

**FINCA MICRO FINANCE BANK
LIMITED**
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
December 31, 2014

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of FINCA Microfinance Bank Limited (the 'Bank') as at December 31, 2014 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in after referred to as the 'financial statements'), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) in our opinion, proper books of accounts have been kept by the Bank as required by the Companies Ordinance, 1984 and Microfinance Institutions Ordinance, 2001;
- (b) in our opinion:
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and the Microfinance Institution Ordinance, 2001 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank.

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- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan and give the information required by the Companies Ordinance, 1984 and the Microfinance Institution Ordinance, 2001, in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at December 31, 2014 and of the profit, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

M. Yousuf Adil Saleem

Chartered Accountants

Engagement Partner:

Talat Javed

Date: March 18, 2015

Place: Lahore

FINCA MICROFINANCE BANK LIMITED

BALANCE SHEET

AS AT DECEMBER 31, 2014

	Note	2014	2013
(Rupees in '000')			
ASSETS			
Cash and balances with SBP and NBP	7	314,009	180,993
Balances with other banks/NBFIs/MFBs	8	604,076	948,330
Lending to financial institutions		-	-
Investments - net of provisions	9	447,527	397,759
Advances - net of provisions	10	3,994,668	2,019,247
Operating fixed assets	11	582,647	235,159
Other assets	12	214,588	136,454
Deferred tax asset	13	222,955	60,922
Total assets		6,380,470	3,978,864
LIABILITIES			
Deposits and other accounts	14	4,656,177	2,735,464
Borrowings	15	201,100	-
Subordinated debt		-	-
Other liabilities	16	241,004	138,861
Deferred tax liabilities		-	-
Total liabilities		5,098,281	2,874,325
Net assets		1,282,189	1,104,539
REPRESENTED BY:			
Share capital	17	4,731,980	4,731,980
Discount on issue of shares		(2,957,206)	(2,957,206)
Statutory reserve		35,505	276
Depositors' protection fund		8,881	69
Accumulated loss		(555,183)	(683,536)
		1,263,977	1,091,583
Deferred grants	18	18,212	12,956
Total capital		1,282,189	1,104,539
Memorandum / Off-balance sheet items	19		

The annexed notes from 1 to 39 form an integral part of these financial statements.


Chief Executive Officer


Chairman

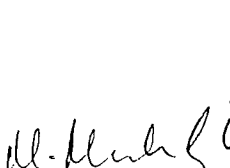

Director

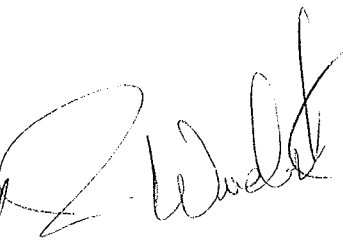

Director


FINCA MICROFINANCE BANK LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2014


	Note	2014	2013
		(Rupees in '000')	
Mark-up / return / interest earned	20	1,247,136	692,975
Mark-up / return / interest expensed	21	(361,258)	(212,456)
Net mark-up / interest income		885,878	480,519
Provision against non-performing loans and advances	10.6	(47,015)	(16,260)
Provision for diminution in the value of investments		-	-
Bad debts written off directly		-	-
		(47,015)	(16,260)
Net mark-up / interest income after provisions		838,863	464,259
Non mark-up / non interest income			
Fee, commission and brokerage income	22	218,935	117,910
Dividend income		-	-
Other income	23	16,282	12,618
Total non mark-up / non interest income		235,217	130,528
		1,074,080	594,787
Non mark-up / non interest expenses			
Administrative expenses	24	(1,030,549)	(589,803)
Other charges	25	(12,735)	(10,115)
Total non mark-up / non interest expenses		(1,043,284)	(599,918)
Profit / (Loss) before taxation		30,796	(5,131)
Taxation - Current year		(14,660)	(6,397)
Prior years		-	-
Deferred		160,010	12,908
	26	145,350	6,511
Profit after taxation		176,146	1,380
Accumulated loss brought forward		(683,536)	(681,342)
Accumulated loss		(507,390)	(679,962)
Appropriations			
Transfer to:			
Statutory reserve		(35,229)	(276)
Capital reserve		-	-
Contribution to Depositors' Protection Fund		(8,807)	(69)
Revenue reserve		-	-
		(44,036)	(345)
Accumulated loss carried forward		(551,426)	(680,307)
Earning per share	30	0.37	0.004

The annexed notes from 1 to 39 form an integral part of these financial statements.


 Chief Executive Officer


 Chairman


 Director



 Director

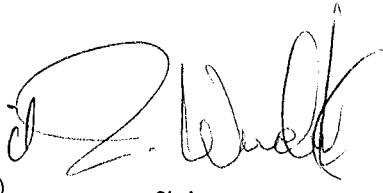
FINCA MICROFINANCE BANK LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2014

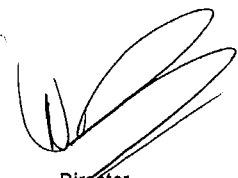
Note	2014	2013
	(Rupees in '000')	
Profit for the year	176,146	1,380
Other comprehensive income for the year - net of tax		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Remeasurement of post defined benefit obligation	(5,780)	(4,968)
Impact of deferred tax	2,023	1,739
	(3,757)	(3,229)
<i>Items that may be reclassified subsequently to profit or loss</i>	-	-
Total comprehensive income for the year	172,389	(1,849)

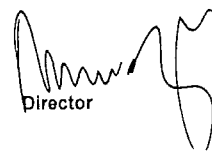
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 Chief Executive Officer


 Chairman

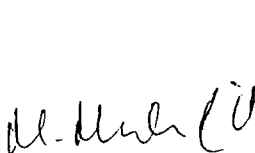

 Director


 Director


FINCA MICROFINANCE BANK LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2014

	Note	2014	2013
		(Rupees in '000')	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/ (Loss) before taxation		30,796	(5,131)
Less : Dividend income		-	-
		<u>30,796</u>	<u>(5,131)</u>
Adjustments for non-cash charges			
Depreciation	11.2	52,382	18,124
Amortisation	11.3	19,435	16,999
Provision against non-performing advances	10.6	47,015	16,260
Provision for diminution in the value of investments/other assets		-	-
Loss on disposal of fixed assets	25	1,170	597
Finance charge on leased assets		-	-
Amortisation of discount on held to maturity investment	20	(45,772)	(25,059)
Provision for accumulated compensated absences	16.3.1	1,824	1,659
Deferred grant recognised as Income	23	(5,089)	(3,234)
Provision for gratuity	16.2.1	13,666	7,936
		<u>84,631</u>	<u>33,282</u>
		115,427	28,151
Increase in operating assets			
Lending to financial institutions		-	-
Advances		(2,022,436)	(894,509)
Other assets (excluding advance taxation)		(78,134)	(87,545)
		<u>(2,100,570)</u>	<u>(982,054)</u>
Increase in operating liabilities			
Bills payable		3,109	(15,384)
Borrowings from financial institutions		201,100	-
Deposits		1,920,713	1,008,404
Other liabilities (excluding current taxation)		71,658	29,706
		<u>2,196,580</u>	<u>1,022,726</u>
		211,437	68,823
Gratuity Paid	16.2.3	(2,699)	-
Income tax paid		(5,855)	(2,442)
Not cash from operating activities		<u>202,883</u>	<u>66,381</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in held for trading securities		(205,569)	(95,956)
Net investments in held-to-maturity securities		201,573	(133,963)
Interest income on depositors protection fund		5	-
Dividend income		-	-
Investments in operating fixed assets		(421,881)	(71,260)
Sale proceeds of property and equipment disposed-off		1,406	601
Not cash used in Investing activities		<u>(424,466)</u>	<u>(300,578)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipt/payments of sub-ordinated loan		-	-
Receipts/ payments of lease obligations		-	824,674
Issue of share capital		-	-
Dividend paid		-	-
Grant received from donors		10,345	307
Net cash from financing activities		<u>10,345</u>	<u>824,981</u>
(Decrease) / Increase in cash and cash equivalents		(211,238)	590,784
Cash and cash equivalents at beginning of the year		1,129,323	538,539
Cash and cash equivalents at end of the year	32	<u>918,085</u>	<u>1,129,323</u>

The annexed notes from 1 to 39 form an integral part of these financial statements.


 Chief Executive Officer


 Chairman


 Director


 Director

FINCA MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

1 STATUS AND NATURE OF BUSINESS

1.1 FINCA Microfinance Bank Limited, (the Bank) was incorporated on June 26, 2008 as a public limited company under the Companies Ordinance, 1984. The Bank received the license to operate the company for banking business from the State Bank of Pakistan (SBP) on August 12, 2008 under the provisions of Microfinance Institutions Ordinance, 2001 and certificate of commencement of business on September 4, 2008 from Securities and Exchange Commission of Pakistan. On October 27, 2008 the Bank received the certificate of commencement of business from 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 387E- Johar Town, Lahore, Pakistan. Subsequent to takeover by FINCA International the Bank has changed its name from Kashf Microfinance Bank Limited to FINCA Microfinance Bank Limited during the year with effect from November 25, 2013.

The Bank is licensed to operate nationwide. As at December 31, 2014, the Bank has 42 branches (2013: 34 branches), 58 permanent booths (KIOSKs) (2013: 28) and Nil sales and service centres (2013: 14) operating in the provinces of Punjab, Khyber Pakhtunkhwa and Sindh.

1.2 During last year a new strategic investor "FINCA Microfinance Cooperatief U.A." (FINCA) acquired 82.8% shares of the bank, firstly purchasing 80,532,609 shares from existing shareholders on May 06, 2013 in pursuance of SBP approval granted vide its letter number BPRD/R&PD/KASHF/2013/3799/13 dated April 18, 2013 and subscribing of 311,198,044 fresh ordinary shares of the Bank on May 07, 2013 in pursuance of SBP approval granted vide its letter number BPRD/BA&CPD/666/6142/2013 dated April 24, 2013.

1.3 The holding company of the Bank is FINCA Microfinance Cooperatief U.A.,(a cooperative with exclusion of liability incorporated in the Netherland) 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 Supervision Department (BSD) Circular number 11 dated December 30, 2003.

3. STATEMENT OF COMPLIANCE

3.1 These accounts have been prepared in accordance with the directives issued by State Bank of Pakistan, the requirements of the Microfinance Institution Ordinance, 2001, the Companies Ordinance, 1984, and the accounting standards issued by the International Accounting Standards Board (IASB) and interpretations issued by Standing Interpretation Committee, of the IASB as adopted in Pakistan.

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 August 26, 2002. Further, SECP has deferred applicability of IFRS 7 "Financial Instruments: Disclosures" through its notification S.R.O 411(1) / 2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements.

3.2 New accounting standards / amendments and IFRS interpretations that are effective for the year ended December 31, 2014

The following standards, amendments and interpretations are effective for the year ended December 31, 2014. These standards, interpretations and the amendments are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures.

Amendments to IAS 32 Financial Instruments: Presentation - Offsetting financial assets and financial liabilities	Effective from accounting period beginning on or after January 01, 2014
IAS 36 Impairment of Assets - Recoverable amount disclosures for non-financial assets	Effective from accounting period beginning on or after January 01, 2014
IAS 39 Financial Instruments: Recognition and measurement - Novation of derivatives and continuation of hedge accounting	Effective from accounting period beginning on or after January 01, 2014
IFRIC 21 - Levies	Effective from accounting period beginning on or after January 01, 2014

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

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

Amendments to IAS 16 and IAS 38 Clarification of acceptable methods of depreciation and amortization	Effective from accounting period beginning on or after January 01, 2016
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Amendments to IAS 16 and IAS 41 Agriculture: Bearer plants	Effective from accounting period beginning on or after January 01, 2016
Amendments to IAS 19 Employee Benefits: Employee contributions	Effective from accounting period beginning on or after January 01, 2016
IAS 27 (Revised 2011) – Separate Financial Statements	Effective from accounting period beginning on or after January 01, 2015. IAS 27 (Revised 2011) will concurrently apply with IFRS 10.
IAS 28 (Revised 2011) – Investments in Associates and Joint Ventures	Effective from accounting period beginning on or after January 01, 2015
IFRS 10 – Consolidated Financial Statements	Effective from accounting period beginning on or after January 01, 2015. Earlier adoption is encouraged.
IFRS 11 – Joint Arrangements	Effective from accounting period beginning on or after January 01, 2015
IFRS 12 – Disclosure of Interests in Other Entities	Effective from accounting period beginning on or after January 01, 2015
IFRS 13 – Fair Value Measurement	Effective from accounting period beginning on or after January 01, 2015

Certain annual improvements have also been made to a number of IFRSs.

Other than the aforesaid standards, interpretations and amendments, the International Accounting Standards Board (IASB) has also issued the following standards which have not been adopted locally by the Securities and Exchange Commission of Pakistan:

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

4 BASIS OF MEASUREMENT

4.1 Accounting convention

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

5 CRITICAL 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 10.4)
- b) Gratuity payable (note 16.2)
- c) Accumulating compensated absences (note 16.3)
- d) Residual values of operating fixed assets and intangibles (note 11.2 and note 11.3)
- e) Deferred tax asset (note 13)

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

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.

6.2 Advances

These are stated net of provision for non-performing advances, (if any). The outstanding portion of the advances, payments against which are overdue for 30 days or more, are classified as non-performing and divided into the following four 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.
- b) Substandard: These are advances in arrears (payments / installments overdue) for 60 days or more but less than 90 days.

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- 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, a general provision is maintained equivalent to 1% (2013:1%) of the net outstanding balance (advances net of specific provisions) for potential loan losses. In addition 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 charged to income for the year.

Non-performing advances are written off one month after the loan is classified as 'Loss' in accordance with the requirements of the Prudential Regulations for Microfinance Banks issued by the State Bank Pakistan. However, the Bank continues its efforts for recovery of the written off balances.

6.3 Investments

All purchases and sale of investments are recognised using settlement date accounting. Settlement date is the date on which investments are delivered to or by the Bank. All investments are derecognised when the right to receive the economic benefits from the investments has expired or has been transferred and the Bank has transferred substantially all the risks and rewards of ownership.

Investments are classified as follows:

Held for trading

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

These are measured at mark-to-market and surplus / deficit arising on revaluation of held for trading investments is recognised in profit and loss account.

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.

Subsequently these are measured at amortised cost using the effective yield method. Any premium paid or discount availed on acquisition of held-to-maturity investments is amortised and charged to profit and loss account over the remaining term of the investment using the effective interest rate method.

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 recognised in the profit and loss account, when actually realised on upon disposal.

6.4 Operating fixed assets and depreciation

Capital work-in-progress

Capital work-in-progress is stated at cost less accumulated impairment losses, if any.

Tangible fixed assets - Owned


Operating fixed assets, other than capital work-in-progress, are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Tangible fixed assets - 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

Depreciation is calculated using the straight line method so as to write off the operating fixed assets, over their expected economic lives. Depreciation is calculated at the rates stated in note 11.2. 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.

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

An item of property and equipment is derecognised 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 included in the income for the year.

Intangible assets

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

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

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 recognised 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 recognised, the amortisation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

6.6 Grants

Grants are initially recognised 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 recognised 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 recognised in the profit and loss account as other income on a systematic basis over the useful life of the asset.

6.7 Staff retirement benefits

6.7.1 Defined contribution plan

6.7.1.1 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.

6.7.2 Defined benefit plan

6.7.2.1 Gratuity scheme

The Bank operates an unapproved non-contributory defined benefit gratuity scheme for all permanent employees with a qualifying period of five 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 December 31, 2014 using Projected Unit Credit Method. Actuarial gains and losses arising from the actuarial valuation are recognised immediately and presented in other comprehensive income.

6.7.3 Accumulated compensated absences

The Bank provides for its liabilities towards vested compensated absences accumulated by its employees. The latest actuarial valuation was carried out as at December 31, 2014 using Projected Unit Credit Method. Provision has been made in the financial statements to cover the related obligation in accordance with the actuarial recommendation.

6.8 Taxation

6.8.1 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.

6.8.2 Deferred tax

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding amounts used for taxation purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilised. Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except in the case of items credited or charged to equity in which case it is included in equity.

6.9 Deposits

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

6.10 Borrowing

Loans and borrowings are initially recorded at proceeds received. In subsequent periods, borrowings are stated at amortised cost using the effective yield method.

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

6.11 Statutory reserve

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

6.12 Provisions

Provisions are recognised 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 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 fund shall be credited to the Depositors' Protection Fund for the purpose of providing security or guarantee to persons depositing money in the Bank.

6.14 Revenue recognition

- Return on bank deposits and investment is recognised on an accrual basis.
- Mark-up / return on performing advances is recognised using effective interest rate method at the Bank's prevailing mark-up rates for the loan products. Mark-up / income 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 service charges / income ceases. Accrued mark-up on non-performing advances are reversed and credited to suspense account. Mark-up recoverable on non-performing advances and classified investments is recognised on a receipt basis.
- Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease.
- Fees and commission income is recognised when earned.
- Other income is recognised on an accrual basis.

6.15 Foreign currency transactions

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. 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.

Exchange differences are charged to income in the period in which they arise.

6.16 Financial instruments

Financial assets and financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the instrument and derecognised when the Bank loses control of the contractual contract 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, amortised cost or cost, as the case may be.

6.16.1 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.

6.16.2 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 realise the assets and to settle the liabilities simultaneously.

6.17 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates. The financial statements are presented in Pakistani Rupees, which is the Bank's functional and presentation currency.

6.18 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).

7	Cash and balances with SBP and NBP	Note	2014	2013
			(Rupees in '000')	
	Cash in hand		93,849	43,395
	Balance with State Bank of Pakistan	7.1	193,270	129,598
	Balance with National Bank of Pakistan in current account	7.1	26,890	8,000
			<u>314,009</u>	<u>180,993</u>

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.

8	Balances with other banks	Note	2014	2013
			(Rupees in '000')	
	In Pakistan:			
	On current accounts		42,033	25,407
	On saving accounts	8.1	312,043	272,923
	On deposit accounts	8.2	250,000	650,000
			<u>604,076</u>	<u>948,330</u>

8.1 These accounts carry mark-up ranging from 6.5% to 9.8% (2013: 6.5% to 9.6%) per annum.

8.2 These term deposits carry mark-up ranging from 9.9% to 10.65% (2013: 9.9% to 10.4%) per annum with maturity up to three months.

9	Investments-net of provisions	Note	2014	2013
			(Rupees in '000')	
	Federal Govt. Securities:			
	Market treasury bills (Held to maturity)		-	299,278
	Market treasury bills (Held for trading)		347,180	98,481
	Pakistan investment bond (Held to maturity)	9.1	100,347	-
			<u>447,527</u>	<u>397,759</u>

9.1 This PIB is held to maturity and due to be matured on July 19, 2015 and carries coupon rate of 11.25% per annum.

10	Advances	Note	2014		2013	
			Number	(Rupees in '000')	Number	(Rupees in '000')
	Micro credit advances	10.1	76,497	4,002,046	39,448	2,017,596
	Micro lease	10.2	-	-	5	41
	Other advances	10.3	294	26,369	239	18,432
				<u>4,028,415</u>		<u>2,036,069</u>
	Less: Provisions held:					
	Specific	10.4	931	8,274	309	3,640
	General	10.5		25,473		13,182
	Sub-Total			<u>33,747</u>		<u>16,822</u>
	Advances (net of provision)			<u>3,994,668</u>		<u>2,019,247</u>

10.1 All advances are secured by personal guarantees. These includes fully secured advances amounting to Rs. 1,472,360 thousand (2013: Rs. 714,350 thousand) whereas the remaining advances are secured by personal guarantees except for staff loans.

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	2014			
	Not later than one year	Later than one year and not later than five years	Over five years	Total
(Rupees in '000').....			
Lease rental receivable	-	-	-	-
Guaranteed residual value	-	-	-	-
Minimum lease payments	-	-	-	-
Less: Finance charge for future periods	-	-	-	-
Present value of minimum lease payments	-	-	-	-
(Rupees in '000').....			
	2013			
	Not later than one year	Later than one year and not later than five years	Over five years	Total
(Rupees in '000').....			
Lease rental receivable	44	-	-	44
Guaranteed residual value	-	-	-	-
Minimum lease payments	44	-	-	44
Less: Finance charge for future periods	(3)	-	-	(3)
Present value of minimum lease payments	41	-	-	41

10.3 These advances are staff loans and carry markup rate of 5% per annum (2013: 5%). This amount includes a loan sanctioned to the Chief Executive Officer of Rs. 4,019 thousand (2013: Rs. 1,888 thousand) at a markup rate of 5% (2013: 5%).

10.4 Particulars of non-performing advances

The total advances of Rs. 35,918 thousand (2013: Rs. 13,199 thousand) placed under non-performing status include Rs. 10,935 thousand (2013: Rs. 4,486 thousand) against secured gold loans:

	2014				
	Number	Amount outstanding (Rupees in '000')	%	Provision required (Rupees in '000')	Provision held (Rupees in '000')
OAEM	294	12,447	0	-	-
Sub-standard	226	9,219	25	1,441	1,441
Doubtful	408	14,088	50	6,670	6,670
Loss	3	164	100	164	164
Total	931	35,918		8,275	8,275
	2013				
	Number	Amount outstanding (Rupees in '000')	%	Provision required (Rupees in '000')	Provision held (Rupees in '000')
OAEM	74	3,864	0	-	-
Sub-standard	81	3,834	25	444	444
Doubtful	114	4,307	50	2,002	2,002
Loss	40	1,194	100	1,194	1,194
Total	309	13,199		3,640	3,640

10.5 This represents general provision equivalent to 1% (2013: 1%) of the outstanding advances net of specific provisions and those against which gold collaterals are taken.

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10.6 Particulars of non-performing advances

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

Note	2014			2013		
	Specific	General	Total	Specific	General	Total
(Rupees in '000').....		(Rupees in '000').....		
Opening balance	3,640	13,183	16,823	3,515	7,786	11,301
Charge for the year	34,725	12,290	47,015	10,863	5,397	16,260
Reversal during the year	-	-	-	-	-	-
Amounts written off	10.6.1 (30,091)	-	(30,091)	(10,738)	-	(10,738)
	4,634	12,290	16,924	125	5,397	5,522
Closing balance	8,274	25,473	33,747	3,640	13,183	16,823

10.6.1 Particulars of write offs	Note	2014	2013
		(Rupees in '000')	
Against provisions		30,091	10,738
Directly charged to profit and loss account		-	-
		<u>30,091</u>	<u>10,738</u>

11 Operating fixed assets

	Note	2014	2013
Capital work-in-progress	11.1	36,436	33,470
Property and equipment	11.2	464,000	125,251
Intangible assets	11.3	82,211	76,438
		<u>582,647</u>	<u>235,159</u>

11.1 Capital work-in-progress

	2014	2013
Civil works	18,503	6,546
Equipment	5,863	14,778
Advances to suppliers and contractors	12,070	12,146
	<u>36,436</u>	<u>33,470</u>

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11.2 Property and equipment

	2014									
	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 in '000									
Owned assets										
Land	-	113,381	-	113,381	-	-	-	-	113,381	0%
Leasehold improvements	51,254	136,175 (62)	- (1,029)	186,338	13,618	10,292 (13)	(111) -	23,786	162,552	10%
Furniture and fixtures	31,398	42,232 (332)	- -	73,298	8,463	5,213 (122)	- -	13,554	59,744	10%
Office equipment	32,892	29,294 (183)	- -	62,003	8,120	4,365 (80)	- -	12,405	49,598	10%
Computer equipment	96,613	42,100 (2,347)	- (1,441)	134,925	58,779	28,821 (1,923)	- (1,009)	84,668	50,257	20% - 33.33%
Vehicles	3,069	30,414 (830)	- -	32,653	995	3,691 (501)	- -	4,185	28,468	20%
	215,226	393,596 (3,754)	- (2,470)	602,598	89,975	52,382 (2,639)	(111) (1,009)	138,598	464,000	
Assets held under finance lease										
Vehicles	-	-	-	-	-	-	-	-	-	20%
	215,226	393,596 (3,754)	- (2,470)	602,598	89,975	52,382 (2,639)	(111) (1,009)	138,598	464,000	

11.2 Property and equipment (cont'd)

	2013							Accumulated depreciation as at December 31	Book value as at December 31	Annual depreciation rate
	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			
Rupees in '000										
Owned assets										
Leasehold improvements	40,668	10,586	-	51,254	10,338	3,280	-	13,618	37,636	10%
Furniture and fixtures	25,109	6,530 (241)	- -	31,398	6,523	2,014 (74)	- -	8,463	22,935	10%
Office equipment	28,571	4,355 (34)	- -	32,892	5,819	2,310 (9)	- -	8,120	24,772	10%
Computer equipment	84,706	15,182 (3,275)	- -	96,613	50,814	10,234 (2,269)	- -	58,779	37,834	20% - 33.33%
Vehicles	1,379	1,690	-	3,069	709	286	-	995	2,074	20%
	180,433	38,343 (3,550)	- -	215,226	74,203	18,124 (2,352)	- -	89,975	125,251	
Assets held under finance lease										
Vehicles	-	-	-	-	-	-	-	-	-	20%
	180,433	38,343 (3,550)	- -	215,226	74,203	18,124 (2,352)	- -	89,975	125,251	

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11.2.1 Detail of tangible assets sold:

Fixed assets sold during the year are as follows:

Particulars of assets	Particulars of purchaser	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
			Rupees in '000			
Owned assets						
Vehicles						
	Ch. Farrukh Ghafoor s/o					
Honda City Manual	Ch. Abdul Ghafoor	830	501	329	910	As per Policy
Items with book value of lower than Rs. 250,000 or cost of lower than Rs. 1,000,000	Wastech Computers	2,924	2,138	786	496	As per Policy
		<u>3,754</u>	<u>2,639</u>	<u>1,115</u>	<u>1,406</u>	
2013		<u>3,550</u>	<u>2,356</u>	<u>1,194</u>	<u>1,059</u>	

11.3 Intangible assets

	2014							Useful Life years
	Cost as at January 1	Additions/ (deletions)/ (adjustments)	Cost as at December 31	Accumulated amortization as at January 1	Amortization charge/ (deletions) (adjustments) for the year	Accumulated amortization as at December 31	Book value as at December 31	
	Rupees in '000							
Computer software	143,284	25,208	168,492	66,846	19,435	86,281	82,211	5-10
	<u>143,284</u>	<u>25,208</u>	<u>168,492</u>	<u>66,846</u>	<u>19,435</u>	<u>86,281</u>	<u>82,211</u>	5-10

11.3 Intangible assets (cont'd)

	2013							Useful Life years
	Cost as at January 1	Additions/ (deletions)/ (adjustments)	Cost as at December 31	Accumulated amortization as at January 1 Rupees in '000	Amortization charge/ (deletions) (adjustments) for the year	Accumulated amortization as at December 31	Book value as at December 31	
Computer software	137,421	5,863	143,284	49,847	16,999	66,846	76,438	5-10
	<u>137,421</u>	<u>5,863</u>	<u>143,284</u>	<u>49,847</u>	<u>16,999</u>	<u>66,846</u>	<u>76,438</u>	5-10

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12	Other assets	Note	2014	2013
			(Rupees in '000')	
	Income / mark-up accrued on loans and advances		131,261	52,781
	Income / mark-up accrued on balance with banks		6,856	5,650
	Prepayments		19,035	20,171
	Security deposits		2,531	2,310
	Stationery and stamps on hand		4,396	5,375
	Receivable from FINCA International, Inc.		13,738	32,895
	Receivable from MESSA		2,869	-
	Others		33,902	17,272
			<u>214,588</u>	<u>136,454</u>

13 Deferred tax asset

Deferred tax asset arising in respect of:

Gratuity payable	10,125	1,503
Accumulating compensated absences	1,471	235
Deferred tax asset on unused business losses	171,507	-
Deferred tax asset on unabsorbed depreciation	65,601	78,478
	<u>248,704</u>	<u>80,216</u>

Deferred tax liability arising in respect of:

Operating fixed assets	25,749	19,294
	<u>222,955</u>	<u>60,922</u>

13.1 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 including unused business losses.

Management has prepared a business plan of the Bank for five years using assumptions which are linked to various variable factors such as the economic outlook of the country, investment growth, interest rate movements, expansion in depositors / advances portfolio etc.

14 Deposits

	Note	2014		2013	
		Number of accounts	(Rupees in '000')	Number of accounts	(Rupees in '000')
Fixed deposits	14.1	3,680	3,322,180	2,712	2,128,875
Saving deposits	14.1	96,733	833,399	77,395	311,862
Current deposits		221,258	500,598	158,238	294,727
		<u>321,671</u>	<u>4,656,177</u>	<u>238,345</u>	<u>2,735,464</u>

14.1 These represents term deposits having tenure of 1 to 36 months carrying profit rates ranging from 6.00% to 14.15% (2013: 5.25% to 15.63%) per annum. The saving deposits represent accounts carrying interest rates ranging from 6% to 10% (2013: 6% to 10%) per annum.

14.2	Particulars of deposits by ownership	2014		2013	
		Number of accounts	(Rupees in '000')	Number of accounts	(Rupees in '000')
	1) Individual depositors	321,606	4,159,087	238,168	2,337,931
	2) Institutional depositors:				
	a) Corporations, firms and other such entities	65	497,090	177	397,533
	b) Banks and financial institutions	-	-	-	-
		<u>321,671</u>	<u>4,656,177</u>	<u>238,345</u>	<u>2,735,464</u>

14.3 Deposits include deposits from related parties amounting to Rs.146,102 thousand (2013: Rs. 65,950 thousand).

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15	Borrowings	Note	2014	2013
			(Rupees in '000')	
Borrowings from banks/ financial institutions in Pakistan				
	-Running Finance-JS Bank	15.1	201,100	-
	-Running Finance-NIB Bank	15.2	-	-
			201,100	-

15.1 This is secured against the partial guarantee of 40% on the loss incurred on account of principal, as provided by the State Bank of Pakistan (SBP) Microfinance Credit Guarantee Facility (MCGF) loan guarantee and a first pari-passu charge on all present and future assets of FINCA MFB to the extent of financing amount with a 20% margin. Mark-up is payable quarterly at rate of 11.86% per annum i-e. 3months KIBOR + 1.65bps. (2013: Nil). Maturity of the borrowing is upto October 1, 2015 i-e one year from the date of first draw down. The total financing amount is Rs. 400 million.

15.2 This is secured against the unconditional and irrevocable MCGF of 40% by SBP and rest 60% will be secured through first pari-passu hypothecation charge on all assets including current and fixed assets located everywhere in Pakistan with 25% margin. Further any other security may be requested by bank from time to time plus the bank shall have a banker's lien on all the customer deposits, accounts and properties held with the bank. Mark-up from first drawdown is payable quarterly at the rate computed at 3months KIBOR + 1.60bps. (2013: Nil). Maturity of the borrowing is within 12 months. The facility agreement is made during the year but not availed as yet. The total financing amount is Rs. 200 million.

15.3	Details of borrowings from financial institutions	Note	2014	2013
			(Rupees in '000')	
Secured				
Borrowings from financial institutions			201,100	-
			201,100	-
16 Other liabilities				
	Markup / return / interest payable	16.1	84,449	54,767
	Bills payable		4,922	1,813
	Accrued expenses		53,110	22,140
	Current taxation		12,653	3,848
	Gratuity payable	16.2	44,270	27,572
	Accumulating compensated absences	16.3	11,543	9,671
	Payable to FINCA Afghanistan		1,033	-
	Withholding tax payable		154	4,020
	Unutilized Grant payable to Stitching to Promote Women's World Banking		362	2,643
	Sundry creditors		28,508	12,387
			241,004	138,861

16.1 Markup payable on deposits from key management personnel amounts to Rs. 1,029 thousand (2013: Rs. 9 thousand) and on deposits from Directors amounts to Rs. 644 thousand (2013: Rs. 359 thousand).

16.2	Gratuity payable	2014	2013
		(Rupees in '000')	
Present value of defined benefit obligation		44,270	27,572
Less : Fair value of plan asset		-	-
		44,270	27,572

Following is the reconciliation from the opening balances to the closing balances for the net defined benefit liability / (asset) and its components.

Balance at 1 January	27,572	15,341
Included in profit or loss		
Current service cost	10,257	6,248
Interest cost	3,409	1,688
	13,666	7,936
Included in OCI		
Actuarial loss/(gain) arising from experience adjustment	5,731	4,295
Less: Payments made during the year	2,699	-
Balance at 31 December	44,270	27,572

	2014	2013
	(Rupees in '000')	
16.2.1 Expenses to be charged to P&L		
Current service cost	10,257	6,248
Interest cost	3,409	1,688
Interest income on plan asset	-	-
	<u>13,666</u>	<u>7,936</u>

16.2.2 Total remeasurement Chargeable in Other Comprehensive Income

Remeasurement of plan obligation:

Actuarial (gain)/losses from changes in demographic assumptions	-	-
Actuarial (gain)/losses from changes in financial assumptions	-	-
Experience adjustments	5,731	4,295
	<u>5,731</u>	<u>4,295</u>
Return on plan assets, excluding interest income	-	-
Total remeasurement chargeable in other comprehensive income	<u>5,731</u>	<u>4,295</u>

16.2.3 Changes in net liability

Balance sheet liability at January 1	27,572	15,341
Expense chargeable to profit and loss	13,666	7,936
Remeasurement chargeable in other comprehensive income	5,731	4,295
Benefit paid	(2,699)	-
Balance sheet liability at December 31	<u>44,270</u>	<u>27,572</u>

16.2.4 Significant actuarial assumptions

Discount rate used for profit and loss charge	13.00%	11.00%
Discount rate used for year end obligation	11.25%	13.00%
Mortality rates	SLIC 2001-05 Setback 1 Year	SLIC 2001-05

16.2.5 Estimated expense to be charged to P&L in 2015

	2015
	(Rupees in '000')
Current service cost	16,377
Interest cost on defined benefit obligation	4,827
Interest income on plan asset	-
	<u>21,204</u>

16.2.6 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:

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by Rs. 4,949 thousand (increase by Rs. 6,015 thousand).
- If the expected rate of salary increases (decreases) by 100 basis points, the defined benefit obligation would increase by Rs. 6,137 thousand (decrease by Rs. 5,138 thousand).

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 recognised in the balance sheet.

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

16.2.7 The average duration of the defined benefit obligation is 12 years

	2014	2013
	(Rupees in '000')	
16.3 Accumulated compensated absences		
Present value of defined benefit obligation	11,543	9,671
Less : Fair value of plan asset	-	-
Closing balance	<u>11,543</u>	<u>9,671</u>

The following table shows reconciliation from the opening balances to the closing balances for the net defined benefit liability (asset) and its components.

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	2014	2013
	(Rupees in '000')	
Balance at 1 January	9,671	7,340
Included in profit or loss		
Current service cost	542	852
Interest cost	1,282	807
	1,824	1,659
Included in OCI		
Actuarial gain arising from experience adjustment	48	672
Benefits paid	-	-
Balance at 31 December	11,543	9,671

16.3.1 Expenses to be charged to P&L

Current service cost	542	852
Past service cost	-	-
Interest cost	1,282	807
	1,824	1,659

16.3.2 Total remeasurement chargeable in other comprehensive income

Remeasurement of plan obligation:

Actuarial (gain)/losses from changes in demographic assumptions	-	-
Actuarial (gain)/losses from changes in financial assumptions	-	-
Experience adjustments	48	672
	48	672
Return on planned assets, excluding interest income	-	-
Total remeasurement chargeable in other comprehensive income	48	672

16.3.3 Changes in net liability

Balance sheet liability at January 1	9,671	7,340
Expense chargeable to profit and loss	1,872	1,659
Benefit paid	-	-
Balance sheet liability at December 31	11,543	8,999

16.3.4 Significant actuarial assumptions

Discount rate used for profit and loss charge	13.25%	11.00%
Discount rate used for year end obligation	11.25%	13.25%
Mortality rates	SLIC 2001-05 Setback 1 Year	EFU 61-66

16.3.5 Estimated expense to be charged to P&L in 2015

	2015
	(Rupees in '000')
Current service cost	2,441
Interest cost on defined benefit obligation	1,299
Interest income on plan asset	-
	3,740

16.3.6 The average duration of the defined benefit obligation is 19 years

17 Share capital -

17.1 Authorised capital

2014	2013	
(Number of shares)		
500,000,000	500,000,000	Ordinary shares of Rs. 10 each

	2014	2013
	(Rupees in '000')	
Note	5,000,000	5,000,000

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17.2 Issued, subscribed and paid-up share capital

2014	2013		Note	2014	2013
(Number of shares)				(Rupees in '000')	
473,198,044	473,198,044	Ordinary shares of Rs. 10 each Fully paid in cash	17.3	4,731,980	4,731,980
17.3 Share capital has been subscribed by the following:					
391,730,653	391,730,653	FINCA Microfinance Cooperatief U.A	82.8%	3,917,307	3,917,307
33,119,747	38,250,000	Kashf Holdings (Private) Limited	7.0%	331,197	382,500
30,771,739	30,771,739	International Finance Corporation	6.5%	307,717	307,717
5,130,253	-	Acumen Fund	1.1%	51,303	-
12,445,652	12,445,652	Triodos Fair Share Fund	2.6%	124,456	124,456
473,198,044	473,198,044		100%	4,731,980	4,731,980

18	Deferred grants	Note	2014	2013
			(Rupees in '000')	
	Opening balance		12,956	15,883
	Grant received from:			
	State Bank of Pakistan (value chain financing scheme)	18.1	6,670	-
	State Bank of Pakistan (value enterprise lending)	18.2	3,675	-
			10,345	-
	Markup earned on funds		-	307
	Less: Grant amortised		(5,089)	(3,234)
			18,212	12,956

18.1 This represents grant received from 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. The term of the grant is from July 01, 2014 to December 31, 2014 and amounts to Rs. 10,745 thousand amounts in aggregate.

18.2 This represents grant received from State Bank of Pakistan (SBP) under Institutional Strengthening Fund (ISF) of Financial Inclusion Program (FIP) to explore the segment of un-banked small entrepreneurs. The term of the grant is from April 01, 2014 to December 31, 2014 and amounts to Rs. 3,675 thousand amounts in aggregate.

19	Memorandum / Off-balance sheet items	Note	2014	2013
			(Rupees in '000')	
	Bills for collection		-	-
	Acceptances, endorsements and other obligations		-	-
	Contingent liabilities		-	-

20	Mark-up / return / interest earned		2014	2013
	Interest / mark-up on advances		1,145,560	599,890
	Markup earned on investments in government securities		45,772	25,059
	Interest / mark-up on bank accounts		55,804	68,026
			1,247,136	692,975

21	Mark-up / return / interest expensed		2014	2013
	Deposits		354,780	212,456
	Borrowings		6,478	-
			361,258	212,456

22	Fee, commission and brokerage income		2014	2013
	Loan processing fee		101,711	49,833
	Income on Cheque Book issuance		19,887	12,401
	Others		97,337	55,676
			218,935	117,910

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23	Other income	Note	2014	2013
			(Rupees in '000')	
	Grant income		5,089	3,234
	Recovery of debts previously written off		10,999	9,180
	Others		194	204
			<u>16,282</u>	<u>12,618</u>

24	Administrative expenses		2014	2013
	Staff salaries and other benefits	24.1	518,136	311,737
	Contribution to employee provident fund		19,212	12,549
	Printing, stationery and periodicals		19,637	10,845
	Advertisement		35,550	6,747
	Rent		63,090	34,064
	Office running expenses		17,883	9,528
	Vehicle running expenses		13,562	9,037
	Insurance		5,622	1,939
	Office security / personnel services		37,868	17,731
	Repairs and maintenance		30,391	27,105
	Communication		40,748	20,489
	Travel and transportation		66,740	35,642
	Utilities		36,461	20,684
	Legal and professional		35,000	27,251
	Auditors' remuneration	24.2	2,685	1,800
	Training and research		14,547	6,665
	Depreciation	11.2	52,382	18,124
	Amortisation	11.3	19,435	16,999
	Others		1,600	867
			<u>1,030,549</u>	<u>589,803</u>

24.1 This includes Rs. 924 thousand (2013: 688 thousand) in respect of gratuity expense of Chief Executive Officer.

24.2	Auditors' remuneration		2014	2013
	Audit fee		2,400	1,600
	Fee for certifications		25	-
	Out of pocket expenses		260	200
			<u>2,685</u>	<u>1,800</u>

25	Other charges		2014	2013
	Penalties imposed by SBP		1,266	8
	Bank charges		7,605	4,310
	Net loss on disposal / deletion of fixed assets		1,170	597
	Others		2,694	5,200
			<u>12,735</u>	<u>10,115</u>

26	Taxation		2014	2013
	For the year			
	Current	26.1	(14,660)	(6,397)
	Deferred		(11,497)	12,908
			<u>(26,157)</u>	<u>6,511</u>
	For the prior year			
	Current		-	-
	Deferred		171,507	-
			<u>171,507</u>	<u>-</u>
			<u>145,350</u>	<u>6,511</u>

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26.1 Clause 66 (xviii) of part I of second schedule of the Income Tax Ordinance, 2001 exempts any income derived by Microfinance Banks for a period of five years starting from first day of July, 2007 subject to the condition that the Bank shall not distribute its profits to the shareholders and such profits are utilised for microfinance services. Charge for the year on account of taxation represents the minimum tax liability payable under section 113 of the Tax Ordinance at the rate of 1% of aggregate turnover for the period.

26.2	Reconciliation of tax	Note	2014	2013
			(Rupees in '000')	
	Accounting profit / (loss) before taxation		30,796	(5,131)
	Tax rate %		35%	35%
	Tax on accounting rate		10,778	(1,796)
	Tax effect of income chargeable to tax at lower rate		(23,635)	(4,771)
	Prior year tax adjustment		-	-
	Tax effect of inadmissible expenses		31,410	12,505
	Tax effect of admissible expenses		(33,213)	(12,335)
	Effect on deferred tax balance including unused business losses		160,010	12,908
	Current tax provision		145,350	6,511

27 Number of employees

	2014			2013		
	Credit / Sales staff	Banking / Support staff	Total staff	Credit / Sales staff	Banking / Support staff	Total staff
Permanent	579	577	1,156	324	396	720
Contractual	1	111	112	-	77	77
Total	580	688	1,268	324	473	797

28 Number of branches and permanent booths

	2014		2013	
	Branches	Permanent Booths	Branches	Permanent Booths
At the beginning of the year	34	28	31	5
Upgraded from permanent booths	4	-	-	-
Opened during the year	4	34	3	23
	42	62	34	28
Less: Closed during the year	-	4	-	-
At the end of the year	42	58	34	28

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	
	2014	2013	2014	2013	2014	2013
(Rupees in '000').....					
Managerial remuneration	13,252	12,028	-	-	49,583	29,588
House rent allowance	-	825	-	-	19,833	11,835
Provident fund	1,325	1,203	-	-	4,958	2,959
Utilities allowance	-	-	-	-	2,381	2,771
Medical Allowance	1,232	75	-	-	2,578	187
Conveyance/Car Allowance	600	1,800	-	-	13,329	9,200
Others	-	-	-	-	1,720	-
	16,409	15,931	-	-	94,382	56,540
Number of persons at year end	1	1	-	-	46	29

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

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29.2 Aggregate amount charged to profit and loss account for the year in respect of travelling and hotel expenses of directors is Rs. 256 thousand (2013: Rs. 4 thousand) and Rs. Nil (2013: 567 thousand) respectively.

29.3 The Bank provides car allowance of Rs. 600 thousand (2013: 1,800 thousand) per annum to the Chief Executive Officer as part of the remuneration.

			2014	2013
		Note	(Rupees in '000')	
30	Basic and diluted earning per share			
30.1	Profit for the year		176,146	1,380
			(Number)	
	Weighted average number of ordinary shares		473,198,044	369,465,363
			(Rupees)	
	Basic and diluted earning per share		0.37	0.004

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

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 share holders is given in note 17.4 while remuneration of key employee 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:

	2014			2013		
	Key management personnel	Associated company / parent	Other related parties	Key management personnel	Associated company / parent	Other related parties
	(Rupees in '000')					
Deposits						
Opening balance	14,806	600	51,144	15,562	600	51,137
Received during the year	345,342	-	483,864	95,271	-	15,853
Withdrawn during the year	(298,525)	-	(450,529)	(96,027)	-	(15,846)
Closing balance	61,623	600	84,479	14,806	600	51,144
Staff loans						
Opening balance	10,883	-	-	11,223	-	-
Disbursement during the year	16,895	-	-	3,100	-	-
Repayments during the year	(16,097)	-	-	(3,440)	-	-
Closing balance	11,681	-	-	10,883	-	-
Transactions during the year						
Mark-up/return/interest earned	500	-	-	247	-	-
Mark-up/return/interest expensed	3,251	-	5,503	403	-	6,616
Contribution to provident fund	19,212	-	-	12,549	-	-

			2014	2013
		Note	(Rupees in '000')	
32	Cash and cash equivalents			
	Cash and balances with SBP and NBP	7	314,009	180,993
	Balances with other banks	8	604,076	948,330
	Less: Deposits maturing after three months		-	-
			918,085	1,129,323

33 Capital risk management

33.1 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 recognised and the Bank recognises 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.

2014

	Interest bearing / exposed to yield / interest risk						Non-Interest bearing / not exposed to yield / interest risk					Total
	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	
	%	Rupees in '000										
Financial assets												
On balance sheet												
Cash and balances with SBP and NBP	-	-	-	-	-	-	314,009	-	-	-	314,009	314,009
Balances with other banks/NBFIs/MFBs	9.9% - 10.65%	562,043	-	-	-	562,043	42,033	-	-	-	42,033	604,076
Investments - net of provisions	9.93% - 9.96%	147,527	200,000	100,000	-	447,527	-	-	-	-	-	447,527
Advances-net of provisions	5% - 51.44%	472,205	1,891,624	1,540,217	90,622	3,994,668	-	-	-	-	-	3,994,668
Other assets		-	-	-	-	-	188,626	-	-	-	2,531	191,156
		1,181,775	2,091,624	1,640,217	90,622	5,004,238	544,668	-	-	2,531	547,198	5,551,436
Off balance sheet		-	-	-	-	-	-	-	-	-	-	-
Total		1,181,775	2,091,624	1,640,217	90,622	5,004,238	544,668	-	-	2,531	547,198	5,551,436
Financial liabilities												
On balance sheet												
Deposit and other accounts	5.25% to 15.63%	1,860,163	1,122,893	773,573	398,950	4,155,579	500,598	-	-	-	500,598	4,656,177
Borrowings	-	-	-	201,100	-	201,100	-	-	-	-	-	201,100
Other liabilities	-	-	-	-	-	-	124,270	23,630	16,201	52,553	216,654	216,654
		1,860,163	1,122,893	974,673	398,950	4,356,679	624,868	23,630	16,201	52,553	717,252	5,073,931
Off balance sheet		-	-	-	-	-	-	-	-	-	-	-
Total		1,860,163	1,122,893	974,673	398,950	4,356,679	624,868	23,630	16,201	52,553	717,252	5,073,931
On balance sheet gap		(678,388)	968,731	665,544	(308,328)	647,559	(80,200)	(23,630)	(16,201)	(50,022)	(170,054)	477,505
Off balance sheet gap		-	-	-	-	-	-	-	-	-	-	-

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2013

	Interest bearing / exposed to yield / interest risk						Non-Interest bearing / not exposed to yield / interest risk					Total
	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	
	%	Rupees in '000										
Financial assets												
On balance sheet												
Cash and balances with SBP and NBP	-	-	-	-	-	-	180,993	-	-	-	180,993	180,993
Balances with other banks/NBFIs/MFBs	6.5%-10.4%	722,922	200,000	-	-	922,922	25,408	-	-	-	25,408	948,330
Investments - net of provisions	9.79%-9.91%	299,278	98,481	-	-	397,759	-	-	-	-	-	397,759
Advances-net of provisions	5% - 51.44%	205,900	962,052	807,969	43,326	2,019,247	-	-	-	-	-	2,019,247
Other assets		-	-	-	-	-	108,603	-	-	-	2,305	110,908
		1,228,100	1,260,533	807,969	43,326	3,339,928	315,004	-	-	-	2,305	3,657,237
Off balance sheet												
		-	-	-	-	-	-	-	-	-	-	-
Total		<u>1,228,100</u>	<u>1,260,533</u>	<u>807,969</u>	<u>43,326</u>	<u>3,339,928</u>	<u>315,004</u>	<u>-</u>	<u>-</u>	<u>2,305</u>	<u>317,309</u>	<u>3,657,237</u>
Financial liabilities												
On balance sheet												
Deposit and other accounts	5.25% to 15.63%	1,109,476	624,990	606,050	100,222	2,440,738	294,726	-	-	-	294,726	2,735,464
Borrowings	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	64,104	14,984	11,478	30,756	121,322	121,322
		1,109,476	624,990	606,050	100,222	2,440,738	358,830	14,984	11,478	30,756	416,048	2,856,786
Off balance sheet												
		-	-	-	-	-	-	-	-	-	-	-
Total		<u>1,109,476</u>	<u>624,990</u>	<u>606,050</u>	<u>100,222</u>	<u>2,440,738</u>	<u>358,830</u>	<u>14,984</u>	<u>11,478</u>	<u>30,756</u>	<u>416,048</u>	<u>2,856,786</u>
On balance sheet gap		<u>118,624</u>	<u>635,543</u>	<u>201,919</u>	<u>(56,896)</u>	<u>899,190</u>	<u>(43,826)</u>	<u>(14,984)</u>	<u>(11,478)</u>	<u>(28,451)</u>	<u>(98,739)</u>	<u>800,451</u>
Off balance sheet gap		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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34 Financial assets and liabilities (cont'd)

34.1 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. However, the Bank believes that it is not exposed to major concentration of credit risk. 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.

34.2 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.

34.3 Interest rate risk management

Interest rate risk is the risk that the value of a financial instrument will fluctuate as result of changes in market interest rate. This risk is managed by regular review of market rates.

34.4 Fair value of financial instruments

The carrying values of all financial assets and financial liabilities reflected in the financial statements approximate their fair values except held to maturity assets which are carried at amortized cost.

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35 Maturities of assets and liabilities

	2014				
	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
	Rupees in '000'				
Market rate assets					
Advances	3,994,668	472,205	1,891,624	1,540,217	90,622
Investments	447,527	147,527	200,000	100,000	-
Other earning assets	562,043	562,043	-	-	-
Total market rate assets	5,004,238	1,181,775	2,091,624	1,640,217	90,622
Other non-earning assets	1,376,232	557,690	47,626	43,220	727,696
Total assets	6,380,470	1,739,465	2,139,250	1,683,437	818,318
Market rate liabilities					
Time deposits of Rs. 100,000 and above	3,293,851	1,017,705	1,112,495	768,554	395,097
Time deposits below Rs. 100,000	28,329	9,059	10,398	5,019	3,853
Other cost bearing liabilities	1,034,499	833,399	-	201,100	-
Total market rate liabilities	4,356,679	1,860,163	1,122,893	974,673	398,950
Other non-cost bearing liabilities	741,602	625,022	23,630	16,201	76,749
Total liabilities	5,098,281	2,485,185	1,146,523	990,874	475,699
2013					
	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
	Rupees in '000'				
Market rate assets					
Advances	2,019,247	205,900	962,052	807,969	43,326
Investments	397,759	299,278	98,481	-	-
Other earning assets	922,922	722,922	200,000	-	-
Total market rate assets	3,339,928	1,228,100	1,260,533	807,969	43,326
Other non-earning assets	638,936	323,275	27,758	21,840	266,063
Total assets	3,978,864	1,551,375	1,288,291	829,809	309,389
Market rate liabilities					
Time deposits of Rs. 100,000 and above	2,103,573	790,832	613,753	600,765	98,223
Time deposits below Rs. 100,000	25,303	6,783	11,237	5,285	1,998
Other cost bearing liabilities	311,862	311,862	-	-	-
Total market rate liabilities	2,440,738	1,109,477	624,990	606,050	100,221
Other non-cost bearing liabilities	433,587	362,851	14,984	11,478	44,274
Total liabilities	2,874,325	1,472,328	639,974	617,528	144,495

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36 **Provident Fund**

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

	2014	2013
	(Rupees in "000")	
Size of the fund	116,116	76,639
Total investments	102,637	50,000
%age of investments made	88%	65%

The investments are kept in saving accounts in scheduled banks and TDRs in the name of Trust, in accordance with requirements of section 227 of the Companies Ordinance, 1984.

37 **Non adjusting event after the balance sheet date**

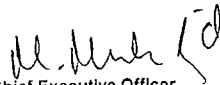
The Board of Directors of the Bank in their meeting held on March 18, 2015, have passed on the dividend for the year ended December 31, 2014 2.71% (2013: Nil)

38 **Date of authorisation**

These financial statement were authorised for issue by the Board of Directors of the Bank on March 18, 2015.

39 **General**

- Figures have been rounded to the nearest thousand unless otherwise specified.
- Corresponding figures have been re-arranged, wherever necessary, for the purpose of comparison. However, no significant re-arrangements have been made.
- Where there are no amounts to be disclosed in the account captions as prescribed by BSD Circular No.11 dated December 30, 2003 issued by SBP in respect of forms of financial statements for Microfinance banks, these captions have not been reproduced in these financial statements.


Chief Executive Officer


Chairman


Director


Director

