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Changing lives, one at a time!

# FINCA Microfinance Bank Ltd

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## Changing lives, one at a time!

The ultimate solution to poverty is micro financing. FINCA Pakistan is the name of perpetual life changing uplift, commissioned to succour the impoverished sector, deprived of financial assistance. This year's annual report is all about our customers and how a little financial assistance brought a significant shift not only in their lives but the ones surrounded by them leading to an interminable chain of financial independence changing lives all across the country.



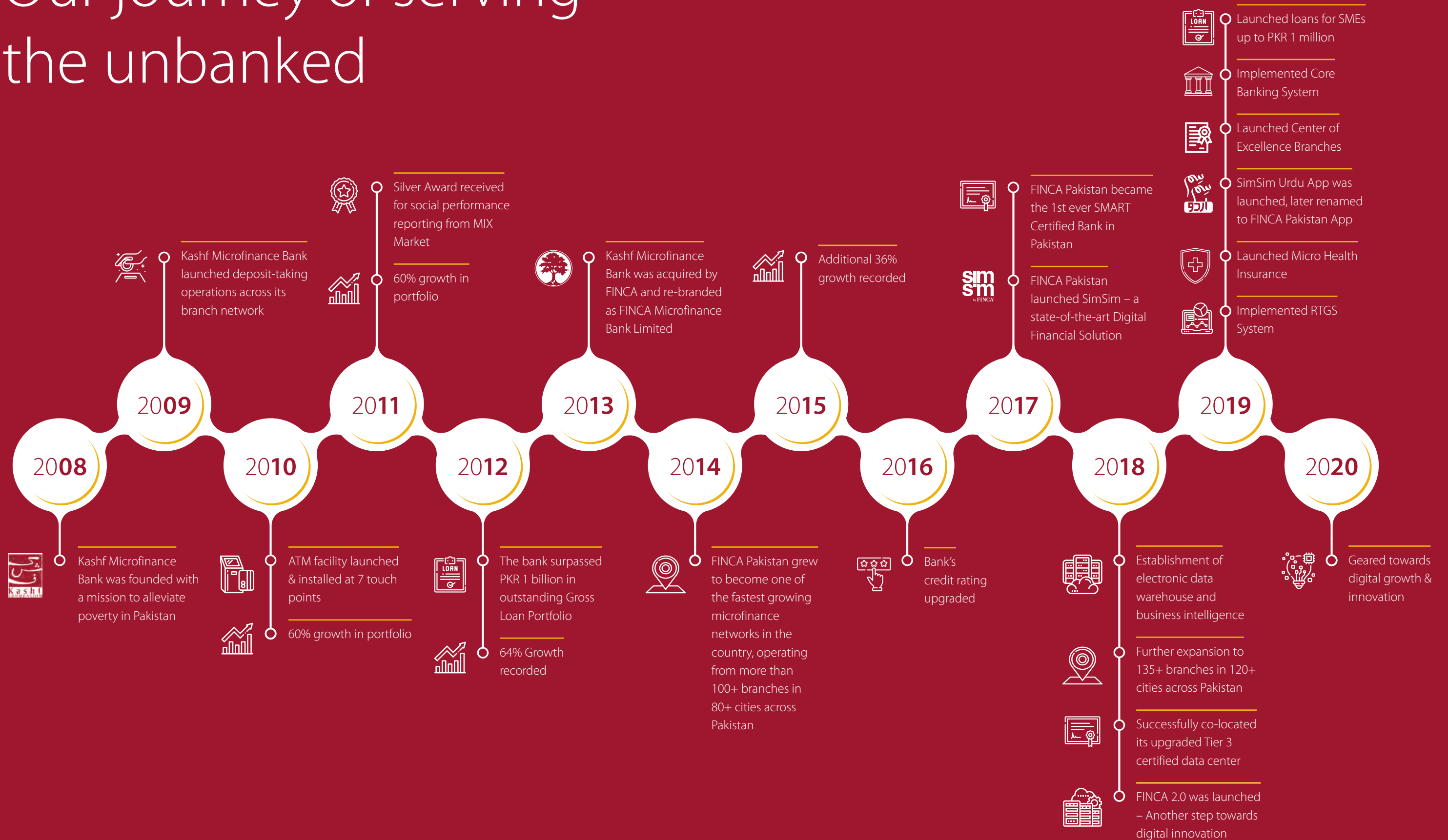
# FINCA's global footprint

FINCA is a network of 20 microfinance banks and institutions across the globe that offer innovative, responsible and impactful financial services to low-income clients helping them build their financial health.





# Our journey of serving the unbanked





# About us

Loved and experienced by customers  
since early 2008

**FINCA Pakistan has been reshaping the lives of people by providing them modern and innovative banking solutions for more than a decade. Our unmatched financial services and customer first approach has earned us the satisfaction of thousands of customers across the country which makes FINCA Pakistan a name you can trust.**

FINCA Microfinance Bank Limited (FINCA Pakistan) was first launched in 2008 as Kashf Microfinance Bank Limited. Founded on the principle that the community should have access to financial services, the bank set about providing microcredit to low-income borrowers with no collateral requirements—providing entrepreneurs with capital to expand their businesses. Being acquired by FINCA in 2013 and now part of the FINCA Impact Finance global network, FINCA Microfinance Bank is licensed and regulated by the State Bank of Pakistan. The bank currently has more than 1 million clients, a gross loan portfolio of more than PKR 22.48 billion while holding deposits worth approx. PKR 23.9 billion, serving its customers via 132 branches in 120 cities nationwide. The bank's loan portfolio has grown at a rate of 64% over the past five years, with growth driven by a range of products and

services, including individual loans for both low income and higher-volume borrowers. In the wake of the increasing loan portfolio, FINCA Pakistan has been able to provide over 238,000 loans allowing micro-entrepreneurs to invest in their businesses. Loans from FINCA are believed to have created an estimated 605,376 new jobs during 2019 in Pakistan, thereby contributing to the improvement of the living standards of around 2.9 million households since its inception.

FINCA Pakistan has also invested in innovative technologies and solutions to reach more people with advanced financial solutions. In 2017, FINCA Pakistan also became the first microfinance bank in the country to receive SMART certification, a recognition of its long-standing commitment to robust client protection principles. Furthermore, to enable means for a deeper financial

inclusion, the bank introduced its mobile money platform, SimSim, in July 2017, whereby anyone with a smartphone can open a bank account in a few minutes, regardless of one's geographical location within the country. Since its launch, SimSim has acquired over 445,000 users to its platform conducting over 4 million transactions. FINCA Pakistan Urdu application was also piloted in 2019, a step forward in providing convenient and accessible financial solutions to its customers.

FINCA Pakistan believes in continuously making banking simpler, easier and faster for all its customers and vows to continue playing a role in greater financial inclusion and poverty alleviation in the country.





With modern technology and digitization in our ambit, we at FINCA Pakistan are progressively moving towards our ambition of alleviating poverty.

## Our mission

To alleviate poverty through lasting solutions that help people build assets, create jobs and raise their standard of living.

## Our purpose

To be an unconventional community-based bank that profitably and responsibly provides innovative and impactful financial services to enable low-income individuals and communities to invest in their futures.

## FINCA Pakistan's brand promise

Our brand is not a slogan. It is a promise of who we are and what we stand for. It's about the relationship we create and how we work together in unison.

We believe in providing innovative solutions for your financial well-being by investing in your resolves. We are your **"Iraadon ka paasbaan"**.



### Core values

- Warmth
- Responsible Banking
- Trust



# Strategic objectives

The bank's growth strategy for the future is going to remain balanced in view of the macroeconomic headwinds, with realignment of the loan book to improve the risk/reward matrix.

The branch-based distribution network will be complemented by digital channels for client acquisition. These external objectives can be successfully achieved if we build an internal organization that is transparent, collaborative and result oriented.

The bank's mission 2021 is to continue being financially and operationally self-sustainable and focus on value-creation for the financially excluded/under-served segment, by efficiently leveraging technology and innovation. Our strategic focus areas to achieve this mission will anchor on the following 3 core priorities:



## Grow revenue, augmented by

- Increased Disbursement
- Deposit Mobilization
- Improving PAR
- Higher focus on Recoveries

## Become efficient with prime focus on

- Improving Productivity
- Leaner Processes
- Enhanced Risk Management

## Build on existing projects by leveraging

- Digital Field Automation
- Centralized Repeat Loan Underwriting
- Digital Marketing

# FINCA Pakistan's competitive advantages





# Corporate information

## Board Of Directors

Ms. Zarlasht Wardak  
Ms. Roshaneh Zafar  
Mr. Volker Renner  
Mr. Makhmudjon Saidakhmatov  
Ms. Fatma Safiye Ozuygun Sahin  
Mr. Jeffrey Peter Smith  
Mr. Amer Hussain Haider

## Audit Committee

Ms. Fatma Safiye Ozuygun Sahin  
Mr. Jeffrey Peter Smith  
Mr. Amer Hussain Haider

## Chief Executive Officer (Acting)

Mr. Farid Ahmed Khan

## Chief Financial Officer

Mr. Muhammad Mubashar Bashir

## Company Secretary

Mr. Manzoor Ahmed Janjua

## Auditors

KPMG Taseer Hadi & Co.

## Legal Advisors

Progressive Law Company

## Registered Office

36-Commercial Zone, Sector-XX, Khayaban-e-Iqbal  
Phase-III, DHA, Lahore.

## 24/7 Helpline Number

042-111-111-562



# Director's profile



## **Ms. Zarlisht Wardak**

Chairperson/Director

A highly experienced and recognized leader in banking, operations and micro finance. She has a proven 15-year track record of leading diverse teams of professionals to higher levels of success in a variety of industries, markets and environments. She's highly skilled in strategic planning, business unit development, project management, and marketing, with the ability to successfully analyze critical business requirements, identify deficiencies and opportunities, and develop innovative and cost-effective solutions.

Utilizing her multicultural and multilingual skills, she has driven organizations to success in diverse, competitive and developing markets throughout the world. She has been invited to speak at events all over the globe, including a panel with Nobel Peace Prize winner Dr Muhammad Yunus, on the topic of microfinance as it relates to peace and prosperity.

She is currently the Chairperson for the Afghan Microfinance Association and Chairperson of Board for the MESA subsidiaries. She has a passion for making positive transformations within organizations that enhance competitiveness, increase revenues and improve sales and service culture.



## **Mr. Jeffrey Peter Smith**

Director

Dynamic, self-driven and a result-focused organizational executive with an MBA and over 40 years of experience (35 years managing people) in auditing, designing and implementing effective risk controls for FINCA International, Rotary International, Citigroup and Ford Motor Company. Astute analyst and strategic thinker with proven acumen. Articulate and persuasive communicator. Developed and led high-performing teams at locations worldwide. Superb project and operational manager; controlled multimillion-dollar budgets, conducted audits, reviews, implementations, risk management, and regulatory compliance monitoring programs across complex global organizations.

## **Ms. Roshaneh Zafar**

Director

She is the Founder and Managing Director of Kashf Foundation – the first specialized microfinance organization in Pakistan established in 1996. Kashf Foundation was awarded the Microfinance Excellence Award by the Grameen Foundation-USA for its groundbreaking innovations in the field of microfinance in Pakistan. While, in 2005 it won the AGFUND International Prize for Microcredit 2005 out of 98 countries. Prior to establishing Kashf Foundation, Ms. Zafar worked with the World Bank in Islamabad in the Water and Sanitation department for several years. Ms. Zafar was one of the first Ashoka Fellows in Pakistan and has been a Schwab Foundation Social Entrepreneur since 2004.

Ms Zafar has also been awarded the Tamgha-e-Imtiaz, one of Pakistan's highest civilian awards, by the President of Pakistan for her work in the field of development and women empowerment and was also awarded the Skill Award for Social Entrepreneurship in 2007. Ms. Zafar is a graduate of the Wharton Business School, University of Pennsylvania, USA.



## **Ms. Fatima Safiye Ozuygun Sahin**

Director

Safiye is a seasoned senior international banker with vast experience across many banking functions, geographies and client segments. Over the last 20 years at Citi, she worked as a Senior Investment Banker both in Turkey and in London, covering several FTSE 100 multinational corporates and underwriting complex financing transactions. She worked with global corporate clients to manage their investments and subsidiaries' financing needs. She was the Regional Head for Citi's Internal Audit and Risk Management Group and responsible for Europe, Middle East and Africa, consisting of 52 countries. She has led global corporate credit internal credit portfolio audits and transformational projects in risk and control functions. In order to pursue her life-long ambition and commitment for financial inclusion and women's economic empowerment, Safiye joined Citi Microfinance in 2009 as a Global Business Director. She is a Senior Credit Officer (SCO).

Since she left Citigroup, she has been working as an independent consultant delivering risk management training programs and sits on the Board of FINCA Microfinance Bank Pakistan & Jordan, British Chamber of Commerce Turkey and Foundation for Support of Women's work and Maya Microfinance Institution in Turkey.





# Director's profile



**Mr. Volker Renner**

Director

Volker Renner has over 20 years of senior management and governance experience in microfinance on four continents. From 2004 to 2016 he served FINCA International as Vice President for Credit and Savings, Global COO, and Regional Director for FINCA Eurasia. Prior to joining FINCA, Mr Renner held positions as CEO of ProCredit Bank (Ukraine), and advisor to banks in Russia and Ukraine. He has served as board chairman, board member, audit committee member and member of other board committees in numerous microfinance institutions and banks.



**Mr. MakhmudJon Saidakhmatov**

Director

Successfully implemented strategic goals in capacity of COO for FINCA Kyrgyzstan in 2006. In 2009, he was appointed as CEO of FINCA Azerbaijan, and later in 2010 as the CEO of FINCA Kyrgyzstan. He held the position of CEO of FINCA Kyrgyzstan till February of 2015, followed by appointment as advisor to the management team of FINCA Bank Kyrgyzstan. Also worked for German consulting and management company specialized in Banking and SME finance projects in developing and transition countries for over 4 years for LFS Financial Systems GmbH. Managed projects in Uzbekistan and Tajikistan focused on establishment of micro and SME lending operations at various commercial banks as Banking Advisor. Worked in Azerbaijan to develop micro and SME lending practices at Access Bank Azerbaijan in 2003.



**Mr. Amer Hussain Haider**

Independent Director

Mr. Haider has over 15+ years of senior management experience in Information Technology. He has a successful business track record in starting, acquiring and growing multiple companies with combined equity value over \$2 billion. Most recently he was the CEO and Co-Founder of Doctella.com a company acquired by Masimo (NASDAQ: MASI) in 2018. His areas of expertise span across healthcare, cloud, mobility, networking, and semiconductors. He has been awarded 11 patents in digital security, mobility, networking, and processors. Mr. Haider completed his Masters in Engineering and MBA from University of Illinois at Urbana-Champaign and Bachelors in Engineering from NED University in Karachi, Pakistan.

# Management team



**Mr. Farid Ahmed Khan**

Chief Executive Officer (Acting)

A C-suite level, highly accomplished, result-oriented leader with demonstrated success in developing and driving growth & profitability of businesses. Over 25 years of senior level, global experience with international bulge bracket banks in UK, Singapore, Turkey, Malaysia and large Pakistani financial institutions. Strong relationships with key business groups, corporates and regulators in Pakistan as well as extensive contacts in global financial centers like London, Singapore, UAE, Hong Kong and New York. Highly developed analytical and communication skills and an ability to lead from the front. In-depth understanding of different sectors and industries due to both buy and sell side experience and investment banking background. Involved in frequent strategic level consultations with business leaders and chairing board committees. A regular speaker at business forums and certified independent director.



**Mr. Shahid Hosain Kazi**

Chief Operating Officer

Shahid Hosain Kazi is a banking industry veteran. He has 22 years of banking experience in different institutions, departments, territories & jurisdictions and in various capacities, including leadership roles. Shahid's experience covers key banking functions such as Corporate & Retail Banking, Strategic Planning, Risk Management & International Business.



**Mr. Muhammad Mubashar Bashir**

Chief Financial Officer

Mubashar Bashir is a seasoned Chartered Accountant with 18 years of experience in senior executive roles in corporate and public sector organizations. During his career he has also practiced public accounting and appraised investment opportunities worth USD 15 billion in infrastructure, banking, insurance, power, cement, etc.



**Mr. Manzoor Ahmed Janjua**

Chief Legal Officer

Manzoor has more than 17 years of diversified experience as legal and corporate professional; managing corporate commercial, conventional/ arbitration & banking, regulatory & compliance, civil/criminal litigation, mediation & microfinance banking, real estate, investments, regulatory and corporate affairs at law firms and organization level. He joined the Bank in 2009 and is presently serving as Chief Legal & Corporate Officer and Company Secretary. He is a Law Graduate and Masters in Political Science from University of the Punjab.



# Message from the chairperson



**Zarlast Wardak**

Chairperson

*Vice President & Regional Director for the Middle East & South Asia, FINCA Impact Finance*

Pakistan is one of the most dynamic and fastest growing markets in the FINCA Impact Finance network. The robust development of microfinance sector in Pakistan has given us the opportunity to develop our footing nationwide and grow in a short span of time.

FINCA Impact Finance brings 35 years of international best practices, segmental expertise, strong brand reputation and innovation to Pakistan along with strong roots in supporting and enhancing the financial status of micro enterprises. FINCA Pakistan aims to leverage these qualities to meet the growing financing needs of Pakistan's small businesses and the financially excluded entrepreneurial business segment.

Our global mission of providing responsible and accessible financial services to low income people in tandem with financial education has tremendously contributed in uplifting the socio-economic indicators of Pakistan. Over half a million people currently work in enterprises funded by FINCA Pakistan. We are currently serving over 238,000 active borrowers

through a network of 132 branches and sales centers. Government support initiatives, introducing micro insurances, availability of diversified financial products and scrutinized client protection systems have further fueled our mission of accelerating financial inclusion in Pakistan. We are proud to be part of several ground-breaking initiatives in the country and have partnered with many local and international players to further our mission.

FINCA Pakistan is one of the few banks to have received the permission by the State Bank of Pakistan to disburse loans up to a limit of PKR 1 million. This is a testament to our commitment to client protection - our key business strength, well-developed risk assessments systems, experienced human resources and cash flow based lending assessment techniques. FINCA will continue to serve this space by offering tailored products to small enterprises in both urban and rural sectors.

Women entrepreneurship and empowerment is also a fundamental component of our global mission. Overall, Pakistan has one of the lowest proportion of female entrepreneurs in the world; hence, we have established a Global Gender Diversity and Inclusion Strategy which allocates specific goals and targets to each subsidiary in our network. We have also developed a product offering specifically catering to women entrepreneurs. Our staff is trained on elements of gender sensitivity and inclusive practices to ensure women are treated with respect and enabled to succeed. Our hiring practices purposefully ensure the inclusion of women on merit and their development within the organization is made possible via performance based opportunities across all cadres.

The bank's growth strategy for 2020 and beyond is going to remain balanced in view of the macro-economic headwinds, the unprecedented COVID-19 related

impact on the GDP Growth and our borrower's debt repayment capacities. The bank will continue the realignment of loan book by supporting existing clients through remedial measures and selecting new clients from crisis-resilient sectors to improve the risk & reward matrix. Through tangible and scalable initiatives, the bank will continue striving for a seamless and delightful customer experience that is grounded in the analytics and insights gathered through client interactions across all channels.

Building on the solid foundations laid in the last few years, FINCA Pakistan will continue to expand its outreach in the country, with expansion of ATMs and call center capacity, and development of digital services platform. We will continue to reshape the touch points of customer journey with FINCA Pakistan by introducing tailor made technology solutions to our clients.



# Message from the CEO



**Farid Ahmed Khan**

Chief Executive Officer (Acting)

FINCA Microfinance Bank

It is my pleasure to present this report to our stakeholders highlighting FINCA Pakistan's journey in 2019.

## Overall Performance:

2019 started off with an uncertain macro environment which progressively became more challenging. The microfinance sector had to face rising inflation, monetary policy tightening and unusual climate changes which made the operating environment difficult. Despite these challenges, the bank retained its market share in terms of key KPIs i.e. Gross Loan Portfolio (GLP), Deposits and Number of Borrowers. Despite reducing its exposure in unsecured bullet loans by 6%, the bank increased its GLP by 7.1% by actively focusing on installment loans category. The bank also obtained PKR 3 billion Long Term financing from the State Bank of Pakistan under Financial Inclusion & Infrastructure Project and also raised PKR 800 million in Tier 2 capital through a bilateral facility from PMIC. These initiatives allowed the bank to shed some high cost deposits although the deposit base ended the year at PKR 23.9 billion – a touch higher than 2018 level. However, given the stress in the bullet portfolio, NPLs and write-offs increased compared to last year.

Even with inflation & slow growth, expenses to GLP ratio improved from 17% to 19% due to various transformation and cost control measures. In response to the portfolio behavior, the bank strengthened collection and recovery teams and comprehensively reviewed controls around bullet loans. The Tier-II Capital injection pushed capital adequacy ratio (CAR) from 16% to 20% at year end.

The GLP growth and product composition changes were aided by better segmentation and product suite diversification strategy. FINCA Pakistan launched multiple pilot projects like installment-based credit offerings for both small businesses, micro entrepreneurs and the salaried.

In line with the business efficiency roadmap to lower the overall cost of doing business and enhance client experience, the centralized loan renewals for repeat clients were scaled, loan disbursements/ repayments into borrower's mobile wallet account were started and the entire client acquisition & disbursement process were digitized. FINCA Pakistan piloted its newly developed Sales & Service Center (SSC) concept successfully. To upgrade the service delivery capability, new core banking system was implemented across the entire network.

In Digital Financial Services (DFS), the bank's digital mobile application & financial solution, SimSim, continued its progress, reaching around 445,000 users by the end of 2019. SimSim's payroll solution has thus far on-boarded 424 Corporates & SMEs with around 52,000 employees registered for salary disbursement.

Leveraging on technology, FINCA Pakistan has marked another milestone under the vision FINCA 2.0, digitizing our underwriting process end to end. From the process of loan application to underwriting and disbursement making it easier, faster and efficient, enabling us to lead at the forefront of digital financial services. The traditional loan disbursement model of our Core Banking vertical was also upgraded this year. FINCA Pakistan borrowers can now get their loan amounts directly disbursed into their digital wallets which can be further accessed through FINCA Pakistan Urdu application; FINCA Pakistan app. The latter has been specially designed keeping in view the socio-economic class of our borrowers to facilitate them with easy to use User Interface including an added audio feature with every use case. In 2019, loans worth PKR 2 billion were disbursed to our borrowers in their digital wallets.

## Customer First Approach

Paperwork and travel distance to acquire a loan plays an important factor in financial inclusion of the segment we strive to enable. Minimal paperwork and easy access to customer touch points in the



## 7.1%

GLP

The bank increased its GLP by 7.1% by actively focusing on installment loans category

## 19%

OPEX To GLP Ratio

GLP ratio improved from 17% to 19% due to various transformation and cost control measures.



# Message from the CEO

remotest areas of Pakistan has made our mission successful and our products more fruitful. We also opened two smart branches this year to further facilitate our clients in areas where banking needs are otherwise scant.

In 2019, our management took course not only to expand our portfolio with new clients, but also took great personalized measures to win back old customers which resulted in more than 7,000 clients returning back to FINCA Pakistan in the period May-December 2019 with an approximate disbursement of more than PKR 800 million. This was made possible via the relentless efforts of our call center team.

## Gender Diversity Goals

Following our global mission of empowering women across FINCA, we at FINCA Pakistan have strategically and successfully set our benchmark within the industry in terms of women empowerment that has earned us a special position within our customers, our industry and society. Our sensitivity towards women empowerment is present throughout the wider spectrum of our businesses as demonstrated from the top through our board where the female representation is around 30%. The strength of

versatile females leading from the forefront in various departments within FINCA Pakistan stood up to 16% in this period while our women clientele has risen to 10% of our total lending portfolio. In order to bridge the financial inclusion gender gap, we have gone a step further by introducing customized products targeting the female entrepreneurs to fulfill our promise of promoting financial access to women in Pakistan.

Our internal controls, customer experience, business ethics, technological competitiveness and the set of specialized skills among our employees have collectively resulted in contributing exponential growth over a span of 12 years, which we are determined to build even further in the coming years.

# A decade of serving in the microfinance sector

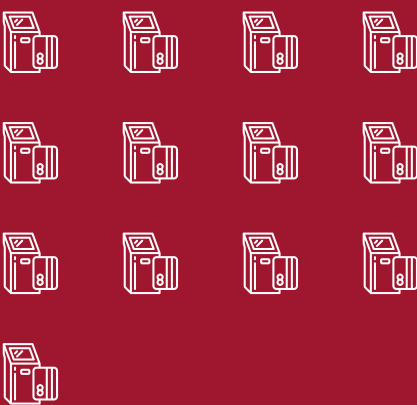
1.2 million

Total Number of Loan Disbursed



132 branches in 120 cities

No. of Customer Touchpoints



PKR 110 billion

Total Amount of Loan Disbursed



40.10%

GLP CAGR



445,000

No. of SimSim Customers

PKR 43.5 billion

Value of SimSim Transactions



\*numbers reported since inception



# FINCA Pakistan's customer first approach

As part of responsible financial services, delivering positive customer experience is FINCA Pakistan's ultimate objective.

FINCA Pakistan's culture is centered on the customer. We believe that focusing on customer experience (CX) is the right thing to do—not only for our clients, but also our business—to be sustainable, innovative and competitive. These practices are selfsame for both internal and external customers.

Over the last 10 years or so, FINCA Pakistan's branch network has expanded at a fast pace, from just under 30 branches in 2008 to over 132 branches in more than 120 cities in 2019. The branch architecture, amenities and all solutions are curated to address specific borrower needs; FINCA Pakistan became one of the

first microfinance banks in the country to offer lending products developed specially for women entrepreneurs. In late 2018, SBP's license to increase the loan ceiling from PKR 0.5 million to PKR 1 million was acquired; further enhancing avenues for our target audience to improve their livelihoods. The variety of our product range with client friendly features coupled with flexibility and less paperwork, is what makes us stand out of the league.

FINCA Pakistan has also been at the forefront in digitizing our products & services, which has been the biggest customer experience goal of the bank. From digitized loan

disbursements into the recently developed FINCA Pakistan Urdu application, to the introduction of chip-based Paypak debit cards and a 24/7 state of the art call center facility, gives FINCA Pakistan the edge of being a customer centered entity.

While borrowers make up the majority of the business revenue, depositors are also the blood line of FINCA Pakistan's business stream. To serve the high ticket clients, the concept of Priority Banking Centers was introduced whereby four dedicated branches were made operational across the country in 2019 specifically for depositors.

## CX Initiatives taken in 2019



## Transforming the Business Model through Innovative CX Strategy at all Fronts

### Governance

The CX Charter serves as a high-level roadmap and articulates our institutional goals.

### Research

Client research is collected through the Customer Satisfaction Index (CSI), Lifecycle VOCs, enterprise survey, pulse checks (capturing immediate feedback at the branch), focus groups, mystery shopping, market analysis and other tools.

### Learning & Development / Performance Management

CX workshops and trainings are designed and administered by the Joint collaboration of CX and HR department—equipping staff to lead with a CX lens. A large number of staff have been successfully trained through classroom and online training modules.

### Measurement

The quarterly CX Dashboard "Branch Service Ladder" for field units has been implemented to uplift and stabilize the performance on Key Service Indicators which impact various customer journey touch points. On a quarterly basis, FINCA Pakistan conducts Pulse Check to measure its progress on being a customer-centric company.

### Recognition

The annual FINCA Global Star Award program recognizes staff who embodies our brand and CX focus in their day-to-day work.

### Products & Channels

Product development, process re-engineering and the expansion of delivery channels are pursued with a CX lens. Our goal is to meet our clients' needs, provide business solutions that are more convenient, resolve pain points.



# Our solutions

## FINCA Pakistan’s deposit product suite:

Current Account	Saving Account	Term Deposits
<ul style="list-style-type: none"><li>✓ Sahulat Current Account</li><li>✓ Non Checking Current Account</li><li>✓ Asaan Current Account</li></ul>	<ul style="list-style-type: none"><li>✓ Aitemaad Bachat Account</li><li>✓ Rozana Munafa Account</li></ul>	<ul style="list-style-type: none"><li>✓ Tahaffuz Term Deposit</li><li>✓ Muhafiz Term Deposit</li></ul>

## FINCA Pakistan’s lending product suite:

Agri	Livestock	Enterprise	Gold
<ul style="list-style-type: none"><li>✓ FINCA Kashtkar Karza – Basic</li><li>✓ FINCA Kashtkar Karza – Plus</li><li>✓ FINCA Kashtkar Karza – Small Farmer</li></ul>	<ul style="list-style-type: none"><li>✓ FINCA Maweshi Karza – Dairy Basic</li><li>✓ FINCA Maweshi Karza – Dairy Plus</li><li>✓ FINCA Maweshi Karza – Fattening</li></ul>	<ul style="list-style-type: none"><li>✓ FINCA Karobari Karza – Basic</li><li>✓ FINCA Karobari Karza – Plus</li><li>✓ FINCA Niswan Karza</li><li>✓ FINCA Motorcycle Loan (Pilot)</li><li>✓ FINCA School Loan – Basic (Pilot)</li><li>✓ FINCA School Loan – Plus (Pilot)</li></ul>	<ul style="list-style-type: none"><li>✓ FINCA Sunehri Karza – Basic</li><li>✓ FINCA Sunehri Karza – Plus</li></ul>

**Note:** “Basic” refers to loan size up to PKR 150,000 whereas “Plus” refers to loan size above PKR 150,000 up to PKR 500,000.





## Our solutions

Our offerings include both general and enterprise loan products in agriculture and livestock, whereas for small businesses our product suite encompasses enterprise loans as well as the newly initiated sales of MSME products from conventional branches.

The bank widened its credit segmentation and diversified its product suite by launching multiple products for both small and micro entrepreneurs. During 2019, FINCA Pakistan launched pilot products under the newly set up SE segment, offering our bonafide borrowers credit limit of up to PKR 1 million. In light of the above, the core business verticals have been organized as follows:

Retail Banking	Institutional Banking
General (Micro) Lending (up to PKR 150,000)	Priority & Transaction Banking Institutional Sales/Deposits
MSME (Micro Plus) Lending (from PKR 150,001 to PKR 500,000)	
SE (Small Enterprises) Lending (from PKR 500,001 to PKR 1Mn)	

Moreover, it's the first time that the bank ventured into the employed/ salaried segment through 'House Loan (Renovation/Home Improvement)'. The bank launched FINCA House Loan (Secured and Unsecured Variants) – piloted in 10 branches.

Under SE segment, FINCA Pakistan has launched the following pilot product suite:

- FINCA Karobarī Karza (Small Enterprise Variant) – piloted in 5 branches
- FINCA Light Commercial Vehicle – piloted in 5 branches
- FINCA House Loan (Secured Variant) – piloted in 10 branches

The bank also launched health insurance pilot product i.e. FINCA Sehat Zamanat in collaboration with Jubilee Life Insurance in 13 branches. FINCA Sehat Zamanat offers customers quality healthcare coverage in case of hospitalization.

To gain a foothold in the secured product category, the bank promoted accelerated growth in FINCA Sunheri Karza, the gold-backed lending product, and added about PKR 1.0 billion.

In 2020, based on the pilot performance, we will take these products into commercial launches. Moreover, the bank will establish alliances to gain access to a large pool of potential clients for the

existing products. This may include partnerships with ride-hailing services for commercial vehicle and motorcycle financing; and linkages with FMCG distributors for Supply Chain Finance for downstream retailers. Another synergy the bank will explore is cross-sell of the 'House Loan' to the Payroll customers on SimSim platform.

## FINCA Pakistan's digital mobile wallets – a technological breakthrough



In line with FINCA Pakistan's continuous focus towards digitization and innovation, the bank currently has two main avenues of digital mobile wallets; SimSim & FINCA Pakistan Urdu application.

## SimSim - The Game Changer

SimSim was launched as the country's first mobile network agnostic digital payment wallet in July 2017 and is continuously making progress in digitally transforming consumer and corporate profiles by offering innovative and impactful solutions. The product, in its entirety, offers a world of cashless payments under one platform enabling free, frictionless and real-time transactions on the go.



- 
- The only 1-minute bank account*
  - Free money transfer & bill payments*
  - Instant & secure transactions*
  - Free inter bank funds transfer*
  - Online shopping*
  - Mobile top-ups for all telecom operators*
  - Insurance plans purchase*
  - Tickets for movies, buses and events*
  - School fee payments*
  - Donations to all major charities*
  - Instant loans within seconds*
  - Debit cards*
  - Scan & pay at merchants for discounts*
  - Complete control of bank account*

SimSim customer portfolio closed at 0.45 million mark in December 2019, 445,000 mobile wallets with 49,750 monthly active users & 68,598 quarterly active user base in 2019 while successfully carrying out business transactions worth more than PKR 43.5 billion since its launch till the end of 2019. In December 2019, SimSim achieved another significant milestone of corporate disbursements worth more than PKR 0.7 billion.

## SimSim Business Solutions for Corporates

Apart from consumer based offerings, SimSim is providing a wide range of business solutions for various corporate segments.

### Bulk Disbursement

Allows organizations to send bulk payments to their beneficiaries, empowering them with real time, secure transaction settlements into any bank account within Pakistan.

### Salary Disbursement & Vendor Payments

Provides the convenience of making bulk salary transfers & vendor payments from any part of the world, with just an internet connection. Added benefits include:

- Complete employee record reconciliation
- Bulk uploading functionality for digital vendor payments
- Integrated attendance module with customized features
- HRMS for employee management

### School Fee Collection

An easy and convenient way to collect fee for various institutions with an added benefit of real time settlement via a corporate portal, integrated through an easy and secure API and no additional charges.

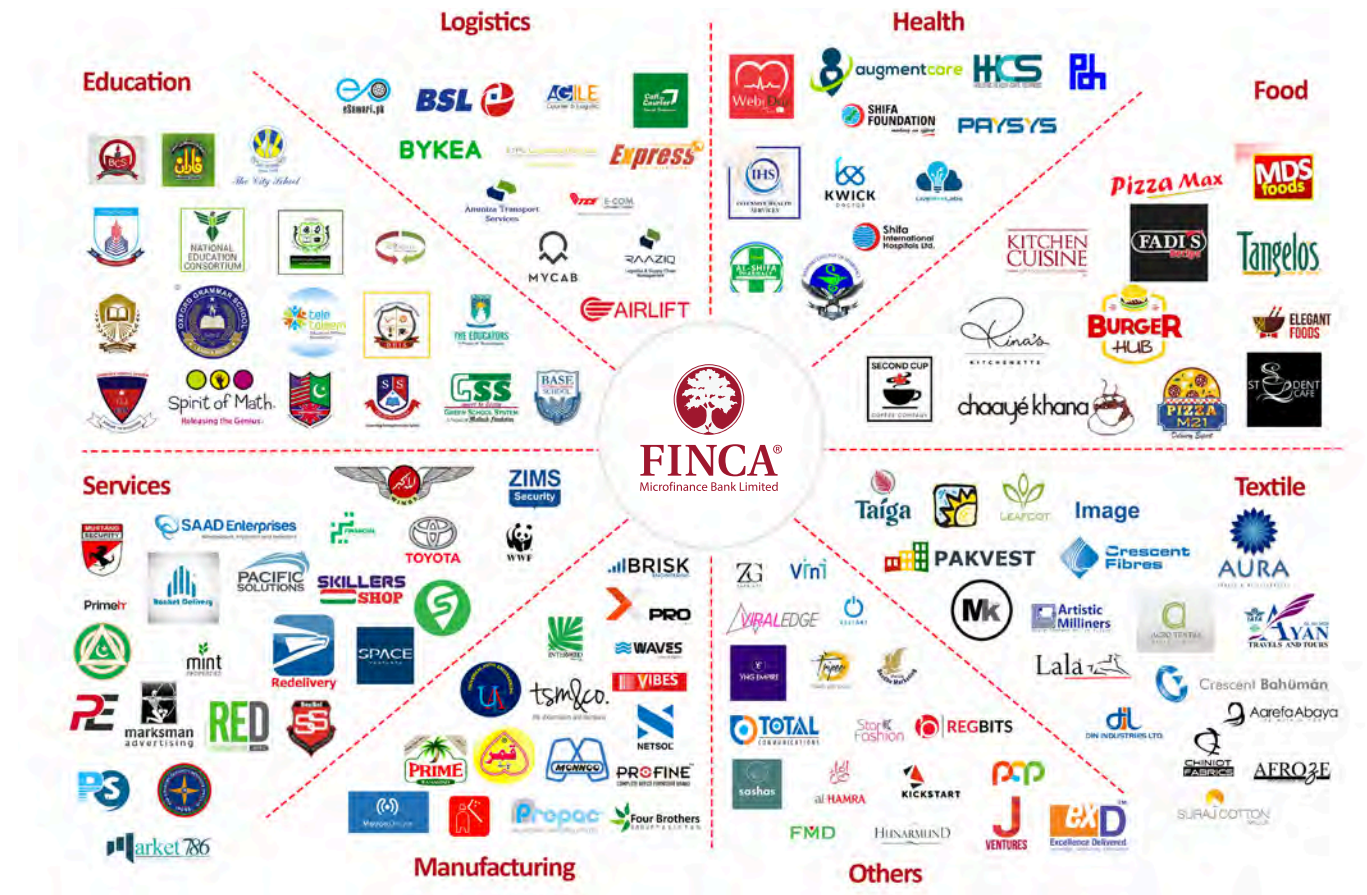
### Incoming Payments

A convenient and innovative way for receiving customer payments to various businesses and e-commerce players without any hassle. Available features:

- Payment via One Time Password
- Payment via Public and Private Key
- Payment via Dynamic QR Code.

### Donations Collection

Offering free of cost donation solutions to NGO's, SMEs and welfare organizations with easy and transparent tracking of funds.



SimSim Business has now been proudly serving hundreds of corporates for multiple business solutions in various markets & segments throughout the country!

FINCA Pakistan has continued to invest and grow in the digital space of the banking industry. In 2019, we expanded SimSim to include digital loans, online marketplace, life insurance and online food ordering services. It has helped in providing our customers with a platform to maintain and strengthen their financial health. Through this digital platform, FINCA Pakistan has also made leaps in the acquisition of corporate

partners for its payroll solution. In 2019, employees of more than 100 well-known corporates from across Pakistan were registered. These corporates have utilized SimSim to disburse salaries to employees and process vendor payments. Many of these employees were previously financially excluded. By getting their salaries in the wallet, they are able to track their usage and consequently get access to digital loans.

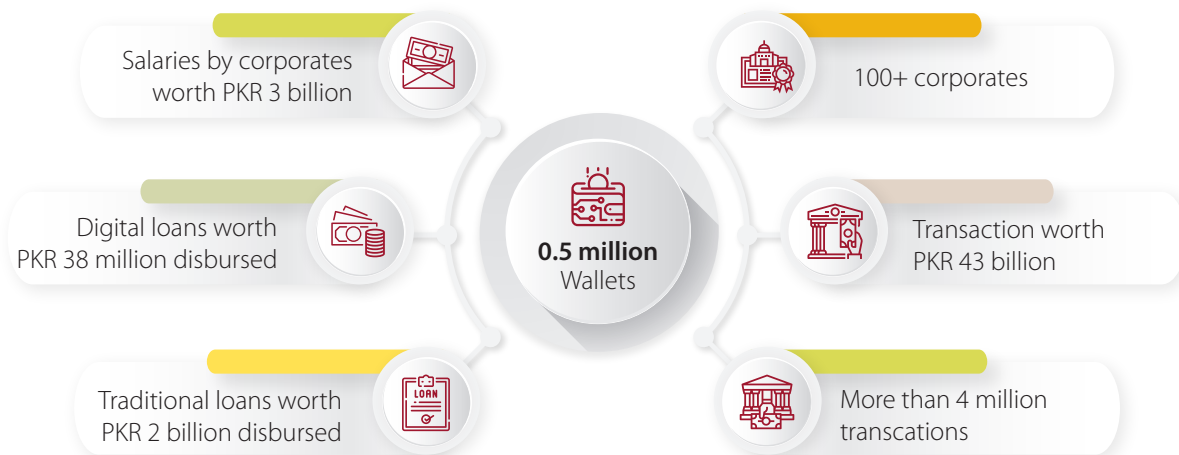
FINCA Pakistan believes in making banking simpler, easier and faster for all our customers and vows to continue playing a role in financial inclusion and to benefit users by building their financial health. This will aid them in building a financial history and help people build assets, create jobs and raise their standard of living.



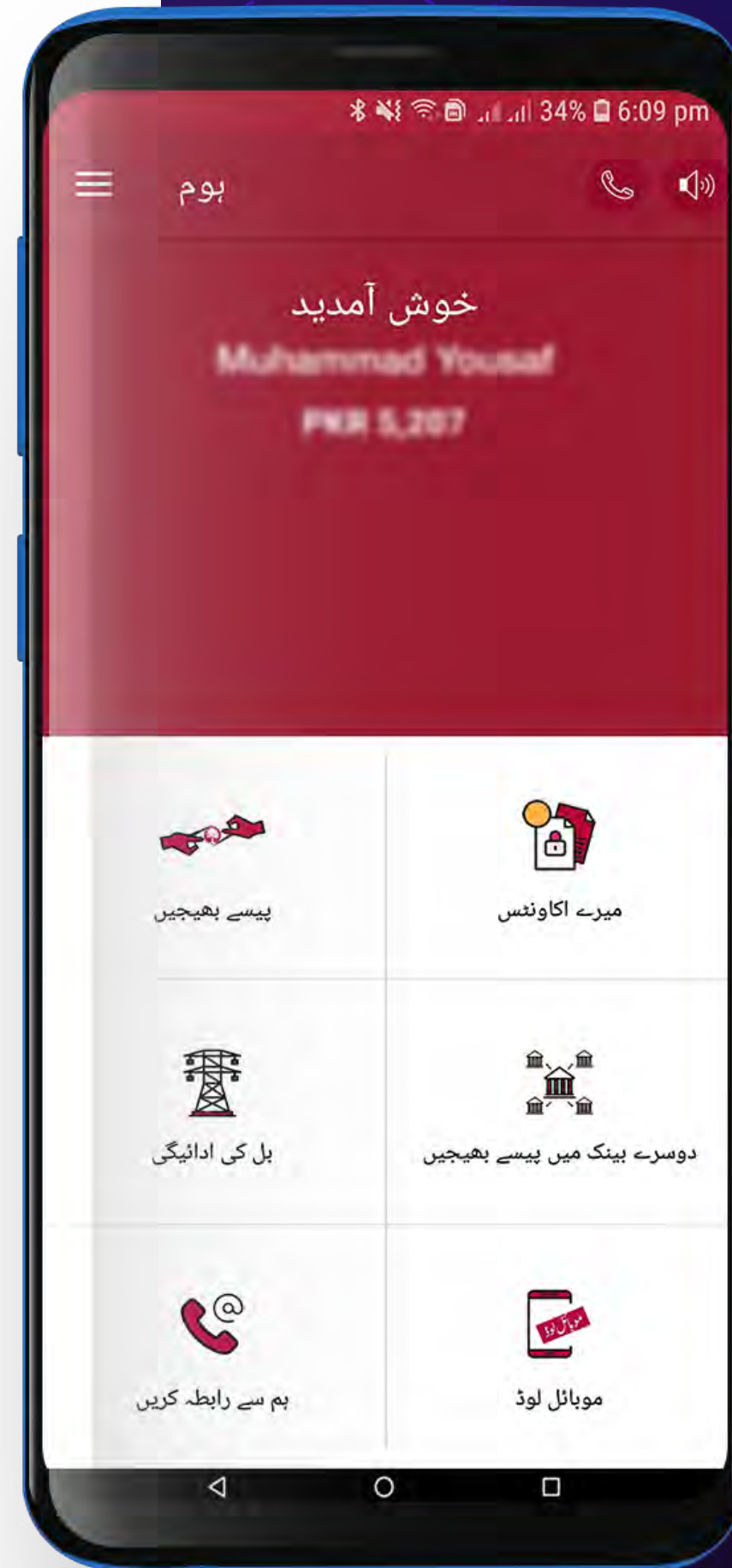
## FINCA Pakistan urdu app - revolutionizing lending services

In line with the ambition of digitizing processes under the ambit of FINCA 2.0, we were able to revolutionize the traditional loan disbursement model of our Core Banking vertical. The borrowers of FINCA Pakistan are now able to get their loans directly into their digital wallets which can be further accessed through FINCA Pakistan's Urdu application. This helps in providing increased avenues to our customers; to keep track of their usage and get access to a world of digital financial transactions and that too at no additional cost.

FINCA Pakistan app is completely designed keeping in view the socio-economic class of our borrowers. It is a dedicated Urdu app with a built in audio functionality. In 2019, loans worth PKR 2 billion were disbursed in our customers' wallets through this digitization measure.



*Numbers quoted since inception*



# Directors' report

## to the shareholders

» It gives me immense pleasure to present, on behalf of the Board of Directors, the annual report along with audited financial statements and auditor's report of FINCA Microfinance Bank Limited ("the bank") for the year that ended on December 31, 2019.

### Overview:

The bank entered 2019 facing extraordinary macro-economic challenges - rising inflation, monetary policy tightening through rate escalations and rapid currency devaluation. Another unusual threat, systemic in nature which impacted the entire microfinance sector, came from changing climate patterns. It affected the agricultural sector in particular, which is generally vulnerable to change in temperature and rainfall. As a result, Pakistan's major crops remained under stress owing to adverse climate trends and resultant pest attacks. Livestock rearing business, embedded in the rural economic activities, also bore the brunt.

Despite these challenges, the bank retained its market share in terms of key KPIs i.e. Gross Loan Portfolio (GLP), Deposits and Number of Borrowers. Despite reducing its exposure in unsecured bullet loans by 6%, the bank increased its GLP by 8% by actively focusing on installment loans category. The bank also obtained PKR 3 billion Long Term financing from the State Bank of Pakistan under Financial Inclusion & Infrastructure Project and also raised PKR 800 million in Tier-II Capital through a bilateral facility from PMIC. These initiatives allowed the bank to shed some high cost deposits

although the deposit base ended the year at PKR 23.9 billion – a touch higher than 2018 level. However, given the stress in the bullet portfolio, NPLs and write-offs increased compared to last year.

Even with inflation & slow growth, expenses to GLP ratio improved from 17% to 19% due to various transformation and cost control measures. In response to the portfolio behavior, the bank strengthened collection and recovery teams and comprehensively reviewed controls around bullet loans. The Tier-II Capital injection pushed capital adequacy ratio (CAR) from 16% to 20% at year end. The GLP growth and product composition change were aided by better segmentation and product suite diversification strategy. FINCA Pakistan pilot-launched multiple installment-based credit offerings for both small businesses, micro entrepreneurs and the salaried.

In line with the business efficiency roadmap to lower the overall cost of doing business and enhance client experience, the centralized loan renewals for repeat clients were scaled, loan disbursements/repayments into borrower's mobile wallet account were started and the entire client acquisition & disbursement process were digitized. FINCA Pakistan piloted

its newly developed Sales & Service Center (SSC) concept successfully. To upgrade the service delivery capability, the new core banking system was implemented across the entire network.

In Digital Financial Services (DFS), bank's mobile application & financial solution, SimSim, continued its progress, reaching around 445,000 users. SimSim's payroll solution has thus far on-boarded 424 Corporates & SMEs with around 52,000 employees registered for salary disbursement.

### Macro Economic Environment In 2019:

Since Pakistan entered into IMF program on July 3, 2019, steadfast efforts to implement policies under the program reflect Government's strong commitment for economic reforms. However, risks remained elevated. As a rule, strong ownership and reform implementation agenda are critical to entrench macroeconomic stability, supporting robust and balanced economic growth. Key positive developments along with significant challenges during the year are highlighted below.

### Key Positive Developments

- Decisive policy implementation by the Government and State Bank of Pakistan (SBP) helped

to preserve economic stability. Growth slowed during the year as the economy was adjusting to the new policies. Real GDP growth is projected at 2.4% in the financial year 2020 and is projected to improve to around 3% for next financial year 2021, as policies take hold resulting in greater confidence and higher investments.

- The transition to a market-determined exchange rate remained orderly, allowing the rupee to find its new equilibrium quickly. After depreciating against US Dollar by about 15% to a peak of PKR 164, the rupee stabilized around PKR 155/USD. SBP reserves rose to about US Dollars 11.5 billion as of December 2019, reflecting significant increase of more than US Dollars 4.4 billion in quarter 3 and quarter 4 of calendar year 2019.
- On the external front, Pakistan's position improved considerably. Current account deficit shrank from 6.3% of GDP to 4.9% of GDP in the financial year 2019. It's expected to come down to 2.4% during the next financial year, 2020.

- The overall microfinance and commercial banking sector is stable with adequate CAR well above the stipulated threshold given by SBP.

### Major Challenges

Despite the Government's resolve for structural reforms, risks to the economic outlook remained high. Growth remained weak and significant fiscal adjustments would be needed in the coming years.

- Inflation remained a major macro challenge throughout the year as the CPI rose from 6.2% in December 2018 to 12.4% in December 2019. Consequently, Discount Rate was adjusted upwards throughout the year. Average CPI inflation is projected to decelerate during the financial year 2020.
- Thereafter, inflation is expected to converge to SBP's 5-7% medium-term objective, hitting the midpoint by financial year 2022 and the Discount Rate is expected to follow the same trajectory.
- During this financial year, the government registered a primary deficit of 3.5% of GDP and an overall deficit of 8.9%, against its target of 1.8% and 7%, respectively - reflecting significant fiscal slippages.
- Energy sector arrears continued to grow despite tariff adjustments and measures to control losses. Stronger efforts are needed to improve the viability of the power sector and tackle the circular debt issue.



## PKR 3 billion

### Long Term Financing

The bank obtained PKR 3 billion Long Term financing from the State Bank of Pakistan



## Directors' report to the shareholders

### Microfinance Sector Overview:

The year 2019 was also a challenging one for the Microfinance Industry. In comparison with the previous years, the credit side of the sector grew at a much slower rate. Active borrowers increased by 4%, while the outstanding lending portfolio grew by 11%. On the deposit side, the number of depositors increased by 21% but deposits grew by only 11%. Portfolio at risk >30 days for the MFBs witnessed an increase from 5.8% in December 2018 to 6.1% in December 2019.

### The Bank's Business & Operations:

In 2019, FINCA Pakistan's outreach efforts kept itself aligned with the technological overhaul taking place within the bank. The year witnessed a stable increase in key outreach metrics, as listed in the table below. The bank also increased the diversification in its sales effort by catering to the micro entrepreneurs with a higher financial profile, besides broadening its services to new localities around its branches.

By and large, 2019 was a year of prudent growth for the bank. Climate change & macro-economic factors had a material impact, which negatively impacted the bank's profitability. PACRA reaffirmed the bank's long-term

### Microfinance Sector in Pakistan

Indicator	31 December, 2019	31 December, 2018	Variance
Gross loan portfolio (GLP) <sup>OVERALL</sup>	<b>PKR 306 billion</b>	PKR 275 billion	↑11%
GLP held by microfinance banks (MFBs)	<b>PKR 214 billion</b>	PKR 189 billion	↑13%
Deposits held by MFBs	<b>PKR 266 billion</b>	PKR 239 billion	↑11%
No. of borrowers served <sup>OVERALL</sup>	<b>7.2 million</b>	6.9 million	↑4%
No. of borrowers served by MFBs	<b>3.5 million</b>	3.2 million	↑9%
Average loan size <sup>ANN OVERALL</sup>	<b>PKR 46,816</b>	PKR 51,235	↓9%
MFBs' average loan size <sup>ANNUAL</sup>	<b>PKR 51,904</b>	PKR 66,079	↓21%
No. of women borrowers <sup>OVERALL</sup>	<b>3.7 million</b>	3.7 million	0%
% share of rural borrowers <sup>OVERALL</sup>	<b>53%</b>	51%	↑4%

*\*Source: Pakistan Microfinance Network*

### Financial Performance

Indicator	31 December, 2019	31 December, 2018	Variance
Gross loan portfolio	<b>PKR 22.48 billion</b>	PKR 20.9 billion	8%
Number of active borrowers*	<b>238,337</b>	235,632	1%
Deposits	<b>PKR 23.9 billion</b>	PKR 23.7 billion	1%
Number of deposit customers*	<b>1,283,677</b>	1,050,560	22%
Pre-tax operating profit	<b>PKR 1,012 million</b>	PKR 1,580 million	-36%
After-tax operating profit	<b>PKR 653 million</b>	PKR 956 million	-32%
PAR>1 day	<b>7.3%</b>	2.8%	160%
PAR>30days	<b>4.6%</b>	1.9%	142%
Cost-to-income ratio	<b>89%</b>	78%	14%
Return on assets	<b>1.9%</b>	3.3%	-43%
Return on equity	<b>14.7%</b>	26.2%	-44%

*\*These figures may reflect some double-counting, i.e., some customers who are borrowers are also savers.*

rating as "A" and short-term rating as "A1", with a "stable" outlook.

On the capital reserves front, in order to meet the regulatory requirement of SBP, the bank appropriated PKR 130 million, or 20% of after-tax profit, towards statutory reserves. In addition to the statutory reserves, the bank also set aside PKR 33 million, or 5% of after-tax profit, for the depositor protection fund. At the end of the year, the capital adequacy ratio

(CAR) stands at ~20% (2018:16%). The bank concluded the year 2019 with a network of 130 branches and 2 Sales & Services Centers (SSCs). The bank is slated to open 10 new SSCs in 2020.

### Transformation:

FINCA Pakistan's transformation initiative is bifocal. It aims to enhance customer experience while delivering products & services more efficiently. The following

initiatives were taken in 2019 to achieve these objectives:

1. The centralized loan renewals for repeat clients were scaled to 109 branches.
2. The bank invested significant resources into digital transformation and digitalized, by using tablets and loan processing application, entire client acquisition & disbursement process.
3. Such loans were disbursed into & collected from borrower's mobile wallet account (also accessible by FINCA Pakistan's innovative Urdu language based application successfully rolled out in Q4 2019).
4. FINCA Pakistan piloted its newly developed Sales & Service Center (SSC) concept successfully. It leverages on the investment bank has made in technology.

To upgrade the service delivery capability, the new core banking system was rolled out throughout the network. Disaster Recovery (DR) Site for call center was established for uninterrupted customer experience. These measures, along with other efficiency initiatives, were taken to equip the bank with a customer-centric and efficient service delivery model for future growth.

### Product & Channel Innovations:

Following were the major pillars of the Product Strategy that the bank pursued in 2019.

1. Focus on installment based loans.
2. Achieve a balanced proportion of secured and unsecured loans in the bank's portfolio.
3. Upscale the current product offering for small businesses with greater credit needs.

The bank widened its credit segmentation and diversified its product suite by launching multiple products for both small and micro entrepreneurs. It is the first time that the bank ventured into the employed/salaried segment through 'House Loan (Renovation/ Home Improvement)'.

Following major credit products were rolled out in 2019;

- FINCA Karobari Karza (Small Enterprise Variant) - piloted in five (5) branches
- FINCA Light Commercial Vehicle - piloted in five (5) branches.
- FINCA House Loan (Secured and Unsecured Variants) - piloted in ten (10) branches.



## 445,000

### SimSim Users

In Digital Financial Services (DFS), bank's mobile application & solution, SimSim, continued its progress, reaching 445,000 users.

## 51,651

### Employees

424 companies were on-boarded with 51,651 employees registered for salary disbursement.

## Directors' report to the shareholders

After successful pilots, the bank will push these products into commercial launches this year. Moreover, the bank will establish alliances to gain access to a large pool of potential clients for the existing products. This may include partnerships with ride-hailing services for commercial vehicle and motorcycle financing; and linkages with FMCG distributors for Supply Chain Finance for downstream retailers. Another synergy the bank will explore is cross-sell of the 'House Loan' to the Payroll customers on the SimSim platform.

The bank also launched health insurance pilot product, branded as FINCA Sehat Zamanat (implying 'Health Assurance') in collaboration with Jubilee Life Insurance in 13 branches. FINCA Sehat Zamanat offers customers quality healthcare coverage in case of hospitalization.

To gain a foothold in the secured product category, the bank promoted accelerated growth in FINCA Sunheri Karza, the gold-backed lending product, and added about PKR 1.0 billion.

In Digital Financial Services (DFS), bank's mobile application & solution, SimSim, continued its progress, reaching 445,000 users. By the end of 2019, these users had collectively conducted 4.8 million transactions worth PKR 60.4 billion since the launch of the platform. In addition, the bank had a strong

focus on deploying its SimSim payroll solution for Corporates & SMEs across the country. Till end of 2019, 424 companies were on-boarded with 51,651 employees registered for salary disbursement.

### Customer Experience:

The bank maintained its focus on increasing the CX management capacity of our field teams. The CX management workshops, on FINCA Pakistan's online training portal, were successfully completed by more than 1,000 staff (including 700 frontline). To gauge the quality of customer interactions with FINCA Pakistan, CX performance measurement interface's advanced version, called the "Branch Service Ladder (BSL)" was rolled out. This helped frontline staff check their 360° CX management, allowing them to course-correct.

Around 800 'Branch Mystery Shopping' exercises were conducted. The Voice of customer (VOC) tracking tool was deployed to track client satisfaction for 4,000 customers at various stages of their user journey. Bank's NPS rating, at the end of December 2019, stood at 47%. The Bank continues to monitor customer satisfaction levels immediately after their transactions via "Pulse Surveys" using audio-visual enabled and tablet based tools. This approach towards CX capacity building resulted in active participation by frontline staff

in customer centric events like "Customer Service day" for different client segments.

FINCA Pakistan further expanded its digitized inter-departmental request generation and resolution platform (Web Help Desk) to more key internal service departments, allowing staff to get efficient and rapid resolution. Taking a cue from the 'Global FINCA Star Award', the bank recognized individuals and branches that exemplified the most exceptional customer service during the year 2019.

### Risk & Control Optimization:

Any business transformation brings its fair share of risks associated with it. As the bank takes calculated yet disruptive steps to align its business model with the modern day consumer's needs, it is also evolving its risk management system. The objective of this evolution continues to remain focused at enhancing the quality of business, so that the bank does not expose itself to an avoidable risk. The strategic priorities to build a better control structure include:

1. Improvement in Portfolio Quality thereby reducing credit losses
2. Strengthening of Cyber/ Information Security Controls

3. Strengthening of Internal Controls through effective Risk Control Self-Assessment

4. Bringing efficiencies in loan approval process through data driven decision making without compromising on the portfolio quality.

### Developments In Human Resources Management:

In 2019, the primary focus of the bank was towards nurturing culture, capacity building, strategic realignment of resources and staff retention. In order to successfully achieve results in these areas, a series of interventions were launched including capacity building programs and recognition events for top performers.

The bank's realignment efforts resulted in shift of back-office headcount by nearly 100, to Sales based roles and ended the year with a lower overall staff strength of 2,860 vs 2,879 in 2018. The proportion of women employees stood at 16% during this period. The staff attrition rate at the bank remained the same in 2018 and 2019.

In addition to this, the bank also partnered with Mercer's local representative to conduct a 'Job Role Clarity' activity with the aim of identifying overlapping job roles

and ultimately creating a leaner organizational structure.

On human resource development side, focus was on dedicated training courses for staff across various job roles which included; Branch Managers, Operation Managers, Relationship Managers-Assets, Credit Officers, Customer Service Officers and Saving Officers. Our classroom interventions were further supplemented by the incorporation of e-learning courses. The total percentage of staff uptake in e-Learning was at 42% as compared to 39% in 2018.

The bank also conducted awareness sessions covering more than 300 female staff members through its D&I Unit (Diversity & Inclusion). In addition to this, it was also ensured that all our staff participated/completed a gender sensitivity training intervention in the form of e-learning, as well as, group discussions.

### Social Responsibility Initiatives:

FINCA Pakistan engages its surrounding communities to instill financial awareness among them. Overall, we organized 500 such gatherings during the year 2019. Approximately, 12,000 people benefited from these sessions with discussions around consumer financial rights and responsibilities;



# 47%

#### NPS Rating

Bank's NPS rating, at the end of December 2019, stood at 47%.

# 42%

#### E-Learning

The total percentage of staff uptake in e-Learning was at 42% as compared to 39% in 2018.



## Directors' report to the shareholders

and how to utilize the complete array of financial services. A quarter of such engagements were carried out under the umbrella program of State Bank of Pakistan. All sessions were conducted directly by us.

On Pakistan's Independence Day, 14 August, 2019, FINCA Pakistan conducted a tree plantation drive. Under this initiative, more than 1,000 trees were planted.

### Way Forward:

The bank's growth strategy for 2020 is going to remain balanced in view of the macro-economic headwinds, possible COVID-19 related impact on the GDP Growth and Lending Portfolio. The bank will continue with realignment of loan book towards installment based & secured loans to improve the risk/reward matrix. The branch-based distribution network will be complemented by digital channels, acquisition of lead management / CRM capability and roll-out of SSCs for client acquisition.

Through tangible and scalable initiatives, the bank will continue striving for a seamless and delightful customer experience that is grounded in the analytics and insights gathered through client interactions across all channels.

Microfinance services, given the segments targeted, still relies on the human relationship. The answer, therefore, is to strike the

right balance and have a Tech-Touch model in place. This will help the bank continue its mission of expanding access to financial services without compromising on its core values. The focus will be on building relationships, creating impact, delivering on the mission and gaining efficiencies leveraging the digital transformation.

Given the portfolio quality challenges, Risk & Control environment will be further strengthened through effective Risk Control Self-Assessment (RCSA). Also, as the bank has effectively implemented the digital transformation strategy, Information Security will remain a key area to focus on.

### Acknowledgments:

After witnessing a solid run for the past few years, it was a testing year for the bank as challenges emanated from both external and internal environment. However, I am glad that the bank proved its mettle by retaining its market share against all the key KPIs. Although, given the stress in the bullet portfolio, NPLs and write-offs increased compared to the year 2018. Nevertheless, the bank ended up posting positive results. I also admire the fact that FINCA Pakistan started bracing itself with forward-looking measures, inter alia, to diversify the product mix, control costs, review controls, and strengthen collection & recovery

efforts around bullet loans. On behalf of the Board, I take this opportunity to congratulate the leadership team to make major headways towards FINCA 2.0. Through tangible and scalable initiatives, the bank will continue striving for a seamless and delightful customer experience that is grounded in analytics and insights.

We are extremely fortunate to have a diverse and knowledgeable board of directors, putting their weight behind the bank's management team in their efforts to steer the bank towards disciplined growth. For this, I extend sincere gratitude to each member of our board. The relationship between FINCA Pakistan with its shareholders – IFC, Acumen, Triodos and Kashf Holdings – is a significant and long-term strategic collaboration that will continue to strengthen the bank's ability to serve its customers. The bank also benefited greatly from the regulatory revisions, suited to the market needs, put in place by the State Bank of Pakistan and the continued demonstration of professionalism by the SBP team.

The recent past has brought about major changes to the financial inclusion landscape. The advent of technology and digital transformation has opened up new avenues for the service providers to acquire, service and maintain relationship with the customers.

However, it also poses a new risk that, too much focus on technology may cloud the bank's core values of warmth, trust and responsibility. Considering the challenging times ahead, the need to have very strong customer orientation becomes profoundly inevitable. Hence, leveraging the Tech-Touch model, the bank will continue to focus on building relationships, creating impact, delivering on the mission and gaining efficiencies through digital transformation.

**Ms. Zarlasht Wardak**

*Chairperson Board of Directors*

**FINCA Microfinance Bank Limited**



# 1,000

### Tree Plantation

On Pakistan's Independence Day, 14 August, 2019, FINCA conducted a tree plantation drive. Under this initiative, more than 1,000 trees were planted.





## A million served

**Penetrating in Pakistani microfinance sector wasn't like a usual commercial bank. It was a journey of penetrating and being available in the most remote areas of the country branch by branch, standing at a current total of 132.**

The mission was to bring a service that was easily attainable and accessible as per the segment we cater and work for and understand their needs and constraints. This ideology created an unstoppable chain of relationships, which led the bank towards becoming one of the largest microfinance bank in the country.

Furthermore, with an unmatched customer experience at all delivery channels, tailor made products, digitizing key customer touch points, enabled FINCA Pakistan to become a bank of choice. FINCA Pakistan has proudly served more than 1 million customers in every region of Pakistan from Kashmir to interior Sindh, rural Punjab to Balochistan and is still expanding to support its customers. Our employees and dedicated resources are out in the field to provide financial solutions to a sector of the society that has usually come across shut doors either due to the eligibility criteria or strict documentation to avail financial assistance.

Countless customer success stories, who grew their businesses, created jobs and improved their lifestyles, makes evident that FINCA Pakistan is more than a financial institution for its clients. It proved to be an agent of change for the country's economy and social landscape.





## The breadwinning woman

To have a meal on your table for your family to feast on is a luxury. To only eat half way although you struggled to bring that food to the table is a sacrifice only the breadwinner of the house has to give but it is calming to know that your loved ones will sleep with full bellies. In a part of Lahore called Fateh Garh, lives Tasleem Ejaz, a woman that has only known survival, and sacrifice. Tasleem owned a small general store in Fateh Garh and ran it with her twelve year old son and a 13 year old daughter.

She stated, "I was very worried. Before going to FINCA Microfinance Bank I stumbled around for loans to start something and then someone told me to go to FINCA Pakistan to expand my business. In the crisis, I couldn't afford my children going to school because my husband was bedridden and the earnings from sewing clothes were not enough. I managed to open up a small general store from the little I had saved but that wasn't enough. I needed capital to buy raw material for my store to maintain cash flows. A neighbor then told me about FINCA Pakistan. I then received a loan to add small supplies to my store like aata, ghee, cheeni and that helped me gain stability".





## Never stop growing

Shafique's dream to expand his business and establish multiple enterprises was always hindered by capital limitations. Years of running a grocery store, he only earned enough to meet his household needs, struggling to make an adequate amount of revenue from his grocery shop to start another source of income. Shafique was approached by a FINCA Pakistan family member who apprised him of the brand. Guidance and utilization of the loan facility enabled him to expand his grocery shop that he dreamt of expanding his entire life. By availing loan cycles constantly he was financially established enough to open two additional shops not for himself only but for his father as well.

This financial enablement helped him achieve his personal milestones i.e. marrying his two sisters with dignity. Shafique added, due to monetary problems he and his family often suffered from financial disputes until he acquired a loan from FINCA Pakistan that helped him lead a path of entrepreneurial success. Through his businesses, he is now enabled to create jobs for more people, elongating the chain of financial inclusion. He expressed his contentment by adding that growth in his businesses has helped in eradicating financial disputes amongst his family and he plans for further expansion, getting more stocks and creating jobs for more people. Shafique says, "Financial assistance can completely change the future of a family", which he is ambitiously working harder to grow further.







## Efforts have no limits

Samina Yasmeen has been running a stitching business out of her home for 25 years. She has a steady income stream, clients who love her and a reputation for excellence. However back in 2018, she found herself unable to secure a loan for scaling up her business.

She isn't the only one. Tens of thousands of small businesses across Pakistan have solid unit economics but aren't part of the formal banking system, making it difficult to secure loans. Fortunately, though, Samina had heard about FINCA Microfinance Bank through an acquaintance.

Two years ago, in dire need to expand her business, Samina applied for a loan from FINCA Pakistan. This was her second time. The bank was very cooperative and within a space of two days, she got the money in her account. FINCA Pakistan offers a variety of loan products; 'Niswan Karza' is one such products specially designed for women where the terms and conditions of acquiring a loan are made even easier.

Talking about loan repayment, Samina said that it was very easy to pay back the loan. "The terms were favorable and I could easily pay it back from the higher earnings the business was able to produce because of the investment. If you need money, talk to FINCA Pakistan and they'll guide you and explain the best option." Even in the wake of the current pandemic, FINCA Pakistan has been supporting its customers to maintain financial stability by offering them the facility of deferred loan payments; whereby existing borrowers can repay loans at a later time or have their loans restructured; with the realization that businesses have been gravely affected during these challenging times and that the customer always comes first!

Samina Yasmeen, like many other customers, use the loan amount as a financial buffer to smoothen operations of their businesses with a peace of mind. Samina is now earning a good livelihood for herself and also providing earning opportunities for other women who work for her.





» Customer first approach



# Measures taken to ensure a customer first approach

FINCA Microfinance Bank is a customer centric bank. The bank believes that focusing on the customer experience (CX) is the right thing to do—not only for the clients, but also for the business to be sustainable, innovative and competitive. At FINCA Pakistan, the bank defines CX as how the internal and external customers perceive and feel about their interactions with FINCA Pakistan. The ultimate goal is to deliver CX that delights and leave the customers convinced that their needs are prioritized, they are understood, and their bank believes in their aspirations and strives to enable them.

In 2019, the bank maintained its focus on increasing the CX management capacity of field teams. The CX management workshops on FINCA Pakistan's online training portal were successfully completed by more than 1,000 staff, including 700 frontliners. To gauge the quality of customer interactions with FINCA Pakistan, CX performance measurement interface's advanced version, "Branch Service Ladder (BSL)" was rolled out. This helped the frontline staff to check their 360° CX management, allowing them to course-correct.

Around 800 'Branch Mystery Shopping' exercises were conducted. The Voice of Customer (VOC) tracking tool was deployed to track client satisfaction of 4,000 customers at various stages of their user journey. Bank's NPS rating stood at 47% at the end of December 2019. The Bank continues to monitor customer satisfaction levels immediately after their transactions via "Pulse Surveys" using audio-visual and tablet based tools. This approach towards CX capacity building resulted in active participation of frontline staff in customer centric events like "Customer Service day" for different client segments.

FINCA Pakistan further expanded its digitized inter-departmental request generation and resolution platform, Web Help Desk, to more key internal service departments, allowing staff to get efficient and rapid resolution. Taking a cue from the 'Global FINCA Star Award', the bank recognized individuals and branches that exemplified the most exceptional customer service during the year 2019.





# A socially responsible corporate entity

FINCA Pakistan being a socially responsible financial institution has successfully supported thousands of people in achieving financial stability resulting in improving their living standards.

Our strong belief in firm ethical principles and efforts towards financial inclusion of the masses is a testament to FINCA Pakistan being a socially responsible entity. In order to create awareness amongst the masses, we have been running the following two initiatives:

1. In compliance with SBP’s National Financial Literacy Program (NFLP) initiative, we conducted 111 sessions in 2019 for the unbanked population of the society. This aimed to make the people aware of basics like budgeting, savings, and investments etc.
2. Through our very own initiative of the “Samajh Boojh Program”, the bank conducted 3 sessions per branch in 2019 making a total of 389 sessions for general public and clients of MFBs/MFIs. The total number of participants were 8,422 who were not FINCA Pakistan’s existing customers. Samajh Boojh Program is the initiative under Fair Treatment of Customer regime. The aim of this program is to impart basic Financial Literacy

## Employment Generation due to Loans

Indicator	Total number of loans this FY
Total Outreach	238,337
Female borrowers	24,027
Households supported and average size	605,376
Households supported and average size (since inception)*	2,888,191

*\* An average FINCA Pakistan client business supports the employment of 2.54 people (including the client himself). Household supported is based on this multiplier.*



and consumer awareness throughout FINCA Pakistan’s operational areas to support the customers of Microfinance Banks (MFBs), lower income segment of the society or the unbanked population of the country that has lesser access to financial education. Relatable video and static content was also advertised on different marketing channels to disseminate the message effectively.

These initiatives not only created awareness among people but also motivated them for financial inclusion.

## Mission Monitor Survey 2019

As an institution, our most important outcomes are defined by our customers themselves, and our performance metrics reflect their aspirations and concerns. We measure our social performance in the same way we meet our financial targets - with rigor and honesty, to make sure our products and services are positively changing the lives of the people we serve. FINCA Impact Finance’s (FIF) social performance indicators fall into the following three categories, representing different aspects of our mission, as covered in Mission Monitor Survey during 2019.

## Financial Health Score of FINCA Pakistan’s Clientele:

Borrowers	Savers	Mobile Wallet Retail	Mobile Wallet Payroll	Total
61%	47%	61%	42%	53%

- **Outreach:** FIF’s mission and business model focuses on reaching people whose lives and livelihoods are hindered by financial exclusion. Indicators include:
  - o Country-level rate of financial inclusion
  - o Outreach to the following demographics
    - Poor and economically vulnerable
    - Women
    - Rural
  - o Primary household earner
- **Financial health:** FIF’s social and commercial performance depends on our ability to improve our clients’ financial health, which contributes directly to the growth and sustainability of our organization. Indicators include:
  - o Ability to meet routine expenses on time
  - o Ability to save money regularly
  - o Assets able to cover 1 month of living expenses

### FINCA Pakistan Borrowers

- **Usage:** The impact of FIF’s services is determined by clients’ actual usage (or use-cases) and the perceived benefits that drive customer engagement. Indicators include:
    - o % of people for whom FINCA Pakistan is the main source of credit and/or savings
    - o Perceived contribution to family finances
    - o Satisfaction with loan size
    - o Usage of savings
- FINCA Pakistan reaches out mostly to a male, urban clientele, except for borrowers; about a third of whom live in rural areas. We have been reaching out to a younger segment in Pakistan than most countries, especially through our digital mobile wallet products. Digital mobile wallet customers are divided into two categories. Retail customers have signed-up as SimSim users individually while payroll customers are enrolled through employer-sponsored programs. While clients are generally satisfied with their



# A socially responsible corporate entity

loan amounts, just over half have renewed a loan they took previously. Women are more likely to take a follow-up loan than men.

- 86% borrowers who say FINCA Pakistan's recent loan was the right amount for them
- 56% borrowers who renewed their last loan
- 65% female clients renewed their last loan

## FINCA Pakistan Savers

Though they do not register a high incidence of poverty, FINCA Pakistan's clients exhibit a wide range of financial vulnerabilities. About a third of customers report that they are using informal savings mechanisms, but formal banking, outside of FINCA Pakistan, is very rare. We have been instrumental in improving the financial health of our clientele by promoting a savings-first mindset. It brings us immense satisfaction that about 78% of our deposit clients also save with us out of which 56% report improvement in their household's financial situation because of their investments with us. Similarly, about 10% of lending clients save with FINCA Pakistan out of which 78% report improvement in their household's financial situation.

## Other CSR Activities

In continuation of our CSR activities, FINCA Pakistan also conducted a tree plantation drive in partnership

with Pakistan's Horticulture Society. This activity was completely funded by our employees where approximately 100 employees of the bank gathered and planted 1,000 plants contributing to restore the greenery of the city and to benefit the environment.

In 2018, FINCA Pakistan chose to support the operating costs of an elementary school, for the underprivileged children, for 1 year. This support continued in the first quarter of this reporting period. The initiative supported the education of ~300 girls. Additionally, FINCA Pakistan also established a library at that school.

As a part of its CSR initiatives, FINCA Pakistan sponsored the Deaf Super League (DSL) to extend its support to initiatives associated with the enablement of special communities.

## Jobs Created by FINCA Pakistan

In 2019, as the economy faced a significant number of macro-economic challenges such as weather impact on the crop and agriculture sector, and devaluation in local currency. The microfinance sector was also impacted, and in such the focus of the Human Resources Department was towards nurturing strategic realignment, resource restructuring and staff

retention. In order to successfully achieve results in these areas, FINCA Pakistan launched a series of interventions including, Capacity development programs including an international program and recognition events for top performers.

Women awareness sessions were conducted covering more than 300 female staff members through the D & I Unit (Diversity & Inclusion) and worked on recruitment with focus on women. In addition to this, the bank has ensured that all staff participated/completed a gender sensitivity training intervention in the form of e-learning as well as group discussions.

FINCA Pakistan conducted dedicated training courses in both classroom and e-learning platforms for staff across various job roles which included Branch Managers, Operation Managers, Relationship Manager-Assets , Customer Service Officers , Saving Officers & Credit Officers mainly. These combined efforts supported in the bank achieving operational budgeted targets i.e. GLP and Deposits while sustaining the market share, while stretching its total assets around PKR 37 billion.

Female representation in the board is 30% while Pakistan female staff stood at 16% at the end of 2019.

# Risk management & controls

## Central Credit Underwriting

In line with FINCA Pakistan's strategy to promote SE segment and to cater the business needs of customers requiring higher financing amount, FINCA Pakistan launched SE product in 2019 (ticket size upto PKR. 1 million) including

- i) FKK SE (Loans for Business)
- ii) FLCV (Loans for Commercial Vehicles)

Being the higher ticket size category, such loans carry higher risk and in order to mitigate the same, a centralized underwriting unit was formed under Risk Management department, responsible for reviewing and underwriting of SE loans as well as House Financing loans above 150k upto 1 million. Verification as well as cash flow analysis of all such loans is performed and prepared by field Risk Officers who assess customer's cash flows during physical inspection of Business place. Centralized Credit Underwriting Unit performs decision on the

basis of loan profile and findings of Verification report.

## Credit Decision making Analytics

Data driven decision making is one of the key strategic initiatives under FINCA 2.0. Analytics driven decision making is critical for effective portfolio management. The analytics function under Risk department performs various risk based analysis to gauge the portfolio behavior and provide recommendations to the Management to make sound decisions based on the portfolio performance. This function also generates various MISs including a comprehensive daily dashboard covering credit, market, operational and IT risk along with recovery.

## Information Security

Rise in digital financial initiatives including FINCA 2.0 has significantly placed Information & Cyber Security as a frontline warrior and made it an important pillar. The below mentioned functions are fully

in-line with FIF global initiatives and regulatory guidelines. These functions are:

1. **Information Security Governance:** To ensure governance, management, awareness, audit and compliance
2. **Offensive Security:** To ensure up-to-date security posture of banks' digital assets and support mitigation of any arising issue
3. **Security Operation Center:** To monitor the digital footprints of security events across bank's digital infrastructure and respond in case of any incident
4. **Technology Risk Management:** To better assess the risk and plan the risk mitigation arising from internal & external environments.
5. **Security Operations:** To run and manage information / Cyber security tools enabling the bank to perform secure digital operations.

# Digital transformation

Over the period of time, the banking system has grown to offer effective and efficient services to its customers and the economy as a whole. Pakistan is a developing country where the banking system has strived hard to reach the number of consumers it is servicing right now.



Amidst these challenges and changing needs, FINCA Pakistan has also been improving and continuously evolving to keep up with the fast pace of change in the financial industry today.

Conventional means of loan management resulted in inefficiencies and hassle for both the end consumer and the Bank. In order to overcome these challenges, FINCA Pakistan has digitized the entire process; from loan appraisal and approval, to disbursement and collection, every step is now automated under the Digital Field Automation (DFA) project. Customer application appraisal and verification is done with the help of an Android based application installed on a BVS enabled tablet and necessary approvals are taken on an online web portal integrated with the tablet. Once a loan application is approved, all required information is captured in the CBS digitally without any human intervention, hence marking the start of the consumer journey. Efficient processes have therefore enabled the Bank to increase the productivity of the branch banking staff, resulting in reduced costs of the loan application process.

In addition to the aforementioned, digital disbursements into mobile wallets have also been initiated, which has enabled our customers to stay connected to the digital financial ecosystem in real time.

## Centralized Repeat Loans Processing Unit

The Centralized Repeat Loans Processing Unit was developed in 2019 with a vision to simplify the process of repeat loans, providing instant gratification to the customers in the shape of instant disbursements. In the first phase, the process was limited to specific products to validate the concept with minimum risk in 109 branches focused on EMI loans.

The initiative was one of its kind in the microfinance industry and has been a successful venture so far; creating an example for competitors to improve their customer experience journeys. The process has also brought in efficiency in terms of the field staff resourcefulness for fresh portfolio marketing. Approximately 5,000 loans were processed through this initiative in this year. PAR for these repeat loans has been calculated

to be less than 0.5%, which is much lower than the general loan portfolio. The initiative has also led to improved retention in the General Loan category by approximately 16%. Keeping in view this performance, the unit is planned for a scale up to cover more products under the repeat loan category in 2020 and onwards.

## Win Back Clients Initiative of 2019

An initiative was undertaken by the call center in May 2019, to reach out to exit clients and their guarantors, from past few years, via SMS broadcast and outbound calls.

The main objective of this initiative was to win back these former clients, convincing them to re-avail a microfinance loan from the Bank. This initiative was catered via SMS broadcast to all such customers and outbound calls were made to relevant customers in 12 branches by the call center. This proved to be a very successful initiative. Approximately 7,000 customers re-availed loans during May-Dec 2019 with approximate disbursement of PKR 800 Million. Such initiatives are planned for future as well.



# Digital transformation

## SimSim's Journey in FINCA Pakistan's Digital Transformation

SimSim has played a pivotal role in the digital transformation of FINCA Pakistan. It has not only enabled FINCA Pakistan's core business to bring operational efficiency through leveraging its digital platform, strengthened the value proposition of other products & services for existing and new customer segments but has also created new horizons for business growth and development through innovative digital solutions.

FINCA Pakistan has also successfully rolled out digital loan disbursement and repayments through SimSim for the entire branch network throughout the country. Approximately more than 20k loans, worth more than PKR 2.47 billion, were disbursed to our borrowers in 2019. The provisioning of SimSim digital platform adds tremendous strategic value for FINCA Pakistan. The ambitions of bringing digital

transformation to the core business would not have been possible without the availability of such a robust and efficient digital financial service platform. SimSim's existence not only enables FINCA Pakistan for exploring new revenue streams but also provides the digital capability to gather and capitalize on customer insights for the development and alignment of a futuristic product portfolio. This also gives a competitive edge, especially in the microfinance realm, to create business synergies with other organizations (including MFBs/MFIs etc.) by extending our digital platform and winning more corporate alliances going forward.

In continuation of this Digital Transformation, FINCA Pakistan has announced a strategic partnership with Karandaaz Pakistan, a non-profit finance generating organization for small businesses and individual's financial inclusion. The first of its kind initiative between Karandaaz and a Digital Financial Services Provider; SimSim will enable a new way of digital financial services in Pakistan. The

partnership is aimed at developing and rolling out digital financial services targeting a specific market group of economically low income active women engaged in some form of trade such as cottage industry, factory work etc. This will not only encourage them to adopt advanced technology while availing a digital marketplace/ e-commerce but would also promote local goods/services through SimSim mobile account and integrated platforms. The program was launched through a grant from Karandaaz Pakistan for developing specific use cases and products to encourage and promote financial inclusion for women in marginalized economic segments. It also aims to encourage financial inclusion for individuals by employing technology enabled digital solutions and access to finance for micro, small and medium-sized businesses through a commercially directed investment platform. Karandaaz has financial and institutional support from Bill & Melinda Gates Foundation and the United Kingdom Department for International Development (DFID).

# Complaint management disclosure

Being a customer centric Bank, customer's opinion is of utmost importance at FINCA Pakistan. Our customers can voice their concerns and communicate valuable suggestions through various interaction points including digital channels like social media, website or our 24/7 helpline.

FINCA Pakistan has been certified in Client Protection by the Smart Campaign, an international effort to make sure all financial institution clients are served with respect and care. We design our products based on client needs, treat our client with respect, immediately respond when a query is raised and provide them resolutions to the fullest. Due to our focus on customer awareness and transparency, our customers are aware of their rights & responsibilities which enable them to make sound decisions regarding their financial well-being.

Conduct Assessment Framework has also been a key driver across the Bank, whereby all banking activities are regularly viewed to ensure that any activity having detrimental impact on customer is timely and adequately addressed.

We at FINCA Pakistan, ensure to the fullest, that resolution of complaints is comprehensive, appropriate and is dealt with agility; keeping customers informed of their complaint statutes from acknowledgement till the final resolution. An escalation matrix for



complaint management has also been put into place internally for effective and efficient resolution of the customer complaints logged in. In the year 2019 a total of 19,398

complaints were logged in different categories of customer complaints; 99.02% were resolved within the regulatory turnaround time.

Statement of Complaints	Number	Percentage
Total Complaints Received in 2019	19,398	-
Closed	19,208	99.02%
Open	190	0.98%
Average time taken for resolution	3.73 days	





» Review of  
financial  
performance



# Key highlights of 2019

Total Assets  
Increased by 15.6%

PBT  
Decreased by 36%

ROE  
14.9%

Deposits  
Increased by 0.7%

Non-Markup Income  
Increased by 19%

Investments  
Increased by 63.1%

ROA  
1.9%

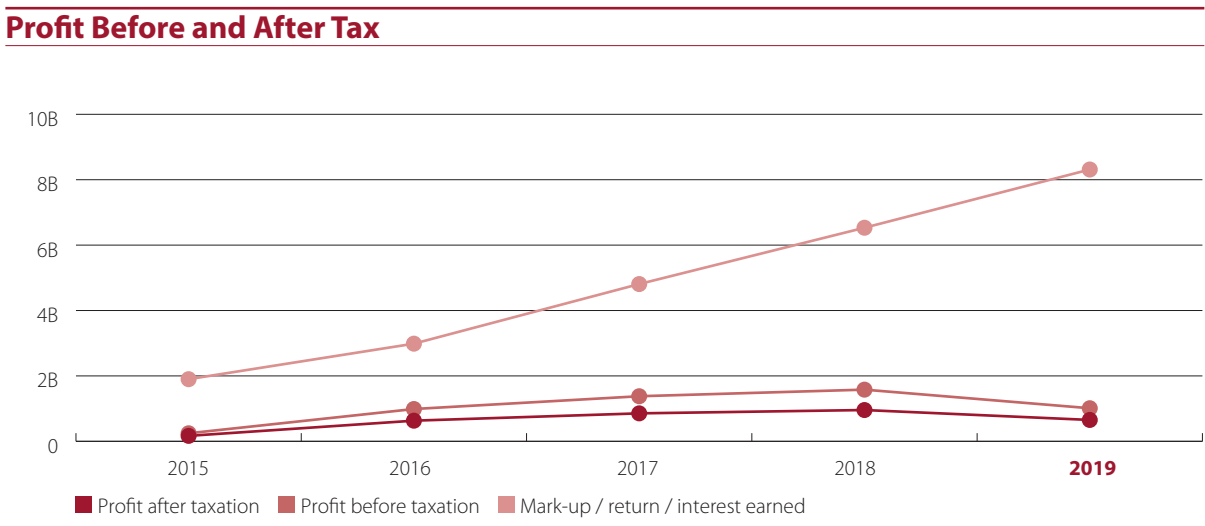
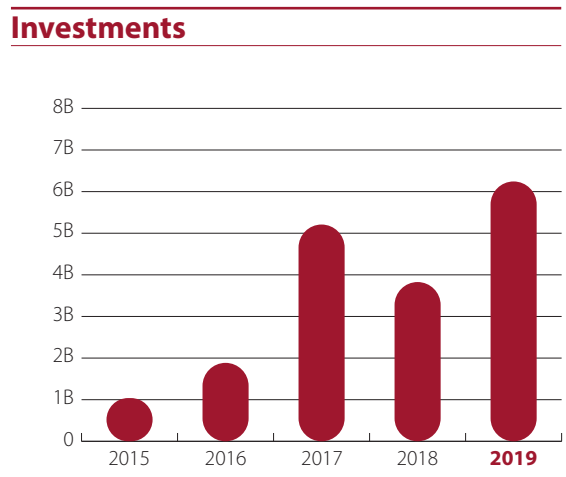
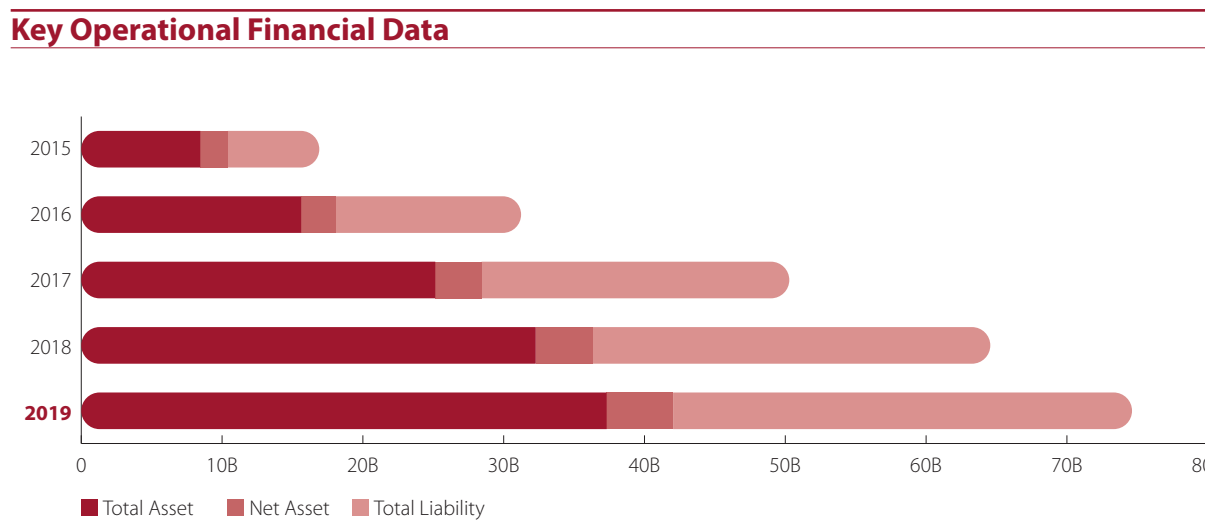
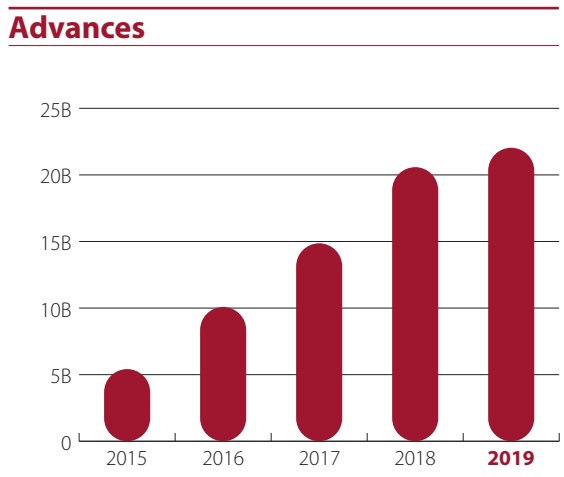
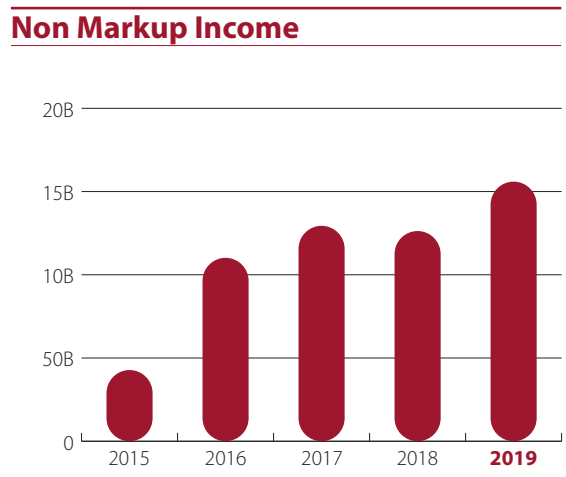
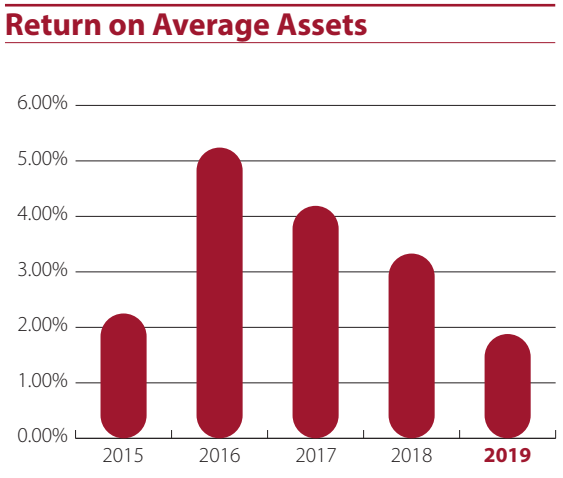
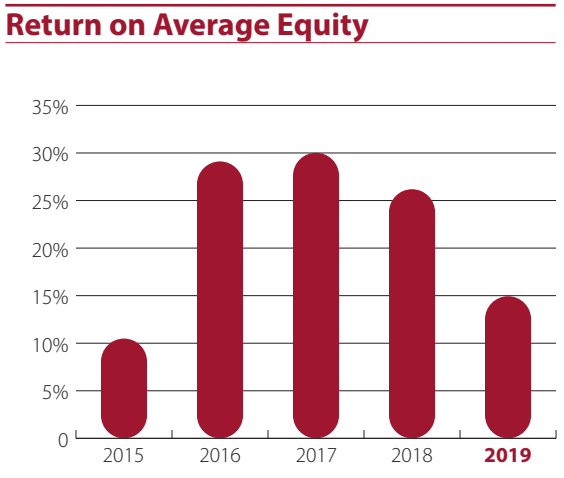
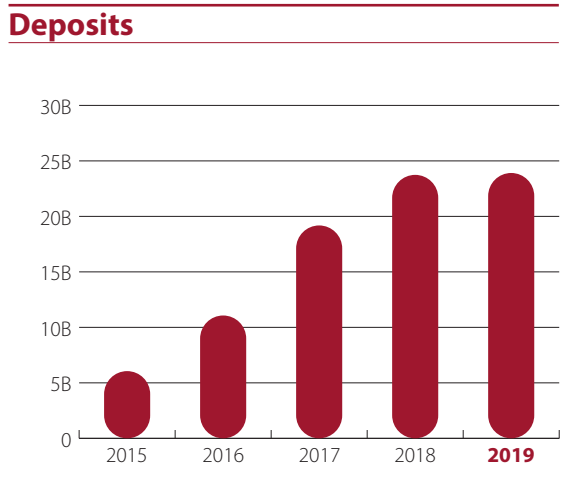
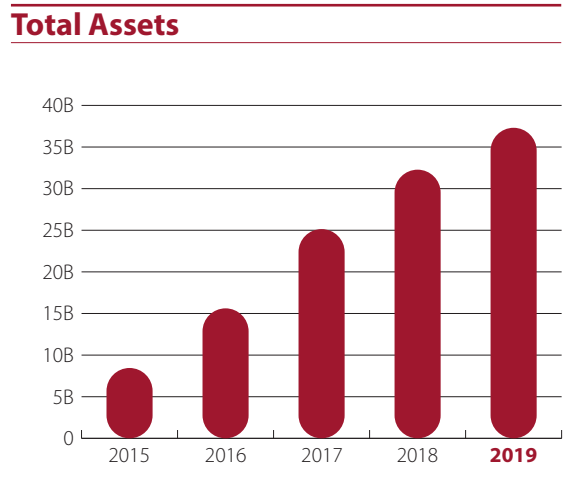
Advances -  
Net of Provision  
Increased by 7.1%

# Five years at a glance

		2019	2018	2017	2016	2015
		Rupees				
<b>Profitability Ratios:</b>						
Profit before Tax	%	12.2	24.2	28.7	33.1	12.9
Non-Interest Income to Total income	%	10.3	10.9	12.6	15.6	14.7
Return On Average Equity (ROE)	%	14.9	26.2	30.0	29.1	10.5
Return On Average Assets (ROA)	%	1.9	3.3	4.2	5.2	2.2
Operating Self Sufficiency (OSS)	%	112.3	127.5	133.4	138.7	112.4
<b>Asset Quality and Liquidity ratios:</b>						
Deposits to Liabilities	%	73.4	84.0	87.8	84.0	92.9
Borrowing to Liabilities	%	17.0	11.7	7.6	10.2	1.8
Impaired Advances to Gross Advances	%	4.7	2.0	1.0	1.0	2.0
Liquid Assets to Total Deposits & Borrowings	%	33.1	29.4	37.1	31.8	29.3
Advances to Deposits	%	92.2	86.7	77.5	91.1	89.5
Investments to Deposits	%	26.1	16.1	27.2	17.0	17.2
Capital Adequacy ratio (CAR)	%	19.8	15.9	18.6	20.6	30.5
<b>Investment Ratios:</b>						
Total Assets to Shareholders' Fund	Times	7.9	8.0	7.7	6.4	4.4
Earning Per Share - PKR	PKR	1.0	1.5	1.4	1.0	0.3
Net assets per share	PKR	7.4	6.4	5.2	3.8	3.6
Other Information:						
Number of Branches	No.	130	133	116	105	79
Number of Employees	No.	2,860	2,879	2,340	1,706	1,324
Number of Borrowers	No.	238,337	235,632	184,744	132,252	89,550
Number of Depositors	No.	1,128,248	931,670	634,378	406,984	326,734
Number of SimSim Mobile Wallets	No.	444,489	325,912	113,710	4,569	-
<b>Key Operational Financial Data:</b>						
(Rupees in millions)						
Net mark-up / interest income	PKR in million	5,314	4,703	3,553	2,338	1,365
Profit before Taxation	PKR in million	1,012	1,580	1,378	988	245
Profit after Taxation	PKR in million	653	956	855	631	167
Equity + Revaluation Surplus	PKR in million	4,718	4,032	3,283	2,433	1,934
Total Asset	PKR in million	37,312	32,280	25,142	15,618	8,452
Net Asset	PKR in million	4,718	4,032	3,283	2,433	1,934
Total Liability	PKR in million	32,594	28,247	21,859	13,185	6,518
Shares outstanding (Nos.)	No. in million	635	635	635	635	635



# Financial trends





# Analysis of financial position and performance

## Performance: 2019 at a glance

### Profit after tax

Profit after tax closed at PKR 653 million registering a decrease of 31.7% over last year. While Profit before tax has also decreased to PKR 1,012 million, by 36% as compared to profit reported in 2018. In 2019, net markup Income increased by 13% as compared to previous year.

### Net markup income

Net-markup income registered an increase of 13% and closed at PKR 5,314 million as compared to PKR 4,703 million in 2018. Mark-up on advances was the main contributor as a considerable increase of 27.3% was recorded.

### Non-markup income

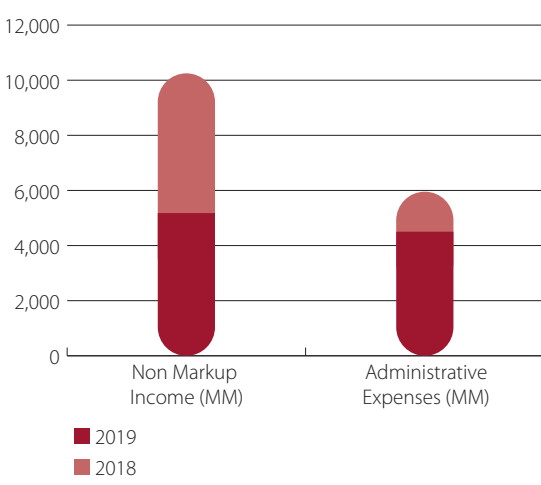
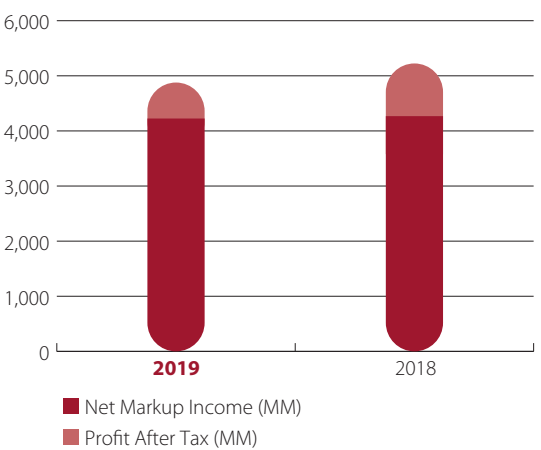
Non-markup income registered a considerable increase of 19% and closed at PKR 954 million as compared to PKR 802 million in 2018. Fee, Commission & Brokerage income was the main contributor as almost 84% non-markup income has been generated from Fee & Commission Income.

### Administrative expense

On the administrative expenses side, FINCA Pakistan was able to maintain it at PKR 4,102 million, recording an increase of 19% as compared to 2018.

### Net Assets

Net assets were reported at PKR 4,718 million, reflecting an increase of 17% over 2018. Increase in net assets is driven by Investments, Operating fixed assets and Deferred Tax assets over the past years.



### Net Investment

The net investment was reported at PKR 6,244 million, reflecting an increase of PKR 2,417 million over 2018 in absolute terms. 100% of the investment is in Market Treasury Bills.

### Total Assets

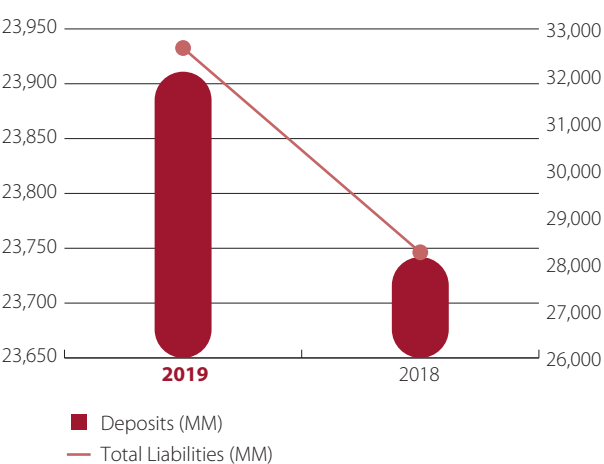
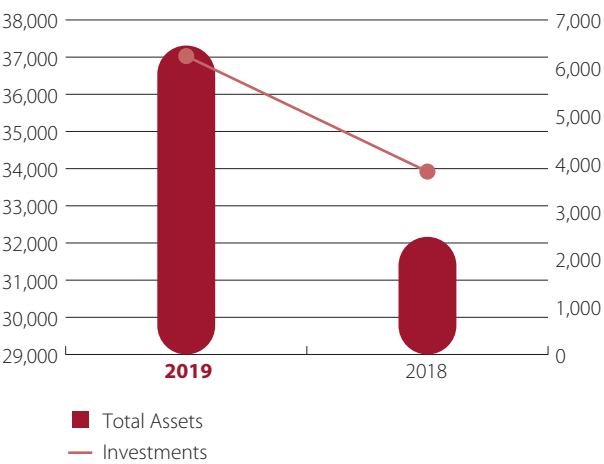
The total asset base of the FINCA Pakistan crossed the threshold of PKR 37,311 million in 2019 as compared to the previous year, reflecting an increase of 16% over 2018. Increase in asset base is driven by Investments, Operating fixed assets and Deferred Tax assets over the past years.

### Deposit

The deposit was reported to be 23,911 million and recorded an increase of 0.7% over 2018 with current accounts growing by 11.2%, saving by 4% and fixed by -1.5%.

### Total Liabilities

Total Liabilities registered a considerable increase of 15% and closed at PKR 32,594 million as compared to PKR 28,247 million in 2018. Major increase in Liabilities is driven by new sources of financing obtained in 2019







# A

Long Term Entity Rating

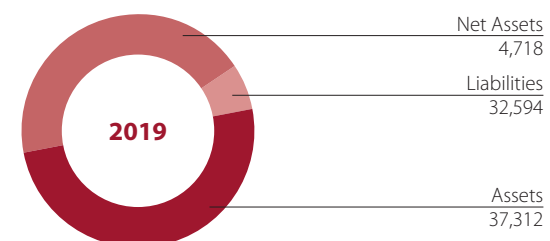
# A1

Short Term Entity Rating

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

## Balance sheet

	2019	2018	2017	2016	2015
	Rupees				
<b>Assets</b>					
Cash and balances with SBP and NBP	1,595,527,281	1,639,249,051	976,428,755	809,674,643	356,638,478
Balances with other banks/NBFIs/MFBs	1,642,664,760	2,489,461,972	1,556,694,589	1,248,484,930	409,990,696
Lending to financial institutions	-	-	-	-	-
Investments - net of provisions	6,244,458,500	3,827,477,298	5,209,160,227	1,885,328,850	1,039,196,250
Advances - net of provisions	22,038,804,318	20,580,529,143	14,863,341,016	10,082,263,974	5,418,675,734
Operating fixed assets	3,131,121,056	1,748,345,423	1,220,665,974	920,847,250	776,652,189
Other assets	2,613,415,832	1,970,560,758	1,306,807,645	664,957,569	283,848,386
Deferred tax asset	45,897,267	24,136,895	8,786,704	6,407,692	166,917,194
Total assets	37,311,889,014	32,279,760,540	25,141,884,910	15,617,964,908	8,451,918,927
<b>Liabilities</b>					
Deposits and other accounts	23,911,341,828	23,741,811,865	19,183,925,717	11,069,655,852	6,057,364,103
Borrowings	4,752,852,994	3,318,500,544	1,668,981,702	1,350,001,756	115,000,880
Subordinated debt	800,000,000	-	-	-	-
Other liabilities	3,129,387,288	1,187,059,280	1,005,746,247	765,754,271	346,019,502
Total liabilities	32,593,582,110	28,247,371,689	21,858,653,666	13,185,411,879	6,518,384,485
<b>Net assets</b>	<b>4,718,306,904</b>	<b>4,032,388,851</b>	<b>3,283,231,244</b>	<b>2,432,553,029</b>	<b>1,933,534,442</b>
<b>Represented by:</b>					
Share capital	6,348,887,110	6,348,887,110	6,348,887,110	6,348,887,110	6,348,887,110
Discount on issue of shares	(4,089,040,293)	(4,089,040,293)	(4,089,040,293)	(4,089,040,293)	(4,089,040,293)
Statutory reserve	687,948,818	557,278,327	365,982,212	195,022,579	68,843,467
Depositors' protection fund	203,099,973	150,988,407	96,448,556	50,596,128	17,928,449
Unappropriated profit / (loss)	1,563,709,236	1,061,863,072	552,799,227	(85,514,244)	(431,381,215)
	4,714,604,844	4,029,976,623	3,275,076,812	2,419,951,280	1,915,237,518
Surplus on revaluation of assets	1,547,100	-	-	-	-
Deferred grants	2,154,960	2,412,228	8,154,432	12,601,749	18,296,924
Total capital	4,718,306,904	4,032,388,851	3,283,231,244	2,432,553,029	1,933,534,442



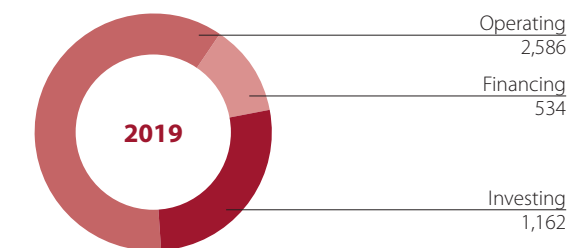


# Profit and loss account

	2019	2018	2017	2016	2015
	Rupees				
Mark-up / return / interest earned	8,312,159,411	6,531,286,233	4,808,928,684	2,986,050,035	1,899,753,877
Mark-up / return / interest expensed	(2,997,774,339)	(1,828,404,826)	(1,256,380,927)	(647,592,697)	(534,669,450)
Net mark-up / interest income	5,314,385,072	4,702,881,407	3,552,547,757	2,338,457,338	1,365,084,427
Provision against non-performing loans and advances	(1,086,754,079)	(423,542,159)	(378,812,910)	(156,750,377)	(77,511,013)
Provision for diminution in the value of investments	-	-	-	-	-
Bad debts written off directly	(2,839,918)	(11,373,889)	(27,781,711)	(62,460,438)	(28,143,149)
	(1,089,593,997)	(434,916,048)	(406,594,621)	(219,210,815)	(105,654,162)
Net mark-up / interest income after provisions	4,224,791,075	4,267,965,359	3,145,953,136	2,119,246,523	1,259,430,265
<b>Non mark-up / non interest income</b>					
Fee, commission and brokerage income	798,515,302	675,657,653	564,058,024	441,395,783	283,396,327
Dividend income	-	-	-	-	-
Other income	155,968,627	126,227,546	129,420,187	110,193,663	42,775,745
Total non mark-up / non interest income	954,483,929	801,885,199	693,478,211	551,589,446	326,172,072
	5,179,275,004	5,069,850,558	3,839,431,347	2,670,835,969	1,585,602,337
<b>Non mark-up / non interest expenses</b>					
Administrative expenses	(4,102,036,922)	(3,453,480,483)	(2,437,691,875)	(1,669,760,508)	(1,322,012,402)
Other charges	(65,669,905)	(36,422,746)	(23,485,767)	(13,480,144)	(18,369,779)
Total non mark-up / non interest expenses	(4,167,706,827)	(3,489,903,229)	(2,461,177,642)	(1,683,240,652)	(1,340,382,181)
Profit before taxation	1,011,568,177	1,579,947,329	1,378,253,705	987,595,317	245,220,156
Taxation - Current year	(331,642,626)	(629,372,068)	(484,276,120)	(184,377,277)	(21,831,502)
Prior years	(54,704,446)	(4,977,481)	(39,944,328)	(10,676,354)	-
Deferred	28,131,352	10,882,797	764,907	(161,646,128)	(56,694,134)
	(358,215,720)	(623,466,752)	(523,455,541)	(356,699,759)	(78,525,636)
<b>Profit after taxation</b>	653,352,457	956,480,577	854,798,164	630,895,558	166,694,520

# Cash flow statement

	2019	2018	2017	2016	2015
	Rupees				
<b>Cashflow statement - Summary</b>					
Cash flow from operating activities	(2,586,096,324)	619,703,715	1,870,197,356	2,371,848,393	162,475,816
Cash flow from investing activities	1,161,902,883	1,173,141,736	(1,295,289,245)	(1,055,241,444)	(808,255,956)
Cash flow from financing activities	533,674,459	(197,257,772)	(99,944,340)	(25,076,550)	494,324,454
Net increase / (decrease) in cash and cash equivalents	(890,518,982)	1,595,587,679	474,963,771	1,291,530,399	(151,455,686)
Cash and cash equivalents at beginning of the year	4,128,711,023	2,533,123,344	2,058,159,573	766,629,174	918,084,860
Cash and cash equivalents at end of the year	3,238,192,041	4,128,711,023	2,533,123,344	2,058,159,573	766,629,174





# Balance sheet – horizontal analysis

	2019	2019 vs 2018	2018	2018 vs 2017	2017	2017 vs 2016	2016	2016 vs 2015	2015
	Rupees	%	Rupees	%	Rupees	%	Rupees	%	Rupees
<b>Assets</b>									
Cash and balances with SBP and NBP	1,595,527,281	-2.7%	1,639,249,051	67.9%	976,428,755	20.6%	809,674,643	127.0%	356,638,478
Balances with other banks/NBFIs/MFBs	1,642,664,760	-34.0%	2,489,461,972	59.9%	1,556,694,589	24.7%	1,248,484,930	204.5%	409,990,696
Lending to financial institutions	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-
Investments - net of provisions	6,244,458,500	63.1%	3,827,477,298	-26.5%	5,209,160,227	176.3%	1,885,328,850	81.4%	1,039,196,250
Advances - net of provisions	22,038,804,318	7.1%	20,580,529,143	38.5%	14,863,341,016	47.4%	10,082,263,974	86.1%	5,418,675,734
Operating fixed assets	3,131,121,056	79.1%	1,748,345,423	43.2%	1,220,665,974	32.6%	920,847,250	18.6%	776,652,189
Other assets	2,613,415,832	32.6%	1,970,560,758	50.8%	1,306,807,645	96.5%	664,957,569	134.3%	283,848,386
Deferred tax asset	45,897,267	90.2%	24,136,895	174.7%	8,786,704	37.1%	6,407,692	-96.2%	166,917,194
Total assets	37,311,889,014	15.6%	32,279,760,540	28.4%	25,141,884,910	61.0%	15,617,964,908	84.8%	8,451,918,927
<b>Liabilities</b>									
Deposits and other accounts	23,911,341,828	0.7%	23,741,811,865	23.8%	19,183,925,717	73.3%	11,069,655,852	82.7%	6,057,364,103
Borrowings	4,752,852,994	43.2%	3,318,500,544	98.8%	1,668,981,702	23.6%	1,350,001,756	1073.9%	115,000,880
Subordinated debt	800,000,000	100.0%	-	0.0%	-	0.0%	-	0.0%	-
Other liabilities	3,129,387,288	163.6%	1,187,059,280	18.0%	1,005,746,247	31.3%	765,754,271	121.3%	346,019,502
Total liabilities	32,593,582,110	15.4%	28,247,371,689	29.2%	21,858,653,666	65.8%	13,185,411,879	102.3%	6,518,384,485
<b>Net assets</b>	<b>4,718,306,904</b>	<b>17.0%</b>	<b>4,032,388,851</b>	<b>22.8%</b>	<b>3,283,231,244</b>	<b>35.0%</b>	<b>2,432,553,029</b>	<b>25.8%</b>	<b>1,933,534,442</b>
<b>Represented by:</b>									
Share capital	6,348,887,110	0.0%	6,348,887,110	0.0%	6,348,887,110	0.0%	6,348,887,110	0.0%	6,348,887,110
Discount on issue of shares	(4,089,040,293)	0.0%	(4,089,040,293)	0.0%	(4,089,040,293)	0.0%	(4,089,040,293)	0.0%	(4,089,040,293)
Statutory reserve	687,948,818	23.4%	557,278,327	52.3%	365,982,212	87.7%	195,022,579	183.3%	68,843,467
Depositors' protection fund	203,099,973	34.5%	150,988,407	56.5%	96,448,556	90.6%	50,596,128	182.2%	17,928,449
Unappropriated profit / (loss)	1,563,709,236	47.3%	1,061,863,072	92.1%	552,799,227	-746.4%	(85,514,244)	-80.2%	(431,381,215)
	4,714,604,844	17.0%	4,029,976,623	23.0%	3,275,076,812	35.3%	2,419,951,280	26.4%	1,915,237,518
Surplus on revaluation of assets	1,547,100	100.0%	-	0.0%	-	0.0%	-	0.0%	-
Deferred grants	2,154,960	-10.7%	2,412,228	-70.4%	8,154,432	-35.3%	12,601,749	-31.1%	18,296,924
<b>Total capital</b>	<b>4,718,306,904</b>	<b>17.0%</b>	<b>4,032,388,851</b>	<b>22.8%</b>	<b>3,283,231,244</b>	<b>35.0%</b>	<b>2,432,553,029</b>	<b>25.8%</b>	<b>1,933,534,442</b>



# Profit and loss account – horizontal analysis

	2019	2019 vs 2018	2018	2018 vs 2017	2017	2017 vs 2016	2016	2016 vs 2015	2015
	Rupees	%	Rupees	%	Rupees	%	Rupees	%	Rupees
Mark-up / return / interest earned	8,312,159,411	27.3%	6,531,286,233	35.8%	4,808,928,684	61.0%	2,986,050,035	57.2%	1,899,753,877
Mark-up / return / interest expensed	(2,997,774,339)	64.0%	(1,828,404,826)	45.5%	(1,256,380,927)	94.0%	(647,592,697)	21.1%	(534,669,450)
Net mark-up / interest income	5,314,385,072	13.0%	4,702,881,407	32.4%	3,552,547,757	51.9%	2,338,457,338	71.3%	1,365,084,427
Provision against non-performing loans and advances	(1,086,754,079)	156.6%	(423,542,159)	11.8%	(378,812,910)	141.7%	(156,750,377)	102.2%	(77,511,013)
Provision for diminution in the value of investments	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-
Bad debts written off directly	(2,839,918)	-75.0%	(11,373,889)	-59.1%	(27,781,711)	-55.5%	(62,460,438)	121.9%	(28,143,149)
	(1,089,593,997)	150.5%	(434,916,048)	7.0%	(406,594,621)	85.5%	(219,210,815)	107.5%	(105,654,162)
Net mark-up / interest income after provisions	4,224,791,075	-1.0%	4,267,965,359	35.7%	3,145,953,136	48.4%	2,119,246,523	68.3%	1,259,430,265
<b>Non mark-up / non interest income</b>									
Fee, commission and brokerage income	798,515,302	18.2%	675,657,653	19.8%	564,058,024	27.8%	441,395,783	55.8%	283,396,327
Dividend income	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-
Other income	155,968,627	23.6%	126,227,546	-2.5%	129,420,187	17.4%	110,193,663	157.6%	42,775,745
Total non mark-up / non interest income	954,483,929	19.0%	801,885,199	15.6%	693,478,211	25.7%	551,589,446	69.1%	326,172,072
	5,179,275,004	2.2%	5,069,850,558	32.0%	3,839,431,347	43.8%	2,670,835,969	68.4%	1,585,602,337
<b>Non mark-up / non interest expenses</b>									
Administrative expenses	(4,102,036,922)	18.8%	(3,453,480,483)	41.7%	(2,437,691,875)	46.0%	(1,669,760,508)	26.3%	(1,322,012,402)
Other charges	(65,669,905)	80.3%	(36,422,746)	55.1%	(23,485,767)	74.2%	(13,480,144)	-26.6%	(18,369,779)
Total non mark-up / non interest expenses	(4,167,706,827)	19.4%	(3,489,903,229)	41.8%	(2,461,177,642)	46.2%	(1,683,240,652)	25.6%	(1,340,382,181)
<b>Profit before taxation</b>	<b>1,011,568,177</b>	<b>-36.0%</b>	<b>1,579,947,329</b>	<b>14.6%</b>	<b>1,378,253,705</b>	<b>39.6%</b>	<b>987,595,317</b>	<b>302.7%</b>	<b>245,220,156</b>
Taxation - Current year	(331,642,626)	-47.3%	(629,372,068)	30.0%	(484,276,120)	162.7%	(184,377,277)	744.5%	(21,831,502)
Prior years	(54,704,446)	999.0%	(4,977,481)	-87.5%	(39,944,328)	274.1%	(10,676,354)	0.0%	-
Deferred	28,131,352	158.5%	10,882,797	1322.8%	764,907	-100.5%	(161,646,128)	185.1%	(56,694,134)
	(358,215,720)	-42.5%	(623,466,752)	19.1%	(523,455,541)	46.7%	(356,699,759)	354.2%	(78,525,636)
<b>Profit after taxation</b>	<b>653,352,457</b>	<b>-31.7%</b>	<b>956,480,577</b>	<b>11.9%</b>	<b>854,798,164</b>	<b>35.5%</b>	<b>630,895,558</b>	<b>278.5%</b>	<b>166,694,520</b>

# Balance sheet – vertical analysis

	2019 Rupees	%	2018 Rupees	%	2017 Rupees	%	2016 Rupees	%	2015 Rupees	%
<b>Assets</b>										
Cash and balances with SBP and NBP	1,595,527,281	4.28%	1,639,249,051	5.08%	976,428,755	3.88%	809,674,643	5.18%	356,638,478	4.22%
Balances with other banks/NBFIs/MFBs	1,642,664,760	4.40%	2,489,461,972	7.71%	1,556,694,589	6.19%	1,248,484,930	7.99%	409,990,696	4.85%
Lending to financial institutions	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Investments - net of provisions	6,244,458,500	16.74%	3,827,477,298	11.86%	5,209,160,227	20.72%	1,885,328,850	12.07%	1,039,196,250	12.30%
Advances - net of provisions	22,038,804,318	59.07%	20,580,529,143	63.76%	14,863,341,016	59.12%	10,082,263,974	64.56%	5,418,675,734	64.11%
Operating fixed assets	3,131,121,056	8.39%	1,748,345,423	5.42%	1,220,665,974	4.86%	920,847,250	5.90%	776,652,189	9.19%
Other assets	2,613,415,832	7.00%	1,970,560,758	6.10%	1,306,807,645	5.20%	664,957,569	4.26%	283,848,386	3.36%
Deferred tax asset	45,897,267	0.12%	24,136,895	0.07%	8,786,704	0.03%	6,407,692	0.04%	166,917,194	1.97%
<b>Total assets</b>	<b>37,311,889,014</b>	<b>100.00%</b>	<b>32,279,760,540</b>	<b>100.00%</b>	<b>25,141,884,910</b>	<b>100.00%</b>	<b>15,617,964,908</b>	<b>100.00%</b>	<b>8,451,918,927</b>	<b>100.00%</b>
<b>Liabilities</b>										
Deposits and other accounts	23,911,341,828	64.09%	23,741,811,865	73.55%	19,183,925,717	76.30%	11,069,655,852	70.88%	6,057,364,103	71.67%
Borrowings	4,752,852,994	12.74%	3,318,500,544	10.28%	1,668,981,702	6.64%	1,350,001,756	8.64%	115,000,880	1.36%
Subordinated debt	800,000,000	2.14%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Other liabilities	3,129,387,288	8.39%	1,187,059,280	3.68%	1,005,746,247	4.00%	765,754,271	4.90%	346,019,502	4.09%
<b>Total liabilities</b>	<b>32,593,582,110</b>	<b>87.35%</b>	<b>28,247,371,689</b>	<b>87.51%</b>	<b>21,858,653,666</b>	<b>86.94%</b>	<b>13,185,411,879</b>	<b>84.42%</b>	<b>6,518,384,485</b>	<b>77.12%</b>
<b>Net assets</b>	<b>4,718,306,904</b>	<b>12.65%</b>	<b>4,032,388,851</b>	<b>12.49%</b>	<b>3,283,231,244</b>	<b>13.06%</b>	<b>2,432,553,029</b>	<b>15.58%</b>	<b>1,933,534,442</b>	<b>22.88%</b>
<b>Represented by:</b>										
Share capital	6,348,887,110	17.02%	6,348,887,110	19.67%	6,348,887,110	25.25%	6,348,887,110	40.65%	6,348,887,110	75.12%
Discount on issue of shares	(4,089,040,293)	-10.96%	(4,089,040,293)	-12.67%	(4,089,040,293)	-16.26%	(4,089,040,293)	-26.18%	(4,089,040,293)	-48.38%
Statutory reserve	687,948,818	1.84%	557,278,327	1.73%	365,982,212	1.46%	195,022,579	1.25%	68,843,467	0.81%
Depositors' protection fund	203,099,973	0.54%	150,988,407	0.47%	96,448,556	0.38%	50,596,128	0.32%	17,928,449	0.21%
Unappropriated profit / (loss)	1,563,709,236	4.19%	1,061,863,072	3.29%	552,799,227	2.20%	(85,514,244)	-0.55%	(431,381,215)	-5.10%
	<b>4,714,604,844</b>	<b>12.64%</b>	<b>4,029,976,623</b>	<b>12.48%</b>	<b>3,275,076,812</b>	<b>13.03%</b>	<b>2,419,951,280</b>	<b>15.49%</b>	<b>1,915,237,518</b>	<b>22.66%</b>
Surplus on revaluation of assets	1,547,100	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Deferred grants	2,154,960	0.01%	2,412,228	0.01%	8,154,432	0.03%	12,601,749	0.08%	18,296,924	0.22%
<b>Total capital</b>	<b>4,718,306,904</b>	<b>12.65%</b>	<b>4,032,388,851</b>	<b>12.49%</b>	<b>3,283,231,244</b>	<b>13.06%</b>	<b>2,432,553,029</b>	<b>15.58%</b>	<b>1,933,534,442</b>	<b>22.88%</b>



# Profit and loss account – vertical analysis

	2019 Rupees	%	2018 Rupees	%	2017 Rupees	%	2016 Rupees	%	2015 Rupees	%
Mark-up / return / interest earned	8,312,159,411	89.7%	6,531,286,233	89.1%	4,808,928,684	87.4%	2,986,050,035	84.4%	1,899,753,877	85.3%
Mark-up / return / interest expensed	(2,997,774,339)	-32.4%	(1,828,404,826)	-24.9%	(1,256,380,927)	-22.8%	(647,592,697)	-18.3%	(534,669,450)	-24.0%
Net mark-up / interest income	5,314,385,072	57.3%	4,702,881,407	64.1%	3,552,547,757	64.6%	2,338,457,338	66.1%	1,365,084,427	61.3%
Provision against non-performing loans and advances	(1,086,754,079)	-11.7%	(423,542,159)	-5.8%	(378,812,910)	-6.9%	(156,750,377)	-4.4%	(77,511,013)	-3.5%
Provision for diminution in the value of investments	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Bad debts written off directly	(2,839,918)	0.0%	(11,373,889)	-0.2%	(27,781,711)	-0.5%	(62,460,438)	-1.8%	(28,143,149)	-1.3%
	(1,089,593,997)	-11.8%	(434,916,048)	-5.9%	(406,594,621)	-7.4%	(219,210,815)	-6.2%	(105,654,162)	-4.7%
Net mark-up / interest income after provisions	4,224,791,075	45.6%	4,267,965,359	58.2%	3,145,953,136	57.2%	2,119,246,523	59.9%	1,259,430,265	56.6%
<b>Non mark-up / non interest income</b>										
Fee, commission and brokerage income	798,515,302	8.6%	675,657,653	9.2%	564,058,024	10.3%	441,395,783	12.5%	283,396,327	12.7%
Dividend income	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Other income	155,968,627	1.7%	126,227,546	1.7%	129,420,187	2.4%	110,193,663	3.1%	42,775,745	1.9%
Total non mark-up / non interest income	954,483,929	10.3%	801,885,199	10.9%	693,478,211	12.6%	551,589,446	15.6%	326,172,072	14.7%
	5,179,275,004	55.9%	5,069,850,558	69.1%	3,839,431,347	69.8%	2,670,835,969	75.5%	1,585,602,337	71.2%
<b>Non mark-up / non interest expenses</b>										
Administrative expenses	(4,102,036,922)	-44.3%	(3,453,480,483)	-47.1%	(2,437,691,875)	-44.3%	(1,669,760,508)	-47.2%	(1,322,012,402)	-59.4%
Other charges	(65,669,905)	-0.7%	(36,422,746)	-0.5%	(23,485,767)	-0.4%	(13,480,144)	-0.4%	(18,369,779)	-0.8%
Total non mark-up / non interest expenses	(4,167,706,827)	-45.0%	(3,489,903,229)	-47.6%	(2,461,177,642)	-44.7%	(1,683,240,652)	-47.6%	(1,340,382,181)	-60.2%
<b>Profit before taxation</b>	<b>1,011,568,177</b>	<b>10.9%</b>	<b>1,579,947,329</b>	<b>21.5%</b>	<b>1,378,253,705</b>	<b>25.0%</b>	<b>987,595,317</b>	<b>27.9%</b>	<b>245,220,156</b>	<b>11.0%</b>
Taxation - Current year	(331,642,626)	-3.6%	(629,372,068)	-8.6%	(484,276,120)	-8.8%	(184,377,277)	-5.2%	(21,831,502)	-1.0%
Prior years	(54,704,446)	-0.6%	(4,977,481)	-0.1%	(39,944,328)	-0.7%	(10,676,354)	-0.3%	-	0.0%
Deferred	28,131,352	0.3%	10,882,797	0.1%	764,907	0.0%	(161,646,128)	-4.6%	(56,694,134)	-2.5%
	(358,215,720)	-3.9%	(623,466,752)	-8.5%	(523,455,541)	-9.5%	(356,699,759)	-10.1%	(78,525,636)	-3.5%
<b>Profit after taxation</b>	<b>653,352,457</b>	<b>7.1%</b>	<b>956,480,577</b>	<b>13.0%</b>	<b>854,798,164</b>	<b>15.5%</b>	<b>630,895,558</b>	<b>17.8%</b>	<b>166,694,520</b>	<b>7.5%</b>



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# Independent auditor's report to the members of FINCA Microfinance Bank Limited

## 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



KPMG Taseer Hadi & Co.

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.

## 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





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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.

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.

**KPMG Taseer Hadi & Co.**  
Chartered Accountants

Lahore  
Date: 28 February 2020

# Financial statements

for the year ended 31 December, 2019

## **FINCA Microfinance Bank Ltd**

# Balance Sheet

As at 31 December 2019

	Note	2019 Rupees	2018 Rupees
<b>Assets</b>			
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
<b>Liabilities</b>			
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
<b>Represented by:</b>			
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
<b>Total capital</b>		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.

Chief Executive Officer

Chairman

Director

Director

# 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
<b>Non mark-up / non interest income</b>			
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
<b>Non mark-up / non interest expenses</b>			
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)
<b>Profit before taxation</b>		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)
<b>Profit after taxation</b>		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)
<b>Profit available for appropriation</b>		1,727,047,350	1,500,983,216
<b>Appropriations:</b>			
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)
<b>Unappropriated profit carried forward</b>		1,563,709,236	1,061,863,072
<b>Earnings per share</b>	32	1.03	1.51

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

Chief Executive Officer

Chairman

Director

Director



# Statement of Comprehensive Income

For the year ended 31 December 2019

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

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

Chief Executive Officer

Chairman

Director

Director

# Cash Flow Statement

For the year ended 31 December 2019

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

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

Chief Executive Officer

Chairman

Director

Director

# Statement of Changes in Equity

For the year ended 31 December 2019

	Share capital	Capital reserves			Revenue re-serves	Total
		Discount on issue of shares	Statutory reserve	Depositors' protection fund	Unappropriated profit	
<b>Balance as at 31 December 2017</b>	<b>6,348,887,110</b>	(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	-	-	-	-	(8,296,588)	(8,296,588)
Remeasurement of post defined benefit obligation - net of tax	-	-	-	-	948,183,989	948,183,989
Total comprehensive income for the year	-	-	-	-	-	-
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
<b>Transactions with owners:</b>	-	-	-	-	-	-
- Dividend @ Rs. 0.1969 per share	-	-	-	-	(200,000,000)	(200,000,000)
Premium/Discount on issue of shares	-	-	-	-	-	-
<b>Balance as at 31 December 2018</b>	<b>6,348,887,110</b>	(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	-	-	-	-	11,831,821	11,831,821
Remeasurement of post defined benefit obligation - net of tax	-	-	-	-	665,184,278	665,184,278
Total comprehensive income for the year	-	-	-	-	(130,670,491)	-
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	-	-	-	-	-	-
<b>Balance as at 31 December 2019</b>	<b>6,348,887,110</b>	(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.

Chief Executive Officer

Chairman

Director

Director

# Notes to the Financial Statements

For the year ended 31 December 2019

1	<p><b>Status and nature of business</b></p> <p><b>1.1</b> 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.</p> <p>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.</p> <p>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 &amp; Kashmir.</p> <p>The credit rating company PACRA assigned the long term entity rating of the Bank at 'A' and short term rating at 'A1'.</p> <p>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.</p>
2	<p><b>Basis of presentation</b></p> <p>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.</p>
3	<p><b>Statement of compliance</b></p> <p><b>3.1</b> These 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:</p> <ul style="list-style-type: none"> <li>- International Financial Reporting Standards (IFRS Standards), issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;</li> <li>- Microfinance Institution Ordinance, 2001 (the MFI Ordinance);</li> <li>- the directives issued by the State Bank of Pakistan (SBP) and Securities and Exchange Commission of Pakistan (SECP);</li> <li>- provisions of and directives issued under the Companies Act, 2017</li> </ul> <p>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.</p> <p>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.</p>



# Notes to the Financial Statements

## For the year ended 31 December 2019

### 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.

# Notes to the Financial Statements

## For the year ended 31 December 2019

'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.

'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.

# Notes to the Financial Statements

## For the year ended 31 December 2019

### 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)

### 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

# Notes to the Financial Statements

## For the year ended 31 December 2019

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.
- 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:

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

In addition 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.



# Notes to the Financial Statements

For the year ended 31 December 2019

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:

- |    |  |  |
|----|--|--|
| a) | <b>Other assets especially mentioned (OAEM):</b> | Nil  |
| b) | <b>Substandard:</b>                              | 25% of outstanding principal net of cash collaterals and gold  |
| c) | <b>Doubtful:</b>                                 | 50% of outstanding principal net of cash collaterals and gold  |
| d) | <b>Loss:</b>                                     | 100% of outstanding principal net of cash collaterals and gold |

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.

# Notes to the Financial Statements

For the year ended 31 December 2019

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'.

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.

# Notes to the Financial Statements

## For the year ended 31 December 2019

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.

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.

# Notes to the Financial Statements

## For the year ended 31 December 2019

### 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.

### 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.



# Notes to the Financial Statements

## For the year ended 31 December 2019

### 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.

### 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.

# Notes to the Financial Statements

## For the year ended 31 December 2019

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.

### 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).

# Notes to the Financial Statements

For the year ended 31 December 2019

## 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 nonfinancial 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.

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

**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%).

# Notes to the Financial Statements

For the year ended 31 December 2019

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

**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.

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

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

**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%).



# Notes to the Financial Statements

For the year ended 31 December 2019

## 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		
			Amount outstanding	Provision required	Provision held
			Rupees	Rupees	Rupees
	%	Number			
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
		13,149	1,055,090,183	233,320,572	233,320,572

			2018		
			Amount outstanding	Provision required	Provision held
			Rupees	Rupees	Rupees
	%	Number			
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	General	Total	Specific	General	Total
		Rupees	Rupees	Rupees	Rupees	Rupees	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	10.4.1	(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

	Note	2019	2018
		Rupees	Rupees
<b>10.4.1 Particulars of write offs</b>			
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.

# Notes to the Financial Statements

For the year ended 31 December 2019

	Note	2019 Rupees	2018 Rupees
<b>11 Operating fixed assets</b>			
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
<b>11.1 Capital work-in-progress</b>			
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
<b>11.2 Intangible assets</b>			
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
<b>Carrying value</b>		246,566,510	264,807,504
<b>Amortization rate</b>		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	-

# Notes to the Financial Statements

## For the year ended 31 December 2019

2019										
	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									
<b>11.4</b>	<b>Property and equipment</b>									
	<b>Owned assets</b>									
	144,450,113	-	-	144,450,113	-	-	-	-	144,450,113	0%
	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)			
	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)			
	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)			
	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)			
	128,313,221	62,218,500	-	140,308,173	47,133,320	33,250,295	-	59,136,581	81,171,592	25%
		(500,223,548)	-			(21,247,034)	-			
<b>2019</b>	<b>1,590,485,529</b>	<b>532,049,559</b>	<b>-</b>	<b>2,003,175,658</b>	<b>499,730,756</b>	<b>230,562,591</b>	<b>-</b>	<b>669,241,313</b>	<b>1,333,934,345</b>	
		(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).

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

# Notes to the Financial Statements

## For the year ended 31 December 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		



# Notes to the Financial Statements

For the year ended 31 December 2019

	Note	2019 Rupees	2018 Rupees
<b>12 Other assets</b>			
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
		<b>2,613,415,832</b>	<b>1,970,560,758</b>

**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.

	2019 Rupees	2018 Rupees
<b>13 Deferred tax asset</b>		
<i>Deferred tax asset on deductible temporary differences arising in respect of:</i>		
- gratuity payable	77,399,089	68,284,784
	<b>77,399,089</b>	<b>68,284,784</b>
<i>Deferred tax liability on taxable temporary differences arising in respect of:</i>		
- property and equipment	31,501,822	44,147,889
	<b>31,501,822</b>	<b>44,147,889</b>
	<b>45,897,267</b>	<b>24,136,895</b>

**13.1** Movement in deferred tax balances is as follows:

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

**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.

# Notes to the Financial Statements

For the year ended 31 December 2019

	Note	2019 Number of accounts	2019 Amount Rupees	2018 Number of accounts	2018 Amount Rupees
<b>14 Deposits and other accounts</b>					
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
		<b>1,283,677</b>	<b>23,911,341,828</b>	<b>1,050,560</b>	<b>23,741,811,865</b>

**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.

	2019 Number of accounts	2019 Amount Rupees	2018 Number of accounts	2018 Amount Rupees
<b>14.2 Particulars of deposits by ownership</b>				
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
	<b>1,283,677</b>	<b>23,911,341,828</b>	<b>1,050,560</b>	<b>23,741,811,865</b>

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

	Note	2019 Rupees	2018 Rupees
<b>15 Borrowings</b>			
Borrowings from banks / financial institutions in Pakistan	15.1	4,752,852,994	3,318,500,544
<b>15.1 Details of borrowings from financial institutions</b>			
<b>Secured</b>			
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	-
		<b>4,752,852,994</b>	<b>3,318,500,544</b>

# Notes to the Financial Statements

## For the year ended 31 December 2019

- 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.
- 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.

# Notes to the Financial Statements

## For the year ended 31 December 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.

	Note	2019 Rupees	2018 Rupees
<b>16 Subordinated debt</b>			
Pakistan Microfinance Investment Company (PMIC)	16.1	800,000,000	-

- 16.1** 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:

- 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.

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.

	Note	2019 Rupees	2018 Rupees
<b>17 Other liabilities</b>			
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		1,598,654,753	-
		<b>3,129,387,288</b>	<b>1,187,059,280</b>

- 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.



# Notes to the Financial Statements

For the year ended 31 December 2019

	Note	2019 Rupees	2018 Rupees
<b>17.3 Payable to defined benefit plan</b>			
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		221,140,255	195,099,379
<b>17.3.1 Changes in present value of defined benefit obligation</b>			
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)
<b>Included in other comprehensive income</b>			
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
<b>Present value of defined benefit obligation</b>		<b>214,227,057</b>	<b>188,925,210</b>
<b>17.3.2 Expenses charged to profit and loss account</b>			
Current service cost		65,249,181	53,793,970
Interest cost		22,139,177	11,388,287
		87,388,358	65,182,257
<b>17.3.3 Total remeasurement chargeable in other comprehensive income</b>			
<b>Remeasurement of plan obligation:</b>			
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
<b>Total remeasurement chargeable in other comprehensive income</b>		<b>(18,202,801)</b>	<b>12,763,982</b>
<b>17.3.4 Changes in net liability</b>			
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)
<b>Balance sheet liability at December 31</b>		<b>221,140,255</b>	<b>195,099,379</b>

# Notes to the Financial Statements

For the year ended 31 December 2019

	2019	2018
<b>17.3.5 Significant actuarial assumptions</b>	<b>2019</b>	<b>2018</b>
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	SLIC 2001-05
Withdrawal rate	Setback 1 Year	Setback 1 Year
Retirement assumption	High	High
	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
<b>Amount chargeable to profit and loss</b>	<b>88,905,642</b>

## 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:

	Change	Impact on defined benefit obligation			
		2019		2018	
		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.

# Notes to the Financial Statements

For the year ended 31 December 2019

## 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.

	Note	2019 (Number of shares)	2018	2019 Rupees	2018 Rupees
<b>18 Share Capital</b>					
<b>18.1 Authorized capital</b>					
Ordinary shares of Rs 10 each		1,500,000,000	750,000,000	15,000,000,000	7,500,000,000
<b>18.2 Issued, subscribed and paid-up share capital</b>					
Ordinary shares of Rs 10 each fully paid in cash	18.3	634,888,711	634,888,711	6,348,887,110	6,348,887,110
<b>18.3 Share capital has been subscribed by the following:</b>					
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%	634,888,711	634,888,711	6,348,887,110	6,348,887,110
<b>19 Surplus / (deficit) on revaluation of assets</b>					
Surplus / (deficit) on revaluation of securities:					
Federal Government securities - market treasury bills (T-Bills)				1,547,100	-
<b>20 Deferred Grants</b>					
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				2,154,960	2,412,228

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

# Notes to the Financial Statements

For the year ended 31 December 2019

	Note	2019 Rupees	2018 Rupees
<b>21 Memorandum / off-balance sheet items</b>			
<b>21.1 Contingencies</b>			
There are no material contingencies as at 31 December 2019.			
<b>22 Mark-up / return / interest earned</b>			
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
		8,312,159,411	6,531,286,233
<b>23 Mark-up / return / interest expensed</b>			
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	-
		2,997,774,339	1,828,404,826
<b>24 Fee, commission and brokerage income</b>			
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
		798,515,302	675,657,653
<b>25 Other income</b>			
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	-
		155,968,627	126,227,546



# Notes to the Financial Statements

For the year ended 31 December 2019

	Note	2019 Rupees	2018 Rupees
<b>26 Administrative expenses</b>			
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
		<b>4,102,036,922</b>	<b>3,453,480,483</b>

**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.

	Note	2019 Rupees	2018 Rupees
<b>26.2 Donations</b>			
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.

<b>26.3 Auditors' remuneration</b>			
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
		<b>8,300,000</b>	<b>5,027,000</b>

# Notes to the Financial Statements

For the year ended 31 December 2019

	Note	2019 Rupees	2018 Rupees
<b>27 Other charges</b>			
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
		<b>65,669,905</b>	<b>36,422,746</b>

<b>28 Taxation</b>			
<i>Current:</i>			
For the year including super tax		331,642,626	629,372,068
For the prior year		54,704,446	4,977,481
		<b>386,347,072</b>	<b>634,349,549</b>
<i>Deferred:</i>			
For the year		(17,907,977)	(15,351,273)
For the prior year		(10,223,375)	4,468,476
		<b>(28,131,352)</b>	<b>(10,882,797)</b>
		<b>358,215,720</b>	<b>623,466,752</b>

## 28.1 Reconciliation of tax

Accounting profit before taxation	1,011,568,177	1,579,947,329
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	-
	<b>358,215,720</b>	<b>623,466,752</b>

	2019		
	Credit / Sales staff	Banking / Support staff	Total staff
<b>29 Number of employees</b>			
Permanent	1,545	866	2,411
Contractual	160	289	449
Total	<b>1,705</b>	<b>1,155</b>	<b>2,860</b>
Average number of employees during the year	<b>1,624</b>	<b>1,246</b>	<b>2,870</b>

# Notes to the Financial Statements

For the year ended 31 December 2019

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

	2019		2018	
	Branches No.	Sales service centre No.	Branches No.	Sales service centre No.
<b>30 Number of branches</b>				
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.

# Notes to the Financial Statements

For the year ended 31 December 2019

		2019	2018
<b>32 Earnings per share</b>			
<b>32.1</b>	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.

## 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
<b>Deposits</b>						
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
<b>Staff loans</b>						
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	-	-
<b>Transactions during the year</b>						
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	-	-

	Note	2019 Rupees	2018 Rupees
<b>34 Cash and cash equivalents</b>			
Cash and balances with SBP and NBP	7	1,595,527,281	1,639,249,051
Balances with other banks	8	1,642,664,760	2,489,461,972
		3,238,192,041	4,128,711,023



# Notes to the Financial Statements

For the year ended 31 December 2019

35     **Details of business locations**

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

<b>AZAD KASHMIR</b>	<b>Rawalpindi</b>	<b>Mansehra</b>
<b>Kotli</b>	39-B-1 Sattelite Town Opp. RGH Chandani Chowk 051-4906580	Abbottabad Road, Near Habib Bank Limited. 0997-301999 0997-246514 ATM
<b>Mirpur</b>	<b>Rawalpindi</b>	<b>Peshawar</b>
Allama Iqbal Road, Sector B – 2 05827-448650	Plot# G -518-519, Near Bank Alfalah Ltd, Opp MCB Bank Ltd, Main Liaquat Road. 051-4906580 ATM	University Road, Qamar building, Shiraz Inn. 091-5850596 091-5850597
<b>Muzaffarabad</b>	<b>KPK</b>	<b>PUNJAB</b>
Khewat # 36, Khasra # 739/130, Jalal Abad, Amaan Arcade, Opposite New DHQ Complex, Secretariat Road. 05822-442951-2,4,5	<b>Abbottabad</b>	<b>Ahmedpur East</b>
	Opposite Daewoo Terminal, Mansehra Road, Mandian. 0992-381314 ATM	Katchery Road, Ahmedpur Sharqia Arifwala Khewat # 1872, Khatoni # 1885, Main Muhammadi Road. 0457-830885
<b>GILGIT BALTISTAN</b>	<b>Haripur</b>	<b>Ahmedpur Sial</b>
<b>Gilgit</b>	Khasra # 1602,1598,1504/12, Naeem Market, Adjacent Total Filling Station, GT Road. 0995-612134	Main Road Muhalla Farooqabad APS 0475-340123
Near Public School Chowk, Shahrah-e-Quaid-e-Azam, Zulfiqarabad, Jutial.		
<b>ISLAMABAD CAPITAL TERRITORY</b>	<b>Dera Ismail Khan</b>	<b>Ali Pur</b>
<b>Barakoh</b>	Shop # 3675-11, 3675-E, Shumali Circular Road, Janooban Gali, Sarr e Aam, Near Fawara/Kashmir Chowk, 966-731234	Awan Plaza,College Chowk, main multan road
Khewat # 192 & 213, Khatoni # 364 & 388, Near Usmania Restaurant, Sardar Abbasi Plaza, Muree Road. 051-2234105	<b>Mardan</b>	<b>Attock</b>
<b>Blue Area</b>	Shop # 3,4,5,6,7,8,13 & 14, Block A Shaheen Shopping Mall, Main Qazi Bashir Road PRC Chowk Mardan. 0937-875255	Shop # C 99, Block C, Burq Road, Lucky Plaza 057-2610900
109, East Jinnah avenue, Main Blue Area 051-2804197 051-2804198 ATM		<b>Bahawalnagar</b>
		8- Nishtar Road Jinnah Colony 063-2277045 063-2019345

# Notes to the Financial Statements

For the year ended 31 December 2019

<b>Bahawalpur</b>	<b>Daska</b>	<b>Fort Abbas</b>
Property # 90, General Official Colony Block B, Model Town. 062-2887390 ATM	4/90, College Road, Near Noor Masjid. 052-6616411	Khewat # 411/409, Khatoni # 439, Kachi Mandi, Allama Iqbal Road. 063-2510405
<b>Bhakkar</b>	<b>Depalpur</b>	<b>Gojra</b>
Al-Qaim Plaza, Jhang Road, Chisti Chowk near Mughal machinery Store. 0453-514800	Khewat # 274, Khatoni # 277, Pakpattan Road. 044-4540074	Main Jhang Road, near Saifullah House. 046-3515003
<b>Bhalwal</b>	<b>Depalpur – Haveli Lakha</b>	<b>Gujar Khan</b>
Ajnala road, near Nadra office. 048-3021969 048-6644580	Khewat # 237, Khatoni # 253, Khasra # 93/2/2, Pak Pattan Road. 044-4775505	Trunk Bazar, Near Qadria Govt School, Tehsil Road 051-3512172
<b>Burewala</b>	<b>Depalpur – Hujra Shah Muqem</b>	<b>Gujranwala (Closed)</b>
Farooq Plaza, Main Arif Bazar. 067-3355444 067-3001372	Khewat # 1440/1404, Khatoni # 2193, Near NBP, Circular Road. 044-4860303	Shop # 34 A,B,C & 45EX, Nadra Office, Trust Plaza GT Road. 055-3730422
<b>Chakwal</b>	<b>Dera Ghazi Khan</b>	<b>Gujranwala</b>
Near Sui Gas Office, Opposite Govt. Degree College, Main Pindi Road. 0543-551344	Block A, Railway Road, near Katcheyri chowk. 064-2466245	SHOP NO 9&10, Main Shiekhupura Road, Mian Sansi , Khiali
<b>Chichawatni</b>	<b>Dunyapur</b>	<b>Gujrat</b>
Property # 995, Block # 6, Darass Road. 040-5480118	Khewat # 41/2660, Khasra # 14-15-5, Railway Road near Post Office. 0608-304889	Faisal Gate, Circular Road, Near Mithai Mehal. 053-3523467 053-3515285 ATM
<b>Chiniot</b>	<b>Faisalabad – Abdullah Pur</b>	<b>Gujrat – Jalalpur Jattan</b>
Near Zarai Taraqiati Bank Limited, Faisalabad road. 047 -6330010	Usman Manzil, Near Alfajar Marriage Hall, Jhumra Road. 041-8720291 041-8720292 ATM	P.T.I. # BVII/65/RH, Adjacent Circular Road, Near Chandni Chowk to Adda Tam Tam. 053-3592866
<b>Chishtian</b>	<b>Faisalabad – Allama Iqbal Road</b>	<b>Gujrat – Lalamusa</b>
Khewat # 583/585, Khatoni # 583, Khowaja Qibla Aalam road, near Qomi Bachat Road. 063-2507009	Khasra # 183/2, Khewat # 2120, Khatoni # 2123, Allama Iqbal Road, Opposite Government College University. 041-2603320 ATM	New Telenor Franchise, GT Road, Lalamusa 053-7512700

# Notes to the Financial Statements

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<b>Hafizabad</b> Property # 35-4, Raja Chowk Circular Road. 0547-524424 Haroonabad H. # 87, Madina Colony. 063-2252695	<b>Jamal Din Wali</b> Khewat # 6/6, Khatooni # 26 to 70, Sheller Market, Jamal Din Wali Tehsil Sadiqabad Jauharabad Block No. 2, Market committee chowk, Near Bank Al Falah 0454-723470	<b>Kasur</b> Railway Road, opposite metro Shoes. 049-2772467 Kasur – Illahbad Khewat # 246, Khatoni # 450, Kasur Road. 049-4752250	<b>Lahore – DHA</b> 49, XX Block, Phase III Defence Housing Authority ATM	<b>Lahore – Shahdara (Closed)</b> Near Saad Park, Main Ravi Road Toll Plaza. 042-37940488	<b>Mianwali</b> Govt High School Road. Near Chen One.
<b>Hasilpur</b> Khata # 32/34, Khatoni # 148, Baldia Road Near Imam Bargah. 062-2441346 062-2441347 ATM	<b>Jehanian</b> Plot # 520 & 522, Near Jehanian bypass Road. 065-2211003	<b>Khanewal</b> Block # 8, Opposite GPO. 065-2552877 065-2006601 ATM	<b>Lahore – Ferozpur road (Closed)</b> 343 – Main Ferozpur road, near Bhabra Market stop. 042-35881059	<b>Layyah</b> Liaquatpur Plot # 3/C-187 Bank Road. 068-5693393	<b>Minchanabad</b> Corner Plot # 01, Sadiqia Abbasia Street, Circular Road. 063-2750015
<b>Hassan Abdal</b> Property Khiot # 1751, Khata # 2610, Khasra # 1491, Doctor Afzal Road. Adda Larian. 057-2522555 ATM	<b>Jhang</b> Near Civil Line, Katchery road, Saddar. 047-7621231 ATM	<b>Khanpur</b> Plot # 237, A Block, Ward Area Development Society. 068-5571090 ATM	<b>Lahore – Ichra</b> 5 Ferozepur Road, Mazang Chongi 042-37538237 ATM	<b>Liaquatpur – Khan Bela</b> Khewat # 107/106, Khatoni # 382, Opposite Zarai Bank. 068-5570114	<b>Multan – Abdali Road</b> Khan Center, Main Abdali Road. o61-4580570 ATM
<b>Head Office I – Lahore</b> 30 – A, XX Block, Khayaban – e – Iqbal road, DHA 042-37132668	<b>Jhelum</b> M.M # 3, Jada Road. 0544-234413	<b>Khan Pur Tamewale</b> Opposite HBL Bank Ltd. Near Askar-1 Petrol Pump, Hasilpur Road, Tehsil Khairpur Tamewale, District Bahawalpur	<b>Lahore – Manga Mandi</b> Near Govt. High school (boys), Multan Road. 042-35385044	<b>Lodhran</b> Khewat # 541/1, Khatoni # 1125, Ground Floor, Saad Plaza, Jalalpur Morr, Faizabad. 0608-362210 ATM	<b>Multan – Vehari Road</b> 111-114, Sheerin Commercial Center, Vehari Road. 061-6244966 ATM
<b>Head Office II – Lahore</b> 387-E, Johar Town, Near Allah Hoo Chowk +92-42-35222852-3 ATM	<b>Kahrar Pakka</b> Khewat # 27/1041, Khasra # 52-1, Near Admore Petrol Pump, Dunya Pur Road. 0608-340790 ATM	<b>Kharian – Dinga</b> Kharian Road, Fawara Chowk 053-7403484	<b>Lahore – Mughalpura</b> 118 Main GT Road, Opposite UET Gate # 06, Mian Park. 042-36866669	<b>Mailsi</b> Khewat # 63/61, Khatoni # 87, Colony Road. 067-3750043	<b>Muzaffargarh</b> Khewat # 772, Muhalla Aminabad, Opposite New General Bus Stand, Shah Jamal Road. 066-2422966 0662-2015631
<b>Jalalpur Pirwala</b> Khewat # 22/22, Khatoni # 46, Old Virtual University Campus, Shujaabad Road, Deewan Market. 061-4212013	<b>Kamalia</b> Plot # 4169 to 4191, Mohalla Mahtianwala, Near NBP. 046-3413052	<b>Kot Addu</b> G. T. Road, Dist Muzaffargarh. 0662-239070 0662-239071	<b>Lahore – Multan Road (Closed)</b> 43-44 A, Main Boulevard, Gulshan-e-Ravi, near Akber-e-Azam Shadi Hall. 042-37410834 042-36136048	<b>Malakwal</b> Badshah Pur road, Opp National Bank. 0546-583144	<b>Nankana Sahib</b> Khewat # 56, Khatoni # 209, BII IS-2 Malji Road. 056-2876141
<b>Jaranwala</b> Opposite Hassan travels, Faisalabad Road. 041-4315646	<b>Kamoke</b> GT Road, Androon Hadood Kamaity. 055-6810160 066-6813266	<b>Lahore – Allama Iqbal Town</b> Plot # 6, PAK Block, Allama Iqbal Town,	<b>Lahore – New Garden Town</b> 28-B, Ali Block, New Garden Town. 042-35868831 042-35868832 ATM	<b>Mandi Bahauddin</b> Shayan Plaza Ward #5, Dewan chowk. 0546-521662	<b>Narowal</b> Circular Road, Siddique Pura. 0542-413476
		<b>Lahore – College Road</b> 27-17-B, Near Aslam Chowk, College Road, Township. 042-36185516 042-35222608 ATM	<b>Lahore – Raiwind</b> Manga Road, Near Shell Petrol Pump. 042-35391240	<b>Mankera</b> Mushtaq Market, Near UBL Bank, Jhang to Bhakar Road.	<b>Okara</b> Link M.A Jinnah Road, Ravi Road. 044-2522300
				<b>Mian Channu</b> Shaheed Road, Block-13, Near Mobilink Franchise. 065-2663613	<b>Okara Cantt</b> Plot # D-61, Liaqat road. 0333-4925852 ATM



**Pir Mahal,**

Khewat # 1389, Khatooni # 1390,  
Plot # 12/12 & 13/13, Near Askari Bank  
Ltd.  
Main Rajana Road,  
Kousarabad,  
046-3360411

**Piplan**

Ghala Mandi,  
045-9201198-97

**Pakpattan**

Plot # 1670-A,  
College Road.  
045-7419634  
045-7372800  
ATM

**Pasrur**

Khata # 344, Khatoni # 633, Class Wala  
Road, near Satrah Chowk, Opposite  
Hafeez Goods & Bunyad School  
System.  
052-6440122

**Pattoki**

Khewat # 887, Khatoni # 2553 to 2660,  
Lahore wala aada, Multan Road.  
049-4420700

**Phalia**

Khewat # 161, Khatoni # 440,  
Khasra # 292, Near Masjid  
Gulzar-e-Madina, Hilyan Road.  
0546-566136

**Pindi Bhattian**

Opposite Siyal Tent Services,  
Pully Siyal Tent Wali,  
Hafizabad Road.  
0547-531356

**Quaidabad**

Main Adda,  
near UBL.  
0454-880027

**Rahim Yar Khan**

26 Model Town  
068-5879666  
ATM

**Rajanpur**

Gulshan-e-Iqbal colony mian Indus  
highway.

**Saddiqabad**

Property # 243, Water  
Supply Road.  
068-5800261

**Sahiwal**

Liaqat road,  
opposite Chaudhry broast.  
040-4461470  
040-4009093

**Sambrial**

Khewat # 86, Khatooni # 105,  
Opposite Makki Masjid.  
052-6523614  
052-6523535

**Samundri**

Circular road,  
District Faisalabad.  
041-3420011

**Sargodha**

Azad Road,  
Block No 15.  
048-3700797  
048-3005639

**Sargodha – Sahiwal**

Main Jhang Road,  
Near Shell Petrol Pump.  
048-6786233

**Sharaqpur**

Khewat # 136, Khatoni # 329,  
Near Muslim Pura Aara,  
Main Lahore-Jaranwala Road.

**Sheikhupura**

Faisalabad Road Batti Chowk,  
OPP Social Security Hospital  
Sheikhupura.  
056-3611133  
ATM

**Shorkot**

Khata # 1875, Mohalla Abbas Pura,  
Nawan Shehar, Jhang Road.  
047-5310104

**Shujabad**

Khewat # 315, Jalal Pur Road,  
Near KB stand.  
061-4029690

**Sialkot**

City Tower,  
Shahab Pura.  
052-3256462  
052-3256452  
ATM

**Sialkot**

Sajjad Plaza, Agha Kamal road,  
Saddar bazaar,Sialkot Cantt.

**Silanwali**

Sales & Service Centre Silanwali  
46 Adda Road, Near Nadra Office,  
Silanwali  
0331-1451703

**Syedwala**

Khewat # 129, Khatoni # 232/22,  
Khasra # 53, Muraba # 06,  
Kila # 9/2, Jaranwala Road.  
056-2722574

**Talagang**

Plot # Kh-3215/203, Nawab Center,  
Chowk Saddiqabad, Mianwali Road,  
0543-413850

**Toba Tek Singh**

Khewat # 337, Opposite Qaim Center,  
Shorkot Road baron Lakkar Mandi.  
046-2511752

**Vehari**

Khewat # 104, Khatoni # 104,  
52 – A – Block.  
067-3025385

**Wazirabad**

Opposite Fire Brigade  
and Rescue 15, GT Road.  
055-6601262  
ATM

**Yazman**

Bahawalpur road.  
0622-702816

**SINDH**

**Ghotki**

Plot # C/S 890/2, Ward # B,  
S.K Plaza, Devri Sahab Road.  
0723-682227  
0723-682228

**Hyderabad**

G916, Gurunagar, Opp SK  
Rahim Girls High school,  
Near New Cloth Market.  
022-2631180  
022-2926963

**Karachi – Clifton**

Plot # BC- 13,  
Block # 9.  
021-35292907  
021-35292908  
ATM

**Karachi – North Nazimabad**

Plot # D-6/B,  
North Nazimabad.  
021-36701144

**Khairpur**

Plot # A-1264-A, Shah  
Lateef Colony, Near Khaki  
Shah Pul Station Road.  
0243-680966

**Nawabshah**

Main Sakrand Road,  
near National Bank of Pakistan.  
0244-366795

**Pano Aqil**

Property Jaryan # 10060, Eid Gah  
Chowk, Cinema Road, Cantt Road.  
071-5690424

**Liaquatpur**

Plot No. 3/C-1,87  
068-5693393

**Larkana**

City Survey # 707 & 708, Ward “A”  
Opposite First Women Bank,  
Bank Square, Bander Road,

**Mirpurkhas**

Mahula khari quarter, railway station  
chowk,  
beside Al Habib Bank station road.

**Sukkur**

Property # 631/ 5-A/IB-3,  
Minara Road, Near Dolphin  
Bakery Chowk.  
071-5624470-1

**Uch Sharif**

Sales & Service Centre Uch Sharif  
Ahmedpur East Road opposite MCB  
Bank UCH Sharif  
Tehsil Ahmedpur East Dist. BWP  
0337-1426140

**Umerkot**

Ward “A” CS No: 20/1/1, Lashari Market,  
Near Kumar Medical Store,  
Umer Kot Town, Taluka and Sub-  
District Umerkot

**Tando Allahyar**

Plot # 07, near Wapda Grid station,  
Main Hyderabad Road.  
022-892458

**BALOUCHISTAN**

**Quetta**

Shop# 1-26/5G-1330 to 1-26/5H-1331,  
Manan Chowk, M.A. Jinnah Road,  
Opposite Meezan Bank Ltd. Quetta.  
081-2823443

# Notes to the Financial Statements

## For the year ended 31 December 2019

### 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
Note		Rupees								
<b>On-Balance sheet financial instruments</b>										
<b>31 December 2019</b>										
<b>Financial assets measured at fair value</b>										
Investments - net of provisions	9	5,968,466,000	-	275,992,500	-	-	6,244,458,500	-	6,244,458,500	-
<b>Financial assets not measured at fair value</b>										
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	-	-	-
<b>Financial liabilities measured at fair value</b>										
<b>Financial liabilities not measured at fair value</b>										
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	-	-	-

		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
Note		Rupees								
<b>On-Balance sheet financial instruments</b>										
<b>31 December 2018</b>										
<b>Financial assets measured at fair value</b>										
Investments - net of provisions	9	2,441,491,077	1,385,986,221	-	-	-	3,827,477,298	-	2,441,491,077	-
<b>Financial assets not measured at fair value</b>										
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	-	-	-
<b>Financial liabilities measured at fair value</b>										
<b>Financial liabilities not measured at fair value</b>										
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.

# Notes to the Financial Statements

## For the year ended 31 December 2019

### 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.

2019												
	Effective yield / interest rate	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										
%												
Financial assets												
On balance sheet:												
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
Off balance sheet	-	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
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
Financial liabilities												
On balance sheet:												
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
Off balance sheet	-	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
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	-	-	-	-	-	-	-	-	-	-	-	-
2018												
	Effective yield / interest rate	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										
%												
Financial assets												
On balance sheet:												
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
Off balance sheet	-	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
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
Financial liabilities												
On balance sheet:												
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
Off balance sheet	-	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
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	-	-	-	-	-	-	-	-	-	-	-	-



# Notes to the Financial Statements

For the year ended 31 December 2019

## 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.

# Notes to the Financial Statements

For the year ended 31 December 2019

## 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				
<b>Market rate assets</b>					
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	-	-	-
<b>Total market rate assets</b>	<b>29,729,732,538</b>	<b>5,774,137,346</b>	<b>10,039,105,719</b>	<b>11,890,179,296</b>	<b>2,026,310,177</b>
Other non-earning assets	7,582,156,476	4,244,187,461	317,856,690	478,612,632	2,541,499,693
<b>Total assets</b>	<b>37,311,889,014</b>	<b>10,018,324,807</b>	<b>10,356,962,409</b>	<b>12,368,791,928</b>	<b>4,567,809,870</b>
<b>Market rate liabilities</b>					
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
<b>Total market rate liabilities</b>	<b>28,837,872,620</b>	<b>7,830,021,132</b>	<b>5,422,813,250</b>	<b>3,414,685,028</b>	<b>12,170,353,210</b>
Other non-cost bearing liabilities	3,755,709,490	3,531,287,885	3,281,350	-	221,140,255
<b>Total liabilities</b>	<b>32,593,582,110</b>	<b>11,361,309,017</b>	<b>5,426,094,600</b>	<b>3,414,685,028</b>	<b>12,391,493,465</b>

	2018				
	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
	Rupees				
<b>Market rate assets</b>					
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
<b>Total assets</b>	<b>32,279,760,540</b>	<b>10,596,998,150</b>	<b>10,172,241,586</b>	<b>9,623,280,666</b>	<b>1,887,240,138</b>
<b>Market rate liabilities</b>					
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	-	-	-
<b>Total market rate liabilities</b>	<b>25,059,599,800</b>	<b>7,453,071,847</b>	<b>6,330,364,671</b>	<b>2,023,435,961</b>	<b>9,252,727,321</b>
Other non-cost bearing liabilities	3,187,771,889	2,657,138,655	133,663,742	68,206,952	328,762,540
<b>Total liabilities</b>	<b>28,247,371,689</b>	<b>10,110,210,502</b>	<b>6,464,028,413</b>	<b>2,091,642,913</b>	<b>9,581,489,861</b>

# Notes to the Financial Statements

For the year ended 31 December 2019

## 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					
<b>Balance as at 01 January 2019</b>	6,348,887,110	(4,089,040,293)	1,061,863,072	2,412,228	-	-
<b>Changes from financing cash flows</b>						
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
<b>Other changes</b>						
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	-	-	-
<b>Transfer to:</b>						
Statutory reserve	-	-	(130,670,491)	-	-	-
Depositors' protection fund	-	-	(32,667,623)	-	-	-
	-	-	501,846,164	(2,364,698)	-	1,867,087,724
<b>Balance as at 31 December 2019</b>	6,348,887,110	(4,089,040,293)	1,563,709,236	2,154,960	800,000,000	1,598,654,753

	2018					
	Equity			Liabilities		
	Issued, subscribed and paid-up capital	Discount on issue of shares	Unappropriated profit	Deferred grants	Subordinated loan	Lease liabilities
	Rupees					
<b>Balance as at 01 January 2018</b>	6,348,887,110	(4,089,040,293)	552,799,227	8,154,432	-	-
<b>Changes from financing cash flows</b>						
Debt received	-	-	-	-	-	-
Dividends paid	-	-	(200,000,000)	-	-	-
Grant received	-	-	-	2,742,228	-	-
Loan repaid	-	-	-	-	-	-
	-	-	(200,000,000)	2,742,228	-	-
<b>Other changes</b>						
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	-	-	-
<b>Transfer to:</b>						
Statutory reserve	-	-	(191,296,115)	-	-	-
Depositors' protection fund	-	-	(47,824,029)	-	-	-
	-	-	709,063,845	(8,484,432)	-	-
<b>Balance as at 31 December 2018</b>	6,348,887,110	(4,089,040,293)	1,061,863,072	2,412,228	-	-

# Notes to the Financial Statements

For the year ended 31 December 2019

## 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%

	2019 Rupees	2018 Rupees	2019 Relative %	2018 of size of the fund
<b>41.1 Breakup of investments</b>				
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%
	566,039,438	409,707,193	98.9%	93.8%

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 February 25, 2020 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 February 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.

Chief Executive Officer

Chairman

Director

Director



# Pattern of Shareholding

As at 31 December 2019

Name of Shareholder	Nationality	Number of shares	Nominal Value (PKR)	Percentage
FINCA Microfinance Cooperatief U.A.	Netherlands	548,498,650	5,484,986,500	86.4%
Kashf Holdings (Pvt.) Limited ("KHL")	Pakistan	33,119,747	331,197,470	5.2%
International Finance Corporation ("IFC")	USA	30,771,739	307,717,390	4.9%
Triodos Fair Share Fund ("TFSF")	Netherlands	17,368,319	173,683,190	2.7%
Acumen Pakistan	Pakistan	5,130,253	51,302,530	0.8%
Mr. Volker Renner	Germany	01	10	0.0%
Mr. Makhmudjon Saidakhmatov	Uzbekistan	01	10	0.0%
Ms. Zarlisht Wardak	USA	01	10	0.0%
Total		634,888,711	6,348,887,110	100.0%

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