 which has been submitted to State Bank of Pakistan. However, this assessment has not been updated to 31 December 2018 pending notification as to date the standard is applicable for banks. Moreover the Bank is currently awaiting instructions from SBP as applicability of IAS 39 was deferred by SBP till further instructions.
IFRS 15 'Revenue from Contracts with Customers' (effective for annual periods beginning on or after 1 July 2018).	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programmes'. However such application is not likely to have any impact on the Bank's financial statements.
IFRS 16 'Leases' (effective for annual period beginning on or after 1 January 2019).	IFRS 16 replaces existing leasing guidance, including IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases- Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases. The Bank is currently in the process of analyzing the potential impact of its lease arrangements that will result in recognition of right to use assets and liabilities on adoption of the standard.

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Amendment to IFRS 3 'Business Combinations' – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of annual period beginning on or after 1 January 2020).	The IASB has issued amendments aiming to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments include an election to use a concentration test. The standard is effective for transactions in the future and therefore would not have an impact on past financial statements.
Amendment to IAS 28 'Investments in Associates and Joint Ventures' - Long Term Interests in Associates and Joint Ventures (effective for annual period beginning on or after 1 January 2019).	The amendment will affect companies that finance such entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or 'LTI'). The amendment and accompanying example state that LTI are in the scope of both IFRS 9 and IAS 28 and explain the annual sequence in which both standards are to be applied. The amendments are not likely to have an impact on Bank's financial statements.
Amendments to IAS 19 'Employee Benefits'- Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019).	The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income. The application of amendments is not likely to have an impact on Bank's financial statements.
Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for annual periods beginning on or after 1 January 2020).	The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. In addition, the IASB has also issued guidance on how to make materiality judgements when preparing their general purpose financial statements in accordance with IFRS Standards.

The above amendments are effective from annual period beginning on or after 1 January 2019 and are not likely to have an impact on Bank's financial statements.

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4 Basis of measurement

4.1 Accounting convention

These financial statements have been prepared under the historical cost convention except for staff retirement benefits which are measured at present value and 'held for trading' investments which are measured at fair value.

4.2 Functional and presentation currency

These financial statements are presented in Pakistani Rupees ("Rs.") which is the Bank's functional currency. All amounts have been rounded to the nearest Rupee, unless otherwise indicated.

5 Use of accounting estimates and judgements

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Bank's accounting policies. Estimates and judgments are continually evaluated expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Bank's financial statements are as follows:

a) Provision against doubtful advances (note 6.2 and note 10)
b) Gratuity payable (note 6.8.2 and note 16.2)
c) Useful life, residual values and impairment of operating fixed assets and intangibles (note 6.4, note 6.5, note 11.2 and note 11.3)
d) Provision for taxation (note 6.9 and note 26)
e) Deferred tax asset (note 6.9 and note 13)

6 Summary of significant accounting policies

The principle accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

6.1 Cash and cash equivalents

Cash and cash equivalents for the purpose of cash flow statement represent cash in hand and balances held with treasury banks and balances held with other banks in current and deposit accounts with maturities of less than three months and are carried at cost.

6.2 Advances

These are stated net of provision for non-performing advances, (if any). The outstanding principal and mark-up of the loans and advances, payments against which are overdue for 30 days or more, are classified as non-performing loans (NPLs). The unrealized interest / mark-up on NPLs is suspended and credited to interest suspense account. Further the NPLs are classified into the following categories as prescribed in Prudential Regulations for Microfinance Banks issued by SBP:

a) ***Other assets especially mentioned (OAEM):*** These are advances in arrears (payments / installments overdue) for 30 days or more but less than 60 days.

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b) *Substandard:* These are advances in arrears (payments / installments overdue) for 60 days or more but less than 90 days.

c) *Doubtful:* These are advances in arrears (payments / installments overdue) for 90 days or more but less than 180 days.

d) *Loss:* These are advances in arrears (payments / installments overdue) for 180 days or more.

In addition the Bank maintains a watch list of all accounts over due for 5 - 29 days. However, such accounts are not treated as non-performing for the purpose of classification / provisioning.

In accordance with the regulations, the Bank maintains specific provision of outstanding principal net cash collaterals and gold (ornaments and bullion) realizable without recourse to a court of law at the following rates:

a)	*Other assets especially mentioned (OAEM):*	Nil
b)	*Substandard:*	25% of outstanding principal net of cash collaterals and gold
c)	*Doubtful:*	50% of outstanding principal net of cash collaterals and gold
d)	*Loss:*	100% of outstanding principal net of cash collaterals and gold

In addition, a general provision is maintained equivalent to 1% (2017:1%) of the net outstanding balance (advances net of specific provisions) for potential loan losses. General provision is not required in cases where loans have been secured against gold or other cash collaterals with appropriate margin.

Specific and general provisions are recognized in profit and loss account for the year.

Non-performing advances are written off one day after the loan is classified as 'Loss' in accordance with the policy of Bank. However, the Bank continues its efforts for recovery of the written off balances.

6.3 Investments

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

Investments (other than 'held for trading') are initially measured at cost, being the fair value of consideration paid. 'Held for trading' investments are initially measured at fair value and transaction costs are expensed out in the profit and loss account.

All purchases and sale of investments that require delivery within the time frame established by regulation or market convention are recognized at the trade date which is the date, the Bank commits to purchase or sale the investment.

Investments are classified as follows:

6.3.1 Held for trading

Securities acquired with the intention to disposed off within 90 days trade by taking advantage of short-term market / interest rate movement are classified as 'held for trading' investments.

After initial measurement, these are measured at mark-to-market and surplus / deficit arising on revaluation of 'held for trading' investments is recognized in profit and loss account in accordance with the requirements prescribed by the SBP.

6.3.2 Held-to-maturity

Investments with fixed maturity, where management has both the intent and the ability to hold till maturity, are classified as 'held to maturity' and are initially measured at cost.

Subsequent to initial measurement, these are carried at amortized cost, less provision for impairment in value, if any, and amortized cost is calculated taking into account effective yield method. Profit on 'held to maturity' investments is recognized on a time proportion basis taking into account the effective yield on the investments.

Premium or discount on acquisition of 'held to maturity' investments is amortized through profit and loss account over the remaining period till maturity.

6.3.3 Available for sale

Investments that are intended to be held for an undefined period of time but may be sold in response to the need for liquidity or changes in interest rates are classified as 'available for sale'.

Investments classified as 'available for sale' are initially measured at cost, being the fair value of consideration paid. Subsequent to initial recognition at cost, these investments are measured at fair value (quoted market price), unless fair value cannot be reliably measured. The investments for which a quoted market price is not available, are measured at cost as it is not possible to apply any other valuation methodology.

The surplus / (deficit) arising on revaluation of available for sale investments is shown in the balance sheet below equity. The surplus / (deficit) arising on these investments is recognized in the profit and loss account, when actually realized upon disposal.

Provision for impairment in the value of securities is made after considering objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of these investments. A significant or prolonged decline in the value of security is also considered as an objective evidence of impairment. Provision for diminution in the value of debt securities is made as per the prudential regulations. In the event of impairment of 'available for sale' securities, the cumulative loss that had been recognized directly in surplus on revaluation of securities on the balance sheet below equity is therefore adjusted and recognized in the profit and loss account.

6.4 Operating fixed assets and depreciation

6.4.1 Capital work-in-progress

All expenditure connected with specific assets incurred during installation and development period are carried under capital work-in-progress. These are transferred to specific assets as and when these are available for use. Capital work-in-progress is stated at cost less accumulated impairment losses, if any.

6.4.2 Intangible assets

Expenditure incurred to acquire computer software is capitalized as intangible assets and stated at cost less accumulated amortization and any identified impairment loss. These are amortized using the straight line method over their estimated useful life.

Full month's amortization is charged in the month of addition while no amortization is charged in the month of deletion.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific assets to which it relates.

6.4.3 Property and equipment

Owned

These are stated at cost less accumulated depreciation and accumulated impairment losses, if any except land which is stated at cost. Cost comprises purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, and includes other costs directly attributable to the acquisition or construction, erection and installation.

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 benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. Major repairs and improvements are capitalized and the carrying amount of the replaced part is derecognized. All other repair and maintenance are charged to profit and loss account as and when incurred.

Leased

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as assets subject to finance lease. These are stated at amounts equal to the lower of their fair value and the present value of minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses (if any).

Financial charges are allocated over the period of the lease term so as to provide a constant periodic rate of financial charge on the outstanding liability.

The outstanding obligations under the lease agreements are shown as a liability net of finance charges allocable to future periods.

Depreciation is calculated using the straight line method so as to write off the property and equipment, over their expected useful lives. Depreciation is calculated at the rates stated in note 11.3. The assets' residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date. The effect of any revision are charged to profit and loss account for the year, when the changes arise. Depreciation on additions to property and equipment is charged from the month in which an asset is acquired or capitalized while no depreciation is charged for the month in which the asset is disposed-off.

Depreciation on assets subject to finance lease is charged to income at the approved rates applying straight line method to write-off the cost of the asset over its estimated remaining useful life in view of certainty of ownership of assets at the end of lease period. Depreciation on additions to leased assets is charged from the month in which an asset is acquired while no depreciation is charged for the month in which the asset is disposed-off.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are recognized in profit and loss account for the year.

6.5 Impairment

The Bank assesses at each balance sheet date whether there is any indication that assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying amounts 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 cost to sell and value in use. Where an impairment loss is recognized, the depreciation / amortization charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

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.

6.6 Leases

Leases are classified as finance lease whenever terms of the lease transfer substantially all risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

6.6.1 Finance lease

Finance leases are stated at amounts equal to the fair value or, if lower, the present value of the minimum lease payments. The minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance cost is charged to profit and loss account.

6.6.2 Operating lease

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit and loss account on a straight-line basis over the lease term unless another systematic basis is representative of the time pattern of the Bank's benefit.

6.7 Grants

Grants are initially recognized at fair value in the balance sheet when there is reasonable assurance that the grants will be received and the Bank will comply with all the attached conditions. Grants that compensate the Bank for expenses incurred are recognized as other income in the profit and loss account on a systematic basis in the same periods 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 as other income on a systematic basis over the useful life of the asset.

6.8 Staff retirement benefits

6.8.1 Defined contribution plan - provident fund

The Bank operates an approved defined contribution provident fund scheme for all permanent employees. Equal monthly contributions are made by the Bank and the employees to the fund at the rate of 10% of basic salary per month. The contribution of the Bank is charged to profit and loss account.

6.8.2 Defined benefit plan - gratuity scheme

The Bank operates an unapproved non-contributory defined benefit gratuity scheme for all permanent employees with a qualifying period of three years. Eligible employees are entitled to one month's basic salary for each completed year of service upon their departure from the Bank. The latest actuarial valuation was carried out as at 31 December 2018 using Projected Unit Credit Method. Actuarial gains and losses arising from the actuarial valuation are recognized immediately in other comprehensive income.

The Bank determines the net interest expense on the net defined liability for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then - net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit and loss account.

6.9 Taxation

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

Current tax

Provision for current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year, if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for taxation made in previous years arising from assessments framed during the year for such years.

Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

6.10 Deposits

Deposits are recorded at the proceeds received. Markup accrued on these deposits, if any, is recognized separately as part of other liabilities, and is charged to profit and loss account over the period.

6.11 Borrowings

Loans and borrowing are initially recorded at proceeds received. In subsequent periods, borrowings are stated at amortized cost using the effective interest rate method.

Finance costs are accounted for on an accrual basis and are included in other liabilities to the extent of the amount remaining unpaid.

6.12 Provisions

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

6.13 Statutory reserve

The Bank is required under the requirements of the Microfinance Institution Ordinance, 2001 and Prudential Regulation, to maintain a statutory reserve to which an appropriation equal to 20% of the annual profit after tax is made until the reserve fund equals the paid up capital of the Bank. Thereafter, a sum not less than 5% of its annual profits after tax is required to be transferred to the said reserve.

6.14 Depositors' protection fund

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

6.15 Cash reserve requirement

In compliance with the requirements of the Microfinance Institution Ordinance, 2001 and Prudential Regulation, the Bank maintains a cash reserve equivalent to not less than 5% of its deposits (including demand deposits and time deposits with tenure of less than 1 year) in a current account opened with the State Bank of Pakistan (SBP) or its agent.

6.16 Statutory liquidity requirement

In compliance with the requirements of the Prudential Regulation, the Bank maintains liquidity equivalent to at least 10% of its total demand liabilities and time liabilities with tenure of less than one year in the form of liquid assets i.e. cash, gold, unencumbered treasury bills, Pakistan Investment Bonds and Government of Pakistan sukuk bonds. Treasury bills and Pakistan Investment Bonds held under depositors' protection fund are excluded for the purposes of determining liquidity.

6.17 Revenue recognition

Mark-up / return on performing advances is recognized on accrual basis using effective interest rate method at the Bank's prevailing mark-up rates for the loan products. Mark-up / return on advances is collected with loan installments due but unpaid mark-up is accrued on overdue advances for a period up to 29 days. From the 30th day, overdue advances are classified as non-performing advances and further accrual of unpaid mark-up / return ceases. Accrued mark-up on non-performing advances are reversed and credited to suspense account. Mark-up recoverable on non-performing advances and classified advances is recognized on a receipt basis.

Mark-up / return on investments is recognized on time proportion basis using effective interest rate method. Where debt securities are purchased at premium or discount, such premium / discount is amortized through the profit and loss account over the remaining period of maturity. Gain or loss on sale of securities is accounted for in the period in which the occurs.

Return on bank deposits is recognized on an accrual basis using effective interest rate method.

Fee, commission and brokerage income is recognized as services are rendered.

Other income is recognized on an accrual basis.

6.18 Foreign currency transactions and translation

All monetary assets and liabilities in foreign currencies are translated into rupees at exchange rates prevailing at the balance sheet date. Transactions in foreign currencies are translated into rupees at the spot rate on the date of transaction. All non-monetary items are translated into rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined (for assets carried at fair value).

Foreign currency differences arising on retranslation are charged to profit and loss account in the period in which they arise.

6.19 Financial instruments

Financial assets and financial liabilities are recognized when the Bank becomes a party to the contractual provisions of the instrument and derecognized when the Bank loses control of the contractual rights that comprise the financial assets and in case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired.

All financial assets and liabilities are initially measured at cost, which is the fair value of the consideration given and received, respectively. These financial assets and liabilities are subsequently measured at fair value, amortized cost or cost, as the case may be.

6.19.1 Financial assets and financial liabilities

Financial instruments carried on the balance sheet include cash and balances with treasury banks, balances with other banks, lending to financial institutions, investments, advances, other assets, bills payable, borrowings, deposits and other liabilities. The particular measurement methods adopted are disclosed in the individual policy statements associated with each item.

6.19.2 Off setting

Financial assets and financial liabilities are set off and the net amount is reported in the financial statements when there is a legally enforceable right to set off and the Bank intends to either settle on a net basis, or to realize the assets and to settle the liabilities simultaneously.

6.20 Share capital and dividend

Ordinary shares are classified as equity and recognized at their face value. Incremental costs directly attributable to the issue of new shares or options are shown in equity as deduction, net of tax, from the proceeds. Dividend distribution to the shareholders is recognized as liability in the period in which it is declared.

6.21 Earning per share

The Bank presents earnings per share (EPS) for its ordinary shares which is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effect of all dilutive potential ordinary shares (if any).

6.22 Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Bank's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

7 Cash and balances with SBP and NBP	Note	2018 Rupees	2017 Rupees
Cash in hand		277,302,020	194,942,643
Balance with State Bank of Pakistan	7.1	1,204,067,018	719,507,920
Balance with National Bank of Pakistan in:			
Deposit account	7.1	23,818,798	36,413,602
Current account	7.1	134,061,215	25,564,590
		1,639,249,051	976,428,755

7.1 This represents the balance maintained with SBP and NBP to meet the minimum balance requirement equivalent to 5 % as cash reserve and 10% as liquidity reserve of the Bank's time and demand liabilities in accordance with the Prudential Regulations. This also includes Rs. 151 million (2017 Rs. 96 million) maintained with SBP under depositors' protection fund. Deposit accounts carry markup ranging from 3.75% to 8% (2017: 3.75%).

8 Balances with other banks/NBFIs/MFBs	Note	2018 Rupees	2017 Rupees
In Pakistan:			
Saving accounts	8.1	956,403,890	1,242,533,864
Deposit accounts	8.2	1,100,000,000	200,000,000
Current accounts		433,058,082	114,160,725
		2,489,461,972	1,556,694,589

8.1 These accounts carry mark-up ranging from 3.75% to 10.45% (2017: 3.75% to 7.5%) per annum.

8.2 These term deposits carry mark-up ranging from 6.25% to 11.25% (2017: 5.5% to 11.25%) per annum with maturity up to one month.

9 Investments-net of provisions	Note	2018 Rupees	2017 Rupees
Federal Govt. Securities:			
Market treasury bills (Held for trading)	9.1	2,441,491,077	2,241,491,077
Market treasury bills (Held to maturity)	9.1	1,385,986,221	2,967,669,150
		3,827,477,298	5,209,160,227

9.1 These carry yield rate ranging between 5.99% to 10.30% (2017: 5.88% to 6.01%) per annum and have maturity upto 14 March 2019. These securities have an aggregate face value of Rs. 3,850 million (2017: Rs.5,250 million)

		2018		2017	
	Note	Number	Rupees	Number	Rupees
10 Advances - net of provisions					
Micro credit advances	10.1	234,472	20,742,069,542	184,680	15,012,700,354
Micro lease		-	-	-	-
Other advances	10.2	1,160	126,865,454	918	97,943,961
			20,868,934,996		15,110,644,315
Less: Provisions held:					
Specific	10.3 & 10.4	5,269	85,182,091	2,698	79,914,526
General	10.4 & 10.5		203,223,762		167,388,773
			288,405,853		247,303,299
			20,580,529,143		14,863,341,016

10.1 This includes fully secured advances amounting to Rs.461.38 million (2017: Rs. 291.85 million) whereas the remaining advances are secured by personal guarantees.

10.2 These advances are staff loans and carry markup rate of 5% per annum (2017: 5%). This amount includes a loan sanctioned to the Chief Executive Officer of Rs. 6.26 million (2017: Rs. 5.88 million) at a markup rate of 5% (2017: 5%).

10.3 **Particulars of non-performing advances**

The total advances of Rs. 392.18 million (2017: Rs. 224.15 million) placed under non-performing status includes Rs 10.57 million (2017: Rs. 15.11 million) against secured gold loans:

	2018				
	%	Number	Amount outstanding Rupees	Provision required Rupees	Provision held Rupees
OAEM	0	2,113	176,534,285	-	-
Sub-standard	25	1,096	82,099,844	19,726,953	19,726,953
Doubtful	50	2,040	132,218,323	64,119,663	64,119,663
Loss	100	20	1,335,475	1,335,475	1,335,475
		5,269	392,187,927	85,182,091	85,182,091

	2017				
	%	Number	Amount outstanding Rupees	Provision required Rupees	Provision held Rupees
OAEM	0	718	59,109,701	-	-
Sub-standard	25	413	33,009,025	7,368,672	7,368,672
Doubtful	50	1,394	111,871,933	52,381,509	52,381,509
Loss	100	173	20,164,345	20,164,345	20,164,345
Total		2,698	224,155,004	79,914,526	79,914,526

10.4 Particulars of non-performing advances

Movement of provision against non-performing advances is as under:

		2018			2017		
	Note	**Specific Rupees**	**General Rupees**	**Total Rupees**	Specific Rupees	General Rupees	Total Rupees
Balance as at January 1		**79,914,526**	**167,388,773**	**247,303,299**	29,949,986	96,914,686	126,864,672
Charge for the year		**387,707,170**	**35,834,989**	**423,542,159**	308,338,823	70,474,087	378,812,910
Reversal during the year		**-**	**-**	**-**	-	-	-
Amounts written off	*10.4.1*	**(382,439,605)**	**-**	**(382,439,605)**	(258,374,283)	-	(258,374,283)
		5,267,565	**35,834,989**	**41,102,554**	49,964,540	70,474,087	120,438,627
Balance as at December 31		**85,182,091**	**203,223,762**	**288,405,853**	79,914,526	167,388,773	247,303,299

	2018 Rupees	2017 Rupees
10.4.1 Particulars of write offs		
Against provisions	**382,439,605**	258,374,283
Directly charged to profit and loss account	**11,373,889**	27,781,711
	393,813,494	286,155,994

10.5 This represents general provision equivalent to 1% (2017: 1%) of the outstanding advances net of specific provisions and those against which gold collaterals are taken.

	Note	**2018 Rupees**	2017 Rupees
11 Operating fixed assets			
Capital work-in-progress	*11.1*	**392,783,146**	227,244,733
Intangible assets	*11.2*	**264,807,504**	147,945,909
Property and equipment	*11.3*	**1,090,754,773**	845,475,332
		1,748,345,423	1,220,665,974

11.1 Capital work-in-progress

	2018	2017
Civil works	**209,009,430**	13,606,910
Equipment	**112,559,143**	105,402,503
Intangible assets	**-**	34,273,828
Advances to suppliers and contractors	**71,214,573**	73,961,492
	392,783,146	227,244,733

11.2 Intangible assets

Computer Software

	2018	2017
Cost:		
Balance as at January 1	**341,451,681**	274,229,487
Additions during the year	**180,877,737**	67,222,194
Balance as at December 31	**522,329,418**	341,451,681
Amortization:		
Balance as at January 1	**193,505,772**	144,838,065
Charge during the year	**64,016,142**	48,667,707
Balance as at December 31	**257,521,914**	193,505,772
Carrying value	**264,807,504**	147,945,909
Amortization rate	**10% - 20%**	10% - 20%

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11.3 Property and equipment

	2018									
	Cost as at January 1	Additions/ (deletions)	Adjustments/ (write offs)	Cost as at December 31	Accumulated depreciation as at January 1	Depreciation charge/ (deletions) for the year	Adjustments/ (write offs)	Accumulated depreciation as at December 31	Book value as at December 31	Annual depreciation rate
	(Rupees)									
Owned assets										
Land	144,450,113	-	-	144,450,113	-	-	-	-	144,450,113	0%
		-	-			-	-			
Leasehold improvements	420,000,166	67,230,200	-	485,897,134	90,497,300	46,560,214	-	136,267,233	349,629,901	10%
		(24,000)	(1,309,232)			(16,047)	(774,234)			
Furniture and fixtures	145,163,146	25,042,189	-	168,022,015	34,583,404	15,901,970	-	48,916,227	119,105,788	10%
		(1,745,766)	(437,554)			(1,329,425)	(239,722)			
Computer equipment	247,363,077	164,025,962	2,440,227	409,400,415	160,537,737	53,207,143	-	209,511,580	199,888,835	20%-33%
		(132,000)	(4,296,851)			(42,306)	(4,190,994)			
Office equipment	166,990,770	97,183,567	(2,440,227)	254,402,631	39,395,902	22,662,847	-	57,902,396	196,500,235	10%
		(3,879,368)	(3,452,111)			(2,881,427)	(1,274,926)			
Vehicles	78,226,721	66,623,000	-	128,313,221	31,704,318	23,290,778	-	47,133,320	81,179,901	25%
		(16,536,500)	-			(7,861,776)	-			
	1,202,193,993	420,104,918	-	1,590,485,529	356,718,661	161,622,952	-	499,730,756	1,090,754,773	
		(22,317,634)	(9,495,748)			(12,130,981)	(6,479,876)			
		-								
Leased assets										
Vehicles	-	-	-	-	-	-	-	-	-	20%
			-			-	-			
2018	1,202,193,993	420,104,918	-	1,590,485,529	356,718,661	161,622,952	-	499,730,756	1,090,754,773	
		(22,317,634)	(9,495,748)			(12,130,981)	(6,479,876)			

11.3.1 Cost of operating fixed assets include cost of fully depreciated assets amounting to Rs. 137.24 million (2017: Rs. 112.19 million).

	Cost as at January 1	Additions/ (deletions)	Adjustments/ (write offs)	Cost as at December 31	Accumulated depreciation as at January 1	Depreciation charge/ (deletions) for the year	Adjustments/ (write offs)	Accumulated depreciation as at December 31	Book value as at December 31	Annual depreciation rate
	2017									
	(Rupees)									
Owned assets										
Land	257,931,345	-	-	144,450,113	-	-	-	-	144,450,113	0%
		(113,481,232)	-			-	-			
Leasehold improvements	273,253,097	153,329,957	-	420,000,166	62,206,142	31,862,667	-	90,497,300	329,502,866	10%
		(600,000)	(5,982,888)			(4,811)	(3,566,698)			
Furniture and fixtures	101,271,633	50,256,334	-	145,163,146	26,720,698	12,144,035	-	34,583,404	110,579,742	10%
		(6,310,556)	(54,265)			(4,253,389)	(27,940)			
Computer equipment	197,359,149	52,511,824	-	247,363,077	132,838,051	30,083,949	-	160,537,737	86,825,340	20% - 33%
		(163,850)	(2,344,046)			(144,121)	(2,240,142)			
Office equipment	106,691,826	62,004,480	-	166,990,770	27,573,790	13,024,635	-	39,395,902	127,594,868	10%
		(1,578,049)	(127,487)			(1,131,173)	(71,350)			
Vehicles	60,568,927	30,247,121	-	78,226,721	22,262,263	15,991,122	-	31,704,318	46,522,403	25%
		(12,589,327)	-			(6,549,067)	-			
	997,075,977	348,349,716	-	1,202,193,993	271,600,944	103,106,408	-	356,718,661	845,475,332	
		(134,723,014)	(8,508,686)			(12,082,561)	(5,906,130)			
Assets held under finance lease										
Vehicles	-	-	-	-	-	-	-	-	-	20%
		-	-			-	-			
2017	997,075,977	348,349,716	-	1,202,193,993	271,600,944	103,106,408	-	356,718,661	845,475,332	
		(134,723,014)	(8,508,686)			(12,082,561)	(5,906,130)			

11.3.2 **Detail of tangible assets sold and written off:**

Details of deletion of fixed assets during the year are as follows:

Particulars of assets	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Relationship with the Bank	Mode of disposal
		-----Rupees-----					
Owned assets							
Vehicles							
Toyota Corolla GLI	Ms. Sabahat Raza	1,530,000	414,375	1,115,625	1,115,625	Employee	As Per Car Policy
Toyota Corolla GLI	Mr. Rao Qaisar	1,770,500	1,512,302	258,198	258,197	Employee	As Per Car Policy
Honda City Aspire	Mr. Tanveer Shahid	1,094,000	501,417	592,583	592,583	Employee	As Per Car Policy
Honda City Aspire	Mr. Asif Javed	1,677,000	943,313	733,687	733,688	Employee	As Per Car Policy
Honda Civic	Mr. Rizwan	1,873,000	117,057	1,755,943	1,755,938	Employee	As Per Car Policy
Toyota Corolla GLI	Ms. Asma Shakil	1,750,500	1,750,499	1	1,425,000	Employee	As Per Car Policy
Suzuki Mehran VXR	Mr. Naseem Saigol	732,000	122,000	610,000	610,000	Employee	As Per Car Policy
Suzuki Ciaz	Suzuki Mini Motors	1,999,000	208,229	1,790,771	1,725,000	Other party	Through Bid
Pool Vehicle (White) 1299 CC	Mr. Rao Qaiser	1,689,500	1,689,500	-	1,460,000	Employee	As Per Car Policy
VXR EUO-11	Mr. Qasim Ali	688,000	458,667	229,333	229,333	Employee	As Per Car Policy
Honda City	Mr. Tanveer Shahid	1,733,000	144,417	1,588,583	1,588,583	Employee	As Per Car Policy
Items with cost or book value exceeds Rs. 1 million or 0.25 million whichever is lower		15,276,882	10,749,081	4,527,801	535,678		
2018		**31,813,382**	**18,610,857**	**13,202,525**	**12,029,625**		
2017		143,231,700	17,988,691	125,243,009	164,323,160		

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12 Other assets	Note	2018 Rupees	2017 Rupees
Income / mark-up accrued on loans and advances		**1,640,971,558**	1,083,465,085
Income / mark-up accrued on balance with banks		**9,159,189**	2,921,201
Prepayments		**117,042,262**	96,913,842
Security deposits		**9,679,844**	3,764,844
Stationary and stamps on hand		**35,838,679**	21,114,716
Receivable from FINCA International Inc.	*12.1*	**8,342,798**	12,931,322
Receivable from MESSA	*12.1*	**3,168,015**	3,168,015
Receivable from SBP against crop insurance		**109,892,151**	29,987,631
Others		**36,466,262**	52,540,989
		1,970,560,758	1,306,807,645

12.1 This represents amount receivable from related party in respect of integration, travelling and advertisment.

13 Deferred tax asset

	2018	2017
Deferred tax asset on deductible temporary differences arising in respect of:		
- gratuity payable	**68,284,784**	45,173,890
	68,284,784	45,173,890
Deferred tax liability on taxable temporary differences arising in respect of:		
- property and equipment	**44,147,889**	36,387,186
	44,147,889	36,387,186
	24,136,895	8,786,704

13.1 Movement in deferred tax balances is as follows:

	2018	2017
As at 01 January	**8,786,704**	6,407,692
Recognized in profit and loss account:		
- gratuity payable	**18,643,500**	11,470,982
- property and equipment	**(7,760,703)**	(10,591,668)
	10,882,797	879,314
Recognized in other comprehensive income:		
- gratuity payable	**4,467,394**	1,499,698
As at 31 December	**24,136,895**	8,786,704

13.2 The deferred tax asset recognized in the financial statements represents the management's best estimate of the potential benefit which is expected to be realized in future years in the form of reduced tax liability as the Bank would be able to set off the profits earned in those years against temporary differences.

		2018		2017	
	Note	Number of accounts	Amount Rupees	Number of accounts	Amount Rupees
14 Deposits and other accounts					
Fixed deposits	*14.1*	**13,606**	**16,690,264,737**	11,070	13,466,983,576
Saving deposits	*14.1*	**116,533**	**5,050,834,519**	112,505	3,606,137,037
Current deposits		**920,421**	**2,000,712,609**	575,063	2,110,805,104
		1,050,560	**23,741,811,865**	698,638	19,183,925,717

14.1 These represent fixed deposits having tenure of 1 to 60 months carrying profit rates ranging from 5.25% to 13.75% (2017: 7.60% to 12%) per annum. The saving deposits represent accounts carrying interest rates ranging from 0% to 8% (2017: 0% to 7.5%) per annum.

	2018		2017	
	Number of accounts	Amount Rupees	Number of accounts	Amount Rupees
14.2 Particulars of deposits by ownership				
Individual depositors	**1,050,049**	**18,221,859,397**	698,314	13,723,433,103
Institutional depositors:				
Corporations, firms and other such entities	**403**	**2,853,736,216**	228	2,570,919,693
Banks and financial institutions	**108**	**2,666,216,252**	96	2,889,572,921
	1,050,560	**23,741,811,865**	698,638	19,183,925,717

14.3 Deposits include deposits from related parties amounting to Rs. 57.43 million (2017: Rs. 57.57 million).

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		Note	2018 Rupees	2017 Rupees
15	**Borrowings**			
	Borrowings from banks / financial institutions in Pakistan	*15.1*	**3,318,500,544**	1,668,981,702

15.1 Details of borrowings from financial institutions

Secured

	Note	2018 Rupees	2017 Rupees
Running Finance - JS Bank Limited	*15.2*	**-**	25,000,000
Running Finance - UBL Bank Limited	*15.3*	**399,118,731**	398,981,502
Running Finance - FBL Bank Limited	*15.4*	**398,005,400**	145,000,200
Running Finance - Allied Bank Limited	*15.5*	**99,372,055**	-
Running Finance - National Bank of Pakistan	*15.6*	**497,004,358**	-
Term Finance - Pak Oman Investment Company Limited	*15.7*	**150,000,000**	250,000,000
Term Finance - UBL Limited	*15.8*	**-**	200,000,000
Term Finance - Faysal Bank Limited	*15.9*	**75,000,000**	150,000,000
Term Finance - Allied Bank Limited	*15.10*	**200,000,000**	-
Term Finance - National Bank of Pakistan	*15.11*	**1,000,000,000**	-
Term finance - MCB / United Bank / JS Bank Limited	*15.12*	**500,000,000**	500,000,000
		3,318,500,544	1,668,981,702

15.2 This facility has limit aggregating Rs. 300 million (2017: Rs. 300 million). Mark-up is payable quarterly at rate of 3 months KIBOR plus 1.75 bps per annum (2017: 3 month KIBOR plus 1.75 bps per annum) and commitment fee 0.5% per annum payable quarterly. This is secured against first pari-passu charge on all present and future current assets of the Bank to the extent of Rs. 400 million with a 25% margin. This facility has expired on 30 April 2018.

15.3 This facility has limit aggregating Rs. 400 million (2017: Rs. 400 million). Mark-up is payable quarterly at rate ranges from 3 months KIBOR plus 1.50 bps to 0.8 bps per annum (2017: 3 months KIBOR plus 1.5 bps per annum). This is secured against first pari-passu charge on all present and future current assets of the Bank to the extent of Rs.533 million with a 25% margin. This facility is expiring on 30 June 2019.

15.4 This facility has limit aggregating Rs. 400 million (2017: Rs. 400 million). Mark-up is payable quarterly at the rate of 3 months KIBOR plus 0.60 bps per annum (2017: 3 months KIBOR plus 0.60 bps per annum). This is secured by first pari-passu charge of Rs. 534 million on all present and future current assets of the Bank. This facility is expiring on 31 December 2019.

15.5 This facility has limit aggregating Rs. 100 million (2017: nil). Mark-up is payable quarterly at the rate of 3 months KIBOR plus 0.50 bps per annum (2017: nil). This is secured against first pari-passu charge on present and future current assets of the Bank to the extent of Rs. 133 million with a 25% margin. This facility is expiring on 31 January 2019.

15.6 This facility has limit aggregating Rs. 500 million (2017: nil). Mark-up is payable quarterly at the rate of 3 months KIBOR plus 0.50 bps per annum (2017: nil). This is secured against first pari-passu charge on present and future current assets of the Bank to the extent of Rs. 667 million with a 25% margin. This facility is expiring on 30 June 2019.

15.7 This facility has limit aggregating Rs. 300 million (2017: Rs. 300 million). Mark-up is payable quarterly at the rate of 3 months KIBOR plus 1.40 bps per annum (2017: 3 months KIBOR plus 1.40 bps per annum). This is secured against first pari-passu charge on present and future current assets of the Bank to the extent of Rs. 400 million with a 25% margin. The principal will be paid in twelve equal quarterly installments, the first such installment has been paid on 27 September 2017. This facility is expiring on 23 June 2020.

15.8 This facility has limit aggregating Rs. 200 million (2017: Rs. 200 million). Mark-up is payable quarterly at the rate of 3 months KIBOR plus 1.5 bps per annum (2017: KIBOR plus 1.5 bps per annum). This is secured against the unconditional and irrevocable MCGF of 40% by SBP (subject to SBP approval) or lien over liquid securities upto 40% of the facility and the rest 60% will be secured through first pari-passu hypothecation charge on all assets including current and fixed assets located anywhere in Pakistan with a 25 % margin. This facility has expired on 27 March 2018.

15.9 This facility has limit aggregating Rs. 150 million. Mark-up is payable quarterly at the rate of 3 months KIBOR plus 1.35 bps per annum (2017: KIBOR plus 1.35 bps per annum). This is secured against first pari-passu charge of Rs. 200 million on present and future current assets of the Bank. The principal will be paid in eight equal quarterly installments, the first such installment fall due on 15 January 2018. This facility is expiring on 14 October 2019.

15.10 This facility has limit aggregating Rs. 200 million (2017: nil). Mark-up is payable quarterly at the rate of 3 months KIBOR plus 0.75 bps per annum (2017: nil). The principal will be paid in sixteen equal quarterly installments, the first such installment fall due on 28 August 2019. This is secured against first pari-passu charge of Rs. 267 million on present and future current assets of the Bank with a 25% margin. This facility is expiring on 31 December 2022.

15.11 This facility has limit aggregating Rs. 1000 million (2017: nil). Mark-up is payable quarterly at the rate of 3 months KIBOR plus 1 bps per annum (2017: nil). The principal will be paid in sixteen equal quarterly installments, the first such installment fall due on 31 December 2019. This is secured against first pari-passu charge of PKR 1,333 million on present and future current assets of the Bank with a 25% margin. This facility is expiring on 30 September 2023.

15.12 This is a Privately Placed Term Finance Certificate (PPTFC) arranged by MCB Bank Limited, UBL Bank Limited and JS Bank Limited whereas Pak Oman Investment Company Limited is acting as trustee. The issue size is Rs. 1,500 million. Mark-up is payable quarterly at the rate of 3 months KIBOR plus 1.50 bps per annum (2017: 3 months KIBOR plus 1.50 bps per annum). The principal will be paid in sixteen equal quarterly installments, the first installment commencing from the end of grace period (2 February 2019). This PPTFC is secured against first pari-passu charge on over all present and future current assets along with 25% margin of the Bank. Bank will also pay 0.25% per annum on undisbursed amount of the PPTFC till its 9 month availability period ends on 02 August 2018. This Instrument is expiring on 2 November 2022.

16 Other liabilities

	Note	**2018 Rupees**	2017 Rupees
Markup / return / interest payable	*16.1*	**372,422,212**	287,656,384
Bills payable		**61,356,347**	81,871,802
Accrued expenses		**190,677,605**	171,023,462
Current taxation		**34,769,221**	104,967,109
Payable to defined benefit plan	*16.2*	**195,099,379**	129,068,258
Withholding tax payable		**23,353,281**	10,682,511
Unutilized Grant payable to Stitching to Promote Women's World Banking		**-**	361,675
Sundry creditors		**309,381,235**	220,115,046
		1,187,059,280	1,005,746,247

16.1 This includes markup payable on deposits from key management personnel amounts to Rs. 21,096 (2017: Rs. 18,425).

16.2 Payable to defined benefit plan

	Note	**2018 Rupees**	2017 Rupees
Present value of defined benefit obligation	*16.2.1*	**188,925,210**	128,669,680
Payables		**6,174,169**	398,578
Balance sheet liability		**195,099,379**	129,068,258

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		2018 Rupees	2017 Rupees
16.2.1	**Changes in present value of defined benefit obligation**		
	Balance at 1 January	128,669,680	92,009,170
	Current service	53,793,970	38,457,707
	Interest cost	11,388,287	8,068,710
		65,182,257	46,526,417
	Benefit due but not paid (payables)	(5,775,591)	(398,578)
	Payments made during the year	(11,915,118)	(13,752,179)
		(17,690,709)	(14,150,757)
	Included in other comprehensive income		
	Actuarial loss arising from changes in demographic assumptions	1,832,105	-
	Actuarial loss arising from changes in financial assumptions	2,615,256	-
	Actuarial loss arising from experience adjustment	8,316,621	4,284,850
	Present value of defined benefit obligation	188,925,210	128,669,680
16.2.2	**Expenses charged to profit and loss account**		
	Current service cost	53,793,970	38,457,707
	Interest cost	11,388,287	8,068,710
		65,182,257	46,526,417
16.2.3	**Total remeasurement chargeable in other comprehensive income**		
	Remeasurement of plan obligation:		
	Actuarial loss from changes in demographic assumptions	1,832,105	-
	Actuarial loss from changes in financial assumptions	2,615,256	-
	Experience adjustments	8,316,621	4,284,850
	Total remeasurement chargeable in other comprehensive income	12,763,982	4,284,850
16.2.4	**Changes in net liability**		
	Balance sheet liability at January 1	129,068,258	92,009,170
	Expense chargeable to profit and loss account	65,182,257	46,526,417
	Remeasurement chargeable in other comprehensive income	12,763,982	4,284,850
	Benefit paid	(11,915,118)	(13,752,179)
	Balance sheet liability at December 31	195,099,379	129,068,258

		2018	2017
16.2.5	**Significant actuarial assumptions**		
	Discount rate used for interest cost in profit and loss account	9.50%	9.50%
	Discount rate used for year end obligation	13.25%	9.50%
	Mortality rates	SLIC 2001-05 Setback 1 Year	SLIC 2001-05 Setback 1 Year
	Retirement assumption	Age 60	Age 60

16.2.6 **Expected expense for the next year**

The Bank expects to charge Rs 88.91 million to statement of profit and loss on account of defined benefit plan in 2019.

16.2.7 **Sensitivity analysis**

Significant actuarial assumptions for the determination of the defined obligation are discount rate and expected rate of salary increase. The sensitivity analysis below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant:

		Impact on defined benefit obligation			
		2018		2017	
	Change	**Increase**	**Decrease**	Increase	Decrease
Discount rate	**100 BPS**	**13,343,536**	**22,527,139**	14,300,153	16,434,516
Salary growth rate	**100 BPS**	**13,900,982**	**23,304,260**	16,785,308	14,846,380

Furthermore in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the balance sheet.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

16.2.8 The average duration of the defined benefit obligation is 9 years.

16.2.8.1 ***Risk associated with defined benefit obligations***

The defined benefit obligations may expose the bank to actuarial risks such as longevity risk, salary increase risk and withdrawal rate risk as described below;

Longevity risks:

The risk arises when the actual lifetime of retirees is longer than expectation. This risk is measured at the plan level over the entire retiree population.

Salary increase risk:

The most common type of retirement benefit is one where the final benefit is linked with final salary. The risk arises when the actual increases are higher than expectations and impact the liability accordingly.

Withdrawal Rate:

The risk of actual withdrawals varying with the actuarial assumptions can impose a risk to the benefit obligation. The movement of the liability can go either way.

17	**Share Capital**		**2018**	2017	**2018**	2017
			(Number of shares)		**Rupees**	Rupees
17.1	**Authorized capital**					
	Ordinary shares of Rs 10 each		**750,000,000**	750,000,000	**7,500,000,000**	7,500,000,000
17.2	**Issued, subscribed and paid-up share capital**					
		Note				
	Ordinary shares of Rs 10 each fully paid in cash	*17.3*	**634,888,711**	634,888,711	6,348,887,110	6,348,887,110

17.3 Share capital has been subscribed by the following:

		2018	2017	2018	2017
		(Number of shares)		**Rupees**	Rupees
Kashf Holdings (Private) Limited	5.2%	**33,119,747**	33,119,747	**331,197,470**	331,197,470
International Finance Corporation	4.8%	**30,771,739**	30,771,739	**307,717,390**	307,717,390
Triodos Fair Share Fund	2.7%	**17,368,319**	17,368,319	**173,683,190**	173,683,190
Acumen Fund	0.8%	**5,130,253**	5,130,253	**51,302,530**	51,302,530
FINCA Microfinance Cooperatief U.A	86.4%	**548,498,653**	548,498,653	**5,484,986,530**	5,484,986,530
	100%	**634,888,711**	634,888,711	**6,348,887,110**	6,348,887,110

18 **Deferred Grants**	*Note*	**2018 Rupees**	2017 Rupees
Balance as at January 1		**1,655,624**	2,678,693
Grant from Stitching to Promote Women's World Banking	*18.1*	**-**	-
Markup earned on funds		**-**	-
Less: Grant amortized		**(1,655,624)**	(1,023,069)
		-	1,655,624
Balance as at January 1		**2,829,653**	4,384,001
Grant from SBP against value chain financing scheme	*18.2*	**-**	-
Less: Grant amortized		**(2,829,653)**	(1,554,348)
		-	2,829,653
Balance as at January 1		**486,699**	1,163,175
Grant from SBP against value enterprise lending	*18.3*	**-**	-
Less: Grant amortized		**(486,699)**	(676,476)
		-	486,699
Balance as at January 1		**3,182,456**	4,375,880
Grant from Rumsfeld against call center	*18.4*	**-**	-
Less: Grant amortized		**(3,182,456)**	(1,193,424)
		-	3,182,456
Balance as at January 1		**-**	-
Grant from Karandaz for women empowerment	*18.5*	**2,742,228**	-
Less: Grant amortized		**(330,000)**	-
		2,412,228	-
		2,412,228	8,154,432

18.1 This represents grant received from Stitching to promote Women's World Banking to assist the Bank in increasing number of active saving accounts targeted at low income customers.

18.2 This represents grant received from the State Bank of Pakistan (SBP) under the Financial Innovation Challenge Fund (FICF) of Financial Inclusion Program (FIP) to promote Innovative Rural and Agricultural Finance in Pakistan.

18.3 This represents grant received from the SBP under Institutional Strengthening Fund (ISF) of Financial Inclusion Program (FIP) to explore the segment of un-banked small entrepreneurs.

18.4 This represents grant from Finca International Inc. to leverage technology through implementation of automated call center solution to enable the Bank to have direct communication channel with women clients to facilitate them and gauge service levels and promote marketing while fulfilling regulatory prerequisite for consumer protection.

18.5 This represents grant received from Karandaz for women awareness about the use of SIMSIM wallet in rural / peri urban areas.

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19 Memorandum / Off-balance sheet items

19.1 Contingencies

The Additional Commissioner Inland Revenue (ACIR) on 31 August 2018 passed an order under section 122(5A) of the Income Tax Ordinance, 2001, creating a demand to the tune of Rs. 65.85 million out of which Rs. 48.75 million disallowed as minimum tax adjustment claimed. Being aggrieved of the above order, the Bank filed an appeal before Commissioner Inland Revenue (Appeals) which is pending adjudication. The Bank expects favourable outcome from this case.

	2018 Rupees	2017 Rupees
19.2 Commitments in respect of operating leases		
Not later than one year	**269,671,505**	248,111,336
Later than one year and not later than five years	**1,555,110,623**	1,542,264,442
Later than five years	**751,680,103**	1,034,197,789
	2,576,462,231	2,824,573,567

20 Mark-up / return / interest earned

Interest / mark-up on advances	**6,125,741,096**	4,552,066,391
Markup earned on investments in government securities	**339,234,428**	196,451,223
Interest / mark-up on bank accounts	**66,310,709**	60,411,070
	6,531,286,233	4,808,928,684

21 Mark-up / return / interest expensed

Deposits	**1,699,150,932**	1,196,413,637
Borrowings	**129,253,894**	59,967,290
	1,828,404,826	1,256,380,927

22 Fee, commission and brokerage income

Loan processing fee	**555,915,214**	421,254,736
Income on cheque book issuance	**44,551,854**	36,554,863
Over due charges	**42,744,594**	77,349,325
Early settlement charges	**16,695,691**	13,928,817
Others	**15,750,300**	14,970,283
	675,657,653	564,058,024

23 Other income

Grant income	**8,516,106**	4,447,317
Recovery of debts previously written off	**117,711,440**	85,650,756
Net gain on disposal / deletion of operating fixed assets	-	39,080,151
Others	-	241,963
	126,227,546	129,420,187

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24 Administrative expenses

	Note	2018 Rupees	2017 Rupees
Staff salaries and other benefits	24.1	**1,827,573,893**	1,277,196,356
Contribution to employee provident fund		**72,101,774**	52,964,011
Non-executive directors' fees, allowances and other expenses		**675,000**	1,165,593
Printing, stationery and periodicals		**60,718,809**	43,233,495
Advertisement		**142,421,303**	108,280,498
Rent		**248,111,336**	165,503,371
Office running expenses		**47,321,513**	37,813,202
Vehicle running expenses		**44,108,279**	23,295,654
Insurance		**54,702,401**	32,317,978
Office security / personnel services		**106,305,029**	81,645,421
Repairs and maintenance		**87,689,288**	64,286,698
Communication		**81,263,418**	58,906,999
Travel and transportation		**187,144,739**	151,748,332
Utilities		**74,969,070**	53,229,920
Legal and professional		**118,038,332**	87,755,504
Donation	24.2	**1,430,075**	-
Auditors' remuneration	24.3	**2,800,000**	3,450,000
Training and research		**44,310,838**	35,153,138
Depreciation	11.3	**161,622,952**	103,106,408
Amortization	11.2	**64,016,142**	48,667,707
Others		**26,156,292**	7,971,590
		3,453,480,483	2,437,691,875

24.1 This includes Rs. 65.18 million (2017: 46.53 million) in respect of staff gratuity expense and Rs. 2.72 million (2017: 1.81 million) in respect of gratuity expense of Chief Executive Officer.

24.2 Donations

	2018 Rupees	2017 Rupees
Care Foundation to operate girls schools	**1,360,000**	-
Charity for Edhi Centre	**70,075**	-
	1,430,075	-

None of the Directors of the Bank or their spouses have any interest as Director in any of the recipients of donations made by the Bank during the year.

24.3 Auditors' remuneration

	2018 Rupees	2017 Rupees
Audit fee	**2,500,000**	2,900,000
Fee for certifications	**-**	200,000
Out of pocket expense	**300,000**	350,000
	2,800,000	3,450,000

		2018 Rupees	2017 Rupees
25	**Other charges**		
	Penalties imposed by SBP	**2,082,500**	2,880,000
	Bank charges	**21,112,087**	15,643,980
	Net loss on disposal of fixed assets	**1,172,900**	-
	Others	**12,055,259**	4,961,787
		36,422,746	23,485,767
26	**Taxation**		
	Current:		
	For the year	**629,372,068**	484,276,120
	For the prior year	**4,977,481**	40,058,735
		634,349,549	524,334,855
	Deferred:		
	For the year	**(15,351,273)**	(764,907)
	For the prior year	**4,468,476**	(114,407)
		(10,882,797)	(879,314)
		623,466,752	523,455,541

26.1 Reconciliation of tax

	2018	2017
Accounting profit before taxation	**1,579,947,329**	1,378,253,705
Tax rate %	**35%**	35%
Tax on accounting rate	**552,981,565**	482,388,797
Tax effect of income chargeable to tax at lower rate	**64,550,981**	-
Prior year tax adjustment	**4,977,481**	40,058,735
Tax effect of inadmissible expenses	**956,725**	1,008,009
	623,466,752	523,455,541

27 Number of employees

	2018		
	Credit / Sales staff	**Banking / Support staff**	**Total staff**
Permanent	**1,369**	**1,081**	**2,450**
Contractual	**173**	**256**	**429**
Total	**1,542**	**1,337**	**2,879**

	2017		
	Credit / Sales staff	Banking / Support staff	Total staff
Permanent	1,218	936	2,154
Contractual	8	178	186
Total	1,226	1,114	2,340

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28 **Number of branches**

	2018		2017	
	Branches	Permanent Booths	Branches	Permanent Booths
	No.	No.	No.	No.
Branches at the beginning of the year	**116**	-	105	-
Upgraded from permanent booths	-	-	-	-
Opened during the year	**17**	-	11	-
	133	-	116	-
Less: Converted to branches	-	-	-	-
Branches at the end of the year	**133**	-	**116**	-

29 **Remuneration of directors and executives**

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

	Chief Executive		Directors		Executives	
	2018	2017	2018	2017	2018	2017
	---------- Rupees ----------					
Managerial remuneration	**22,162,213**	16,384,670	**675,000**	1,165,593	**131,693,375**	78,399,851
House rent allowance	-	-	-	-	**50,780,527**	31,359,917
Provident fund	**2,216,223**	1,638,466	-	-	**12,057,979**	7,675,174
Utilities allowance	-	-	-	-	**9,461,137**	4,218,274
Medical Allowance	**2,216,176**	1,638,515	-	-	**3,234,015**	3,621,707
Conveyance/Car Allowance	**1,274,667**	840,000	-	-	**15,852,544**	9,424,740
Charge for defined benefit plan	**2,723,828**	1,808,583	-	-	**32,521,199**	23,055,946
Others	**1,211,863**	1,050,529	-	-	**227,400**	227,400
	31,804,970	23,360,763	**675,000**	1,165,593	**255,828,176**	157,983,009
Number of persons at year end	**1**	1	**4**	3	**61**	38

29.1 Executive means employees, other than the chief executive and directors, whose basic salary exceed twelve hundred thousand rupees in a financial year.

29.2 Aggregate amount charged to profit and loss account for the year in respect of travelling and hotel expenses of directors is Rs. 3.72 million (2017: Rs 2.25 million) and Rs. 3.57 million (2017: 2.22 million) respectively.

29.3 The Bank provides car allowance of Rs. 1.27 million (2017: 0.84 million) per annum to the Chief Executive Officer as part of the remuneration.

30 **Earnings per share**

		2018	2017
30.1 Profit for the year	*Rupees*	**956,480,577**	854,798,164
Weighted average number of ordinary shares	*Number*	**634,888,711**	634,888,711
Basic and diluted profit per share	*Rupees*	**1.51**	1.35

30.2 There is no dilutive effect on the basic earning per share of the Bank.

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31 **Related party transactions**

The Bank's related parties comprise of directors, key management personnel, shareholders and entities over which the directors are able to exercise significant influence and employee gratuity fund. The detail of Bank's shareholders is given in note 17.3 while remuneration of key management personnel is disclosed in note 29 to the financial statements. Transactions with related parties during the year, other than those which have been disclosed elsewhere in these financial statements, are as follows:

	2018			2017		
	Key management personnel	**Associated company / parent**	**Kashf foundation**	Key management personnel	Associated company / parent	Kashf foundation
Deposits	**Rupees**	**Rupees**	**Rupees**	Rupees	Rupees	Rupees
Opening balance	**16,992,924**	**-**	**40,572,695**	72,058,025	-	11,147,031
Received during the year	**136,566,187**	**-**	**63,820,992**	68,367,818	-	69,427,079
Withdrawn during the year	**(126,518,911)**	**-**	**(74,002,093)**	(123,432,919)	-	(40,001,415)
Closing balance	**27,040,200**	**-**	**30,391,594**	16,992,924	-	40,572,695
Staff loans						
Opening balance	**13,956,339**	**-**	**-**	10,707,398	-	-
Disbursement during the year	**19,800,000**	**-**	**-**	16,558,699	-	-
Repayments during the year	**(15,616,017)**	**-**	**-**	(13,309,758)	-	-
Closing balance	**18,140,322**	**-**	**-**	13,956,339	-	-
Transactions during the year						
Mark-up/return/interest earned	**896,795**	**-**	**-**	737,712	-	-
Mark-up/return/interest expensed	**1,648,385**	**-**	**122,680**	902,278	-	3,725,317
Contribution to provident fund	**7,123,967**	**-**	**-**	5,994,777	-	-

	Note	**2018 Rupees**	2017 Rupees
32 Cash and cash equivalents			
Cash and balances with SBP and NBP	*7*	**1,639,249,051**	976,428,755
Balances with other banks	*8*	**2,489,461,972**	1,556,694,589
		4,128,711,023	2,533,123,344

33 Fair value measurement of financial instruments

The following table shows the carrying amounts and fair values of financial instruments and non-financial instruments including their levels in the fair value hierarchy

		Carrying amount					Fair value		
		Held for trading	Held to maturity	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3
On-Balance sheet financial instruments	*Note*	Rupees							
31 December 2018									
Financial assets measured at fair value									
Investments - net of provisions	*9*	2,441,491,077	1,385,986,221	-	-	3,827,477,298	-	2,441,491,077	-
Financial assets not measured at fair value									
Cash and cash equivalents	*32*	-	-	4,128,711,023	-	4,128,711,023	-	-	-
Advances - net of provisions	*10*	-	-	20,580,529,143	-	20,580,529,143	-	-	-
Other assets	*12 & 33.1*	-	-	1,817,679,817	-	1,817,679,817	-	-	-
	33.3	-	-	26,526,919,983	-	26,526,919,983	-	-	-
Financial liabilities measured at fair value		-	-	-	-	-	-	-	-
Financial liabilities not measured at fair value									
Deposits and other accounts	*14*	-	-	-	23,741,811,865	23,741,811,865	-	-	-
Borrowings	*15*	-	-	-	3,318,500,544	3,318,500,544	-	-	-
Other liabilities	*16 & 33.2*	-	-	-	876,902,826	876,902,826	-	-	-
	33.3	-	-	-	27,937,215,235	27,937,215,235	-	-	-

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On-Balance sheet financial instruments	Note	Carrying amount: Held for trading	Held to maturity	Loans and receivables	Other financial liabilities	Total	Fair value: Level 1	Level 2	Level 3
		--- Rupees ---							
31 December 2017									
Financial assets measured at fair value									
Investments - net of provisions	9	2,241,491,077	2,967,669,150	-	-	5,209,160,227	-	2,241,491,077	-
Financial assets not measured at fair value									
Cash and cash equivalents	32	-	-	2,533,123,344	-	2,533,123,344	-	-	-
Advances - net of provisions	10	-	-	14,863,341,016	-	14,863,341,016	-	-	-
Other assets	12 & 33.1	-	-	1,188,779,087	-	1,188,779,087	-	-	-
	33.3	-	-	18,585,243,447	-	18,585,243,447	-	-	-
Financial liabilities measured at fair value		-	-	-	-	-	-	-	-
Financial liabilities not measured at fair value									
Deposits and other accounts	14	-	-	-	19,183,925,717	19,183,925,717	-	-	-
Borrowings	15	-	-	-	1,668,981,702	1,668,981,702	-	-	-
Other liabilities	16 & 33.2	-	-	-	637,201,363	637,201,363	-	-	-
	33.3	-	-	-	21,490,108,782	21,490,108,782	-	-	-

33.1 These exclude stationary and stamp on hand and prepayments.

33.2 These exclude bills payable, accrued expenses and taxes.

33.3 ***Fair value versus carrying amounts***

The Company has not disclosed the fair values of these financial assets and liabilities as these are for short term or re-priced over short term. Therefore, their carrying amounts are reasonable approximation of fair value.

34 Financial assets and liabilities

34.1 Interest rate risk management

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rate. The Bank's interest rate exposure stems mainly from its investments, Bank deposits and advances. This risk is managed by regular review of market rates.

	2018											
		Interest bearing / exposed to yield / interest risk					Non-Interest bearing / not exposed to yield / interest risk					
	Effective yield / interest rate %	Upto one month	Over one month upto six months	Over six months upto one year	Over one year	Sub total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year	Sub total	Total
		------------ Rupees ------------										
Financial assets												
On balance sheet:												
Cash and balances with SBP and NBP	3.75% - 8%	23,818,798	-	-	-	23,818,798	1,615,430,253	-	-	-	1,615,430,253	1,639,249,051
Balances with other banks/NBFIs/MFBs	3.75% - 11.25%	2,056,403,890	-	-	-	2,056,403,890	433,058,082	-	-	-	433,058,082	2,489,461,972
Investments - net of provisions	5.99% - 10.30%	3,041,313,656	786,163,642	-	-	3,827,477,298	-	-	-	-	-	3,827,477,298
Advances-net of provisions	5% - 49.03%	1,488,439,941	8,893,747,446	9,448,669,241	749,672,515	20,580,529,143	-	-	-	-	-	20,580,529,143
Other assets		-	-	-	-	-	1,807,999,973	-	-	9,679,844	1,817,679,817	1,817,679,817
		6,609,976,285	9,679,911,088	9,448,669,241	749,672,515	26,488,229,129	3,856,488,308	-	-	9,679,844	3,866,168,152	30,354,397,281
Off balance sheet		-	-	-	-	-	-	-	-	-	-	-
Total		6,609,976,285	9,679,911,088	9,448,669,241	749,672,515	26,488,229,129	3,856,488,308	-	-	9,679,844	3,866,168,152	30,354,397,281
Financial liabilities												
On balance sheet:												
Deposit and other accounts	0% - 13.75%	7,453,071,847	4,811,864,127	1,785,935,961	7,690,227,321	21,741,099,256	2,000,712,609	-	-	-	2,000,712,609	23,741,811,865
Borrowings	6.76% - 10.35%	-	1,518,500,544	237,500,000	1,562,500,000	3,318,500,544	-	-	-	-	-	3,318,500,544
Other liabilities		-	-	-	-	-	633,072,765	133,663,742	33,437,731	328,762,540	1,128,936,778	1,128,936,778
		7,453,071,847	6,330,364,671	2,023,435,961	9,252,727,321	25,059,599,800	2,633,785,374	133,663,742	33,437,731	328,762,540	3,129,649,387	28,189,249,187
Off balance sheet		-	-	-	-	-	-	-	-	-	-	-
Total		7,453,071,847	6,330,364,671	2,023,435,961	9,252,727,321	25,059,599,800	2,633,785,374	133,663,742	33,437,731	328,762,540	3,129,649,387	28,189,249,187
On balance sheet gap		(843,095,562)	3,349,546,417	7,425,233,280	(8,503,054,806)	1,428,629,329	1,222,702,934	(133,663,742)	(33,437,731)	(319,082,696)	736,518,765	2,165,148,094
Off balance sheet gap		-	-	-	-	-	-	-	-	-	-	-

Financial assets and liabilities

	2017											
	Interest bearing / exposed to yield / interest risk						Non-Interest bearing / not exposed to yield / interest risk					
	Effective yield / interest rate %	Upto one month	Over one month upto six months	Over six months upto one year	Over one year	Sub total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year	Sub total	Total
						Rupees						
Financial assets												
On balance sheet:												
Cash and balances with SBP and NBP	3.75%	36,413,602	-	-	-	36,413,602	940,015,153	-	-	-	940,015,153	976,428,755
Balances with other banks/NBFIs/MFBs	3.75% - 11.25%	1,442,533,864	-	-	-	1,442,533,864	114,160,725	-	-	-	114,160,725	1,556,694,589
Investments - net of provisions	5.88% - 6.01%	2,294,711,573	2,914,448,654	-	-	5,209,160,227	-	-	-	-	-	5,209,160,227
Advances-net of provisions	5% - 49.8%	314,392,134	4,684,122,118	8,102,992,648	1,761,834,116	14,863,341,016	-	-	-	-	-	14,863,341,016
Other assets		-	-	-	-	-	1,168,914,906	16,099,337	-	3,764,844	1,188,779,087	1,188,779,087
		4,088,051,173	7,598,570,772	8,102,992,648	1,761,834,116	21,551,448,709	2,223,090,784	16,099,337	-	3,764,844	2,242,954,965	23,794,403,674
Off balance sheet		-	-	-	-	-	-	-	-	-	-	-
Total		4,088,051,173	7,598,570,772	8,102,992,648	1,761,834,116	21,551,448,709	2,223,090,784	16,099,337	-	3,764,844	2,242,954,965	23,794,403,674
Financial liabilities												
On balance sheet:												
Deposits and other accounts	0% - 12%	6,052,562,090	4,957,042,782	921,872,170	5,141,643,571	17,073,120,613	2,110,805,104	-	-	-	2,110,805,104	19,183,925,717
Borrowings	6.75% - 7.90%	18,750,000	837,731,702	87,500,000	725,000,000	1,668,981,702	-	-	-	-	-	1,668,981,702
Other liabilities	-	-	-	-	-	-	544,916,058	120,654,066	24,839,987	199,686,516	890,096,627	890,096,627
		6,071,312,090	5,794,774,484	1,009,372,170	5,866,643,571	18,742,102,315	2,655,721,162	120,654,066	24,839,987	199,686,516	3,000,901,731	21,743,004,046
Off balance sheet		-	-	-	-	-	-	-	-	-	-	-
Total		6,071,312,090	5,794,774,484	1,009,372,170	5,866,643,571	18,742,102,315	2,655,721,162	120,654,066	24,839,987	199,686,516	3,000,901,731	21,743,004,046
On balance sheet gap		(1,983,260,917)	1,803,796,288	7,093,620,478	(4,104,809,455)	2,809,346,394	(432,630,378)	(104,554,729)	(24,839,987)	(195,921,672)	(757,946,766)	2,051,399,628
Off balance sheet gap		-	-	-	-	-	-	-	-	-	-	-

34.2 Credit risk management

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 at banks. However, the Bank believes that it is not exposed to major concentration of credit risk. The Bank's credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit rating. The Bank has an effective loan disbursement and recovery monitoring system which allows it to evaluate borrowers' credit worthiness and identify potential problem loans. A provision for potential loan losses is maintained as required by the Prudential Regulations. Maximum amount of financial assets which are subject to credit risk amount to Rs. 28,536.72 million (2017: Rs. 22,605.62 million).

34.3 Liquidity risk management

Liquidity risk is the risk of being unable to raise funds at a reasonable price to meet commitments when they fall due, or take the advantage of investment opportunities when they rise. The management ensures that funds are available at all times to meet the funding requirements of the Bank. The Bank manages risk by maintaining sufficient liquidity at Head Office and the branches.

35 Capital risk management

35.1 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 and comply with capital requirements set by SBP. It is the policy of the Bank to maintain a strong capital base at a reasonable cost so as to maintain investor, creditor and market confidence, sustain future development of the business and achieve low overall cost of capital with appropriate mix of cost of capital. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with higher gearing and the advantages and security afforded by a sound capital position.

35.2 The Bank's objectives with when managing its capital are:

- To comply with the capital requirements set by the SBP.
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders.
- To maintain a strong capital base to support the development of its business.

35.3 Statutory minimum capital requirement and management of capital

As per amendments on Prudential Regulations (R-1) issued vide BPRD Circular No. 10 of 2015 dated 03 June 2015, the minimum paid up capital requirement (MCR), free of losses for Microfinance Banks operating at national level is Rs. 1,000 million as at 31 December 2018. As at 31 December 2018, the paid up share capital net of discount, of the Bank stood at Rs. 2,259.85 million (2017: Rs. 2,259.85 million).

The capital of the Bank is managed keeping in view the minimum CAR (15%) required by the Prudential Regulations for the Microfinance Banks / Institutions. The adequacy of the capital is tested with reference to the risk-weighted assets of the Bank. The calculation of capital adequacy ratio enables the Bank to assess the long-term soundness. As the Bank conducts business on a wide area network basis, it is critical that it is able to continuously monitor the exposure across the entire organization.

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 31 December 2018, the Bank's capital adequacy ratio (CAR) is appropriately 15.93% (2017: 18.58%) of its risk weighted assets, as against the minimum requirement of 15% prescribed by SBP.

36 Maturities of assets and liabilities

	2018				
	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
	---------- Rupees ----------				
Market rate assets					
Advances	20,580,529,143	1,488,439,941	8,893,747,446	9,448,669,241	749,672,515
Investments	3,827,477,298	3,041,313,656	786,163,642	-	-
Other earning assets	2,080,222,688	2,080,222,688	-	-	-
Total market rate assets	26,488,229,129	6,609,976,285	9,679,911,088	9,448,669,241	749,672,515
Other non-earning assets	5,791,531,411	3,987,021,865	492,330,498	174,611,425	1,137,567,623
Total assets	32,279,760,540	10,596,998,150	10,172,241,586	9,623,280,666	1,887,240,138
Market rate liabilities					
Time deposits of Rs. 100,000 and above	16,623,975,775	2,388,528,320	4,801,446,799	1,779,683,385	7,654,317,271
Time deposits below Rs. 100,000	66,288,962	13,709,008	10,417,328	6,252,576	35,910,050
Borrowings	3,318,500,544	-	1,518,500,544	237,500,000	1,562,500,000
Other cost bearing liabilities	5,050,834,519	5,050,834,519	-	-	-
Total market rate liabilities	25,059,599,800	7,453,071,847	6,330,364,671	2,023,435,961	9,252,727,321
Other non-cost bearing liabilities	3,187,771,889	2,657,138,655	133,663,742	68,206,952	328,762,540
Total liabilities	28,247,371,689	10,110,210,502	6,464,028,413	2,091,642,913	9,581,489,861

	2017				
	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
	----------	----------	Rupees	----------	----------
Market rate assets					
Advances	14,863,341,016	314,392,134	4,684,122,118	8,102,992,648	1,761,834,116
Investments	5,209,160,227	2,294,711,573	2,914,448,654	-	-
Other earning assets	1,478,947,466	1,478,947,466	-	-	-
Total market rate assets	21,551,448,709	4,088,051,173	7,598,570,772	8,102,992,648	1,761,834,116
Other non-earning assets	3,590,436,201	2,304,807,782	351,468,799	105,653,216	828,506,404
Total assets	25,141,884,910	6,392,858,955	7,950,039,571	8,208,645,864	2,590,340,520
Market rate liabilities					
Time deposits of Rs. 100,000 and above	13,404,398,902	2,431,948,277	4,943,825,127	916,008,545	5,112,616,953
Time deposits below Rs. 100,000	62,584,674	14,476,776	13,217,655	5,863,625	29,026,618
Borrowings	1,668,981,702	18,750,000	837,731,702	87,500,000	725,000,000
Other cost bearing liabilities	3,606,137,037	3,606,137,037	-	-	-
Total market rate liabilities	18,742,102,315	6,071,312,090	5,794,774,484	1,009,372,170	5,866,643,571
Other non-cost bearing liabilities	3,116,551,351	2,666,403,673	120,654,066	129,807,096	199,686,516
Total liabilities	21,858,653,666	8,737,715,763	5,915,428,550	1,139,179,266	6,066,330,087

37 **Reconciliation of movements of liabilities to cash flows arising from financing activities.**

	2018				
	Equity			Liabilities	
	Issued, subscribed and paid-up capital	Discount on issue of shares	Unappropriated profit	Deferred grants	Borrowings
	Rupees				
Balance as at 01 January 2018	6,348,887,110	(4,089,040,293)	552,799,227	8,154,432	1,668,981,702
Changes from financing cash flows					
Loans received during the period	-	-	-	-	2,049,518,842
Dividends paid	-	-	(200,000,000)	-	-
Grant received	-	-	-	2,742,228	-
Loan repaid during the period	-	-	-	-	(400,000,000)
	-	-	(200,000,000)	2,742,228	1,649,518,842
Other changes					
Interest expense for the period	-	-	-	-	-
Interest paid during the period	-	-	-	-	-
Amortization of grant	-	-	-	(8,484,432)	-
Total comprehensive income for the year	-	-	948,183,989	-	-
Transfer to :					
Statutory reserve	-	-	(191,296,115)	-	-
Depositors' protection fund	-	-	(47,824,029)	-	-
	-	-	709,063,845	(8,484,432)	-
Balance as at 31 December 2018	6,348,887,110	(4,089,040,293)	1,061,863,072	2,412,228	3,318,500,544

Reconciliation of movements of liabilities to cash flows arising from financing activities.

	2017				
	Equity			Liabilities	
	Issued, subscribed and paid-up capital	Discount on issue of shares	Unappropriated profit	Deferred grants	Borrowings
	----------Rupees----------				
Balance as at 01 January 2017	6,348,887,110	(4,089,040,293)	(85,514,244)	12,601,749	1,350,001,756
Changes from financing cash flows					
Loans received during the year	-	-	-	-	795,000,200
Dividends paid	-	-	-	-	-
Grant received	-	-	-	-	-
Loan repaid during the year	-	-	-	-	(476,020,254)
	-	-	-	-	318,979,946
Other changes					
Interest expense for the year	-	-	-	-	-
Interest paid during the year	-	-	-	-	-
Amortization of grant	-	-	-	(4,447,317)	-
Total comprehensive income for the year	-	-	852,013,012	-	-
Transfer to **:**					
Statutory reserve	-	-	(170,959,633)	-	-
Depositors' protection fund	-	-	(42,739,908)	-	-
	-	-	638,313,471	(4,447,317)	-
Balance as at 31 December 2017	6,348,887,110	(4,089,040,293)	552,799,227	8,154,432	1,668,981,702

38 Provident Fund

The following information is based on latest un-audited financial statements of the Fund:

	Note	2018 Rupees	2017 Rupees
Size of the fund		**433,982,503**	299,588,991
Total investments	*38.1*	**413,757,587**	295,623,437
% age of investments made		**95.4%**	98.7%

38.1 Breakup of investments

	2018 Rupees	2017 Rupees	2018 Relative % of size of the fund	2017
Mutual fund	**21,993,542**	23,620,968	**5.1%**	7.9%
Term deposit receipts (TDRs)	**80,150,672**	58,140,408	**18.5%**	19.4%
Market treasury bills	**309,199,448**	211,297,832	**71.2%**	70.5%
Pakistan investment bonds	**2,413,925**	2,564,229	**0.6%**	0.9%
	413,757,587	295,623,437	**95.4%**	98.7%

The investments of the Provident Fund Trust are in compliance with the provision of section 218 of the Companies Act, 2017 and the rules formulated for this purpose.

39 Non adjusting event after the balance sheet date

The Board of Directors of the Bank in their meeting held on ____________, have decided on the dividend for the year ended 31 December 2018 @_____% (Rs._____ per share).

The Government has announced 4% Super tax for the Tax year 2018 (accounting year ended 31 December 2017) after year end though not yet approved. These financial statements for the year ended December 31, 2018 do not include the impact of Super tax announced for tax year 2018.

40 Date of authorization

These financial statement were authorized for issue by the Board of Directors of the Bank on 27 MAR 2019

41 General

- Figures have been rounded to the nearest Rupee unless otherwise specified.
- Comparative information has been reclassified, rearranged or additionally incorporated in these financial statements for the purposes of better presentation.
- Where there are no amounts to be disclosed in the account captions as prescribed by BSD Circular No.11 dated 30 December 2003 issued by SBP in respect of forms of financial statements for Microfinance banks, these captions have not been reproduced in these financial statements, except for caption of balance sheet, profit and loss account.

Chief Executive Officer | Chairman | Director | Director