

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of FINCA Microfinance Bank Limited (the Bank) as at December 31, 2016 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 (herein after referred to as the 'financial statements'), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) in our opinion, proper books of accounts have been kept by the Bank as required by the Companies Ordinance, 1984 and Microfinance Institutions Ordinance, 2001;
- (b) in our opinion:
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and the Microfinance Institution Ordinance, 2001 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank.
- (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 Companies Ordinance, 1984 and the Microfinance Institution Ordinance, 2001, in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at December 31, 2016 and of the profit, comprehensive income, its cash flows and changes in equity for the year then ended; and

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

Deloitte Yousuf Adil
Chartered Accountants

Engagement Partner:

Rana M. Usman Khan

Date: March 27, 2017

Lahore

FINCA MICROFINANCE BANK LIMITED**BALANCE SHEET**

AS AT DECEMBER 31, 2016

	Note	2016 Rupees	2015 Rupees
ASSETS			
Cash and balances with SBP and NBP	7	809,674,643	356,638,478
Balances with other banks / NBFIs / MFBs	8	1,248,484,930	409,990,696
Lending to financial institutions		-	-
Investments - net of provisions	9	1,885,328,850	1,039,196,250
Advances - net of provisions	10	10,082,263,974	5,418,675,734
Operating fixed assets	11	920,847,250	776,652,189
Other assets	12	664,957,569	283,848,386
Deferred tax asset	13	6,407,692	166,917,194
Total assets		15,617,964,908	8,451,918,927
LIABILITIES			
Deposits and other accounts	14	11,069,655,852	6,057,364,103
Borrowings	15	1,350,001,756	115,000,880
Subordinated debt		-	-
Other liabilities	16	765,754,271	346,019,502
Deferred tax liabilities		-	-
Total liabilities		13,185,411,879	6,518,384,485
Net assets		2,432,553,029	1,933,534,442
REPRESENTED BY:			
Share capital	17	6,348,887,110	6,348,887,110
Discount on issue of shares		(4,089,040,293)	(4,089,040,293)
Statutory reserve		195,022,579	68,843,467
Depositors' protection fund		50,596,128	17,928,449
Accumulated loss		(85,514,244)	(431,381,215)
		2,419,951,280	1,915,237,518
Surplus on revaluation of fixed assets		-	-
Deferred grants	18	12,601,749	18,296,924
Total capital		2,432,553,029	1,933,534,442
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, 2016

	Note	2016 Rupees	2015 Rupees
Mark-up / return / interest earned	20	2,986,050,035	1,899,753,877
Mark-up / return / interest expensed	21	(647,592,697)	(534,669,450)
Net mark-up / interest income		2,338,457,338	1,365,084,427
Provision against non-performing loans and advances	10.5	(156,750,377)	(77,511,013)
Provision for diminution in the value of investments		-	-
Bad debts written off directly		(62,460,438)	(28,143,149)
Net mark-up / interest income after provisions		2,119,246,523	1,259,430,265
Non mark-up / non interest income			
Fee, commission and brokerage income	22	441,395,783	283,396,327
Dividend income		-	-
Other income	23	110,193,663	42,775,745
Total non mark-up / non interest income		551,589,446	326,172,072
Non mark-up / non interest expenses			
Administrative expenses	24	(1,669,760,508)	(1,322,012,402)
Other charges	25	(13,480,144)	(18,369,779)
Total non mark-up / non interest expenses		(1,683,240,652)	(1,340,382,181)
Profit before taxation		987,595,317	245,220,156
Taxation - Current year		(184,377,277)	(21,831,502)
Prior years		(10,676,354)	-
Deferred		(161,646,128)	(56,694,134)
Profit after taxation	26	356,699,759	(78,525,636)
Earnings per share	30	0.99	0.31

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, 2016**

	<u>2016</u> Rupees	<u>2015</u> Rupees
Profit after tax	630,895,558	166,694,520
Other comprehensive income for the year		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Remeasurement of post defined benefit obligation	(3,513,550)	(1,871,839)
Impact of deferred tax	1,229,743	655,144
	(2,283,807)	(1,216,695)
<i>Items that may be reclassified subsequently to profit or loss</i>	-	-
Total comprehensive income for the year	628,611,751	165,477,825

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, 2016

	Note	2016 Rupees	2015 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		987,595,317	245,220,156
Less : Dividend income		-	-
		987,595,317	245,220,156
Adjustments for non-cash charges			
Depreciation	11.3	84,078,512	65,547,276
Amortisation	11.2	34,214,881	24,342,007
Provision against non-performing advances	10.5	156,750,377	77,511,013
Provision for diminution in the value of investments/other assets		-	-
Loss on disposal of fixed assets	25	1,813,789	10,881,968
Finance charge on leased assets		-	-
Amortisation of discount on held to maturity investment	20	(54,070,498)	(77,477,643)
Provision for accumulated compensated absences	16.3	-	2,689,174
Deferred grant recognised as income	23	(5,695,175)	(9,167,155)
Provision for gratuity	16.2	33,086,690	21,082,557
		250,178,576	115,409,197
		1,237,773,893	360,629,353
Increase in operating assets			
Lending to financial institutions		-	-
Advances		(4,820,338,617)	(1,501,519,032)
Other assets		(381,109,183)	(69,260,045)
		(5,201,447,800)	(1,570,779,077)
Increase / (decrease) in operating liabilities			
Bills payable		8,784,384	918,567
Borrowings from financial institutions		1,235,000,876	(86,098,834)
Deposits		5,012,291,749	1,401,187,196
Other liabilities (excluding current taxation and dividend)		164,013,050	76,169,170
		6,420,090,059	1,392,176,099
		2,456,416,152	182,026,375
Gratuity paid	16.2	(6,932,399)	(4,885,042)
Income tax paid		(77,635,360)	(14,665,517)
Net cash from operating activities		2,371,848,393	162,475,816
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in held for trading securities		-	352,545,759
Net investments in held-to-maturity securities		(792,062,102)	(866,737,274)
Interest income on depositors' protection fund		1,122,901	712,215
Dividend income		-	-
Investments in operating fixed assets		(266,118,254)	(300,497,718)
Sale proceeds from disposal of property and equipment	11.3.1	1,816,011	5,721,062
Net cash used in investing activities		(1,055,241,444)	(808,255,956)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts / payments of sub-ordinated loan		-	-
Receipts / payments of lease obligations		-	-
Issue of share capital		-	485,072,001
Dividend paid		(25,076,550)	-
Grant received from donors	18	-	9,252,453
Net cash used in financing activities		(25,076,550)	494,324,454
Increase / (decrease) in cash and cash equivalents		1,291,530,399	(151,455,686)
Cash and cash equivalents at beginning of the year		766,629,174	918,084,860
Cash and cash equivalents at end of the year	32	2,058,159,573	766,629,174

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, 2016

	Capital reserves			Revenue reserve	Total	
	Share capital	Discount on issue of shares	Statutory reserve	Depositors' protection fund		Accumulated loss
	----- (Rupees) -----					
Balance at December 31, 2014	4,731,980,440	(2,957,205,624)	35,504,563	8,881,508	(555,185,410)	1,263,975,477
Profit for the year	-	-	-	-	166,694,520	166,694,520
Other comprehensive income						
Remeasurement of post defined benefit obligation - net of tax	-	-	-	-	(1,216,695)	(1,216,695)
Total comprehensive income for the year	-	-	-	-	165,477,825	165,477,825
Transfer to statutory reserve	-	-	33,338,904 #	-	(33,338,904)#	-
Transfer to depositors' protection fund	-	-	-	8,334,726	(8,334,726)	-
- return on investments - net of tax	-	-	-	712,215	-	712,215
Transactions with owners:						
- issue of share capital	1,616,906,670	(1,131,834,669)	-	-	-	485,072,001
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 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 investments - net of tax	-	-	-	1,122,901	-	1,122,901
Transactions with owners:						
- 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

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, 2016****1 STATUS AND NATURE OF BUSINESS**

- 1.1 FINCA Microfinance Bank Limited, (the Bank) was incorporated on June 26, 2008 as a public limited company under the Companies Ordinance, 1984. The Bank 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 SBP.

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

The Bank is licensed to operate nationwide. As at December 31, 2016, the Bank has 105 branches (2015: 79 branches) and no permanent booths (2015: 21) operating in the provinces of Punjab, Khyber Pakhtunkhwa and Sindh.

- 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 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 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.

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, 2016

The following standards, amendments and interpretations are effective for the year ended December 31, 2016. These standards, interpretations and the amendments are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures.

Amendments to IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations': Clarification regarding changes in the method of disposal of an asset.

Effective from accounting period beginning on or after January 01, 2016

Amendments to IFRS 7 'Financial Instruments – Disclosures': Disclosure requirements for servicing arrangements on continuing involvement in transferred financial assets.

Effective from accounting period beginning on or after January 01, 2016

Amendments to IFRS 10 - Consolidated Financial Statements, IFRS 12 - Disclosure of Interests in Other Entities and IAS 28 (Revised 2011) - Investments in Associates and Joint Ventures: Application of consolidation exception.

Effective from accounting period beginning on or after January 01, 2016

Amendments to IFRS 11 - Joint Arrangements: Accounting for acquisitions of an interest in a joint operation.

Effective from accounting period beginning on or after January 01, 2016

Amendments to IAS 1 - Presentation of Financial Statements: Amendments resulting from the disclosure initiative.

Effective from accounting period beginning on or after January 01, 2016

Amendments to IAS 16 - Property, Plant and Equipment and IAS 38 - Intangible Assets: Clarification on acceptable methods of depreciation and amortisation.	Effective from accounting period beginning on or after January 01, 2016
Amendments to IAS 16 - Property, Plant and Equipment and IAS 41 - Agriculture: Bringing bearer plants in scope of IAS 16.	Effective from accounting period beginning on or after January 01, 2016 ‡
Amendments to IAS 19 'Employee Benefits': Clarification that the same currency bonds be used to determine the discount rate in which benefits are to be paid.	Effective from accounting period beginning on or after January 01, 2016
Amendments to IAS 27 (Revised 2011) 'Separate Financial Statements': Use of equity method to account for investments in subsidiaries, joint ventures and associates in separate financial statements.	Effective from accounting period beginning on or after January 01, 2016
Amendments to IAS 34 'Interim Financial Reporting': Clarification related to certain disclosures, i.e., if they are not included in the notes to interim financial statements and disclosed elsewhere should be cross referred.	Effective from accounting period beginning on or after January 01, 2016

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. These standards, interpretations and the amendments are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures.

Amendments to 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
Amendments to IAS 7 'Statement of Cash Flows': Amendments as 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
Amendments resulting from Annual Improvements 2014–2016 Cycle (clarifying certain fair value measurements)	Effective from accounting period beginning on or after January 01, 2018
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
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

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

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

- IFRS 1 – First Time Adoption of International Financial Reporting Standards
- IFRS 9 – Financial Instruments
- IFRS 14 – Regulatory Deferral Accounts
- IFRS 15 – Revenue from Contracts with Customers
- IFRS 16 – Leases

4 BASIS OF MEASUREMENT

4.1 Accounting convention

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

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

- a) Provision against doubtful advances (note 10.5)
- b) Gratuity payable (note 16.2)
- c) Residual values of operating fixed assets and intangibles (note 11.3 and note 11.2)
- d) Provision for taxation (note 26)
- e) Deferred tax asset (note 13)
- f) Accumulating compensated absences (note 16.3)

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 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% (2015:1%) 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 to income for the year.

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

6.3 Investments

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

Investments are classified as follows:

Held for trading

Securities acquired with the intention to 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.

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

Available for sale

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

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

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

6.4 Operating fixed assets and depreciation

Capital work-in-progress

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

Tangible fixed assets - Owned

Operating fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Tangible fixed assets - Leased

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

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

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

Depreciation

Depreciation is calculated using the straight line method so as to write off the operating fixed assets, over their expected 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.

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.

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

Intangible assets

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

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

6.5 Impairment

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

6.6 Grants

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

6.7 Staff retirement benefits

6.7.1 Defined contribution plan

6.7.1.1 Provident Fund

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

6.7.2 Defined benefit plan

6.7.2.1 Gratuity scheme

The Bank operates an unapproved non-contributory defined benefit gratuity scheme for all permanent employees with a qualifying period of five years. During the year, the Bank has reduced the qualifying period from five years to 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, 2016 using Projected Unit Credit Method. Actuarial gains and losses arising from the actuarial valuation are recognised immediately in other comprehensive income.

6.7.3 Accumulated compensated absences

The Bank used to provide for its liabilities towards vested compensated absences accumulated by its employees. During the year bank changed its policy for encashment of compensated absences as accumulated compensated absences are not encashed. This change has resulted in reversal of provision aggregating Rs. 14,232,128.

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

6.13 Depositors' Protection Fund

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

6.14 Revenue recognition

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

Return on bank deposits and investment is recognised on an accrual basis.

Fee and commission income is recognised as services are rendered.

Other income is recognised on an 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. All non-monetary items are translated into rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined.

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

6.16 Financial instruments

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

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

6.16.1 Financial assets and financial liabilities

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

6.16.2 Off setting

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

6.16.3 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.

6.17 Functional and presentation currency

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

6.18 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	2016	2015
			Rupees	Rupees
	Cash in hand		147,056,414	93,549,573
	Balance with State Bank of Pakistan	7.1	551,278,135	245,236,566
	Balance with National Bank of Pakistan in :			
	Deposit accounts	7.1	24,014,414	17,601,439
	Current accounts	7.1	87,325,680	250,900
			809,674,643	356,638,478

7.1 This represents the balance maintained with SBP and NBP to meet the minimum balance requirement equivalent to 5% as cash reserve and 10% as liquidity reserve of the Bank's time and demand liabilities in accordance with the Prudential Regulations.

8	Balances with other banks	Note	2016	2015
			Rupees	Rupees
	In Pakistan:			
	Saving accounts	8.1	1,002,522,213	238,715,690
	Deposit accounts	8.2	155,000,000	125,000,000
	Current accounts		90,962,717	46,275,006
			1,248,484,930	409,990,696

8.1 These accounts carry mark-up ranging from 3.5% to 8.0% (2015: 4.5% to 9.3%) per annum.

8.2 These term deposits carry mark-up ranging from 6% to 11.25% (2015: 6.55% to 9.00%) per annum with maturity up to one month.

9	Investments-net of provisions Federal Govt. Securities:	Note	2016	2015
			Rupees	Rupees
	Market Treasury Bills (Held to maturity)	9.1	1,885,328,850	1,039,196,250

9.1 These carry yield rate ranging between 5.77% to 6.95% (2015: 6.41% to 6.95%) per annum and have maturity upto April 13, 2017. These securities have an aggregate face value of Rs. 1,900,000,000 (2015: Rs. 1,050,000,000)

10	Advances	Note	2016		2015	
			Number	Rupees	Number	Rupees
	Micro credit advances	10.1	132,880	10,135,920,390	90,804	5,438,119,109
	Other advances	10.2	721	73,208,256	476	40,638,816
				10,209,128,646		5,478,757,925
	Less: Provisions held:					
	Specific	10.5	1,710	29,949,986	2,154	14,415,116
	General	10.4		96,914,686		45,667,075
	Sub-Total			126,864,672		60,082,191
	Advances (net of provision)			10,082,263,974		5,418,675,734

10.1 This includes fully secured advances amounting to Rs.487,709,188 (2015: Rs. 899,903,430) whereas the remaining advances are secured by personal guarantees.

10.2 These advances are staff loans and carry markup rate of 5% per annum (2015: 5%). This amount includes a loan sanctioned to the Chief Executive Officer of Rs. 5,845,175 (2015: Rs. 4,260,830) at a markup rate of 5% (2015: 5%).

10.3 Particulars of non-performing advances

The total advances of Rs. 114,976,716 (2015: Rs. 126,350,998) placed under non-performing status includes Rs 16,278,010 (2015: Rs. 84,220,264) against secured gold loans:

	Number	2016		Provision required	Provision held
		Amount outstanding	%		
		Rupees		Rupees	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

	2015				
	Number	Amount outstanding	%	Provision required	Provision held
		Rupees		Rupees	
OAEM	471	26,748,246	0	-	-
Sub-standard	345	19,097,718	25	2,005,553	2,005,553
Doubtful	1,327	80,116,646	50	12,117,737	12,117,737
Loss	11	388,388	100	291,826	291,826
Total	2,154	126,350,998		14,415,116	14,415,116

10.4 This represents general provision equivalent to 1% (2015: 1%) of the outstanding advances net of specific provisions and those against which gold collaterals are taken.

10.5 Particulars of non-performing advances

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

Note	2016			2015		
	Specific	General	Total	Specific	General	Total
(Rupees).....		(Rupees).....		
Balance as at January 1	14,415,116	45,667,075	60,082,191	8,274,452	25,472,839	33,747,291
Charge for the year	105,502,766	51,247,611	156,750,377	57,316,777	20,194,236	77,511,013
Reversal during the year	-	-	-	-	-	-
Amounts written off 10.5.1	(89,967,896)	-	(89,967,896)	(51,176,113)	-	(51,176,113)
	15,534,870	51,247,611	66,782,481	6,140,664	20,194,236	26,334,900
Balance as at December 31	29,949,986	96,914,686	126,864,672	14,415,116	45,667,075	60,082,191

10.5.1 Particulars of write offs

Against provisions
Directly charged to profit and loss account

Note	2016 Rupees	2015 Rupees
	89,967,896	51,176,113
	62,460,438	28,143,149
	152,428,334	79,319,262

11 Operating fixed assets

Capital work-in-progress
Intangible assets
Property and equipment

Note	2016 Rupees	2015 Rupees
11.1	65,980,795	29,523,350
11.2	129,391,422	108,634,332
11.3	725,475,033	638,494,507
	920,847,250	776,652,189

11.1 Capital work-in-progress

Civil works
Equipment
Intangible assets
Advances to suppliers and contractors

2016 Rupees	2015 Rupees
10,873,479	7,609,988
26,123,143	9,781,274
7,897,362	10,291,902
21,086,811	1,840,186
65,980,795	29,523,350

11.2 Intangible assets

Computer software

Cost

Balance as at January 1
Additions during the year
Reversal during the year
Balance as at December 31

2016 Rupees	2015 Rupees
219,257,516	168,492,178
66,125,768	50,765,338
(11,153,797)	-
274,229,487	219,257,516

Amortization

Balance as at January 1
Charge during the year
Balance as at December 31

2016 Rupees	2015 Rupees
110,623,184	86,281,177
34,214,881	24,342,007
144,838,065	110,623,184

Carrying amount

2016 Rupees	2015 Rupees
129,391,422	108,634,332

Amortization rate

2016	2015
10% - 20%	10% - 20%

11.3 Property and equipment

	2016									Annual depreciation rate
	Cost as at January 1	Additions/ (deletions)	Adjustments/ (Write off)	Cost as at December 31	Accumulated depreciation as at January 1	Depreciation charge/ (deletions)/transfers* for the year	Adjustments/ (Write off)	Accumulated depreciation as at December 31	Book value as at December 31	
	(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%
Furniture and fixtures	73,188,982	30,466,871	(1,777,359)	101,271,633	19,526,729	8,631,315	(1,089,102)	26,720,698	74,550,935	10%
Computer equipment	171,900,807	27,469,621	(237,750)	197,359,149	106,723,128	(1,418,716)	(18,630)	26,720,698	74,550,935	10%
Office equipment	82,715,647	25,026,376	(247,152)	106,691,826	19,288,454	(1,548,235)	(236,112)	132,838,051	64,521,098	20% - 33%
Vehicles	34,832,000	28,817,227	(790,080)	60,568,927	9,302,502	8,968,911	(494,725)	27,573,790	79,118,036	10%
		(3,080,300)				14,638,946	-	22,262,263	38,306,664	25%
		(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)			

#

	2015									Annual depreciation rate
	Cost as at January 1	Additions/ (deletions) transfers	Adjustments/ (Write off)	Cost as at December 31	Accumulated depreciation as at January 1	Depreciation charge/ (deletions)/transfers* for the year	Adjustments/ (Write off)	Accumulated depreciation as at December 31	Book value as at December 31	
	(Rupees)									
Owned assets										
Land	113,381,232	143,410,000	-	256,791,232	-	-	-	-	256,791,232	0%
Leasehold improvements	186,338,039	42,155,014	(33,328)	213,261,826	23,786,306	21,400,510	-	39,355,174	173,906,652	10%
Furniture and fixtures	73,298,240	3,674,882	(15,197,899)	73,188,982	13,554,087	7,748,408	(5,831,642)	19,526,729	53,662,253	10%
Computer equipment	134,924,608	37,471,199	(3,306,517)	171,900,807	84,667,329	(254,229)	(1,521,537)	19,526,729	53,662,253	10%
Office equipment	62,003,109	21,831,268	(3,306,517)	82,715,647	12,406,376	(416,977)	-	106,723,128	65,177,679	20% - 33%
Vehicles	32,653,000	8,103,000	(1,106,830)	34,832,000	4,184,680	7,417,711	(533,168)	19,288,454	63,427,193	10%
		(5,924,000)				(2,465)		9,302,502	25,529,498	25%
		(1,390,049)				-				
2015	602,598,228	256,645,363	(33,328)	832,690,494	138,598,778	65,547,276	-	194,195,987	638,494,507	
		(6,908,523)	(19,611,246)			(2,063,720)	(7,886,347)			

11.3.1 Detail of property and equipment sold:

Particulars of assets	2016					
	Cost	Accumulated depreciation	Book value	Sales Proceed	Particulars of purchaser	Mode of disposal
	(Rupees)					
Owned assets						
Vehicles						
Honda Civic	2,438,500	(1,371,656)	1,066,844	1,066,844	Shahid Maqsood	As per policy
Suzuki Mehran VXR	641,800	(307,529)	334,271	334,271	Abdullah Yousaf	As per policy
Items with book value of lower than Rs. 250,000 or cost of lower than Rs. 1,000,000	7,223,055	(4,994,370)	2,228,685	414,896		
	10,303,355	(6,673,555)	3,629,800	1,816,011		
2015	26,519,769	(9,916,731)	16,603,038	5,721,062		

	2016	2015
	Rupees	Rupees
12 Other assets		
Income / mark-up accrued on loans and advances	570,704,572	223,531,465
Income / mark-up accrued on balance with banks	7,793,310	104,270
Prepayments	40,651,478	17,940,558
Security deposits	2,183,644	2,194,844
Stationery and stamps on hand	9,175,660	5,982,242
Receivable from FINCA International, Inc.	18,317,306	18,488,325
Receivable from FINCA (MESA Region)	3,168,015	3,168,015
Others	12,963,584	12,438,667
	664,957,569	283,848,386

13 Deferred tax asset		
Deferred tax asset arising in respect of:		
Gratuity payable	32,203,210	21,819,465
Accumulating compensated absences	-	4,981,280
Deferred tax asset on unused business losses	-	100,373,846
Deferred tax asset on unabsorbed depreciation	-	65,601,435
	32,203,210	192,776,026
Deferred tax liability arising in respect of:		
Property and equipment	25,795,518	25,858,832
	6,407,692	166,917,194

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

		2016		2015	
	Note	Number of accounts	Rupees	Number of accounts	Rupees
Fixed deposits	14.1	6,589	7,675,359,202	4,669	3,921,406,395
Saving deposits	14.1	106,120	2,041,534,933	100,308	1,295,568,840
Current deposits		350,769	1,352,761,717	277,054	840,388,868
		463,478	11,069,655,852	382,031	6,057,364,103

14.1 These represent term deposits having tenure of 1 to 60 months carrying profit rates ranging from 7.95% to 14.20% (2015: 5.25% to 14.15%) per annum. The saving deposits represent accounts carrying interest rates ranging from 5% to 7.5% (2015: 6% to 10%) per annum.

		2016		2015	
		Number of accounts	Rupees	Number of accounts	Rupees
14.2 Particulars of deposits by ownership					
1) Individual depositors		462,888	7,704,269,360	381,276	5,261,196,362
2) Institutional depositors:					
a) Corporations, firms and other such entities		538	1,087,424,670	744	512,502,193
b) Banks and financial institutions		52	2,277,961,822	11	283,665,548
		463,478	11,069,655,852	382,031	6,057,364,103

14.3 Deposits include deposits from related parties amounting to Rs. 71,561,229 (2015: Rs. 136,116,814).

		2016	2015
	Note	Rupees	Rupees
15 Borrowings			
Borrowings from banks/ financial institutions in Pakistan	15.1	1,350,001,756	115,000,880
15.1 Details of borrowings from financial institutions			
Secured			
- Running finance - JS Bank Limited	15.2	299,999,996	-
- Running finance - NIB Bank Limited	15.3	150,001,760	115,000,660
- Running finance - UBL Bank Limited	15.4	400,000,000	220
- Term finance - Pak Oman Investment Company Limited	15.5	300,000,000	-
- Term finance - UBL Bank Limited	15.6	200,000,000	-
		1,350,001,756	115,000,880

- 15.2** This is secured against first pari-passu charge on all present and future current assets of the Bank to the extent of financing amount with a 20% margin. Mark-up is payable quarterly at rate of 3 months KIBOR + 1.75bps (2015: 3 month KIBOR + 1.65bps) and commitment fee of 0.5% per annum payable quarterly. This facility is expiring by May 25, 2017. The total limit of the facility is Rs. 300 million.
- 15.3** This is secured against the unconditional and irrevocable MCGF of 40% by SBP and rest 60% will be secured through first pari-passu hypothecation charge on all assets including current and fixed assets located anywhere in Pakistan with 25% margin. Further any other security may be requested by bank from time to time plus the bank shall have a banker's lien on all the customer deposits, accounts and properties held with the Bank. Mark-up is payable quarterly at the rate of 3 months KIBOR + 1.60bps. (2015: 3 months KIBOR + 1.60bps.). The total limit of the facility is Rs. 200 million.
- 15.4** This is secured by first pari-passu charge on all present and future 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. (2015: 3 months KIBOR + 1.00bps) with commitment fee of 0.25% per annum payable quarterly. This facility is expiring by August 10, 2017. 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. The principal will be paid in twelve equal quarterly installments, the first such installment falls due on September 23, 2017 and last installment on 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 and rest 60% will be secured through first pari-passu hypothecation charge on all assets including current and fixed assets located everywhere in Pakistan with a 25% margin. Mark-up is payable quarterly at the rate of 3 months KIBOR + 1.50bps. This facility is repayable on March 27, 2018. The total limit of the facility is Rs. 200 million.

16	Other liabilities	Note	2016	2015
			Rupees	Rupees
	Markup / return / interest payable	16.1	159,935,612	94,128,504
	Bills payable		14,624,542	5,840,158
	Accrued expenses		120,786,729	96,490,899
	Current taxation		137,144,960	19,819,806
	Gratuity payable	16.2	92,009,170	62,341,329
	Accumulating compensated absences	16.3	-	14,232,228
	Payable to FINCA Afghanistan		-	1,021,590
	Withholding tax payable		7,733,612	6,681,973
	Unutilized Grant payable to Stitching to Promote Women's World Banking		361,675	361,675
	Unpaid dividend		99,944,340	-
	Sundry creditors		133,213,631	45,101,340
			765,754,271	346,019,502

- 16.1** Markup payable on deposits from key management personnel amounts to Rs. 759,000 (2015: Rs. 460,000).

16.2	Gratuity payable	2016	#	2015
		Rupees		Rupees
	Present value of defined benefit obligation	92,009,170		62,341,329

- a) **Changes in present value of defined benefit obligation**

	2016	#	2015
	Rupees		Rupees
Balance at 1 January	62,341,329		44,271,975
Included in profit and loss			
Current service cost	20,198,320		16,376,744
Past service cost	7,000,857		-
Interest cost	5,887,513		4,705,813
	33,086,690		21,082,557
Included in other comprehensive income			
Actuarial loss arising from experience adjustment	3,513,550		1,871,839
Payments made during the year	(6,932,399)		(4,885,042)
Balance at 31 December	92,009,170		62,341,329

	<u>2016</u>	<u>2015</u>
	Rupees	Rupees
b) Expenses to be charged to profit and loss		
Current service cost	20,198,320	16,376,744
Interest cost	5,887,513	4,705,813
Past service cost	<u>7,000,857</u>	
	<u>33,086,690</u>	<u>21,082,557</u>
c) Total remeasurement chargeable in other comprehensive income		
Remeasurement of plan obligation:		
Actuarial (gain)/losses from changes in financial assumptions	(172,979)	-
Experience adjustments	<u>3,686,529</u>	1,871,839
Total remeasurement chargeable in other comprehensive income	<u>3,513,550</u>	<u>1,871,839</u>
d) Changes in net liability		
Balance sheet liability at January 1	62,341,329	44,271,975
Expense chargeable to profit and loss	33,086,690	21,082,557
Remeasurement chargeable in other comprehensive income	3,513,550	1,871,839
Benefit paid	<u>(6,932,399)</u>	(4,885,042)
Balance sheet liability at December 31	<u>92,009,170</u>	<u>62,341,329</u>
e) Significant actuarial assumptions		
Discount rate used for profit and loss charge	10.00%	11.25%
Discount rate used for year end obligation	9.50%	10.00%
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 2017		
	Rupees	
Current service cost	31,949,032	
Interest cost on defined benefit obligation	<u>8,333,733</u>	
	<u>40,282,765</u>	
g)	Significant actuarial assumptions for the determination of the defined obligation are discount rate and expected rate of salary increase. The sensitivity analysis below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant:	
-	If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by Rs. 9,822,640 (increase by Rs. 11,920,888).	
-	If the expected rate of salary increase (decreases) by 100 basis points, the defined benefit obligation would increase by Rs. 12,183,281 (decrease by Rs. 10,221,812).	
	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.	
16.3 Accumulated compensated absences	2016	2015
	Rupees	Rupees
Balance at 31 December	<u>-</u>	<u>14,232,228</u>

a) **Changes in present value of defined benefit obligation**

	2016	2015
	Rupees	Rupees
Balance at 1 January	14,232,128	11,543,054
Included in profit and loss		
Current service cost	-	2,441,488
Interest cost	-	1,298,494
	-	3,739,982
Actuarial gain arising from experience adjustment	-	(1,050,908)
Reversal during the year	(14,232,128)	-
Balance at 31 December	-	14,232,128

b) **Expenses to be charged to profit and loss**

Current service cost	-	2,441,488
Interest cost	-	1,298,594
Actuarial gain arising of experience adjustment	-	(1,050,908)
	-	2,689,174

c) **Total remeasurement chargeable in profit and loss account.**

	2016	2015
	Rupees	Rupees
Remeasurement of plan obligation:		
Total remeasurement chargeable in other comprehensive income	-	(1,050,908)

d) **Changes in net liability**

Balance sheet liability at January 1	14,232,128	11,543,054
Expense chargeable to profit and loss	-	2,689,174
Reversal during the year	(14,232,128)	-
Balance sheet liability at December 31	-	14,232,228

e) **Significant actuarial assumptions**

Discount rate used for profit and loss charge	-	11.25%
Discount rate used for year end obligation	-	10.00%
Mortality rates	-	SLIC 2001-05 Setback 1 Year

17 **Share capital**

		2016	2015
	Note	Rupees	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:

	2016	2015	2016	2015
	(Number of shares)		Rupees	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:

	2016	2015	2016	2015
	Percentage of holding		Rupees	Rupees
FINCA Microfinance Cooperatief U.A	86.4%	86.4%	5,484,986,530	5,484,986,530
Kashf Holdings (Private) Limited	5.2%	5.2%	331,197,470	331,197,470
International Finance Corporation	4.8%	4.8%	307,717,390	307,717,390
Acumen Fund	0.8%	0.8%	51,302,530	51,302,530
Triodos Fair Share Fund	2.7%	2.7%	173,683,190	173,683,190
	100%	100%	6,348,887,110	6,348,887,110

18	Deferred grants	Note	2016 Rupees	2015 Rupees
	Opening balance		18,296,924	18,211,626
	Grants received from:			
	State Bank of Pakistan (value chain financing scheme)	18.1	-	4,075,000
	Rumsfeld through FINCA International Inc.	18.2	-	6,199,374
			-	10,274,374
	Grants amortised		(5,695,175)	(9,167,155)
	Grants refunded		-	(1,021,921)
			12,601,749	18,296,924

18.1 This represents grant received from State Bank of Pakistan (SBP) under the Financial Innovation Challenge Fund (FICF) of Financial Inclusion Program (FIP) to promote Innovative Rural and Agricultural Finance in Pakistan. The term of the grant is from July 01, 2014 to December 31, 2014 and Rs. 10,745,000 amounts in aggregate.

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

19 Memorandum / Off-balance sheet items

19.1 Contingencies

19.1.1 Assistant Commissioner of Sindh Revenue Board issued an order regarding scrutiny of input tax claimed and raised a demand of Rs. 889,993. Appeal has been filed to Commissioner Appeals, Sindh Revenue Board against said order, which is pending for decision.

		2016 Rupees	2015 Rupees
20	Mark-up / return / interest earned		
	Interest / mark-up on advances	2,883,194,576	1,788,636,094
	Markup earned on investments in government securities	54,070,498	77,477,643
	Interest / mark-up on bank accounts	48,784,961	33,640,140
		2,986,050,035	1,899,753,877
21	Mark-up / return / interest expensed		
	Deposits	618,149,047	517,104,251
	Borrowings	29,443,650	17,565,199
		647,592,697	534,669,450
22	Fee, commission and brokerage income		
	Loan processing fee	331,184,390	115,256,068
	Income on Cheque Book issuance	27,069,944	20,167,287
	Others	83,141,449	147,972,972
		441,395,783	283,396,327
23	Other income		
	Grant income	5,695,175	9,167,155
	Recovery of debts previously written off	104,213,066	33,257,811
	Others	285,422	350,779
		110,193,663	42,775,745

24	Administrative expenses	Note	2016	2015
			Rupees	Rupees
	Staff salaries and other benefits	24.1	848,182,082 #	683,576,661
	Non-executive directors' fees, allowances and other expenses		675,000	-
	Contribution to employee provident fund		36,660,241	33,128,895
	Printing, stationery and periodicals		33,432,199 #	23,892,271
	Advertisement		70,301,523 #	36,189,519
	Rent		102,983,454 #	75,293,960
	Office running expenses		28,726,173 #	22,485,982
	Vehicle running expenses		13,868,905 #	12,920,030
	Insurance		11,959,673 #	13,304,026
	Office security / personnel services		61,729,621 #	49,324,273
	Repairs and maintenance		52,895,452 #	42,450,443
	Communication		59,824,686 #	57,384,771
	Travel and transportation		101,771,197 #	78,449,718
	Utilities		40,331,839 #	36,729,241
	Legal and professional		45,601,320 #	40,460,685
	Auditors' remuneration	24.2	3,305,000 #	2,870,000
	Training and research		25,755,582 #	20,401,473
	Depreciation	11.3	84,078,512 #	65,547,276
	Amortization	11.2	34,214,881	24,342,007
	Others		13,463,168 #	3,261,171
			1,669,760,508 #	1,322,012,402

24.1 This includes Rs. 33,086,689 (2015: Rs. 21,082,557) in respect of staff gratuity expense and Rs. 1,413,207 (2015: Rs. 1,363,674) in respect of gratuity expense of Chief Executive Officer.

24.2	Audit fee	2016	2015
		Rupees	Rupees
	Audit fee	2,775,000	2,520,000
	Fee for certifications	200,000	50,000
	Out of pocket expenses	330,000 #	300,000
		3,305,000	2,870,000

25	Other charges	2016	2015
		Rupees	Rupees
	Penalties imposed by SBP	1,043,000	740,750
	Bank charges	9,336,276	6,497,061
	Net loss on disposal / deletion of fixed assets	1,813,789	10,881,968
	Others	1,287,079	250,000
		13,480,144	18,369,779

26	Taxation	Current	
		2016	2015
	For the year	184,377,277	21,831,502
	For the prior year	10,583,237	-
		194,960,514	21,831,502
		Deferred	
	For the year	161,646,128	78,147,708
	For the prior year	93,117	(21,453,574)
		161,739,245	56,694,134
		356,699,759	78,525,636

26.1	Relationship between tax expense and accounting profit	2016	2015
		Rupees	Rupees
	Accounting profit before taxation	987,595,317	245,220,156
	Tax rate %	35%	35%
	Tax on accounting rate	345,658,361	85,827,055
	Tax effect of income chargeable to tax at lower rate	-	21,831,502
	Prior year tax adjustment	10,676,354	(21,453,574)
	Tax effect of inadmissible expenses	365,044	259,263
	Effect on deferred tax balance due to unabsorbed depreciation	-	(7,938,610)
	Tax provision	356,699,759	78,525,636

27 Number of employees

	2016			2015		
	Credit / Sales staff	Banking / Support staff	Total staff	Credit / Sales staff	Banking / Support staff	Total staff
Permanent	874	687	1,561	575	613	1,188
Contractual	1	144	145	1	135	136
Total	875	831	1,706	576	748	1,324

28 Number of branches and permanent booths

	2016		2015	
	Branches	Permanent Booths	Branches	Permanent Booths
At the beginning of the year	79	21	42	58
Opened during the year	5	-	-	-
Upgraded from permanent booths	21	(21)	37	(37)
At the end of the year	105	-	79	21

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	
	2016	2015	2016	2015	2016	2015
(Rupees).....					
Managerial remuneration	15,119,796	12,928,896	675,000	-	102,205,438	78,514,575
House rent allowance	-	-	-	-	43,385,309	31,405,888
Provident fund	1,511,978	1,292,892	-	-	9,928,400	10,193,145
Utilities allowance	-	-	-	-	6,986,380	4,868,119
Medical allowance	1,511,316	1,292,400	-	-	3,234,157	2,983,342
Conveyance / car allowance	840,000	576,000	-	-	15,275,627	13,331,750
Others	1,035,876	-	-	-	4,238,640	6,122,720
	20,018,966	16,090,188 ₹	675,000 ₹	- ₹	185,253,951 ₹	147,419,539
Number of persons at year end	1	1	3	-	98	76

29.1 Executive means employees, other than the chief executive and directors, whose basic salary exceed 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. 151,890 (2015: Rs 376,879) and Rs. 434,525 (2015: Rs. 351,325) respectively.

29.3 The Bank provides car allowance of Rs. 840,000 (2015: Rs. 576,000) per annum to the Chief Executive Officer as part of the remuneration.

	2016	2015
	Rupees	Rupees
30 Basic and diluted earnings per share		
30.1 Profit for the year	630,895,558	166,694,520
Weighted average number of ordinary shares - number	634,888,711	540,569,155
Basic and diluted earnings per share	0.99	0.31

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 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:

	2016			2015		
	Key management personnel	Associated company / parent	Other related parties	Key management personnel	Associated company / parent	Other related parties
.....(Rupees).....						
Deposits						
Opening balance	50,579,689	600	85,536,525	61,622,976	600	84,479,808
Received during the year	312,698,362	-	91,349,000	209,676,332	-	15,271,226
Withdrawn during the year	(302,863,852)	(600)	(165,738,494)	(220,719,619)	-	(14,214,509)
Closing balance	60,414,199	-	11,147,031	50,579,689	600	85,536,525
Staff loans						
Opening balance	8,561,118	-	-	11,681,932	-	-
Disbursements during the year	42,523,593	-	-	13,993,400	-	-
Repayments during the year	(34,969,906)	-	-	(17,114,214)	-	-
Closing balance	16,114,805	-	-	8,561,118	-	-

Transactions during the year

Mark-up/return/interest earned	688,141	-	-	897,822	-	-
Mark-up/return/interest expensed	3,244,602	-	7,709,647	5,652,337	-	301,928
Contribution to provident fund	11,440,378	-	-	10,147,194	-	-

32 Cash and cash equivalents	Note	2016	2015
		Rupees	Rupees
Cash and balances with SBP and NBP	7	809,674,643	356,638,478
Balances with other banks	8	1,248,484,930	409,990,696
		2,058,159,573	766,629,174

33 Capital risk management

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

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, 2016. As at December 31, 2016, the paid up share capital net of discount, of the Bank stood at Rs. 2,259.847 million (2015: 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 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, 2016, the Bank's Capital adequacy ratio (CAR) is approximately 20.59% (2015: 30.34%) of its weighted exposure, as against the minimum requirement of 15% prescribed by SBP.

34 Financial assets and liabilities (cont'd)

2015

	Interest bearing / exposed to yield / interest risk						Non-Interest bearing / not exposed to yield / interest risk					
	Effective yield / interest rate	Upto one month	Over one month upto six months	Over six months upto one year	Over one year	Sub total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year	Sub total	Total
	%	Rupees										
Financial assets												
On balance sheet												
Cash and balances with SBP and NBP	-	17,601,439	-	-	-	17,601,439	339,037,039	-	-	-	339,037,039	356,638,478
Balances with other banks/NBFIs/MFBs	4.5%-9.3%	363,715,690	-	-	-	363,715,690	46,275,006	-	-	-	46,275,006	409,990,696
Investments - net of provisions	6.41%-6.95	199,226,923	839,969,327	-	-	1,039,196,250	-	-	-	-	-	1,039,196,250
Advances - net of provisions	5% - 51.44%	793,757,045	2,419,635,399	1,784,872,761	420,410,529	5,418,675,734	-	-	-	-	-	5,418,675,734
Other assets	-	-	-	-	-	-	257,730,742	-	-	2,194,844	259,925,586	259,925,586
		1,374,301,097	3,259,604,726	1,784,872,761	420,410,529	6,839,189,113	643,042,787	-	-	2,194,844	645,237,631	7,484,426,744
Off balance sheet												
		-	-	-	-	-	-	-	-	-	-	-
Total		1,374,301,097	3,259,604,726	1,784,872,761	420,410,529	6,839,189,113	643,042,787	-	-	2,194,844	645,237,631	7,484,426,744
Financial liabilities												
On balance sheet												
Deposit and other accounts	5%-15.63%	1,909,110,938	1,015,368,612	779,535,109	1,512,960,575	5,216,975,234	840,388,869	-	-	-	840,388,869	6,057,364,103
Borrowings	7.60%-11.23%	-	-	115,000,880	-	115,000,880	-	-	-	-	-	115,000,880
Other liabilities	-	-	-	-	-	-	163,685,715	27,172,168	28,117,347	86,310,265	305,285,495	305,285,495
		1,909,110,938	1,015,368,612	894,535,989	1,512,960,575	5,331,976,114	1,004,074,584	27,172,168	28,117,347	86,310,265	1,145,674,364	6,477,650,478
Off balance sheet												
		-	-	-	-	-	-	-	-	-	-	-
Total		1,909,110,938	1,015,368,612	894,535,989	1,512,960,575	5,331,976,114	1,004,074,584	27,172,168	28,117,347	86,310,265	1,145,674,364	6,477,650,478
On balance sheet gap												
		-	-	-	-	-	-	-	-	-	-	-
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.

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
Other cost bearing liabilities	3,391,536,690	2,041,534,934	-	900,001,756	450,000,000
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

2015					
	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
Rupees					
Market rate assets					
Advances	5,418,675,734	793,757,045	2,419,635,399	1,784,872,761	420,410,529
Investments	1,039,196,250	199,226,923	839,969,327	-	-
Other earning assets	381,317,129	381,317,129	-	-	-
Total market rate assets	6,839,189,113	1,374,301,097	3,259,604,726	1,784,872,761	420,410,529
Other non-earning assets	1,612,729,814	659,434,084	59,581,014	53,958,384	839,756,332
Total assets	8,451,918,927	2,033,735,181	3,319,185,740	1,838,831,145	1,260,166,861
Market rate liabilities					
Time deposits of Rs. 100,000 and above	3,887,889,957	604,627,206	1,004,787,675	776,132,901	1,502,342,175
Time deposits below Rs. 100,000	33,516,438	8,914,892	10,580,938	3,402,208	10,618,400
Other cost bearing liabilities	1,410,569,720	1,295,568,840	-	115,000,880	-
Total market rate liabilities	5,331,976,115	1,909,110,938	1,015,368,613	894,535,989	1,512,960,575
Other non-cost bearing liabilities	1,186,408,370	1,010,756,555	27,172,168	28,117,347	120,362,300
Total liabilities	6,518,384,485	2,919,867,493	1,042,540,781	922,653,336	1,633,322,875

36 Provident Fund

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

			<u>2016</u>	<u>2015</u>
		Note	Rupees	Rupees
Size of the fund	#		214,400,822	168,330,406
Total investments	#	36.1	202,640,837	154,590,291
%age of investments made	#		95%	92%

36.1 Breakup of investments

Mutual funds	26,120,595	-
Term deposit receipts (TDRs)	176,520,242	154,590,291
	<u>202,640,837</u>	<u>154,590,291</u>

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

37 Non adjusting event after the balance sheet date

The Board of Directors of the Bank in their meeting held on 27 MAR 2017, have passed on the dividend for the year ended December 31, 2016 @ 0% (Rs. 0 per share).

38 Date of authorisation

These financial statement were authorised for issue by the Board of Directors of the Bank on 27 MAR 2017

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