

FINCA MICROFINANCE BANK LIMITED**BALANCE SHEET**

AS AT DECEMBER 31, 2017

		2017	2016
	Note	Rupees	Rupees
ASSETS			
Cash and balances with SBP and NBP	7	976,428,755	809,674,643
Balances with other banks / NBFIs / MFBs	8	1,556,694,589	1,248,484,930
Lending to financial institutions		-	-
Investments - net of provisions	9	5,209,160,227	1,885,328,850
Advances - net of provisions	10	14,863,341,016	10,082,263,974
Operating fixed assets	11	1,220,665,974	920,847,250
Other assets	12	1,306,807,645	664,957,569
Deferred tax asset	13	8,786,704	6,407,692
Total assets		25,141,884,910	15,617,964,908
LIABILITIES			
Deposits and other accounts	14	19,183,925,717	11,069,655,852
Borrowings	15	1,668,981,702	1,350,001,756
Subordinated debt		-	-
Other liabilities	16	1,005,746,247	765,754,271
Deferred tax liabilities		-	-
Total liabilities		21,858,653,666	13,185,411,879
Net assets		3,283,231,244	2,432,553,029
REPRESENTED BY:			
Share capital	17.2	6,348,887,110	6,348,887,110
Discount on issue of shares		(4,089,040,293)	(4,089,040,293)
Statutory reserve		365,982,212	195,022,579
Depositors' protection fund		96,448,556	50,596,128
Accumulated profit / (loss)		552,799,227	(85,514,244)
		3,275,076,812	2,419,951,280
Surplus on revaluation of fixed assets		-	-
Deferred grants	18	8,154,432	12,601,749
Total capital		3,283,231,244	2,432,553,029
Memorandum / Off-balance sheet items	19		

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

Chief Executive Officer

Chairman

Director

Director

FINCA MICROFINANCE BANK LIMITED**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Note	2017 Rupees	2016 Rupees
Mark-up / return / interest earned	20	4,808,928,684	2,986,050,035
Mark-up / return / interest expensed	21	(1,256,380,927)	(647,592,697)
Net mark-up / interest income		3,552,547,757	2,338,457,338
Provision against non-performing loans and advances	10.4	(378,812,910)	(156,750,377)
Provision for diminution in the value of investments		-	-
Bad debts written off directly	10.4.1	(27,781,711)	(62,460,438)
		(406,594,621)	(219,210,815)
Net mark-up / interest income after provisions		3,145,953,136	2,119,246,523
Non mark-up / non interest income			
Fee, commission and brokerage income	22	564,058,024	441,395,783
Dividend income		-	-
Other income	23	129,420,187	108,379,874
Total non mark-up / non interest income		693,478,211	549,775,657
		3,839,431,347	2,669,022,180
Non mark-up / non interest expenses			
Administrative expenses	24	(2,437,691,875)	(1,669,760,508)
Other charges	25	(23,485,767)	(11,666,355)
Total non mark-up / non interest expenses		(2,461,177,642)	(1,681,426,863)
Profit before taxation		1,378,253,705	987,595,317
Taxation - Current year		(484,276,120)	(184,377,277)
Prior years		(39,944,328)	(10,676,354)
Deferred		764,907	(161,646,128)
	26	(523,455,541)	(356,699,759)
Profit after taxation		854,798,164	630,895,558
Basic and diluted earnings per share	30	1.35	0.99

Appropriations are reflected in the statement of changes in equity.

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

Chief Executive Officer

Chairman

Director

Director

FINCA MICROFINANCE BANK LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>2017</u> Rupees	<u>2016</u> Rupees
Profit after tax	854,798,164	630,895,558
Other comprehensive income for the year		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Remeasurement of post retirement defined benefit obligation	(4,284,850)	(3,513,550)
Related tax impact	1,499,698	1,229,743
	(2,785,152)	(2,283,807)
<i>Items that may be reclassified subsequently to profit or loss</i>	-	-
Total comprehensive income for the year	852,013,012	628,611,751

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

Chief Executive Officer

Chairman

Director

Director

FINCA MICROFINANCE BANK LIMITED**CASH FLOW STATEMENT**

FOR THE YEAR ENDED DECEMBER 31, 2017

	Note	2017 Rupees	2016 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		1,378,253,705	987,595,317
Less : Dividend income		-	-
		1,378,253,705	987,595,317
Adjustments for non-cash charges			
Depreciation	11.3	103,106,408	84,078,512
Amortisation	11.2	48,667,707	34,214,881
Provision against non-performing advances	10.4	378,812,910	156,750,377
Provision for diminution in the value of investments/other assets		-	-
(Gain) / loss on disposal of fixed assets	23	(39,080,151)	1,813,789
Finance charge on leased assets		-	-
Amortisation of discount on held to maturity investment	20	(196,451,223)	(54,070,498)
Deferred grant recognised as income	23	(4,447,317)	(5,695,175)
Provision for gratuity	16.2	46,526,417	33,086,690
		337,134,751	250,178,576
		1,715,388,456	1,237,773,893
Increase in operating assets			
Lending to financial institutions		-	-
Advances		(5,159,889,952)	(4,820,338,617)
Other assets		(641,850,076)	(381,109,183)
		(5,801,740,028)	(5,201,447,800)
Increase in operating liabilities			
Bills payable		67,247,260	8,784,384
Borrowings from financial institutions		318,979,946	1,235,000,876
Deposits		8,114,269,865	5,012,291,749
Other liabilities (excluding current taxation and dividend)		267,807,819	164,013,050
		8,768,304,890	6,420,090,059
		4,681,953,318	2,456,416,152
Gratuity paid	16.2	(13,752,179)	(6,932,399)
Income tax paid		(556,512,706)	(77,635,360)
Net cash generated from operating activities		4,111,688,433	2,371,848,393
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in held for trading securities		(2,241,491,077)	-
Net investments in held-to-maturity securities		(885,889,077)	(792,062,102)
Interest income on depositors' protection fund		3,112,520	1,122,901
Dividend income		-	-
Investments in operating fixed assets		(576,835,848)	(266,118,254)
Sale proceeds from disposal of property and equipment	11.3.1	164,323,160	1,816,011
Net cash used in investing activities		(3,536,780,322)	(1,055,241,444)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts / payments of sub-ordinated loan		-	-
Receipts / payments of lease obligations		-	-
Issue of share capital		-	-
Dividend paid		(99,944,340)	(25,076,550)
Grant received from donors	18	-	-
Net cash used in financing activities		(99,944,340)	(25,076,550)
Increase in cash and cash equivalents		474,963,771	1,291,530,399
Cash and cash equivalents at beginning of the year		2,058,159,573	766,629,174
Cash and cash equivalents at end of the year	32	2,533,123,344	2,058,159,573

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

Chief Executive Officer

Chairman

Director

Director

FINCA MICROFINANCE BANK LIMITED**STATEMENT OF CHANGES IN EQUITY**

FOR THE YEAR ENDED DECEMBER 31, 2017

	Capital reserves			Revenue reserve	Total	
	Share capital	Discount on issue of shares	Statutory reserve	Depositors' protection fund		Accumulated profit / (loss)
	----- (Rupees) -----					
Balance at December 31, 2015	6,348,887,110	(4,089,040,293)	68,843,467	17,928,449	(431,381,215)	1,915,237,518
Profit for the year	-	-	-	-	630,895,558	630,895,558
Other comprehensive income						
Remeasurement of post retirement defined benefit obligation - net of tax	-	-	-	-	(2,283,807)	(2,283,807)
Total comprehensive income for the year	-	-	-	-	628,611,751	628,611,751
Transfer to statutory reserve	-	-	126,179,112	-	(126,179,112)	-
Transfer to depositors' protection fund	-	-	-	31,544,778	(31,544,778)	-
- Return on its investments - net of tax	-	-	-	1,122,901	-	1,122,901
Transactions with owners:						
- Interim dividend @ Re. 0.1969 per share	-	-	-	-	(125,020,890)	(125,020,890)
Balance at December 31, 2016	6,348,887,110	(4,089,040,293)	195,022,579	50,596,128	(85,514,244)	2,419,951,280
Profit for the year	-	-	-	-	854,798,164	854,798,164
Other comprehensive income						
Remeasurement of post retirement defined benefit obligation - net of tax	-	-	-	-	(2,785,152)	(2,785,152)
Total comprehensive income for the year	-	-	-	-	852,013,012	852,013,012
Transfer to statutory reserve	-	-	170,959,633	-	(170,959,633)	-
Transfer to depositors' protection fund	-	-	-	42,739,908	(42,739,908)	-
- Return on its investments - net of tax	-	-	-	3,112,520	-	3,112,520
Balance at December 31, 2017	6,348,887,110	(4,089,040,293)	365,982,212	96,448,556	552,799,227	3,275,076,812

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

Chief Executive Officer

Chairman

Director

Director

FINCA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

1 STATUS AND NATURE OF BUSINESS

- 1.1 FINCA Microfinance Bank Limited, (the Bank) was incorporated on June 26, 2008 as a public limited company. The Bank obtained the Microfinance banking license from the State Bank of Pakistan (SBP) on August 12, 2008 under the provisions of Microfinance Institutions Ordinance, 2001 and certificate of commencement of business on September 4, 2008 from Securities and Exchange Commission of Pakistan. On October 27, 2008 the Bank received the certificate of commencement of business from the SBP.

The Bank's principal business is to provide microfinance services to poor and under-served segments of the society as envisaged under the Microfinance Institutions Ordinance, 2001. The registered office of the Bank is situated at 387E- Johar Town, Lahore, Pakistan. Subsequent to takeover by FINCA International, the Bank has changed its name from Kashf Microfinance Bank Limited to FINCA Microfinance Bank Limited with effect from November 25, 2013.

The Bank is licensed to operate nationwide. As at December 31, 2017, the Bank has 116 branches (2016: 105 branches) operating in the provinces of Punjab, Khyber Pakhtunkhwa, Sindh and Azad Jammu & Kashmir.

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

2 BASIS OF PRESENTATION

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

3 STATEMENT OF COMPLIANCE

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

During the year, the Companies Act, 2017 was enacted on May 30, 2017 and came into force at once. Subsequently, the Securities and Exchange Commission of Pakistan (SECP) has notified through Circular No. 23 dated October 04, 2017 that companies whose financial year close on or before December 31, 2017 shall prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984. Therefore, these financial statements have been prepared under the repealed Companies Ordinance, 1984.

SBP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for Banking Companies through BSD Circular No. 10 dated August 26, 2002. Further, SECP has deferred applicability of IFRS 7 "Financial Instruments: Disclosures" through its notification S.R.O 411(1) / 2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by SBP through various circulars / regulations.

3.2 New accounting standards / amendments and IFRS interpretations that are effective for the year ended December 31, 2017

The following standards, amendments and interpretations are effective for the year ended December 31, 2017. These standards, interpretations and the amendments are either not relevant to the Bank's operations or are not expected to have significant impact on the Bank's financial statements other than certain additional disclosures:

Amendments to IAS 7 'Statement of Cash Flows' -
Amendments as a result of the disclosure initiative.

Effective from accounting period
beginning on or after January 01, 2017.

Amendments to IAS 12 'Income Taxes' - Recognition of
deferred tax assets for unrealised losses.

Effective from accounting period
beginning on or after January 01, 2017.

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

The following standards, amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them:

Amendments to IFRS 2 'Share-based Payment': Clarification of the classification and measurement of share-based payment transactions.

Effective from accounting period beginning on or after January 01, 2018.

IFRS 9 'Financial Instruments'

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 was deferred by SBP till further instructions.

IFRS 15 'Revenue from Contracts with Customers'

Effective from accounting period beginning on or after July 01, 2018 as per directives issued by the SECP.

Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures' - Sale or contribution of assets between an investor and its associate or joint venture.

Effective date is deferred indefinitely earlier adoption is permitted.

Amendments to IAS 28 'Investments in Associates and Joint Ventures' - Long term interests in Associates and Joint Ventures.

Effective from accounting period beginning on or after January 01, 2019.

Amendments to IAS 40 'Investment Property': Clarification on transfers of property to or from investment property.

Effective from accounting period beginning on or after January 01, 2018. Earlier application is permitted.

IFRIC 22 'Foreign Currency Transactions and Advance Consideration'. Provides guidance on transactions where consideration against non-monetary prepaid asset / deferred income is denominated in foreign currency.

Effective from accounting period beginning on or after January 01, 2018. Earlier application is permitted.

IFRIC 23 'Uncertainty over Income Tax Treatments'. Clarifies the accounting treatment in relation to determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 'Income Taxes'.

Effective from accounting period beginning on or after January 01, 2019.

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

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

- IFRS 1 – First Time Adoption of International Financial Reporting Standards

- IFRS 14 – Regulatory Deferral Accounts
- IFRS 16 – Leases
- IFRS 17 – Insurance Contracts

4 BASIS OF MEASUREMENT

4.1 Accounting convention

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

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

- a) Provision against doubtful advances (note 6.2 and note 10)
- b) Gratuity payable (note 6.7.2 and note 16.2)
- c) Useful life, residual values and impairment of operating fixed assets and intangibles (note 6.4, note 6.5 note 11.2 and note 11.3)
- d) Provision for taxation (note 6.8.1 and note 26)
- e) Deferred tax asset (note 6.8.2 and note 13)

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

6.1 Cash and cash equivalents

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

6.2 Advances

These are stated net of provision for non-performing advances, (if any). The outstanding portion of the advances, payments against which are overdue for 30 days or more, are classified as non-performing and divided into the following four categories as prescribed in Prudential Regulations for Microfinance Banks issued by the SBP:

- a) Other assets especially mentioned (OAEM): These are advances in arrears (payments / installments overdue) for 30 days or more but less than 60 days.
- b) Substandard: These are advances in arrears (payments / installments overdue) for 60 days or more but less than 90 days.
- c) Doubtful: These are advances in arrears (payments / installments overdue) for 90 days or more but less than 180 days.
- d) Loss: These are advances in arrears (payments / installments overdue) for 180 days or more.

In addition, a general provision is maintained equivalent to 1% (2016:1%) of the net outstanding balance (advances net of specific provisions) for potential loan losses. General provision is not required in cases where loans have been secured against gold or other cash collaterals with appropriate margin.

Specific and general provisions are charged against income for the year.

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

6.3 Investments

All purchases and sale of investments that require delivery within the timeframe established by regulation or market conversion are recognized at the trade date. All investments are derecognised when the right to receive the economic benefits from the investments has expired or has been transferred and the Bank has transferred substantially all the risks and rewards of ownership.

Investments are classified as follows:

Held for trading

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

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

Held-to-maturity

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

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

Available for sale

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

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

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

6.4 Operating fixed assets and depreciation

Capital work-in-progress

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

Tangible fixed assets - Owned

Operating fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Land shall be carried at cost and subsequently at revalued amount (if any).

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

Tangible fixed assets - Leased

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

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

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

Depreciation

Depreciation is calculated using the straight line method so as to write off the operating fixed assets, over their expected useful lives. Depreciation is calculated at the rates stated in note 11.3. The assets' residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date. The effect of any revision are charged to profit and loss account for the year, when the changes arise.

Depreciation on additions to property and equipment is charged from the month in which an asset is acquired or capitalized while no depreciation is charged for the month in which the asset is disposed-off.

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

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

Intangible assets

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

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

6.5 Impairment

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

6.6 Grants

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

6.7 Staff retirement benefits

6.7.1 Defined contribution plan

6.7.1.1 Provident Fund

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

6.7.2 Defined benefit plan

6.7.2.1 Gratuity scheme

The Bank operates an unapproved non-contributory defined benefit gratuity scheme for all permanent employees with a qualifying period of three years. Eligible employees are entitled to one month's basic salary for each completed year of service upon their departure from the Bank. The latest actuarial valuation was carried out as at December 31, 2017 using Projected Unit Credit Method. Actuarial gains and losses arising from the actuarial valuation are recognised immediately in other comprehensive income.

6.8 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 in other comprehensive income, in which case it is recognised in other comprehensive income.

6.8.1 Current tax

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

6.8.2 Deferred tax

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding amounts used for taxation purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilised.

6.9 Deposits

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

6.10 Borrowing

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

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

6.11 Provisions

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

6.12 Statutory reserve

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

6.13 Depositors' Protection Fund

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

6.14 Revenue recognition

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

Return on bank deposits and investments is recognised on accrual basis.

Fee and commission income is recognised as services are rendered.

Other income is recognised on accrual basis.

6.15 Foreign currency transactions and translations

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

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

6.16 Financial instruments

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

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

6.16.1 Financial assets and financial liabilities

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

6.16.2 Off setting

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

6.17 Share capital

Ordinary shares are classified as equity and recognized at their face value. Incremental costs directly attributable to the issue of new shares or options are shown in equity as deduction, net of tax, from the proceeds.

6.18 Functional and presentation currency

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

6.19 Earnings per share

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

7	Cash and balances with SBP and NBP	Note	2017	2016
			Rupees	Rupees
	Cash in hand		194,942,643	147,056,414
	Balance with State Bank of Pakistan	7.1	719,507,920	551,278,135
	Balance with National Bank of Pakistan in:			
	Deposit accounts	7.1	36,413,602	24,014,414
	Current accounts	7.1	25,564,590	87,325,680
			<u>976,428,755</u>	<u>809,674,643</u>

7.1 This represents the balance maintained with SBP and NBP to meet the minimum balance requirement equivalent to 5% as cash reserve and 10% as liquidity reserve of the Bank's time and demand liabilities in accordance with the Prudential Regulations. Deposit accounts carry mark-up of 3.75% (2016: 4.50%) per annum.

8	Balances with other banks / NBFIs / MFBs		2017	2016
			Rupees	Rupees
	In Pakistan:			
	Saving accounts	8.1	1,242,533,864	1,002,522,213
	Deposit accounts	8.2	200,000,000	155,000,000
	Current accounts		114,160,725	90,962,717
			<u>1,556,694,589</u>	<u>1,248,484,930</u>

8.1 These accounts carry mark-up ranging from 3.75% to 7.50% (2016: 3.5% to 8.0%) per annum.

8.2 These term deposits carry mark-up ranging from 5.50% to 11.25% (2016: 6% to 11.25%) per annum with maturity up to one month.

9	Investments - net of provisions		2017	2016
			Rupees	Rupees
	Federal Govt. Securities:			
	Market treasury bills (held to maturity)	9.1	2,967,669,150	1,885,328,850
	Market treasury bills (held for trading)	9.1	2,241,491,077	-
			<u>5,209,160,227</u>	<u>1,885,328,850</u>

9.1 These carry yield rate ranging between 5.88% to 6.01% (2016: 5.77% to 6.95%) per annum and have maturity upto June 07, 2018. These securities have an aggregate face value of Rs. 5,250,000,000 (2016: Rs. 1,900,000,000)

10	Advances - net of provisions	Note	2017		2016	
			Number	Rupees	Number	Rupees
	Micro credit advances	10.1	184,680	15,012,700,354	132,880	10,135,920,390
	Other advances	10.2	918	97,943,961	721	73,208,256
				<u>15,110,644,315</u>		<u>10,209,128,646</u>
	Less: Provisions held:					
	Specific	10.3 & 10.4	2,698	79,914,526	1,710	29,949,986
	General	10.4 & 10.5		167,388,773		96,914,686
	Sub-Total			<u>247,303,299</u>		<u>126,864,672</u>
	Advances (net of provision)			<u>14,863,341,016</u>		<u>10,082,263,974</u>

10.1 This includes fully secured advances amounting to Rs. 291,852,698 (2016: Rs. 487,709,188) whereas the remaining advances are secured by personal guarantees.

10.2 These advances are staff loans and carry markup rate of 5% per annum (2016: 5%). This amount includes a loan sanctioned to the Chief Executive Officer of Rs. 5,875,082 (2016: Rs. 5,845,175) at a markup rate of 5% (2016: 5%).

10.3 Particulars of non-performing advances

The total advances of Rs. 224,155,004 (2016: Rs. 114,976,716) placed under non-performing status includes Rs 15,108,036 (2016: Rs. 16,278,010) against secured gold loans:

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

	2016				
	Number	Amount outstanding Rupees	%	Provision required	Provision held
				Rupees	
OAEM	534	36,990,697	0	-	-
Sub-standard	367	23,269,770	25	5,083,300	5,083,300
Doubtful	804	53,936,252	50	24,086,689	24,086,689
Loss	5	779,997	100	779,997	779,997
Total	1,710	114,976,716		29,949,986	29,949,986

10.4 Particulars of non-performing advances

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

Note	2017			2016		
	Specific	General	Total	Specific	General	Total
(Rupees).....		(Rupees).....		
Balance as at January 1	29,949,986	96,914,686	126,864,672	14,415,116	45,667,075	60,082,191
Charge for the year	308,338,823	70,474,087	378,812,910	105,502,766	51,247,611	156,750,377
Reversal during the year	-	-	-	-	-	-
Amounts written off 10.4.1	(258,374,283)	-	(258,374,283)	(89,967,896)	-	(89,967,896)
	49,964,540	70,474,087	120,438,627	15,534,870	51,247,611	66,782,481
Balance as at December 31	79,914,526	167,388,773	247,303,299	29,949,986	96,914,686	126,864,672

10.4.1 Particulars of write offs

	2017 Rupees	2016 Rupees
Against provisions	258,374,283	89,967,896
Directly charged to profit and loss account	27,781,711	62,460,438
	286,155,994	152,428,334

10.5 This represents general provision equivalent to 1% (2016: 1%) of the outstanding advances net of specific provisions and those against which gold collaterals are taken.

11	Operating fixed assets	Note	2017	2016
			Rupees	Rupees
	Capital work-in-progress	11.1	227,244,733	65,980,795
	Intangible assets	11.2	147,945,909	129,391,422
	Property and equipment	11.3	845,475,332	725,475,033
			1,220,665,974	920,847,250
11.1	Capital work-in-progress			
	Civil works		13,606,910	10,873,479
	Equipments		105,402,503	26,123,143
	Intangible assets		34,273,828	7,897,362
	Advances to suppliers and contractors		73,961,492	21,086,811
			227,244,733	65,980,795
11.2	Intangible assets			
	Computer software			
	Cost			
	Balance as at January 1		274,229,487	219,257,516
	Additions during the year		67,222,194	66,125,768
	Reversal during the year		-	(11,153,797)
	Balance as at December 31		341,451,681	274,229,487
	Amortisation			
	Balance as at January 1		144,838,065	110,623,184
	Charge during the year		48,667,707	34,214,881
	Balance as at December 31		193,505,772	144,838,065
	Carrying amount		147,945,909	129,391,422
			2017	2016
	Amortisation rate		10% - 20%	10% - 20%

11.3 Property and equipment

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

2016										
	Cost as at January 1	Additions/ (deletions)	Adjustments/ (Write offs)	Cost as at December 31	Accumulated depreciation as at January 1	Depreciation charge/ (deletions) for the year	Adjustments/ (Write offs)	Accumulated depreciation as at December 31	Book value as at December 31	Annual depreciation rate
.....(Rupees).....										
Owned assets										
Land	256,791,232	1,140,113	-	257,931,345	-	-	-	-	257,931,345	0%
		-	-			-	-			
Leasehold improvements	213,261,826	61,768,630	-	273,253,097	39,355,174	23,940,070	-	62,206,142	211,046,955	10%
		-	(1,777,359)				(1,089,102)			
Furniture and fixtures	73,188,982	30,466,871	-	101,271,633	19,526,729	8,631,315	-	26,720,698	74,550,935	10%
		(2,146,470)	(237,750)			(1,418,716)	(18,630)			
Computer equipment	171,900,807	27,469,621	-	197,359,149	106,723,128	27,899,270	-	132,838,051	64,521,098	20% - 33%
		(1,764,127)	(247,152)			(1,548,235)	(236,112)			
Office equipment	82,715,647	25,026,376	-	106,691,826	19,288,454	8,968,911	-	27,573,790	79,118,036	10%
		(260,117)	(790,080)			(188,850)	(494,725)			
Vehicles	34,832,000	28,817,227	-	60,568,927	9,302,502	14,638,946	-	22,262,263	38,306,664	25%
		(3,080,300)	-			(1,679,185)	-			
2016	832,690,494	174,688,838	-	997,075,977	194,195,987	84,078,512	-	271,600,944	725,475,033	
		(7,251,014)	(3,052,341)			(4,834,986)	(1,838,569)			

11.3.1 Detail of property and equipment sold:

Particulars of assets	2017				Particulars of purchaser	Mode of disposal
	Cost	Accumulated depreciation	Book value	Sale proceeds		
(Rupees).....					
Owned assets						
Land	113,481,232	-	113,481,232	156,500,000	Imran Zafar	Negotiations
Vehicles						
Honda City Aspire	1,804,000	(526,167)	1,277,833	1,277,833	Attah Ullah	As per car policy
Honda City Aspire	1,662,000	(657,875)	1,004,125	1,004,125	Faisal Mahmood	As per car policy
Toyota Corolla GLI	1,661,027	(138,419)	1,522,608	1,591,818	Sohail Shahzad	As per car policy
Honda Civic	2,503,000	(1,772,958)	730,042	730,042	Dmitry Bogatyrev	As per car policy
Suzuki Mehran VXR	646,800	(431,200)	215,600	215,600	Mustqim Rao	As per car policy
Honda City Aspire	1,834,000	(1,642,958)	191,042	191,042	Syeda Noshina	As per car policy
Suzuki Mehran VXR	708,000	(88,500)	619,500	619,500	Faraz Gul	As per car policy
Toyota Corolla GLI	1,770,500	(1,290,990)	479,510	479,510	Hadir Ali	As per car policy
items with book value of lower then Rs. 250,000 or Cost lower then Rs. 1,000,000	17,161,141	(11,439,624)	5,721,517	1,713,690		
2017	143,231,700	(17,988,691)	125,243,009	164,323,160		
2016	10,303,355	(6,673,555)	3,629,800	1,816,011		

		2017	2016
		Rupees	Rupees
12 Other assets			
Income / mark-up accrued on loans and advances		1,083,465,085	570,704,572
Income / mark-up accrued on balance with banks		2,921,201	7,793,310
Prepayments		96,913,842	40,651,478
Security deposits		3,764,844	2,183,644
Stationery and stamps on hand		21,114,716	9,175,660
Receivable from FINCA International, Inc.		12,931,322	18,317,306
Receivable from FINCA (MESA Region)		3,168,015	3,168,015
Others		82,528,620	12,963,584
		<u>1,306,807,645</u>	<u>664,957,569</u>
13 Deferred tax asset			
Deferred tax asset arising in respect of:			
Gratuity payable		45,173,890	32,203,210
Deferred tax liability arising in respect of:			
Property and equipment		36,387,186	25,795,518
		<u>8,786,704</u>	<u>6,407,692</u>

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

14 Deposits and other accounts

	Note	2017		2016	
		Number of accounts	Rupees	Number of accounts	Rupees
Fixed deposits	14.1	11,070	13,466,983,576	6,589	7,675,359,202
Saving deposits	14.1	112,505	3,606,137,037	106,120	2,041,534,933
Current deposits		575,063	2,110,805,104	350,769	1,352,761,717
		<u>698,638</u>	<u>19,183,925,717</u>	<u>463,478</u>	<u>11,069,655,852</u>

14.1 These represent term deposits having tenure of 1 to 60 months carrying profit rates ranging from 7.60% to 12% (2016: 5.30% to 14.20%) per annum. The saving deposits represent accounts carrying interest rates ranging from 0% to 7.5% (2016: 0% to 7.5%) per annum.

		2017		2016	
		Number of accounts	Rupees	Number of accounts	Rupees
14.2 Particulars of deposits by ownership					
1) Individual depositors		698,314	13,723,433,103	462,888	7,704,269,360
2) Institutional depositors:					
a) Corporations, firms and other such entities		228	2,570,919,693	538	1,087,424,670
b) Banks and financial institutions		96	2,889,572,921	52	2,277,961,822
		<u>698,638</u>	<u>19,183,925,717</u>	<u>463,478</u>	<u>11,069,655,852</u>

14.3 Deposits include deposits from related parties amounting to Rs. 275,845,991 (2016: Rs. 71,561,229).

	Note	2017	2016
		Rupees	Rupees
15 Borrowings			
Borrowings from banks/ financial institutions in Pakistan	15.1	<u>1,668,981,702</u>	<u>1,350,001,756</u>
15.1 Details of borrowings from financial institutions			
Secured			
- Running finance - JS Bank Limited	15.2	25,000,000	299,999,996
- Running finance - NIB Bank Limited		-	150,001,760
- Running finance - United Bank Limited	15.3	398,981,502	400,000,000
- Running finance - Faysal Bank Limited	15.4	145,000,200	-
- Term finance - Pak Oman Investment Company Limited	15.5	250,000,000	300,000,000
- Term finance - United Bank Limited	15.6	200,000,000	200,000,000
- Term Finance - Faysal Bank Limited	15.7	150,000,000	-
- Term finance - MCB / United Bank Limited / JS Bank Limited	15.8	500,000,000	-
		<u>1,668,981,702</u>	<u>1,350,001,756</u>

- 15.2 This is secured against first pari-passu charge on all present and future current assets of the Bank to the extent of 400M with a 25% margin. Mark-up is payable quarterly at rate of 3 months KIBOR + 1.75bps (2016: 3 month KIBOR + 1.75bps) and commitment fee 0.5% per annum payable quarterly. This facility is expiring by April 30, 2018. The total limit of the facility is Rs. 300 million.
- 15.3 This is secured against first pari-passu charge on present and future current assets of the Bank to the extent of financing amount with a 25% margin. Mark-up is payable quarterly at the rate of 3 months KIBOR + 1.50bps upto June 30, 2017 and after June 30, 2017, at the rate of 3 months KIBOR+1bps . This facility is expiring by June 30, 2018. The total limit of the facility is Rs. 400 million.
- 15.4 This is secured by first pari-passu charge of PKR 534M on all present and future current assets of the Bank. Mark-up is payable quarterly at the rate of 3 months KIBOR + 0.60bps. with Zero commitment fee. This facility is expiring by November 30, 2018. The total limit of the facility is Rs. 400 million.
- 15.5 This is secured against first pari-passu charge on present and future current assets of the Bank to the extent of financing amount with a 25% margin. Mark-up is payable quarterly at the rate of 3 months KIBOR + 1.40bps (2016: 3 months KIBOR + 1.40bps). The principal will be paid in twelve equal quarterly installments, the first such installment has been paid on September 27, 2017. This facility is expiring by June 23, 2020. The total limit of the facility is Rs. 300 million.
- 15.6 This is secured against the unconditional and irrevocable MCGF of 40% by SBP(subject to SBP approval) or lien over Liquid Securities upto 40% of the facility and rest 60% will be secured through first pari-passu hypothecation charge on all assets including current and fixed assets located anywhere in Pakistan with 25% margin. Mark-up is payable quarterly at the rate of 3 months KIBOR + 1.5bps (2016: 3 months KIBOR + 1.60bps). This facility is expiring by March 27, 2018. The total limit of the facility is Rs. 200 million.
- 15.7 This is secured against first pari-passu charge of PKR 200M on present and future current assets of the Bank. Mark-up is payable quarterly at the rate of 3 months KIBOR + 1.35bps. The principal will be paid in eight equal quarterly installments, the first such installment fall due on January 15, 2018. This facility is expiring by October 14, 2019. The total limit of the facility is Rs. 150 million.
- 15.8 This is a Privately Placed Term Finance Certificate (PPTFC) arranged by MCB Bank Limited, United Bank Limited and JS Bank Limited whereas Pak Oman Investment Company Limited is acting as trustee. This PPTFC is secured against first pari-passu charge on over all present and future current assets along with 25% margin of the Bank. Mark-up is payable quarterly at the rate of 3 months KIBOR + 1.50bps. The principal will be paid in sixteen equal quarterly installments, the first installment commencing from the end of grace period (February 2, 2019). This Instrument is expiring by November 2, 2022. The issue size is Rs. 1,500 million. The Bank will also pay 0.25% per annum on unutilized amount of the PPTFC till its 9 month availability period ends on August 02, 2018.

16 Other liabilities	Note	2017	2016
		Rupees	Rupees
Markup / return / interest payable	16.1	287,656,384	159,935,612
Bills payable		81,871,802	14,624,542
Accrued expenses		171,023,462	120,786,729
Current taxation		104,967,109	137,144,960
Gratuity payable	16.2	129,068,258	92,009,170
Withholding tax payable		10,682,511	7,733,612
Unutilized Grant payable to Stitching to Promote Women's World Banking		361,675	361,675
Unpaid dividend		-	99,944,340
Sundry creditors		220,115,046	133,213,631
		1,005,746,247	765,754,271

16.1 Markup payable on deposits from key management personnel amounts to Rs. 1,865,184 (2016: Rs. 759,000).

16.2 Gratuity payable	2017	2016
	Rupees	Rupees
Present value of defined benefit obligation	129,068,258	92,009,170
a) Changes in present value of defined benefit obligation		
Balance at January 1	92,009,170	62,341,329
Included in profit and loss		
Current service cost	38,457,707	20,198,320
Past service cost	-	7,000,857
Interest cost	8,068,710	5,887,513
	46,526,417	33,086,690
Included in other comprehensive income		
Actuarial gain arising from changes in financial assumptions	-	(172,979)
Actuarial loss arising from experience adjustment	4,284,850	3,686,529
Payments made during the year	(13,752,179)	(6,932,399)
Balance at December 31	129,068,258	92,009,170

	2017	2016
	Rupees	Rupees
b) Expenses to be charged to profit and loss		
Current service cost	38,457,707	20,198,320
Interest cost	8,068,710	5,887,513
Past service cost	-	7,000,857
	<u>46,526,417</u>	<u>33,086,690</u>
c) Total remeasurements chargeable in other comprehensive income		
Remeasurement of plan obligation:		
Actuarial gain from changes in financial assumptions	-	(172,979)
Experience adjustments	4,284,850	3,686,529
Total remeasurements chargeable in other comprehensive income	<u>4,284,850</u>	<u>3,513,550</u>
d) Change in net liability		
Balance sheet liability at January 1	92,009,170	62,341,329
Expense chargeable to profit and loss	46,526,417	33,086,690
Remeasurements chargeable in other comprehensive income	4,284,850	3,513,550
Benefit paid	(13,752,179)	(6,932,399)
Balance sheet liability at December 31	<u>129,068,258</u>	<u>92,009,170</u>
e) Significant actuarial assumptions		
Discount rate used for profit and loss charge	9.50%	10.00%
Discount rate used for year end obligation	9.50%	9.50%
Mortality rates	SLIC 2001-05 Setback 1 Year	SLIC 2001-05 Setback 1 Year
f) Estimated expense to be charged to profit and loss in 2018		
	Rupees	
Current service cost	47,465,692	
Interest cost on defined benefit obligation	11,707,543	
	<u>59,173,235</u>	

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

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by Rs. 14,300,153 (increase by Rs. 16,434,516).
- If the expected rate of salary increase (decrease) by 100 basis points, the defined benefit obligation would increase by Rs. 16,785,308 (decrease by Rs. 14,846,380).

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

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

h) The average duration of the defined benefit obligation is 12 years.

i) Risk associated with defined benefit obligations

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

Longevity risks:

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

Salary increase risk:

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

Withdrawal rate risk:

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

17 Share capital

	Note	2017 Rupees	2016 Rupees
17.1 Authorised capital		7,500,000,000	7,500,000,000
750,000,000 ordinary shares of Rs. 10 each			

17.2 Issued, subscribed and paid-up share capital

634,888,711 ordinary shares of Rs. 10 each fully paid in cash	17.3	6,348,887,110	6,348,887,110
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17.3 Share capital has been subscribed by the following:

	2017 (Number of shares)	2016	2017 Rupees	2016 Rupees
FINCA Microfinance Cooperatief U.A.	548,498,653	548,498,653	5,484,986,530	5,484,986,530
Kashf Holdings (Private) Limited	33,119,747	33,119,747	331,197,470	331,197,470
International Finance Corporation	30,771,739	30,771,739	307,717,390	307,717,390
Acumen Fund	5,130,253	5,130,253	51,302,530	51,302,530
Triodos Fair Share Fund	17,368,319	17,368,319	173,683,190	173,683,190
	634,888,711	634,888,711	6,348,887,110	6,348,887,110

17.4 Percentage holding of shareholders is as follows:

	2017	2016
	Percentage of holding	
FINCA Microfinance Cooperatief U.A.	86.4%	86.4%
Kashf Holdings (Private) Limited	5.2%	5.2%
International Finance Corporation	4.8%	4.8%
Acumen Fund	0.8%	0.8%
Triodos Fair Share Fund	2.7%	2.7%
	100%	100%

	2017 Rupees	2016 Rupees
18 Deferred grants		
Opening balance	12,601,749	18,296,924
Grants amortised	(4,447,317)	(5,695,175)
	8,154,432	12,601,749

19 Memorandum / Off-balance sheet items**19.1 Contingencies**

19.1.1 The Bank has no contingencies as at December 31, 2017.

20 Mark-up / return / interest earned

Interest / mark-up on advances	4,552,066,391	2,883,194,576
Markup earned on investments in government securities	196,451,223	54,070,498
Interest / mark-up on bank accounts	60,411,070	48,784,961
	4,808,928,684	2,986,050,035

21 Mark-up / return / interest expensed

Deposits	1,196,413,637	618,149,047
Borrowings	59,967,290	29,443,650
	1,256,380,927	647,592,697

22 Fee, commission and brokerage income

Loan processing fee	421,254,736	331,184,390
Income on Cheque Book issuance	36,554,863	27,069,944
Others	106,248,425	83,141,449
	564,058,024	441,395,783

23	Other income	Note	2017	2016
			Rupees	Rupees
	Grant income	18	4,447,317	5,695,175
	Recovery of debts previously written off		85,650,756	104,213,066
	Net gain / (loss) on disposal / deletion of operating fixed assets		39,080,151	(1,813,789)
	Others		241,963	285,422
			129,420,187	108,379,874
24	Administrative expenses			
	Staff salaries and other benefits	24.1	1,277,196,356	848,182,082
	Non-executive directors' fees, allowances and other expenses		1,165,593	675,000
	Contribution to employee provident fund		52,964,011	36,660,241
	Printing, stationery and periodicals		43,233,495	33,432,199
	Advertisement		108,280,498	70,301,523
	Rent		165,503,371	102,983,454
	Office running expenses		37,813,202	28,726,173
	Vehicle running expenses		23,295,654	13,868,905
	Insurance		32,317,978	11,959,673
	Office security / personnel services		81,645,421	61,729,621
	Repairs and maintenance		64,286,698	52,895,452
	Communication		58,906,999	59,824,686
	Travel and transportation		151,748,332	101,771,197
	Utilities		53,229,920	40,331,839
	Legal and professional		87,755,504	45,601,320
	Auditors' remuneration	24.2	3,450,000	3,305,000
	Training and research		35,153,138	25,755,582
	Depreciation	11.3	103,106,408	84,078,512
	Amortisation	11.2	48,667,707	34,214,881
	Others		7,971,590	13,463,168
			2,437,691,875	1,669,760,508

24.1 This includes Rs. 46,526,417 (2016: 33,086,689) in respect of staff gratuity expense and Rs. 1,808,583 (2016: 1,413,207) in respect of gratuity expense of Chief Executive Officer.

24.2		2017	2016
		Rupees	Rupees
	Audit fee	2,900,000	2,775,000
	Fee for certifications	200,000	200,000
	Out of pocket expenses	350,000	330,000
		3,450,000	3,305,000

25	Other charges	2017	2016
	Penalties imposed by SBP	2,880,000	1,043,000
	Bank charges	15,643,980	9,336,276
	Others	4,961,787	1,287,079
		23,485,767	11,666,355

26	Taxation	2017	2016
	Current		
	For the year	484,276,120	184,377,277
	For the prior year	40,058,735	10,583,237
		524,334,855	194,960,514
	Deferred		
	For the year	(764,907)	161,646,128
	For the prior year	(114,407)	93,117
		(879,314)	161,739,245
		523,455,541	356,699,759

	2017	2016
	Rupees	Rupees
26.1 Relationship between tax expense and accounting profit		
Accounting profit before taxation	1,378,253,705	987,595,317
Tax rate %	35%	35%
Tax on accounting profit	482,388,797	345,658,361
Tax effect of income chargeable to tax at lower rate	-	-
Prior year tax adjustment	40,058,735	10,676,354
Tax effect of inadmissible expenses	1,008,009	365,044
Effect on deferred tax balance due to unabsorbed depreciation	-	-
Tax provision	523,455,541	356,699,759

27 Number of employees

	2017			2016		
	Credit / Sales staff	Banking / Support staff	Total staff	Credit / Sales staff	Banking / Support staff	Total staff
Permanent	1,218	936	2,154	874	687	1,561
Contractual	8	178	186	1	144	145
Total	1,226	1,114	2,340	875	831	1,706

28 Number of branches and permanent booths

	2017		2016	
	Branches	Permanent Booths	Branches	Permanent Booths
At the beginning of the year	105	-	79	21
Opened during the year	11	-	5	-
Upgraded from permanent booths	-	-	21	(21)
At the end of the year	116	-	105	-

No branch was closed during the year.

29 Remuneration of directors and executives

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

	Chief Executive		Directors		Executives	
	2017	2016	2017	2016	2017	2016
(Rupees).....					
Managerial remuneration	16,384,670	15,119,796	1,165,593	675,000	181,593,579	102,205,438
House rent allowance	-	-	-	-	72,637,383	43,385,309
Provident fund	1,638,466	1,511,978	-	-	18,529,162	9,928,400
Utilities allowance	-	-	-	-	14,537,792	6,986,380
Medical allowance	1,638,515	1,511,316	-	-	3,621,707	3,234,157
Conveyance / car allowance	840,000	840,000	-	-	27,970,639	15,275,627
Charge for defined benefit plan	1,808,583	1,413,207	-	-	23,055,946	13,813,240
Others	1,050,529	1,035,876	-	-	11,375,988	4,238,640
	23,360,763	21,432,173	1,165,593	675,000	353,322,196	199,067,191
Number of persons at year end	1	1	3	3	180	98

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

29.2 Aggregate amount charged to profit and loss account for the year in respect of travelling and hotel expenses of directors is Rs. 2,251,901 (2016: Rs 151,890) and Rs. 2,221,786 (2016: 434,525) respectively.

29.3 The Bank provides car allowance of Rs. 840,000 (2016: 840,000) per annum to the Chief Executive Officer as part of the remuneration.

30	Basic and diluted earnings per share	Note	2017	2016
			Rupees	Rupees
30.1	Profit for the year		854,798,164	630,895,558
	Weighted average number of ordinary shares - number		634,888,711	634,888,711
	Basic and diluted earnings per share		1.35	0.99

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

31 Related party transactions

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

	2017			2016		
	Key management personnel	Associated / holding company	Other related parties	Key management personnel	Associated / holding company	Other related parties
.....(Rupees).....						
Deposits						
Opening balance	60,414,199	-	11,147,031	50,579,689	600	85,536,525
Received during the year	1,040,915,840	-	69,427,079	312,698,362	-	91,349,000
Withdrawn during the year	(866,056,743)	-	(40,001,415)	(302,863,852)	(600)	(165,738,494)
Closing balance	235,273,296	-	40,572,695	60,414,199	-	11,147,031
Staff loans						
Opening balance	16,114,805	-	-	8,561,118	-	-
Disbursements during the year	79,217,641	-	-	42,523,593	-	-
Repayments during the year	(49,756,853)	-	-	(34,969,906)	-	-
Closing balance	45,575,593	-	-	16,114,805	-	-
Transactions during the year						
Mark-up/return/interest earned	1,945,661	-	-	688,141	-	-
Mark-up/return/interest expensed	11,533,012	-	3,725,317	3,244,602	-	7,709,647
Contribution to provident fund	20,167,628	-	-	11,440,378	-	-

32	Cash and cash equivalents		2017	2016
			Rupees	Rupees
	Cash and balances with SBP and NBP	7	976,428,755	809,674,643
	Balances with other banks / NBFIs / MFBs	8	1,556,694,589	1,248,484,930
			2,533,123,344	2,058,159,573

33 Capital risk management

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

As per amendments on Prudential Regulations (R-1) issued vide BPRD Circular No. 10 of 2015 dated June 03, 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 December 31, 2017. As at December 31, 2017, the paid up share capital net of discount, of the Bank stood at Rs. 2,259.847 million (2016: Rs. 2,259.847 million).

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

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

As at December 31, 2017, the Bank's capital adequacy ratio (CAR) is appropriately 18.58% (2016: 20.59%) of its risk weighted assets, as against the minimum requirement of 15% prescribed by the SBP.

34 Financial assets and liabilities (cont'd)

2016

	Effective yield / interest rate	Interest bearing / exposed to yield / interest risk					Non-Interest bearing / not exposed to yield / interest risk					Total
		Upto one month	Over one month upto six months	Over six months upto one year	Over one year	Sub total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year	Sub total	
		Rupees										
Financial assets												
On balance sheet												
Cash and balances with SBP and NBP	4.50%	24,014,414	-	-	-	24,014,414	785,660,229	-	-	-	785,660,229	809,674,643
Balances with other banks/NBFIs/MFBs	3.5%-11.25%	1,057,522,213	100,000,000	-	-	1,157,522,213	90,962,717	-	-	-	90,962,717	1,248,484,930
Investments - net of provisions	5.77%-6.95	748,737,472	1,136,591,378	-	-	1,885,328,850	-	-	-	-	-	1,885,328,850
Advances - net of provisions	5% - 49.8%	650,156,308	4,837,914,575	3,955,442,189	638,750,902	10,082,263,974	-	-	-	-	-	10,082,263,974
Other assets		-	-	-	-	-	590,441,525	22,506,911	-	2,183,644	615,132,080	615,132,080
		2,480,430,407	6,074,505,953	3,955,442,189	638,750,902	13,149,129,451	1,467,064,471	22,506,911	-	2,183,644	1,491,755,026	14,640,884,477
Off balance sheet		-	-	-	-	-	-	-	-	-	-	-
Total		2,480,430,407	6,074,505,953	3,955,442,189	638,750,902	13,149,129,451	1,467,064,471	22,506,911	-	2,183,644	1,491,755,026	14,640,884,477
Financial liabilities												
On balance sheet												
Deposit and other accounts	5.25%-14.10%	3,188,952,986	3,110,888,978	1,366,138,116	2,050,914,055	9,716,894,135	1,352,761,717	-	-	-	1,352,761,717	11,069,655,852
Borrowings	7.35%-8.09%	-	-	900,001,756	450,000,000	1,350,001,756	-	-	-	-	-	1,350,001,756
Other liabilities		-	-	-	-	-	396,022,871	50,747,585	48,965,584	125,139,659	620,875,699	620,875,699
		3,188,952,986	3,110,888,978	2,266,139,872	2,500,914,055	11,066,895,891	1,748,784,588	50,747,585	48,965,584	125,139,659	1,973,637,416	13,040,533,307
Off balance sheet		-	-	-	-	-	-	-	-	-	-	-
Total		3,188,952,986	3,110,888,978	2,266,139,872	2,500,914,055	11,066,895,891	1,748,784,588	50,747,585	48,965,584	125,139,659	1,973,637,416	13,040,533,307
On balance sheet gap		(708,522,579)	2,963,616,975	1,689,302,317	(1,862,163,153)	2,082,233,560	(281,720,117)	(28,240,674)	(48,965,584)	(122,956,015)	(481,882,390)	1,600,351,170
Off balance sheet gap		-	-	-	-	-	-	-	-	-	-	-

34.1 Credit risk management

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank's credit risk is primarily attributable to its advances. However, the Bank believes that it is not exposed to major concentration of credit risk. The Bank has an effective loan disbursement and recovery monitoring system which allows it to evaluate borrowers credit worthiness and identify potential problem loans. A provision for potential loan losses is maintained.

34.2 Liquidity risk management

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

34.3 Interest rate risk management

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

34.4 Fair value of financial instruments

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

35 Maturities of assets and liabilities

2017					
	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
Rupees					
Market rate assets					
Advances	14,863,341,016	314,392,134	4,684,122,118	8,102,992,648	1,761,834,116
Investments	5,209,160,227	2,294,711,573	2,914,448,654	-	-
Other earning assets	1,478,947,466	1,478,947,466	-	-	-
Total market rate assets	21,551,448,709	4,088,051,173	7,598,570,772	8,102,992,648	1,761,834,116
Other non-earning assets	3,590,436,201	2,304,807,782	351,468,799	105,653,216	828,506,404
Total assets	25,141,884,910	6,392,858,955	7,950,039,571	8,208,645,864	2,590,340,520
Market rate liabilities					
Time deposits of Rs. 100,000 and above	13,404,398,902	2,431,948,277	4,943,825,127	916,008,545	5,112,616,953
Time deposits below Rs. 100,000	62,584,674	14,476,776	13,217,655	5,863,625	29,026,618
Borrowings	1,668,981,702	18,750,000	837,731,702	87,500,000	725,000,000
Other cost bearing liabilities	3,606,137,037	3,606,137,037	-	-	-
Total market rate liabilities	18,742,102,315	6,071,312,090	5,794,774,484	1,009,372,170	5,866,643,571
Other non-cost bearing liabilities	3,116,551,351	2,666,403,673	120,654,066	129,807,096	199,686,516
Total liabilities	21,858,653,666	8,737,715,763	5,915,428,550	1,139,179,266	6,066,330,087
2016					
	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
Rupees					
Market rate assets					
Advances	10,082,263,974	650,156,308	4,837,914,575	3,955,442,189	638,750,902
Investments	1,885,328,850	748,737,472	1,136,591,378	-	-
Other earning assets	1,181,536,627	1,081,536,627	100,000,000	-	-
Total market rate assets	13,149,129,451	2,480,430,407	6,074,505,953	3,955,442,189	638,750,902
Other non-earning assets	2,468,835,457	1,503,530,492	157,489,218	79,955,906	727,859,841
Total assets	15,617,964,908	3,983,960,899	6,231,995,171	4,035,398,095	1,366,610,743
Market rate liabilities					
Time deposits of Rs. 100,000 and above	7,632,763,487	1,136,397,071	3,102,280,750	1,360,023,011	2,034,062,655
Time deposits below Rs. 100,000	42,595,714	11,020,982	8,608,227	6,115,105	16,851,400
Borrowings	1,350,001,756	-	-	900,001,756	450,000,000
Other cost bearing liabilities	2,041,534,934	2,041,534,934	-	-	-
Total market rate liabilities	11,066,895,891	3,188,952,987	3,110,888,977	2,266,139,872	2,500,914,055
Other non-cost bearing liabilities	2,118,515,988	1,786,921,242	50,747,585	155,707,502	125,139,659
Total liabilities	13,185,411,879	4,975,874,229	3,161,636,562	2,421,847,374	2,626,053,714

36 Provident fund

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

	Note	2017 Rupees	2016 Rupees
Size of the fund		299,588,991	214,400,822
Total investments	36.1	295,623,437	202,640,837
%age of investments made		98.7%	94.5%

36.1 Breakup of investments

	2017 Rupees	2016	2017 Relative %age of size of the fund	2016
Mutual funds	23,620,968	26,120,595	7.9%	12.2%
Term deposit receipts (TDRs)	58,140,408	176,520,242	19.4%	82.3%
Market treasury bills	211,297,832	-	70.5%	-
Pakistan investment bonds	2,564,229	-	0.9%	-
	295,623,437	202,640,837	98.7%	94.5%

The investments are kept in mutual funds, TDRs, T-bills and investment bonds in the name of Trust, in accordance with requirements of section 227 of the Companies Ordinance, 1984.

37 Non adjusting event after the balance sheet date

The Board of Directors of the Bank in their meeting held on _____, have decided on the dividend for the year ended December 31, 2017 @ _____% (Rs. _____ per share).

38 Date of authorisation

These financial statement were authorised for issue by the Board of Directors of the Bank on _____

39 General

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

Chief Executive Officer

Chairman

Director

Director