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Deloitte Yousuf Adil
Chartered Accountants

Akhuwat

Financial Statements

For the Year Ended June 30, 2017

Member of
Deloitte Touche Tohmatsu Limited

Deloitte.

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS

Opinion

We have audited the financial statements of **Akhuwat** ("the Organization"), which comprise of the statement of financial position as at June 30, 2017, and the statement of income and expenditure, the statement of changes in funds and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at June 30, 2017, and of its financial performance and its cash flows for the year then ended in accordance with approved accounting and reporting standards as applicable in Pakistan.

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Organization in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by The Institute of Chartered Accountants of Pakistan (the Code), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

The management is responsible for the preparation and fair presentation of the financial statements in accordance with approved accounting and reporting standards as applicable in Pakistan, and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization financial reporting process.

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Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to Fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte Yousuf Adil
Chartered Accountants

Engagement Partner
Rana M. Usman Khan

Date: September 07, 2017
Lahore

AKHUWAT

STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2017

	Note	2017	2016
		------------Rupees------------	
ASSETS			
Cash and cash equivalents	8	**2,214,691,943**	1,624,010,855
Investment at fair value through profit or loss	9	**319,122,252**	173,992,639
Financial assets held to maturity	10	**381,700,000**	111,500,000
Microloans receivable-net	11	**13,009,830,877**	7,982,931,851
Receivables and other assets	12	**109,841,787**	61,016,393
Property and equipment	13	**528,221,761**	346,833,895
Intangible assets	14	**14,231,815**	16,301,473
Total assets		**16,577,640,435**	10,316,587,106
LIABILITIES			
Creditors, accrued and other liabilities	15	**59,041,564**	53,657,391
Provident fund payable	16	**13,481,904**	11,253,857
Loan for credit pool	17	**14,116,067,298**	8,848,845,101
Total liabilities		**14,188,590,766**	8,913,756,349
FUNDS			
Unrestricted			
General fund		**151,941,148**	30,839,255
Restricted			
Donated fund		**1,981,980,145**	1,150,291,622
Zakat fund		**45,032,939**	38,242,287
Rehabilitation fund		**1,811,296**	1,767,179
Contributed fund		**200,092,457**	174,189,322
Reserves for loan loss		**8,191,684**	7,501,092
		2,237,108,521	1,371,991,502
Total funds		**2,389,049,669**	1,402,830,757
Contingencies and commitments	18		
Total liabilities and funds		**16,577,640,435**	10,316,587,106

DYK

The annexed notes from 1 to 29 form an integral part of these financial statements.

Director

Chief Financial Officer

AKHUWAT

STATEMENT OF INCOME AND EXPENDITURE
FOR THE YEAR ENDED JUNE 30, 2017

	Note	Unrestricted fund	Restricted					2017	2016
			Donated fund	Zakat fund	Rehabilitation fund	Contributed fund	Reserves for loan loss		
		Rupees							
Income									
Operating income	19	1,275,828,272	-	-	-	-	1,566,247	**1,277,394,519**	824,057,925
Other income	20	55,393,483	-	-	-	-	-	**55,393,483**	23,715,412
Donations received during the year	21	-	858,433,913	59,640,615	-	-	-	**918,074,528**	411,785,578
Contributions received during the year	22	-	-	-	-	153,138,611	-	**153,138,611**	108,205,808
Return on bank deposits		64,153,798	-	-	98,117	-	-	**64,251,915**	33,006,697
Expenditure									
General and administrative expenses	23	1,211,623,153	-	-	-	-	-	**1,211,623,153**	754,467,746
Provision for loan loss	11.5	62,650,507	-	-	-	-	875,655	**63,526,162**	38,844,097
Donations paid during the year		-	26,745,390	-	-	-	-	**26,745,390**	192,236,714
Zakat paid during the year		-	-	52,849,963	-	-	-	**52,849,963**	17,750,824
Stipends paid during the year		-	-	-	54,000	-	-	**54,000**	54,000
Death claims settled during the year		-	-	-	-	127,235,476	-	**127,235,476**	31,748,524
		1,274,273,660	**26,745,390**	**52,849,963**	**54,000**	**127,235,476**	**875,655**	**1,482,034,144**	1,035,101,905
Surplus for the year		**121,101,893**	**831,688,523**	**6,790,652**	**44,117**	**25,903,135**	**690,592**	**986,218,912**	365,669,515
Other comprehensive income		-	-	-	-	-	-	-	-
Total comprehensive income for the year		121,101,893	831,688,523	6,790,652	44,117	25,903,135	690,592	986,218,912	365,669,515

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The annexed notes from 1 to 29 form an integral part of these financial statements.

Director

Chief Financial Officer

AKHUWAT

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

	Note	2017	2016
		---------Rupees---------	
Cash flow from operating activities			
Surplus for the year		986,218,912	365,669,515
Adjustments for:			
Depreciation on property and equipment	13	19,708,926	15,815,250
Amortization of Intangible assets	14	2,069,658	1,765,646
Return on bank deposits and investments		(108,285,728)	(45,628,878)
Provision for loan loss	11.5	62,650,507	38,351,502
		(23,856,637)	10,303,520
		962,362,275	375,973,035
Change in working capital			
Increase in microloans receivable-net		(5,089,549,533)	(3,238,789,188)
Increase in receivables and other assets		(48,825,394)	(17,739,546)
Increase in creditors, accrued and other liabilities		5,384,173	12,798,693
Increase in provident fund payable		2,228,047	1,810,319
		(5,130,762,707)	(3,241,919,722)
Net cash used in operating activities		(4,168,400,432)	(2,865,946,687)
Cash flow from investing activities			
Purchase of property and equipment	13	(201,096,792)	(90,727,611)
Purchase of intangible assets	14	-	(643,990)
Purchase of investments		(371,295,800)	(21,817,466)
Return on bank deposits		64,251,915	33,006,697
Net cash used in investing activities		(508,140,677)	(80,182,370)
Cash flow from financing activities			
Loan for credit pool received		5,267,222,197	3,227,999,687
Net cash generated from financing activities		5,267,222,197	3,227,999,687
Net increase in cash and cash equivalents		590,681,088	281,870,630
Cash and cash equivalent at the beginning of the year		1,624,010,855	1,342,140,225
Cash and cash equivalents at the end of the year	8	2,214,691,943	1,624,010,855

The annexed notes from 1 to 29 form an integral part of these financial statements.

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Director

Chief Financial Officer

AKHUWAT

STATEMENT OF CHANGES IN FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Unrestricted	Restricted					
	General fund	Donated fund	Zakat fund	Rehabilitation fund	Contributed fund	Reserves for loan loss	Total
	Rupees						
Balance as at June 30, 2015	(54,442,265)	983,196,114	1,133,266	1,724,467	101,424,017	4,125,643	1,037,161,242
Comprehensive income:							
Surplus for the year	80,256,764	167,095,508	42,133,777	42,712	72,765,305	3,375,449	365,669,515
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	80,256,764	167,095,508	42,133,777	42,712	72,765,305	3,375,449	365,669,515
Deficit of Akhuwat Health Clinic transferred to Zakat fund	5,024,756	-	(5,024,756)	-	-	-	-
Balance as at June 30, 2016	**30,839,255**	**1,150,291,622**	**38,242,287**	**1,767,179**	**174,189,322**	**7,501,092**	**1,402,830,757**
Comprehensive income:							
Surplus for the year	121,101,893	831,688,523	6,790,652	44,117	25,903,135	690,592	986,218,912
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	121,101,893	831,688,523	6,790,652	44,117	25,903,135	690,592	986,218,912
Balance as at June 30, 2017	**151,941,148**	**1,981,980,145**	**45,032,939**	**1,811,296**	**200,092,457**	**8,191,684**	**2,389,049,669**

The annexed notes from 1 to 29 form an integral part of these financial statements.

Director

Chief Financial Officer

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

1 General information

1.1 Legal status and nature of business

Akhuwat ("the Organization") was registered in Pakistan on May 13, 2003 as a society, under the Societies Registration Act,1860. It has 686 (2016: 500) branches all over the country.

The Organization was established to provide interest free microloans and to launch ancillary programmes of various short and long term nature. The Organization is principally engaged to carry on the following objectives:

- Organizing women in particular and men in general into socially viable community groups called Self Help Groups.
- Providing interest-free microloans finance services to the poor women through Self Help Groups and the individuals.
- Capacity building through interest-free microloans enhancement to the poor in urban areas with a view to make them self-reliant.
- Creating avenues for self-employment and broadening scope of opportunities available to the poor.
- Identifying people/organizations desirous of planning and executing such programmes elsewhere and providing them with necessary support and resources.

The Organization is operating a clinic, under the umbrella of Akhuwat Health Services (AHS), aimed at providing subsidized health services to the poor. Organization is also providing educational services under the umbrella of Akhuwat.

Following assets were purchased under the terms of a micro finance scheme approved on September 18, 2009 supported by Pakistani Italian Debt for Development Swap Agreement (PIDSA) signed in Islamabad on November 04, 2006 between the Government of the Italian Republic and the Government of the Islamic Republic of Pakistan. Further following assets were purchased under the terms of said agreement currently used by the Organization but are property of PIDSA.

	2017	2016
Assets	---------Rupees---------	
Computers	**159,529**	159,529
Furniture and fixture	**91,898**	91,898
Office equipment	**347,626**	347,626
Vehicles	**722,600**	722,600
	1,321,653	1,321,653

Following assets were purchased under the agreement made on November 29, 2010 between Plan International Inc. (Plan), a non-profit international humanitarian child focused development organization, and Akhuwat. Plan has approved the budget pertaining to the amount of these assets. These assets are in use of the Organization but are property of Plan.

	2017	2016
	---------Rupees---------	
Laptops	**360,000**	360,000

2 Transfer of Microloans operations

2.1 The Board of Directors of the Organization, in their meeting held on September 11, 2016, has decided to transfer the microloans operations to a newly formed Company, Akhuwat Islamic Microfinance (Transferee Company) - a company registered under section 42 of repealed Companies Ordinance 1984 (now "Companies Act, 2017"). The Transferee Company is an associated concern of the Organization due to common directorship.

The transaction envisages the transfer of entire microloans operations and microloans portfolio to the Transferee Company. As per the decision of the Board, the balances related to microloans operations, other related assets, loan for credit pool, other related liabilities and funds of the Organization, based on the audited financial statements as at June 30, 2017, will be transferred to the Transferee Company with effect from July 01, 2017. The details of balances to be transferred are mentioned below:

	Amount in Rupees
ASSETS	
Cash and cash equivalents	1,954,956,515
Microloans receivable-net	13,009,830,877
Receivables and other assets	44,996,020
Property and equipment	73,757,654
Total assets	15,083,541,066
LIABILITIES	
Creditors, accrued and other liabilities	35,013,291
Loan for credit pool	14,116,067,298
Total liabilities	14,151,080,589
FUNDS	
Donated fund	702,508,110
Contributed fund	200,092,457
Reserves for loan loss	8,191,684
Total funds	910,792,251

3 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as applicable in Pakistan.

The financial statements are presented in Pak Rupee, which is the Organization's functional and presentation currency.

4 Basis of measurement

These financial statements have been prepared under the historical cost convention except for the Investment at fair value through profit or loss which are measured at fair value.

5 Significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

5.1 Foreign Currency

Foreign Currency Transactions and Balances — Transactions in foreign currencies are translated to the functional currency at exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date and is recognized in the statement of income and expenditure. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined.

5.2 Financial Assets and Liabilities

Financial assets and financial liabilities are recognized when the Organization becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs directly attributable to the acquisition or issue of a financial assets and financial liabilities are added to or deducted from the fair value of financial assets and financial liabilities as appropriate on initial recognition. Transaction costs directly attributable to the acquisition of financial assets and financial liabilities at fair value through profit or loss are recognized immediately in statement of income and expenditure.

The Organization recognizes its financial assets and liabilities within the following categories:

- at fair value through profit or loss;
- at amortized cost; or
- loans and receivables

The classification depends on the nature and purpose for which the financial assets were acquired and a liability assumed and is determined at the time of initial recognition.

The Organization initially recognizes microloans and receivables & other assets on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Organization becomes a party to the contractual provisions of the instrument.

Gains and losses arising from changes in fair value of derivatives classified as financial assets and liabilities at fair value through profit or loss are recognized in statement of income and expenditure. Fair value through profit or loss investments are in open ended mutual funds and are recorded at the daily net asset value per unit as reported by the respective fund on the website of MUFAP

Unrealized gains on investment held on fair value through profit or loss are charged to statement of income and expenditure.

The Organization derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Organization is recognized as a separate asset or liability.

The Organization derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

The Organization also derecognizes certain assets when it charges off balances pertaining to the assets deemed to be uncollectible (see Note 11).

Offsetting — Financial assets and liabilities are offset and the net amount is presented in the statements of financial position when, and only when, the Organization has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

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

Amortized Cost Measurement — The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, less any effect of impairment.

Identification and Measurement of Impairment of Financial Assets — At each balance sheet date, the Organization assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be reliably estimated.

The Organization considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment, by grouping together financial assets (carried at amortized cost) with similar risk characteristics.

Objective evidence that financial assets are impaired can include default or delinquency by a client, restructuring of a loan or advance by the Organization on terms that the Organization would not otherwise consider, indications that a client or issuer will enter the bankruptcy, or other observable data relating to a group of assets, such as adverse changes in the payment status of clients or issuers, or economic conditions that correlate with defaults .

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognized in the statements of income and expenditure and reflected in an allowance account against microloans. Interest on the impaired asset continues to be recognized through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through statement of income and expenditure.

5.3 Property and equipment

5.3.1 Capital work in progress

Capital work in progress is stated at cost less accumulated impairment losses, if any. The amount is transferred to the respective category under the operating fixed assets when the assets are ready for intended use.

5.3.2 Operating fixed assets

Operating fixed assets are stated at cost less accumulated depreciation and any identified impairment loss. Freehold land is carried at cost less any identified impairment loss. Depreciation on all operating fixed assets is charged to statement of income and expenditure on reducing balance method so as to write off the historical cost of an asset over its estimated useful life at the rates referred to in note 13 to the financial

The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted.

Depreciation on addition to operating fixed assets is charged from the month in which the assets are acquired or capitalized while no depreciation is charged for the month in which the asset is disposed off.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Organization and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to income and expenditure during the period in which they are incurred.

Gain or loss on disposal of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense.

5.4 Intangible assets

An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and that the cost of such asset can also be measured reliably. These are stated at cost less accumulated amortization and impairment losses, if any.

Intangible assets comprise of website development charges and ERP software capitalized as assets and are amortized over their useful life, which is ten year.

5.5 Impairment

Intangible assets with indefinite useful life are not amortized but are assessed at each balance sheet date for any indication that intangible 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 recognized in statement of income and expenditure. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognized, the amortization charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

5.6 Microloans portfolio

Advances are stated net of provisions for non-performing advances. A provision is made at the rate annually determined on the basis of historical loss analysis of individual loan portfolio on year end. Individual loans outstanding for more than 90 days after their expiry are written off.

5.7 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, balances with banks, demand deposits, other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

5.8 Staff retirement benefits

The Organization operates an unapproved defined contribution provident fund scheme for its permanent employees, who opt for the scheme prior to June 30, 2012. Monthly deductions are made from the salaries of the employees at the rate of 10% of basic salary. The Organization recognizes an equal charge in the statement of income and expenditure. The accumulated amount has been recognized as a liability in the balance sheet.

5.9 Taxation

The organization has been approved as a non-profit organization under section 2(36) of the Income Tax Ordinance, 2001 by the Commissioner Inland Revenue as it is working as a non-profit organization evaluated positively by Pakistan Centre for Philanthropy. The income of the organization is subject to 100% tax credit under section 100(C) of the Income Tax Ordinance, 2001.

5.10 Revenue recognition

Unrestricted/General fund

Service charges are calculated on the basis defined in the agreements with lenders and are recognized as income as soon as the right to receive is established.

Processing fee for microloans collected from borrowers is recognized on receipt basis.

Return on deposits is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.

Restricted funds

The Organization has adopted the restricted fund method for recognition of its following funds, as prescribed by ICAP in "Standards for Not-for-Profit Organizations (NPOs)":

Donated fund

Donations received from general public under the Donated fund are recognized on receipt basis and are used for providing microloans and for paying donations. Donations received in kind are measured at the market value prevailing at the time of the transaction.

Zakat fund

Zakat received from general public under the Zakat fund are recognized on receipt basis and are used for paying Zakat.

Contributed fund

The voluntary contribution by borrowers, 1% of loan amount is recognized on receipt basis and used to write off loans of deceased/ disabled borrowers and to pay funeral charges to the heirs of deceased borrowers. The accumulated balance is reflected in Contributed fund.

Rehabilitation fund

The return on Rehabilitation fund is recognized on time proportion basis by reference to the principal outstanding and the applicable rate of return. This fund is used only for paying stipends to heirs of victims of suicide bomb attack.

Reserves for loan loss

As per the agreement between the Organization and Prime Minister Interest Free Loan Scheme, reserve for loan loss has been created at 2% of outstanding portfolio under this scheme. This reserve is used for the write-off of loans given under this scheme and is replenished by the Organization from own sources.

6 **Use of critical accounting estimates and judgments**

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Organization's accounting policies. The Organization uses estimates and assumptions concerning the future. The resulting accounting estimate will, by definition, seldom equal the related actual results. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas where assumptions and estimates are significant to the Organization's financial statements or where judgment was exercised in application of accounting policies are as follows:

1) Useful life and residual value assessment of operating fixed assets;
2) Allowance for impairment of loan;
3) Classification of Investments; and
4) Assessment of useful life of intangibles.

7 **Application of new and revised IFRSs**

7.1 **New accounting standards / amendments and IFRS interpretations that are effective for the year ended June 30, 2017**

The following standards, amendments and interpretations are effective for the year ended June 30, 2017. These standards, interpretations and the amendments are either not relevant to the Organization's operations or are not expected to have significant impact on the Organization's financial statements other than certain additional disclosures.

Amendments to IFRS 10 'Consolidated Financial Statements', IFRS 12 'Disclosure of Interests in Other Entities' and IAS 28 'Investments in Associates and Joint Ventures' - Investment Entities: Applying the consolidation exception.	Effective from accounting period beginning on or after January 01, 2016
Amendments to IFRS 11 'Joint Arrangements' - Accounting for acquisitions of interests in joint operations.	Effective from accounting period beginning on or after January 01, 2016
Amendments to IAS 1 'Presentation of Financial Statements' - 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 of acceptable methods of depreciation and amortization.	Effective from accounting period beginning on or after January 01, 2016
Amendments to IAS 16 'Property Plant and Equipment' and IAS 41 'Agriculture' - Measurement of bearer plants.	Effective from accounting period beginning on or after January 01, 2016
Amendments to IAS 27 'Separate Financial Statements' - Equity method in separate financial statements.	Effective from accounting period beginning on or after January 01, 2016

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

7.2 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 Organization's operations or are not expected to have significant impact on the Organization's financial statements other than certain additional disclosures.

Amendments to IFRS 2 'Share-based Payment' - Clarification on the classification and measurement of share-based payment transactions	Effective from accounting period beginning on or after January 01, 2018
Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures' - Sale or contribution of assets between an investor and its associate or joint venture	Effective from accounting period beginning on or after a date to be determined. Earlier application is permitted.
Amendments to IAS 7 'Statement of Cash Flows' - Amendments as a result of the disclosure initiative	Effective from accounting period beginning on or after January 01, 2017
Amendments to IAS 12 'Income Taxes' - Recognition of deferred tax assets for unrealized losses	Effective from accounting period beginning on or after January 01, 2017
Amendments to IAS 40 'Investment Property': Clarification on transfers of property to or from investment property	Effective from accounting period beginning on or after January 01, 2018. Earlier application is permitted.
IFRIC 22 'Foreign Currency Transactions and Advance Consideration': Provides guidance on transactions where consideration against non-monetary prepaid asset / deferred income is denominated in foreign currency.	Effective from accounting period beginning on or after January 01, 2018. Earlier application is permitted.
IFRIC 23 'Uncertainty over Income Tax Treatments': Clarifies the accounting treatment in relation to determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 'Income Taxes'.	Effective from accounting period beginning on or after January 01, 2019

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

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

- 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
- IFRS 17 - Insurance Contracts

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

		Note	2017	2016
			---------Rupees---------	
8	**Cash and cash equivalents**			
	Cash at bank			
	- In current accounts		**235,267,287**	125,133,243
	- In saving accounts	8.1	**1,978,157,079**	1,494,704,563
			2,213,424,366	1,619,837,806
	Cash in hand		**1,267,577**	4,173,049
			2,214,691,943	1,624,010,855

8.1 These deposits are held in Islamic banking accounts and carry return rate ranging from 1.97% to 3.65% (2016: 2.90% to 3.70%) per annum.

		Note	2017	2016
			---------Rupees---------	
9	**Investment at fair value through profit or loss**			
	NAFA Separately Managed Account		**100,445,884**	79,694,063
	UBL-Separately Managed Account I & II		**93,135,234**	78,521,774
	UBL-Al-Ameen Islamic Asset Allocation fund		**18,080,638**	15,776,802
	Meezan Balanced Fund (MBF)		**24,090,834**	-
	NAFA Separately Managed Account - NJV Project		**41,818,140**	-
	UBL-Separately Managed Account III - NJV Project		**41,551,522**	-
			319,122,252	173,992,639
10	**Financial assets held to maturity**			
	Term deposit receipts	10.1	**261,700,000**	111,500,000
	Term deposit receipts - NJV Project	10.2	**120,000,000**	-
			381,700,000	111,500,000

10.1 These term deposit receipts are held in Islamic banking accounts and will mature up to February 08, 2020. It carries return rates ranging from 5.50% to 10.90% (2016: 5.71% to 7.60%) per annum.

10.2 These term deposit receipts are held in Islamic banking accounts against endowment fund created by Government of Sindh, Education Department for NJV School Project and will mature up to December 02, 2017. It carries return rates ranging from 5.50% to 5.75% per annum.

		Note	2017	2016
			---------Rupees---------	
11	**Microloans receivable-net**			
	Educational loans	11.2	**8,156,125**	8,846,215
	Franchisee loans	11.3	**5,445,687**	9,633,982
	Individual loans	11.4	**13,127,641,498**	8,045,093,247
			13,141,243,310	8,063,573,444
	Less: provision for loan loss	11.5	**(131,412,433)**	(80,641,593)
			13,009,830,877	7,982,931,851
11.1	**Particular of microloans**			
	Due within:-one year		**11,128,439,110**	6,699,175,093
	-over one year		**2,012,804,200**	1,364,398,351
			13,141,243,310	8,063,573,444

11.2 These are long term interest free microloans given to needy students for their educational expenses.

11.3 These represent interest-free loans given to enterprise(s)/Individuals cum training institutes in different areas of Pakistan as part of the Organization's franchise programme developed to promote its objectives through partner organizations. Though these loans are treated as Qarz-e-Hasna with repayment terms of 1.5 years to 5 years, however, some of these loans do not have a specific repayment term. Details of franchise loans are as follows:

	2017	2016
	---------Rupees---------	
Kawish Welfare Trust	**1,614,000**	1,614,000
Nishtar College Multan	**500,000**	500,000
Farz Foundation	**395,000**	395,000
The Pakistan Society for the Rehabilitation of the Disabled	**300,000**	300,000
Choti	**250,000**	250,000
Khairpur Sindh (formerly: Sojho-Kherpur)	**200,000**	200,000
Micro Loan Solar	**193,205**	40,500
Dr. Syed Imran	**190,000**	276,000
Pakistan College of Commerce and Management	**98,482**	98,482
Kiran Foundation	**-**	2,500,000
Brotherhood Education trust (Associated Undertaking)	**-**	1,500,000
Others	**1,705,000**	1,960,000
	5,445,687	9,633,982

11.4 **Individual loans**

	2017	2016
Balance as at July 1	**8,045,093,247**	4,813,294,917
Disbursed during the year	**17,618,984,409**	11,115,534,694
	25,664,077,656	15,928,829,611
Recovered during the year	**(12,524,556,491)**	(7,877,893,506)
	13,139,521,165	8,050,936,105
Written off during the year	**(11,879,667)**	(5,842,858)
Balance as at June 30	**13,127,641,498**	8,045,093,247

These represent interest-free loans given to individuals for productive/income generating activities against a personal guarantee. An application form fee of Rs. 200 (2016: Rs. 200) is charged and borrowers are also encouraged to contribute voluntarily out of their own savings/income towards Community Donation Programme. These loans have a repayment term ranging from 1 year to 2.5 years. Further related detail of individual loans are as follows:

	2017	2016
Total amount disbursed till year end (Rs.)	**44,983,110,945**	27,364,126,536
Borrowers as at June 30:		
- Total	**2,039,590**	1,425,804
- Male	**1,190,964**	837,656
- Female	**848,626**	588,148
Number of active loans at June 30	**820,071**	567,761
Recovery percentage	**99.93%**	99.93%

11.5 **Provision for loan loss**

	2017	2016
Balance as at July 1	**80,641,593**	48,132,949
Charge for the year	**62,650,507**	38,351,502
	143,292,100	86,484,451
Written off against individual loans	**(11,879,667)**	(5,842,858)
Balance as at June 30	**131,412,433**	80,641,593

		Note	2017	2016
			---------Rupees---------	
12	**Receivables and other assets**			
	Advance tax	12.1	5,765,260	4,582,651
	Advances to staff	12.2	27,772,139	20,185,059
	Advances to suppliers		25,856,441	10,648,226
	Security deposit		33,923,976	8,870,484
	Accrued income		3,767,094	12,431,013
	Prepaid rent		1,423,816	779,600
	Office supplies		1,303,704	234,990
	Receivable from related parties		516,315	-
	Other receivables	12.3	9,513,042	3,284,370
			109,841,787	61,016,393
12.1	**Movement of advance tax**			
	Balance as at July 1		4,582,651	3,758,972
	Additions during the year		1,182,609	823,679
			5,765,260	4,582,651
	Write off during the year		-	-
	Balance as at June 30		5,765,260	4,582,651

12.2 These represent long term loans to employees for purchase of motorcycles, construction of new house, repair/maintenance of existing house and for their personal needs. These loans are payable over a period of 1 to 7 years by way of equal monthly installments.

12.3 It includes petty cash and operational advance(s) given to employees against official expenses.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

13 Property and equipment

	Free hold land	Buildings on free hold land	Furniture, fixture and office equipment	Vehicles	Construction in progress	Total
	------Rupees------					
Cost:						
Balance as at July 1, 2015	146,161,971	85,289,997	36,588,870	16,354,019	4,060,000	288,454,857
Additions	69,608,540	-	16,069,216	5,049,855	-	90,727,611
Transfers	2,400,000	-	-	-	(2,400,000)	-
Disposal	-	-	-	-	-	-
Balance as at June 30, 2016	218,170,511	85,289,997	52,658,086	21,403,874	1,660,000	379,182,468
Balance as at July 1, 2016	218,170,511	85,289,997	52,658,086	21,403,874	1,660,000	379,182,468
Additions	4,564,224	-	23,472,818	26,800,466	146,259,284	201,096,792
Transfers	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Balance as at June 30, 2017	**222,734,735**	**85,289,997**	**76,130,904**	**48,204,340**	**147,919,284**	**580,279,260**
Accumulated depreciation:						
Balance as at July 1, 2015	-	2,648,615	9,538,374	4,346,334	-	16,533,323
Charge for the year	-	8,264,138	4,961,740	2,589,372	-	15,815,250
Disposal	-	-	-	-	-	-
Balance as at June 30, 2016	-	10,912,753	14,500,114	6,935,706	-	32,348,573
Balance as at July 1, 2016	-	10,912,753	14,500,114	6,935,706	-	32,348,573
Charge for the year	-	7,437,724	7,537,168	4,734,034	-	19,708,926
Disposals	-	-	-	-	-	-
Balance as at June 30, 2017	-	**18,350,477**	**22,037,282**	**11,669,740**	-	**52,057,499**
Carrying amounts:						
Balance as at June 30, 2016	218,170,511	74,377,244	38,157,972	14,468,168	1,660,000	346,833,895
Balance as at June 30, 2017	**222,734,735**	**66,939,520**	**54,093,622**	**36,534,600**	**147,919,284**	**528,221,761**
Rate of depreciation %		**10**	**10-33.33**	**20**		

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

14 Intangible assets

	Website	ERP software	Total
	Rupees		
Cost:			
Balance as at July 1, 2015	596,180	19,456,408	20,052,588
Additions	-	643,990	643,990
Disposal	-	-	-
Balance as at June 30, 2016	596,180	20,100,398	20,696,578
Balance as at July 1, 2016	596,180	20,100,398	20,696,578
Additions	-	-	-
Disposals	-	-	-
Balance as at June 30, 2017	**596,180**	**20,100,398**	**20,696,578**
Accumulated depreciation:			
Balance as at July 1, 2015	127,819	2,501,640	2,629,459
Charge for the year	70,169	1,695,477	1,765,646
Disposal	-	-	-
Balance as at June 30, 2016	197,988	4,197,117	4,395,105
Balance as at July 1, 2016	197,988	4,197,117	4,395,105
Charge for the year	59,618	2,010,040	2,069,658
Disposals	-	-	-
Balance as at June 30, 2017	**257,606**	**6,207,157**	**6,464,763**
Carrying amounts:			
Balance as at June 30, 2016	398,192	15,903,281	16,301,473
Balance as at June 30, 2017	**338,574**	**13,893,241**	**14,231,815**
Rate of amortization %	10	10	

	Note	2017	2016
		---------Rupees---------	

15 Creditors, accrued and other liabilities

	Note	2017	2016
Profit payable to PSIC	15.1	**10,588,409**	6,801,839
Profit payable to PPAF	15.1	**11,282,275**	8,991,063
Profit payable to GB	15.1	**6,577,518**	4,141,766
Profit payable to FATA	15.1	**5,779,704**	4,935,702
Profit payable to TEVTA	15.1	**785,385**	142,934
Accrued expenses		**12,883,268**	20,910,866
Health Takaful Payable	15.2	**5,480,116**	3,207,783
EOBI payable		**1,193,400**	1,372,475
Other liabilities		**4,471,489**	3,152,963
		59,041,564	53,657,391

15.1 This represents the amount payable in respect of profit earned on the loan amount received from lenders and held in saving accounts. This profit is maintained for the purpose of disbursement to and recovery from the individual borrowers and the same is payable to lenders as per the loan agreements.

15.2 This represents the reserve created for the Health Takaful of employees.

16 Provident fund payable

This represents the amount payable to employees in respect of provident fund scheme established in 2007.

	Note	2017	2016
		---------Rupees---------	

17 Loan for credit pool

	Note	2017	2016
Loan from PSIC	17.2	**10,000,000,000**	7,000,000,000
Loan from GB	17.3	**575,000,000**	385,000,000
Loan from Care International UK	17.4	**61,488,466**	59,559,469
Loan from PMIFL	17.5	**446,000,000**	446,000,000
Loan from TEVTA	17.6	**500,000,000**	500,000,000
Loan from FATA	17.7	**500,000,000**	412,000,000
Loan from Agriculture Department	17.8	**2,000,000,000**	-
Loan from individuals		**33,578,832**	46,285,632
		14,116,067,298	8,848,845,101

17.1 Particulars of loan for credit pool

	2017	2016
Up to one year	**25,578,832**	1,038,285,632
Over one year	**14,090,488,466**	7,810,559,469
	14,116,067,298	8,848,845,101

17.2 This amount represents interest free loan received from Punjab Small Industries Corporation (PSIC) for a period of five years. The loan amount is to be used on a revolving basis to provide interest free microloans under the terms explained in Note 11.4 above. Akhuwat is entitled to receive service charges at the rate of 7% of the disbursed amount from PSIC to meet its operational expenses.

17.3 This amount represents interest free loan received from the Government of Gilgit-Baltistan (GB) for a period of five years started from April 15, 2013. The loan amount is to be used on a revolving basis to provide interest free microloans under the terms explained in Note 11.4 above. Akhuwat is entitled to receive service charges at the rate of 10% of the disbursed amount from GB to meet its operational expenses.

17.4 This amount represents interest free loan received from Care International, UK. The loan amount is to be used on a revolving basis to provide interest free microloans under the terms explained in 11.4 above. Akhuwat is entitled to receive service charges at the rate of USD 3,500 per annum to meet its operational expenses.

17.5 This represents interest free loan received from Pakistan Poverty Alleviation Fund under Prime Minister Interest Free Loan Scheme for a period of four years starting from August 12, 2014. Akhuwat is entitled to receive service charges at the rate of 10% of loan received inclusive of 2% of loan loss fund as explained in note 5.10.

17.6 This represents interest free loan received from Technical Education & Vocational Training Authority for a period of five years starting from October 09, 2015. The loan amount is to be used on a revolving basis to provide interest free microloans to TEVTA graduates. Akhuwat is entitled to receive service charges at the rate of 8% of the disbursed amount from TEVTA to meet its operational expenses.

17.7 This represents interest free loan received from FATA Development Authority for a period of five years starting from September 22, 2015. The loan amount is to be used on a revolving basis to provide interest free microloans to the people of FATA. Akhuwat is entitled to receive service charges at the rate of 10% of the disbursed amount from FATA Development Authority to meet its operational expenses.

17.8 This represents interest free loan received from Government of Punjab, Agriculture Department regarding disbursement of interest free loan under "Khadem-i-Punjab E-Credit Scheme" for a period of five years starting from December 08, 2016. The loan amount is to be used on a revolving basis to provide interest free microloans to the small farmers, tenants and share croppers, having landholding up to 2.5 acres of agriculture land. Akhuwat is entitled to receive service charges at the rate of 5.90% of the disbursed amount from GoPb to meet its operational expenses.

18 Contingencies and commitments

18.1 Contingencies

There are no contingencies as at June 30, 2017 and June 30, 2016.

18.2 Commitments

Commitments in respect of educational loans as at June 30, 2017 is Rs. Nil (2016: Rs. 144,500)

		2017	2016
19 Operating income	**Note**	---------Rupees---------	
Operational donations / service charges	19.1	**1,138,822,505**	703,348,073
Processing fee	19.2	**133,272,800**	118,594,200
Community donations	19.3	**1,492,367**	351,842
Income from AHS Clinic	19.4	**2,240,600**	1,763,810
		1,275,828,272	824,057,925

19.1 These represent the service charges received from lenders against disbursement of interest free microloans to meet operational expenses.

19.2 This represents fee received from prospective borrowers Rs. 200 (2016: Rs. 200) per application form.

19.3 This represents donations collected through donation boxes placed at different community centers and retail stores.

19.4 This represents the token fee received from the patients visiting the AHS clinic both for outdoor checkups.

	2017	2016
	---------Rupees---------	
20 Other income		
Profit on investment at fair value through profit or loss	**44,033,813**	12,622,181
Bad debts recovered	**2,006,466**	942,630
Income from hide collection	**5,798,825**	4,130,729
Miscellaneous	**3,554,379**	6,019,872
	55,393,483	23,715,412

21 This represents donations received from general public which are used for providing interest free microloans, subsidizing services of AHS clinic and for paying zakat/donations.

22 The amount represents the voluntary contributions by borrowers at the rate of 1% of loan amount which is used to write off loans of deceased/ disabled borrowers and to pay funeral charges to the heirs of deceased borrowers.

23 General and administrative expenses

	Note	2017	2016
		---------Rupees---------	
Salaries, wages and other benefits		**889,004,244**	549,666,066
Printing and stationery		**69,967,782**	35,181,359
Rent		**66,843,195**	47,231,970
Travelling and conveyance		**32,385,043**	20,178,571
Programmed assistance		**27,113,333**	19,679,034
Depreciation	13	**19,708,926**	15,815,250
Repair and maintenance		**18,717,067**	5,689,746
Communication		**16,229,020**	9,232,738
Utilities		**15,403,382**	9,675,000
Office supplies		**12,430,037**	7,785,379
Hostel amenities		**10,197,946**	2,625,992
Consultancy charges		**6,377,835**	5,903,807
Staff training		**6,106,369**	8,175,059
Expenses of Cloth Bank		**5,597,713**	2,887,181
Security expenses		**2,539,026**	1,200,238
Amortization	14	**2,069,658**	1,765,646
Auditors' remuneration	23.1	**1,305,000**	1,200,000
Contribution to provident fund		**1,029,197**	902,907
Bank charges		**611,860**	104,434
Fee and subscription		**32,000**	315,025
Donations to IDPs		**-**	1,100,000
Miscellaneous		**7,954,520**	8,152,344
		1,211,623,153	754,467,746

23.1 Auditors' remuneration

	2017	2016
Annual audit fee	**1,100,000**	1,000,000
Out of pocket expenses	**205,000**	200,000
	1,305,000	1,200,000

24 Transactions with related party

Related parties comprise of the organizations with common director and key management personnel. The Organization in the normal course of business carries out various transactions with its related parties. The balance due from related parties has been disclosed in the relevant notes to the financial statements. Details of transactions with related parties are as follows:

Relationship with party	Nature of transaction	2017	2016
		---------Rupees---------	
Associated undertaking	Donation paid	**-**	130,320,000
	Expenses paid on behalf of - associated party	**516,315**	-
Key management	Short term employee benefits	**2,829,600**	2,269,196
		3,345,915	132,589,196

25 Financial risk management

The Organization principal business activities by their nature involve assuming certain financial risks in order to achieve the desired financial and social returns. These risks include:

- Credit risk
- Market risk
- Liquidity risk

There have been no substantive changes in the Organization's exposure to these risks, its objectives, policies and processes for managing these risks or the methods used to measure them from the year ended June 30, 2017, unless otherwise noted.

Credit Risk – Credit risk is the potential for financial loss resulting from the failure of a client or counterparty to honor its financial or contractual obligations. Credit risk arises from the Organization's microfinance activities.

Credit risk of the Organization arises principally from the investments, trade debts, trade deposits and other receivables. The carrying amount of financial assets represents the maximum credit exposure. To reduce the exposure to credit risk the Organization has developed a formal approval process whereby credit limits are applied to its borrowers. The management continuously monitors the credit exposure towards the borrowers and makes required provision and write off the necessary balances.

The Organization's aggregate loan portfolio was PKR 13.141 billion and PKR 8.063 billion as of June 30, 2017 and 2016, respectively (see Note 11). The Organization's total allowances for impairments totaled PKR 131.412 million at June 30, 2017, a coverage ratio of 1% of total loans. The loan loss provision was PKR 80.641 million at June 30, 2016, a coverage ratio of 1% of total loans.

The Organization conducts annual historical loan-loss migration analysis across its portfolio in order to determine the probability of default, defined as all loans in arrears in excess of 90 days, as well as an examination of other current observable factors (e.g. macroeconomic, operational, policy and systems changes, political risk, etc.) in order to establish credit reserves.

The observations collected in 2017 were included in the migration analysis that forms the statistical base of the credit risk calculation. The migration analysis performed on advances portfolio estimates the probability of default of a loan portfolio over a year based on historical

Exposure to credit risk at June 30, 2017 and 2016 is as follows:

	Note	2017	2016
		---------Rupees---------	
Cash and cash equivalents	8	**2,214,691,943**	1,624,010,855
Investment at fair value through profit or loss	9	**319,122,252**	173,992,639
Financial assets held to maturity	10	**381,700,000**	111,500,000
Microloans receivable-net	11	**13,009,830,877**	7,982,931,851
Accrued income	12	**3,767,094**	12,431,013
Advances to staff	12	**27,772,139**	20,185,059
Security deposit	12	**33,923,976**	8,870,484
Receivable from related party	12	**516,315**	-
		15,991,324,596	9,933,921,901

Impaired Loans – Impaired loans are loans for which the Organization determines that it is probable that it will be unable to collect all amounts due according to the contractual terms of the loan agreement.

Past Due but Not Impaired Loans – Past due, but not impaired loans are loans where contractual amounts are past due, but the Organization believes that impairment is not appropriate on the basis of the stage of collection of amounts owed to the Organization.

Allowances for Impairment – the Organization establishes an allowance for impairment losses that represents an estimate of probable or expected losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets with respect to losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-Off Policy – the Organization writes off a loan (and any related allowances for impairment losses) after the specified days. These days are based on the Organization's policy. Charge-off decisions are generally based on past due status.

Market Risk – Market risk includes price risk and currency risk, which arise in the normal course of the Organization's business:

- Price risk is the risk that the fair value or future cash flows of financial instrument will fluctuate because of changes in market prices, other than those arising from profit rate risk or currency risk.
- Interest rate is the risk is that the fair value or future cash flows of financial instrument will fluctuate because of changes in market

The Organization works to ensure that the structural tenor of these funding sources is sufficiently long in relation to the tenor of its asset base. In fact, the key goal of the Organization's asset-liability management is to ensure that there is excess tenor in the liability structure so as to provide excess liquidity to fund all assets. The excess liquidity resulting from a longer term liability tenor can effectively offset potential downward pressures on liquidity that may occur under market stress. This excess funding is held in the form of Organization deposits and in unencumbered liquid securities.

Liquidity management is the responsibility of senior management of the Organization and is overseen by the board of directors. The Organization maintains legal reserve requirements in accordance with local regulations.

A traditional view of the Organization's liquidity is provided by a GAP analysis. Considering the contractual terms of client loans, the Organization has a substantial amount of excess liquidity in the under 1 year timeframe.

At June 30, 2017:	Up to 1 year	1 year to 3 years	3 years to 5 years	More than 5 years	Total
	Rupees				
Cash and cash equivalents	2,214,691,943	-	-	-	2,214,691,943
Investment at fair value through - profit or loss	319,122,252	-	-	-	319,122,252
Financial assets held to maturity	356,500,000	25,200,000	-	-	381,700,000
Microloans receivable-net	10,997,026,677	2,001,290,593	8,156,125	3,357,482	13,009,830,877
Receivables and other assets	26,538,661	8,554,041	2,755,168	28,131,654	65,979,524
	13,913,879,533	2,035,044,634	10,911,293	31,489,136	15,991,324,596
Creditors, accrued and other liabilities	57,848,164	-	-	-	57,848,164
Provident fund payable	13,481,904	-	-	-	13,481,904
Loan for credit pool	25,578,832	835,000,000	13,255,488,466	-	14,116,067,298
	96,908,900	835,000,000	13,255,488,466	-	14,187,397,366
Liquidity gap	13,816,970,633	1,200,044,634	(13,244,577,173)	31,489,136	1,803,927,230
At June 30, 2016:					
Cash and cash equivalents	1,624,010,855	-	-	-	1,624,010,855
Investment at fair value through - profit or loss	173,992,639	-	-	-	173,992,639
Financial assets held to maturity	-	111,500,000	-	-	111,500,000
Microloans receivable-net	6,618,533,500	1,348,248,514	5,273,106	10,876,731	7,982,931,851
Receivables and other assets	25,230,600	10,228,389	2,223,980	3,803,587	41,486,556
	8,441,767,594	1,469,976,903	7,497,086	14,680,318	9,933,921,901
Creditors, accrued and other liabilities	52,284,916	-	-	-	52,284,916
Provident fund payable	-	-	-	11,253,857	11,253,857
Loan for credit pool	1,038,285,632	2,546,000,000	5,264,559,469	-	8,848,845,101
	1,090,570,548	2,546,000,000	5,264,559,469	11,253,857	8,912,383,874
Liquidity gap	7,351,197,046	(1,076,023,097)	(5,257,062,383)	3,426,461	1,021,538,027

The traditional GAP view tends to overstate the amount of near-term liquidity since it does not take into consideration the behavioral nature of the Organization's client loan portfolio. From a behavioral perspective, the Organization's clients are able to renew their loans for multiple terms, which lessen the amount of short-term liquidity (lowers the positive Gap in that timeframe). In spite of this, the Organization's statements of financial position remain liquid owing to the short asset tenor and to the fact that borrowers loans amortize.

Counterparty Risk – the Organization's exposure to the financial loss associated with balances held in other financial institutions is managed in accordance with prescribed limits. The Organization looks at counterparty exposure on a monthly basis to make sure that Organization holds liquid funds with Organizations of high reputation or to invest in mutual funds.

The level of counterparty risk incurred reflects the nature and purpose of the assets held by the Organization (aside from its loan portfolio). Such assets are largely transactional in nature (generated by the routine payments by clients). In addition, a minimum amount of cash and liquid securities is held to ensure sufficient liquidity for the Organization. While the Organization tries to generate some income from these assets, the overriding objective is to ensure their secure placement and high level of availability – risk considerations predominate. This is particularly visible in the area of Organization placements, where the Organization is able to take active decisions with respect to the selection of counterparties and the maturity of placements.

- Currency risk is the extent to which the Organization is exposed to the currencies in which donations or funding are received and the respective functional currency of the Organization. The Organization is not exposed to any currency risk currently.

The Organization's financial performance is subject to some degree of risk due to changes in profit rates; however, the Organization's statements of financial position have significantly less profit rate risk that of a traditional financial institution.

- The tenor mismatch between assets and liabilities is far less.

- The short-term nature of the Organization's loans to clients renders the benefit of prepayments to be immaterial – thus, changes in market rates have an immaterial effect on prepayments.

Below is a consideration of profit rate risk by term of asset and liability as of June 30, 2017:

	Profit Sensitive Balances	Non-Profit Sensitive Balances	Total
	---- Rupees ----		
Cash and cash equivalents	**1,978,157,079**	**236,534,864**	**2,214,691,943**
Investment at fair value through profit or loss	-	**319,122,252**	**319,122,252**
Financial assets held to maturity	**381,700,000**	-	**381,700,000**
Microloans receivable-net	-	**13,009,830,877**	**13,009,830,877**
Other Receivables	-	**65,979,524**	**65,979,524**
	2,359,857,079	**13,631,467,517**	**15,991,324,596**
Creditors, accrued and other liabilities	-	**57,848,164**	**57,848,164**
Provident fund payable	-	**13,481,904**	**13,481,904**
Loan for credit pool	-	**14,116,067,298**	**14,116,067,298**
Total liabilities	-	**14,187,397,366**	**14,187,397,366**
Open position	**2,359,857,079**	**(555,929,849)**	**1,803,927,230**

Below is a consideration of profit rate risk by term of asset and liability as of June 30, 2016:

	Profit Sensitive Balances	Non-Profit Sensitive Balances	Total
	---- Rupees ----		
Cash and cash equivalents	1,494,704,563	129,306,292	1,624,010,855
Investment at fair value through profit or loss	-	173,992,639	173,992,639
Financial assets held to maturity	111,500,000	-	111,500,000
Microloans receivable-net	-	7,982,931,851	7,982,931,851
Receivables and other assets	-	41,486,556	41,486,556
Total assets	1,606,204,563	8,327,717,338	9,933,921,901
Creditors, accrued and other liabilities	-	52,284,916	52,284,916
Provident fund payable	-	11,253,857	11,253,857
Loan for credit pool	-	8,848,845,101	8,848,845,101
Total liabilities	-	8,912,383,874	8,912,383,874
Open position	1,606,204,563	(584,666,536)	1,021,538,027

The Organization has performed profit rate simulations based on the above GAP analysis to estimate the effect on net profit margin for differing levels of immediate and ongoing changes to market profit rates. A GAP analysis consists of separating the Organization's statement of financial position into different time frames in which assets or liabilities mature. Note that the Organization can influence certain profit rates, e.g. deposit and lending rates, whereas other profit rates are determined by exogenous factors in the economy.

A reasonably possible change of 100 basis points in profit rates at the reporting date would have increased / (decreased) profit by amounts by Rs. 23 million. The analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

Liquidity Risk – Liquidity risk management includes (at a minimum) the identification, measurement and establishment of limits on potential losses arising from the difficulty of renewing liabilities under normal market conditions. The Organization's funding and liquidity objective is to fund its existing asset base (and maintain sufficient excess liquidity) so that it can operate under unusual/adverse market conditions. At the aggregate level, the Organization's goal is to ensure that there is sufficient funding in amount and tenor so that adequate liquid resources are available for all operating activities. The liquidity framework requires that entities be liquidity self-sufficient or net providers of liquidity. The primary sources of funding are non-profit bearing loans for credit pool and donations.

26 Financial assets and liabilities — accounting classification and fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.

The table below sets out the Organization's classification of each class of financial assets and liabilities and their fair values at June 30, 2017 and 2016:

Fair Value Measurement —As per the requirements of IFRS 7, Financial Instruments — Disclosures, we have disclosed the following fair value measurement hierarchy in the above table for financial assets and liabilities:

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3 — Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

The following table presents the Funds/Organization's financial assets which are carried at fair value:

	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Investment at fair value through profit or loss	Rupees			
NAFA Separately Managed Account	**100,445,884**	-	-	**100,445,884**
UBL-Separately Managed Account I & II	**93,135,234**	-	-	**93,135,234**
UBL-Al-Ameen Islamic Asset Allocation fund	**18,080,638**	-	-	**18,080,638**
Meezan Balanced Fund (MBF)	**24,090,834**	-	-	**24,090,834**
NAFA Separately Managed Account - NJV Project	**41,818,140**	-	-	**41,818,140**
UBL-Separately Managed Account III - NJV Project	**41,551,522**	-	-	**41,551,522**
	319,122,252	-	-	**319,122,252**

	2016			
	Level 1	Level 2	Level 3	Total
Investment at fair value through profit or loss	Rupees			
NAFA Separately Managed Account	79,694,063	-	-	79,694,063
UBL-Separately Managed Account I & II	78,521,774	-	-	78,521,774
UBL-Al-Ameen Islamic Asset Allocation fund	15,776,802	-	-	15,776,802
	173,992,639	-	-	173,992,639

27 Date of authorization

These financial statements were authorized on 07 SEP 2017 by the Board of Directors of the Organization.

28 Corresponding figures

Corresponding figures have been re-arranged, wherever necessary, for the purposes of comparison. However, no significant re-arrangements have been made during the year.

29 General

Figures have been rounded off to the nearest Rupee.

Director

Chief Financial Officer