KPMG Taseer Hadi & Co.
Chartered Accountants

Pak Oman Microfinance Bank Limited

Financial Statement
For the year ended
31 December 2016

KPMG Taseer Hadi & Co.
Chartered Accountants
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Auditors' Report to the Members

We have audited the annexed balance sheet of **Pak Oman Microfinance Bank Limited** ("the Bank") as at 31 December 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, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Bank's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the 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 account have been kept by the Bank as required by the Microfinance Institutions Ordinance, 2001 and Companies Ordinance, 1984;

b) in our opinion:

   i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the 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 31 December 2016 and of the profit, its cash flows and changes in equity for the year then ended; and

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

We draw attention to Note 13 to the financial statements which describe that the management has recorded deferred tax asset based on 12 years business plan approved by the Chief executive officer of the Bank. As per that business plan sufficient taxable profits would be available in future to which the Bank will utilise the available tax losses minimum tax and alternate corporate tax. The preparation of business plan involve management's assumptions regarding future business, economic conditions and new equity injection and therefore any significant change in such assumptions or actual outcome that is different from assumptions, may have an effect on the realisability of the deferred tax asset in future. Our opinion is not qualified in respect of this matter.

KPMG Taseer Hadi & Co.

Date: 02 March 2017

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Muhammad Taufiq

Pak Oman Microfinance Bank Limited
Balance Sheet
As at 31 December 2016

	Note	2016	2015
		(Rupees)	
ASSETS			
Cash and balances with SBP and NBP	*6*	**7,996,608**	1,751,918
Balances with other Banks / NBFIs / MFBs	*7*	**28,527,405**	22,164,318
Lendings to financial institutions	*8*	**184,700,000**	545,925,775
Investments - net of provision	*9*	**516,913,445**	105,194,693
Advances - net of provisions	*10*	**428,478,754**	358,715,951
Operating fixed assets	*11*	**32,960,402**	37,085,008
Other assets	*12*	**33,911,082**	26,804,259
Deferred tax asset - net	*13*	**27,010,763**	29,541,475
Total Assets		**1,260,498,459**	1,127,183,397
LIABILITIES			
Deposits and other accounts	*14*	**148,895,471**	24,844,675
Borrowings		**-**	-
Subordinated debt		**-**	-
Other liabilities	*15*	**39,259,383**	27,877,451
Deferred tax liabilities - net		**-**	-
Total Liabilities		**188,154,854**	52,722,126
NET ASSETS		**1,072,343,605**	1,074,461,271
REPRESENTED BY:			
Share capital	*16*	**1,151,820,000**	1,151,820,000
Statutory and general reserves		**8,362,742**	7,065,605
Depositors' protection fund		**2,093,454**	1,766,402
Accumulated losses		**(90,631,662)**	(86,417,667)
		1,071,644,534	1,074,234,340
Surplus on revaluation of assets - net of deferred tax	*17*	**699,071**	226,931
		1,072,343,605	1,074,461,271

MEMORANDUM / OFF BALANCE SHEET ITEMS *18*

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

President / Chief Executive	Chairman	Director	Director

Pak Oman Microfinance Bank Limited
Profit and Loss Account
For the year ended 31 December 2016

	Note	2016	2015
		(Rupees)	
Mark-up / return / interest earned	19	176,541,376	168,664,524
Mark-up / return / interest expensed	20	(4,977,136)	(250,356)
Net mark-up / interest income		171,564,240	168,414,168
Provision against non-performing advances	10.3	18,560,128	13,178,363
Provision for diminution in the value of investments	9.6	-	4,853,640
Bad debts written off directly	10.3.1	-	-
		18,560,128	18,032,003
Net mark-up / return / interest income after provisions		153,004,112	150,382,165
NON MARK-UP / NON INTEREST INCOME			
Fee, commission and brokerage income		23,693,523	16,131,636
Dividend income		439,289	2,403,500
Other income	21	18,865,454	5,327,299
Total non-mark-up / non-interest income		42,998,266	23,862,435
		196,002,378	174,244,600
NON MARK-UP / NON INTEREST EXPENSES			
Administrative expenses	22	181,647,435	162,456,986
Other provision / write off	12	-	-
Other charges	23	(414,893)	316,255
Total non mark-up / non interest expenses		181,232,542	162,773,241
Extra ordinary / unusual items		-	-
PROFIT BEFORE TAXATION		14,769,836	11,471,359
Taxation - current	24	5,722,544	2,494,224
- prior	24	225,323	-
- deferred	24	2,336,285	3,229,398
		8,284,152	5,723,622
PROFIT AFTER TAXATION		6,485,684	5,747,737
Accumulated losses brought forward		(86,417,667)	(89,608,443)
		(79,931,983)	(83,860,706)
APPROPRIATIONS:			
Transfer to:			
Statutory reserve		(1,297,137)	(1,149,547)
Capital reserve		-	-
Depositors' Protection Fund		(324,284)	(287,387)
Revenue reserve		-	-
Proposed cash dividend		-	-
Accumulated losses carried forward		(81,553,404)	(85,297,640)
Earnings per share - Basic and diluted	29	0.063	0.056

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

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

Pak Oman Microfinance Bank Limited
Statement of Comprehensive Income
For the year ended 31 December 2016

	Note	2016	2015
		(Rupees)	
Profit after taxation		**6,485,684**	5,747,737
Other comprehensive income			
Items that will not be reclassified subsequently to profit and loss account:			
Remeasurement of defined benefit obligation	26.7.1	**211,204**	(1,623,227)
Related tax impact		**(63,361)**	503,200
		147,843	(1,120,027)
Comprehensive income for the year transferred to equity		**6,633,527**	4,627,710
Component of comprehensive income for the year not transferred to equity			
Surplus on revaluation of 'available for sale' investments		**603,206**	328,889
Related tax impact		**(131,066)**	(302,852)
		472,140	26,037
Total comprehensive income for the year		**7,105,667**	4,653,747

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

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

Pak Oman Microfinance Bank Limited
Cash Flow Statement
For the year ended 31 December 2016

	Note	2016	2015
		(Rupees)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		14,769,836	11,471,359
Dividend income		(439,289)	(2,403,500)
		14,330,547	9,067,859
Adjustments for non-cash items:			
Depreciation	11.2	9,056,018	6,777,499
Amortization	11.3	1,524,980	2,011,655
Amortization of premium of Pakistan Investment Bonds	19	175,749	48,976
Provision against non-performing advances	10.3	18,560,128	13,178,363
Provision for diminution in the value of investments	9.6	-	4,853,640
Gain on disposal of fixed assets	11.2.2	(405,632)	(1,105,550)
Provision for gratuity	22	3,492,563	2,736,172
Provision for leave fare assistance	22	3,628,648	4,440,006
		36,032,454	32,940,761
		50,363,001	42,008,620
Decrease / (increase) in operating assets			
Lendings to financial institutions		361,225,775	186,821,600
Advances - net		(88,498,680)	(150,916,756)
Other assets (excluding advance taxation)		(6,217,526)	(6,378,000)
		266,509,569	29,526,844
Increase / (decrease) in operating liabilities			
Deposits and other accounts		124,050,796	2,717,026
Other liabilities		9,852,485	11,334,105
		133,903,281	14,051,131
		450,775,851	85,586,595
Income tax paid	12.1	(6,837,164)	(3,242,844)
Gratuity paid	26.5	(1,422,118)	(11,284,207)
Leave fare assistance paid		(3,958,442)	(3,723,569)
Net cash generated from operating activities		438,558,127	67,335,975
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available for sale securities		(254,055,305)	9,230,779
Net investments in held to maturity securities		(157,060,241)	(40,361,118)
Dividend income received		439,289	2,403,500
Payment made for purchase of operating fixed assets		(8,527,056)	(23,588,895)
Sale proceeds from disposal of operating fixed assets		2,476,296	952,575
Net cash used in investing activities		(416,727,017)	(51,363,159)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of right shares		-	-
Transaction cost on isuance of shares		(9,223,333)	-
Net cash used in financing activities		(9,223,333)	-
Net increase in cash and cash equivalents during the year		12,607,777	15,972,816
Cash and cash equivalents at the beginning of the year		23,916,236	7,943,420
Cash and cash equivalents at the end of the year	31	36,524,013	23,916,236

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

President / Chief Executive | Chairman | Director | Director

Pak Oman Microfinance Bank Limited
Statement of Changes in Equity
For the year ended 31 December 2016

	Share capital	Capital reserves: Statutory reserve	Capital reserves: Depositors' Protection Fund	Revenue: Accumulated losses	Total
	(Rupees)				
Balance as at 1 January 2015	1,151,820,000	5,916,058	1,479,015	(89,608,443)	1,069,606,630
Total comprehensive income:					
Profit after tax for the year ended 31 December 2015	-	-	-	5,747,737	5,747,737
Other comprehensive income - net of tax	-	-	-	(1,120,027)	(1,120,027)
Total comprehensive income	-	-	-	4,627,710	4,627,710
Transfer to Statutory reserve	-	1,149,547	-	(1,149,547)	-
Transfer to Depositors' Protection Fund - 5% of the profit after Tax	-	-	287,387	(287,387)	-
Balance as at 31 December 2015	1,151,820,000	7,065,605	1,766,402	(86,417,667)	1,074,234,340
Total comprehensive income:					
Profit after tax for the year ended 31 December 2016	-	-	-	6,485,684	6,485,684
Other comprehensive income - net of tax	-	-	-	147,843	147,843
Total comprehensive income	-	-	-	6,633,527	6,633,527
Transaction cost for issuance of shares	-	-	-	(9,223,333)	(9,223,333)
Transfer to Statutory reserve	-	1,297,137	-	(1,297,137)	-
Transfer to Depositors' Protection Fund					
- 5% of the profit after tax	-	-	324,284	(324,284)	-
- return on investment - net of tax	-	-	2,768	(2,768)	-
	-	-	327,052	(327,052)	-
Balance as at 31 December 2016	1,151,820,000	8,362,742	2,093,454	(90,631,662)	1,071,644,534

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

President / Chief Executive	Chairman	Director	Director

1 STATUS AND NATURE OF BUSINESS

1.1 Pak Oman Microfinance Bank Limited (the Bank) was incorporated on 9 March 2006 as a public limited company under the Companies Ordinance, 1984 and was granted license by the State Bank of Pakistan (SBP) on 12 April 2006. The Bank received certificate of commencement of business on 6 May 2006, effective from 8 May 2006. The Bank's principal business is to provide microfinance services to the poor and under served segment of the society as envisaged under the Microfinance Institutions Ordinance, 2001. The registered office of the Bank is situated at 2nd Floor, Block-C, Finance and Trade Centre, Sharah-e-Faisal, Karachi, Pakistan. As at 31 December 2016, the Bank has 16 (2015: 16) branches and 14 service centers (2015: 8) in operation in all provinces of Pakistan, other than Gilgit Baltistan, including the Federal Capital Islamabad and is licensed to operate nationwide.

1.2 JCR-VIS has determined the Bank's medium to long-term rating as 'BBB+' and the short-term rating as 'A-3'.

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

2 BASIS OF PRESENTATION

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

3 STATEMENT OF COMPLIANCE

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

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

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

4 BASIS OF MEASUREMENT

4.1 Accounting convention

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

4.2 Functional and presentation currency

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

There are certain new and amended standards, interpretations and amendments that are mandatory for the Bank's accounting periods beginning on or after 01 January 2016 but are considered not to be relevant or do have any significant effects on the Bank's operations and therefore, not detailed in these financial statements.

5.2 Approved accounting standards not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 January 2017:

- Amendments to IAS 12 'Income Taxes' are effective for annual periods beginning on or after 1 January 2017. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments further clarify that when calculating deferred tax asset in respect of insufficient taxable temporary differences, the future taxable profit excludes tax deductions resulting from the reversal of those deductible temporary differences. The amendments are not likely to have an impact on financial statements of the Bank.

- Amendments to IAS 7 'Statement of Cash Flows' are part of IASB's broader disclosure initiative and are effective for annual periods beginning on or after 1 January 2017. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non - cash changes.

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

- Transfers of Investment Property (Amendments to IAS 40 'Investment Property' effective for annual periods beginning on or after 1 January 2018) clarifies that an entity shall transfer a property to, or from, investment property when, and only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments are not likely to have an impact on Bank's financial statements.

- Annual improvements to IFRS standards 2014 - 2016 cycle. The new cycle of improvements addresses improvements to following approved accounting standards:

  - Amendments to IFRS 12 'Disclosure of Interests in Other Entities' (effective for annual periods beginning on or after 1 January 2017) clarify that the requirements of IFRS 12 apply to an entity's interests that are classified as held for sale or discontinued operations in accordance with IFRS 5 – 'Non - current Assets Held for Sale and Discontinued Operations'. The amendments are not likely to have an impact on Bank's financial statements.

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

- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for annual periods beginning on or after 1 January 2018) clarifies which date should be used for translation when a foreign currency transaction involves payment or receipt in advance of the item it relates to. The related item is translated using the exchange rate on the date the advance foreign currency is received or paid and the prepayment or deferred income is recognised. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) would remain the date on which receipt of payment from advance consideration was recognised. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.

  The above amendments are not likely to have an impact on Bank's financial statements.

5.3 Cash and cash equivalents

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

5.4 Lendings to financial institutions

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

5.5 Investments

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

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

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

Held-for-trading

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

Held-to-maturity

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

Available-for-sale

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

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

Impairment

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

5.6 Advances

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

a) **Other Assets Especially Mentioned (OAEM)**

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

b) **Substandard**

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

c) **Doubtful**

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

d) **Loss**

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

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

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

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

In addition, a general provision is made in accordance with the requirements of the Prudential Regulations for Microfinance Banks issued by SBP equivalent to 1% (2015: 1%) of the net outstanding balance (advances net of specific provisions) for potential loan losses.

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

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

5.7 Operating fixed assets and depreciation

5.7.1 Property and equipment

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

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

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

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

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

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

5.7.2 Capital work in progress

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

5.7.3 Intangible assets

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

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

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

5.8 Impairment

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

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

5.8.2 *Financial Assets*

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

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

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

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

5.9 Grants

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

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

5.10 Staff retirement benefits

5.10.1 Defined contribution plan

The Bank also operates a recognised provident fund for its eligible employees. Equal monthly contributions are made by the Bank and its employees to the fund at the rate of 8.33% (2015: 8.33%) of basic salary per month.

5.10.2 Defined benefit plan

The Bank operates a funded-gratuity scheme for all of its permanent employees. The scheme was approved on 16 September 2014. Contributions to the fund are made every year based on actuarial valuation. The actuarial valuation is carried out using the Projected Unit Credit Method (PUCM). Under this method, the cost of providing gratuity is charged to the profit and loss account so as to spread the cost over the service lives of the employees in accordance with the actuarial valuation. All actuarial gains and losses are recognized in Other Comprehensive Income (OCI) in the periods in which they occur. The actuarial valuation was conducted as at 31 December 2016.

5.10.3 Compensated absences

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

5.11 Taxation

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

5.11.1 Current

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

5.11.2 Deferred

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

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

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

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

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

5.12 Deposits

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

5.13 Statutory reserve

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

5.14 Provisions

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

5.15 Depositors' protection fund

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

5.16 Revenue recognition

- Return on investment / lending to financial institutions is recognised using effective interest rate method.
- Mark-up / interest / return on performing advances is recognised using effective interest rate method except that income suspended in accordance with the requirements of the Prudential Regulations for Microfinance Banks, is taken to income when actually received.
- Interest or mark-up recoverable on non-performing advances and classified investments is recognised on a receipt basis.
- Dividend income is recognised when the right to receive dividend is established.
- Processing fees is recognized when services are performed.
- Capital gains / (losses) on sale of investments are recognised in the profit and loss account at the time of sale.
- Other income are recognised on accrual basis when financial services are rendered.

5.17 Financial instruments

5.17.1 Financial assets and financial liabilities

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

5.17.2 Off setting

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

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

5.18 Derivative financial instruments

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

5.19 Functional and presentation currency

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

5.20 Foreign currencies translation

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

5.21 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS, if any, is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. There were no dilutive potential ordinary shares in issue as at 31 December 2016.

5.22 Dividend and other appropriations

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

5.23 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Bank's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. Revision to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The areas where various assumptions and estimates are significant to the Bank's financial statements or where judgment was exercised in the application of accounting policy are as follows:

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

Held-to-maturity securities

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

Held-for-trading securities

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

Available-for-sale securities

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

ii) Provision against advances (notes 5.6 and 10)

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

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

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

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

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

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

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

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

	Note	2016	2015
		(Rupees)	
Cash in hand			
- local currency		-	43,693
- foreign currency		-	-
Balance with State Bank of Pakistan (SBP) in local currency current account in local	*6.1*	7,996,608	1,708,225
		7,996,608	1,751,918

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

7. BALANCES WITH OTHER BANKS

	Note	2016	2015
		(Rupees)	
In Pakistan			
- on local currency current accounts		**5,333,535**	3,009,826
- on local currency deposit accounts	*7.1*	**23,193,870**	19,154,492
		28,527,405	22,164,318

7.1 These represents deposits with commercial banks carrying mark-up at rates ranging from 3.75% to 6.5% per annum (2015: 6% to 7.5% per annum).

8. LENDINGS TO FINANCIAL INSTITUTIONS

	Note	2016	2015
		(Rupees)	
Certificates of Investment (CoIs)	*8.1*	**184,700,000**	535,925,775
Certificate of Deposits (CoDs)		-	10,000,000
		184,700,000	545,925,775

8.1 These carry interest rates ranging between 6.40% to 6.70% (2015: 6.35% to 6.80%) per annum and having maturity upto October 2017.

9. INVESTMENTS - NET OF PROVISIONS

	Note	2016	2015
		(Rupees)	
Available for sale			
Investment in associate	9.2	**206,042,786**	-
Mutual Funds	*9.3*	**67,880,279**	19,867,760
Term Finance Certificates	*9.4*	**7,210,267**	7,210,267
Sukuk	*9.4*	**10,000,000**	10,000,000
		291,133,332	37,078,027
Held to maturity			
Federal Government Securities - Pakistan Investment Bonds	*9.1*	**17,553,285**	10,373,044
Term Deposit Receipts (TDRs)	*9.5*	**224,505,000**	74,625,000
		242,058,285	84,998,044
		533,191,617	122,076,071
Provision for diminution in value of investments	*9.6*	**(17,210,267)**	(17,210,267)
		515,981,350	104,865,804
Surplus / (deficit) on revaluation of available for sale investments	*17*	**932,095**	328,889
Investments - net of provision		**516,913,445**	105,194,693

9.1 Federal Government Securities - Pakistan Investment Bonds

	Note	As at 31 December 2016 Amortised cost of investment	Provision held	Amortised cost less provision	Market value	Surplus on revaluation	As at 31 December 2015 Amortised cost of investment	Provision held	Amortised cost less provision	Market value	Surplus on revaluation
		(Rupees)									
Pakistan Investment Bonds (PIB)	9.1.1	10,215,176	-	10,215,176	-	-	10,373,044	-	10,373,044	-	-
Pakistan Investment Bonds (PIB)	9.1.2	5,294,635	-	5,294,635	-	-	-	-	-	-	-
Pakistan Investment Bonds (PIB)	9.1.2	2,043,474	-	2,043,474	-	-	-	-	-	-	-
		17,553,285	-	17,553,285	-	-	10,373,044	-	10,373,044	-	-

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

9.1.2 PIB of face value Rs. 5 million was purchased from Pak Oman Investment Company Limited (POICL), an associated company, on 4 November 2016 at a cost of Rs. 5,312,280 and PIB of face value Rs. 2 million was purchased from JS bank on 22 December 2016 at a cost of Rs. 2,043,710 . These carry mark-up rate of 9.00% per annum (2015: Nil) and 7.75% per annum (2015: Nil) respectively and have maturity on 10 July 2019 and 21 April 2021 respectively. The PIBs are classified as Held to Maturity.

9.2 Investment in associate

Name of the investee fund	Note	No. of Units	As at 31 December 2016 Cost of investment	Provision held	Value of investment after provision	Market Value	Surplus on revaluation	As at 31 December 2015 Cost of investment	Provision held	Value of investment after provision	Market value	Deficit on revaluation
			(Rupees)									
Pak Oman Advantage Islamic Income Fund (POAIIF)	9.2.1	3,827,717	206,042,786	-	206,042,786	206,320,476	277,690	-	-	-	-	-

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

9.3 Mutual Funds

Name of the investee fund	Note	No. of Units	As at 31 December 2016 Cost of investment	Provision held	Value of investment after provision	Market Value	Surplus on revaluation	As at 31 December 2015 Cost of investment	Provision held	Value of investment after provision	Market value	Surplus on revaluation
			(Rupees)									
NAFA - Capital Protected Strategy	9.3.1	-	-	-	-	-	-	19,867,760	-	19,867,760	20,196,649	328,889
NAFA - Islamic Fund		3,833,552	25,552,114	-	25,552,114	26,141,348	589,234	-	-	-	-	-
NAFA - Income Opportunity Fund		2,378,657	42,328,165	-	42,328,165	42,393,336	65,171	-	-	-	-	-
			67,880,279	-	67,880,279	68,534,684	654,405	19,867,760	-	19,867,760	20,196,649	328,889

9.3.1 During the year, the Bank invested in the funds in which certain portion of the portfolio is invested in low risk assets.

9.4 Investments in Term Finance Certificates / Sukuk

Name of the investee company	Profit / mark-up rate (per annum)	Maturity date	Note	As at 31 December 2016 Number of certificates	Redeemed value	Provision held	Value of investment after provision	Market value	Deficit on revaluation	As at 31 December 2015 Number of certificates	Redeemed value	Provision held	Value of investment after provision	Market value	Deficit on revaluation
					(Rupees)						(Rupees)				
Term Finance Certificate															
WorldCall Telecom Limited	6 month KIBOR + 1.6%	7-Oct-21	9.4.1	3,000	5,760,267	5,760,267	-	-	-	3,000	5,760,267	5,760,267	-	-	-
Agritech Limited	Zero rated	1-Jan-15	9.4.1	290	1,450,000	1,450,000	-	Non Traded	-	290	1,450,000	1,450,000	-	Non Traded	-
				3,290	7,210,267	7,210,267	-	-	-	3,290	7,210,267	7,210,267	-	-	-
Sukuk															
Agritech Limited	6 month KIBOR + 2%	15-Aug-15		2,000	10,000,000	10,000,000	-	Non Traded	-	2,000	10,000,000	10,000,000	-	Non Traded	-

Term Finance Certificates of Rs 5,000 each.

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

9.5 These represent term deposit receipts having maturity ranging from January 2017 to October 2017 and carrying mark-up rates ranging from 7.50% to 10.00% per annum (2015: 7.50% to 14.00% per annum).

9.6 Particulars of Provision for Diminution in value of investments

	2016	2015
	(Rupees)	
Opening balance	(17,210,257)	(12,356,617)
Charge for the year	-	(4,853,640)
Reversals	-	-
Closing balance	(17,210,257)	(17,210,257)

10. ADVANCES - NET OF PROVISIONS

Loan type	Note	2016 Number of loans outstanding	2016 Amount outstanding (Rupees)	2015 Number of loans outstanding	2015 Amount outstanding (Rupees)
Micro credit advances					
- Considered good	*10.5*	17,377	414,107,162	14,405	334,207,133
- Considered doubtful	*10.2*	2,350	21,960,287	1,929	32,588,926
			436,067,449		366,796,059
Less: Provision held					
- Specific provision	*10.2*	2,350	6,501,198	1,929	6,721,128
- General provision	*10.4*		4,295,663		3,600,749
	10.3		10,796,861		10,321,877
			425,270,588		356,474,182
Staff loan	*10.6*		3,208,166		2,241,769
Advances - net of provisions			428,478,754		358,715,951

10.1 All advances are secured by personal guarantees except for Bara Karoobar Loan which is secured against collateral. Further, a mandatory deposit account equivalent to 10% of amount of advances was required to be kept with the Bank until September 30th, 2014. The details of such deposits held with the Bank are disclosed in note 14. The interest rates on these advances is 39% per annum (2015: 35% per annum).

10.2 Particulars of non-performing advances

Advances includes Rs. 21,960,287 (2015: Rs. 32,588,926) which have been placed under non-performing status as detailed below:

Category of classification	31 December 2016 Amount outstanding	31 December 2016 Provision required	31 December 2016 Provision held	31 December 2015 Amount outstanding	31 December 2015 Provision required	31 December 2015 Provision held
	(Rupees)					
Other Assets Especially Mentioned	9,212,946	-	-	17,521,841	-	-
Sub-standard	3,568,119	892,030	892,030	5,464,382	1,366,096	1,366,096
Doubtful	7,140,109	3,570,055	3,570,055	8,495,341	4,247,670	4,247,670
Loss	2,039,113	2,039,113	2,039,113	1,107,362	1,107,362	1,107,362
Total	21,960,287	6,501,198	6,501,198	32,588,926	6,721,128	6,721,128

10.3 Particulars of provision against non-performing advances

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

		31 December 2016 Specific	31 December 2016 General	31 December 2016 Total	31 December 2015 Specific	31 December 2015 General	31 December 2015 Total
		(Rupees)					
Opening balance		6,721,128	3,600,749	10,321,877	677,431	2,177,288	2,854,719
Charge / (reversal) for the year		17,865,214	694,914	18,560,128	11,754,902	1,423,461	13,178,363
Amounts written off	*10.3.1*	(18,085,144)	-	(18,085,144)	(5,711,205)	-	(5,711,205)
		(219,930)	694,914	474,984	6,043,697	1,423,461	7,467,158
Closing balance		6,501,198	4,295,663	10,796,861	6,721,128	3,600,749	10,321,877

10.3.1 Particulars of write offs

	2016	2015
	(Rupees)	
Against provision	**18,085,144**	5,711,205
Directly charged to profit and loss account	**-**	-
	18,085,144	5,711,205

10.4 This represents general provision equivalent to 1% (2015: 1%) of the net outstanding advances held in accordance with the requirements of the Prudential Regulations for Microfinance Banks.

10.5 Portfolio by type

	2016	2015
	(Rupees)	
Micro business loan	**190,624,389**	107,224,017
Micro agri Loan	**-**	1,705,611
Micro asset loan	**-**	4,491
Livestock loan	**90,364,245**	110,889,131
New Micro business loan	**396,903**	-
Micro enterprise loan	**90,225,524**	112,543,949
Micro enterprise loan-LSL	**42,325,025**	-
Bara Karoobar Loan	**34,854**	1,839,934
Bara Karoobar Loan-LSL	**136,222**	-
	414,107,162	334,207,133

10.6 This represents personal loans and house loans provided to employees as per the Bank's policy. The title documents of houses are held by the Bank as collateral and interest of 5% per annum (2015: 5% per annum) is charged on house loans on amount exceeding Rs. 200,000.

11. OPERATING FIXED ASSETS

	Note	2016	2015
		(Rupees)	
Property and equipment	*11.2*	**31,881,565**	35,197,235
Capital work-in-progress	*11.1*	**-**	-
Intangible assets	*11.3*	**1,078,837**	1,887,773
		32,960,402	37,085,008

11.1 Capital work-in-progress

Advances given for development of software	-	-
	-	-

11.2 Property and equipment

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

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	2015							
	COST			DEPRECIATION			Book value as at 31 December 2015	Rate of depreciation
	As at 01 January 2015	Additions / (disposals) / adjustments	As at 31 December 2015	As at 01 January 2015	Charge for the year / (disposals)	As at 31 December 2015		%
	(Rupees)							
Owned								
Leasehold improvements								
(Building's fixtures)	3,223,186	3,291,865 (1,311,061)	5,203,990	2,536,345	597,028 (1,275,895)	1,857,478	3,346,512	20%
Office equipment	4,976,108	697,109 (1,318,835)	4,354,382	3,002,864	625,767 (1,311,535)	2,317,096	2,037,286	20%
Furniture and fixture	6,057,630	573,990 (1,553,676)	5,077,944	5,170,406	300,515 (1,553,676)	3,917,245	1,160,699	20%
Computers	11,963,073	3,174,941 (211,724)	14,926,290	9,962,058	1,619,457 (157,003)	11,424,512	3,501,778	33%
Vehicles	21,321,418	16,572,631 (4,061,051)	33,832,998	8,212,959	3,634,732 (3,165,653)	8,682,038	25,150,960	20%
	47,541,415	24,310,536 (8,456,347)	63,395,604	28,884,632	6,777,499 (7,463,762)	28,198,369	35,197,235	

11.2.1 This includes property and equipment costing Rs. 16,246,710 (2015: Rs. 14,591,592) that have been fully depreciated as at 31 December 2016 but are still in use.

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

	2016						
Description	**Cost**	**Accumulated depreciation**	**Net book value**	**Sale proceeds**	**Gain / (loss)**	**Mode of disposal**	**Particulars of purchaser**
	(Rupees)						
Vehicles							
Suzuki Alto	**752,920**	**582,258**	**170,662**	**75,292**	**(95,370)**	Bank Policy	Fahad Mustafa (employee)
Honda City	**1,639,205**	**437,121**	**1,202,084**	**1,300,000**	**97,916**	Bank Policy	Tufail Akhter (employee)
Suzuki Mehran	**576,000**	**362,576**	**213,424**	**240,000**	**26,576**	Bank Policy	Syed Ather Hassan (employee)
	2,968,125	**1,381,955**	**1,586,170**	**1,615,292**	**29,122**		

11.3 Intangible assets

	COST			AMORTISATION			Book value as at 31 December	Rate of amortisation
	As at 01 January	Additions / Transfers	As at 31 December	As at 01 January	Charge for the year	As at 31 December		
	(Rupees)							
Computer software								
2016	**6,950,590**	**716,044**	**7,666,634**	**5,062,817**	**1,524,980**	**6,587,797**	**1,078,837**	**33%**
2015	4,162,608	2,787,982	6,950,590	3,051,162	2,011,655	5,062,817	1,887,773	33%

11.3.1 This includes intangible assets costing Rs. 5,764,508 (2015: Rs. 1,894,608) that have been fully amortised as at 31 December 2016 but are still in use.

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12. OTHER ASSETS

	Note	2016	2015
		(Rupees)	
Income / mark-up accrued		**16,767,387**	12,661,593
Advances, deposits, advance rent and other prepayments		**9,718,366**	7,601,069
Refundable / advance taxation (payments less provision)	*12.1*	**7,022,140**	6,132,843
Others		**403,189**	408,754
		33,911,082	26,804,259
Less: Provision held against classified other assets			
Opening provision		-	-
Provision charge for the year		-	-
Amount written off		-	-
Closing provision		-	-
Other assets - net of provision		**33,911,082**	26,804,259

12.1 Movement in advance tax - net

	2016	2015
Balance as at 1 January	**6,132,843**	5,384,223
Tax paid	**6,837,164**	3,242,844
Provision for taxation	**(5,947,867)**	(2,494,224)
Balance as at 31 December	**7,022,140**	6,132,843

13. DEFERRED TAX ASSET-NET

	Note	31 December 2016				
		Balance as at 01 January	**Recognised in profit and loss account**	**Recognised in other comprehensive income**	**Recognised in revaluation of assets account**	**Balance as at 31 December**
		(Rupees)				
Taxable temporary differences						
Surplus on revaluation of securities	*17*	**(101,958)**	-	-	**(131,066)**	**(233,024)**
Difference between accounting book value of fixed assets and tax base		**(1,520,207)**	**1,257,377**	-	-	**(262,830)**
		(1,622,165)	**1,257,377**	-	**(131,066)**	**(495,854)**
Deductible temporary differences						
Provision for other liabilities		**3,639,187**	**1,363,016**	**(63,361)**	-	**4,938,842**
Provision for diminution in value of investments		**5,521,753**	**(358,673)**	-	-	**5,163,080**
Amortisation of premium on investments		**15,183**	**52,235**	-	-	**67,418**
Provision against non-performing loans and advances		**3,284,578**	**(45,520)**	-	-	**3,239,058**
Provision against other assets		-	-	-	-	-
		12,460,701	**1,011,058**	**(63,361)**	-	**13,408,398**
Minimum tax and alternate corporate tax		-	**3,008,899**	-	-	**3,008,899**
Unabsorbed depreciation and carry forward losses		**18,702,939**	**(7,613,619)**	-	-	**11,089,320**
		29,541,475	**(2,336,285)**	**(63,361)**	**(131,066)**	**27,010,763**

	31 December 2015				
	Balance as at 01 January	Recognised in profit and loss account	Recognised in other comprehensive income	Recognised in revaluation of assets account	Balance as at 31 December
	(Rupees)				
Taxable temporary differences					
Amortisation of discount on investments	(32,110)	32,110	-	-	-
Difference between accounting book value of fixed assets and tax base	-	(1,520,207)	-	-	(1,520,207)
	(32,110)	(1,488,097)	-	-	(1,520,207)
Deductible temporary differences					
Provision for other liabilities	6,570,394	(3,434,407)	503,200	-	3,639,187
Provision for diminution in value of investments	4,324,816	1,196,937	-	-	5,521,753
Amortisation of premium on investments	-	15,183	-	-	15,183
Difference between accounting book value of fixed assets and tax base	195,955	(195,955)	-	-	-
Deficit on revaluation of securities	200,894	-	-	(302,852)	(101,958)
Provision against non-performing loans and advances	999,152	2,285,426	-	-	3,284,578
Provision against other assets	-	-	-	-	-
	12,291,211	(132,816)	503,200	(302,852)	12,358,743
Unabsorbed depreciation and carry forward losses	20,311,424	(1,608,485)	-	-	18,702,939
	32,570,525	(3,229,398)	503,200	(302,852)	29,541,475

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13.1 The deferred tax asset balance recognised in the financial statements represents the management's best estimate of the potential benefit which is expected to be realized in future years in the form of reduced tax liability as the Bank would be able to set off the profits earned in these years against losses carried forward from prior years.

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

14 DEPOSITS AND OTHER ACCOUNTS

	Note	2016 Number of Accounts	2016 Amount (Rupees)	2015 Number of Accounts	2015 Amount (Rupees)
Saving deposits	*14.3*	**128**	**55,703**	127	55,603
Fixed deposits	*14.3*	**100**	**141,976,263**	84	17,825,000
Current deposits - mandatory	*14.2*	**16,127**	**6,494,842**	16,206	6,612,102
- normal		**832**	**368,663**	818	351,970
	14.1	**17,187**	**148,895,471**	17,235	24,844,675

14.1 Particulars of deposits by ownership

	2016 Number of Accounts	2016 Amount (Rupees)	2015 Number of Accounts	2015 Amount (Rupees)
Individual depositors	**17,183**	**11,329,208**	17,233	8,094,675
Institutional depositors - Corporation	**4**	**137,566,263**	2	16,750,000
	17,187	**148,895,471**	17,235	24,844,675

14.2 As per policy of the Bank, borrowers were required to save and deposit 10% of the original loan amount in a non-remunerative deposit account until 30 September, 2014. As at 31 December 2016, deposits under this requirement amount to Rs. 6,494,842 (2015: Rs. 6,612,102).

14.3 These carry interest rate of 6.00% (2015: 6.00%) per annum on saving deposits and 3.50% to 10.25% (2015: 6.00% to 10.50%) per annum for fixed deposits.

15. OTHER LIABILITIES

	Note	2016 (Rupees)	2015 (Rupees)
Mark-up / interest / return payable		**1,606,911**	225,677
Accrued expenses		**4,627,512**	5,337,425
Payable to shareholders	*15.1*	**26,600**	26,600
Payable to defined benefit plan	*26.5*	**12,433,118**	10,573,877
Provision for compensated absences		**2,819,282**	1,171,305
Provision for leave fare assistance		**1,210,407**	1,540,201
Payable to customers		**3,569**	3,569
Unearned markup income		**12,858,599**	8,158,560
Withholding taxes payable		**642,861**	199,906
Sales taxes payable		**2,805,086**	-
Payable to Workers' Welfare Fund	*15.2*	**225,438**	640,331
		39,259,383	27,877,451

15.1 This represents amount received in 2013 from Ministry of Finance - Sultanate of Oman for right issue of shares.

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

16. SHARE CAPITAL

16.1 Authorised capital

2016 Number of shares	2015 Number of shares		2016	2015
250,000,000	150,000,000	Ordinary shares of Rs. 10 each	**2,500,000,000**	1,500,000,000

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16.2 Issued, subscribed and paid-up share capital

2016	2015		Note	2016	2015
Number of shares				(Rupees)	
115,182,000	115,182,000	Ordinary shares of Rs. 10 each fully paid in cash	*16.3*	**1,151,820,000**	1,151,820,000

16.3 Share capital has been subscribed by the following:

	2016	2015
Ministry of Finance - Sultanate of Oman	**767,112,110**	767,112,110
Ministry of Commerce - Sultanate of Oman	**10**	10
Pak Oman Investment Company Limited	**384,707,880**	384,707,880
	1,151,820,000	1,151,820,000

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

Surplus on revaluation of securities

	Note	2016	2015
Quoted securities			
- Pak Oman Advantage Islamic Income Fund		**277,690**	-
- NAFA - Income Opportunity		**589,234**	-
- NAFA - Islamic Fund Capital Protected Strategy		**65,171**	-
- NAFA - Capital Protected Strategy		**-**	328,889
		932,095	328,889
Less: Related deferred tax effect	*13*	**(233,024)**	(101,958)
		699,071	226,931

18. MEMORANDUM / OFF BALANCE SHEET ITEMS

	2016	2015
18.1 Commitments for fixed capital expenditure	**-**	-

18.2 The tax contingencies have been disclosed in note 24.3.

19. MARK-UP RETURN/ INTEREST EARNED

	2016	2015
Interest / mark-up on:		
- Advances	**140,186,227**	110,499,274
- Investment in Federal Government Securities	**953,152**	656,338
- Amortisation of Pakistan Investment Bond	**(175,749)**	(48,976)
- Lendings to financial institutions	**21,907,443**	49,832,380
- Deposit accounts	**2,505,358**	2,068,541
- Term deposit receipts	**10,240,446**	5,243,890
- Certificate of deposits	**529,661**	338,005
- Others	**394,838**	75,072
	176,541,376	168,664,524

20. MARK-UP / RETURN / INTEREST EXPENSED

	Note	2016	2015
		(Rupees)	
Deposits		**4,977,136**	250,356

21. OTHER INCOME

	Note	2016	2015
Gain on disposal of fixed assets		**405,632**	1,105,550
Recoveries against written off advances		**4,758,124**	3,039,907
Capital gain on sale mutual funds unit		**13,381,253**	-
Others		**320,445**	1,181,842
		18,865,454	5,327,299

22. ADMINISTRATIVE EXPENSES

	Note	2016	2015
Salaries, allowances etc.		**88,354,637**	77,456,034
Bonus to employees		**4,636,267**	6,322,451
Contribution to defined contribution plan		**3,671,396**	3,298,634
Charge for defined benefit plan	*26.6*	**3,492,563**	2,736,172
Charge for leave fare assistance		**3,628,648**	4,440,006
Non-executive directors' allowances and other expenses		**5,571,555**	3,408,173
Training		**174,164**	1,553,433
Rent, rates and taxes		**20,608,492**	17,509,618
Legal and professional charges		**2,659,191**	5,182,212
Utilities		**2,881,998**	1,943,455
Communications		**3,127,804**	2,468,386
Repairs and maintenance		**2,580,047**	1,972,827
Vehicle running		**3,480,368**	3,290,804
Insurance		**4,815,353**	4,295,297
Travel and transportation		**4,925,463**	4,719,451
Stationery and printing		**3,720,123**	4,432,701
Fees and subscription		**731,003**	435,914
Advertisement and business promotions		**6,236,358**	3,535,176
Auditors' remuneration	*22.1*	**808,943**	573,092
Depreciation	*11.2*	**9,056,018**	6,777,499
Amortisation of intangible assets	*11.3*	**1,524,980**	2,011,655
Bank charges		**1,193,622**	1,529,008
Other expenses		**3,768,442**	2,564,988
		181,647,435	162,456,986

22.1 Auditors' remuneration

	Note	2016	2015
Audit fee		**473,550**	387,200
Special certifications		**146,298**	120,000
Out of pocket expenses		**189,095**	65,892
		808,943	573,092

23. OTHER CHARGES

	Note	2016	2015
(Reversal) / Provision for Workers' Welfare Fund	*23.1*	**(414,893)**	316,255
		(414,893)	316,255

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

24. TAXATION

	2016	2015
	(Rupees)	
For the year		
- current	**5,722,544**	2,494,224
- deferred	**2,336,285**	3,229,398
	8,058,829	5,723,622
For prior year		
- current	**225,323**	-
- deferred	**-**	-
	225,323	-
	8,284,152	5,723,622

24.1 Relationship between tax expense and accounting profit

	2016	2015
Accounting profit before tax	**14,769,836**	11,471,359
Tax rate	**31%**	32%
Tax on accounting profit	**4,578,649**	3,670,835
Tax effect of taxation at reduced rate	**(81,268)**	(444,648)
Tax effect of ACT and Capital Gain Tax in current tax	**2,661,089**	1,544,484
Prior year tax	**225,323**	-
Tax effect of change in tax rate	**900,359**	952,951
	8,284,152	5,723,622

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

24.3 Tax contingencies

The income tax returns for the tax year 2007 to 2016 have been filed which are deemed to be assessed under the provisions of section 120 of the Income Tax Ordinance, 2001.

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

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

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25. NUMBER OF EMPLOYEES

	2016			2015		
	Credit / Sales	**Banking / Support**	**Total**	Credit / Sales	Banking / Support	Total
Permanent	**36**	**32**	**68**	20	38	58
Contractual	**100**	**88**	**188**	96	80	176
Total number of employees	**136**	**120**	**256**	116	118	234

26. DEFINED BENEFIT PLAN

26.1 Staff Gratuity Scheme

As disclosed in note 5.10.2, the Bank operates an approved funded gratuity scheme for its employees. The accounting policy for recognising actuarial gains and losses is disclosed in note 5.10.2 to the financial statements. The information in notes 26.1.1 to 26.9 relating to the 2016 and 2015 financial year has been obtained from the actuarial valuation report.

26.1.1 Principal actuarial assumptions

The latest actuarial valuation for defined benefit plan scheme was carried out as at 31 December 2016 using the Projected Unit Credit Method (PUCM). The following significant assumptions were used for the actuarial valuation:

	2016	2015
	Percent per annum	
Discount rate	**7.25**	8.00
Expected rate of increase in salary levels - senior employees	**4.25**	5.00
Expected rate of increase in salary levels - other employees	**4.25**	5.00

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

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

	Note	**2016**	2015
		(Rupees)	
Present value of defined benefit obligation	*26.3*	**18,986,276**	16,573,877
Fair value of plan assets	*26.4*	**(6,553,158)**	(6,000,000)
		12,433,118	10,573,877

26.3 Movement in the present value of defined benefit obligation

	2016	2015
Present value of obligation as at January 1	**16,573,877**	17,499,686
Current service cost	**2,703,537**	2,630,595
Past service cost	**-**	(760,913)
Interest cost	**1,249,246**	1,444,857
Benefits paid	**(1,916,614)**	(5,285,208)
Actuarial (gain) / loss on remeasurement of obligation	**376,230**	1,044,860
Present value of obligation as at December 31	**18,986,276**	16,573,877

26.4	Movement in the fair value of plan assets	*Note*	**2016**	2015
			(Rupees)	
	Fair value of assets as at January 1		**6,000,000**	-
	Expected return		**460,220**	578,367
	Contributions		**1,422,118**	11,285,208
	Benefits paid		**(1,916,614)**	(5,285,208)
	Actuarial gain / (loss)		**587,434**	(578,367)
	Fair value of assets as at December 31		**6,553,158**	6,000,000

26.5	Movement in the net (assets) / liability recognised in the balance sheet are as follows:			
	Opening liability		**10,573,877**	17,499,686
	Charge for the year	*26.6*	**3,492,563**	2,736,275
	Other comprehensive income		**(211,204)**	1,622,123
	Benefits paid		**(1,422,118)**	(11,284,207)
	Closing liability		**12,433,118**	10,573,877

26.6	The amount recognised in the profit and loss account is as follows:			
	Current service cost		**2,703,537**	2,630,698
	Past service cost		-	(760,913)
	Interest cost		**789,026**	866,490
	Net charge for the year		**3,492,563**	2,736,275

26.7	Actuarial (losses) / gains			
	Net unrecognised actuarial (losses) / gains as at January 1		-	-
	Actuarial gain / (loss) on remeasurement of obligation	*26.7.1*	**211,204**	(1,623,227)
			211,204	(1,623,227)
	Actuarial (gain) / loss recognised in:			
	- other comprehensive income		**(211,204)**	1,623,227
	- profit and loss account		-	-
	Net unrecognised actuarial (losses) / gains as at December 31		-	-

26.7.1	Actuarial losses / (gain) on remeasurement of obligation comprise of:		
	Demographic assumptions	-	-
	Financial loss	-	-
	Experience adjustment	**376,230**	1,044,860
	Investment return	**(587,434)**	578,367
		(211,204)	1,623,227

26.8	Sensitivity analysis	Impact on defined benefit obligation		
		Change in assumption	Increase in assumption	Decrease in assumption
			(Rupees)	
	Discount rate	1%	(721,356)	781,363
	Salary increases	1%	796,843	(748,189)

26.9	Historical information	**2016**	2015	2014	2013
			(Rupees)		
	Present value of defined benefit obligation	**18,986,276**	16,573,877	17,499,686	17,306,578
	Fair value of plan assets	**(6,553,158)**	(6,000,000)	-	-
	(Surplus) / deficit	**12,433,118**	10,573,877	17,499,686	17,306,578

26.10 The expected gratuity expense and contribution for the next year ending 31 December 2017 works out to Rs. 3,450,393 and Rs. 6,099,485 respectively.

26.11 The average duration of the plan 4.5 years on 31 December 2016. (2015: 4.5 years).

27. NUMBER OF BRANCHES

	Note	2016	2015
		(Number)	
Branches at the beginning of the year		16	16
Opened during the year	27.1	-	-
Closed during the year		-	-
Branches at the end of the year		16	16

27.1 The Bank also has 14 (2015: 8) service centers in operation along with branches.

28. REMUNERATION OF DIRECTORS AND EXECUTIVES

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

	2016			2015		
	President / Chief Executive Officer	Directors	Executives	President / Chief Executive Officer	Directors	Executives
	(Rupees)					
Managerial remuneration	13,392,065		15,605,540	13,002,000	-	15,009,257
Contribution to defined contribution plan	1,115,961	-	1,300,410	1,083,457	-	1,250,722
Utilities allowance	108,541	-	87,600	81,746	-	96,000
Medical allowance	1,339,207	-	1,560,554	1,300,200	-	1,500,925
Conveyance	395,780	-	598,000	440,424	-	727,000
Bonus	1,227,606	-	1,344,564	1,191,850	-	1,115,550
Charge for defined benefit plan	1,116,005	-	726,514	1,083,500	-	1,432,313
Director fees	-	632,988	-	-	470,188	-
Others	1,227,606	-	1,481,764	1,191,850	-	965,544
	19,922,771	632,988	22,704,946	19,375,027	470,188	22,097,311
Number of persons at year end	1	6	15	1	4	14

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

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

29 EARNING PER SHARE

29.1 Basic

		2016	2015
Profit after taxation	*Rupees*	6,485,684	5,747,737
Weighted average number of ordinary shares	*Number*	103,332,685	103,332,685
Earning per share - Basic and diluted	*Rupees*	0.063	0.056

29.2 Diluted

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

30. RELATED PARTY TRANSACTIONS

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

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

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

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

Nature of related party transaction	2016				2015			
	As at 01 January 2016	Given / made during the year	Repaid / sale during the year	As at 31 December 2016	As at 01 January 2015	Given / made during the year	Repaid / sale during the year	As at 31 December 2015
	(Rupees)							
Investments								
Associates	-	772,770,548	(566,727,762)	206,042,786	24,035,500	-	(24,035,500)	-
Lendings to financial institutions								
Associates	535,925,775	896,436,919	(1,257,662,694)	174,700,000	732,747,375	592,925,774	(789,747,374)	535,925,775
Advances - staff loans								
Key management personnel	2,241,769	8,596,897	(7,630,500)	3,208,166	5,426,054	1,245,897	(4,430,182)	2,241,769

	Note	2016	2015
		(Rupees)	
Other payable			
Gratuity fund		12,433,118	-
Ministry of Finance - Sultanate of Oman		26,600	26,600
Mark-up income			
Associates		21,736,731	49,832,380
Key management personnel		394,838	75,072
Dividend income			
Associates		439,289	2,403,500
Expenses for the year			
Remuneration to key management personnel		42,627,717	41,472,338
Non-executive director's fee / remuneration		632,988	470,188
Charge for defined contribution plan		3,671,396	3,298,634
Charge for defined benefit plan		3,492,563	2,736,172

31. CASH AND CASH EQUIVALENTS

	Note	2016	2015
Cash and balances with SBP / NBP	6	7,996,608	1,751,918
Balances with other banks	7	28,527,405	22,164,318
		36,524,013	23,916,236

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32. CAPITAL RISK MANAGEMENT

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

32.2 Goals of managing capital

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

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

The Bank has no gearing risk in the current year.

32.3 Statutory minimum capital requirement and management of capital

32.3.1 As per amendments on Prudential Regulations (R-1) issued vide BPRD Circular No. 10 of 2015 dated 3 June 2015, the minimum paid up capital requirement (MCR), free of losses for Microfinance Banks operating at national level is Rs. 1,000 million as at 31 December 2016. As of 31 December 2016, the share capital of the Bank stood at Rs. 1,151.820 million (2015: Rs. 1,151.820) and paid up capital of the Bank free of losses is Rs. 1,061 million (2015: Rs. 1,065 million).

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

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

As at 31 December 2016 the Bank's CAR was approximately 122.33% (2015: 172.02%) of its weighted exposure.