



KPMG Taseer Hadi & Co.
Chartered Accountants
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INDEPENDENT AUDITOR'S REPORT

To the members of FINCA Microfinance Bank Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the annexed financial statements of **FINCA Microfinance Bank Limited** ("the Bank"), which comprise the balance sheet as at 31 December 2019, and the profit and loss account and statement of comprehensive income, the statement of changes in equity, the cash flow statement for the year then ended, and notes to the financial statements, 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 and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account and statement of comprehensive income, the statement of changes in equity and the cash flow statement together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Microfinance Institution Ordinance, 2001 and the Companies Act, 2017(XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at 31 December 2019 and of the profit and loss and other comprehensive income, the changes in equity and its cash flows for the year then ended.

Basis for Opinion

We conducted our audit in accordance with 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 Bank 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

Management is responsible for the other information. The other information comprises the information included in the Bank's Annual Report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of Management and Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting and reporting standards as applicable in Pakistan, the requirements of the Microfinance Institution Ordinance, 2001 and the Companies Act, 2017 (XIX of 2017) and for such internal control as 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, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

Board of directors are responsible for overseeing the Bank's 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 Bank's 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 Bank's 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 Bank 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.

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We communicate with the Board of Directors 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.

Report on Other Legal and Regulatory Requirements

Based on our audit, we further report that in our opinion:

- a) proper books of account have been kept by the Bank as required by the Microfinance Institution Ordinance, 2001 and the Companies Act, 2017 (XIX of 2017);
- b) the balance sheet, the profit and loss account and statement of comprehensive income, statement of changes in equity and the cash flow statement together with the notes thereon have been drawn up in conformity with the Microfinance Institution Ordinance, 2001 and the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;
- c) investments made, expenditure incurred and guarantees extended during the year were in accordance with the objects and powers of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank; and
- d) Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Kamran Iqbal Yousafi.

Lahore

Date: 28 February 2020

KPMG Taseer Hadi & Co.
Chartered Accountants

FINCA MICROFINANCE BANK LIMITED

Balance Sheet

As at 31 December 2019

	Note	2019 Rupees	2018 Rupees
Assets			
Cash and balances with SBP and NBP	7	1,595,527,281	1,639,249,051
Balances with other banks/NBFIs/MFBs	8	1,642,664,760	2,489,461,972
Lending to financial institutions		-	-
Investments - net of provisions	9	6,244,458,500	3,827,477,298
Advances - net of provisions	10	22,038,804,318	20,580,529,143
Operating fixed assets	11	3,131,121,056	1,748,345,423
Other assets	12	2,613,415,832	1,970,560,758
Deferred tax asset	13	45,897,267	24,136,895
Total assets		37,311,889,014	32,279,760,540
Liabilities			
Deposits and other accounts	14	23,911,341,828	23,741,811,865
Borrowings	15	4,752,852,994	3,318,500,544
Subordinated debt	16	800,000,000	-
Other liabilities	17	3,129,387,288	1,187,059,280
Total liabilities		32,593,582,110	28,247,371,689
Net assets		4,718,306,904	4,032,388,851
Represented by:			
Share capital	18	6,348,887,110	6,348,887,110
Discount on issue of shares		(4,089,040,293)	(4,089,040,293)
Statutory reserve		687,948,818	557,278,327
Depositors' protection fund		203,099,973	150,988,407
Unappropriated profit		1,563,709,236	1,061,863,072
		4,714,604,844	4,029,976,623
Surplus on revaluation of assets	19	1,547,100	-
Deferred grants	20	2,154,960	2,412,228
Total capital		4,718,306,904	4,032,388,851

Memorandum / off-balance sheet items

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The annexed notes from 1 to 44 form an integral part of these financial statements.

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Chief Executive Officer

Chairman

Director

Director

FINCA MICROFINANCE BANK LIMITED

Profit and Loss Account

For the year ended 31 December 2019

	Note	2019 Rupees	2018 Rupees
Mark-up / return / interest earned	22	8,312,159,411	6,531,286,233
Mark-up / return / interest expensed	23	(2,997,774,339)	(1,828,404,826)
Net mark-up / interest income		5,314,385,072	4,702,881,407
Provision against non-performing loans and advances	10.4	(1,086,754,079)	(423,542,159)
Provision for diminution in the value of investments		-	-
Bad debts written off directly		(2,839,918)	(11,373,889)
		(1,089,593,997)	(434,916,048)
Net mark-up / interest income after provisions		4,224,791,075	4,267,965,359
Non mark-up / non interest income			
Fee, commission and brokerage income	24	798,515,302	675,657,653
Dividend income		-	-
Other income	25	155,968,627	126,227,546
Total non mark-up / non interest income		954,483,929	801,885,199
		5,179,275,004	5,069,850,558
Non mark-up / non interest expenses			
Administrative expenses	26	(4,102,036,922)	(3,453,480,483)
Other charges	27	(65,669,905)	(36,422,746)
Total non mark-up / non interest expenses		(4,167,706,827)	(3,489,903,229)
Profit before taxation		1,011,568,177	1,579,947,329
Taxation - Current year		(331,642,626)	(629,372,068)
Prior years		(54,704,446)	(4,977,481)
Deferred		28,131,352	10,882,797
	28	(358,215,720)	(623,466,752)
Profit after taxation		653,352,457	956,480,577
Unappropriated profit brought forward		1,061,863,072	552,799,227
Add: Other comprehensive income / (loss)		11,831,821	(8,296,588)
Profit available for appropriation		1,727,047,350	1,500,983,216
Appropriations:			
Transfer to:			
Statutory reserve		(130,670,491)	(191,296,115)
Capital reserve		-	-
Dividend		-	(200,000,000)
Contribution to depositors' protection fund		(32,667,623)	(47,824,029)
Revenue reserve		-	-
		(163,338,114)	(439,120,144)
Unappropriated profit carried forward		1,563,709,236	1,061,863,072
Earnings per share	32	1.03	1.51

The annexed notes from 1 to 44 form an integral part of these financial statements.

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Chief Executive Officer

Chairman

Director

Director

FINCA MICROFINANCE BANK LIMITED

Statement of Comprehensive Income

For the year ended 31 December 2019

	2019 Rupees	2018 Rupees
Profit after tax	653,352,457	956,480,577
Other comprehensive income / (loss) for the year		
<i>Items that will not be reclassified subsequently to profit and loss account</i>		
Remeasurement of post retirement defined benefit obligation	18,202,801	(12,763,982)
Related tax impact	(6,370,980)	4,467,394
	<u>11,831,821</u>	<u>(8,296,588)</u>
Comprehensive income for the year transferred to equity	665,184,278	948,183,989
Components of comprehensive income for the year not transferred to equity:		
<i>Items that may be reclassified subsequently to profit and loss account</i>		
Net change in fair value of 'available-for-sale' securities	1,547,100	-
Total comprehensive income for the year	<u>666,731,378</u>	<u>948,183,989</u>

The annexed notes from 1 to 44 form an integral part of these financial statements.

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Chief Executive Officer

Chairman

Director

Director

FINCA MICROFINANCE BANK LIMITED

Cash Flow Statement

For the year ended 31 December 2019

	Note	2019 Rupees	2018 Rupees
<u>Cash flows from operating activities</u>			
Profit before taxation		1,011,568,177	1,579,947,329
<i>Adjustments for non-cash charges:</i>			
Depreciation on operating fixed asset	11.4	230,562,591	161,622,952
Depreciation on right of use assets	11.3	239,209,984	-
Amortization on intangible assets	11.2	65,720,915	64,016,142
Notional interest on lease liability	23	175,974,209	-
Provision against non-performing advances	10.4	1,086,754,079	423,542,159
Net loss on disposal of operating fixed assets	27	-	1,172,900
Operating fixed assets written off	27	29,326,854	-
Amortization of discount on government securities	22	(654,090,270)	(339,234,428)
Net gain on disposal of operating fixed assets	25	(559,935)	-
Gain on disposal of government securities	25	(11,953,197)	-
Deferred grant recognized as income	25	(2,364,698)	(8,516,106)
Provision for gratuity	17.3.4	87,388,358	65,182,257
		1,245,968,890	367,785,876
		2,257,537,067	1,947,733,205
<i>Increase in operating assets:</i>			
Net investments in held for trading securities		(3,120,914,336)	(200,000,000)
Advances		(2,545,029,254)	(6,140,730,286)
Others assets		(510,430,870)	(663,753,113)
		(6,176,374,460)	(7,004,483,399)
<i>Increase / (decrease) in operating liabilities:</i>			
Bills payable		(3,168,690)	(20,515,455)
Borrowings from financial institutions		1,434,352,450	1,649,518,842
Deposits		169,529,963	4,557,886,148
Other liabilities (excluding current taxation, and provision for gratuity)		280,783,953	206,356,929
		1,881,497,676	6,393,246,464
		(2,037,339,717)	1,336,496,270
Gratuity paid	17.3.4	(43,144,681)	(11,915,118)
Income tax paid		(505,611,926)	(704,877,437)
Net cash (used in) / generated from operating activities		(2,586,096,324)	619,703,715
<u>Cash flows from investing activities</u>			
Net investments in held-to-maturity securities		1,583,398,368	1,920,917,357
Net investments in available for sale securities		(223,827,864)	-
Interest income on depositors protection fund		19,443,943	6,715,822
Investments in operating fixed assets		(246,652,041)	(766,521,068)
Sale proceeds of property and equipment disposed-off	11.4.2	29,540,477	12,029,625
Net cash generated from investing activities		1,161,902,883	1,173,141,736
<u>Cash flows from financing activities</u>			
Receipt of sub-ordinated debt	16	800,000,000	-
Dividend paid		-	(200,000,000)
Payment of lease liabilities		(268,432,971)	-
Grant received	20.1	2,107,430	2,742,228
Net cash generated from / (used in) financing activities		533,674,459	(197,257,772)
		(890,518,982)	1,595,587,679
Increase in cash and cash equivalents		4,128,711,023	2,533,123,344
Cash and cash equivalents at beginning of the year	34	3,238,192,041	4,128,711,023
Cash and cash equivalents at end of the year		7,366,903,064	6,661,834,367

The annexed notes from 1 to 44 form an integral part of these financial statements.

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Chief Executive Officer

Chairman

Director

Director

FINCA MICROFINANCE BANK LIMITED

Statement of Changes in Equity

For the year ended 31 December 2019

	Capital reserves			Revenue reserves		
	Share capital	Discount on issue of shares	Statutory reserve	Depositors' protection fund	Unappropriated profit	Total
	----- Rupees -----					
Balance as at 31 December 2017	6,348,887,110	(4,089,040,293)	365,982,212	96,448,556	552,799,227	3,275,076,812
Profit for the year	-	-	-	-	956,480,577	956,480,577
Other comprehensive loss						
Remeasurement of post defined benefit obligation - net of tax	-	-	-	-	(8,296,588)	(8,296,588)
Total comprehensive income for the year	-	-	-	-	948,183,989	948,183,989
Transfer to statutory reserve	-	-	191,296,115	-	(191,296,115)	-
Transfer to depositors' protection fund	-	-	-	47,824,029	(47,824,029)	-
Return on depositors' protection fund's investments - net of tax	-	-	-	6,715,822	-	6,715,822
Transactions with owners:						
- Dividend @ Rs. 0.1969 per share	-	-	-	-	(200,000,000)	(200,000,000)
Premium/Discount on issue of shares	-	-	-	-	-	-
Balance as at 31 December 2018	6,348,887,110	(4,089,040,293)	557,278,327	150,988,407	1,061,863,072	4,029,976,623
Profit for the year	-	-	-	-	653,352,457	653,352,457
Other comprehensive income						
Remeasurement of post defined benefit obligation - net of tax	-	-	-	-	11,831,821	11,831,821
Total comprehensive income for the year	-	-	-	-	665,184,278	665,184,278
Transfer to statutory reserve	-	-	130,670,491	-	(130,670,491)	-
Transfer to depositors' protection fund	-	-	-	32,667,623	(32,667,623)	-
Return on depositors' protection fund's investments - net of tax	-	-	-	19,443,943	-	19,443,943
Transactions with owners:						
- Dividend	-	-	-	-	-	-
Balance as at 31 December 2019	6,348,887,110	(4,089,040,293)	687,948,818	203,099,973	1,563,709,236	4,714,604,844

The annexed notes from 1 to 44 form an integral part of these financial statements.

[Signature]

Chief Executive Officer

Chairman

Director

Director

FINCA MICROFINANCE BANK LIMITED

Notes to the financial statements

For the year ended 31 December 2019

1 Status and nature of business

- 1.1 FINCA Microfinance Bank Limited, (the Bank) was incorporated on 26 June 2008 as a public limited company. The Bank obtained the Microfinance banking license from the State Bank of Pakistan (SBP) on 12 August 2008 under the provisions of Microfinance Institutions Ordinance, 2001 and certificate of commencement of business on 04 September 2008 from Securities and Exchange Commission of Pakistan. On 27 October 2008 the Bank received the certificate of commencement of business from SBP.

The Bank's principal business is to provide microfinance services to the poor and under-served segments of the society as envisaged under the Microfinance Institutions Ordinance, 2001. The registered office of the Bank is situated at Building-36 Sector-XX Commercial Zone, Phase III, Khayaban-e-Iqbal, DHA, Lahore, Pakistan. Subsequent to takeover by FINCA International the Bank has changed its name from Kashf Microfinance Bank Limited to FINCA Microfinance Bank Limited with effect from 25 November 2013.

The Bank is licensed to operate nationwide. As at 31 December 2019, the Bank has 130 branches (2018: 133 branches) operating in the provinces of Punjab, Khyber Pakhtunkhwa, Sindh and Gilgit Baltistan and also Azad Jammu & Kashmir.

The credit rating company PACRA assigned the long term entity rating of the Bank at 'A' and short term rating at 'A1'.

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

2 Basis of presentation

These financial statements have been presented in accordance with the requirements of SBP Banking Supervision Department (BSD) Circular number 11 dated 30 December 2003 and fifth schedule to the Companies Act, 2017.

3 Statement of compliance

- 3.1 This financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards as applicable in Pakistan for financial reporting comprise of:

- International Financial Reporting Standards (IFRS Standards), issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;
- Microfinance Institution Ordinance, 2001 (the MFI Ordinance);
- the directives issued by the State Bank of Pakistan (SBP) and Securities and Exchange Commission of Pakistan (SECP);
- provisions of and directives issued under the Companies Act, 2017

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Where the requirements of the Companies Act, 2017, the MFI Ordinance and the directives issued by the SBP and SECP differ with the requirements of IFRSs, the requirements of the Companies Act, 2017, the MFI Ordinance, or the requirements of the said directives shall prevail.

The State Bank of Pakistan has deferred the applicability of International Financial Reporting Standard 9, 'Financial Instruments' through BPRD Circular No. 04 of 2019 dated 23 October 2019 and International Accounting Standard (IAS) 40, 'Investment Property' for Banking Companies through BSD Circular No. 10 dated 26 August 2002. Further, SECP has deferred applicability of IFRS 7 "Financial Instruments: Disclosures" through its notification S.R.O 633(1) / 2014 dated 10 July 2014. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by SBP through various circulars / regulations.

3.2 New accounting standards / amendments and IFRS interpretations that are effective for the year ended 31 December 2019

The Bank has adopted "IFRS 15 Revenue from Contracts with Customers" and "IFRS 16 Leases" effective 01 January 2019. IFRS 15 established a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The Bank has adopted IFRS 15 from 01 January 2019. The timing or amount of income from contracts with customers was not impacted by the adoption of IFRS 15, accordingly, the adoption of this standard has no material impact in these financial statements. The impact of adoption of IFRS 16 on the Bank's financial statements is disclosed in note 6.1.

In addition, there are certain other new standards and interpretations of and amendments to existing accounting standards that have become applicable to the Bank for accounting periods beginning on or after 01 January 2019. These are considered either to not be relevant or not to have any significant impact on the Bank's financial statements.

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

The following International Financial Reporting Standards (IFRS Standards) as notified under the Companies Act, 2017 and the amendments and interpretations thereto will be effective for accounting periods beginning on or after 01 January 2020:

Amendment to IFRS 3 'Business Combinations' – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of annual period beginning on or after 1 January 2020).

The IASB has issued amendments aiming to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments include an election to use a concentration test. The standard is effective for transactions in the future and therefore would not have an impact on past financial statements.

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for annual periods beginning on or after 1 January 2020).

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. In addition, the IASB has also issued guidance on how to make materiality judgments when preparing their general purpose financial statements in accordance with IFRS Standards.

On 29 March 2018, the International Accounting Standards Board (the IASB) has issued a revised Conceptual Framework for Financial Reporting which is applicable immediately contains changes that will set a new direction for IFRS in the future.

The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs and any inconsistencies with the revised Framework will be subject to the usual due process – this means that the overall impact on standard setting may take some time to crystallise. The companies may use the Framework as a reference for selecting their accounting policies in the absence of specific IFRS requirements. In these cases, companies should review those policies and apply the new guidance retrospectively as of 1 January 2020, unless the new guidance contains specific scope outs.

Interest Rate Benchmark Reform which amended IFRS 9, IAS 39 and IFRS 7 is applicable for annual financial periods beginning on or after 1 January 2020.

The G20 asked the Financial Stability Board (FSB) to undertake a fundamental review of major interest rate benchmarks. Following the review, the FSB published a report setting out its recommended reforms of some major interest rate benchmarks such as IBORs. Public authorities in many jurisdictions have since taken steps to implement those recommendations. This has in turn led to uncertainty about the long-term viability of some interest rate benchmarks. In these amendments, the term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark including its replacement with an alternative benchmark rate, such as that resulting from the FSB's recommendations set out in its July 2014 report 'Reforming Major Interest Rate Benchmarks' (the reform). The amendments made provide relief from the potential effects of the uncertainty caused by the reform. A company shall apply the exceptions to all hedging relationships directly affected by interest rate benchmark reform. The amendments are not likely to affect the financial statements of the Bank.

IFRS 14 Regulatory Deferral Accounts - (effective for annual periods beginning on or after 1 July 2019) provides interim guidance on accounting for regulatory deferral accounts balances while IASB considers more comprehensive guidance on accounting for the effects of rate regulation.

In order to apply the interim standard, an entity has to be rate regulated – i.e. the establishment of prices that can be charged to its customers for goods or services is subject to oversight and/or approved by an authorized body. The term 'regulatory deferral account balance' has been chosen as a neutral descriptor for expense (income) or variance account that is included or is expected to be included by the rate regulator in establishing the rate(s) that can be charged to customers and would not otherwise be recognized as an asset or liability under other IFRSs. The standard is not likely to have any effect on Bank's financial statements.

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IFRS 9 'Financial Instruments' and amendment – Prepayment Features with Negative Compensation – for Banks and DFIs, the effective date of the standard has been extended to annual periods beginning on or after 1 January 2021 vide SBP circular 4 dated 23 October 2019.

IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. According to SBP circular referred to above, the Banks/DFIs/MFBs are required to have a parallel run of IFRS 9 from 1 January 2020. The Banks/DFIs are also required to prepare pro-forma financial statements which includes the impact of IFRS 9 from the year ended 31 December 2019. The SECP, through SRO 229(I)/2019 dated 14 February 2019, has notified that IFRS 9, Financial Instruments, is applicable for accounting periods ending on or after 30 June 2019. However, as per BPRD Circular No. 04 of 2019 dated 23 October 2019 of SBP, effective date of IFRS 9 implementation is 01 January 2021.

The above amendments are effective from annual period beginning on or after 1 January 2020 and are not likely to have a significant impact on Bank's financial statements.

4 Basis of measurement

4.1 Accounting convention

These financial statements have been prepared under the historical cost convention except for staff retirement benefits which are measured at present value and 'held for trading' and 'available for sale' investments which are measured at fair value.

4.2 Functional and presentation currency

These financial statements are presented in Pakistani Rupees ("Rs.") which is the Bank's functional currency. All amounts have been rounded to the nearest Rupee, unless otherwise indicated.

5 Use of accounting estimates and judgements

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

- a) Provision against doubtful advances (note 6.3 and note 10)
- b) Gratuity payable (note 6.8.2 and note 17.3)
- c) Useful life, residual values and impairment of operating fixed assets and intangibles (note 6.5, note 6.6, note 11.2 and note 11.4)
- d) Provision for taxation (note 6.9 and note 28)
- e) Deferred tax asset (note 6.9 and note 13)
- f) Provision for impairment in value of securities (note 6.4.3)

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6 Summary of significant accounting policies

The principle accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented except for the changes explained in notes 6.1.

6.1 Change in accounting policy

6.1.1 Accounting policies adopted

IFRS 16 replaces existing guidance on accounting for leases, including IAS 17, Leases, IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases- Incentive, and SIC-27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 introduces an on balance sheet lease accounting model for long term operating leases (short-term leases and leases where the underlying assets are of low value continue to be treated as off-balance sheet operating leases). A lessee recognizes a right-of-use asset representing its right of using the underlying asset and a corresponding lease liability representing its obligations to make lease payments. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as either finance or operating leases.

The Bank has adopted IFRS 16 from 01 January 2019, and has not restated comparatives for the 2018 reporting period, using modified retrospective approach.

On adoption of IFRS 16, the Bank has recognized liabilities in respect of leases which had previously been classified as operating leases under IAS 17. These liabilities are now measured as the present value of the remaining lease payments, discounted using the weighted average rate of 11.55% as of 01 January 2019. The associated right-of use assets are measured at the amount equal to the lease liability, adjusted by the amount of prepaid lease payments.

The lease liability is subsequently measured at amortized cost using the effective interest rate method. The right-of-use assets are depreciated on a straight line basis over the lease term as this method most closely reflects the expected pattern of consumption of future economic benefits. The right-of-use assets are reduced by impairment losses, if any, and adjusted for certain remeasurements of lease liability. The balance sheet increase as a result of the recognition of lease liability and right-to-use assets as of 1 January 2019 was Rs. 1,669.16 millions with no adjustment to retained earnings. The asset is presented in 'Operating Fixed Assets' and the liability is presented in 'Other liabilities'. Also in relation to those leases under IFRS 16, the Bank has recognized depreciation and interest costs, instead of operating lease expenses.

The Bank has elected not to recognize right-of-use assets and lease liabilities for some leases having a lease term less than 12 months. The lease payments associated with these leases are recognized as an expenses on a straight-line basis over the lease term.

6.1.2 Impact of adoption

The change in accounting policy affected the following items in the balance sheet as on 31 December 2019:

- Right-of-Use (RoU) assets recognized as operating fixed assets – increased by Rs. 1,669.16 million which includes prepayments of Rs. 59.22 million; previously, included in other assets at 31 December 2018.

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- Lease liabilities recognized as Other liabilities – increased by Rs. 1,609.94 million. Interest on lease liability represents unwinding of lease liability amounting to Rs. 175.97 million.
- The impact on profit and loss account for the year ended 31 December 2019 was a decrease in profit after tax by Rs. 122.46 million and earning per share by Rs. 0.19.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit and loss account.

6.2 Cash and cash equivalents

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

6.3 Advances

These are stated net of provision for non-performing advances, (if any). The outstanding principal and mark-up of the loans and advances, payments against which are overdue for 30 days or more, are classified as non-performing loans (NPLs). The unrealized interest / mark-up on NPLs is suspended and credited to interest suspense account. Further the NPLs are classified into the following categories as prescribed in Prudential Regulations for Microfinance Banks issued by SBP:

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

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

In accordance with the regulations, the Bank maintains specific provision of outstanding principal net cash collaterals and gold (ornaments and bullion) realizable without recourse to a court of law at the following rates:

- Other assets especially mentioned (OAEM):** Nil
- Substandard:** 25% of outstanding principal net of cash collaterals and gold
- Doubtful:** 50% of outstanding principal net of cash collaterals and gold
- Loss:** 100% of outstanding principal net of cash collaterals and gold

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In addition, a general provision is maintained equivalent to 1% (2018:1%) of the net outstanding balance (advances net of specific provisions) for potential loan losses. General provision is not required in cases where loans have been secured against gold or other cash collaterals with appropriate margin.

Specific and general provisions are recognized in profit and loss account for the year.

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

6.4 Investments

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

Investments (other than 'held for trading') are initially measured at cost, being the fair value of consideration paid. 'Held for trading' investments are initially measured at fair value and transaction costs are expensed out in the profit and loss account.

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

Investments are classified as follows:

6.4.1 Held for trading

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

After initial measurement, these are measured at mark-to-market and surplus / deficit arising on revaluation of 'held for trading' investments is recognized in profit and loss account in accordance with the requirements prescribed by the SBP.

6.4.2 Held-to-maturity

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

Subsequent to initial measurement, these are carried at amortized cost, less provision for impairment in value, if any, and amortized cost is calculated taking into account effective yield method. Profit on 'held to maturity' investments is recognized on a time proportion basis taking into account the effective yield on the investments.

Premium or discount on acquisition of 'held to maturity' investments is amortized through profit and loss account over the remaining period till maturity.

6.4.3 Available for sale

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

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Investments classified as 'available for sale' are initially measured at cost, being the fair value of consideration paid. Subsequent to initial recognition at cost, these investments are measured at fair value.

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

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

6.5 Operating fixed assets and depreciation

6.5.1 Capital work-in-progress

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

6.5.2 Intangible assets

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

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

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific assets to which it relates.

6.5.3 Property and equipment

These are stated at cost less accumulated depreciation and accumulated impairment losses, if any except land which is stated at cost. Cost comprises purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, and includes other costs directly attributable to the acquisition or construction, erection and installation.

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 benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. Major repairs and improvements are capitalized and the carrying amount of the replaced part is derecognized. All other repair and maintenance are charged to profit and loss account as and when incurred.

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Depreciation is calculated using the straight line method so as to write off the property and equipment, over their expected useful lives. Depreciation is calculated at the rates stated in note 11.4. The assets' residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date. The effect of any revision are charged to profit and loss account for the year, when the changes arise. Depreciation on additions to property and equipment is charged from the month in which an asset is acquired or capitalized while no depreciation is charged for the month in which the asset is disposed-off.

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

6.6 Impairment

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

Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of the amount which would have been determined had there been no impairment. Reversal of impairment loss is recognized as income.

6.7 Grants

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

6.8 Staff retirement benefits

6.8.1 Defined contribution plan - provident fund

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

6.8.2 Defined benefit plan - gratuity scheme

The Bank operates an unapproved non-contributory defined benefit gratuity scheme for all permanent employees with a qualifying period of three years. Eligible employees are entitled to one month's basic salary for each completed year of service upon their departure from the Bank. The latest actuarial valuation was carried out as at 31 December 2019 using Projected Unit Credit Method. Actuarial gains and losses arising from the actuarial valuation are recognized immediately in other comprehensive income.

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The Bank determines the net interest expense on the net defined liability for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then - net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit and loss account.

6.9 Taxation

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

Current tax

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

Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

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6.10 Deposits

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

6.11 Borrowings

Loans and borrowing are initially recorded at proceeds received. In subsequent periods, borrowings are stated at amortized cost using the effective interest rate method.

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

6.12 Subordinated debt

Sub-ordinated loans are initially recorded at the amount of proceeds received and subsequently measured at amortized cost. Markup accrued on these loans is charged to profit and loss account over the period at effective interest rate.

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

6.13 Provisions

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

6.14 Statutory reserve

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

6.15 Depositors' protection fund

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

6.16 Cash reserve requirement

In compliance with the requirements of the Microfinance Institution Ordinance, 2001 and Prudential Regulation, the Bank maintains a cash reserve equivalent to not less than 5% of its deposits (including demand deposits and time deposits with tenure of less than 1 year) in a current account opened with the State Bank of Pakistan (SBP) or its agent.

6.17 Statutory liquidity requirement

In compliance with the requirements of the Prudential Regulation, the Bank maintains liquidity equivalent to at least 10% of its total demand liabilities and time liabilities with tenure of less than one year in the form of liquid assets i.e. cash, gold, unencumbered treasury bills, Pakistan Investment Bonds and Government of Pakistan sukuk bonds. Treasury bills and Pakistan Investment Bonds held under depositors' protection fund are excluded for the purposes of determining liquidity.

NOTES

6.18 Revenue recognition

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

Mark-up / return on investments is recognized on time proportion basis using effective interest rate method. Where debt securities are purchased at premium or discount, such premium / discount is amortized through the profit and loss account over the remaining period of maturity. Gain or loss on sale of securities is accounted for in the period in which it occurs.

Return on bank deposits is recognized on an accrual basis using effective interest rate method.

Fee, commission and brokerage income is recognized as services are rendered.

Other income is recognized on a time proportion basis.

6.19 Foreign currency transactions and translation

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

Foreign currency differences arising on retranslation are charged to profit and loss account in the period in which they arise.

6.20 Financial instruments

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

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

6.20.1 Financial assets and financial liabilities

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

6.20.2 Off setting

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

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6.21 Share capital and dividend

Ordinary shares are classified as equity and recognized at their face value. Incremental costs directly attributable to the issue of new shares or options are shown in equity as deduction, net of tax, from the proceeds. Dividend distribution to the shareholders is recognized as liability in the period in which it is declared.

6.22 Earning per share

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

6.23 Fair value measurement

'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 the measurement date in the principal or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Bank's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

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7	Cash and balances with SBP and NBP	Note	2019 Rupees	2018 Rupees
	Cash in hand		409,379,752	277,302,020
	Balance with State Bank of Pakistan	7.1	885,765,190	1,204,067,018
	<i>Balance with National Bank of Pakistan in:</i>			
	Deposit account	7.1	50,507,149	23,818,798
	Current account	7.1	249,875,190	134,061,215
			<u>1,595,527,281</u>	<u>1,639,249,051</u>

7.1 This represents the balance maintained with SBP and NBP to meet the minimum balance requirement equivalent to 5 % as cash reserve and 10% as liquidity reserve of the Bank's time and demand liabilities in accordance with the Prudential Regulations. This also includes Rs. 203.10 million (2018: Rs. 150.99 million) maintained with SBP under depositors' protection fund. Deposit accounts carry markup ranging from 10% to 11.25% (2018: 3.75% to 8%).

8	Balances with other banks/NBFIs/MFBs	Note	2019 Rupees	2018 Rupees
	In Pakistan:			
	Saving accounts	8.1	1,195,962,571	956,403,890
	Deposit accounts	8.2	200,000,000	1,100,000,000
	Current accounts		246,702,189	433,058,082
			<u>1,642,664,760</u>	<u>2,489,461,972</u>

8.1 These accounts carry mark-up ranging from 10.75% to 13.60% (2018: 3.75% to 10.45%) per annum.

8.2 These term deposits carry mark-up ranging from 10% to 14% (2018: 6.25% to 11.25%) per annum with maturity up to one month.

9	Investments-net of provisions	Note	2019 Rupees	2018 Rupees
	<i>Federal Govt. Securities:</i>			
	Market treasury bills (Held for trading)	9.1	5,968,466,000	2,441,491,077
	Market treasury bills (Held to maturity)		-	1,385,986,221
	Market treasury bills (Available for sale)	9.1	275,992,500	-
			<u>6,244,458,500</u>	<u>3,827,477,298</u>

9.1 These carry yield rate ranging between 10.30% to 14.22% (2018: 5.99% to 10.30%) per annum and have maturity upto 27 August 2020. These securities have an aggregate face value of Rs. 6,350 million (2018: Rs.3,850 million)

	Note	2019		2018	
		Number	Rupees	Number	Rupees
10 Advances - net of provisions					
Micro credit advances	10.1	236,910	22,328,927,421	234,472	20,742,069,542
Other advances	10.2	1,427	151,088,745	1,160	126,865,454
			<u>22,480,016,166</u>		<u>20,868,934,996</u>
Less: Provisions held:					
Specific	10.3 & 10.4	13,149	233,320,572	5,269	85,182,091
General	10.4 & 10.5		207,891,276		203,223,762
			<u>441,211,848</u>		<u>288,405,853</u>
			<u>22,038,804,318</u>		<u>20,580,529,143</u>

10.1 This includes fully secured advances amounting to Rs. 1,457.57 million (2018: Rs. 461.38 million) whereas the remaining advances are secured by personal guarantees.

10.2 These advances are staff loans and carry markup rate of 5% per annum (2018: 5%). This amount includes a loan sanctioned to the Chief Executive Officer of Rs. Nil (2018: Rs. 6.26 million) at a markup rate of Nil (2018: 5%).

10.3 Particulars of non-performing advances

The total advances of Rs. 1,055.10 million (2018: Rs. 392.18 million) placed under non-performing status includes Rs 11.536 million (2018: Rs. 10.57 million) advances, secured against gold:

		2019			
	%	Number	Amount outstanding Rupees	Provision required Rupees	Provision held Rupees
OAEM	0	5,562	477,532,376	-	-
Sub-standard	25	2,632	217,831,744	53,532,431	53,532,431
Doubtful	50	4,911	355,914,178	176,086,256	176,086,256
Loss	100	44	3,811,885	3,701,885	3,701,885
		<u>13,149</u>	<u>1,055,090,183</u>	<u>233,320,572</u>	<u>233,320,572</u>

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		2018			
	%	Number	Amount outstanding Rupees	Provision required Rupees	Provision held Rupees
OAEM	0	2,113	176,534,285	-	-
Sub-standard	25	1,096	82,099,844	19,726,953	19,726,953
Doubtful	50	2,040	132,218,323	64,119,663	64,119,663
Loss	100	20	1,335,475	1,335,475	1,335,475
Total		5,269	392,187,927	85,182,091	85,182,091

10.4 Particulars of non-performing advances

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

Note	2019			2018		
	Specific Rupees	General Rupees	Total Rupees	Specific Rupees	General Rupees	Total Rupees
Balance as at January 1	85,182,091	203,223,762	288,405,853	79,914,526	167,388,773	247,303,299
Charge for the year	1,082,086,565	4,667,514	1,086,754,079	387,707,170	35,834,989	423,542,159
Amounts written off	(933,948,084)	-	(933,948,084)	(382,439,605)	-	(382,439,605)
	148,138,481	4,667,514	152,805,995	5,267,565	35,834,989	41,102,554
Balance as at December 31	233,320,572	207,891,276	441,211,848	85,182,091	203,223,762	288,405,853

10.4.1 Particulars of write offs

	2019 Rupees	2018 Rupees
Against provisions	933,948,084	382,439,605
Directly charged to profit and loss account	2,839,918	11,373,889
	936,788,002	393,813,494

10.5 This represents general provision equivalent to 1% (2018: 1%) of the outstanding advances net of specific provisions and those against which gold collaterals are taken.

	Note	2019 Rupees	2018 Rupees
11 Operating fixed assets			
Capital work-in-progress	11.1	59,905,707	392,783,146
Intangible assets	11.2	246,566,510	264,807,504
Right of use assets	11.3	1,490,714,494	-
Property and equipment	11.4	1,333,934,345	1,090,754,773
		3,131,121,056	1,748,345,423

11.1 Capital work-in-progress

Civil works	14,817,596	209,009,430
Equipment	42,149,963	112,559,143
Advances to suppliers and contractors	2,938,148	71,214,573
	59,905,707	392,783,146

11.2 Intangible assets

Computer Software		
Cost:		
Balance as at January 1	522,329,418	341,451,681
Additions during the year	47,479,921	180,877,737
Balance as at December 31	569,809,339	522,329,418
Amortization:		
Balance as at January 1	257,521,914	193,505,772
Charge during the year	65,720,915	64,016,142
Balance as at December 31	323,242,829	257,521,914
Carrying value	246,566,510	264,807,504
Amortization rate	10% - 20%	10% - 20%

11.3 This has arisen due to adoption of IFRS 16 as detailed in note 6.1. Depreciation expense on right of use assets during the year is Rs. 239.21 million. Movement in right of use assets is as follows:

	Note	2019 Rupees	2018 Rupees
Effect of initial application as at 01 January 2019		1,669,161,057	-
Addition		60,763,421	-
Depreciation charge	26	(239,209,984)	-
Closing net book value		1,490,714,494	-

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11.4 Property and equipment

	2019									Annual depreciation rate
	Cost as at January 1	Additions/ (deletions)	Adjustments/ (write offs)	Cost as at December 31	Accumulated depreciation as at January 1	Depreciation charge/ (deletions) for the year	Adjustments/ (write offs)	Accumulated depreciation as at December 31	Book value as at December 31	
----- Rupees -----										
<u>Owned assets</u>										
Freehold land	144,450,113	-	-	144,450,113	-	-	-	-	144,450,113	0%
Leasehold improvements	485,897,134	229,470,850	-	667,301,448	136,267,233	55,085,049	-	166,974,214	500,327,234	10%
		-	(48,066,536)			-	(24,378,068)			
Furniture and fixtures	168,022,015	52,086,051	-	219,235,159	48,916,227	20,104,637	-	68,390,534	150,844,625	10%
		(455,276)	(417,631)			(436,417)	(193,913)			
Computer equipment	409,400,415	142,338,515	-	544,977,067	209,511,580	94,294,249	-	298,422,924	246,554,143	20%-33%
		(114,805)	(6,647,058)			(128,932)	(5,253,973)			
Office equipment	254,402,631	45,935,643	-	286,903,698	57,902,396	27,828,361	-	76,317,060	210,586,638	10%
		(118,195)	(13,316,381)			(118,899)	(9,294,798)			
Vehicles	128,313,221	62,218,500	-	140,308,173	47,133,320	33,250,295	-	59,136,581	81,171,592	25%
		(50,223,548)	-			(21,247,034)	-			
2019	1,590,485,529	532,049,559	-	2,003,175,658	499,730,756	230,562,591	-	669,241,313	1,333,934,345	
		(50,911,824)	(68,447,606)			(21,931,282)	(39,120,752)			

11.4.1 Cost of operating fixed assets include cost of fully depreciated assets amounting to Rs. 166.19 million (2018: Rs. 137.24 million).

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2018									
Cost as at January 1	Additions/ (deletions)	Adjustments/ (write offs)	Cost as at December 31	Accumulated depreciation as at January 1	Depreciation charge/ (deletions) for the year	Adjustments/ (write offs)	Accumulated depreciation as at December 31	Book value as at December 31	Annual depreciation rate
----- Rupees -----									
144,450,113	-	-	144,450,113	-	-	-	-	144,450,113	0%
420,000,166	67,230,200 (24,000)	- (1,309,232)	485,897,134	90,497,300	46,560,214 (16,047)	- (774,234)	136,267,233	349,629,901	10%
145,163,146	25,042,189 (1,745,766)	- (437,554)	168,022,015	34,583,404	15,901,970 (1,329,425)	- (239,722)	48,916,227	119,105,788	10%
247,363,077	164,025,962 (132,000)	2,440,227 (4,296,851)	409,400,415	160,537,737	53,207,143 (42,306)	- (4,190,994)	209,511,580	199,888,835	20% - 33%
166,990,770	97,183,567 (3,879,368)	(2,440,227) (3,452,111)	254,402,631	39,395,902	22,662,847 (2,881,427)	- (1,274,926)	57,902,396	196,500,235	10%
78,226,721	66,623,000 (16,536,500)	- -	128,313,221	31,704,318	23,290,778 (7,861,776)	- -	47,133,320	81,179,901	25%
1,202,193,993	420,104,918 (22,317,634)	- (9,495,748)	1,590,485,529	356,718,661	161,622,952 (12,130,981)	- (6,479,876)	499,730,756	1,090,754,773	

12/01/2019

11.4.2 Details of tangible assets sold and written off:

Deletion of fixed assets with cost exceeding Rs. 1 million or book value exceeding Rs. 0.25 million, which ever is lower, are as follows:

Particulars of assets	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain / (loss)	Relationship with the Bank	Mode of disposal
Rupees								
Owned assets								
Vehicles								
Suzuki Swift	Umair Ahmad Khan	1,511,000	346,270	1,164,730	1,525,000	360,270	Employee	As Per Policy
Honda Civic	Tughral Ali	2,503,000	365,021	2,137,979	2,137,979	-	Employee	As Per Policy
Honda Civic	S M Aqib Irshad	1,819,000	1,402,145	416,855	416,855	-	Employee	As Per Policy
Suzuki Mehran VXR	Muhammad Jibran	732,548	335,752	396,796	396,796	-	Employee	As Per Policy
Suzuki Mehran VXR	Qasim Rafique (Manager Jhang)	688,000	473,000	215,000	215,000	-	Employee	As Per Policy
Toyota Altis	Syed Akhter Hussain Gar	1,943,000	283,355	1,659,645	1,659,645	-	Employee	As Per Policy
Toyota Altis	Aqeel Rahim	1,300,000	243,750	1,056,250	1,164,585	108,335	Employee	As Per Policy
Honda City Aspire	Asif Murtaza	1,553,000	582,375	970,625	970,625	-	Employee	As Per Policy
Honda City Manual	Liaquat Ali	1,250,000	390,625	859,375	859,375	-	Employee	As Per Policy
Toyota Corolla Xli	Manzoor Ahmad	1,645,500	1,508,375	137,125	137,125	-	Employee	As Per Policy
Suzuki Mehran VXR	Qamar Zaman	708,000	236,000	472,000	472,000	-	Employee	As Per Policy
Toyota Corolla Gli	Muhamamd Asif Javed	2,033,000	465,896	1,567,104	1,567,104	-	Employee	As Per Policy
Suzuki Wagon-R	Yasir Dildar	840,000	122,500	717,500	717,500	-	Employee	As Per Policy
Suzuki Cultus	Sarfaraz Nawaz Malik	1,124,000	819,583	304,417	304,417	-	Employee	As Per Policy
Honda Civic	Aqib Irshad	3,378,500	351,927	3,026,573	3,026,573	-	Employee	As Per Policy
Honda City A/T	Muhammad Aftikhar	1,603,000	534,333	1,068,667	1,068,667	-	Employee	As Per Policy
Honda City Manual	Farman Ali	1,250,000	442,709	807,291	807,291	-	Employee	As Per Policy
Honda City Manual	Aftab Amhad Butt	1,537,000	640,400	896,600	896,600	-	Employee	As Per Policy
Honda Civic	Mudassar Aqil	2,787,000	929,000	1,858,000	1,858,000	-	Employee	As Per Policy
Suzuki Mehran VXR	Shafique Yousaf	742,000	278,250	463,750	463,750	-	Employee	As Per Policy
Suzuki Cultus VXL	Khurram Shahzad	840,000	157,500	682,500	682,500	-	Employee	As Per Policy
Suzuki Cultus VXR	Mansoor Qadir	860,000	440,750	419,250	419,250	-	Employee	As Per Policy
Honda Civic	Hamayun Aslam Bhutta	1,677,000	960,333	716,667	716,667	-	Employee	As Per Policy
Suzuki Mehran VXR	Shazada Khurram	708,000	339,250	368,750	368,750	-	Employee	As Per Policy
Honda Civic	Mudassar Aqil	2,524,000	2,524,000	-	-	-	Employee	As Per Policy
Honda City Manual	Akhtar Gardezi	1,512,000	1,512,000	-	-	-	Employee	As Per Policy
Suzuki Wagon-R	Salman Younas	708,000	383,500	324,500	324,500	-	Employee	As Per Policy
Honda City Aspire	Khizar Hayat	1,102,000	757,625	344,375	344,375	-	Employee	As Per Policy
Suzuki Cultus VXR	Muhammad Mustqim	1,250,000	703,125	546,875	546,875	-	Employee	As Per Policy
Honda Br-V	Usman	2,004,000	459,250	1,544,750	1,544,750	-	Employee	As Per Policy
Suzuki Cultus VXR	Umer Butt	1,250,000	651,041	598,959	598,959	-	Employee	As Per Policy
Suzuki Cultus VXR	Muhammad Faisal	1,129,000	776,188	352,812	352,812	-	Employee	As Per Policy
Honda City (A/T) 1.3	Zafar Iqbal	1,984,500	454,781	1,529,719	1,529,719	-	Employee	As Per Policy
Honda City (A/T) 1.3	Ehtisham Butt	840,000	210,000	630,000	630,000	-	Employee	As Per Policy
Honda City (A/T) 1.3	Azhar Abbas	887,500	208,940	678,560	678,560	-	Employee	As Per Policy
Others								
Furniture and fixtures	Third parties	455,276	436,417	18,859	79,585	60,726	Various buyers	As Per Policy
Computer and office equipment	Third parties	233,000	205,316	27,684	58,288	30,604	Various buyers	As Per Policy
		50,911,824	21,931,282	28,980,542	29,540,477	559,935		
Assets written off		68,447,606	39,120,752	29,326,854	-	(29,326,854)		
2019		119,359,430	61,052,034	58,307,396	29,540,477	(28,766,919)		
2018		31,813,382	18,610,857	13,202,525	12,029,625	1,172,900		

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12 Other assets	Note	2019 Rupees	2018 Rupees
Income / mark-up accrued on loans and advances		2,000,507,607	1,640,971,558
Income / mark-up accrued on balance with banks		10,052,135	9,159,189
Prepayments		57,130,946	117,042,262
Security deposits		10,848,470	9,679,844
Stationary and stamps on hand		18,067,967	35,838,679
Advance tax - net		149,686,853	-
Receivable from Finca International Inc.	12.1	5,614,351	5,614,351
Receivable from Finca Microfinance Holding Company LLC		-	5,896,462
Receivable from SBP against crop insurance		214,104,678	109,892,151
Others		147,402,825	36,466,262
		<u>2,613,415,832</u>	<u>1,970,560,758</u>

12.1 This represents amount receivable from Finca International Inc. for reimbursement of integration, travelling and advertisement expenses. It is incorporated in United States of America and its registered office is situated at 1201, 15th street NW, 8th floor Washington, DC 20005.

13 Deferred tax asset

Deferred tax asset on deductible temporary differences arising in respect of:

- gratuity payable	77,399,089	68,284,784
	<u>77,399,089</u>	<u>68,284,784</u>

Deferred tax liability on taxable temporary differences arising in respect of:

- property and equipment	31,501,822	44,147,889
	<u>31,501,822</u>	<u>44,147,889</u>
	<u>45,897,267</u>	<u>24,136,895</u>

13.1 Movement in deferred tax balances is as follows:

As at 01 January	24,136,895	8,786,704
<i>Recognized in profit and loss account:</i>		
- gratuity payable	15,485,285	18,643,500
- property and equipment	12,646,067	(7,760,703)
	<u>28,131,352</u>	<u>10,882,797</u>
<i>Recognized in other comprehensive income:</i>		
- gratuity payable	(6,370,980)	4,467,394
As at 31 December	<u>45,897,267</u>	<u>24,136,895</u>

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

	Note	2019		2018	
		Number of accounts	Amount Rupees	Number of accounts	Amount Rupees
14 Deposits and other accounts					
Fixed deposits	14.1	13,094	16,434,411,852	13,606	16,690,264,737
Saving deposits	14.1	119,043	5,251,953,020	116,533	5,050,834,519
Current deposits		1,151,540	2,224,976,956	920,421	2,000,712,609
		<u>1,283,677</u>	<u>23,911,341,828</u>	<u>1,050,560</u>	<u>23,741,811,865</u>

14.1 These represent fixed deposits having tenure of 1 to 60 months carrying profit rates ranging from 8.2% to 14.25% (2018: 5.25% to 13.75%) per annum. The saving deposits represent accounts carrying interest rates ranging from 0% to 10.25% (2018: 0% to 8%) per annum.

14.2 Particulars of deposits by ownership

	2019		2018	
	Number of accounts	Amount Rupees	Number of accounts	Amount Rupees
Individual depositors	1,283,085	18,636,595,845	1,050,049	18,221,859,397
<i>Institutional depositors:</i>				
Corporations, firms and other such entities	525	3,546,710,591	403	2,853,736,216
Banks and financial institutions	67	1,728,035,392	108	2,666,216,252
	<u>1,283,677</u>	<u>23,911,341,828</u>	<u>1,050,560</u>	<u>23,741,811,865</u>

14.3 Deposits include deposits from related parties amounting to Rs. 134.71 million (2018: Rs. 57.43 million).

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15	Borrowings	Note	2019 Rupees	2018 Rupees
	Borrowings from banks / financial institutions in Pakistan	15.1	<u>4,752,852,994</u>	<u>3,318,500,544</u>
15.1	Details of borrowings from financial institutions			
	<u>Secured</u>			
	Running Finance - UBL Bank Limited	15.2	350,000,991	399,118,731
	Running Finance - FBL Bank Limited	15.3	-	398,005,400
	Running Finance - Allied Bank Limited	15.4	240,352,003	99,372,055
	Running Finance - National Bank of Pakistan	15.5	-	497,004,358
	Term Finance - Pak Oman Investment Company Limited	15.6	50,000,000	150,000,000
	Term Finance - Faysal Bank Limited	15.7	-	75,000,000
	Term Finance - Allied Bank Limited	15.8	175,000,000	200,000,000
	Term Finance - National Bank of Pakistan	15.9	937,500,000	1,000,000,000
	Term finance - MCB / United Bank / JS Bank Limited	15.10	-	500,000,000
	SBP loan under FIIP	15.11	3,000,000,000	-
			<u>4,752,852,994</u>	<u>3,318,500,544</u>
15.2	This facility has limit aggregating Rs. 400 million (2018: Rs. 400 million). Mark-up is payable quarterly at rate ranges from 3 months KIBOR plus 0.8 bps per annum (2018: 3 months KIBOR plus 0.8 bps per annum). This is secured against first pari-passu charge on all present and future current assets of the Bank to the extent of Rs.533 million with a 25% margin. This facility is expiring on 30 June 2020.			
15.3	This facility has limit aggregating Rs. 400 million (2018: Rs. 400 million). Mark-up is payable quarterly at the rate of 3 months KIBOR plus 0.60 bps per annum (2018: 3 months KIBOR plus 0.60 bps per annum). This is secured by first pari-passu charge of Rs. 534 million on all present and future current assets of the Bank. This facility has expired on 31 December 2019.			
15.4	This facility has limit aggregating Rs. 250 million (2018: Rs. 100 million). Mark-up is payable quarterly at the rate of 3 months KIBOR plus 0.50 bps per annum (2018: 3 months KIBOR plus 0.50 bps per annum). This is secured against first pari-passu hypothecation charge on present and future current assets of the Bank to the extent of Rs. 133 million with a 25% margin. This facility is expiring on 31 January 2020.			
15.5	This facility has limit aggregating Rs. 500 million (2018: Rs. 500 million). Mark-up is payable quarterly at the rate of 3 months KIBOR plus 0.50 bps per annum (2018: 3 months KIBOR plus 0.50 bps per annum). This is secured against first pari-passu charge on present and future current assets of the Bank to the extent of Rs. 667 million with a 25% margin. This facility has expired on 30 June 2019.			
15.6	This facility has limit aggregating Rs. 300 million (2018: Rs. 300 million). Mark-up is payable quarterly at the rate of 3 months KIBOR plus 1.40 bps per annum (2018: 3 months KIBOR plus 1.40 bps per annum). This is secured against first pari-passu charge on present and future current assets of the Bank to the extent of Rs. 400 million with a 25% margin. The principal will be paid in twelve equal quarterly installments, the first such installment has been paid on 27 September 2017. This facility is expiring on 27 June 2020.			
15.7	This facility has limit aggregating Rs. 150 million (2018: Rs. 150 million). Mark-up is payable quarterly at the rate of 3 months KIBOR plus 1.35 bps per annum (2018: KIBOR plus 1.35 bps per annum). This is secured against first pari-passu hypothecation charge of Rs. 200 million on present and future current assets of the Bank. The principal will be paid in eight equal quarterly installments, the first such installment has been paid on 15 January 2018. This facility has expired on 14 October 2019.			
15.8	This facility has limit aggregating Rs. 200 million (2018: Rs. 200 million). Mark-up is payable quarterly at the rate of 3 months KIBOR plus 0.75 bps per annum (2018: 3 months KIBOR plus 0.75 bps per annum). The principal will be paid in sixteen equal quarterly installments, the first such installment has been paid on 28 August 2019. This is secured against first pari-passu charge of Rs. 267 million on present and future current assets of the Bank with a 25% margin. This facility is expiring on 31 December 2022.			

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- 15.9 This facility has limit aggregating Rs. 1,000 million (2018: Rs. 1,000 million). Mark-up is payable quarterly at the rate of 3 months KIBOR plus 1 bps per annum (2018: 3 months KIBOR plus 1 bps per annum). The principal will be paid in sixteen equal quarterly installments, the first such installment has been paid on 31 December 2019. This is secured against first pari-passu charge of PKR 1,333 million on present and future current assets of the Bank with a 25% margin. This facility is expiring on 30 September 2023.
- 15.10 This is a Privately Placed Term Finance Certificate (PPTFC) arranged by MCB Bank Limited, UBL Bank Limited and JS Bank Limited whereas Pak Oman Investment Company Limited is acting as trustee. The issue size is Rs. 1,500 million. Mark-up is payable quarterly at the rate of 3 months KIBOR plus 1.50 bps per annum (2018: 3 months KIBOR plus 1.50 bps per annum). The principal was payable in sixteen equal quarterly installments, the first installment commencing from the end of grace period (2 February 2019). This PPTFC is secured against first pari-passu charge on over all present and future current assets along with 25% margin of the Bank. Bank will also pay 0.25% per annum on undisbursed amount of the PPTFC till its 9 month availability period ends on 02 August 2018. This was repaid on 02 November 2019.
- 15.11 This is long term borrowing received from SBP under Financial Inclusion Infrastructure Program (FIIP) to provide access to long term market based funding that will enhance lending to microfinance borrowers including micro enterprises and micro housing especially women borrowers. The markup is payable at the rate of 6 months KIBOR minus 100 bps. Principal amount will be repaid in last four quarters of 5 years loan period or in bullet form at the end of said tenor.

16	Subordinated debt	Note	2019 Rupees	2018 Rupees
	Pakistan Microfinance Investment Company (PMIC)	16.1	<u>800,000,000</u>	<u>-</u>
16.1	<p>During the year, the Bank has raised an unsecured and subordinated loan facility, amounting to Rs. 800 million to contribute towards the Bank's Tier II capital. The fund so raised will be utilized in the Bank's business operations. Mark-up is payable half yearly at the rate of 6 months KIBOR plus 3 bps per annum. The instrument is structured to redeem in 6 semi-annual installments in arrears starting from 6th year after the end of grace period of 5 years, as follows:</p> <p>- 6th Year : 1% of total issue amount payable in 2 equal installments; -7th Year : 1% of total issue amount payable in 2 equal installments; -8th Year : 98% of total issue amount payable in 2 equal installments.</p> <p>The instrument is unsecured and subordinated as to payment of principal and profit to all other indebtedness of the Bank, including deposits, and it is not redeemable before maturity without prior approval of SBP.</p>			
17	Other liabilities	Note	2019 Rupees	2018 Rupees
	Markup / return / interest payable	17.1	686,284,781	372,422,212
	Bills payable		58,187,657	61,356,347
	Accrued expenses		184,816,331	190,677,605
	Current taxation		-	34,769,221
	Payable to Finca Microfinance Holding Company LLC	17.2	3,281,350	-
	Payable to defined benefit plan	17.3	221,140,255	195,099,379
	Withholding tax payable		88,544,501	23,353,281
	Sundry creditors		288,477,660	309,381,235
	Lease liability against right of use assets		<u>1,598,654,753</u>	<u>-</u>
			<u>3,129,387,288</u>	<u>1,187,059,280</u>
17.1	This includes markup payable on deposits from key management personnel amounts to Rs. 4,620 (2018: Rs. 21,096).			
17.2	This represents amount payable to the Finca Microfinance Holding Company LLC for consultancy services. It is incorporated in United States of America and its registered office is situated at 1201, 15th street NW, 8th floor Washington, DC 20005.			

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			2019 Rupees	2018 Rupees
17.3	Payable to defined benefit plan	<i>Note</i>		
	Present value of defined benefit obligation	17.3.1	214,227,057	188,925,210
	Payables		6,913,198	6,174,169
	Balance sheet liability		<u>221,140,255</u>	<u>195,099,379</u>
17.3.1	Changes in present value of defined benefit obligation			
	Balance at 1 January		188,925,210	128,669,680
	Current service cost		65,249,181	53,793,970
	Interest cost		22,139,177	11,388,287
			87,388,358	65,182,257
	Benefit due but not paid (payables)		(4,771,259)	(5,775,591)
	Payments made during the year		(39,112,451)	(11,915,118)
			(43,883,710)	(17,690,709)
	<u>Included in other comprehensive income</u>			
	Actuarial loss arising from changes in demographic assumptions		-	1,832,105
	Actuarial loss arising from changes in financial assumptions		(1,205,006)	2,615,256
	Actuarial loss arising from experience adjustment		(16,997,795)	8,316,621
	Present value of defined benefit obligation		<u>214,227,057</u>	<u>188,925,210</u>
17.3.2	Expenses charged to profit and loss account			
	Current service cost		65,249,181	53,793,970
	Interest cost		22,139,177	11,388,287
			<u>87,388,358</u>	<u>65,182,257</u>
17.3.3	Total remeasurement chargeable in other comprehensive income			
	<u>Remeasurement of plan obligation:</u>			
	Actuarial loss from changes in demographic assumptions		-	1,832,105
	Actuarial loss from changes in financial assumptions		(1,205,006)	2,615,256
	Experience adjustments		(16,997,795)	8,316,621
	Total remeasurement chargeable in other comprehensive income		<u>(18,202,801)</u>	<u>12,763,982</u>
17.3.4	Changes in net liability			
	Balance sheet liability at January 1		195,099,379	129,068,258
	Expense chargeable to profit and loss account		87,388,358	65,182,257
	Remeasurement chargeable in other comprehensive income		(18,202,801)	12,763,982
	Benefit paid		(43,144,681)	(11,915,118)
	Balance sheet liability at December 31		<u>221,140,255</u>	<u>195,099,379</u>

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17.3.5 Significant actuarial assumptions	2019	2018
Discount rate used for interest cost in profit and loss account	13.25%	9.50%
Discount rate used for year end obligation	11.75%	13.25%
Mortality rates	SLIC 2001-05 Setback 1 Year	SLIC 2001-05 Setback 1 Year
Withdrawal rate	High	High
Retirement assumption	Age 60	Age 60

17.3.6 Expected expense for the next year

The Bank expects to charge Rs 88.90 million to statement of profit and loss on account of defined benefit plan in 2020.

	(Rupees)
Current service cost	65,178,502
Interest cost on defined benefit obligation	23,727,140
Amount chargeable to profit and loss	<u>88,905,642</u>

17.3.7 Sensitivity analysis

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

		Impact on defined benefit obligation			
		2019		2018	
	Change	Increase	Decrease	Increase	Decrease
Discount rate	100 BPS	15,495,967	25,630,856	13,343,536	22,527,139
Salary growth rate	100 BPS	16,151,126	26,538,903	13,900,982	23,304,260

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

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

17.3.8 The average duration of the defined benefit obligation is 10 years.

17.3.8.1 Risk associated with defined benefit obligations

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

Longevity risks:

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

Salary increase risk:

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

Withdrawal Rate:

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

10/03/2020

18	Share Capital	Note	2019 (Number of shares)	2018	2019 Rupees	2018 Rupees
18.1	Authorized capital					
	Ordinary shares of Rs 10 each		<u>1,500,000,000</u>	<u>750,000,000</u>	<u>15,000,000,000</u>	<u>7,500,000,000</u>
18.2	Issued, subscribed and paid-up share capital					
	Ordinary shares of Rs 10 each fully paid in cash	18.3	<u>634,888,711</u>	<u>634,888,711</u>	<u>6,348,887,110</u>	<u>6,348,887,110</u>
18.3	Share capital has been subscribed by the following:					
	Kashf Holdings (Private) Limited	5.22%	33,119,747	33,119,747	331,197,470	331,197,470
	International Finance Corporation	4.85%	30,771,739	30,771,739	307,717,390	307,717,390
	Triodos Fair Share Fund	2.73%	17,368,319	17,368,319	173,683,190	173,683,190
	Acumen Fund	0.81%	5,130,253	5,130,253	51,302,530	51,302,530
	FINCA Microfinance Cooperatief U.A	86.39%	548,498,653	548,498,653	5,484,986,530	5,484,986,530
		100.00%	<u>634,888,711</u>	<u>634,888,711</u>	<u>6,348,887,110</u>	<u>6,348,887,110</u>

19	Surplus / (deficit) on revaluation of assets	Note	2019 Rupees	2018 Rupees
	<i>Surplus / (deficit) on revaluation of securities:</i>			
	Federal Government securities - market treasury bills (T-Bills)		<u>1,547,100</u>	<u>-</u>

20	Deferred Grants		2019	2018
	Balance as at 01 January		2,412,228	8,154,432
	Grant received from Karandaz for women empowerment	20.1	2,107,430	2,742,228
	Less: Grant amortized		(2,364,698)	(8,484,432)
	Balance as at 31 December		<u>2,154,960</u>	<u>2,412,228</u>

20.1 This represents grant received from Karandaz for women awareness about the use of SIMSIM wallet in rural / peri urban areas.

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21 Memorandum / off-balance sheet items

21.1 Contingencies

There are no material contingencies as at 31 December 2019.

	<i>Note</i>	2019 Rupees	2018 Rupees
22 Mark-up / return / interest earned			
Interest / mark-up on advances		7,621,185,208	6,125,741,096
Markup earned on investments in government securities		654,090,270	339,234,428
Interest / mark-up on bank accounts		36,883,933	66,310,709
		<u>8,312,159,411</u>	<u>6,531,286,233</u>
23 Mark-up / return / interest expensed			
Deposits		2,355,918,027	1,699,150,932
Borrowings		461,916,076	129,253,894
Subordinated loan		3,966,027	-
Notional interest on lease liability		175,974,209	-
		<u>2,997,774,339</u>	<u>1,828,404,826</u>
24 Fee, commission and brokerage income			
Loan processing fee		608,645,455	555,915,214
Income on cheque book issuance		38,165,542	44,551,854
Over due charges		103,850,669	42,744,594
Early settlement charges		26,246,855	16,695,691
Others		21,606,781	15,750,300
		<u>798,515,302</u>	<u>675,657,653</u>
25 Other income			
Grant income		2,364,698	8,516,106
Recovery of debts previously written off		140,923,944	117,711,440
Net gain on disposal of operating fixed assets	11.4.2	559,935	-
Capital gain on disposal of government securities		11,953,197	-
Others		166,853	-
		<u>155,968,627</u>	<u>126,227,546</u>

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	Note	2019 Rupees	2018 Rupees
26 Administrative expenses			
Staff salaries and other benefits	26.1	2,112,554,773	1,827,573,893
Contribution to employee provident fund		90,030,964	72,101,774
Non-executive directors' fees, allowances and other expenses		750,000	675,000
Printing, stationery and periodicals		71,147,281	60,718,809
Advertisement		92,232,009	142,421,303
Rent, rates and taxes		34,900,550	248,111,336
Office running expenses		54,394,990	47,321,513
Vehicle running expenses		62,452,197	44,108,279
Insurance		90,433,631	54,702,401
Office security / personnel services		144,310,087	106,305,029
Repairs and maintenance		134,208,890	87,689,288
Communication		118,240,098	81,263,418
Travel and transportation		209,162,281	187,144,739
Utilities		115,341,459	74,969,070
Legal and professional		173,999,242	115,811,332
Donation		-	1,430,075
Auditors' remuneration	26.3	8,300,000	5,027,000
Training and research		16,580,274	44,310,838
Depreciation on operating fixed assets	11.4	230,562,591	161,622,952
Depreciation on right of use assets	11.3	239,209,984	-
Amortization on intangible assets	11.2	65,720,915	64,016,142
Others		37,504,706	26,156,292
		4,102,036,922	3,453,480,483

26.1 This includes Rs. 87.39 million (2018: 65.18 million) in respect of staff gratuity expense and Rs. 2.81 million (2018: 2.72 million) in respect of gratuity expense of Chief Executive Officer.

	2019 Rupees	2018 Rupees
26.2 Donations		
Care Foundation to operate girls schools	-	1,360,000
Charity for Edhi Centre	-	70,075
	-	1,430,075

The Bank has not made donation during the year.

26.3 Auditors' remuneration

Annual audit	2,650,000	2,500,000
Interim review	800,000	-
Taxation services	1,540,000	2,227,000
Advisory services	2,450,000	-
Fee for certifications	430,000	-
Out of pocket expense	430,000	300,000
	8,300,000	5,027,000

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27 Other charges		2019 Rupees	2018 Rupees
Penalties imposed by SBP		55,500	2,082,500
Bank charges		27,900,888	21,112,087
Net loss on disposal of operating fixed assets		-	1,172,900
Operating fixed assets written off	11.4.2	29,326,854	-
Others		8,386,663	12,055,259
		<u>65,669,905</u>	<u>36,422,746</u>

28 Taxation

Current:

For the year including super tax	331,642,626	629,372,068
For the prior year	54,704,446	4,977,481
	<u>386,347,072</u>	<u>634,349,549</u>

Deferred:

For the year	(17,907,977)	(15,351,273)
For the prior year	(10,223,375)	4,468,476
	<u>(28,131,352)</u>	<u>(10,882,797)</u>
	<u>358,215,720</u>	<u>623,466,752</u>

28.1 Reconciliation of tax

Accounting profit before taxation	<u>1,011,568,177</u>	<u>1,579,947,329</u>
Tax rate %	35%	35%
Tax on accounting rate	354,048,862	552,981,565
Tax effect of income chargeable to tax at a lower rate	(42,124,751)	64,550,981
Prior year tax adjustment	44,481,071	4,977,481
Tax effect of inadmissible expenses	19,425	956,725
Tax effect of income chargeable to tax at a higher rate	1,791,113	-
	<u>358,215,720</u>	<u>623,466,752</u>

29 Number of employees

	2019		
	Credit / Sales staff	Banking / Support staff	Total staff
Permanent	1,545	866	2,411
Contractual	160	289	449
Total	<u>1,705</u>	<u>1,155</u>	<u>2,860</u>

Average number of employees during the year	<u>1,624</u>	<u>1,246</u>	<u>2,870</u>
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	2018		
	Credit / Sales staff	Banking / Support staff	Total staff
Permanent	1,369	1,081	2,450
Contractual	173	256	429
Total	<u>1,542</u>	<u>1,337</u>	<u>2,879</u>
Average number of employees during the year	<u>1,384</u>	<u>1,226</u>	<u>2,610</u>

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	2019		2018	
	Branches No.	Sales service centre No.	Branches No.	Sales service centre No.
30 Number of branches				
Branches at the beginning of the year	133	-	116	-
Opened during the year	2	2	17	-
	135	2	133	-
Less: Closed during the year	(5)	-	-	-
Branches at the end of the year	130	2	133	-

31 Remuneration of directors and executives

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

	Chief Executive		Directors		Executives	
	2019	2018	2019	2018	2019	2018
	----- Rupees -----					
Managerial remuneration	29,617,022	22,162,213	750,000	675,000	152,051,693	131,693,375
House rent allowance	2,923,071	-	-	-	60,820,659	50,780,527
Provident fund	2,961,703	2,216,223	-	-	14,014,934	12,057,979
Utilities allowance	-	-	-	-	11,835,920	9,461,137
Medical Allowance	2,961,704	2,216,176	-	-	3,369,266	3,234,015
Conveyance/Car Allowance	1,215,968	1,274,667	-	-	18,280,754	15,852,544
Charge for defined benefit plan	2,808,793	2,723,828	-	-	17,120,041	17,761,515
Driver Allowance	175,000	-	-	-	6,310,186	-
Others	1,224,800	1,211,863	-	-	-	227,400
Title Allowance	-	-	-	-	45,000	-
	43,888,061	31,804,970	750,000	675,000	283,848,453	241,068,492
Number of persons at year end	1	1	3	4	61	61

31.1 Executive means employees, other than the chief executive and directors, whose basic salary exceed twelve hundred thousand rupees in a financial year.

31.2 Aggregate amount charged to profit and loss account for the year in respect of travelling and hotel expenses of directors is Rs. 4.75 million (2018: Rs 3.72 million) and Rs. 1.94 million (2018: 3.57 million) respectively.

31.3 The Bank provides car allowance of Rs. 1.22 million (2018: 1.27 million) per annum to the Chief Executive Officer as part of the remuneration.

32 Earnings per share

	2019	2018
32.1 Profit for the year	Rupees 653,352,457	956,480,577
Weighted average number of ordinary shares	Number 634,888,711	634,888,711
Basic and diluted profit per share	Rupees 1.03	1.51

32.2 There is no dilutive effect on the basic earning per share of the Bank.

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33 Related party transactions

The Bank's related parties comprise of directors, key management personnel, shareholders and entities over which the directors are able to exercise significant influence and employee gratuity fund. The detail of Bank's shareholders is given in note 18.3 while remuneration of key management personnel is disclosed in note 31 to the financial statements. Transactions with related parties during the year, other than those which have been disclosed elsewhere in these financial statements, are as follows:

	2019			2018		
	Key management personnel Rupees	Associated company / parent Rupees	Kashf foundation Rupees	Key management personnel Rupees	Associated company / parent Rupees	Kashf foundation Rupees
<u>Deposits</u>						
Opening balance	27,040,200	-	30,391,594	16,992,924	-	40,572,695
Received during the year	98,136,930	-	230,825,889	136,566,187	-	63,820,992
Withdrawn during the year	(120,063,799)	-	(131,184,861)	(126,518,911)	-	(74,002,093)
Closing balance	5,113,331	-	130,032,622	27,040,200	-	30,391,594
<u>Staff loans</u>						
Opening balance	18,140,322	-	-	13,956,339	-	-
Disbursement during the year	18,204,386	-	-	19,800,000	-	-
Repayments during the year	(24,197,424)	-	-	(15,616,017)	-	-
Closing balance	12,147,284	-	-	18,140,322	-	-
<u>Transactions during the year</u>						
Mark-up/return/interest earned	719,609	-	-	896,795	-	-
Mark-up/return/interest expensed	601,441	-	15,777,739	1,648,385	-	122,680
Contribution to provident fund	8,912,431	-	-	7,123,967	-	-

34 Cash and cash equivalents

Cash and balances with SBP and NBP
Balances with other banks

Note	2019 Rupees	2018 Rupees
7	1,595,527,281	1,639,249,051
8	1,642,664,760	2,489,461,972
	3,238,192,041	4,128,711,023

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35 Details of business locations

The addresses of the branches of the Bank are as follows:

Branch Name	Branch address
College Raad - Lahore	27-17-B1-College Road Township Lahore
Ichra - Lahore	Mozang Branch, 5-Ferozpur Road, Mozang, Lahore
Opposite UET - Mughalpur	SA Rehman Stop Dhobi Ghatt Daroghawala Main Gt Road Lahore
Chandni Chowk - Kasur	Railway Road Opposite Matro Shoe Near Chandni Chowk, Kasur
Manga Road - Raiwind	Sundar Road Near Dar-E- Arqam School Riwind District Lahore
Civil Hospital - Managa Mandi	Near Govt. High School (Boys), Multan Road Manga Mandi
Faisalabad Road - Sheikhpura	Faisalabad Road Sheikhpura
Sharaqpur	Jaranwala Road Sharqpur Sharif
Malji Road - Nankana	Malji Road Nankana Shahib
Raja Chowk - Hafizabad	Raja Chawk Hafiz Abad
Muhala Bilal Ganj - Jaranwala	Faisalabad Road Opposite Hussan Travel Jaranwala
Syed Wala	Near UBL Bank Jarnwala Road Syedwala
Abdullah Pur - Faisalabad	Usman Manzil Near Alfajar Marriage Hall, Jhumrah Road, Abdullah Pur
Circular Road - Faisalabad	Allama Iqbal Road - Faisalabad
Rajjana Road - Samundri	Circular Road Samundri, Pakistan Samundri
Main Jhang Road - Gojra	Jhang Road Gojra
Sharae Quaid E Azam - Chiniot	Near Ztbl Bnak Faisalabad Road Chiniot
Hafizabad Road - Pindi Bhatian	Hafizabad Road Pindi Bhattian
Shorkot Road - Toba Tak Singh	Al-Qaim Center, Shorkot Road, Toba Tek Singh
Session Road - Jhang	Katchery Road-Jhang
Pirmahal	Khewat No. 1389, Khatooni No. 1390, Plot No. 12/12 & 13/13, Near Askari Bank Ltd. Main Rajana Road, Kousarabad, Pir Mehal
Shorkot	Jhang Road Shorkot
Ahmadpur Sial	Main Road Muhalla Farooqabad APS
Satellite Town - Rawalpindi	39-B1, Sattelite Town, Opposite Rawalpindi General Hospital, Near Chandani Chowk, Rawalpindi
Gojar Khan	Trunk Bazar Near Qadria Govt School Tehsil Road, Gujarkhan
Barakoh	Main Murree Road Near Umainia Restaurant Bara Kahu Islamabad
Muzaffarabad	Khewat No. 36, Khasra No. 739/130, Jalal Abad, Opp. New DHQ Complex, Secretariat Road Muzaffarabad
GT Road - LalaMusa	Near Telenor Franchise Gt Road, Lalamusa
Jhelum	M.M No. 3, Jada Road Jhelum.
Mirpur - AJK	Plot No. 2-A, Sub-Sector, B-2 Allama Iqbal Road, Mirpur
Kotli - AJK	Rawal Pindi Road, Near Kechari Moza Mandi, Kotli
Talaganag Road - Chakwal	Near Sui Gas Office Opposite Degree College Main Pindi Road Chakwal
Mian Walli Road - Talagang	Nawab Centre Chowk Saddiqabad Mianwali Road Talagang
Gilgit	Near Public School Chowk, Shahrah-E-Quaid-E-Azam, Zulfiqarabad, Jutial, Gilgit
Civil Bazar - Attock	Shop No. C99 Block C, Burq Road, Lucky Plaza Attock City
Adda Lariyan - Hassanabdal	Adda Lariyan Hassan Abdal Branch, Pakistan
Abbottabad Road - Mansehra	Abbottabad Road Near Habib Bank Ltd. Mansehra
Main GT Road - Haripur	Naeem Khan Market Opp. Total Filling Station, G.T Road Haripur, Pakistan
Mall Road - Abbottabad	Finca Microfinance Bank Limited, Opp Daewoo Terminal Mandian, Abbottabad
Mardan	Shop No. (3,4,5,6,7,8,13,14) Block A Shaheen Shopping Mall, Main Qazi Bashir Road Pre Chowk Mardan.
Peshawar	Gull Gee Plaza, University Road, Peshawar
Central Jail Morr - Multan	Shereen Commercial Center, Jail Mor Chowk, Multan
GPO Road - Khanewal	Opposite Gpo Block No 8, Khanewal
ByPass Road - Jahanian	By Pass Road, Jahanian
Shaheed Road - MianChannu	Address: GT-Road Opposite Faisal Movers / Rajpoot Travels, MianChanu
Ali pur	Awan Plaza, College Chowk, main multan road, Alipur
DG Khan	Raillway Road Dera Ghazi Khan
Kot Addu	GT Road Near Tariq Jamshed Petrol Pump Kot Addu
Rajan pur	Gulshan- E- Iqbal Colony Main Indus Highway Rajanpur, Pakistan
Shah Jamal Road - Muzafargarh	Mohallah Ameenabad Shahjamal Muzafargarh
Mankera	Mushtaq Market Jhang Bhakkar Road, Mankera
Layyah	Choubara Road Opposite PTCL exchange Near Leyyah Minor Leyyah
Bhakkar	Al Qaim Plaza Chishti Chowk Bhakkar Branch
Dera Ismail Khan	Kashmir Chowk, Dera Ismail Khan
College Road - Pakpattan	College Road - Pakpattan
Muhammadi Road - Arifwala	Muhammadi Road - Arifwala
Pak Pattan Road - Haveli Lakha	Pak Pattan Road - Haveli Lakha
Liaqat Road - Sahiwal	Liaqat Road - Sahiwal
Vehari Bazar Burewala	26-F Block Near Wapda Office Vehari Bazar Burewala
Darass Road - Chichawatni	Darass Road - Chichawatni
Mohalla Mathiawalla - Kamalia	Mohalla Mathiawalla - Kamalia
Main Club Road - Vehari	Main Club Road - Vehari
Deepalpur	Pakpattan Road - Deepalpur

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Branch Name	Branch address
Ravi Road - Okara	Link M.A Jinnah Road Branch, Okara
Multan Road - Pattoki	Multan Road - Pattoki
Hujra Shah Muqem	Circular Road Hujra Shah Muqem
Illahbad	Kasur Road Illahabad
North Karachi - Karachi	Plot D-6/B, North Nazimabad, Karachi, Pakistan
Guro Nagar - Hyderabad	G-916, Gurru Nagar Near Cloth Market
Hyd. Road - Tando Allah Yar	Near Wapda Grid Station Shell Dadal Shah Petrol Pump
Main Sakrand Road - Nawabshah	Main Sakrand Road Nawabshah
Umer Kot	Ward "A" Cs No: 20/1/1, Lashari Market, Near Kumar Medical Store, Umer Kot Town, Taluka And Sub-District Umerkot
Quetta	Shop No. 1-26/5G=1330 To 1-26/5H=1331, Manan Chowk, M.A. Jinnah Road, Opposite Meezan Bank Ltd. Quetta, Baluchistan
Mirpur Khas	Ward "A" Cs No: 20/1/1, Lashari Market, Near Kumar Medical Store, Umer Kot Town, Taluka and Sub-District Umerkot
Minara Road - Sukkhar	Mehak Appartments, Local Board, Minara Road, Sukkur
Larkana	City Survey No. 707 & 708, Ward "A" Opposite First Women Bank, Bank Square, Bander Road, Larkana
Khairpur	Near Khaki Shah Pul , Station Road, Khairpur Mir's
Panno aqil	Eid Gaah Chowk Cinema Road Pano Aqil - Pakistan
Ghotki	Plot No. C/S 890/2, Ward No. B, S.K Plaza, Devri Road Ghotki
Liaquatpur	Address Plot No. 3/C-1, 87 Bank Road Liaquat Pur
Khanbella	KLP Road Khanbela , Pakistan
Area Dev. Society - Khanpur	Area Development Society, Plot # 237 A Block Sett lite Town, Opposite : Dr. Aqeela Zaidi Hospital Zahir Peer Road Khanpur
Water Supply Road - Sadiqabad	Property No.243 Water Supply Road, Sadiq Abad
Jamal Din Wali	Sheller Market, (JDW) Jamal Din Wali Branch. (0624)
Ahmedpur East	Katchehry Road, Opposite DSP Office, Ahmad Pur East
Satelite Town - Rahim Yar Khan	26-Model Town, Rahim Yar Khan
Lodhran (LDN)	Saad Plaza Multan Road Lodhran
Kahroor pacca (KPC)	Dunyapur Road, Near Admore Petrol Pump, Kahrro Pacca
Dunyar pur (DNP)	Railway Road Dunyapur
Bahawalpur (BWP)	Model Town - A, Bahawalpur
Yazman (YZM)	Chak No 56/A Near Nehar Wala Pull Bahawalpur Road Yazman
Jalalpur pirwala (JPW)	Shujaabad Road Near HBL Jalal Pur Pir Wala
Khar Pur Tamewale(KTW)	Opposite Hbl Bank Ltd. Near Askar-1 Petrol Pump, Hasilpur Road, Tehsil Khairpur Tamewali, District Bahawalpur
Mailsi	Colony Road Near Itifaq Ice Factory Mailsi
Talkot - Shujaabad	Jalal Pur Road Near New Khan Adda, Near Bilal Masjid, Shujabad
Khan Baba Road - Bhawalnagar	8-Nishtar Road Jinnah Colony, Bahawalnagar
Allama Iqbal Road - Fort Abbas	Allama Iqbal Road, Fort Abbas
Madina Colony - Haroonabad	Bangla Road, Haroonabad
Iqbal Alam Road - Chishtian	Khawaja Qibla Alam Road, Chishtian
Hasilpur	Baldia Road Opposite Imam Bargah, Hasilpur
Circular Road - Mianchanabad	High School Road, Near Nadra Office, Mianchanabad
Shahab Pura Road - Sialkot	City Tower Shahab Pura Road Sialkot
Sialkot Road - Sambrial	Oppt. Makki Masjid Wazirabad Road, Sambrial
Daska	College Road, Near Noor Masjid, Daska
Pasroor	Classwala Road Near Satrah Mor, Pasroor
Narowal	Circular Road , Saddique Pura Narowal
GT Road - Kamoki	G T Road Under Pas, Near Telenore Franchise, Kamoki
Faisal Gate - Gujrat	Faisal Gate Circular Road Near 1St Women Bank, Gujrat
GT Road - Wazirabad	Gt Road, Opposite Fire Brigade & Rescue 15, Wazirabad
Chandni Chk. - Jalalpur Jattan	Circular Road, Jalal Pur Jattan
Dinga	Kharian Road, Fawara Chowk , Dinga
Mandi Bahawudin	Shayan Plaza Ward No. 5 Dewan Chowk, Mindi Bahawudin.
Phaliya	Hellan Road, Phaliya
Malakwal	Badshahpur Road, Malawal
Sargodha	Block No. 15 Azad Road Sargodha
Bhalwal	Ajanala Road Near Nadra Office Bhalwal
Sahiwal	Sargodha Jhang Road, Near Shell Pump Sahiwal (Sargodha)
Joharabad	Block No. 2 Near Mcb Joharabad
Quidabad	Mian Ada, Near UBL Qaidabad
Mianwali	Govt High School Near Chen One Mianwali
Piplan	Main Ghalla Mandi , Piplan
Allama Iqbal Town	6- Pak Block Main Boulevard Iqbal Town Lahore
Liaqat Road Rawalpindi	G 518-519 Near Mcb Opp Bank Alfalah Main Liaqat Road Rawalpindi
Sialkot II	Sajjad Plaza, Agha Kamal Road , Sadar Bazaar, Sialkot Cantt
Abdali Road Multan	Khan Centre Abdaali Road , Multan
Gujranwala III	Shop No 9&10, Main Shiekhupura Road Mian Sansi, Khiali, Gujranwala
New Garden Town Lahore	28-B-Ali Block New Garden Town Lahore
DHA - Lahore	49 /A, XX Phase III Dha Lahore Cannt
Islamabad	109 East Jinnah Avenue Next to Domino'S, Blue Area Islamabad
Liaquatabad - Karachi	13Bc, KDA No.05, Block 9, Clifton Karachi South, Pakistan

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36 Fair value measurement of financial instruments

The following table shows the carrying amounts and fair values of financial instruments and non-financial instruments including their levels in the fair value hierarchy:

		Carrying amount					Fair value			
		Held for trading	Held to maturity	Available for sale	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3
On-Balance sheet financial instruments	Note	----- Rupees -----								
<u>31 December 2019</u>										
<u>Financial assets measured at fair value</u>										
Investments - net of provisions	9	5,968,466,000	-	275,992,500	-	-	6,244,458,500	-	6,244,458,500	-
<u>Financial assets not measured at fair value</u>										
Cash and cash equivalents	34	-	-	-	3,238,192,041	-	3,238,192,041	-	-	-
Advances - net of provisions	10	-	-	-	22,038,804,318	-	22,038,804,318	-	-	-
Other assets	12 & 36.1	-	-	-	2,388,530,066	-	2,388,530,066	-	-	-
	36.3	-	-	-	27,665,526,425	-	27,665,526,425	-	-	-
Financial liabilities measured at fair value		-		-	-	-	-	-	-	-
<u>Financial liabilities not measured at fair value</u>										
Deposits and other accounts	14	-	-	-	-	23,911,341,828	23,911,341,828	-	-	-
Borrowings	15	-	-	-	-	4,752,852,994	4,752,852,994	-	-	-
Subordinate debt	16					800,000,000	800,000,000	-	-	-
Other liabilities	17 & 36.2	-	-	-	-	1,199,184,046	1,199,184,046	-	-	-
	36.3	-	-	-	-	30,663,378,868	30,663,378,868	-	-	-

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		Carrying amount					Fair value			
		Held for trading	Held to maturity	Available for sale	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3
On-Balance sheet financial instruments	Note	----- Rupees -----								
<u>31 December 2018</u>										
Financial assets measured at fair value										
Investments - net of provisions	9	2,441,491,077	1,385,986,221	-	-	-	3,827,477,298	-	2,441,491,077	-
<u>Financial assets not measured at fair value</u>										
Cash and cash equivalents	34	-	-	-	4,128,711,023	-	4,128,711,023	-	-	-
Advances - net of provisions	10	-	-	-	20,580,529,143	-	20,580,529,143	-	-	-
Other assets	12 & 36.1	-	-	-	1,817,679,817	-	1,817,679,817	-	-	-
	36.3	-	-	-	26,526,919,983	-	26,526,919,983	-	-	-
Financial liabilities measured at fair value										
		-	-	-	-	-	-	-	-	-
<u>Financial liabilities not measured at fair value</u>										
Deposits and other accounts	14	-	-	-	-	23,741,811,865	23,741,811,865	-	-	-
Borrowings	15	-	-	-	-	3,318,500,544	3,318,500,544	-	-	-
Other liabilities	17 & 36.2	-	-	-	-	876,902,826	876,902,826	-	-	-
	36.3	-	-	-	-	27,937,215,235	27,937,215,235	-	-	-

36.1 These exclude stationary and stamp on hand, prepayments and taxes.

36.2 These exclude bills payable, accrued expenses and taxes.

36.3 Fair value versus carrying amounts

The Bank has not disclosed the fair values of these financial assets and liabilities as these are for short term or re-priced over short term. Therefore, their carrying amounts are reasonable approximation of fair value.

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37 Financial assets and liabilities

37.1 Interest rate risk management

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rate. The Bank's interest rate exposure stems mainly from its investments, Bank deposits and advances. This risk is managed by regular review of market rates.

	Effective yield / interest rate %	2019										
		Interest bearing / exposed to yield / interest risk					Non-Interest bearing / not exposed to yield / interest risk					
		Upto one month	Over one month upto six months	Over six months upto one year	Over one year	Sub total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year	Sub total	Total
----- Rupees -----												
<u>Financial assets</u>												
<i>On balance sheet:</i>												
Cash and balances with SBP and NBP	10.00 - 11.25	50,507,149	-	-	-	50,507,149	1,545,020,132	-	-	-	1,545,020,132	1,595,527,281
Balances with other banks/NBFIs/MFBs	10.75 - 13.60	1,395,962,571	-	-	-	1,395,962,571	246,702,189	-	-	-	246,702,189	1,642,664,760
Investments - net of provisions	10.30 - 13.22	2,620,677,000	3,350,204,600	273,576,900	-	6,244,458,500	-	-	-	-	-	6,244,458,500
Advances-net of provisions	5.00 - 50.91	1,706,990,626	6,688,901,119	11,616,602,396	2,026,310,177	22,038,804,318	-	-	-	-	-	22,038,804,318
Other assets	-	-	-	-	-	-	2,377,681,596	-	-	10,848,470	2,388,530,066	2,388,530,066
		5,774,137,346	10,039,105,719	11,890,179,296	2,026,310,177	29,729,732,538	4,169,403,917	-	-	10,848,470	4,180,252,387	33,909,984,925
Off balance sheet		-	-	-	-	-	-	-	-	-	-	-
Total		5,774,137,346	10,039,105,719	11,890,179,296	2,026,310,177	29,729,732,538	4,169,403,917	-	-	10,848,470	4,180,252,387	33,909,984,925
<u>Financial liabilities</u>												
<i>On balance sheet:</i>												
Deposit and other accounts	0.00 - 13.75	7,822,566,317	4,595,186,185	3,219,956,142	6,048,656,229	21,686,364,873	2,224,976,955	-	-	-	2,224,976,955	23,911,341,828
Borrowings including subordinated loan	10.19 - 16.45	-	790,352,994	150,000,000	4,612,500,000	5,552,852,994	-	-	-	-	-	5,552,852,994
Other liabilities	11.55	7,454,814	37,274,072	44,728,886	1,509,196,981	1,598,654,753	1,217,766,429	3,281,350	-	221,140,255	1,442,188,034	3,040,842,787
		7,830,021,131	5,422,813,251	3,414,685,028	12,170,353,210	28,837,872,620	3,442,743,384	3,281,350	-	221,140,255	3,667,164,989	32,505,037,609
Off balance sheet		-	-	-	-	-	-	-	-	-	-	-
Total		7,830,021,131	5,422,813,251	3,414,685,028	12,170,353,210	28,837,872,620	3,442,743,384	3,281,350	-	221,140,255	3,667,164,989	32,505,037,609
On balance sheet gap		(2,055,883,785)	4,616,292,468	8,475,494,268	(10,144,043,033)	891,859,918	726,660,533	(3,281,350)	-	(210,291,785)	513,087,398	1,404,947,316
Off balance sheet gap		-	-	-	-	-	-	-	-	-	-	-

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Financial assets and liabilities

Financial assets and liabilities		2018										
	Effective yield / interest rate %	Interest bearing / exposed to yield / interest risk					Non-Interest bearing / not exposed to yield / interest risk					Total
		Upto one month	Over one month upto six months	Over six months upto one year	Over one year	Sub total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year	Sub total	
----- Rupees -----												
<u>Financial assets</u>												
<u>On balance sheet:</u>												
Cash and balances with SBP and NBP	3.75 - 8.00	23,818,798	-	-	-	23,818,798	1,615,430,253	-	-	-	1,615,430,253	1,639,249,051
Balances with other banks/NBFIs/MFBs	3.75 - 11.25	2,056,403,890	-	-	-	2,056,403,890	433,058,082	-	-	-	433,058,082	2,489,461,972
Investments - net of provisions	5.99 - 10.30	3,041,313,656	786,163,642	-	-	3,827,477,298	-	-	-	-	-	3,827,477,298
Advances-net of provisions	5.00 - 49.03	1,488,439,941	8,893,747,446	9,448,669,241	749,672,515	20,580,529,143	-	-	-	-	-	20,580,529,143
Other assets	-	-	-	-	-	-	1,807,999,973	-	-	9,679,844	1,817,679,817	1,817,679,817
		6,609,976,285	9,679,911,088	9,448,669,241	749,672,515	26,488,229,129	3,856,488,308	-	-	9,679,844	3,866,168,152	30,354,397,281
Off balance sheet		-	-	-	-	-	-	-	-	-	-	-
Total		6,609,976,285	9,679,911,088	9,448,669,241	749,672,515	26,488,229,129	3,856,488,308	-	-	9,679,844	3,866,168,152	30,354,397,281
<u>Financial liabilities</u>												
<u>On balance sheet:</u>												
Deposits and other accounts	0.00 - 13.75	7,453,071,847	4,811,864,127	1,785,935,961	7,690,227,321	21,741,099,256	2,000,712,609	-	-	-	2,000,712,609	23,741,811,865
Borrowings	6.76 - 10.35	-	1,518,500,544	237,500,000	1,562,500,000	3,318,500,544	-	-	-	-	-	3,318,500,544
Other liabilities	-	-	-	-	-	-	633,072,765	133,663,742	33,437,731	328,762,540	1,128,936,778	1,128,936,778
		7,453,071,847	6,330,364,671	2,023,435,961	9,252,727,321	25,059,599,800	2,633,785,374	133,663,742	33,437,731	328,762,540	3,129,649,387	28,189,249,187
Off balance sheet		-	-	-	-	-	-	-	-	-	-	-
Total		7,453,071,847	6,330,364,671	2,023,435,961	9,252,727,321	25,059,599,800	2,633,785,374	133,663,742	33,437,731	328,762,540	3,129,649,387	28,189,249,187
On balance sheet gap		(843,095,562)	3,349,546,417	7,425,233,280	(8,503,054,806)	1,428,629,329	1,222,702,934	(133,663,742)	(33,437,731)	(319,082,696)	736,518,765	2,165,148,094
Off balance sheet gap		-	-	-	-	-	-	-	-	-	-	-

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37.2 Credit risk management

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank's credit risk is primarily attributable to its advances, investments and balances at banks. However, the Bank believes that it is not exposed to major concentration of credit risk. The Bank's credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit rating. The Bank has an effective loan disbursement and recovery monitoring system which allows it to evaluate borrowers' credit worthiness and identify potential problem loans. A provision for potential loan losses is maintained as required by the Prudential Regulations. Maximum amount of financial assets which are subject to credit risk amount to Rs. 31,112.08 million (2018: Rs. 28,259.42 million).

37.3 Liquidity risk management

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

38 Capital risk management

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

38.2 The Bank's objectives with when managing its capital are:

- To comply with the capital requirements set by the SBP.
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders.
- To maintain a strong capital base to support the development of its business.

38.3 Statutory minimum capital requirement and management of capital

As per amendments on Prudential Regulations (R-1) issued vide BPRD Circular No. 10 of 2015 dated 03 June 2015, the minimum paid up capital requirement (MCR), free of losses for Microfinance Banks operating at national level is Rs. 1,000 million as at 31 December 2019. As at 31 December 2019, the paid up share capital net of discount, of the Bank stood at Rs. 2,259.85 million (2018: Rs. 2,259.85 million).

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

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

As at 31 December 2019, the Bank's capital adequacy ratio ("CAR") is appropriately 19.78% (2018: 15.93%) of its risk weighted assets, as against the minimum requirement of 15% prescribed by SBP.

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39 Maturities of assets and liabilities

	2019				
	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
----- Rupees -----					
<u>Market rate assets</u>					
Advances	22,038,804,318	1,706,990,626	6,688,901,119	11,616,602,396	2,026,310,177
Investments	6,244,458,500	2,620,677,000	3,350,204,600	273,576,900	-
Other earning assets	1,446,469,720	1,446,469,720	-	-	-
Total market rate assets	29,729,732,538	5,774,137,346	10,039,105,719	11,890,179,296	2,026,310,177
Other non-earning assets	7,582,156,476	4,244,187,461	317,856,690	478,612,632	2,541,499,693
Total assets	37,311,889,014	10,018,324,807	10,356,962,409	12,368,791,928	4,567,809,870
<u>Market rate liabilities</u>					
Time deposits of Rs. 100,000 and above	16,302,180,155	2,543,477,355	4,569,175,720	3,198,259,823	5,991,267,257
Time deposits below Rs. 100,000	132,231,696	27,135,941	26,010,464	21,696,319	57,388,972
Borrowings	5,552,852,994	-	790,352,994	150,000,000	4,612,500,000
Other cost bearing liabilities	6,850,607,775	5,259,407,836	37,274,072	44,728,886	1,509,196,981
Total market rate liabilities	28,837,872,620	7,830,021,132	5,422,813,250	3,414,685,028	12,170,353,210
Other non-cost bearing liabilities	3,755,709,490	3,531,287,885	3,281,350	-	221,140,255
Total liabilities	32,593,582,110	11,361,309,017	5,426,094,600	3,414,685,028	12,391,493,465
	2018				
	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
----- Rupees -----					
<u>Market rate assets</u>					
Advances	20,580,529,143	1,488,439,941	8,893,747,446	9,448,669,241	749,672,515
Investments	3,827,477,298	3,041,313,656	786,163,642	-	-
Other earning assets	2,080,222,688	2,080,222,688	-	-	-
Total market rate assets	26,488,229,129	6,609,976,285	9,679,911,088	9,448,669,241	749,672,515
Other non-earning assets	5,791,531,411	3,987,021,865	492,330,498	174,611,425	1,137,567,623
Total assets	32,279,760,540	10,596,998,150	10,172,241,586	9,623,280,666	1,887,240,138
<u>Market rate liabilities</u>					
Time deposits of Rs. 100,000 and above	16,623,975,775	2,388,528,320	4,801,446,799	1,779,683,385	7,654,317,271
Time deposits below Rs. 100,000	66,288,962	13,709,008	10,417,328	6,252,576	35,910,050
Borrowings	3,318,500,544	-	1,518,500,544	237,500,000	1,562,500,000
Other cost bearing liabilities	5,050,834,519	5,050,834,519	-	-	-
Total market rate liabilities	25,059,599,800	7,453,071,847	6,330,364,671	2,023,435,961	9,252,727,321
Other non-cost bearing liabilities	3,187,771,889	2,657,138,655	133,663,742	68,206,952	328,762,540
Total liabilities	28,247,371,689	10,110,210,502	6,464,028,413	2,091,642,913	9,581,489,861



40 Reconciliation of movements of liabilities to cash flows arising from financing activities.

	2019					
	Equity			Liabilities		
	Issued, subscribed and paid-up capital	Discount on issue of shares	Unappropriated profit	Deferred grants	Subordinated loan	Lease liabilities
	----- Rupees -----					
Balance as at 01 January 2019	6,348,887,110	(4,089,040,293)	1,061,863,072	2,412,228	-	-
<u>Changes from financing cash flows</u>						
Debt received	-	-	-	-	800,000,000	-
Dividends paid	-	-	-	-	-	-
Grant received	-	-	-	2,107,430	-	-
Payment of lease liabilities	-	-	-	-	-	268,432,971
Loan repaid	-	-	-	-	-	-
	-	-	-	2,107,430	800,000,000	268,432,971
<u>Other changes</u>						
Notional interest on lease liabilities	-	-	-	-	-	175,974,209
Changes in respect of lease liabilities	-	-	-	-	-	1,691,113,515
Amortization of grant	-	-	-	(2,364,698)	-	-
Total comprehensive income for the year	-	-	665,184,278	-	-	-
Transfer to :						
Statutory reserve	-	-	(130,670,491)	-	-	-
Depositors' protection fund	-	-	(32,667,623)	-	-	-
	-	-	501,846,164	(2,364,698)	-	1,867,087,724
Balance as at 31 December 2019	6,348,887,110	(4,089,040,293)	1,563,709,236	2,154,960	800,000,000	1,598,654,753
	----- Rupees -----					
	2018					
	Equity			Liabilities		
	Issued, subscribed and paid-up capital	Discount on issue of shares	Unappropriated profit	Deferred grants	Subordinated loan	Lease liability
	----- Rupees -----					
Balance as at 01 January 2018	6,348,887,110	(4,089,040,293)	552,799,227	8,154,432	-	-
<u>Changes from financing cash flows</u>						
Debt received	-	-	-	-	-	-
Dividends paid	-	-	(200,000,000)	-	-	-
Grant received	-	-	-	2,742,228	-	-
Loan repaid	-	-	-	-	-	-
	-	-	(200,000,000)	2,742,228	-	-
<u>Other changes</u>						
Notional interest on lease liabilities	-	-	-	-	-	-
Changes in respect of lease liabilities	-	-	-	-	-	-
Amortization of grant	-	-	-	(8,484,432)	-	-
Total comprehensive income for the year	-	-	948,183,989	-	-	-
Transfer to :						
Statutory reserve	-	-	(191,296,115)	-	-	-
Depositors' protection fund	-	-	(47,824,029)	-	-	-
	-	-	709,063,845	(8,484,432)	-	-
Balance as at 31 December 2018	6,348,887,110	(4,089,040,293)	1,061,863,072	2,412,228	-	-

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41 Provident Fund

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

	Note	2019 Rupees Un-audited	2018 Rupees Audited
Size of the fund		572,215,929	436,496,128
Total investments	41.1	566,039,438	409,707,193
% age of investments made		98.9%	93.8%

41.1 Breakup of investments

	2019 Rupees	2018 Rupees	2019 Relative % of size of the fund	2018 Relative % of size of the fund
Mutual fund	24,619,695	21,993,542	4.3%	5.0%
Term deposit receipts (TDRs)	119,244,625	79,144,995	20.8%	18.1%
Market treasury bills	419,751,509	306,268,656	73.4%	70.2%
Pakistan investment bonds	2,423,609	2,300,000	0.4%	0.5%
	<u>566,039,438</u>	<u>409,707,193</u>	<u>98.9%</u>	<u>93.8%</u>

The investments of the Provident Fund Trust are in compliance with the provision of section 218 of the Companies Act, 2017 and the rules formulated for this purpose.

42 Non adjusting event after the balance sheet date

The Board of Directors of the Bank in their meeting held on _____, have decided on the dividend for the year ended 31 December 2019 @ _____ % (Rs. _____ per share).

43 Date of authorization

These financial statement were authorized for issue by the Board of Directors of the Bank on 25th Feb, 2020

44 General

- Figures have been rounded to the nearest Rupee unless otherwise specified.
- Corresponding figures have been re-arranged and re-classified, wherever necessary, for the purposes of comparison and better presentation as per reporting framework however, no significant re-arrangements have been made, except for as required by fifth schedule of Companies Act, 2017.
- Where there are no amounts to be disclosed in the account captions as prescribed by BSD Circular No.11 dated 30 December 2003 issued by SBP in respect of forms of financial statements for Microfinance banks, these captions have not been reproduced in these financial statements, except for caption of balance sheet, profit and loss account.

Muhammed Ali

Chief Executive Officer

Chairman

Director

Director