KPMG Taseer Hadi & Co.
Chartered Accountants

Pak Oman Microfinance Bank Limited

Financial Statement

For the year ended
31 December 2017

KPMG

KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2
Beaumont Road
Karachi, 75530 Pakistan

Telephone + 92 (21) 3568 5847
Fax + 92 (21) 3568 5095
Internet www.kpmg.com.pk

Auditors' Report to the Members

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

It is the responsibility of the Bank's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the repealed Companies Ordinance, 1984 and the Microfinance Institution Ordinance, 2001.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 international auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

a) in our opinion, proper books of account have been kept by the Bank as required by the Microfinance Institutions Ordinance, 2001 and repealed Companies Ordinance, 1984;

b) in our opinion:

   i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the repealed Companies Ordinance, 1984 and the Microfinance Institution Ordinance, 2001, and are in agreement with the books of account and are further in accordance with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;

KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the repealed 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 31 December 2017 and of the profit, cash flows and changes in equity for the year then ended; and

d) in our opinion, no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

KPMG Taseer Hadi & Co.

Date: 9 March 2018

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Muhammad Taufiq

Pak Oman Microfinance Bank Limited
Balance Sheet
As at 31 December 2017

	Note	2017	2016
		(Rupees)	
ASSETS			
Cash and balances with SBP and NBP	6	**4,177,376**	7,996,608
Balances with other Banks / NBFIs / MFBs	7	**320,085,579**	28,527,405
Lendings to financial institutions	8	**450,000,000**	184,700,000
Investments - net of provision	9	**797,010,050**	516,913,445
Advances - net of provision	10	**688,126,566**	428,478,754
Operating fixed assets	11	**30,958,078**	32,960,402
Other assets	12	**79,260,960**	33,911,082
Deferred tax assets - net	13	**22,072,197**	27,010,763
Total Assets		**2,391,690,806**	1,260,498,459
LIABILITIES			
Deposits and other accounts	14	**9,033,264**	148,895,471
Borrowings		**-**	-
Subordinated debt		**-**	-
Other liabilities	15	**71,869,487**	39,259,383
Deferred tax liabilities - net		**-**	-
Total Liabilities		**80,902,751**	188,154,854
NET ASSETS		**2,310,788,055**	1,072,343,605
REPRESENTED BY:			
Share capital	16	**2,308,300,000**	1,151,820,000
Share premium		**53,776,320**	-
Statutory and general reserves		**14,275,064**	8,362,742
Depositors' protection fund		**3,724,360**	2,093,454
Accumulated losses		**(69,422,192)**	(90,631,662)
		2,310,653,552	1,071,644,534
Surplus on revaluation of assets - net of deferred tax	17	**134,503**	699,071
		2,310,788,055	1,072,343,605
MEMORANDUM / OFF BALANCE SHEET ITEMS	18		

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

President / Chief Executive   Chairman   Director   Director

Pak Oman Microfinance Bank Limited
Profit and Loss Account
For the year ended 31 December 2017

	Note	2017	2016
		(Rupees)	
Mark-up / return / interest earned	19	243,495,422	176,541,376
Mark-up / return / interest expensed	20	(9,391,785)	(4,977,136)
Net mark-up / interest income		234,103,637	171,564,240
Provision against non-performing advances	10.3	24,299,202	18,560,128
Provision for diminution in the value of investments	9.6	-	-
Bad debts written off directly	10.3.1	-	-
		24,299,202	18,560,128
Net mark-up / return / interest income after provisions		209,804,435	153,004,112
NON MARK-UP / NON INTEREST INCOME			
Fee, commission and brokerage income		28,765,771	23,693,523
Dividend income		-	439,289
Other income	21	18,279,415	18,865,454
Total non-mark-up / non-interest income		47,045,186	42,998,266
		256,849,621	196,002,378
NON MARK-UP / NON INTEREST EXPENSES			
Administrative expenses	22	213,105,964	181,647,435
Other provision / write off	12	-	-
Other charges	23	-	(414,893)
Total non mark-up / non interest expenses		213,105,964	181,232,542
Extra ordinary / unusual items		-	-
PROFIT BEFORE TAXATION		43,743,657	14,769,836
Taxation - current	24	6,973,892	5,722,544
- prior	24	-	225,323
- deferred	24	7,208,153	2,336,285
		14,182,045	8,284,152
PROFIT AFTER TAXATION		29,561,612	6,485,684
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified subsequently to profit and loss account - net of tax		(808,914)	147,843
COMPREHENSIVE INCOME FOR THE YEAR		28,752,698	6,633,527
Accumulated losses brought forward		(90,631,662)	(86,417,667)
		(61,878,964)	(79,784,140)
APPROPRIATIONS:			
Transfer to:			
Statutory reserve		(5,912,322)	(1,297,137)
Capital reserve		-	-
Depositors' Protection Fund		(1,630,906)	(327,052)
Revenue reserve		-	-
Proposed cash dividend		-	-
Accumulated losses carried forward		(69,422,192)	(81,408,329)
Earnings per share - Basic and diluted	29	0.171	0.063

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

President / Chief Executive **Chairman** **Director** **Director**

Pak Oman Microfinance Bank Limited
Statement of Comprehensive Income
For the year ended 31 December 2017

	Note	2017	2016
		(Rupees)	
Profit after taxation		**29,561,612**	6,485,684
Other comprehensive income			
Items that will not be reclassified subsequently to profit and loss account			
Remeasurement of defined benefit obligation	*26.7.1*	**(1,155,591)**	211,204
Related tax impact		**346,677**	(63,361)
		(808,914)	147,843
Comprehensive income for the year transferred to equity		**28,752,698**	6,633,527
Component of comprehensive income for the year not transferred to equity			
Surplus on revaluation of 'available for sale' investments		**(752,758)**	603,206
Related tax impact		**188,190**	(131,066)
		(564,568)	472,140
Total comprehensive income for the year		**28,188,130**	7,105,667

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

President / Chief Executive **Chairman** **Director** **Director**

Pak Oman Microfinance Bank Limited
Cash Flow Statement
For the year ended 31 December 2017

	Note	2017	2016
		(Rupees)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		43,743,657	14,769,836
Dividend income		-	(439,289)
		43,743,657	14,330,547
Adjustments for non-cash items:			
Depreciation	11.2	9,056,293	9,056,018
Amortization	11.3	765,668	1,524,980
Amortization of premium on Pakistan Investment Bonds	19	311,854	175,749
Provision against non-performing advances	10.3	24,299,202	18,560,128
Provision for diminution in the value of investments	9.6	-	-
Gain on disposal of fixed assets	11.2.2	(656,739)	(405,632)
Provision for gratuity	22	3,725,010	3,492,563
Provision for leave fare assistance	22	4,264,776	3,628,648
		41,766,064	36,032,454
		85,509,721	50,363,001
(Increase) / decrease in operating assets			
Lendings to financial institutions		(265,300,000)	361,225,775
Advances - net		(283,947,014)	(88,498,680)
Other assets (excluding advance taxation)		(43,217,659)	(6,217,526)
		(592,464,673)	266,509,569
Increase / (decrease) in operating liabilities			
Deposits and other accounts		(139,862,207)	124,050,796
Other liabilities		40,727,014	9,852,485
		(99,135,193)	133,903,281
		(606,090,145)	450,775,851
Income tax paid	12.1	(9,178,098)	(6,837,164)
Gratuity paid	26.5	(12,886,101)	(1,422,118)
Leave fare assistance paid		(4,322,188)	(3,958,442)
Net cash generated from operating activities		(632,476,532)	438,558,127
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available for sale securities		110,705,256	(254,055,305)
Net investments in held to maturity securities		(391,554,619)	(157,060,241)
Dividend income received		-	439,289
Payment made for purchase of operating fixed assets		(12,507,238)	(8,527,056)
Sale proceeds from disposal of operating fixed assets		5,050,475	2,476,296
Net cash used in investing activities		(288,306,126)	(416,727,017)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of further shares		1,214,304,000	-
Transaction cost on issuance of shares		(5,782,400)	(9,223,333)
Net cash used in financing activities		1,208,521,600	(9,223,333)
Net increase in cash and cash equivalents during the year		287,738,942	12,607,777
Cash and cash equivalents at the beginning of the year		36,524,013	23,916,236
Cash and cash equivalents at the end of the year	31	324,262,955	36,524,013

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

President / Chief Executive | **Chairman** | **Director** | **Director**

Pak Oman Microfinance Bank Limited
Statement of Changes in Equity
For the year ended 31 December 2017

			Capital reserves		Revenue reserves	
	Share capital	Share Premium	Statutory reserve	Depositors' Protection Fund	Accumulated losses	Total
	---(Rupees)---					
Balance as at 1 January 2016	1,151,820,000	-	7,065,605	1,766,402	(86,417,667)	1,074,234,340
Total comprehensive income:						
Profit after tax for the year ended 31 December 2016	-	-	-	-	6,485,684	6,485,684
Other comprehensive income - net of tax	-	-	-	-	147,843	147,843
Total comprehensive income	-	-	-	-	6,633,527	6,633,527
Transaction cost for issuance of shares	-	-	-	-	(9,223,333)	(9,223,333)
Transfer to Statutory reserve	-	-	1,297,137	-	(1,297,137)	-
Transfer to Depositors' Protection Fund						
- 5% of the profit after tax	-	-	-	324,284	(324,284)	-
- return on investment - net of tax	-	-	-	2,768	(2,768)	-
	-	-	-	327,052	(327,052)	-
Balance as at 31 December 2016	1,151,820,000	-	8,362,742	2,093,454	(90,631,662)	1,071,644,534
Total comprehensive income:						
Profit after tax for the year ended 31 December 2017	-	-	-	-	29,561,612	29,561,612
Other comprehensive income - net of tax	-	-	-	-	(808,914)	(808,914)
Total comprehensive income	-	-	-	-	28,752,698	28,752,698
Transfer to Statutory reserve	-	-	5,912,322	-	(5,912,322)	-
Transfer to Depositors' Protection Fund						
- 5% of the profit after tax	-	-	-	1,478,081	(1,478,081)	-
- return on investment - net of tax	-	-	-	152,825	(152,825)	-
	-	-	-	1,630,906	(1,630,906)	-
Shares Issued during the period	1,156,480,000	57,824,000	-	-	-	1,214,304,000
Cost of issuance of new shares	-	(4,047,680)	-	-	-	(4,047,680)
	1,156,480,000	53,776,320	-	-	-	1,210,256,320
Balance as at 31 December 2017	2,308,300,000	53,776,320	14,275,064	3,724,360	(69,422,192)	2,310,653,552

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

President / Chief Executive

Chairman

Director

Director

1 STATUS AND NATURE OF BUSINESS

1.1 Pak Oman Microfinance Bank Limited (the Bank) was incorporated on 9 March 2006 as a public limited company under the repealed Companies Ordinance, 1984 and was granted license by the State Bank of Pakistan (SBP) on 12 April 2006. The Bank received certificate of commencement of business on 6 May 2006, effective from 8 May 2006. The Bank's principal business is to provide microfinance services to the poor and under served segment of the society as envisaged under the Microfinance Institutions Ordinance, 2001. The registered office of the Bank is situated at 20-C, Khayaban-e-Nishat, Ittehad Commercial Area, Phase-VI, DHA, Karachi, Pakistan. As at 31 December 2017, the Bank has 19 branches (2016: 16) and 14 service centers (2016: 14) in operation in all provinces of Pakistan, other than Gilgit Baltistan, including the Federal Capital Islamabad and is licensed to operate nationwide.

1.2 JCR-VIS has determined the Bank's medium to long-term rating as 'A-' and the short-term rating as 'A-2'.

1.3 In the year 2016, the Board of Directors of the Bank entered into an agreement with Lanka Orix Leasing Company PLC who in lieu of the agreement acquired the majority of the stake in the Bank. As per the signed agreement dated 03 February 2017, the existing shareholders retained their shareholdings while new 115,648,000 shares were issued (equal to the existing issued & paid up capital) at an offer price of Rs. 10.5 each (face value of Rs. 10 each).

2 BASIS OF PRESENTATION

These financial statements have been presented in accordance with the requirements of Banking Surveillance Department Circular No. 11 dated 30 December 2003 issued by SBP.

3 STATEMENT OF COMPLIANCE

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

3.2 The State Bank of Pakistan vide BSD Circular no. 10, dated 26 August 2002 has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property'. Further, the Securities and Exchange Commission of Pakistan (SECP) has deferred the applicability of International Financial Reporting Standard (IFRS) 7, 'Financial Instruments : Disclosures' through its notification S.R.O. 633(I)/2014 dated 10 July 2014. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by SBP through various circulars / regulations.

3.3 SECP has granted exemption from application of the requirements of IFRS 10 - Consolidated Financial Statements with respect to the investments in mutual funds / collective investment schemes.

3.4 The Companies Ordinance, 1984 has been repealed after the enactment of the Companies Act, 2017. However, as allowed by the SECP vide its circular no. 23/2017 dated 04 October 2017, further clarification issued by the Institute of Chartered Accountants of Pakistan vide its circular no. 17/2017 dated 06 October 2017 this financial information have been prepared in accordance with the provisions of the repealed Companies Ordinance, 1984.

4 BASIS OF MEASUREMENT

4.1 Accounting convention

These financial statements have been prepared under the historical cost convention except that investments have been marked to market and are carried at fair value and staff retirement benefits which are measured at present value.

4.2 Functional and presentation currency

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Standards, interpretations and amendments to published approved accounting standards that are effective in current year

There are certain new and amended standards, interpretations and amendments that are mandatory for the Bank's accounting periods beginning on or after 01 January 2017 but are considered not to be relevant or do have any significant effects on the Bank's operations and therefore, not detailed in these financial statements.

5.2 Approved accounting standards not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 1 January 2018:

- Classification and Measurement of Share - based Payment Transactions - amendments to IFRS 2 clarify the accounting for certain types of arrangements and are effective for annual periods beginning on or after 1 January 2018. The amendments cover three accounting areas (a) measurement of cash - settled share - based payments; (b) classification of share - based payments settled net of tax withholdings; and (c) accounting for a modification of a share-based payment from cash - settled to equity - settled. The new requirements could affect the classification and / or measurement of these arrangements and potentially the timing and amount of expense recognised for new and outstanding awards. The amendments are not likely to have an impact on Bank's financial statements.

- Annual Improvements to IFRSs 2014-2016 Cycle [Amendments to IAS 28 'Investments in Associates and Joint Ventures'] (effective for annual periods beginning on or after 1 January 2018) clarifies that a venture capital organisation and other similar entities may elect to measure investments in associates and joint ventures at fair value through profit or loss, for each associate or joint venture separately at the time of initial recognition of investment. Furthermore, similar election is available to non - investment entity that has an interest in an associate or joint venture that is an investment entity, when applying the equity method, to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture. The amendments are not likely to have an impact on Bank's financial statements.

- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for annual periods beginning on or after 1 January 2018) clarifies which date should be used for translation when a foreign currency transaction involves payment or receipt in advance of the item it relates to. The related item is translated using the exchange rate on the date the advance foreign currency is received or paid and the prepayment or deferred income is recognised. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) would remain the date on which receipt of payment from advance consideration was recognised. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. The application of interpretation is not likely to have an impact on Bank's financial statements.

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

- IFRS 15 'Revenue from contracts with customers' (effective for annual periods beginning on or after 1 July 2018). IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programmes'. The Bank is currently in the process of analyzing the potential impact of changes required in revenue recognition policies on adoption of the standard.

- IFRS 9 'Financial Instruments' and amendment – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 July 2018 and 1 January 2019 respectively). IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Bank is currently awaiting instructions from SBP as applicability of IAS 39 (as explained in note 3.2) was deferred by SBP till further instructions.

- Amendment to IAS 28 'Investments in Associates and Joint Ventures' - Long Term Interests in Associates and Joint Ventures (effective for annual period beginning on or after 1 January 2019). The amendment will affect companies that finance such entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long - term interests or 'LTI'). The amendment and accompanying example state that LTI are in the scope of both IFRS 9 and IAS 28 and explain the annual sequence in which both standards are to be applied. The amendments are not likely to have an impact on Bank's financial statements.

- Annual Improvements to IFRS Standards 2015 – 2017 Cycle - the improvements address amendments to following approved accounting standards:

  - IFRS 3 Business Combinations and IFRS 11 Joint Arrangement - the amendment aims to clarify the accounting treatment when a company increases its interest in a joint operation that meets the definition of a business. A company remeasures its previously held interest in a joint operation when it obtains control of the business. A company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

  - IAS 12 Income Taxes - the amendment clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transaction that generates the distributable profits.

  - IAS 23 Borrowing Costs - the amendment clarifies that a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

The above amendments are effective from annual period beginning on or after 1 January 2018 and are not likely to have an impact on Bank's financial statements.

5.3 Cash and cash equivalents

Cash and cash equivalents for the purpose of cash flow statement represent cash in hand and balances held with State Bank of Pakistan and balances with other banks in current and deposit accounts. Cash and cash equivalents are carried at cost in the balance sheet.

5.4 Lendings to financial institutions

Lendings include term lendings and unsecured lendings to financial institutions. These are stated net of provision, if any. Mark-up on such lendings is charged to profit and loss account on a time proportionate basis using effective interest rate method except mark-up on impaired / delinquent lendings, which are recognized on receipt basis.

5.5 Investments

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

Investments (other than held-for-trading) are initially measured at fair value plus transaction costs associated with the investments. Held-for-trading investments are initially measured at fair value and transaction costs are expensed out in the profit and loss account.

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

Held-for-trading

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

Held-to-maturity

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

Available-for-sale

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

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

Impairment

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

5.6 Advances

These are stated at cost net of specific and general provisions which are determined on the basis of the Prudential Regulations (the Regulations) for Microfinance Banks issued by SBP and charged to profit and loss account. Advances are written off according to the Prudential Regulations or when there is no realistic prospect of recovery. These regulations prescribe a time based criteria for classification of non-performing advances in to following categories:

a) Other Assets Especially Mentioned (OAEM)

These are advances in arrears (payment / instalments overdue) of 30 days or more but less than 60 days.

b) Substandard

These are advances in arrears (payment / instalments overdue) for 60 days or more but less than 90 days.

c) Doubtful

These are advances in arrears (payment / instalments overdue) for 90 days or more but less than 180 days.

d) **Loss**

These are advances in arrears (payment / instalments overdue) for 180 days or more.

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

In accordance with the Regulations, the Bank maintains specific provision for potential loan losses for all non-performing advances as follows:

OAEM	Nil
Substandard	25% of outstanding principal net of cash collaterals and gold (ornaments and bullion) realizable without recourse to a Court of Law.
Doubtful	50% of outstanding principal net of cash collaterals and gold (ornaments and bullion) realizable without recourse to a Court of Law.
Loss	100% of outstanding principal net of cash collaterals and gold (ornaments and bullion) realizable without recourse to a Court of Law.

In addition, a general provision is made in accordance with the requirements of the Prudential Regulations for Microfinance Banks issued by SBP equivalent to 1% (2016: 1%) of the net outstanding balance (advances net of specific provisions) for potential loan losses.

Non-performing advances are written off one month after the loan is classified as "Loss". However, the Bank continues its efforts for recovery of the written off balances.

Under exceptional circumstances management reschedules repayment terms for clients who have suffered catastrophic events and who appear willing and able to fully repay their loans. The classification made as per the Regulation is not changed due to such rescheduling.

5.7 Operating fixed assets and depreciation

5.7.1 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that are directly attributable to the acquisition of items.

Depreciation is charged to profit and loss account at the rates mentioned in note 11.2 applying the straight line method over estimated useful life of assets. The asset's residual values and useful lives are reviewed annually, and adjusted if required.

Full depreciation is charged on additions in the month of purchase and no depreciation is charged on disposals in the month of disposal.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains / losses on disposals of property and equipment are determined by comparing proceeds with the carrying amount. These are recognized in the profit and loss account.

5.7.2 Capital work in progress

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

5.7.3 Intangible assets

Intangible assets with a definite useful lives are stated at cost less accumulated amortisation and accumulated impairment losses, if any. These are amortised using the straight line method at the rates mentioned in note 11.3 over their estimated useful life.

Amortisation is charged on additions from the date the asset available for use and on disposals up to the date of disposal.

The asset's residual values and useful lives are reviewed annually, and adjusted if required, at each reporting date.

5.8 Impairment

5.8.1 *Non-Financial Assets (except for deferred tax assets)*

The Bank assesses at the end of each reporting period whether there is any indication that non-financial assets except deferred tax 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 values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of the amount which would have been determined had there been no impairment. Reversal of impairment loss is recognized as income.

5.8.2 *Financial Assets*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost reversal is recognized in profit or loss.

5.9 Grants

Grants are initially recognised at fair value in the balance sheet when there is a reasonable assurance that the grant will be received and that the Bank will comply with all the attached conditions.

Grants relating to operating fixed assets are recorded as deferred revenue in the balance sheet and recognised as income on a systematic basis over the useful lives of the assets acquired from grant proceeds.

5.10 Staff retirement benefits

5.10.1 Defined contribution plan

The Bank also operates a recognised provident fund for its eligible employees. Equal monthly contributions are made by the Bank and its employees to the fund at the rate of 8.33% (2016: 8.33%) of basic salary per month.

5.10.2 Defined benefit plan

The Bank operates a funded-gratuity scheme for all of its permanent employees. The scheme was approved on 16 September 2014. Contributions to the fund are made every year based on actuarial valuation. The actuarial valuation is carried out using the Projected Unit Credit Method (PUCM). Under this method, the cost of providing gratuity is charged to the profit and loss account so as to spread the cost over the service lives of the employees in accordance with the actuarial valuation. All actuarial gains and losses are recognized in Other Comprehensive Income (OCI) in the periods in which they occur. The actuarial valuation was conducted as at 31 December 2017.

5.10.3 Compensated absences

Compensated absences (leaves) of employees are accounted for in the period in which these absences are earned. Provisions to cover the obligations are made using the current salary level of employees.

5.11 Taxation

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

5.11.1 Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account applicable tax credits, rebates and exemptions available, if any or minimum tax applicable in accordance with the Income Tax Ordinance, 2001. The charge for the current tax also includes adjustments where necessary, relating to prior years which arise from assessments framed / finalised during the year.

5.11.2 Deferred

Deferred tax is recognised using the balance sheet liability method on all temporary differences arising at the date of reporting between the amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax asset is recognised on all deductible temporary differences and carry forward of unused tax losses, minimum tax and alternate corporate tax (ACT), if any, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The carrying amount of the deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to the periods when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to gain / (loss) recognised in surplus / (deficit) on revaluation of assets is charged / credited to such account.

5.12 Deposits

Deposits are recorded at the proceeds received. Deposit costs are recognised as an expense in the period in which these are incurred using effective mark-up / interest rate method.

5.13 Statutory reserve

The Bank is required under the Microfinance Institutions Ordinance, 2001 to maintain a statutory reserve to which an appropriation equivalent to 20% of the annual after tax profit is made till such time the reserves are equal to paid-up capital and thereafter 5% of profit after taxes.

5.14 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 the obligation can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimates.

5.15 Depositors' protection fund

The Bank is required under the Microfinance Institutions Ordinance, 2001 to contribute 5% of its annual after tax profit to the Depositors' protection fund for the purpose of providing security or guarantee to persons depositing money in the Bank and profits earned on the investments of the fund shall be credited to the depositors' protection fund and such fund shall either be invested in Government securities or deposited with State Bank in a remunerative account.

5.16 Revenue recognition

- Return on investment / lending to financial institutions is recognised using effective interest rate method.

- Mark-up / interest / return on performing advances is recognised using effective interest rate method except that income suspended in accordance with the requirements of the Prudential Regulations for Microfinance Banks, is taken to income when actually received.

- Interest or mark-up recoverable on non-performing advances and classified investments is recognised on a receipt basis.

- Dividend income is recognised when the right to receive dividend is established.

- Processing fees is recognized when services are performed.

- Capital gains / (losses) on sale of investments are recognised in the profit and loss account at the time of sale.

- Other income are recognised on accrual basis when financial services are rendered.

5.17 Financial instruments

5.17.1 Financial assets and financial liabilities

All financial assets and financial liabilities are recognised at the time when the Bank becomes a party to the contractual provisions of the instrument. At the time of initial recognition, all the financial assets and financial liabilities are measured at cost, which is the fair value of the consideration given or received for it. Subsequently, these are stated at their nominal values as reduced by appropriate allowances for estimated irrecoverable amounts, if any. All the financial assets are derecognised at the time when the Bank loses control of the contractual rights that comprise the financial assets. All financial liabilities are derecognised at the time when they are extinguished i.e. when the obligation specified in the contract is discharged, cancelled, or expired. Any gain or loss on derecognition of financial assets and financial liabilities is taken to profit and loss account.

5.17.2 Off setting

Financial assets and financial liabilities are off-set and the net amount is reported in the balance sheet when there is a legally enforceable right to off-set the recognised amounts and the Bank intends to settle either on a net basis, or to realise the assets and to settle the liabilities simultaneously.

Income and expenses are presented on a net basis only when permitted by the approved accounting standards, or for gains and losses arising from a group of similar transactions.

5.18 Derivative financial instruments

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

5.19 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 Pak Rupee, which is the Bank's functional and presentation currency.

5.20 Foreign currencies translation

Foreign currency transactions are translated into Pak Rupees (functional currency) using the exchange rate prevailing at the date of transactions. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees using the exchange rate prevailing at the reporting date. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translations of monetary assets and liabilities denominated in foreign currencies at reporting date are included in profit and loss account.

5.21 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS, if any, is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. There were no dilutive potential ordinary shares in issue as at 31 December 2017.

5.22 Dividend and other appropriations

Dividend and appropriation to reserves, except appropriations which are required by the law, are recognised as liability in the Banks' financial statements in the year in which these are approved by the appropriate authorities.

5.23 Critical accounting estimates and judgments

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 and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. Revision to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The areas where various assumptions and estimates are significant to the Bank's financial statements or where judgment was exercised in the application of accounting policy are as follows:

i) **Classification and provisioning of investments (notes 5.5 and 9)**

Held-to-maturity securities

As described in note 5.5, held-to-maturity securities are investments where the management has positive intent and ability to hold to maturity. The classification of these securities involves management judgment as to whether the financial assets are held-to-maturity investments. Impairment loss in respect of investments is recognized based on management's assessment.

Held-for-trading securities

Investments classified as held-for-trading are those which the Bank has acquired with an intention to trade by taking advantage of short term market interest rate movements and are to be sold within 90 days.

Available-for-sale securities

Investments which are not classified as held-for-trading or held-to-maturity are classified as available-for-sale. Impairment loss in respect of investments is recognized based on management's assessment.

ii) **Provision against advances (notes 5.6 and 10)**

Apart from the provision determined on the basis of time based criteria given in the Prudential Regulations of the SBP, management also applies subjective criteria of classification and accordingly the classification of an advance may be downgraded on the basis of evaluation of the credit worthiness of the borrower, its cash flows, operations in its account and adequacy of security in order to ensure accurate measurement of the provision.

iii) **Provision for current and deferred taxation (notes 5.11, 13 and 24)**

In making the estimates for income taxes currently payable by the Bank, the management looks at the current income tax laws and the decisions of appellate authorities on certain issues in the past. In making the provision for deferred taxes, estimates of the Bank's future taxable profits are taken into account.

iv) **Provision for staff retirement benefits (notes 5.10, 15 and 26)**

The key actuarial assumptions concerning the valuation of the defined benefit plan and the sources of estimation are disclosed in note 26 to these financial statements.

v) **Fixed assets, depreciation and amortization (notes 5.7, 11 and 22)**

In making estimates of the depreciation / amortization method, the management uses method which reflects the pattern in which economic benefits are expected to be consumed by the Bank.

6. CASH AND BALANCES WITH STATE BANK OF PAKISTAN AND NATIONAL BANK OF PAKISTAN

	Note	**2017**	2016
		(Rupees)	
Cash in hand			
- local currency		**294,233**	-
- foreign currency		-	-
Balance with State Bank of Pakistan (SBP) in local currency current account in local	*6.1*	**3,883,143**	7,996,608
		4,177,376	7,996,608

6.1 This represents current accounts maintained with SBP to meet the minimum balance requirement equivalent to 5% as cash reserve of Bank's time and demand liabilities in accordance with the Prudential Regulations.

7.	**BALANCES WITH OTHER BANKS**	*Note*	**2017**	2016
			(Rupees)	
	In Pakistan			
	- on local currency current accounts		**1,917,447**	5,333,535
	- on local currency deposit accounts	*7.1*	**318,168,132**	23,193,870
			320,085,579	28,527,405

7.1 These represents deposits with commercial banks carrying mark-up at rates ranging from 6.00% to 7.00% per annum (2016: 3.75% to 6.50% per annum).

8.	**LENDINGS TO FINANCIAL INSTITUTIONS**	*Note*	**2017**	2016
			(Rupees)	
	Certificates of Investment (CoIs)	*8.1*	**450,000,000**	184,700,000
	Certificate of Deposits (CoDs)		**-**	-
			450,000,000	184,700,000

8.1 These carry interest rates ranging between 6.00% to 6.30% (2016: 6.40% to 6.70%) per annum and having maturity upto January 2018.

9.	**INVESTMENTS - NET OF PROVISIONS**	*Note*	**2017**	2016
			(Rupees)	
	Available for sale			
	Investment in associate	9.2	**163,217,809**	206,042,786
	Mutual Funds	*9.3*	**-**	67,880,279
	Term Finance Certificates	*9.4*	**7,210,267**	7,210,267
	Sukuk	*9.4*	**10,000,000**	10,000,000
			180,428,076	291,133,332
	Held to maturity			
	Federal Government Securities - Pakistan Investment Bonds	*9.1*	**17,256,052**	17,553,285
	Term Deposit Receipts (TDRs)	*9.5*	**566,607,804**	224,505,000
	Federal Government Securities - Tresury Bills	*9.7*	**49,749,048**	-
			633,612,904	242,058,285
			814,040,980	533,191,617
	Provision for diminution in value of investments	*9.6*	**(17,210,267)**	(17,210,267)
			796,830,713	515,981,350
	Surplus / (deficit) on revaluation of available for sale investments	*17*	**179,337**	932,095
	Investments - net of provision		**797,010,050**	516,913,445

9.1 Federal Government Securities - Pakistan Investment Bonds

	Note	As at 31 December 2017 Amortised cost of investment	Provision held	Amortised cost less provision	Market value	Surplus on revaluation	As at 31 December 2016 Amortised cost of investment	Provision held	Amortised cost less provision	Market value	Surplus on revaluation
		(Rupees)									
Pakistan Investment Bonds (PIB)	9.1.1	10,042,066	-	10,042,066	-	-	10,215,176	-	10,215,176	-	-
Pakistan Investment Bonds (PIB)	9.1.2	5,179,449	-	5,179,449	-	-	5,294,635	-	5,294,635	-	-
Pakistan Investment Bonds (PIB)	9.1.2	2,034,537	-	2,034,537	-	-	2,043,474	-	2,043,474	-	-
		17,256,052	-	17,256,052	-	-	17,553,285	-	17,553,285	-	-

9.1.1 PIB was purchased from Pak Oman Investment Company Limited (POICL), an associated company, on 15 September 2015 at a cost of Rs. 10,422,020. It carries a mark-up rate of 8.75% per annum (2016: 8.75% per annum) and have maturity upto 26 March 2018. This security has a face value of Rs. 10.0 million (2016: Rs. 10.0 million). The PIB is classified as Held to Maturity.

9.1.2 PIB of face value Rs. 5 million was purchased from Pak Oman Investment Company Limited (POICL), an associated company, on 4 November 2016 at a cost of Rs. 5,312,280 and PIB of face value Rs. 2 million was purchased from JS bank on 22 December 2016 at a cost of Rs. 2,043,710 . These carry mark-up rate of 9.00% per annum (2016: 9.00%) and 7.75% per annum (2016: 9.00%) respectively and have maturity on 10 June 2019 and 21 April 2021 respectively. The PIBs are classified as Held to Maturity.

9.2 Investment in associate

Name of the investee fund	Note	Number of Units	As at 31 December 2017 Cost of investment	Provision held	Value of investment after provision	Market Value	Surplus on revaluation	As at 31 December 2016 Cost of investment	Provision held	Value of investment after provision	Market value	Surplus on revaluation
			(Rupees)									
Askari High Yield Scheme (AHYS)	9.2.1	1,375,895	163,217,809	-	163,217,809	163,397,146	179,337	-	-	-	-	-
Pak Oman Advantage Islamic Income Fund (POAIIF)	9.2.2	3,827,717	-	-	-	-	-	206,042,786	-	206,042,786	206,320,476	277,690
			163,217,809	-	163,217,809	163,397,146	179,337	206,042,786	-	206,042,786	206,320,476	277,690

9.2.1 AHYS is classified as associated undertaking due to common directorship. Since the Bank does not exercise significant influence, therefore, investment in AHYS has been accounted for as normal investment and classified as available for sale in accordance with the policy of the Bank.

9.2.2 POAIIF is classified as associated undertaking due to common directorship. Since the Bank does not exercise significant influence, therefore, investment in POAIIF has been accounted for as normal investment and classified as available for sale in accordance with the policy of the Bank.

9.3 Mutual Funds

Name of the investee fund	Number of Units	As at 31 December 2017 Cost of investment	Provision held	Value of investment after provision	Market Value	Surplus on revaluation	As at 31 December 2016 Cost of investment	Provision held	Value of investment after provision	Market value	Surplus on revaluation
		(Rupees)									
NAFA - Islamic Fund	3,833,552	-	-	-	-	-	25,552,114	-	25,552,114	26,141,348	589,234
NAFA - Income Opportunity Fund	2,378,657	-	-	-	-	-	42,328,165	-	42,328,165	42,393,336	65,171
		-	-	-	-	-	67,880,279	-	67,880,279	68,534,684	654,405

9.4 Investments in Term Finance Certificates / Sukuk

Name of the investee company	Profit / mark-up rate (per annum)	Maturity date	Note	As at 31 December 2017 Number of certificates	Redeemed value	Provision held	Value of investment after provision	Market value	Deficit on revaluation	As at 31 December 2016 Number of certificates	Redeemed value	Provision held	Value of investment after provision	Market value	Deficit on revaluation
					(Rupees)						(Rupees)				
Term Finance Certificate															
WorldCall Telecom Limited	6 month KIBOR + 1.6%	7-Oct-21	9.4.1	3,000	5,760,267	5,760,267	-	-	-	3,000	5,760,267	5,760,267	-	-	-
Agritech Limited	Zero rated	1-Jan-15	9.4.1	290	1,450,000	1,450,000	-	Non Traded	-	290	1,450,000	1,450,000	-	Non Traded	-
				3,290	7,210,267	7,210,267	-	-	-	3,290	7,210,267	7,210,267	-	-	-
Sukuk															
Agritech Limited	6 month KIBOR + 2%	15-Aug-15		2,000	10,000,000	10,000,000	-	Non Traded	-	2,000	10,000,000	10,000,000	-	Non Traded	-

Term Finance Certificates of Rs 5,000 each.

9.4.1 Investments in WorldCall Telecom and Agritech limited amounting to Rs. 5,760,267 and Rs. 1,450,000 respectively were fully provided in 2015.

9.5 These represent term deposit receipts having maturity ranging from January 2018 to November 2018 and carrying mark-up rates ranging from 7.20% to 8.75% per annum (2016: 7.50% to 10.00% per annum).

9.6 Particulars of Provision for Diminution in value of investments

	2017	2016
	(Rupees)	
Opening balance	(17,210,257)	(17,210,257)
Charge for the year	-	
Reversals	-	-
Closing balance	(17,210,257)	(17,210,257)

9.7 Federal Government Securities - Treasury Bills

	2017	2016
Purchase Price	49,320,000	-
Amortized during the period	429,048	-
Value as at 31st December	49,749,048	-

9.7.1 This represent 3 months treasury bill having a face value of Rs. 50,000,000 which is due to mature on 1st February 2018.

10. ADVANCES - NET OF PROVISIONS

	Note	2017 Number of loans outstanding	2017 Amount outstanding (Rupees)	2016 Number of loans outstanding	2016 Amount outstanding (Rupees)
Loan type					
Micro credit advances					
- Considered good	10.5	21,736	669,941,367	17,377	414,107,162
- Considered doubtful	10.2	2,167	24,818,096	2,350	21,960,287
			694,759,463		436,067,449
Less: Provision held					
- Specific provision	10.2	2,167	8,504,275	2,350	6,501,198
- General provision	10.4		6,862,552		4,295,663
	10.3		15,366,827		10,796,861
			679,392,636		425,270,588
Staff loan	10.6		8,733,930		3,208,166
Advances - net of provisions			688,126,566		428,478,754

10.1 All advances are secured by personal guarantees except for Bara Karoobar Loan which is secured against collateral. Further, a mandatory deposit account equivalent to 10% of amount of advances was required to be kept with the Bank until September 30th, 2014. The details of such deposits held with the Bank are disclosed in note 14. The interest rates on these advances is 39% per annum (2016: 39% per annum).

10.2 Particulars of non-performing advances

Advances includes Rs. 24,818,096 (2016: Rs. 21,960,287) which have been placed under non-performing status as detailed below:

Category of classification	31 December 2017 Amount outstanding	31 December 2017 Provision required	31 December 2017 Provision held	31 December 2016 Amount outstanding	31 December 2016 Provision required	31 December 2016 Provision held
	(Rupees)					
Other Assets Especially Mentioned	7,144,525	-	-	9,212,946	-	-
Sub-standard	5,442,565	1,360,641	1,360,641	3,568,119	892,030	892,030
Doubtful	10,174,744	5,087,372	5,087,372	7,140,109	3,570,055	3,570,055
Loss	2,056,262	2,056,262	2,056,262	2,039,113	2,039,113	2,039,113
Total	24,818,096	8,504,275	8,504,275	21,960,287	6,501,198	6,501,198

10.3 Particulars of provision against non-performing advances

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

	Note	31 December 2017 Specific	31 December 2017 General	31 December 2017 Total	31 December 2016 Specific	31 December 2016 General	31 December 2016 Total
		(Rupees)					
Opening balance		6,501,198	4,295,663	10,796,861	6,721,128	3,600,749	10,321,877
Charge / (reversal) for the year		21,732,313	2,566,889	24,299,202	17,865,214	694,914	18,560,128
Amounts written off	10.3.1	(19,729,236)	-	(19,729,236)	(18,085,144)	-	(18,085,144)
		2,003,077	2,566,889	4,569,966	(219,930)	694,914	474,984
Closing balance		8,504,275	6,862,552	15,366,827	6,501,198	4,295,663	10,796,861

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10.3.1 Particulars of write offs

	2017	2016
	(Rupees)	
Against provision	19,729,236	18,085,144
Directly charged to profit and loss account	-	-
	19,729,236	18,085,144

10.4 This represents general provision equivalent to 1% (2016: 1%) of the net outstanding advances held in accordance with the requirements of the Prudential Regulations for Microfinance Banks.

10.5 Portfolio by type

	2017	2016
	(Rupees)	
Micro business loan	367,424,318	190,624,389
Micro agri Loan	94,071	-
Livestock loan	119,041,944	90,364,245
New Micro business loan	2,362,619	396,903
Micro enterprise loan	124,794,732	90,225,524
Micro enterprise loan-LSL	54,874,167	42,325,025
Bara Karoobar Loan	-	34,854
Bara Karoobar Loan-LSL	-	136,222
Salary Loan	1,349,516	-
	669,941,367	414,107,162

10.6 This represents personal loans and house loans provided to employees as per the Bank's policy. The title documents of houses are held by the Bank as collateral and interest of 5% per annum (2016: 5% per annum) is charged on house loans on amount exceeding Rs. 200,000.

11. OPERATING FIXED ASSETS

	Note	2017	2016
		(Rupees)	
Property and equipment	*11.2*	30,051,170	31,881,565
Capital work-in-progress	*11.1*	-	-
Intangible assets	*11.3*	906,908	1,078,837
		30,958,078	32,960,402

11.1 Capital work-in-progress

Advances given for development of software	-	-
	-	-

11.2 Property and equipment

	2017							
	COST			DEPRECIATION			Book value as at 31 December 2017	Rate of depreciation
	As at 01 January 2017	Additions / (disposals) / adjustments	As at 31 December 2017	As at 01 January 2017	Charge for the year / (disposals)	As at 31 December 2017		
	(Rupees)							%
Owned								
Leasehold improvements (Building's fixtures)	5,324,200	208,600	5,532,800	2,710,312	790,945	3,501,257	2,031,543	20%
Office equipment	4,558,450	150,044 (86,100)	4,622,394	2,977,007	660,874 (74,620)	3,563,261	1,059,133	20%
Furniture and fixture	5,938,788	227,491	6,166,279	4,369,366	518,758	4,888,124	1,278,155	20%
Computers	16,642,680	3,873,218 (250,290)	20,265,608	13,435,312	2,407,957 (174,360)	15,668,909	4,596,699	33%
Vehicles	33,787,643	7,454,146 (6,921,855)	34,319,934	10,878,199	4,677,759 (2,321,664)	13,234,294	21,085,640	20%
	66,251,761	11,913,499 (7,258,245)	70,907,015	34,370,196	9,056,293 (2,570,644)	40,855,845	30,051,170	

	2016							
	COST			DEPRECIATION			Book value as at 31 December 2016	Rate of depreciation
	As at 01 January 2016	Additions / (disposals) / adjustments	As at 31 December 2016	As at 01 January 2016	Charge for the year / (disposals)	As at 31 December 2016		%
	(Rupees)							
Owned								
Leasehold improvements (Building's fixtures)	5,203,990	120,210	5,324,200	1,857,478	852,834	2,710,312	2,613,888	20%
Office equipment	4,354,382	204,068	4,558,450	2,317,096	659,911	2,977,007	1,581,443	20%
Furniture and fixture	5,077,944	860,844	5,938,788	3,917,245	452,121	4,369,366	1,569,422	20%
Computers	14,926,290	1,716,390	16,642,680	11,424,512	2,010,800	13,435,312	3,207,368	33%
Vehicles	33,832,998	4,909,500 (4,954,855)	33,787,643	8,682,038	5,080,352 (2,884,191)	10,878,199	22,909,444	20%
	63,395,604	7,811,012 (4,954,855)	66,251,761	28,198,369	9,056,018 (2,884,191)	34,370,196	31,881,565	

11.2.1 This includes property and equipment costing Rs. 17,218,633 (2016: Rs. 16,246,710) that have been fully depreciated as at 31 December 2017 but are still in use.

11.2.2 Details of disposals of assets whose original cost or the book value exceeds Rs. 1 million or Rs. 250,000 respectively whichever is less and property and equipment disposed off to the Chief Executive or to a director or to executives or to any other related party, irrespective of the values, are as follows:

	2017						
	Cost	**Accumulated depreciation**	**Net book value**	**Sale proceeds**	**Gain / (loss)**	**Mode of disposal**	**Particulars of purchaser**
	(Rupees)						
Vehicles							
Suzuki Bolan	**411,550**	**262,873**	**148,677**	**350,000**	**201,323**	Bank Policy	Zahid Ali
Honda City	**1,721,720**	**573,520**	**1,148,200**	**1,300,000**	**151,800**	Bank Policy	Faisal Islam (employee)
Mercedes Benz	**3,245,485**	**939,701**	**2,305,784**	**2,305,784**	-	Bank Policy	Munawar Suleman (employee)
Honda City	**1,543,100**	**446,716**	**1,096,384**	**1,400,000**	**303,616**	Bank Policy	Rahim Keshwani (employee)
IT Equipment							
Iphone	**86,100**	**72,202**	**13,898**	**13,898**	-	Bank Policy	Munawar Suleman (employee)
Laptop	**90,000**	**68,214**	**21,786**	**21,786**	-	Bank Policy	Faisal Islam (employee)
Laptop	**160,290**	**117,662**	**42,628**	**42,628**	-	Bank Policy	Munawar Suleman (employee)
	7,258,245	**2,480,888**	**4,777,357**	**5,434,096**	**656,739**		

11.3 Intangible assets

	COST			**AMORTISATION**			**Book value as at 31 December**	**Rate of amortisation**
	As at 01 January	**Additions / Transfers**	**As at 31 December**	**As at 01 January**	**Charge for the year**	**As at 31 December**		
	(Rupees)							
Computer software								
2017	**7,666,634**	**593,739**	**8,260,373**	**6,587,797**	**765,668**	**7,353,465**	**906,908**	**33%**
2016	6,950,590	716,044	7,666,634	5,062,817	1,524,980	6,587,797	1,078,837	33%

11.3.1 This includes intangible assets costing Rs. 3,604,610 (2016: Rs. 5,764,508) that have been fully amortised as at 31 December 2017 but are still in use.

12. OTHER ASSETS

	Note	2017	2016
		(Rupees)	
Income / mark-up accrued		39,025,688	16,767,387
Advances, deposits, advance rent and other prepayments		30,375,115	9,718,366
Refundable / advance taxation (payments less provision)	12.1	9,226,346	7,022,140
Others		633,811	403,189
		79,260,960	33,911,082
Less: Provision held against classified other assets			
Opening provision		-	-
Provision charge for the year		-	-
Amount written off		-	-
Closing provision		-	-
Other assets - net of provision		79,260,960	33,911,082

12.1 Movement in advance tax - net

	2017	2016
Balance as at 1 January	7,022,140	6,132,843
Tax paid	9,178,098	6,837,164
Provision for taxation	(6,973,892)	(5,947,867)
Balance as at 31 December	9,226,346	7,022,140

13. DEFERRED TAX ASSET-NET

	Note	31 December 2017					
		Balance as at 01 January 2017	Recognised in profit and loss account	Recognised in other comprehensive income	Recognised in share premium	Recognised in revaluation of assets account	Balance as at 31 December 2017
		(Rupees)					
Taxable temporary differences							
Surplus on revaluation of securities	17	(233,024)	-	-	-	188,190	(44,834)
Difference between accounting book value of fixed assets and tax base		(262,830)	239,457	-	-	-	(23,373)
		(495,854)	239,457	-	-	188,190	(68,207)
Deductible temporary differences							
Provision for other liabilities		4,938,842	(2,981,327)	346,677	-	-	2,304,192
Provision for diminution in value of investments		5,163,080	-	-	-	-	5,163,080
Amortisation of premium on investments		67,418	20,699	-	-	-	88,117
Provision against non-performing loans and advances		3,239,058	1,370,990	-	-	-	4,610,048
Provision against other assets		-	-	-	-	-	-
		13,408,398	(1,589,638)	346,677	-	-	12,165,437
Cost of issuance of new shares		-	-	-	1,734,720	-	1,734,720
Minimum tax and alternate corporate tax		3,008,899	5,231,348	-	-	-	8,240,247
Unabsorbed depreciation and carry forward losses		11,089,320	(11,089,320)	-	-	-	-
		27,010,763	(7,208,153)	346,677	1,734,720	188,190	22,073,197

	31 December 2016					
	Balance as at 01 January 2016	Recognised in profit and loss account	Recognised in other comprehensive income	Recognised in share premium	Recognised in revaluation of assets account	Balance as at 31 December 2016
	(Rupees)					
Taxable temporary differences						
Amortisation of discount on investments	(101,958)	-	-	-	(131,066)	(233,024)
Difference between accounting book value of fixed assets and tax base	(1,520,207)	1,257,377	-	-	-	(262,830)
	(1,622,165)	1,257,377	-	-	(131,066)	(495,854)
Deductible temporary differences						
Provision for other liabilities	3,639,187	1,363,016	(63,361)	-	-	4,938,842
Provision for diminution in value of investments	5,521,753	(358,673)	-	-	-	5,163,080
Amortisation of premium on investments	15,183	52,235	-	-	-	67,418
Provision against non-performing loans and advances	3,284,578	(45,520)	-	-	-	3,239,058
Provision against other assets	-	-	-	-	-	-
	12,460,701	1,011,058	(63,361)	-	-	13,408,398
Minimum tax and alternate corporate tax	-	3,008,899	-	-	-	3,008,899
Unabsorbed depreciation and carry forward losses	18,202,939	(7,613,619)	-	-	-	11,089,320
	29,541,475	(2,336,285)	(63,361)	-	(131,066)	27,010,763

13.1 The deferred tax asset balance recognised 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 these years against losses carried forward from prior years.

For the purpose of computing this benefit, management has prepared projected financial statements of the Bank using assumptions which are linked to various variable factors such as the economic outlook of the country, new equity injection, investment growth, interest rate movements, expansion in depositors / advances portfolio of the Bank etc.

14 DEPOSITS AND OTHER ACCOUNTS

	Note	2017 Number of Accounts	2017 Amount (Rupees)	2016 Number of Accounts	2016 Amount (Rupees)
Saving deposits	14.3	**121**	**59,300**	128	55,703
Fixed deposits	14.3	**82**	**2,356,000**	100	141,976,263
Current deposits - mandatory	14.2	**15,786**	**6,273,781**	16,127	6,494,842
Current deposits - normal		**809**	**344,183**	832	368,663
	14.1	**16,798**	**9,033,264**	17,187	148,895,471

14.1 Particulars of deposits by ownership

	2017 Number of Accounts	2017 Amount (Rupees)	2016 Number of Accounts	2016 Amount (Rupees)
Individual depositors	**16,798**	**9,033,264**	17,233	8,094,675
Institutional depositors - Corporation	**-**	**-**	2	16,750,000
	16,798	**9,033,264**	17,235	24,844,675

14.2 As per policy of the Bank, borrowers were required to save and deposit 10% of the original loan amount in a non-remunerative deposit account until 30 September, 2014. As at 31 December 2017, deposits under this requirement amount to Rs. 6,273,781 (2016: Rs. 6,494,842).

14.3 These carry interest rate of 3.50% (2016: 6.00%) per annum on saving deposits and 3.50% to 11.50% (2016: 3.50% to 10.25%) per annum for fixed deposits.

15. OTHER LIABILITIES

	Note	2017 (Rupees)	2016 (Rupees)
Mark-up / interest / return payable		**152,837**	1,606,911
Accrued expenses		**6,717,309**	4,627,512
Payable to shareholders	15.1	**4,558,452**	26,600
Payable to defined benefit plan	26.5	**4,373,620**	12,433,118
Provision for compensated absences		**3,545,311**	2,819,282
Provision for leave fare assistance		**1,152,995**	1,210,407
Payable to customers		**-**	3,569
Unearned markup income		**14,086,583**	12,858,599
Withholding taxes payable		**838,284**	642,861
Sales taxes payable		**6,645,566**	2,805,086
Payable to Workers' Welfare Fund	15.2	**225,438**	225,438
Advance from customer		**29,573,092**	-
		71,869,487	39,259,383

15.1 This majorly represents amount received in 2017 from LOLC Private Limited.

15.2 This includes provision on account of Sindh Worker's Welfare fund (SWWF). As the Bank is generating income within and outside Sindh, therefore, the total charge of WWF has been apportioned on the basis of turnover.

15.3 Reconciliation of changes in other liabilities arising from financing activates

	2017	2016
Balance as at 01 January	**39,259,383**	27,877,451
Changes from financing cash flows		
Dividend paid	**-**	-
Other changes - liability related		
Cash based	**33,765,695**	11,170,728
Non-cash based	**-**	-
Actuarial (loss) / gain on defined benefit plan	**(1,155,591)**	211,204
Dividend declared	**-**	-
	32,610,104	11,381,932
	71,869,487	39,259,383

16. SHARE CAPITAL

16.1 Authorised capital

2017 (Number of shares)	2016 (Number of shares)		2017 (Rupees)	2016 (Rupees)
250,000,000	250,000,000	Ordinary shares of Rs. 10 each	**2,500,000,000**	2,500,000,000

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16.2 Issued, subscribed and paid-up share capital

2017	2016		Note	2017	2016
Number of shares				(Rupees)	
230,830,000	115,182,000	Ordinary shares of Rs. 10 each fully paid in cash	16.3	2,308,300,000	1,151,820,000

16.3 Share capital has been subscribed by the following:

	2017	2016
Ministry of Finance - Sultanate of Oman	767,112,110	767,112,110
Ministry of Commerce - Sultanate of Oman	10	10
Pak Oman Investment Company Limited	384,707,880	384,707,880
LOLC Private Limited	1,156,480,000	-
	2,308,300,000	1,151,820,000

17. SURPLUS ON REVALUATION OF ASSETS - NET OF DEFERRED TAX

Surplus on revaluation of securities

	Note	2017	2016
Quoted securities			
- Askari High Yield Scheme		179,337	-
- Pak Oman Advantage Islamic Income Fund		-	277,690
- NAFA - Income Opportunity		-	589,234
- NAFA - Islamic Fund Capital Protected Strategy		-	65,171
		179,337	932,095
Less: Related deferred tax effect	13	(44,834)	(233,024)
		134,503	699,071

18. MEMORANDUM / OFF BALANCE SHEET ITEMS

	2017	2016
18.1 Commitments for fixed capital expenditure	-	-

18.2 The tax contingencies have been disclosed in note 24.3.

19. MARK-UP RETURN/ INTEREST EARNED

	2017	2016
Interest / mark-up on:		
- Advances	171,672,294	140,186,227
- Investment in Federal Government Securities	3,287,691	953,152
- Amortisation of Pakistan Investment Bond	(311,854)	(175,749)
- Lendings to financial institutions	26,736,661	21,907,443
- Deposit accounts	10,098,977	2,505,358
- Term deposit receipts	30,629,245	10,240,446
- Certificate of deposits	1,150,616	529,661
- Others	231,792	394,838
	243,495,422	176,541,376

20. MARK-UP / RETURN / INTEREST EXPENSED

	2017	2016
Deposits	9,391,785	4,977,136

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21. OTHER INCOME

	Note	2017	2016
		(Rupees)	
Gain on disposal of fixed assets		**656,739**	405,632
Recoveries against written off advances		**5,520,510**	4,758,124
Capital gain on sale mutual funds unit		**11,679,269**	13,381,253
Others		**422,897**	320,445
		18,279,415	18,865,454

22. ADMINISTRATIVE EXPENSES

	Note	2017	2016
Salaries, allowances etc.		**104,014,583**	88,354,637
Bonus to employees		**5,538,252**	4,636,267
Contribution to defined contribution plan		**4,001,741**	3,671,396
Charge for defined benefit plan	*26.6*	**3,725,010**	3,492,563
Charge for leave fare assistance		**4,264,776**	3,628,648
Non-executive directors' allowances and other expenses		**9,828,319**	5,571,555
Training		**458,483**	174,164
Rent, rates and taxes		**25,723,673**	20,608,492
Legal and professional charges		**1,412,329**	2,659,191
Utilities		**3,365,136**	2,881,998
Communications		**3,835,298**	3,127,804
Repairs and maintenance		**3,241,318**	2,580,047
Vehicle running		**2,478,471**	3,480,368
Insurance		**4,961,578**	4,815,353
Travel and transportation		**6,236,620**	4,925,463
Stationery and printing		**5,455,804**	3,720,123
Fees and subscription		**1,060,875**	731,003
Advertisement and business promotions		**8,939,116**	6,236,358
Auditors' remuneration	*22.1*	**782,428**	808,943
Depreciation	*11.2*	**9,056,293**	9,056,018
Amortisation of intangible assets	*11.3*	**765,668**	1,524,980
Bank charges		**723,407**	1,193,622
Other expenses		**3,236,786**	3,768,442
		213,105,964	181,647,435

22.1 Auditors' remuneration

		2017	2016
Audit fee		**473,550**	473,550
Special certifications		**146,298**	146,298
Out of pocket expenses		**162,580**	189,095
		782,428	808,943

23. OTHER CHARGES

	Note	2017	2016
(Reversal) / Provision for Workers' Welfare Fund	*23.1*	-	(414,893)
		-	(414,893)

23.1 This includes reversal of provision for Federal Workers' Welfare Fund amounting to Rs. 547,760 for the period from 2008 to 2015, based on Supreme Court's judgement dated 10 November 2016.

24. TAXATION

	2017	2016
	(Rupees)	
For the year		
- current	**6,973,892**	5,722,544
- deferred	**7,208,153**	2,336,285
	14,182,045	8,058,829
For prior year		
- current	**-**	225,323
- deferred	**-**	-
	-	225,323
	14,182,045	8,284,152

24.1 Relationship between tax expense and accounting profit

	2017	2016
Accounting profit before tax	**43,743,657**	14,769,836
Tax rate	**30%**	31%
Tax on accounting profit	**13,123,097**	4,578,649
Tax effect of taxation at reduced rate	**-**	(81,268)
Tax effect of ACT and Capital Gain Tax in current tax	**1,770,954**	2,661,089
Prior year tax	**-**	225,323
Tax effect of change in tax rate	**(712,006)**	900,359
	14,182,045	8,284,152

24.2 The Finance Act 2007 had introduced amendments to the Income Tax Ordinance, 2001, through which income of Microfinance Banks has been conditionally exempted from tax for five years commencing 1 January 2008 under clause 66 (viii) of Part I of the Second Schedule. However, the Finance Act 2007 has also introduced the Seventh Schedule to the Income Tax Ordinance, 2001 which is applicable to Banking Companies. Under Rule 8 of the Seventh Schedule, no exemptions of the Second Schedule are to apply to Banking Companies. The exemption of Clause 66 (viii) therefore appears to be overruled by Rule 8 of the Seventh Schedule. However, based on the opinion of the Bank's lawyer, the Bank continues to prepare and submit its tax returns as a microfinance institution and does not follow the Seventh Schedule.

24.3 Tax contingencies

The income tax returns for the tax year 2007 to 2017 have been filed which are deemed to be assessed under the provisions of section 120 of the Income Tax Ordinance, 2001.

Show cause notices in respect of tax year 2008 and 2010 issued by the Additional Commissioner Inland Revenue (ACIR) vide orders dated 17 February 2009 and 22 November 2010 under Section 122 (5A) of the Income Tax Ordinance, 2001 whereby ACIR, for the tax year 2008 and 2010, raised concerns over admissibility of provision against non-performing advances, bad debts written off, provision for leave fare assistance, amortisation of discount on Pakistan Investment Bonds, amortisation of Government grant. Further, concerns were raised on the apportionment of expenses to dividend income, computation of minimum tax on turnover and non-payment of tax on dividend income. For the tax year 2010, ACIR raised an additional concern on incorrect claim of penalty imposed by State Bank of Pakistan. Aggregate effect of aforementioned show cause notices amounts to Rs. 13,981,664.

In response of the above concerns, the Bank has filed its responses via Letters No. CT 1846 and CT 2020 for the tax year 2008 and Letters No. CT 565 and CT 1319 for the tax year 2010, communicating their point of view. No orders have so far been issued by the ACIR. Based on the opinion of the tax consultant, the management expects positive outcome of the responses. Accordingly, the effect of the show cause notices has not been considered in these financial statements.

25. NUMBER OF EMPLOYEES

	2017			2016		
	Credit / Sales	**Banking / Support**	**Total**	Credit / Sales	Banking / Support	Total
Permanent	**57**	**62**	**119**	36	32	68
Contractual	**79**	**88**	**167**	100	88	188
Total number of employees	**136**	**150**	**286**	136	120	256

26. DEFINED BENEFIT PLAN

26.1 Staff Gratuity Scheme

As disclosed in note 5.10.2, the Bank operates an approved funded gratuity scheme for its employees. The accounting policy for recognising actuarial gains and losses is disclosed in note 5.10.2 to the financial statements. The information in notes 26.1.1 to 26.9 relating to the 2017 and 2016 financial year has been obtained from the actuarial valuation report.

26.1.1 Principal actuarial assumptions

The latest actuarial valuation for defined benefit plan scheme was carried out as at 31 December 2017 using the Projected Unit Credit Method (PUCM). The following significant assumptions were used for the actuarial valuation:

	2017	2016
	Percent per annum	
Discount rate	**7.75**	7.25
Expected rate of increase in salary levels - senior employees	**4.75**	4.25
Expected rate of increase in salary levels - other employees	**4.75**	4.25

Mortality rates assumed were based on the 70% of the EFU(61-66) table.

26.2 The amounts recognised in the balance sheet are as follows:

	Note	**2017**	2016
		(Rupees)	
Present value of defined benefit obligation	*26.3*	**10,072,655**	18,986,276
Fair value of plan assets	*26.4*	**(5,645,037)**	(6,553,158)
		4,427,618	12,433,118

26.3 Movement in the present value of defined benefit obligation

	2017	2016
Present value of obligation as at January 1	**18,986,276**	16,573,877
Current service cost	**2,991,205**	2,703,537
Past service cost	**299,525**	-
Interest cost	**909,384**	1,249,246
Benefits paid	**(12,886,101)**	(1,916,614)
Actuarial (gain) / loss on remeasurement of obligation	**(227,634)**	376,230
Present value of obligation as at December 31	**10,072,655**	18,986,276

26.4	Movement in the fair value of plan assets	Note	2017	2016
			(Rupees)	
	Fair value of assets as at January 1		**6,553,158**	6,000,000
	Expected return		**475,104**	460,220
	Contributions		**12,886,101**	1,422,118
	Benefits paid		**(12,886,101)**	(1,916,614)
	Actuarial gain / (loss)		**(1,383,225)**	587,434
	Fair value of assets as at December 31		**5,645,037**	6,553,158

26.5	Movement in the net (assets) / liability recognised in the balance sheet are as follows:			
	Opening liability		**12,433,118**	10,573,877
	Charge for the year	*26.6*	**3,725,010**	3,492,563
	Other comprehensive income		**1,155,591**	(211,204)
	Benefits paid		**(12,886,101)**	(1,422,118)
	Closing liability		**4,427,618**	12,433,118

26.6	The amount recognised in the profit and loss account is as follows:			
	Current service cost		**2,991,205**	2,703,537
	Past service cost		**299,525**	-
	Interest cost		**434,280**	789,026
	Net charge for the year		**3,725,010**	3,492,563

26.7	Actuarial (losses) / gains			
	Net unrecognised actuarial (losses) / gains as at January 1		**-**	-
	Actuarial gain / (loss) on remeasurement of obligation	*26.7.1*	**(1,155,591)**	211,204
			(1,155,591)	211,204
	Actuarial (gain) / loss recognised in:			
	- other comprehensive income		**1,155,591**	(211,204)
	- profit and loss account		**-**	-
	Net unrecognised actuarial (losses) / gains as at December 31		**-**	-

26.7.1	Actuarial losses / (gain) on remeasurement of obligation comprise of:		
	Demographic assumptions	**-**	-
	Financial loss	**-**	-
	Experience adjustment	**227,634**	376,230
	Investment return	**(1,383,225)**	(587,434)
		(1,155,591)	(211,204)

26.8	Sensitivity analysis	Impact on defined benefit obligation		
		Change in assumption	Increase in assumption	Decrease in assumption
			(Rupees)	
	Discount rate	1%	(449,806)	495,465
	Salary increases	1%	505,315	(466,312)

26.9	Historical information	2017	2016	2015	2014
		(Rupees)			
	Present value of defined benefit obligation	10,072,655	18,986,276	16,573,877	17,499,686
	Fair value of plan assets	(5,645,037)	(6,553,158)	(6,000,000)	-
	(Surplus) / deficit	4,427,618	12,433,118	10,573,877	17,499,686

26.10 The expected gratuity expense and contribution for the next year ending 31 December 2018 works out to Rs. 3,143,872 and Rs. 3,834,856 respectively.

26.11 The average duration of the plan 5.1 years on 31 December 2017 (2016: 4.5 years).

27. NUMBER OF BRANCHES

	2017	2016
	(Number)	
Branches at the beginning of the year	16	16
Opened during the year	3	-
Closed during the year	-	-
Branches at the end of the year	19	16

27.1 The Bank also has 14 service centers (2016: 14) in operation along with branches.

28. REMUNERATION OF DIRECTORS AND EXECUTIVES

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

	2017			2016		
	President / Chief Executive Officer	**Directors**	**Executives**	President / Chief Executive Officer	Directors	Executives
	(Rupees)					
Managerial remuneration	17,726,873	-	13,669,191	13,392,065	-	15,605,540
Contribution to defined contribution plan	1,473,541	-	790,143	1,115,961	-	1,300,410
Utilities allowance	-	-	-	108,541	-	87,600
Medical allowance	1,772,693	-	1,366,933	1,339,207	-	1,560,554
Conveyance	589,813	-	1,145,527	395,780	-	598,000
Bonus	993,510	-	2,588,884	1,227,606	-	1,344,564
Charge for defined benefit plan	1,380,333	-	2,290,279	1,116,005	-	726,514
Director fees	-	840,155	-	-	632,988	-
Others	-	-	-	1,227,606	-	1,481,764
	23,936,763	840,155	21,850,957	19,922,771	632,988	22,704,946
Number of persons at year end	1	9	6	1	6	15

28.1 The Bank has provided free use of Bank's maintained cars to the Chief Executive Officer. Some executives have also been provided with free use of the Bank owned cars in accordance with the terms of their employment.

28.2 Executive means employees other than the Chief Executive and Directors, whose basic salary exceed five hundred thousand rupees in a financial year.

29 EARNING PER SHARE

29.1 Basic

		2017	2016
Profit after taxation	*Rupees*	29,561,612	6,485,684
Weighted average number of ordinary shares	*Number*	173,006,000	103,332,685
Earning per share - Basic and diluted	*Rupees*	0.171	0.063

29.2 Diluted

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

30. RELATED PARTY TRANSACTIONS

The Bank has related party relationship with its parent, associates, employee benefit plans, and its key management personnel (including their associates). The details of investments in associate are stated in note 9 to these financial statements.

Contributions to the accounts in respect of staff retirement benefits are made in accordance with actuarial valuation / terms of the contribution plan. Remuneration of the key management personnel are in accordance with the terms of their employment. Other transactions are carried out as per agreed terms.

The details of transactions with related parties, other than those which have been specifically disclosed elsewhere in the financial statements are as follows:

30.1 The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

Nature of related party transaction	2017				2016			
	As at 01 January 2017	Given / made during the year	Repaid / sale during the year	As at 31 December 2017	As at 01 January 2016	Given / made during the year	Repaid / sale during the year	As at 31 December 2016
	(Rupees)							
Investments								
Associates	206,042,786	1,084,785,397	(1,127,431,037)	163,397,146	-	772,770,548	(566,727,762)	206,042,786
Lendings to financial institutions								
Associates	174,700,000	1,300,000,000	(1,024,700,000)	450,000,000	535,925,775	896,436,919	(1,257,662,694)	174,700,000
Advances - staff loans								
Key management personnel	3,208,166	8,565,975	(3,040,211)	8,733,930	2,241,769	8,596,897	(7,630,500)	3,208,166

	Note	2017	2016
		(Rupees)	
Other payable			
Gratuity fund		4,373,620	12,433,118
Ministry of Finance - Sultanate of Oman		4,558,452	26,600
Mark-up income			
Associates		25,656,168	21,736,731
Key management personnel		231,792	394,838
Dividend income			
Associates		-	439,289
Expenses for the year			
Remuneration to key management personnel		45,787,720	42,627,717
Non-executive director's fee / remuneration		840,155	632,988
Charge for defined contribution plan		4,001,741	3,671,396
Charge for defined benefit plan		3,725,010	3,492,563

31. CASH AND CASH EQUIVALENTS

	Note	2017	2016
Cash and balances with SBP / NBP	6	4,177,376	7,996,608
Balances with other banks	7	320,085,579	28,527,405
		324,262,955	36,524,013

32. CAPITAL RISK MANAGEMENT

32.1 The objective of managing capital is to safeguard the Bank's ability to continue as a going concern, so that it could continue to provide adequate returns and benefits to stakeholders by pricing products and services commensurately with the level of risk. It is the policy of the Bank to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

32.2 Goals of managing capital

The goals of managing capital of the Bank are as follows:

- To be an appropriately capitalised institution, as defined by the regulatory authorities and comparable to peers;
- Maintain strong ratings and to protect the Bank against unexpected events;
- Availability of adequate capital (including the quantum) at a reasonable cost so as to enable the Bank to expand; and
- Achieve low overall cost of capital with appropriate mix of capital elements.

The Bank has no gearing risk in the current year.

32.3 Statutory minimum capital requirement and management of capital

32.3.1 As per amendments on Prudential Regulations (R-1) issued vide BPRD Circular No. 10 of 2015 dated 3 June 2015, the minimum paid up capital requirement (MCR), free of losses for Microfinance Banks operating at national level is Rs. 1,000 million as at 31 December 2017. As of 31 December 2017, the share capital of the Bank stood at Rs. 2,308.300 million (2016: Rs. 1,151.820) and paid up capital of the Bank free of losses is Rs. 2,239 million (2016: Rs. 1,061 million).

32.3.2 At present, the Bank defines capital as shareholders' equity i.e. share capital and reserves. The capital of the Bank is managed keeping in view the minimum "Capital Adequacy Ratio" (15%) required by the Prudential Regulations for Microfinance Banks / Institutions. The adequacy of the capital is tested with reference to the risk-weighted assets of the Bank. The calculation of capital adequacy enables the Bank to assess the long-term soundness. As the Bank conducts business on a wide area network basis, it is critical that it is able to continuously monitor the exposure across the entire organization.

The Bank manages its capital structure and makes adjustments to it in light of changes in regulatory and economic conditions. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend paid to shareholders, return capital to shareholders or issue new shares.

As at 31 December 2017 the Bank's CAR was approximately 180.63% (2016: 122.33%) of its weighted exposure.

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33. FINANCIAL ASSETS AND LIABILITIES

33.1 Interest rate risk

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

	Effective yield / interest rate	Interest bearing					Non-Interest bearing					Total
		Upto 6 months	Over 6 months to one year	Over 1 year upto five years	Over five years	Sub total	Upto 6 months	Over 6 months to one year	Over 1 year up to five years	Over five years	Sub total	
	%	(Rupees)										
31 December 2017												
Financial assets												
Cash and balances with SBP / NBP		-	-	-	-	-	4,177,376	-	-	-	4,177,376	4,177,376
Balances with other banks / NBFIs / MFBs	6.00%-7.00%	318,168,132	-	-	-	318,168,132	1,917,447	-	-	-	1,917,447	320,085,579
Lendings to financial institutions	6.00%-6.30%	450,000,000	-	-	-	450,000,000	-	-	-	-	-	450,000,000
Investments - net of provisions		604,573,918	21,825,000	7,213,986	-	633,612,904	163,397,146	-	-	-	163,397,146	797,010,050
Advances - net of provisions	5% - 39%	1,168,791	655,115,752	25,695,843	2,994,947	684,975,333	846,990	1,119,328	1,053,805	131,110	3,151,233	688,126,566
Other assets		-	-	-	-	-	8,214,361	71,046,599	-	-	79,260,960	79,260,960
		1,373,910,841	676,940,752	32,909,829	2,994,947	2,086,756,369	178,553,320	72,165,927	1,053,805	131,110	251,904,162	2,338,660,531
Financial liabilities												
Deposits and other accounts		129,300	896,000	1,390,000	-	2,415,300	6,617,964	-	-	-	6,617,964	9,033,264
Other liabilities		-	-	-	-	-	56,289,645	12,882,185	2,697,657	-	71,869,487	71,869,487
		129,300	896,000	1,390,000	-	2,415,300	62,907,609	12,882,185	2,697,657	-	78,487,451	80,902,751
On balance sheet gap		1,373,781,541	676,044,752	31,519,829	2,994,947	2,084,341,069	115,645,711	59,283,742	(1,643,852)	131,110	173,416,711	2,257,757,780
31 December 2016												
Financial assets												
Cash and balances with SBP / NBP		-	-	-	-	-	7,996,608	-	-	-	7,996,608	7,996,608
Balances with other banks / NBFIs / MFBs	3.75%-6.5%	23,193,870	-	-	-	23,193,870	5,333,535	-	-	-	5,333,535	28,527,405
Lendings to financial institutions	6.40%-6.70%	-	184,700,000	-	-	184,700,000	-	-	-	-	-	184,700,000
Investments - net of provisions		69,250,000	155,255,000	17,553,285	-	242,058,285	274,855,160	-	-	-	274,855,160	516,913,445
Advances - net of provisions	5%-39%	110,627,310	247,474,869	68,229,546	88,291	426,420,016	833,658	643,010	582,070	-	2,058,738	428,478,754
Other assets		-	-	-	-	-	16,885,907	2,660,520	-	-	19,546,427	19,546,427
		203,071,180	587,429,869	85,782,831	88,291	876,372,171	305,904,868	3,303,530	582,070	-	309,790,468	1,186,162,639
Financial liabilities												
Deposits and other accounts		118,361,966	3,070,000	20,600,000	-	142,031,966	6,863,505	-	-	-	6,863,505	148,895,471
Other liabilities		-	-	-	-	-	22,796,576	4,029,689	12,433,118		39,259,383	39,259,383
		118,361,966	3,070,000	20,600,000	-	142,031,966	29,660,081	4,029,689	12,433,118	-	46,122,888	188,154,854
On balance sheet gap		84,709,214	584,359,869	65,182,831	88,291	734,340,205	276,244,787	(726,159)	(11,851,048)	-	263,667,580	998,007,785

33.2 Concentration of credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank's credit risk is primarily attributable to its advances, investments and its lendings to financial institutions. However, the Bank believes that it is not exposed to major concentration of credit risk. The Bank's credit risk in lendings to financial institutions is limited because the counter party is an associated undertaking having high credit rating. The Bank has an effective loan disbursement and recovery monitoring system which allows it to evaluate borrowers' credit worthiness and identify potential problem loans. A provision for potential loan losses is maintained as required by the Prudential Regulations for Microfinance Banks / Institutions. Maximum amount of financial assets which are subject to credit risk amount to Rs. 674 million (2016: Rs. 661 million).

The analysis below summarises the credit quality of the Bank's bank balances:

Bank	Rating category	As on 31 December 2017	As on 31 December 2016
		------- (Percentage) -------	
Bank balances			
Local Currency			
United Bank Limited-Current Account	A-1+	0.9%	1.7%
United Bank Limited-PLS Account	A-1+	5.9%	6.6%
Habib Bank Limited-PLS Account	A-1+	0.0%	0.0%
Allied Bank Limited-PLS Account	A-1+	0.2%	0.0%
JS Bank-PLS Account	A-1+	4.2%	0.6%
Summit Bank Limited-PLS Account	A-1	0.0%	0.0%
United Bank Limited-Saving Account	A-1+	0.0%	0.0%
Tameer Microfinance Bank-Saving Account	A-1	0.2%	0.7%
Khushhali Bank-Saving Account	A-1	84.1%	1.2%
U Microfinance Bank Limited-Saving Account	A-2	0.5%	0.4%
Tameer Microfinance Bank-TDR	A-1	0.9%	23.7%
Khushhali Bank-TDR	A-1	1.2%	17.6%
U Microfinance Bank Limited-TDR	A-2	0.6%	47.4%
FINCA Microfinance Bank Limited-TDR	A-1	1.2%	0%

33.3 Liquidity risk

Liquidity risk is the risk of being unable to raise funds at a reasonable price to meet commitments when they fall due, or to take advantage of investment opportunities when they arise. The management ensures that funds are available at all times to meet the funding requirements of the Bank. The Bank manages this risk by maintaining sufficient liquidity at Head Office and Branches. Maximum amount of financial assets which are subject to credit risk amount to Rs. 32.54 million (2016: Rs. 188 million).

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

	2017				
	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
			(Rupees)		
Advances	703,493,393	-	1,168,791	676,628,759	25,695,843
Investments	633,612,904	453,126,054	151,447,864	21,825,000	7,213,986
Other Earning Assets	434,812,510	84,215,367	-	350,597,143	-
Total market rate assets	1,771,918,807	537,341,421	152,616,655	1,049,050,902	32,909,829
Other non-earning assets	163,217,809	-	163,217,809	-	-
Total assets	1,935,136,616	537,341,421	315,834,464	1,049,050,902	32,909,829
Market rate liabilities					
Large Time Deposits Above Rupees 100,000	2,196,000	1,596,000	-	600,000	-
All other Time Deposits - (including Fixed Rate Deposits)	160,000	-	-	40,000	120,000
Other cost Bearing Deposits	59,300	59,300	-	-	-
Borrowings	-	-	-	-	-
Total market rate liabilities	2,415,300	1,655,300	-	640,000	120,000
Other non-cost bearing liabilities	14,239,420	152,837	14,086,583	-	-
Total liabilities	16,654,720	1,808,137	14,086,583	640,000	120,000

	2016				
	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
			(Rupees)		
Advances	428,478,754	6,072,880	105,388,088	248,117,879	68,899,907
Investments	242,058,285	10,000,000	30,000,000	184,505,000	17,553,285
Other Earning Assets	482,749,030	298,049,030	-	184,700,000	-
Total market rate assets	1,153,286,069	314,121,910	135,388,088	617,322,879	86,451,192
Other non-earning assets	107,212,390	33,250,893	3,017,740	2,801,137	68,142,620
Total assets	1,260,498,459	347,372,803	138,405,828	620,124,016	154,593,812
Market rate liabilities					
Large Time Deposits Above Rupees 100,000	141,536,263	-	16,586,263	104,250,000	20,700,000
All Other Time Deposits - (Including Fixed Rate Deposits)	440,000	-	260,000	180,000	-
Other Cost Bearing Deposits	55,703	55,603	-	-	-
Borrowings	-	-	-	-	-
Total market rate liabilities	142,031,966	55,603	16,846,263	104,430,000	20,700,000
Other non-cost bearing liabilities	46,122,888	16,801,482	12,858,599	1,210,407	15,252,400
Total liabilities	188,154,854	16,857,085	29,704,862	105,640,407	35,952,400

35. Fair value of financial Instruments

Fair value is an amount for which an asset can be exchanged, or liability settled, between knowledgeable willing parties in arm's length transaction. Consequently, differences may arise between the carrying values and the fair values estimates. The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs use in making the measurements:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurements using input other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value measurements using input for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

On balance sheet financial instruments

2017	Note	Carrying amount: Available for sale	Carrying amount: Held for Maturity	Carrying amount: Loans and receivables	Carrying amount: Other financial assets / liabilities	Carrying amount: Total	Fair value: Level 1	Fair value: Level 2	Fair value: Level 3	Fair value: Total
		(Rupees in '000)								
Financial assets measured at fair value										
- Investments - Mutual fund										
-In associate		163,397,146	-	-	-	163,397,146	-	163,397,146	-	163,397,146
-Others		-	-	-	-	-	-	-	-	-
- Investments - TFC's and Sukuk (net of provisions)		-	-	-	-	-	-	-	-	-
Financial assets not measured at fair value	35.1									
- Cash and bank balances with SBP and NBP		-	-	4,177,376	-	4,177,376	-	-	-	-
- Balances with other banks		-	-	320,085,579	-	320,085,579	-	-	-	-
- Investments - TDRs		-	566,607,804	-	-	566,607,804	-	-	-	-
- Investments - PIB		-	17,256,052	-	-	17,256,052	-	17,256,052	-	17,256,052
- Investments - T-Bills		-	49,749,048	-	-	49,749,048	-	49,749,048	-	49,749,048
- Lending to financial institution		-	-	-	450,000,000	450,000,000	-	-	-	-
- Advances		-	-	703,493,393	-	703,493,393	-	-	-	-
- Other assets		-	-	-	79,260,960	79,260,960	-	-	-	-
		163,397,146	633,612,904	1,027,756,348	529,260,960	2,354,027,358				
Financial liabilities not measured at fair value	35.1									
- Deposits and other accounts		-	-	-	9,033,264	9,033,264	-	-	-	-
- Other liabilities		-	-	-	71,869,487	71,869,487	-	-	-	-
		-	-	-	80,902,751	80,902,751				

2016	Note	Carrying amount: Available for sale	Carrying amount: Held for Maturity	Carrying amount: Loans and receivables	Carrying amount: Other financial assets / liabilities	Carrying amount: Total	Fair value: Level 1	Fair value: Level 2	Fair value: Level 3	Fair value: Total
		(Rupees in '000)								
Financial assets measured at fair value										
- Investments - Mutual fund		-	-	-	-	-	-	-	-	-
-In associate		206,320,476	-	-	-	206,320,476	-	206,320,476	-	206,320,476
-Others		68,534,684	-	-	-	68,534,684	-	68,534,684	-	68,534,684
- Investments - TFC's and Sukuk (net pf provisions)		-	-	-	-	-	-	-	-	-
Financial assets not measured at fair value	35.1									
- Cash and bank balances with SBP and NBP		-	-	7,996,608	-	7,996,608	-	-	-	-
- Balances with other banks		-	-	28,527,405	-	28,527,405	-	-	-	-
- Investments - TDRs		-	224,505,000	-	-	224,505,000	-	-	-	-
- Investments - PIBs		-	17,553,285	-	-	17,553,285	-	17,553,285	-	17,553,285
- Investments - T-Bills		-	-	-	-	-	-	-	-	-
- Lending to financial institution		-	-	-	184,700,000	184,700,000	-	-	-	-
- Advances		-	-	428,478,754	-	428,478,754	-	-	-	-
- Other assets		-	-	-	19,546,427	19,546,427	-	-	-	-
		274,855,160	242,058,285	465,002,767	204,246,427	1,186,162,639				
Financial liabilities not measured at fair value	35.1									
- Deposits and other accounts		-	-	-	148,895,471	148,895,471	-	-	-	-
- Other liabilities		-	-	-	39,259,383	39,259,383	-	-	-	-
		-	-	-	188,154,854	188,154,854				

35.1 The fair value of financial assets and liabilities not carried at fair value are not significantly different from their carrying values since these assets and liabilities are either short term in nature or in case of loans are frequently repriced.

36. GENERAL

Comparative information has been reclassified, rearranged or additionally incorporated in these financial statements for the purposes of better presentation.

- Figures have been rounded off to the nearest Rupee unless otherwise specified.

- Where there are no amounts to be disclosed in the account captions as prescribed by BSD Circular No. 11 dated 30 December 2003 issued by the State Bank of Pakistan (SBP) in respect of forms of financial statements for Microfinance Institutions / Banks, these captions have not been reproduced in these financial statements except for the balance sheet and profit and loss account.

37. DATE OF AUTHORISATION

These financial statements were authorised for issue on 0 9 MAR 2018 by the Board of Directors of the Bank.

President / Chief Executive	Chairman	Director	Director