Deloitte.

Deloitte Yousuf Adil
Chartered Accountants

Member of
Deloitte Touche Tohmatsu Limited

Akhuwat

Financial Statements

For the Year Ended

June 30, 2018.

DRAFT INDEPENDENT AUDITORS' REPORT

To The Members of Akhuwat

Opinion

We have audited the annexed financial statements of **Akhuwat** ("the Organization"), which comprise of the statement of financial position as at June 30, 2018, 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 including a summary of significant accounting policies and other explanatory information, 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 the audit.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at June 30, 2018, 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.

Information Other than the Financial Statements and Auditor's Report Thereon

We understand there will be no other information accompanying the financial statements. Accordingly, we do not have any obligation to report on such information.

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.

Auditor's 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.

Chartered Accountants

DYA

Engagement Partner
Rana M. Usman Khan
Date:
Lahore

AKHUWAT

STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2018

	Note	2018	2017
		------------Rupees------------	
ASSETS			
Cash and cash equivalents	6	279,308,840	2,214,691,943
Investment at fair value through profit or loss	7	198,708,744	319,122,252
Financial assets held to maturity	8	346,700,000	381,700,000
Microloans receivable-net	9	-	13,009,830,877
Receivables and other assets	10	87,676,540	109,841,787
Property and equipment	11	1,076,499,127	528,221,761
Intangible assets	12	13,458,353	14,231,815
Total assets		2,002,351,604	16,577,640,435
LIABILITIES			
Creditors, accrued and other liabilities	13	17,640,931	59,041,564
Provident fund payable	14	426,182	13,481,904
Loan for credit pool	15	-	14,116,067,298
Total liabilities		18,067,113	14,188,590,766
FUNDS			
Unrestricted			
General fund		30,897,137	151,941,148
Restricted			
Donated fund		1,910,630,235	1,981,980,145
Zakat fund		40,958,341	45,032,939
Rehabilitation fund		1,798,778	1,811,296
Contributed fund		-	200,092,457
Reserves for loan loss		-	8,191,684
		1,953,387,354	2,237,108,521
Total funds		1,984,284,491	2,389,049,669
Contingencies and commitments	16		
Total liabilities and funds		2,002,351,604	16,577,640,435

The annexed notes from 1 to 27 form an integral part of these financial statements.

DYA

Chief Executive Officer

Director

AKHUWAT

STATEMENT OF INCOME AND EXPENDITURE
FOR THE YEAR ENDED JUNE 30, 2018

	Note	Unrestricted fund	Restricted			2018	2017
			Donated fund	Zakat fund	Rehabilitation fund		
		---------- Rupees ----------					
Income							
Operating income	17	311,586,813	-	-	-	311,586,813	1,277,394,519
Other income	18	1,174,686	-	-	-	1,174,686	55,393,483
Donations received during the year	19	-	667,691,213	76,947,479	-	744,638,692	918,074,528
Contributions received during the year	20	-	-	-	-	-	153,138,611
Return on bank deposits		26,203,113	-	-	41,482	26,244,595	64,251,915
Expenditure							
Operating expenses		430,733,485	-	-	-	430,733,485	989,733,853
General and administrative expenses	22	29,275,138	-	-	-	29,275,138	221,889,300
Provision for loan loss	9.5	-	-	-	-	-	63,526,162
Donations paid during the year		-	36,533,013	-	-	36,533,013	26,745,390
Zakat paid during the year		-	-	81,022,077	-	81,022,077	52,849,963
Stipends paid during the year		-	-	-	54,000	54,000	54,000
Death claims settled during the year		-	-	-	-	-	127,235,476
		460,008,623	36,533,013	81,022,077	54,000	577,617,713	1,482,034,144
Surplus for the year		(121,044,011)	631,158,200	(4,074,598)	(12,518)	506,027,073	986,218,913
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income for the year		(121,044,011)	631,158,200	(4,074,598)	(12,518)	506,027,073	986,218,913

The annexed notes from 1 to 27 form an integral part of these financial statements.

DYA

Chief Executive Officer

Director

AKHUWAT

STATEMENT OF CHANGES IN FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	Unrestricted	Restricted					
	General fund	Donated fund	Zakat fund	Rehabilitation fund	Contributed fund	Reserves for loan loss	Total
	----------	----------	----------	Rupees	----------	----------	
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**
Transferred during the year (note 4)	-	**(702,508,110)**	-	-	**(200,092,457)**	**(8,191,684)**	**(910,792,251)**
Comprehensive income:							
(Deficit) / surplus for the year	**(121,044,011)**	**631,158,200**	**(4,074,598)**	**(12,518)**	-	-	**506,027,073**
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	**(121,044,011)**	**631,158,200**	**(4,074,598)**	**(12,518)**	-	-	**506,027,073**
Balance as at June 30, 2018	**30,897,137**	**1,910,630,235**	**40,958,341**	**1,798,778**	-	-	**1,984,284,491**

The annexed notes from 1 to 27 form an integral part of these financial statements.

Chief Executive Officer

Director

AKHUWAT

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

	Note	2018	2017
Cash flow from operating activities			
Surplus for the year		506,027,073	986,218,912
Adjustments for:			
Depreciation on property and equipment	11	18,544,592	19,708,926
Amortization of Intangible assets	12	2,154,085	2,069,658
Return on bank deposits and investments		(26,203,113)	(108,285,728)
Donation in kind		(144,696,500)	-
Provision for loan loss	9.5	-	62,650,507
		(150,200,936)	(23,856,637)
		355,826,137	962,362,275
Change in working capital			
Decrease / (increase) in microloans receivable-net		-	(5,089,549,533)
Increase in receivables and other assets		(1,162,547)	(48,825,394)
Decrease / (increase) in creditors, accrued and other liabilities		(6,387,342)	5,384,173
Decrease / (increase) in provident fund payable		(13,055,722)	2,228,047
		(20,605,611)	(5,130,762,707)
Net cash used in operating activities		335,220,526	(4,168,400,432)
Cash flow from investing activities			
Purchase of property and equipment	11	(495,883,112)	(201,096,792)
Purchase of intangible assets	12	(1,380,623)	-
Purchase of investments		155,413,508	(371,295,800)
Return on bank deposits		26,203,113	64,251,915
Net cash used in investing activities		(315,647,114)	(508,140,677)
Cash flow from financing activities			
Loan for credit pool received		-	5,267,222,197
Net cash generated from financing activities		-	5,267,222,197
Net increase in cash and cash equivalents		19,573,412	590,681,088
Cash and cash equivalent at the beginning of the year		2,214,691,943	1,624,010,855
Cash and cash equivalent transferred during the year		1,954,956,515	-
Cash and cash equivalents at the end of the year	6	279,308,840	2,214,691,943

The annexed notes from 1 to 27 form an integral part of these financial statements.

DYA

Chief Executive Officer

Director

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

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.

The principal aims and objectives of the organisation are to carry on the following charitable activities:

- Providing education to needy students through different projects such as Punjab School Support Program, Narayan Jagannath Vaidya School Project, Akhuwat First University and Akhuwat University etc. ;
- Organizing women in particular and men in general, into socially viable community groups called Self Help Groups, to harness potential for self awareness activities, donations collection and other projects. ;
- Provide basic health care to poor via clinic(s) under the umbrella of Akhuwat Health Services (AHS).

2 Basis of preparation

These financial statements have been prepared in accordance with approved accounting standards, as applicable in Pakistan. Approved accounting standards comprise of:

- International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB); and
- Accounting and Financial Reporting by Non Government / Non Profit Organization issued by the Institute of Chartered Accountants of Pakistan.

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

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.

3 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.

3.1 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 receivables and 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 investments 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 Mutual Fund Association of Pakistan (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.

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.

3.2 Receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at gross receipts given plus any directly attributable transaction costs. Subsequent to initial recognition, receivables are measured at repayable amounts, less any impairment losses/ provision for doubtful recovery.

Receivables comprise of long term deposits, advances deposits and other receivables, and cash and cash equivalents of the Company.

3.3 Property and equipment

3.3.1 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.

3.3.2 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 statements.

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.

3.4 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.

3.5 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.

3.6 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.

3.7 Leases

Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged on a straight-line basis over the lease term.

3.8 Creditors, accrued and other liabilities

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in future for goods and services received, whether or not billed to the Company.

3.9 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, 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 can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

3.10 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.

3.11 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.

3.12 Revenue recognition

3.12.1 Unrestricted/General fund

Service charges are calculated on the basis defined in the agreements with contractual parties 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.

3.12.2 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)" :

a) 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.

b) Zakat fund

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

c) 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.

d) 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.

e) **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.

4 **Transfer of Microloans operations**

The Board of Directors of the Organization, in their meeting held on September 11, 2016, approved the transfer of its microloans operations to Akhuwat Islamic Microfinance, which is an associated concern of the organization due to common directorship.

As per the decision of the Board, the Organisation transferred the microloans and related assets and liablities to Akhuwat Islamic Microfinance with effect from July 01, 2017, based on its audited financial statements for the year ended June 30, 2017. Below is a summary of the balances transferred:

	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

The Organization considers the transfer as a 'Common Control Transaction' and accordingly has transferred the assets and liabilities at respective book values. These transactions have been presented in these financial statements as transfers to related party.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

		Note	2018	2017
			---------Rupees---------	
6	**Cash and cash equivalents**			
	Cash at bank			
	- In current accounts		52,796,591	235,267,287
	- In saving accounts	6.1	226,512,249	1,978,157,079
			279,308,840	2,213,424,366
	Cash in hand		-	1,267,577
			279,308,840	2,214,691,943

6.1 These deposits are held in Islamic banking accounts with return rates ranging from 1.97% to 3.65% (2017: 2.90% to 3.70%) per annum.

		Note	2018	2017
			---------Rupees---------	
7	**Investment at fair value through profit or loss**			
	NAFA Riba Free Saving Fund		92,111,568	100,445,884
	UBL Seperately Managed Account I & II		88,757,332	93,135,234
	UBL-Al-Ameen Islamic Asset Allocation fund		17,839,844	18,080,638
	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
			198,708,744	319,122,252
8	**Financial assets held to maturity**			
	Term deposit receipts	8.1	86,700,000	261,700,000
	Term deposit receipts - NJV Project	8.2	260,000,000	120,000,000
			346,700,000	381,700,000

8.1 These term deposit receipts are held in Islamic banking accounts and will mature up to February 08, 2020. These carries return rates ranging from 5.50% to 10.90% (2017: 5.71% to 7.60%) per annum.

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

		Note	2018	2017
			---------Rupees---------	
9	**Microloans receivable-net**			
	Educational loans	9.2	-	8,156,125
	Franchisee loans	9.3	-	5,445,687
	Individual loans	9.4	-	13,127,641,498
			-	13,141,243,310
	Less: provision for loan loss	9.5	-	(131,412,433)
			-	13,009,830,877

As detailed in note 4, the microloans operations and entire portfolio was transferred to Akhuwat Islamic Microfinance, a related party, with effect from July 01, 2017.

		2018	2017
9.1	**Particular of microloans**		
	Due within:-one year	-	11,128,439,110
	-over one year	-	2,012,804,200
		-	13,141,243,310

9.2 These were long term interest free microloans given to needy students for their educational expenses.

9.3 These were 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.

	2018	2017
9.4 Individual loans	---------Rupees---------	
Balance as at July 1	-	8,045,093,247
Disbursed during the year	-	17,618,984,409
	-	25,664,077,656
Recovered during the year	-	(12,524,556,491)
	-	13,139,521,165
Written off during the year	-	(11,879,667)
Balance as at June 30	-	13,127,641,498

These represent interest-free loans given to individuals for productive/income generating activities against a personal guarantee.

	Note	2018	2017
		---------Rupees---------	
9.5 Provision for loan loss			
Balance as at July 1		-	80,641,593
Charge for the year		-	62,650,507
		-	143,292,100
Written off against individual loans		-	(11,879,667)
Balance as at June 30		-	131,412,433
10 Receivables and other assets			
Advance tax	10.1	6,056,633	5,765,260
Advances to staff	10.2	1,136,812	27,772,139
Advances to suppliers		40,249,483	25,856,441
Security deposit		779,200	33,923,976
Accrued income		-	3,767,094
Prepaid rent		166,142	1,423,816
Office supplies		1,945,181	1,303,704
Receivable from related parties	10.3	31,993,645	516,315
Other receivables	10.4	5,349,444	9,513,042
		87,676,540	109,841,787
10.1 Movement of advance tax			
Balance as at July 1		5,765,260	4,582,651
Additions during the year		291,373	1,182,609
		6,056,633	5,765,260
Write off during the year		-	-
Balance as at June 30		6,056,633	5,765,260

10.2 These represent long term loans to employees for construction of new house, repair/maintenance of existing house and for their personal needs. These loans are payable over a period of 1 to 3 years by way of equal monthly installments.

10.3 This represents receivable from Akhuwat Islamic Microfinance, a related party of the Organization

10.4 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, 2018

11 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, 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	-	-	-	-	-	-
Disposal	-	-	-	-	-	-
Balance as at June 30, 2017	222,734,735	85,289,997	76,130,904	48,204,340	147,919,284	580,279,260
Balance as at July 1, 2017	222,734,735	85,289,997	76,130,904	48,204,340	147,919,284	580,279,260
Transferred to related party (note 4)	-	-	(68,217,463)	(38,160,575)	-	(106,378,038)
Additions	143,411,982	74,071,500	11,166,058	1,864,191	410,065,881	640,579,612
Transfers / capitalised	5,272,224	-	-	-	(5,272,224)	-
Disposals	-	-	-	-	-	-
Balance as at June 30, 2018	371,418,941	159,361,497	19,079,499	11,907,956	552,712,941	1,114,480,834
Accumulated depreciation:						
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
Disposal	-	-	-	-	-	-
Balance as at June 30, 2017	-	18,350,477	22,037,282	11,669,740	-	52,057,499
Balance as at July 1, 2017	-	18,350,477	22,037,282	11,669,740	-	52,057,499
Accumulated depreciation on transfers to related party (note 4)	-	-	(21,789,267)	(10,831,117)	-	(32,620,384)
Charge for the year	-	14,101,102	2,471,150	1,972,340	-	18,544,592
Disposals	-	-	-	-	-	-
Balance as at June 30, 2018	-	32,451,579	2,719,165	2,810,963	-	37,981,707
Carrying amounts:						
Balance as at June 30, 2017	222,734,735	66,939,520	54,093,622	36,534,600	147,919,284	528,221,761
Balance as at June 30, 2018	371,418,941	126,909,918	16,360,334	9,096,993	552,712,941	1,076,499,127
Rate of depreciation %		10	10-33.33	20		

12 Intangible assets

	Website	ERP software	Total
		--Rupees--	
Cost:			
Balance as at July 1, 2016	596,180	20,100,398	20,696,578
Additions	-	-	-
Disposal	-	-	-
Balance as at June 30, 2017	596,180	20,100,398	20,696,578
Balance as at July 1, 2017	596,180	20,100,398	20,696,578
Additions	-	**1,380,623**	**1,380,623**
Disposals	-	-	-
Balance as at June 30, 2018	**596,180**	**21,481,021**	**22,077,201**
Accumulated amortization:			
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
Disposal	-	-	-
Balance as at June 30, 2017	257,606	6,207,157	6,464,763
Balance as at June 30, 2017	257,606	6,207,157	6,464,763
Charge for the year	**59,618**	**2,094,467**	**2,154,085**
Disposals	-	-	-
Balance as at June 30, 2018	**317,224**	**8,301,624**	**8,618,848**
Carrying amounts:			
Balance as at June 30, 2017	338,574	13,893,241	14,231,815
Balance as at June 30, 2018	**278,956**	**13,179,397**	**13,458,353**
Rate of amortization %	**10**	**10**	

	Note	2018	2017
		---------Rupees---------	
13 Creditors, accrued and other liabilities			
Profit payable to PSIC	13.1	-	10,588,409
Profit payable to PPAF	13.1	-	11,282,275
Profit payable to GB	13.1	-	6,577,518
Profit payable to FATA	13.1	-	5,779,704
Profit payable to TEVTA	13.1	-	785,385
Accrued expenses		10,610,946	12,883,268
Health Takaful Payable	13.2	2,458,129	5,480,116
EOBI payable		780	1,193,400
Other liabilities		4,571,076	4,471,489
		17,640,931	59,041,564

13.1 This is the amount payable in respect of profit earned on the loan amount received from lenders and held in saving accounts.

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

14 Provident fund payable

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

	Note	2018	2017
		---------Rupees---------	
15 Loan for credit pool			
Loan from PSIC		-	10,000,000,000
Loan from GB		-	575,000,000
Loan from Care International UK		-	61,488,466
Loan from PMIFL		-	446,000,000
Loan from TEVTA		-	500,000,000
Loan from FATA		-	500,000,000
Loan from Agriculture Department		-	2,000,000,000
Loan from individuals		-	33,578,832
		-	14,116,067,298
15.1 Particulars of loan for credit pool			
Up to one year		-	25,578,832
Over one year		-	14,090,488,466
		-	14,116,067,298

15.2 This amount represents interest free loan received from relevant lenders. The loan amount was used on a revolving basis to provide interest free microloans.

16 Contingencies and commitments

There are no contingencies and commitments as at June 30, 2018 and June 30, 2017.

	Note	2018	2017
17 Operating income		---------Rupees---------	
Service charges	17.1	308,952,373	1,138,822,505
Processing fee	17.2	-	133,272,800
Community donations		-	1,492,367
Income from AHS Clinic	17.3	2,634,440	2,240,600
		311,586,813	1,275,828,272

17.1 These represent the service charges received from Punjab School Support Programme (PSSP) to meet operational expenses of multiple schools under the ambit of PSSP.

17.2 This represents fee received from prospective borrowers Rs. 200 per application form.

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

		2018	2017
		---------Rupees---------	
18	**Other income**		
	(Loss) / profit on investment at fair value through profit or loss	**(16,600,761)**	44,033,813
	Bad debts recovered	-	2,006,466
	Income from hide collection	**13,560,348**	5,798,825
	Miscellaneous	**4,215,099**	3,554,379
		1,174,686	55,393,483

19 This mainly represents monetary donations, received from general public, which are normally used for subsidizing services of AHS clinic and for paying of zakat and donations. Non-monetary donations during the year include land and building, with estimated fair values of Rs. 144 million situated in Faisalabad where an educational institute has been set-up.

20 The amount was the voluntary contributions by borrowers at the rate of 1% of loan amount which was used to write off loans of deceased/ disabled borrowers and to pay funeral charges to the heirs of deceased borrowers. Now this contribution is being received in the related party.

		Note	2018	2017
			---------Rupees---------	
21	**Operating expenses**			
	Salaries, wages and other benefits		**273,361,359**	800,684,806
	Printing and stationery		**6,441,899**	51,054,262
	Rent		**4,812,604**	62,431,945
	Travelling and conveyance		**11,319,304**	23,007,402
	Programmed assistance		**3,157,398**	1,200,258
	Depreciation	**11**	**11,806,981**	8,081,219
	Repair and maintenance		**56,215,957**	6,723,453
	Communication		**1,785,175**	7,214,439
	Utilities		**8,389,463**	10,287,585
	Office supplies		**24,178,181**	5,430,935
	Hostel amenities		**15,671,443**	434,785
	Consultancy charges		**836,740**	1,158,673
	Staff training		**4,864,999**	5,634,086
	Expenses of Cloth Bank		**2,487,570**	-
	Security expenses		**2,144,075**	-
	Contribution to provident fund		-	853,329
	Bank charges		**45,002**	388,469
	Fee and subscription		**723,939**	-
	Miscellaneous		**2,491,396**	5,148,207
			430,733,485	989,733,853

	Note	2018	2017
		---------Rupees---------	

22 General and administrative expenses

	Note	2018	2017
Salaries, wages and other benefits		691,016	88,319,438
Printing and stationery		126,879	18,913,520
Rent		234,190	4,411,250
Travelling and conveyance		5,933,030	9,377,641
Programmed assistance		7,125,281	25,913,075
Depreciation	11	6,737,611	11,627,707
Repair and maintenance		1,686,653	11,993,614
Communication		135,537	9,014,581
Utilities		68,719	5,115,797
Office supplies		151,724	6,999,102
Hostel amenities		121,261	9,763,161
Consultancy charges		3,051,026	5,219,162
Staff training		54,880	472,283
Expenses of Cloth Bank		-	5,597,713
Security expenses		-	2,539,026
Amortization	12	2,154,085	2,069,658
Auditors' remuneration	22.1	600,000	1,305,000
Contribution to provident fund		-	175,868
Bank charges		97,770	223,391
Fee and subscription		-	32,000
Miscellaneous		305,476	2,806,313
		29,275,138	221,889,300

22.1 Auditors' remuneration

	2018	2017
Annual audit fee	600,000	1,100,000
Out of pocket expenses	-	205,000
	600,000	1,305,000

23 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	2018	2017
		---------Rupees---------	
Associated undertaking - Akhuwat Islamic Microfinance	Expenses paid on behalf of the company	10,325,419	516,315
	Assets transferred during the year	15,083,541,066	-
	Liabilities and funds transferred	(15,061,872,840)	-
Key management	Short term employee benefits	-	2,829,600
		31,993,645	3,345,915

24 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 of the Organization arises principally from the investments, 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 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.

Exposure to credit risk at June 30, 2018 and 2017 is as follows:

	Note	2018	2017
		---------Rupees---------	
Cash and cash equivalents	6	279,308,840	2,214,691,943
Investment at fair value through profit or loss	7	198,708,744	319,122,252
Financial assets held to maturity	8	346,700,000	381,700,000
Microloans receivable-net	9	-	13,009,830,877
Accrued income	10	-	3,767,094
Advances to staff	10	1,136,812	27,772,139
Security deposit	10	779,200	33,923,976
Receivable from related party	10	31,993,645	516,315
		858,627,241	15,991,324,596

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.

Organization maintaines banking relationships with banking institutions with high credit ratings.

	Rating		Rating Agency	2018	2017
	Short term	Long term		---------Rupees---------	
Bank Islami Pakistan Limited	A1	A+	PACRA	181,968,541	1,734,134,518
National Bank of Pakistan	A1+	AAA	PACRA	40,381,103	174,585,346
Habib Bank Limited	A1+	AA+	PACRA	17,897,481	100,010,338
Meezan Bank Limited	A-1+	AA	JCR-VIS	15,955,743	99,295,391
The Bank of Punjab	A1+	AA	PACRA	13,079,362	31,448,561
Al-Baraka Bank	A1	A	PACRA	6,054,131	22,690,145
Bank Alfalah Limited	A1+	AA+	PACRA	1,368,289	19,772,460
Faysal Bank Limited	A1+	AA	PACRA	1,129,086	16,025,960
Dubai Islamic Bank	A-1	AA-	JCR-VIS	544,612	8,945,782
NRSP Microfinance Bank	A1+	A	PACRA	331,141	2,583,729
Allied Bank Limited	A1+	AAA	PACRA	219,101	1,697,984
United Bank Limited	A-1+	AAA	JCR-VIS	152,773	1,407,460
Telenor Microfinance Bank Limited	A1+	A	PACRA	121,548	547,268
U Microfinance Bank Limited	A-2	A	JCR-VIS	95,376	211,834
MCB	A1+	AAA	PACRA	10,553	67,590
				279,308,840	2,213,424,366

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 interest rates.
- 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, 2018:

	Profit Sensitive Balances	Non-Profit Sensitive Balances	Total
	Rupees		
Cash and cash equivalents	226,512,249	52,796,591	279,308,840
Investment at fair value through profit or loss	-	198,708,744	198,708,744
Financial assets held to maturity	346,700,000	-	346,700,000
Other Receivables	-	33,909,657	33,909,657
	573,212,249	285,414,992	858,627,241
Creditors, accrued and other liabilities	-	17,640,151	17,640,151
Provident fund payable	-	426,182	426,182
Loan for credit pool	-	-	-
Total liabilities	-	18,066,333	18,066,333
Open position	573,212,249	267,348,659	840,560,908

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
Receivables and other assets	-	65,979,524	65,979,524
Total assets	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

A reasonably possible change of 100 basis points in profit rates at the reporting date would have increased / (decreased) profit by amounts by Rs. 5.7 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.

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, 2018:	Up to 1 year	1 year to 3 years	3 years to 5 years	More than 5 years	Total
	Rupees				
Cash and cash equivalents	279,308,840	-	-	-	279,308,840
Investment at fair value through - profit or loss	198,708,744	-	-	-	198,708,744
Financial assets held to maturity	341,500,000	5,200,000	-	-	346,700,000
Receivables and other assets	87,639,818	-	-	-	87,639,818
	907,157,402	5,200,000	-	-	912,357,402
Creditors, accrued and other liabilities	17,640,151	-	-	-	17,640,151
Provident fund payable	426,182	-	-	-	426,182
	18,066,333	-	-	-	18,066,333
Liquidity gap	889,091,069	5,200,000	-	-	894,291,069
At June 30, 2017:					
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

The Organization has positive GAP as at June 30, 2018 across all time frames.

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.

25 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, 2018 and 2017:

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:

	2018			
	Level 1	Level 2	Level 3	Total
Investment at fair value through profit or loss	---------- Rupees ----------			
NAFA Riba Free Saving Fund	92,111,568	-	-	92,111,568
UBL Seperately Managed Account I & II	88,757,332	-	-	88,757,332
UBL-Al-Ameen Islamic Asset Allocation fund	17,839,844	-	-	17,839,844
	198,708,744	-	-	198,708,744

	2017			
	Level 1	Level 2	Level 3	Total
Investment at fair value through profit or loss	---------- Rupees ----------			
NAFA Riba Free Saving Fund	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

26 Date of authorization

These financial statements were authorized on ________________________ by the Board of Directors of the Organization.

27 General

Figures have been rounded off to the nearest Rupee.

DYA

Chief Executive Officer

Director