

≡ EFGHERMES

**NINE MONTH REPORT
SEPTEMBER 30, 2019**



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Company Information

<u>Board of Directors</u>	<p>Mr. Murad Ansari - Chairman</p> <p>Mr. Ahmed Youssef - Director</p> <p>Mr. Mohamed Ebeid - Director</p> <p>Mr. Mohamed Abdel Khabir - Director</p> <p>Mr. Fayyaz Ilyas - Director</p> <p>Mr. Hayat Javed - Director</p> <p>Mr. Safdar Mummunka - Director</p> <p>Mr. Muhammad Yousuf - Director</p> <p>Ms. Sarah Maja - Director</p> <p>Mr. Freyan Avari - Director</p> <p>Mr. Ahmed El Khamissy - Director</p> <p>Mr. Johannes Gunnell - Director</p> <p>Mr. Danish Iqbal - Director</p> <p>Mr. Saad Iqbal - CEO</p>
<u>Audit Committee:</u>	<p>Mr. Johannes Gunnell - Chairman</p> <p>Mr. Fayyaz Ilyas - Member</p> <p>Mr. Ahmed El Khamissy - Member</p>
<u>HR & R Committee</u>	<p>Mr. Freyan Avari - Chairman</p> <p>Mr. Mohamed Ebeid - Member</p> <p>Mr. Hayat Javed - Member</p>
<u>Company Secretary</u>	Mr. Shahid Kamal
<u>Chief Financial Officer</u>	Mr. Ahmad Zakir Hafeez
<u>Auditors</u>	<p>M/s. Riaz Ahmad, Saqib, Gohar & Company Chartered Accountants</p> <p>5-Nasim, C.H.S. Major Nazir Bhatti Road,</p> <p>Off: Shaheed-e-Millat Road, Karachi, Pakistan.</p>
<u>Legal Advisor</u>	<p>Qazi Umair Ali</p> <p>Hafeez Pirzada Law Associates, 7-A, First Sunset Street</p> <p>DHA Phase II, Karachi, Pakistan.</p>
<u>Share Registrar</u>	<p>M/s. F. D. Registrar Services (SMC-Pvt.) Limited</p> <p>Office No. 1705-A, 17th Floor, Saima Trade Tower,</p> <p>I.I. Chundrigar Road, Karachi, Pakistan.</p>
<u>Bankers</u>	<p>MCB Bank Limited</p> <p>Bank Alfalah Limited</p> <p>Askari Bank Limited</p> <p>United Bank Limited</p> <p>Allied Bank Limited</p> <p>Bank Al Habib Limited</p> <p>Bankislami Pakistan Limited</p> <p>Habib Metropolitan Bank Limited</p> <p>Standard Chartered Bank Limited</p> <p>Habib Bank Limited</p> <p>JS Bank Limited</p> <p>Meezan Bank Limited</p>
<u>Registered Office</u>	<p>Office No. 904, 9th Floor, Emerald Tower,</p> <p>Plot No. G-19, Block-5, Clifton, Karachi, Pakistan</p>
<u>Lahore Branch</u>	<p>319 Siddiq Trade Centre, 72 Main Boulevard,</p> <p>Gulberg, Lahore, Pakistan</p>
<u>Website</u>	www.efghermespakistan.com

Directors' Review

BEGIN IN THE NAME OF ALLAH THE MOST GRACIOUS AND MERCIFUL

Dear Member(s)

We, on behalf of Board of Directors of your Company, are pleased to present herewith un-audited condensed interim financial statements of the Company for the third quarter and nine months ended September 30, 2019.

Performance Review

During the third quarter ended September 30, 2019, the Company earned operating revenues of Rs. 40.603 million as compared to Rs. 26.482 million for the same period during last year. The Company posted before and after tax loss of Rs. (11.454) million and Rs. (16.557) million respectively as compared to before and after tax loss (15.072) million and Rs. (15.994) million respectively for the corresponding period. During the quarter, the Loss per share for the quarter stood at Rs. (0.83) as compared to loss per share Rs. (0.80) for the corresponding period.

For the nine months ended September 30, 2019, the Company earned operating revenues of Rs. 95.728 million as compared to Rs. 106.915 million for the corresponding period. The Company posted before and after tax loss of Rs. (45.787) million and Rs. (56.643) million respectively as compared to before and after tax loss of Rs. (16.341) million and of Rs. (28.697) million for the same period during last year. The loss per share for the nine months stood at Rs. (2.83) as compared to loss per share Rs. (1.43) for the corresponding period.

The main reason for decline in revenue and earnings in the review period compared to last corresponding period are due to persistent lower market volume and economic uncertainties. It is pertinent to mention that the Company slightly managed to increase quarterly revenue despite depressed market condition compared to corresponding period. Further, it is anticipated that the Company performance will be better going forward along with the activity in the market.

In conclusion, we pray to almighty Allah for his blessings, guidance, health and prosperity to us, our Company, Country and Nation.

For and on behalf of the Board of Directors

CHIEF EXECUTIVE OFFICER

DIRECTOR

Karachi, October 30, 2019

ڈائریکٹرز رپورٹ برائے ممبران

شروع اللہ کے نام سے جو بڑا مہربان اور رحم والا ہے۔

محترم ممبران

السلام علیکم،

میں آپ کی کمپنی کے بورڈ آف ڈائریکٹرز کی جانب سے بخوشی تیسری سہ ماہی اور نو ماہ کی 30 ستمبر 2019 کو ختم ہونے والی کمپنی کی غیر آڈٹ شدہ عبوری مالی تفصیلات کی رپورٹ پیش کرتا ہوں۔

کارکردگی کا جائزہ:

30 ستمبر 2019 کو ختم ہونے والی تیسری سہ ماہی کے دوران کمپنی نے آپریٹنگ آمدنی کی مد میں 40.603 ملین روپے کمائے جبکہ گزشتہ سال اسی سہ ماہی کے دوران 26.482 ملین روپے کمائے تھے۔ قبل از ٹیکس اور بعد از ٹیکس نقصان بالترتیب (11.454) ملین روپے اور (16.557) ملین روپے ہے جبکہ گزشتہ سال اسی سہ ماہی کے دوران قبل از ٹیکس اور بعد از ٹیکس نقصان بالترتیب (15.072) ملین روپے اور (15.994) ملین روپے تھا۔ اس سہ ماہی کے دوران فی حصص خسارہ (0.83) روپے اور مقابلتا گزشتہ سال اسی عرصہ کے دوران خسارہ فی حصص (0.80) روپے تھا۔

نو ماہ 30 ستمبر 2019 کے اختتام پر کمپنی نے آپریٹنگ آمدنی کی مد میں 95.728 ملین روپے کمائے جبکہ گزشتہ سال اسی مدت کے دوران 106.915 ملین روپے کمائے تھے۔ قبل از ٹیکس اور بعد از ٹیکس نقصان بالترتیب (45.787) ملین روپے اور (56.643) ملین روپے ہے جبکہ گزشتہ سال اسی مدت کے دوران قبل از ٹیکس اور بعد از ٹیکس نقصان بالترتیب (16.341) ملین روپے اور (28.697) ملین روپے تھا۔ نو ماہ کی مدت کے دوران فی حصص خسارہ (2.83) روپے اور مقابلتا گزشتہ سال اسی عرصہ کے دوران فی حصص خسارہ (1.43) روپے تھا۔

پچھلے سال کے بہ نسبت نظر ثانی شدہ مدتی آمدنی اور کمائی میں کمی کی بنیادی وجہ معاشی عدم یقینی اور مارکیٹ حجم میں واضح کمی ہیں۔ یہ ذکر کرنا مناسب ہے کہ مارکیٹ کی افسردہ صورتحال کے باوجود کمپنی مذکورہ مدت کی نسبت سہ ماہی ریونیو میں اضافہ کرنے میں کامیاب رہی۔ ہمیں آگے بہتر نتائج کی امید ہے کیونکہ مارکیٹ میں آگے ٹریڈنگ اور سرمایہ کاری کی سرگرمیوں میں اضافہ متوقع ہے۔

آخر میں؛ اللہ تعالیٰ سے دُعا ہے کہ وہ ہم پر، ہماری کمپنی، ملک اور قوم پر اپنی رحمتیں اور برکتیں نازل فرمائے۔ آمین
مخائب بورڈ آف ڈائریکٹرز

ڈائریکٹر

چیف ایگزیکٹو آفیسر

تاریخ: 30 اکتوبر 2019



Independent Auditor's Review Report

To the members of EFG Hermes Pakistan Limited Report on review of Interim Financial Statements

Introduction

We have reviewed the accompanying condensed interim statement of financial position of **EFG Hermes Pakistan Limited** as at **September 30, 2019** and the related condensed interim statement of comprehensive income, condensed interim statement of changes in equity, and condensed interim statement of cash flow statement, and notes to the financial statements for the three-month period then ended (here-in-after referred to as the "interim financial statements"). Management is responsible for the preparation and presentation of these interim financial statements in accordance with accounting and reporting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on these financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements are not prepared, in all material respects, in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting.

The engagement partner on the review resulting in this independent auditor's report is Muhammad Kamal Gohar.

Chartered Accountants

Karachi: October 30, 2019

RIAZ AHMAD, SAQIB, GOHAR & CO.
Chartered Accountants

5-Nasim C.H.S., Major Nazir Bhatti Road, Off: Shaheed-e-Millat Road, Karachi.
Tel: (92-21) 34945427, 34931736, Email: rasgkhi@rasgco.com,
Website: www.rasgco.com
Regional Offices at Lahore & Islamabad



CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT SEPTEMBER 30, 2019

		<u>Un-audited</u> <u>September</u> <u>30, 2019</u>	<u>Audited</u> <u>December</u> <u>31, 2018</u>
	Note	----- Rupees -----	
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	5	29,270,765	29,907,080
Intangible assets		5,650,160	6,300,134
Long-term investments	6	21,512,894	29,752,072
Long-term deposits		1,700,000	1,700,000
		<u>58,133,819</u>	<u>67,659,286</u>
CURRENT ASSETS			
Trade debts	7	8,689,827	11,405,060
Short-term investments		364,751,920	285,250,670
Advances, deposits, prepayments and other receivables		59,661,060	367,510,022
Advance tax - net		58,064,049	64,496,319
Receivable under margin finance		28,939,899	94,180,681
Cash and bank balances	8	21,589,595	86,637,010
		<u>591,696,350</u>	<u>909,479,762</u>
TOTAL ASSETS		<u>649,830,169</u>	<u>977,139,048</u>
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorized capital		1,000,000,000	1,000,000,000
Issued, subscribed and paid-up capital		200,156,500	200,156,500
Unrealised (loss)/gain on re-measurement of investment at fair value through other comprehensive income ("FVOCI") - net		(518,547)	7,720,631
Un-appropriated loss		(84,476,294)	(27,833,342)
		<u>115,161,659</u>	<u>180,043,789</u>
NON-CURRENT LIABILITIES			
Long-term loan		375,000,000	375,000,000
CURRENT LIABILITIES			
Short-term running finance	9	469,529	290,343,643
Trade and other payables		147,946,234	120,474,425
Unclaimed dividend		11,252,747	11,277,191
		<u>159,668,510</u>	<u>422,095,259</u>
CONTINGENCIES AND COMMITMENTS			
	10	-	-
TOTAL EQUITY AND LIABILITIES		<u>649,830,169</u>	<u>977,139,048</u>

The annexed notes from 1 to 15 form an integral part of these condensed interim financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

CHIEF FINANCIAL OFFICER

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)
FOR THE NINE MONTHS AND THIRD QUARTER ENDED SEPTEMBER 30, 2019

	Note	Nine Months Ended		Third Quarter Ended	
		September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
		Rupees		Rupees	
OPERATING REVENUES					
Operating revenues	11	70,712,790	96,714,085	27,543,785	21,436,825
Gain on sale of investments-net		25,015,157	10,200,891	13,058,857	5,045,160
		95,727,947	106,914,976	40,602,642	26,481,985
EXPENDITURES					
Administrative and general expenses		(120,422,755)	(116,931,839)	(42,623,581)	(37,823,656)
Operating loss		(24,694,808)	(10,016,863)	(2,020,939)	(11,341,671)
Other income - net		3,331,634	2,480,910	2,629,608	860,574
Income on margin finance		3,313,715	9,394,205	1,008,307	2,731,249
Financial charges		(32,350,140)	(19,964,648)	(11,842,173)	(6,902,406)
Gain on re-measurement of investments carried at fair value through profit and loss account- net		4,612,420	1,765,895	(1,228,770)	(419,385)
		(21,092,371)	(6,323,638)	(9,433,028)	(3,729,968)
LOSS BEFORE TAXATION		(45,787,179)	(16,340,501)	(11,453,967)	(15,071,639)
TAXATION		(10,855,773)	(12,356,381)	(5,103,193)	(921,988)
LOSS AFTER TAXATION		(56,642,952)	(28,696,882)	(16,557,160)	(15,993,627)
Other comprehensive income					
Unrealised loss on re-measurement of investment at fair value through other comprehensive income ("FVOCI")		(8,239,178)	(9,986,397)	(7,325,495)	(5,738,572)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(64,882,130)	(38,683,279)	(23,882,655)	(21,732,199)
Loss per share - basic and diluted		(2.83)	(1.43)	(0.83)	(0.80)

The annexed notes from 1 to 15 form an integral part of these condensed interim financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

CHIEF FINANCIAL OFFICER

CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)

FOR THE NINE MONTHS AND THIRD QUARTER ENDED SEPTEMBER 30, 2019

	Nine Months Ended	
	September 30, 2019	September 30, 2018
	----- Rupees -----	
Cash Flows From Operating Activities		
Loss before taxation	(45,787,179)	(16,340,501)
Adjustments for:		
Depreciation	3,652,447	5,434,096
Amortisation	649,974	974,905
Financial charges	32,350,140	19,964,648
Gain on re-measurement of investments carried at fair value through profit and loss account - net	(4,612,420)	(1,765,895)
Gain on disposal of property, plant and equipment	(1,647,543)	18,650
	<u>30,392,598</u>	<u>24,626,404</u>
(Loss) / profit before working capital changes	<u>(15,394,581)</u>	<u>8,285,903</u>
Changes in working capital		
Decrease / (increase) in current assets		
Trade debts - unsecured	2,715,233	30,573,968
Short-term investments	(74,888,830)	(63,179,230)
Advances, deposits, prepayments and other receivables	307,848,962	39,390,897
Receivable under margin finance	65,240,782	79,023,731
	<u>300,916,147</u>	<u>85,809,366</u>
Increase / (decrease) in current liabilities		
Trade and other payables	15,673,220	(6,952,059)
Unclaimed dividend	(24,444)	(95,470)
Cash generated from operations	<u>301,170,342</u>	<u>87,047,740</u>
Income tax paid	(4,423,503)	(14,380,781)
Financial charges paid	(20,551,551)	(13,746,204)
Net cash generated from operating activities	<u>276,195,288</u>	<u>58,920,755</u>
Cash Flows From Investing Activities		
Purchase of property, plant and equipment	(5,068,589)	(867,000)
Proceeds from disposal of property, plant and equipment	3,700,000	85,275
Purchase of software	-	(3,900,000)
Net cash used in investing activities	<u>(1,368,589)</u>	<u>(4,681,725)</u>
Cash Flows From Financing Activities		
Lease rentals paid	-	(1,187,640)
Net cash used in financing activities	<u>-</u>	<u>(1,187,640)</u>
Net increase in cash and cash equivalents	<u>274,826,699</u>	<u>53,051,390</u>
Cash and cash equivalents at the beginning of the period	<u>(203,706,633)</u>	<u>18,007,644</u>
Cash and cash equivalents at the end of the period	<u>71,120,066</u>	<u>71,059,034</u>

The annexed notes from 1 to 15 form an integral part of these condensed interim financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

CHIEF FINANCIAL OFFICER

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UN-AUDITED)
FOR THE NINE MONTHS AND THIRD QUARTER ENDED SEPTEMBER 30, 2019

	Share Capital	Unappropriated profit / (loss)	Unrealised gain/(loss) on re-measurement of 'FVOCI' investments	Total
----- Rupees -----				
Balance as at December 31, 2017	200,156,500	17,800,845	21,874,706	239,832,051
Total comprehensive loss for the nine months ended September 30, 2018	-	(28,696,882)	(9,986,397)	(38,683,279)
Balance as at September 30, 2018	200,156,500	(10,896,037)	11,888,309	201,148,772
Total comprehensive loss for the fourth quarter ended December 31, 2018	-	(16,937,305)	(4,167,678)	(21,104,983)
Balance as at December 31, 2018	200,156,500	(27,833,342)	7,720,631	180,043,789
Total comprehensive loss for the nine months ended September 30, 2019	-	(56,642,952)	(8,239,178)	(64,882,130)
Balance as at September 30, 2019	200,156,500	(84,476,294)	(518,547)	115,161,659

The annexed notes from 1 to 15 form an integral part of these condensed interim financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

CHIEF FINANCIAL OFFICER

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE NINE MONTHS AND THIRD QUARTER ENDED SEPTEMBER 30, 2019

1 STATUS AND NATURE OF BUSINESS

EFG Hermes Pakistan Limited ('the Company') was incorporated under the Companies Ordinance, 1984 - 'repealed' (now Companies Act, 2017) on September 27, 1999 as a Private Limited Company and converted into Public Unquoted Company w.e.f. November 27, 2006. Effective March 20, 2008 the Company became a listed Company with its shares quoted on the Pakistan Stock Exchange Limited. The Securities & Exchange Commission of Pakistan ("SECP") issued a Certificate of Incorporation on change of name under section 40 of the Companies Ordinance, 1984 - 'repealed' on 18 May, 2017 recognizing the Company as EFG Hermes Pakistan Limited. The registered office of the Company is situated at Office No. 904, 9th Floor, Emerald Tower, Plot No. G-19, Block- 5, Clifton, Karachi, Pakistan.

The Company is Trading Right Entitlement Certificate (TREC) Holder of the Pakistan Stock Exchange Limited and a licensed Securities Broker registered with SECP. Furthermore, the Company is a Corporate Member of the Pakistan Mercantile Exchange Limited and Mutual Funds Association of Pakistan as Service Provider/Distributor. The Company is engaged in Financial Brokerage, Corporate Finance and Financial Research and is well-positioned to respond to the dynamic business environment.

2 BASIS OF PREPARATION

2.1 Statement of compliance

These condensed interim financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting. The accounting and reporting standards as applicable in Pakistan for interim financial reporting comprise of:

- International Accounting Standard (IAS) 34, Interim Financial Reporting, issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act, 2017.

Where the provisions of and directives issued under the Companies Act, 2017 differ with the requirements of IAS 34, the provisions of and directives issued under the Companies Act, 2017 have been followed. These condensed interim financial statements do not include all of the information required of full annual financial statements and should be read in conjunction with the financial statements of the Company for the year ended December 31, 2018.

These condensed interim financial statements are un-audited and are being submitted to the shareholders in accordance with the requirements of section 237 of the Companies Act, 2017. These condensed interim financial statements are presented in Pak Rupees, which is the Company's functional and presentation currency.

2.2 Standards, amendments and interpretations adopted during the period

Following standards have been adopted by the Company during the period. However, there is no significant impact on these condensed interim financial statements for the period ended September 30, 2019 of these adopted standards.

a) IFRS 15 - 'Revenue from contracts with customers'

IFRS 15 Revenue from contracts (IFRS 15) replaced IAS 18 - Revenue, IAS 11 - Construction Contracts, IFRIC 13 - Customer Loyalty Programmes, IFRIC 15 - Agreements for the Construction of Real Estate, IFRIC 18 - Transfers of Assets from Customers and SIC 31 - Revenue - Barter Transaction involving Advertising Services. IFRS 15 provides a single, principle-based approach to the recognition of revenue from customers and focuses on the identification of the performance obligation in a contract.

b) IFRS 9 – ‘Financial Instruments’

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting.

The Company has complied with the requirements of IFRS 9 in preparation of the condensed interim financial statements. The impacts of adopting IFRS 9 on the Company are as follows:

- Classification and measurement: IFRS 9 establishes a principles-based approach to determining whether a financial asset should be measured at amortized cost or fair value, based on the cash flow characteristics of the asset and the business model in which the asset is held. The Company concluded that the classification and measurement basis for its financial assets remains largely unchanged under this model.
- Impairment: Based on the management’s assessment, the introduction of the “expected credit loss” model for the assessment of impairment of financial assets held at amortized cost is not expected to have a material impact on the Company’s results, given the low exposure to counterparty default risk as a result of the credit risk management processes that are in place.
- IFRS 9 requires that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. There is no impact of the said change on these financial statements as there is no hedge activity carried on by the Company during the period ended September 30, 2019.

However, the name of the category of the long term investments Available For Sale (“AFS”) has been changed to Fair Value through Other Comprehensive Income (“FVOCI”) in accordance with the adoption of IFRS 9.

c) IFRS 16 - ‘Leases’

The Company has adopted IFRS 16, “Leases” which replaces existing leases 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 specifies how to recognise, measure, present and disclose leases. The standard provides single, on - balance sheet lease accounting model for all lessees, requiring lessees to recognise a right - of- use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments during the lease terms.

2.3 Standards, interpretations and amendments to approved accounting standards that are not yet effective

The following revised standards, amendments and interpretations with respect to approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standards or interpretation:

	Effective from accounting period beginning on or after
- Amendments to References to the Conceptual Framework in IFRS Standards	January 01, 2020
- Amendments to IFRS 3 ‘Business Combinations’ Amendment in the definition of business’	January 01, 2020
- Amendments to IAS 1 ‘Presentation of Financial Statements’ and IAS 8 ‘Accounting Policies, Estimates and Errors’, clarify the definition of ‘Material’ and align the definition used in the Conceptual Framework and the Standards.	January 01, 2020

2.4 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 14 – Regulatory Deferral Accounts
- IFRS 17 – Insurance Contracts

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied for the preparation of these condensed interim financial statements are the same as those applied in the preparation of the audited financial statements for the period ended December 31, 2018 except for the following policies which are being adopted due to implementation of new standards effective for the period ended September 30, 2019.

3.1 Financial assets

The Company determines the classification of its financial assets at initial recognition. The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

3.1.1 Classification

The financial assets are classified in the following measurement categories:

- a) Those to be measured subsequently at fair value through profit or loss,
- b) Those to be measured subsequently at fair value through other comprehensive income, and
- c) Those to be measured at amortized cost.

For assets measured at fair value, gains and losses will either be recorded in the statement of profit and loss or other comprehensive income. For investments in equity instruments, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

3.1.2 Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of comprehensive income as incurred.

3.1.3 Impairment of financial assets

The Company shall assess on a forward-looking basis the expected credit losses (ECLs) associated with its financial assets carried at amortised cost and debt instruments at fair value through other comprehensive income. The ECLs shall be updated at each reporting date to reflect changes in credit risk.

The three-stage model for impairment shall be applied to loans and advances, debt instruments at fair value through other comprehensive income, and loan receivables from joint ventures and associates. The credit risk shall be determined through modelling a range of possible outcomes for different loss scenarios, using reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions and taking into account the time value of money.

A 12-month ECL shall be recognised, unless the credit risk on the financial asset increases significantly after initial recognition, when the lifetime ECL is recognised. For trade and other receivables, contract assets and lease receivables, the simplified approach shall be applied as permitted by IFRS 9, with lifetime ECLs recognised from initial recognition of the receivable.

These assets shall be grouped, based on shared credit risk characteristics and days past due, with ECLs for each grouping determined, based on the Company's historical credit loss experience, adjusted for factors specific to each receivable, general economic conditions and expected changes in forecast conditions.

At each reporting date, the management shall review the carrying amounts of its financial assets to determine whether there was any indication that those assets had suffered an impairment loss. If there is objective evidence that an impairment loss on a financial asset or group of financial assets has been incurred, the amount of the loss shall be measured as the difference between the estimated future cash flows from the asset discounted at the effective interest rate of the instrument at initial recognition.

Impairment losses shall be assessed individually for financial assets that were individually significant and collectively for assets that were not individually significant. In making collective assessments of impairment, financial assets shall be grouped into portfolios on the basis of similar characteristics.

3.1.4 De-recognition of financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the assets expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of the transferred financial asset, the Company continues to recognize the financial asset and also recognises a collateralized borrowing for the proceeds received.

Regular purchases and sales of investments are recognized on trade date basis - i.e. on the date when the Company commits to purchase or sell the asset. All client purchases and sales are recognized on the date of settlement.

3.2 Financial liabilities

The Company determines the classification of its financial liabilities at initial recognition.

3.2.1 Classification

- a) those to be measured at fair value through profit and loss and
- b) those to be measured at amortized cost

3.2.2 Measurement

All financial liabilities are recognised initially at fair value. Financial liabilities accounted at amortized cost like borrowings are accounted at the fair value determined based on the effective interest rate method (EIR) after considering the directly attributable transaction costs.

The Company classifies all financial liabilities as subsequently measured at amortized cost, except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.

The effective interest rate ("EIR") method calculates the amortized cost of a debt instrument by allocating interest charge over the relevant effective interest rate period. The effective interest rate is the rate that exactly discounts estimated future cash outflow (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. This category generally applies to borrowings, trade payables etc.

The Company's financial liabilities include other payables and borrowings. The Company measures financial liabilities (except derivatives) at amortized cost.

3.2.3 De-recognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit or loss.

3.3 Accounting for leases - 'IFRS 16'

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company has elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is depreciated on straight-line method or another systematic basis over the earlier of useful life or lease term. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

The lease liability is subsequently measured by :

- (i) increasing the carrying amount to reflect interest on the lease liability and
- (ii) reducing the carrying amount to reflect the lease payments made.

It is remeasured when there is a change in future lease payments arising from a change in fix lease payments or an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected to apply the practical expedient not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases is recognised as an expense on a straight-line basis over the lease term or another systematic basis where needed.

The Company accounts for a 'lease modification' as a separate lease if both :

- (i) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- (ii) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

4 FINANCIAL RISK MANAGEMENT

The financial risk management objectives and policies are consistent with those applied in the preparation of the audited financial statements for the year ended December 31, 2018.

5	PROPERTY, PLANT AND EQUIPMENT	Note	Un-audited	Audited
			September 30, 2019	December 31, 2018
----- Rupees -----				
	Opening book value		29,907,080	40,641,566
	Add: Additions during the period - own		5,068,589	1,030,800
	Less: Disposals during the period (at book value)		(2,052,457)	(4,682,644)
	Depreciation charged during the period		(3,652,447)	(7,082,642)
			(5,704,904)	(11,765,286)
	Closing book value		29,270,765	29,907,080

6 LONG-TERM INVESTMENTS

	At Fair Value through Other Comprehensive Income ("FVOCI")	6.1	13,512,894	21,752,072
	At amortized cost	6.1	8,000,000	8,000,000
			21,512,894	29,752,072

6.1 Description of investments are as follows:

30-Sep-19		31-Dec-18		Name of Investee Companies	Note	30-Sep-19		31-Dec-18	
Number of Shares		Number of Shares				Cost	Carrying Value	Cost	Carrying Value
----- Rupees -----									
1,602,953	1,602,953			Pakistan Stock Exchange Ltd.	6.2	14,031,433	13,512,894	14,031,433	21,752,072
843,975	843,975			LSE Financial Services Ltd.	6.3	8,000,000	8,000,000	8,000,000	8,000,000
						22,031,433	21,512,894	22,031,433	29,752,072

6.2 In accordance with the requirements of Stock Exchanges (Corporatization, Demutualization and Integration) Act, 2012 (the Act), 4,007,383 shares of Pakistan Stock Exchange Limited ('PSX') had been allotted to the Company in lieu of membership card of KSE. In compliance of the Act, 60% shares had been sold at a price of Rs. 28/- per share. The Company has pledged 1,081,194 shares with PSX to fulfill the Base Minimum Capital requirement as per the PSX Regulations. The PSX shares have been revalued at a price of Rs. 8.43 (December 31, 2018 : Rs. 13.57) as at balance sheet date. Further, two TRE Certificates of PSX (i.e. one each against TRE Certificates of Karachi Stock Exchange Limited and the Lahore Stock Exchange Limited) had been issued to the Company. The Company has surrendered an inactive TRE Certificate with the PSX as per requirement of the Act.

6.3 This represents unquoted shares of LSE Financial Services Limited ('LSEFSL') formed as an NBFC allotted as a result of (Corporatization, Demutualization and Integration) Act, 2012 in lieu of membership card of LSE and these have been pledged with PSX to fulfill the Base Minimum Capital requirement as per PSX Regulations. Since shares of LSEFSL are not presently tradable therefore fair value cannot be determined.

	<u>Un-audited</u> <u>September</u> <u>30, 2019</u>	<u>Audited</u> <u>December</u> <u>31, 2018</u>
7 TRADE DEBTS - NET	----- Rupees -----	
Trade debts - net	<u>8,689,827</u>	<u>11,405,060</u>
Aging Analysis		
Within 5 days	<u>3,585,005</u>	<u>3,459,714</u>
Above 5 days	<u>5,914,772</u>	<u>8,755,296</u>
Allowance for impairment of trade debts	<u>(809,950)</u>	<u>(809,950)</u>

Trade debts and other receivables are recognized at fair value and subsequently measured at amortized cost. An allowance for impairment is measured and recorded in accordance with the impairment policy as mentioned in note 3.1.3.

Trade debts for more than five days to the extent by which the amount receivable exceed the collateral held from such customer after applying haircuts on VAR basis are Rs. 4.22 million (December 31, 2018: Rs. 5.38 million).

	<u>Un-audited</u> <u>September</u> <u>30, 2019</u>	<u>Audited</u> <u>December</u> <u>31, 2018</u>
8 CASH AND BANK BALANCES	----- Rupees -----	
Cash in hand	<u>50,000</u>	<u>50,000</u>
Cash at banks		
- in deposit accounts	<u>11,691,995</u>	<u>11,671,407</u>
- in current accounts - pertaining to brokerage house	<u>2,156,403</u>	<u>5,325,892</u>
- in current accounts - pertaining to clients	<u>57,691,197</u>	<u>69,589,711</u>
	<u>71,539,595</u>	<u>86,587,010</u>
	<u>71,589,595</u>	<u>86,637,010</u>

8.1 These carry mark-up ranging from 8.00% to 11.25% (December 31, 2018 : 2.65% to 8.50%) per annum.

8.2 Value of customers assets held in the Central Depository Company under Company's Participant ID as at September 30, 2019 is Rs. 0.66 billion (December 31, 2018 : Rs. 0.93 billion).

	<u>Un-audited</u> <u>September</u> <u>30, 2019</u>	<u>Audited</u> <u>December</u> <u>31, 2018</u>
9 SHORT - TERM RUNNING FINANCE UNDER MARK-UP ARRANGEMENTS - Secured	----- Rupees -----	
Habib Bank Limited	<u>469,529</u>	<u>290,343,643</u>

9.1 The Company has running finance facilities of Rs. 600 million (December 31, 2018 : Rs. 600 million) under mark-up arrangements. These facilities carry Mark-up at 1 month KIBOR + 0.10% (December 31, 2018 : 1 month KIBOR + 0.10%). This arrangement is valid upto April 30, 2020 on a renewal basis. This facility is secured against pledge of government securities and irrevocable and unconditional financial guarantee(s) provided by a bank in UAE on behalf of EFG Hermes Frontier Holdings LLC (the Holding Company) to the bank. Securities pledged value related to client(s) were 'nil' (December 31, 2018 : 'nil').

10 CONTINGENCIES AND COMMITMENTS

10.1 There are no changes in contingent liabilities since the date of financial statements for the year ended December 31, 2018.

	<u>Un-audited</u> <u>September</u> <u>30, 2019</u>	<u>Un-audited</u> <u>September</u> <u>30, 2018</u>
----- Rupees -----		
11 OPERATING REVENUES		
Equity brokerage income	70,032,211	89,174,594
Inter-bank brokerage	-	7,457,218
Fee and commission	5,321	2,125
Dividend income	675,258	80,148
	<u>70,712,790</u>	<u>96,714,085</u>

12 RELATED PARTY TRANSACTIONS

The related parties comprise of major shareholders, associated companies with or without common directors, directors of the Company and key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling activities of the entity. The Company considers all members of their management team, including the Chief Executive Officer and Directors to be its key management personnel. Remuneration and benefits to Executives of the Company are in accordance with the terms of the employment. Transactions with other related parties are entered into at rates negotiated with them.

Details of transactions with related parties, other than those which have been disclosed elsewhere in these condensed interim financial statements, are as follows:

	<u>Un-audited</u> <u>September</u> <u>30, 2019</u>	<u>Un-audited</u> <u>September</u> <u>30, 2018</u>
----- Rupees -----		
Brokerage income earned from:		
Directors	<u>306,040</u>	<u>1,075,339</u>
Employees	<u>18,008</u>	<u>440,652</u>
Transactions		
Contribution to employees provident fund	<u>2,406,031</u>	<u>2,794,767</u>
Salaries and remuneration to Chief Executive Officer	<u>3,880,000</u>	<u>8,800,000</u>
Fee to Non-Executive Director (Independent)	<u>105,000</u>	<u>50,000</u>
Associate		
Commission expense to Financial Brokerage Group	<u>4,768,792</u>	<u>5,042,851</u>
Balances		
Payable to directors in their shares trading accounts	<u>3,282,811</u>	<u>201,391</u>
Payable to employees in their shares trading account	<u>31,787</u>	<u>2,273,796</u>
Balances of the holding company		
Payable to EFG Hermes Frontier Holdings LLC	<u>30,901,607</u>	<u>3,450,363</u>
Balances of associates		
Payable to Financial Brokerage Group	<u>18,943,658</u>	<u>11,173,743</u>

	<u>Un-audited September 30, 2019</u>	<u>Un-audited September 30, 2018</u>
13 TURNOVER	----- Rupees '000 -----	
The Company shares turnover is as under:		
Retail clients	<u>5,925,005</u>	<u>17,147,052</u>
Institutional clients	<u>49,069,031</u>	<u>43,696,101</u>
Proprietary accounts	<u>224,579</u>	<u>321,101</u>

14 DATE OF AUTHORIZATION FOR ISSUE

These condensed interim financial statements have been authorized for issue on 30 October 2019 by the Board of Directors of the Company.

15 GENERAL

Figures in these condensed interim financial statements have been rounded off to the nearest rupee. Prior year's figures in these financial statements have been re-arranged / re-classified, where necessary, for better presentation.

CHIEF EXECUTIVE OFFICER

DIRECTOR

CHIEF FINANCIAL OFFICER

PATTERN OF SHAREHOLDING

As on September 30, 2019

[Sub-Regulation 2(e) of Regulation 34 under chapter IV
of Securities Brokers (Licensing and Operation)
Regulations, 2016]

SHAREHOLDERS HOLDING 5% OR MORE OF THE VOTING SHARES/INTRESTS IN THE COMPANY			
Names	Number of Shareholders	Number of Shares Held	% of Shareholding
EFG-Hermes Frontier Holdings LLC	1	10,207,982	51.00
Ms. Mubina	1	1,496,000	7.47
Mr. Muzzammil Aslam	1	1,243,519	6.21
Mr. Irfan Pardesi	1	1,102,065	5.51

CHANGES IN SHAREHOLDINGS HOLDING ABOVE 5%			
Names	Holding Balance as at June 30, 2019	Holding Balance as at September 30, 2019	Changes
EFG-Hermes Frontier Holdings LLC	10,207,982	10,207,982	-
Ms. Mubina	1,496,000	1,496,000	-
Mr. Muzzammil Aslam	1,239,519	1,243,519	4,000
Mr. Irfan Pardesi	1,102,065	1,102,065	-



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