



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

To the members of FINCA Microfinance Bank Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the annexed financial statements of **FINCA Microfinance Bank Limited** ("the Bank"), which comprise the balance sheet as at 31 December 2020, the profit and loss account, the statement of other 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, the profit and loss account, the statement of other 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 2020 and of the profit and loss and other comprehensive income, the changes in equity and its cash flows for the year then ended.

Basis for Opinion

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

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

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

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

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

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Responsibilities of Management and Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting and reporting standards as applicable in Pakistan, the requirements of the Microfinance Institution Ordinance, 2001 and the Companies Act, 2017 (XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

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

Lahore

Date: 17 March 2021

KPMG Taseer Hadi & Co.
Chartered Accountants

FINCA MICROFINANCE BANK LIMITED

Balance Sheet

As at 31 December 2020

	Note	2020 Rupees	2019 Rupees
Assets			
Cash and balances with SBP and NBP	7	1,572,075,030	1,595,527,281
Balances with other banks / NBFIs / MFBs	8	2,849,103,430	1,642,664,760
Investments - net of provisions	9	6,448,871,800	6,244,458,500
Advances - net of provisions	10	21,246,108,856	22,038,804,318
Operating fixed assets	11	2,444,958,300	3,131,121,056
Other assets	12	5,171,405,664	2,613,415,832
Deferred tax asset	13	118,358,104	45,897,267
Total assets		39,850,881,184	37,311,889,014
Liabilities			
Deposits and other accounts	14	26,082,761,045	23,911,341,828
Borrowings	15	4,710,503,886	4,752,852,994
Subordinated debt	16	800,000,000	800,000,000
Other liabilities	17	3,014,141,411	3,129,387,288
Total liabilities		34,607,406,342	32,593,582,110
Net assets		5,243,474,842	4,718,306,904
Represented by:			
Share capital	18	6,348,887,110	6,348,887,110
Discount on issue of shares		(4,089,040,293)	(4,089,040,293)
Statutory reserve		868,881,433	687,948,818
Depositors' protection fund		266,156,280	203,099,973
Unappropriated profit		1,848,106,312	1,563,709,236
		5,242,990,842	4,714,604,844
Surplus on revaluation of assets	19	184,000	1,547,100
Deferred grants	20	300,000	2,154,960
Total capital		5,243,474,842	4,718,306,904
Memorandum / off-balance sheet items	21		

The annexed notes from 1 to 47 form an integral part of these financial statements.

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Chief Executive Officer

Chairman

Director

Director

FINCA MICROFINANCE BANK LIMITED

Profit and Loss Account

For the year ended 31 December 2020

	Note	2020 Rupees	2019 Rupees
Mark-up / return / interest earned	22	8,628,539,039	8,312,159,411
Mark-up / return / interest expensed	23	(3,038,759,103)	(2,997,774,339)
Net mark-up / interest income		5,589,779,936	5,314,385,072
Provision against non-performing loans and advances	10.4	(1,226,144,968)	(1,086,754,079)
Provision for diminution in the value of investments		-	-
Bad debts written off directly	10.4.1	(2,227,563)	(2,839,918)
		(1,228,372,531)	(1,089,593,997)
Net mark-up / interest income after provisions		4,361,407,405	4,224,791,075
Non mark-up / non interest income			
Fee, commission and brokerage income	24	533,089,979	798,515,302
Dividend income		-	-
Other income	25	312,349,970	155,968,627
Total non mark-up / non interest income		845,439,949	954,483,929
		5,206,847,354	5,179,275,004
Non mark-up / non interest expenses			
Administrative expenses	26	(3,761,042,556)	(4,102,036,922)
Other charges	27	(29,836,581)	(65,669,905)
Total non mark-up / non interest expenses		(3,790,879,137)	(4,167,706,827)
Profit before taxation		1,415,968,217	1,011,568,177
Workers' Welfare Fund (WWF)		(33,320,951)	-
		1,382,647,266	1,011,568,177
Taxation - Current year		(563,847,527)	(331,642,626)
Prior years		4,841,086	(54,704,446)
Deferred		81,022,251	28,131,352
	28	(477,984,190)	(358,215,720)
Profit after taxation		904,663,076	653,352,457
Unappropriated profit brought forward		1,563,709,236	1,061,863,072
Add: Other comprehensive income		15,899,769	11,831,821
Profit available for appropriation		2,484,272,081	1,727,047,350
Appropriations:			
Transfer to:			
Statutory reserve		(180,932,615)	(130,670,491)
Capital reserve		-	-
Dividend		(410,000,000)	-
Contribution to depositors' protection fund		(45,233,154)	(32,667,623)
Revenue reserve		-	-
		(636,165,769)	(163,338,114)
Unappropriated profit carried forward		1,848,106,312	1,563,709,236
Earnings per share	32	1.42	1.03

The annexed notes from 1 to 47 form an integral part of these financial statements.

Signature

Chief Executive Officer

Chairman

Director

Director

FINCA MICROFINANCE BANK LIMITED

Statement of Other Comprehensive Income

For the year ended 31 December 2020

	2020 Rupees	2019 Rupees
Profit after tax	904,663,076	653,352,457
<u>Other comprehensive income for the year</u>		
<u>Comprehensive income for the year transferred to equity</u>		
<i>Items that will not be reclassified subsequently to profit and loss account</i>		
Remeasurement of post retirement defined benefit obligation	24,461,183	18,202,801
Related tax impact	(8,561,414)	(6,370,980)
	<u>15,899,769</u>	<u>11,831,821</u>
	920,562,845	665,184,278
<u>Components of comprehensive income for the year not transferred to equity:</u>		
<i>Items that may be reclassified subsequently to profit and loss account</i>		
Net change in fair value of 'available-for-sale' securities	184,000	1,547,100
Total comprehensive income for the year	<u><u>920,746,845</u></u>	<u><u>666,731,378</u></u>

The annexed notes from 1 to 47 form an integral part of these financial statements.

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Chief Executive Officer

Chairman

Director

Director

FINCA MICROFINANCE BANK LIMITED

Cash Flow Statement

For the year ended 31 December 2020

	Note	2020 Rupees	2019 Rupees
<u>Cash flows from operating activities</u>			
Profit before taxation		1,415,968,217	1,011,568,177
<i>Adjustments for non-cash charges:</i>			
Depreciation on operating fixed asset	11.4	246,260,023	230,562,591
Depreciation on right of use assets	11.3	240,583,922	239,209,984
Amortization on intangible assets	11.2	71,143,277	65,720,915
Notional interest on lease liability	23	158,107,383	175,974,209
Provision against non-performing advances	10.4	1,226,144,968	1,086,754,079
Operating fixed assets written off	27	1,441,201	29,326,854
Markup earned on investments in government securities	22	(526,818,247)	(654,090,270)
Net gain on disposal of operating fixed assets	25	(115,588,764)	(559,935)
Gain on disposal of government securities	25	(55,903,100)	(11,953,197)
Deferred grant recognized as income	25	(1,854,960)	(2,364,698)
Provision for gratuity	17.3.2	88,504,018	87,388,358
		1,332,019,721	1,245,968,890
		2,747,987,938	2,257,537,067
<i>Decrease / (increase) in operating assets:</i>			
Net investments in held for trading securities		6,273,146,791	(3,120,914,336)
Advances		(433,449,506)	(2,545,029,254)
Others assets		(2,708,692,465)	(510,430,870)
		3,131,004,820	(6,176,374,460)
<i>Increase in operating liabilities:</i>			
Bills payable		6,996,711	(3,168,690)
Borrowings from financial institutions		(42,349,108)	1,434,352,450
Deposits		2,171,419,217	169,529,963
Other liabilities (excluding withholding tax, lease liabilities, bills payable and provision for gratuity)		(232,909,408)	280,783,953
		1,903,157,412	1,881,497,676
		7,782,150,170	(2,037,339,717)
Gratuity paid	17.3.4	(31,615,541)	(43,144,681)
Income tax paid		(249,297,461)	(505,611,926)
Net cash generated from / (used in) operating activities		7,501,237,168	(2,586,096,324)
<u>Cash flows from investing activities</u>			
Net investments in held-to-maturity securities		-	1,583,398,368
Net investments in available for sale securities		(5,896,201,844)	(223,827,864)
Interest income on depositors protection fund		17,823,153	19,443,943
Investments in operating fixed assets		(74,967,155)	(246,652,041)
Sale proceeds of property and equipment disposed-off	11.4.2	289,531,874	29,540,477
Net cash (used in) / generated from investing activities		(5,663,813,972)	1,161,902,883
<u>Cash flows from financing activities</u>			
Payment of lease liabilities		(244,436,777)	(268,432,971)
Receipt of sub-ordinated debt		-	800,000,000
Grant received		-	2,107,430
Payment of dividends		(410,000,000)	-
Net cash (used in) / generated from financing activities		(654,436,777)	533,674,459
Increase in cash and cash equivalents		1,182,986,419	(890,518,982)
Cash and cash equivalents at beginning of the year		3,238,192,041	4,128,711,023
Cash and cash equivalents at end of the year	34	4,421,178,460	3,238,192,041

The annexed notes from 1 to 47 form an integral part of these financial statements.

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Chief Executive Officer

Chairman

Director

Director

FINCA MICROFINANCE BANK LIMITED

Statement of Changes in Equity

For the year ended 31 December 2020

	Capital reserves			Revenue reserves	
	Share capital	Discount on issue of shares	Statutory reserve	Depositors' protection fund	Unappropriated profit
	----- Rupees -----				
Balance as at 31 December 2018	6,348,887,110	(4,089,040,293)	557,278,327	150,988,407	1,061,863,072
Profit for the year	-	-	-	-	653,352,457
Other comprehensive income	-	-	-	-	653,352,457
Remeasurement of post defined benefit obligation - net of tax	-	-	-	-	11,831,821
Total comprehensive income for the year	-	-	-	-	665,184,278
Transfer to statutory reserve	-	-	130,670,491	-	(130,670,491)
Transfer to depositors' protection fund	-	-	-	32,667,623	(32,667,623)
Return on depositors' protection fund's investments - net of tax	-	-	-	19,443,943	-
Transactions with owners:					
- Dividend paid	-	-	-	-	-
Balance as at 31 December 2019	6,348,887,110	(4,089,040,293)	687,948,818	203,099,973	1,563,709,236
Profit for the year	-	-	-	-	904,663,076
Other comprehensive income	-	-	-	-	904,663,076
Remeasurement of post defined benefit obligation - net of tax	-	-	-	-	15,899,769
Total comprehensive income for the year	-	-	-	-	920,562,845
Transfer to statutory reserve	-	-	180,932,615	-	(180,932,615)
Transfer to depositors' protection fund	-	-	-	45,233,154	(45,233,154)
Return on depositors' protection fund's investments - net of tax	-	-	-	17,823,153	-
Transactions with owners:					
- Dividend paid	-	-	-	-	(410,000,000)
Balance as at 31 December 2020	6,348,887,110	(4,089,040,293)	868,881,433	266,156,280	1,848,106,312

The annexed notes from 1 to 47 form an integral part of these financial statements.

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Chief Executive Officer

Chairman

Director

Director

FINCA MICROFINANCE BANK LIMITED

Notes to the financial statements

For the year ended 31 December 2020

1 Status and nature of business

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

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

The Bank is licensed to operate nationwide. As at 31 December 2020, the Bank has 130 branches (2019: 130 branches) operating in the provinces of Punjab, Khyber Pakhtunkhwa, Sindh and Gilgit Baltistan and also Azad Jammu & Kashmir.

SBP through its letter no. AC&MFD/MF-Policy/2020-9652 dated 02 September 2020 and SECP through its letter no. SMD/CIW/CR03/2012 dated 18 September 2020 have endorsed deferment of upcoming semi-annual credit rating review requirements for microfinance banks.

The credit rating company PACRA assigned the long term entity rating of the Bank at 'A' and short term rating at 'A1' on 28 April 2020.

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

2 Basis of presentation

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

3 Statement of compliance

- 3.1** 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:

- International Financial Reporting Standards (IFRS Standards), issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;
- Microfinance Institution Ordinance, 2001 (the MFI Ordinance);

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- the directives issued by the State Bank of Pakistan (SBP) and Securities and Exchange Commission of Pakistan (SECP);
- provisions of and directives issued under the Companies Act, 2017

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

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

3.2 New accounting standards / amendments and IFRS interpretations that are 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 2021:

Amendment to IFRS 16 'COVID-19-Related Rent Concessions'. The International Accounting Standards Board (the Board) has issued amendments to IFRS 16 (the amendments) to provide practical relief for lessees in accounting for rent concessions. The amendments are effective for periods beginning on or after 1 June 2020, with earlier application permitted.

Under the standard's previous requirements, lessees assess whether rent concessions are lease modifications and, if so, apply the specific guidance on accounting for lease modifications. This generally involves remeasuring the lease liability using the revised lease payments and a revised discount rate. In light of the effects of the COVID-19 pandemic, and the fact that many lessees are applying the standard for the first time in their financial statements, the Board has provided an optional practical expedient for lessees. Under the practical expedient, lessees are not required to assess whether eligible rent concessions are lease modifications, and instead are permitted to account for them as if they were not lease modifications. Rent concessions are eligible for the practical expedient if they occur as a direct consequence of the COVID-19 pandemic and if all the following criteria are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and

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- there is no substantive change to the other terms and conditions of the lease.

Interest Rate Benchmark Reform – Phase 2 which amended IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 is applicable for annual financial periods beginning on or after 1 January 2021, with earlier application permitted.

The amendments introduce a practical expedient to account for modifications of financial assets or financial liabilities if a change results directly from IBOR reform and occurs on an 'economically equivalent' basis. In these cases, changes will be accounted for by updating the effective interest rate. A similar practical expedient will apply under IFRS 16 for lessees when accounting for lease modifications required by IBOR reform. The amendments also allow a series of exemptions from the regular, strict rules around hedge accounting for hedging relationships directly affected by the interest rate benchmark reforms. The amendments apply retrospectively with earlier application permitted. Hedging relationships previously discontinued solely because of changes resulting from the reform will be reinstated if certain conditions are met.

Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37) effective for the annual period beginning on or after 1 January 2022.

This amends IAS 1 by mainly adding paragraphs which clarify what comprise the cost of fulfilling a contract. Cost of fulfilling a contract is relevant when determining whether a contract is onerous. An entity is required to apply the amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). Restatement of comparative information is not required, instead the amendments require an entity to recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

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

3.3 Annual Improvements to IFRS standards 2018-2020:

The following annual improvements to IFRS standards 2018-2020 are effective for annual reporting periods beginning on or after 1 January 2022.

- IFRS 16 – The amendment partially amends Illustrative Example 13 accompanying IFRS 16 by excluding the illustration of reimbursement of leasehold improvements by the lessor. The objective of the amendment is to resolve any potential confusion that might arise in lease incentives.

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- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16) effective for the annual period beginning on or after 1 January 2022. Clarifies that sales proceeds and cost of items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management e.g. when testing etc., are recognized in profit or loss in accordance with applicable Standards. The entity measures the cost of those items applying the measurement requirements of IAS 2. The standard also removes the requirement of deducting the net sales proceeds from cost of testing. An entity shall apply those amendments retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.
- 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 Board 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 Board 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 Board 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 crystallize. 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.

The above amendments are effective from annual period beginning on or after 1 January 2021 and are not likely to have a significant impact on Bank's financial statements.

4 Basis of measurement

4.1 Accounting convention

These financial statements have been prepared under the historical cost convention except for the following which are stated at fair values / present values:

- Investments in government securities;
- Right of use assets and corresponding lease liabilities; and
- Payable to defined benefit plan.

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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 non performing advances (note 6.3 and note 10)
- b) Payable to defined benefit plan (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)
- g) Lease liabilities and corresponding right of use assets (note 6.1)
- h) Recognition and measurement of provisions and contingencies (note 6.13 and 21 note)

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.

6.1 Leases

6.1.1 Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate. The Bank determines its incremental borrowing rate by analyzing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

The lease liability is subsequently measured at amortized cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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6.1.2 Right of use assets

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred.

The right-of-use assets are subsequently depreciated on a straight line basis over the lease term as this method most closely reflects the expected pattern of consumption of future economic benefits. The right-of-use assets are reduced by impairment losses, if any, and adjusted for certain remeasurements of lease liability.

The right of use assets 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.

6.1.3 Short-term leases

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.

6.2 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

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

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

Not applicable

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

In addition, a general provision is maintained equivalent to 1% (2019:1%) 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.

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6.4.2 Held-to-maturity

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

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

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

6.4.3 Available for sale

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

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.

nominal

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.

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.

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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 8.33% 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 2020 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.

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:

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- 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.

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.

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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.

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

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

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

Other income is recognized on a time proportion basis.

6.19 Foreign currency transactions and translation

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

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

6.20 Financial instruments

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

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

6.20.1 Financial assets and financial liabilities

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

6.20.2 Off setting

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

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6.21 Share capital and dividend

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

6.22 Earning per share

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

6.23 Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

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

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

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

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

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

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	Note	2020 Rupees	2019 Rupees
7 Cash and balances with SBP and NBP			
Cash in hand		397,273,014	409,379,752
Balance with State Bank of Pakistan	7.1	1,006,847,600	885,765,190
<i>Balance with National Bank of Pakistan in:</i>			
Saving account	7.1	725,909	50,507,149
Current account	7.1	167,228,507	249,875,190
		<u>1,572,075,030</u>	<u>1,595,527,281</u>

7.1 This represents the balance maintained with SBP and NBP to meet the minimum balance requirement equivalent to 5% as cash reserve and 10% as liquidity reserve of the Bank's time and demand liabilities in accordance with the Prudential Regulations. This also includes Rs. 266.16 million (2019: Rs. 203.10 million) maintained with SBP under depositors' protection fund. Saving account carries markup ranging from 5.50% to 8.75% (2019: 10% to 11.25%).

	Note	2020 Rupees	2019 Rupees
8 Balances with other banks / NBFIs / MFBs			
In Pakistan:			
Saving accounts	8.1	1,787,325,942	1,195,962,571
Deposit accounts	8.2	900,000,000	200,000,000
Current accounts		161,777,488	246,702,189
		<u>2,849,103,430</u>	<u>1,642,664,760</u>

8.1 These accounts carry mark-up ranging from 5.50% to 13.60% (2019: 10.75% to 13.60%) per annum.

8.2 This term deposit carries mark-up 7.3% (2019: 14%) per annum with maturity of one month.

	Note	2020 Rupees	2019 Rupees
9 Investments - net of provisions			
<i>Federal Govt. Securities:</i>			
Market treasury bills (Held for trading)	9.1	-	5,968,466,000
Market treasury bills (Available for sale)	9.1	6,448,871,800	275,992,500
		<u>6,448,871,800</u>	<u>6,244,458,500</u>

9.1 These carry yield rate ranging between 6.39% to 13.48% (2019: 10.30% to 14.22%) per annum and have maturity upto 25 march 2021. These securities have an aggregate face value of Rs. 6,500 million (2019: Rs. 6,350 million)

	Note	2020		2019	
		Number	Rupees	Number	Rupees
10 Advances - net of provisions					
Micro credit advances	10.1	223,904	21,418,849,345	236,910	22,328,927,421
Other advances	10.2	1,384	131,660,566	1,427	151,088,745
			<u>21,550,509,911</u>		<u>22,480,016,166</u>
Less: Provisions held:					
Specific	10.3 & 10.4	10,363	115,534,548	13,149	233,320,572
General	10.4 & 10.5		188,866,507		207,891,276
			<u>304,401,055</u>		<u>441,211,848</u>
			<u>21,246,108,856</u>		<u>22,038,804,318</u>

10.1 This includes fully secured advances amounting to Rs. 2,543.42 million (2019: Rs. 1,457.57 million) whereas the remaining advances are secured by personal guarantees.

10.2 These advances are staff loans and carry markup rate between 5% to 10% per annum (2019: 5%).

10.3 Particulars of non-performing advances

The total advances of Rs. 739.18 million (2019: Rs. 1,055.10 million) placed under non-performing status includes Rs 9.60 million (2019: Rs 11.54 million) advances, secured against gold:

2020				
%	Number	Amount outstanding Rupees	Provision required Rupees	Provision held Rupees
OAEM	0	5,782	443,605,541	-
Sub-standard	25	1,858	124,916,396	30,633,155
Doubtful	50	2,698	168,217,806	82,458,188
Loss	100	25	2,443,205	2,443,205
		<u>10,363</u>	<u>739,182,948</u>	<u>115,534,548</u>
2019				
%	Number	Amount outstanding Rupees	Provision required Rupees	Provision held Rupees
OAEM	0	5,562	477,532,376	-
Sub-standard	25	2,632	217,831,744	53,532,431
Doubtful	50	4,911	355,914,178	176,086,256
Loss	100	44	3,811,885	3,701,885
Total		<u>13,149</u>	<u>1,055,090,183</u>	<u>233,320,572</u>

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10.4 Particulars of non-performing advances

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

Note	2020			2019		
	Specific Rupees	General Rupees	Total Rupees	Specific Rupees	General Rupees	Total Rupees
Balance as at January 1	233,320,572	207,891,276	441,211,848	85,182,091	203,223,762	288,405,853
Charge / (reversal) for the year	1,245,169,737	(19,024,769)	1,226,144,968	1,082,086,565	4,667,514	1,086,754,079
Amounts written off	(1,362,955,761)	-	(1,362,955,761)	(933,948,084)	-	(933,948,084)
	(117,786,024)	(19,024,769)	(136,810,793)	148,138,481	4,667,514	152,805,995
Balance as at December 31	115,534,548	188,866,507	304,401,055	233,320,572	207,891,276	441,211,848

10.4.1 Particulars of write offs

	2020 Rupees	2019 Rupees
Against provisions	1,362,955,761	933,948,084
Directly charged to profit and loss account	2,227,563	2,839,918
	1,365,183,324	936,788,002

10.5 This represents general provision equivalent to 1% (2019: 1%) of the outstanding advances net of specific provisions and those against which gold collaterals are taken.

10.6 The coronavirus (COVID-19) has been evolving as a strain to the global economy including that of Pakistan. Therefore, to dampen the adverse effects of COVID-19 and to enable the Microfinance Banks ("MFBs") continue to fulfill their role in funding the real economy. In order to facilitate MFBs due to COVID-19, SBP issued AC&MFD Circular Letter No. 1 of 2020 dated 26 March 2020 regarding "Regulatory relief to dampen the effect of COVID-19". This circular allowed certain relaxations to MFBs. In accordance with this circular, MFBs, upon written request from borrower received before 30 June 2020, could defer repayment of principal for one year provided borrower continues to service the markup amount in accordance with agreed terms. The said circular also clarified that the above-mentioned deferment exceeding one year, may be rescheduled / restructured upon their request. If the rescheduling / restructuring is done within 90 days of the loan being overdue, such facilities could continue to be treated as regular and reported in the ECIB accordingly. MFBs could not classify as NPL, the financing facilities of such borrowers who had requested for deferment unless the payment obligations were past due by 90 days. The aforesaid treatment was available for loans which were regular on / after 15 February 2020 and became non-performing subsequently.

In continuation to the aforementioned letter, SBP vide letter AC&MFD Circular Letter No. 4 of 2020 dated 07 July 2020 further extended the date of submission of the rescheduling request to 30 September 2020, provided borrower continues to service the mark-up amount as per agreed terms and conditions. In order to enable MFBs in extending further relief measures to the effected borrowers, on 10 August 2020, SBP vide its letter AC&MFD Circular Letter No. 7 of 2020 wherein the treatment prescribed vide aforesaid circular letters was now available for loans which were regular on 31 December 2019 (previously this was 15 February 2020). Each NPL category was extended by 2 months for borrowers who could not avail relief under the scheme. Accordingly, pursuant to the regulatory relief given by SBP to dampen the effects of COVID-19, the Bank has restructured / deferred 133,964 loans amounting to Rs. 12,237 million (2019: nil).

10.7 The Bank regularly monitored the conduct of the borrowers who were provided relief under SBP's COVID-19 related relief measures and ever since there were visible signs of improvement in our borrowers financial health and conduct of their relationship with the Bank. Accordingly, the management believes on its best estimates that no additional general provision is required against the outstanding exposures at restructured / deferred loans.

11 Operating fixed assets

Note	2020 Rupees	2019 Rupees
Capital work-in-progress	43,562,052	59,905,707
Intangible assets	205,902,382	246,566,510
Right of use assets	1,222,372,194	1,490,714,494
Property and equipment	973,121,672	1,333,934,345
	2,444,958,300	3,131,121,056

11.1 Capital work-in-progress

Civil works	-	14,817,596
Equipment	42,817,046	42,149,963
Advances to suppliers and contractors	745,006	2,938,148
	43,562,052	59,905,707

11.2 Intangible assets

Computer Software		
Cost:		
Balance as at January 1	569,809,339	522,329,418
Additions during the year	30,479,149	47,479,921
Balance as at December 31	600,288,488	569,809,339
Amortization:		
Balance as at January 1	323,242,829	257,521,914
Charge during the year	71,143,277	65,720,915
Balance as at December 31	394,386,106	323,242,829
Carrying value	205,902,382	246,566,510
Amortization rate	10% - 20%	10% - 20%

11.3 Movement in right of use assets during the year:

Opening net book value	1,490,714,494	1,669,161,057
Addition during the year	11,268,371	60,763,421
Right of use asset derecognized during the year	(39,026,749)	-
Depreciation charge	(240,583,922)	(239,209,984)
Closing net book value	1,222,372,194	1,490,714,494

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11.4 Property and equipment

	2020									
	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 -----									
<i>Owned assets</i>										
Freehold land	144,450,113	- (144,450,113)	- -	-	-	- -	- -	-	-	-
Leasehold improvements	667,301,448	40,726,008 -	- (4,476,989)	703,550,467	166,974,214	68,164,687 -	- (3,161,872)	231,977,029	471,573,438	10%
Furniture and fixtures	219,235,159	2,903,439 (339,001)	- (78,356)	221,721,241	68,390,534	21,267,031 (305,772)	- (52,142)	89,299,651	132,421,590	10%
Computer equipment	544,977,067	9,203,799 (99,500)	- (381,117)	553,700,249	298,422,924	102,750,198 (66,333)	- (358,881)	400,747,908	152,952,341	20%-33%
Office equipment	286,903,698	7,998,415 (209,795)	- (150,050)	294,542,268	76,317,060	29,089,408 (160,169)	- (72,416)	105,173,883	189,368,385	10%
Vehicles	140,308,173	- (64,951,293)	- -	75,356,880	59,136,581	24,988,699 (35,574,318)	- -	48,550,962	26,805,918	25%
2020	2,003,175,658	60,831,661 (210,049,702)	- (5,086,512)	1,848,871,105	669,241,313	246,260,023 (36,106,592)	- (3,645,311)	875,749,433	973,121,672	

11.4.1 Cost of operating fixed assets include cost of fully depreciated assets amounting to Rs. 234.99 million (2019: Rs. 166.19 million).

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

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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 are as follows:

Particulars of assets	Party	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain / (loss)	Relationship with the Bank	Mode of disposal
-----Rupees-----								
Owned assets								
Freehold land								
28-C, Gulberg Lahore	Zafar Sultan Paracha	144,450,113	-	144,450,113	260,000,000	115,549,887	Third party	As Per Policy
Vehicles								
Honda City (A/T)	Rana Bilal Hamid	880,000	146,667	733,333	733,333	-	Employee	As Per Policy
Honda Civic	Nuvin Jatala	2,043,000	1,957,875	85,125	85,125	-	Employee	As Per Policy
Honda Civic	Khurruam Gul khan	1,703,000	638,626	1,064,374	1,064,374	-	Employee	As Per Policy
Suzuki Cultus Vxr	Rao Adnan Mohyudin	1,410,000	323,125	1,086,875	1,086,875	-	Employee	As Per Policy
Suzuki Mehran Vxr	Mazhar Rafiq	880,000	183,333	696,667	696,667	-	Employee	As Per Policy
Suzuki Mehran Vxr	Binnat-E Rasool	860,000	197,083	662,917	662,917	-	Employee	As Per Policy
Honda City (A/T)	khalid Mehmood	860,000	53,750	806,250	806,250	-	Employee	As Per Policy
Honda City Aspire	Shoaib Zulfikar Cheema	1,094,000	1,093,999	1	1	-	Employee	As Per Policy
Honda City Manual	Irshad Ahmed	1,859,000	580,938	1,278,062	1,278,062	-	Employee	As Per Policy
Suzuki Swift Dx	Muhammad Tayyab	1,440,000	300,000	1,140,000	1,140,000	-	Employee	As Per Policy
Honda City (A/T)	Waleed Khawar Ahmed	1,440,000	450,000	990,000	990,000	-	Employee	As Per Policy
Honda City Aspire	Muhammad Mubashir Bashir	1,677,000	1,502,312	174,688	174,688	-	Employee	As Per Policy
Honda City Aspire	Ehtisham Aslam	1,733,000	1,191,438	541,562	541,562	-	Employee	As Per Policy
Honda Civic	Tariq Mir	2,502,500	2,293,959	208,541	208,541	-	Employee	As Per Policy
Honda Civic	Shahid Hussain Kazi	2,503,793	2,138,657	365,136	365,136	-	Employee	As Per Policy
Honda Civic	Hussam Khalid Qasmi	1,733,000	794,292	938,708	938,708	-	Employee	As Per Policy
Honda Civic	Shahzad Sadiq	2,603,000	1,138,813	1,464,187	1,464,187	-	Employee	As Per Policy
Suzuki Mehran Vxr	Luttuf Ali Shah	795,000	397,500	397,500	397,500	-	Employee	As Per Policy
Suzuki Wagon-R	Ahmed Wisal	762,000	428,625	333,375	333,375	-	Employee	As Per Policy
Faw-V2	Ibrar hussain	742,000	448,292	293,708	293,708	-	Employee	As Per Policy
Honda City (A/T)	Sohail Mahmood	1,735,500	795,437	940,063	940,063	-	Employee	As Per Policy
Honda Civic	Noshina Bukhari	2,353,000	1,764,750	588,250	588,250	-	Employee	As Per Policy
Suzuki Cultus Vxr	Syed Haris Ali	1,270,000	687,917	582,083	582,083	-	Employee	As Per Policy
Faw-V2	Kashif Hussain	860,000	340,417	519,583	519,583	-	Employee	As Per Policy
Suzuki Cultus Vxl	Qasim Rafique	1,440,000	510,000	930,000	930,000	-	Employee	As Per Policy

Noted

Particulars of assets	Party	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain / (loss)	Relationship with the Bank	Mode of disposal
-----Rupees-----								
Honda Civic	A.Jamal Khan	2,403,000	1,501,860	901,140	901,140	-	Employee	As Per Policy
Honda City (A/T)	Yasir Iqbal	887,500	351,291	536,209	536,209	-	Employee	As Per Policy
Toyota Corolla Altis	Sajid Mehmood	1,859,000	697,125	1,161,875	1,161,875	-	Employee	As Per Policy
Suzuki Cultus Vxl	Muhammad adeel	1,380,000	603,750	776,250	776,250	-	Employee	As Per Policy
Suzuki Mehran Vxr	Tafseer khan	840,000	437,500	402,500	402,500	-	Employee	As Per Policy
Suzuki Mehran Vxr	Abdul Waqar	762,000	492,125	269,875	269,875	-	Employee	As Per Policy
Honda City Manual	Irfan Ali Rehamdil	795,000	447,188	347,812	347,812	-	Employee	As Per Policy
Honda City Aspire	Farooq Aziz	2,004,000	1,002,000	1,002,000	1,002,000	-	Employee	As Per Policy
Suzuki Cultus Vxr	Shiraz Abid	1,340,000	753,751	586,249	586,249	-	Employee	As Per Policy
Toyota Corolla Altis	Naveed ur Rehman	840,000	420,000	420,000	420,000	-	Employee	As Per Policy
Suzuki Cultus Vxl	Zaheer Ali	840,000	455,000	385,000	385,000	-	Employee	As Per Policy
Suzuki Cultus Vxl	Adnan Haider	1,440,000	570,000	870,000	870,000	-	Employee	As Per Policy
Suzuki Cultus Vxl	Muhammad Jabbran	1,440,000	570,000	870,000	870,000	-	Employee	As Per Policy
Suzuki Cultus Vxl	Mubashir Hassan	1,440,000	570,000	870,000	870,000	-	Employee	As Per Policy
Suzuki Mehran Vxr	Muhammad Afzal	880,000	366,660	513,340	513,340	-	Employee	As Per Policy
Suzuki Cultus Vxr	Asjid Qureshi	1,250,000	911,470	338,530	338,530	-	Employee	As Per Policy
Honda City Aspire (A/T)	Zaigham Mahmood shams	840,000	437,500	402,500	402,500	-	Employee	As Per Policy
Honda City Aspire	Ather Hussain	1,743,000	1,379,875	363,125	363,125	-	Employee	As Per Policy
Honda City Aspire	Saad Hameed Khan	1,733,000	1,299,744	433,256	433,256	-	Employee	As Per Policy
Suzuki Mehran Vxr	Imran khaliq	860,000	394,174	465,826	465,826	-	Employee	As Per Policy
Others								
Vehicles	Employees	2,196,000	1,555,500	640,500	640,500	-	Various employees	As Per Policy
Computer equipment	Employee	99,500	66,333	33,167	40,000	6,833	Employee	As Per Policy
Office equipment	Third parties	209,795	160,169	49,626	57,444	7,818	Various buyers	As Per Policy
Furniture and fixtures	Third parties	339,001	305,772	33,229	57,455	24,226	Various buyers	As Per Policy
		210,049,702	36,106,592	173,943,110	289,531,874	115,588,764		
Assets written off								
		5,086,512	3,645,311	1,441,201	-	(1,441,201)		
	2020	215,136,214	39,751,903	175,384,311	289,531,874	114,147,563		
	2019	119,359,430	61,052,034	58,307,396	29,540,477	(28,766,919)		

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	Note	2020 Rupees	2019 Rupees
12 Other assets			
Income / mark-up accrued on loans and advances		4,580,574,028	2,000,507,607
Income / mark-up accrued on balance with banks		12,410,871	10,052,135
Prepayments		56,454,546	57,130,946
Security deposits		10,578,470	10,848,470
Stationary and stamps on hand		33,539,310	18,067,967
Advance tax - net		-	149,686,853
Receivable from Finca International Inc.	12.1	-	5,614,351
Receivable from SBP against crop insurance		240,091,909	214,104,678
Others		237,756,530	147,402,825
		<u>5,171,405,664</u>	<u>2,613,415,832</u>

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

	2020 Rupees	2019 Rupees
13 Deferred tax asset		
<i>Deferred tax asset on deductible temporary differences arising in respect of:</i>		
- gratuity payable	88,748,642	77,399,089
- advances - net of provisions	54,320,875	-
	<u>143,069,517</u>	<u>77,399,089</u>
<i>Deferred tax liability on taxable temporary differences arising in respect of:</i>		
- property and equipment	24,711,413	31,501,822
	<u>24,711,413</u>	<u>31,501,822</u>
	<u>118,358,104</u>	<u>45,897,267</u>

13.1 Movement in deferred tax balances is as follows:

As at 01 January 45,897,267 24,136,895

Recognized in profit and loss account:

- gratuity payable	19,910,967	15,485,285
- advances net of provision	54,320,875	-
- property and equipment	374,969	12,646,067
	<u>81,022,251</u>	<u>28,131,352</u>

Recognized in other comprehensive income:

- gratuity payable	(8,561,414)	(6,370,980)
As at 31 December	<u>118,358,104</u>	<u>45,897,267</u>

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

	Note	2020		2019	
		Number of accounts	Amount Rupees	Number of accounts	Amount Rupees
14 Deposits and other accounts					
Fixed deposits	14.1	12,006	14,893,607,123	13,094	16,434,411,852
Saving deposits	14.1	121,963	8,426,673,326	119,043	5,251,953,020
Current deposits		1,393,031	2,762,480,596	1,151,540	2,224,976,956
		<u>1,527,000</u>	<u>26,082,761,045</u>	<u>1,283,677</u>	<u>23,911,341,828</u>

14.1 These represent fixed deposits having tenure of 1 to 60 months carrying profit rates ranging from 6.85% to 14.25% (2019: 8.20% to 14.25%) per annum.

14.2 The saving deposits represent accounts carrying interest rates ranging from 6.50% to 11.50% (2019: 0% to 10.25%) per annum.

14.3 Particulars of deposits by ownership

	2020		2019	
	Number of accounts	Amount Rupees	Number of accounts	Amount Rupees
Individual depositors	1,526,110	20,349,643,172	1,283,085	18,636,595,845
<i>Institutional depositors:</i>				
Corporations, firms and other such entities	802	3,353,578,104	525	3,546,710,591
Banks and financial institutions	88	2,379,539,769	67	1,728,035,392
	<u>1,527,000</u>	<u>26,082,761,045</u>	<u>1,283,677</u>	<u>23,911,341,828</u>

14.4 Deposits include deposits from related parties amounting to Rs. 165.00 million (2019: Rs. 130.03 million).

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15	Borrowings	Note	2020 Rupees	2019 Rupees
	Borrowings from banks / financial institutions in Pakistan	15.1	<u>4,710,503,886</u>	<u>4,752,852,994</u>
15.1	Details of borrowings from financial institutions			
	<u>Secured</u>			
	Running finance - UBL Bank Limited	15.2	-	350,000,991
	Running finance - Allied Bank Limited	15.3	249,000,105	240,352,003
	Running finance - National Bank of Pakistan	15.4	499,003,781	-
	Term finance - Pak Oman Investment Company Limited	15.5	-	50,000,000
	Term finance - Allied Bank Limited	15.6 & 15.7	275,000,000	175,000,000
	Term finance - National Bank of Pakistan	15.8	687,500,000	937,500,000
	Loan from SBP	15.9	<u>3,000,000,000</u>	<u>3,000,000,000</u>
			<u>4,710,503,886</u>	<u>4,752,852,994</u>
15.2	This facility has limit aggregating Rs. 400 million (2019: Rs. 400 million). Mark-up is payable quarterly at rate ranges from 3 months KIBOR plus 50 bps per annum (2019: 3 months KIBOR plus 80 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 has expired on 30 June 2020.			
15.3	This facility has limit aggregating Rs. 250 million (2019: Rs. 250 million). Mark-up is payable quarterly at the rate of 3 months KIBOR plus 50 bps per annum (2019: 3 months KIBOR plus 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. 333.33 million with a 25% margin. This facility is expiring on 30 June 2021.			
15.4	This facility has limit aggregating Rs. 500 million (2019: Rs. 500 million). Mark-up is payable quarterly at the rate of 3 months KIBOR plus 50 bps per annum (2019: 3 months KIBOR plus 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 31 December 2020. The Bank is in process of negotiation for extension of the facility.			
15.5	This facility has limit aggregating Rs. 300 million (2019: Rs. 300 million). Mark-up is payable quarterly at the rate of 3 months KIBOR plus 140 bps per annum (2019: 3 months KIBOR plus 140 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 has been paid in twelve equal quarterly installments, the first such installment was paid on 27 September 2017. This facility was fully repaid on 27 June 2020.			
15.6	This facility has limit aggregating Rs. 200 million (2019: Rs. 200 million). Mark-up is payable quarterly at the rate of 3 months KIBOR plus 75 bps per annum (2019: 3 months KIBOR plus 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 28 May 2023.			
15.7	During the year, the Bank has obtained an additional facility, of aggregating limit of Rs. 150 million (2019: nil). Mark-up is payable quarterly at the rate of 3 months KIBOR plus 75 bps per annum (2019: nil). The principal will be paid in sixteen equal quarterly installments, the first such installment will be due on 20th June 2021. This is secured against first pari-passu charge of Rs. 200 million on present and future current assets of the Bank with a 25% margin. This facility is expiring on 20 March 2025.			
15.8	This facility has limit aggregating Rs. 1,000 million (2019: Rs. 1,000 million). Mark-up is payable quarterly at the rate of 3 months KIBOR plus 100 bps per annum (2019: 3 months KIBOR plus 100 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 Rs. 1,333 million on present and future current assets of the Bank with a 25% margin. This facility is expiring on 30 September 2023.			
15.9	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 per annum (2019: 6 months KIBOR minus 100 bps per annum). Principal amount will be repaid in last four quarters of 5 years loan period or in bullet form at the end of said tenor.			
16	Subordinated debt	Note	2020 Rupees	2019 Rupees
	Pakistan Microfinance Investment Company (PMIC)	16.1	<u>800,000,000</u>	<u>800,000,000</u>

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- 16.1 This represents 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 300 bps per annum (2019: 6 months KIBOR plus 300 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; and
- 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.

17 Other liabilities	Note	2020 Rupees	2019 Rupees
Markup / return / interest payable	17.1	499,401,721	686,284,781
Bills payable		65,184,368	58,187,657
Accrued expenses		219,131,454	184,816,331
Current tax liability		66,844,638	-
Payable to Finca Microfinance Holding Company LLC	17.2	54,203,452	3,281,350
Payable to defined benefit plan	17.3	253,567,549	221,140,255
Withholding tax payable		181,721,990	88,544,501
Sundry creditors		157,214,087	288,477,660
Lease liability against right of use assets		1,483,551,201	1,598,654,753
Workers' Welfare Fund		33,320,951	-
		<u>3,014,141,411</u>	<u>3,129,387,288</u>

- 17.1 This includes markup payable on deposits from key management personnel amounts to Rs. 312,682 (2019: Rs. 4,620).

- 17.2 This represents amount payable to the Finca Microfinance Holding Company LLC for consultancy, insurance, research & shared service center fee. It is incorporated in United States of America and its registered office is situated at 1201, 15th street NW, 8th floor Washington, DC 20005.

17.3 Payable to defined benefit plan	Note	2020 Rupees	2019 Rupees
Present value of defined benefit obligation	17.3.1	246,845,842	214,227,057
Benefit due but not yet paid		6,721,707	6,913,198
Balance as at 31 December		<u>253,567,549</u>	<u>221,140,255</u>

17.3.1 Changes in present value of defined benefit obligation

Balance at 1 January	214,227,057	188,925,210
Current service cost	65,178,502	65,249,181
Interest cost	23,325,516	22,139,177
	<u>88,504,018</u>	<u>87,388,358</u>
Benefit due but not yet paid	(5,805,862)	(4,771,259)
Payments made during the year	<u>(25,618,188)</u>	<u>(39,112,451)</u>
	<u>(31,424,050)</u>	<u>(43,883,710)</u>

Included in other comprehensive income

Actuarial loss arising from changes in financial assumptions	(1,375,188)	(1,205,006)
Actuarial loss arising from experience adjustment	<u>(23,085,995)</u>	<u>(16,997,795)</u>
Present value of defined benefit obligation	<u>246,845,842</u>	<u>214,227,057</u>

17.3.2 Expenses charged to profit and loss account

Current service cost	65,178,502	65,249,181
Interest cost	<u>23,325,516</u>	<u>22,139,177</u>
	<u>88,504,018</u>	<u>87,388,358</u>

17.3.3 Total remeasurement chargeable in other comprehensive income

Remeasurement of plan obligation:

Actuarial loss from changes in financial assumptions	(1,375,188)	(1,205,006)
Experience adjustments	<u>(23,085,995)</u>	<u>(16,997,795)</u>
Total remeasurement chargeable in other comprehensive income	<u>(24,461,183)</u>	<u>(18,202,801)</u>

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	2020 Rupees	2019 Rupees
17.3.4 Changes in net liability		
Balance as at 01 January	221,140,255	195,099,379
Expense chargeable to profit and loss account	88,504,018	87,388,358
Remeasurement chargeable in other comprehensive income	(24,461,183)	(18,202,801)
Benefit paid	(31,615,541)	(43,144,681)
Balance as at 31 December	<u>253,567,549</u>	<u>221,140,255</u>

	2020	2019
17.3.5 Significant actuarial assumptions		
Discount rate used for interest cost in profit and loss account	11.75%	13.25%
Discount rate used for year end obligation	10.25%	11.75%
Mortality rates	SLIC 2001-05 Setback 1 Year	SLIC 2001-05 Setback 1 Year
Withdrawal rate	Aged based	Aged based
Retirement assumption	Age 60 years	Age 60 years

17.3.6 Expected expense for the next year

The Bank expects to charge Rs 83.32 million to statement of profit and loss on account of defined benefit plan in 2021.

	(Rupees)
Current service cost	59,547,798
Interest cost on defined benefit obligation	23,774,379
Amount chargeable to profit and loss	<u>83,322,177</u>

17.3.7 Sensitivity analysis

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

	Change	Impact on defined benefit obligation			
		2020		2019	
		Increase	Decrease	Increase	Decrease
Discount rate	100 BPS	225,012,471	272,718,745	15,495,967	25,630,856
Salary growth rate	100 BPS	273,459,741	223,971,109	16,151,126	26,538,903

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

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

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

17.3.8.1 Risk associated with defined benefit obligations

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

Longevity risks:

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

Salary increase risk:

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

Withdrawal Rate:

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

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18	Share Capital	Note	2020 (Number of shares)	2019	2020 Rupees	2019 Rupees
18.1	Authorized capital					
	Ordinary shares of Rs 10 each		<u>1,500,000,000</u>	<u>1,500,000,000</u>	<u>15,000,000,000</u>	<u>15,000,000,000</u>
18.2	Issued, subscribed and paid-up share capital					
	Ordinary shares of Rs 10 each fully paid in cash	18.3	<u>634,888,711</u>	<u>634,888,711</u>	<u>6,348,887,110</u>	<u>6,348,887,110</u>
18.3	Share capital has been subscribed by the following:					
	Kashf Holdings (Private) Limited	5.22%	33,119,747	33,119,747	331,197,470	331,197,470
	International Finance Corporation	4.85%	30,771,739	30,771,739	307,717,390	307,717,390
	Triodos Fair Share Fund	2.73%	17,368,319	17,368,319	173,683,190	173,683,190
	Acumen Fund	0.81%	5,130,253	5,130,253	51,302,530	51,302,530
	FINCA Microfinance Cooperatief U.A	86.39%	548,498,653	548,498,653	5,484,986,530	5,484,986,530
		100.00%	<u>634,888,711</u>	<u>634,888,711</u>	<u>6,348,887,110</u>	<u>6,348,887,110</u>

19	Surplus on revaluation of assets	Note	2020 Rupees	2019 Rupees
	<i>Surplus on revaluation of securities:</i>			
	Federal Government securities - market treasury bills (T-Bills)		<u>184,000</u>	<u>1,547,100</u>

20	Deferred Grants		2020 Rupees	2019 Rupees
	Balance as at 01 January		2,154,960	2,412,228
	Grant received from Karandaz for women empowerment	20.1	-	2,107,430
	Less: Grant amortized		(1,854,960)	(2,364,698)
	Balance as at 31 December		<u>300,000</u>	<u>2,154,960</u>

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

WOMSA

21 Memorandum / off-balance sheet items

21.1 Contingencies

There are no material contingencies as at 31 December 2020 (2019: nil).

	Note	2020 Rupees	2019 Rupees
22 Mark-up / return / interest earned			
Interest / mark-up on advances		7,970,367,647	7,621,185,208
Markup earned on investments in government securities		526,818,247	654,090,270
Interest / mark-up on bank accounts		131,353,145	36,883,933
		<u>8,628,539,039</u>	<u>8,312,159,411</u>
23 Mark-up / return / interest expensed			
Deposits		2,369,953,228	2,355,918,027
Borrowings		426,549,012	461,916,076
Subordinated loan		84,149,480	3,966,027
Notional interest on lease liability		158,107,383	175,974,209
		<u>3,038,759,103</u>	<u>2,997,774,339</u>
24 Fee, commission and brokerage income			
Loan processing fee		418,534,235	608,645,455
Income on cheque book issuance		6,107,671	38,165,542
Over due charges		67,174,824	103,850,669
Early settlement charges		24,784,765	26,246,855
Others		16,488,484	21,606,781
		<u>533,089,979</u>	<u>798,515,302</u>
25 Other income			
Grant income		1,854,960	2,364,698
Recovery of debts previously written off		130,873,466	140,923,944
Net gain on disposal of operating fixed assets	11.4.2	115,588,764	559,935
Capital gain on disposal of government securities		55,903,100	11,953,197
Others		8,129,680	166,853
		<u>312,349,970</u>	<u>155,968,627</u>

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	Note	2020 Rupees	2019 Rupees
26 Administrative expenses			
Staff salaries and other benefits	26.1	1,987,165,019	2,112,554,773
Contribution to employee provident fund		70,067,203	90,030,964
Non-executive directors' fees, allowances and other expenses		2,800,000	750,000
Printing, stationery and periodicals		79,675,252	71,147,281
Advertisement		69,679,605	92,232,009
Rent, rates and taxes		27,815,707	34,900,550
Office running expenses		51,249,605	54,394,990
Vehicle running expenses		47,577,864	62,452,197
Insurance		80,560,410	90,433,631
Office security / personnel services		144,545,328	144,310,087
Repairs and maintenance		149,726,814	134,208,890
Communication		118,677,664	118,240,098
Travel and transportation		132,220,542	209,162,281
Utilities		106,420,054	115,341,459
Legal and professional		113,943,763	173,999,242
Donation	26.2	589,720	-
Auditors' remuneration	26.3	5,813,973	8,300,000
Training and research		10,355,238	16,580,274
Depreciation on operating fixed assets	11.4	246,260,023	230,562,591
Depreciation on right of use assets	11.3	240,583,922	239,209,984
Amortization on intangible assets	11.2	71,143,277	65,720,915
Others		4,171,573	37,504,706
		3,761,042,556	4,102,036,922

26.1 This includes Rs. 88.50 million (2019: 87.39 million) in respect of staff gratuity expense and Rs. nil (2019: 2.81 million) in respect of gratuity expense of Chief Executive Officer.

	2020 Rupees	2019 Rupees
26.2 Donations		
Donation to Prime Minister's COVID-19 Pandemic Relief Fund-2020	213,720	-
Donation to Institute of Public Health for arranging diagnostic COVID-19 kits.	376,000	-
	589,720	-

26.3 Auditors' remuneration

Annual audit	2,756,250	2,650,000
Interim review	840,000	800,000
Taxation services	1,387,723	1,540,000
Advisory services	-	2,450,000
Fee for certifications	250,000	430,000
Out of pocket expense	580,000	430,000
	5,813,973	8,300,000

MD/MS/PA

27	Other charges	Note	2020 Rupees	2019 Rupees
	Penalties imposed by SBP		2,000	55,500
	Bank charges		23,288,380	27,900,888
	Operating fixed assets written off	11.4.2	1,441,201	29,326,854
	Others		5,105,000	8,386,663
			<u>29,836,581</u>	<u>65,669,905</u>

28 Taxation

Current:

For the year including super tax
For the prior year

563,847,527	331,642,626
(4,841,086)	54,704,446
559,006,441	386,347,072

Deferred:

For the year
For the prior year

(87,437,691)	(17,907,977)
6,415,440	(10,223,375)
(81,022,251)	(28,131,352)
477,984,190	358,215,720

28.1 Reconciliation of tax

Accounting profit before taxation	1,415,968,217	1,011,568,177
Tax rate %	35%	35%
Tax on accounting rate	495,588,876	354,048,862
Tax effect of income chargeable to tax at a lower rate	(21,305,172)	(42,124,751)
Prior year tax adjustment	1,574,354	44,481,071
Tax effect of inadmissible expenses	132,300	19,425
Tax effect of income chargeable to tax at a higher rate	1,993,832	1,791,113
	<u>477,984,190</u>	<u>358,215,720</u>

29 Number of employees

2020			
	Credit / Sales staff	Banking / Support staff	Total staff
Permanent	1,313	737	2,050
Contractual	93	249	342
Total	<u>1,406</u>	<u>986</u>	<u>2,392</u>
Average number of employees during the year	<u>1,556</u>	<u>1,071</u>	<u>2,627</u>
2019			
	Credit / Sales staff	Banking / Support staff	Total staff
Permanent	1,545	866	2,411
Contractual	160	289	449
Total	<u>1,705</u>	<u>1,155</u>	<u>2,860</u>
Average number of employees during the year	<u>1,624</u>	<u>1,246</u>	<u>2,870</u>

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	2020		2019	
	Branches No.	Sales service centre No.	Branches No.	Sales service centre No.
30 Number of branches				
Branches at the beginning of the year	130	2	133	-
Opened during the year	-	-	2	2
	130	2	135	2
Less: closed during the year	-	-	(5)	-
Branches at the end of the year	130	2	130	2

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	
	2020	2019	2020	2019	2020	2019
	----- Rupees -----					
Managerial remuneration	19,801,441	29,617,022	2,800,000	750,000	136,368,864	152,051,693
House rent allowance	7,920,576	2,923,071	-	-	54,547,546	60,820,659
Provident fund	1,649,463	2,961,703	-	-	10,249,761	14,014,934
Utilities allowance	-	-	-	-	9,806,416	11,835,920
Medical Allowance	1,980,147	2,961,704	-	-	3,830,465	3,369,266
Conveyance/Car Allowance	1,422,581	1,215,968	-	-	22,411,276	18,280,754
Charge for defined benefit plan	-	2,808,793	-	-	-	17,120,041
Driver Allowance	474,194	175,000	-	-	5,726,225	6,310,186
Others	-	1,224,800	-	-	-	-
Title Allowance	-	-	-	-	-	45,000
	33,248,402	43,888,061	2,800,000	750,000	242,940,553	283,848,453
Number of persons at year end	1	1	4	3	60	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. 0.88 million (2019: Rs 4.75 million) and Rs. 1.50 million (2019: 1.94 million) respectively.

31.3 The Bank provides car allowance of Rs. 1.42 million (2019: 1.22 million) per annum to the Chief Executive Officer as part of the remuneration.

32 Earnings per share

	2020	2019
32.1 Profit for the year	<i>Rupees</i> 904,663,076	653,352,457
Weighted average number of ordinary shares	<i>Number</i> 634,888,711	634,888,711
Basic and diluted profit per share	<i>Rupees</i> 1.42	1.03
32.2 There is no dilutive effect on the basic earning per share of the Bank.		

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33 Related party transactions

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

	2020			2019		
	Key management personnel Rupees	Associated company / parent Rupees	Kashf foundation Rupees	Key management personnel Rupees	Associated company / parent Rupees	Kashf foundation Rupees
<u>Deposits</u>						
Opening balance	5,113,331	-	130,032,622	27,040,200	-	30,391,594
Received during the year	72,337,468	-	341,867,282	98,136,930	-	230,825,889
Withdrawn during the year	(65,886,727)	-	(306,899,153)	(120,063,799)	-	(131,184,861)
Closing balance	11,564,072	-	165,000,751	5,113,331	-	130,032,622
<u>Staff loans</u>						
Opening balance	12,147,284	-	-	18,140,322	-	-
Disbursement during the year	1,000,000	-	-	18,204,386	-	-
Repayments during the year	(5,839,901)	-	-	(24,197,424)	-	-
Closing balance	7,307,383	-	-	12,147,284	-	-
<u>Transactions during the year</u>						
Mark-up/return/interest earned	400,289	-	-	719,609	-	-
Mark-up/return/interest expensed	488,261	-	36,985,830	601,441	-	15,777,739
Contribution to provident fund	3,887,509	-	-	8,912,431	-	-

34 Cash and cash equivalents

Cash and balances with SBP and NBP
Balances with other banks

Note	2020 Rupees	2019 Rupees
7	1,572,075,030	1,595,527,281
8	2,849,103,430	1,642,664,760
	4,421,178,460	3,238,192,041

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35 Details of business locations

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

Branch Name	Branch address
College Raad - Lahore	27-17-B1-College Road, Township, Lahore
Ichra - Lahore	Mozang Branch, 5-Ferozpur Road, Mozang, Lahore
Opposite UET - Mughalpura	SA Rehman Stop, Dhobi Ghatt, Daroghawala, Main GT Road, Lahore
Chandni Chowk - Kasur	Railway Road, Opposite Metro Shoe, Near Chandni Chowk, Kasur
Manga Road - Raiwind	Sundar Road, Near Dar-E- Arqam School, Riwind, District Lahore
Civil Hospital - Managa Mandi	Near Govt. High School (Boys), Multan Road, Manga Mandi
Faisalabad Road - Sheikhpura	Faisalabad Road, Sheikhpura
Sharqpur	Jaranwala Road, Sharqpur Sharif
Malji Road - Nankana	Malji Road, Nankana Shahib
Raja Chowk - Hafizabad	Khasra # 122/124, Khatoni # 169, Model Town, Gujranwala Road, Hafizabad
Muhala Bilal Ganj - Jaranwala	Faisalabad Road, Opposite Hussian Travel, Jaranwala
Syed Wala	Near UBL Bank, Jaranwala Road, Syedwala
Abdullah Pur - Faisalabad	Usman Manzil, Near Al-Fajar Marriage Hall, Jhumrah Road, Abdullah Pur
Circular Road - Faisalabad	Allama Iqbal Road, Faisalabad
Rajjana Road - Samundri	Circular Road Samundri, Pakistan Samundri
Main Jhang Road - Gojra	Jhang Road, Gojra
Sharac Quaid E Azam - Chiniot	Near ZTBL Bank, Faisalabad Road, Chiniot
Hafizabad Road - Pindi Bhatian	Hafizabad Road, Pindi Bhatian
Shorkot Road - Toba Tak Singh	Al-Qaim Center, Shorkot Road, Toba Tek Singh
Session Road - Jhang	Katchery Road, Jhang
Pir Mahal	Khewat No. 1389, Khatooni No. 1390, Plot No. 12/12 & 13/13, Near Askari Bank Ltd. Main Rajana Road, Kousarabad, Pir Mehal
Shorkot	Jhang Road Shorkot
Ahmadpur Sial	Main Road, Muhalla Farooqabad APS
Satellite Town - Rawalpindi	39-B1, Sattelite Town, Opposite Rawalpindi General Hospital, Near Chandani Chowk, Rawalpindi
Gojar Khan	Trunk Bazar, Near Qadria Govt School, Tehsil Road, Gojar Khan
Barakoh	Main Murree Road, Near Umainia Restaurant, Bara Kahu, Islamabad
Muzaffarabad	Khewat No. 36, Khasra No. 739/130, Jalal Abad, Opp. New DHQ Complex, Secretariat Road Muzaffarabad
GT Road - Lalamusa	Near Telenor Franchise, GT Road, Lalamusa
Jhelum	M.M No. 3, Jada Road, Jhelum
Mirpur - AJK	Plot No. 2-A, Sub-Sector, B-2 Allama Iqbal Road, Mirpur
Kotli - AJK	Rawal Pindi Road, Near Kechari Moza Mandi, Kotli
Talaganag Road - Chakwal	Near Sui Gas Office, Opposite Degree College, Main Pindi Road, Chakwal
Mian Walli Road - Talagang	Nawab Centre Chowk, Saddiqabad, Mianwali Road, Talagang
Gilgit	Near Public School Chowk, Shahrah-E-Quaid-E-Azam, Zulfikarabad, Jutial, Gilgit
Civil Bazar - Attock	Shop No. C-99, Block C, Burq Road, Lucky Plaza, Attock City
Adda Lariyan - Hassanabdal	Adda Lariyan Hassan Abdal Branch, Pakistan
Abbottabad Road - Mansehra	Abbottabad Road, Near Habib Bank Ltd., Mansehra
Main GT Road - Haripur	Naeem Khan Market, Opposite Total Filling Station, G.T Road Haripur, Pakistan
Mall Road - Abbottabad	Finca Microfinance Bank Limited, Opposite Daewoo Terminal, Mandian, Abbottabad
Mardan	Shop No. (3,4,5,6,7,8,13,14) Block A, Shaheen Shopping Mall, Main Qazi Bashir Road, PRC Chowk, Mardan.
Peshawar	University Road Peshawar, Near Hotel Grand, Opposite Metro Station, Peshawar
Central Jail Morr - Multan	Shereen Commercial Center, Jail Mor Chowk, Multan
GPO Road - Khanewal	Opposite GPO, Block No 8, Khanewal
ByPass Road - Jahanian	By Pass Road, Jahanian
Shaheed Road - MianChanu	Address: GT-Road, Opposite Faisal Movers / Rajpoot Travels, MianChanu
Ali pur	Awan Plaza, College Chowk, Main multan road, Alipur
DG Khan	Railway Road, Dera Ghazi Khan
Kot Addu	GT Road, Near Tariq Jamshed Petrol Pump, Kot Addu
Rajan pur	Gulshan- E- Iqbal Colony, Main Indus Highway Rajanpur, Pakistan
Shah Jamal Road - Muzafargarh	Mohallah Ameenabad Shahjamal, Muzafargarh
Mankera	Mushtaq Market, Jhang-Bhakkar Road, Mankera
Layyah	Choubara Road, Opposite PTCL exchange, Near Layyah Minor, Layyah
Bhakkar	Al Qaim Plaza, Chishti Chowk, Bhakkar
Dera Ismail Khan	Kashmir Chowk, Dera Ismail Khan
College Road - Pakpattan	College Road, Pakpattan
Muhammadi Road - Arifwala	Muhammadi Road, Arifwala
Pak Pattan Road - Haveli Lakha	Pak Pattan Road, Haveli Lakha
Liaqat Road - Sahiwal	Liaqat Road, Sahiwal
Vehari Bazar Burewala	26-F Block, Near WAPDA Office, Vehari Bazar, Burewala
Darass Road - Chichawatni	Darass Road, Chichawatni
Mohalla Mathiawalla - Kamalia	Mohalla Mathiawalla, Kamalia
Main Club Road - Vehari	Main Club Road, Vehari
Deepalpur	Pakpattan Road, Deepalpur

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Ravi Road - Okara	Link M.A Jinnah Road Branch, Okara
Multan Road - Pattoki	Multan Road, Pattoki
Hujra Shah Muqem	Circular Road, Hujra Shah Muqem
Illahbad	Kasur Road, Illahabad
North Karachi - Karachi	Plot D-6/B, North Nazimabad, Karachi, Pakistan
Guro Nagar - Hyderabad	G-916, Gurru Nagar, Near Cloth Market
Hyd. Road - Tando Allah Yar	Near WAPDA Grid Station Shell, Dadal Shah Petrol Pump
Main Sakrand Road - Nawabshah	Main Sakrand Road, Nawabshah
Umer Kot	Ward "A" Cs No: 20/1/1, Lashari Market, Near Kumar Medical Store, Umer Kot Town, Taluka & Sub-District Umerkot
Quetta	Shop No. 1-26/5G=1330 To 1-26/5H=1331, Manan Chowk, M.A. Jinnah Road, Opposite Meezan Bank Ltd. Quetta, Baluchistan
Mirpur Khas	Ward "A" Cs No: 20/1/1, Lashari Market, Near Kumar Medical Store, Umer Kot Town, Taluka and Sub-District Umerkot
Minara Road - Sukkhar	Mehak Appartments, Local Board, Minara Road, Sukkur
Larkana	City Survey No. 707 & 708, Ward "A", Opposite First Women Bank, Bank Square, Bander Road, Larkana
Khairpur	Near Khaki Shah Pul, Station Road, Khairpur Mir's
Pano aqil	Eid Gaah Chowk, Cinema Road, Pano Aqil - Pakistan
Ghotki	Plot No. C/S 890/2, Ward No. B, S.K Plaza, Devri Road, Ghotki
Liaquatpur	Plot No. 3/C-187, Bank Road, Liaquat Pur
Khanbella	KLP Road, Khanbela, Pakistan
Area Dev. Society - Khanpur	Area Development Society, Plot # 237, A Block Settltite Town, Opposite Dr. Aqeela Zaidi Hospital, Zahir Peer Road, Khanpur
Water Supply Road - Sadiqabad	Property No.243, Water Supply Road, Sadiq Abad
Jamal Din Wali	Sheller Market, (JDW) Jamal Din Wali Branch (0624)
Ahmedpur East	Katchehry Road, Opposite DSP Office, Ahmad Pur East
Satelite Town - Rahim Yar Khan	26-Model Town, Rahim Yar Khan
Lodhran	Saad Plaza, Multan Road, Lodhran
Kahroor pacca	Dunyapur Road, Near Admore Petrol Pump, Kahrroor Pacca
Dunyar pur	Railway Road, Dunyapur
Bahawalpur	Plot # 2/A, Muhammad Bin Qasim Road, Model Town "A", Cantt. Bahawalpur.
Yazman	Chak No 56/A, Near Nehar Wala Pull, Bahawalpur Road, Yazman
Jalalpur pirwala	Shujaabad Road, Near HBL, Jalal Pur Pir Wala
Khar Pur Tamewale	Opposite HBL Bank Ltd. Near Askar-I Petrol Pump, Hasilpur Road, Tehsil Khairpur Tamewali, District Bahawalpur
Mailsi	Colony Road, Near Itifaq Ice Factory, Mailsi
Talkot - Shujaabad	Jalal Pur Road, Near New Khan Adda, Near Bilal Masjid, Shujabad
Khan Baba Road - Bhawalnagar	8-Nishtar Road, Jinnah Colony, Bahawalnagar
Allama Iqbal Road - Fort Abbas	Allama Iqbal Road, Fort Abbas
Madina Colony - Haroonabad	Bangla Road, Haroonabad
Iqbal Alam Road - Chishtian	Khawaja Qibla Alam Road, Chishtian
Hasilpur	Baldia Road, Opposite Imam Bargah, Hasilpur
Circular Road - Mianchanabad	High School Road, Near Nadra Office, Mianchanabad
Shahab Pura Road - Sialkot	City Tower Shahab Pura Road, Sialkot
Sialkot Road - Sambrial	Opposite Makki Masjid, Wazirabad Road, Sambrial
Daska	Khasra # 3180/3058/3027/2834/2757/338, Khewat # 747, Khatoni # 1070, Mouza Daska Kot (Urban), Main Circular Road, Daska
Pasroor	Classwala Road, Near Satrah Mor, Pasroor
Narowal	Circular Road, Saddique Pura, Narowal
GT Road - Kamoki	G T Road Under Pas, Near Telenor Franchise, Kamoki
Faisal Gate - Gujrat	Faisal Gate, Circular Road, Near First Women Bank, Gujrat
GT Road - Wazirabad	GT Road, Opposite Fire Brigade & Rescue 15, Wazirabad
Chandni Chowk - Jalalpur Jattan	Circular Road, Jalal Pur Jattan
Dinga	Kharian Road, Fawara Chowk , Dinga
Mandi Bahawudin	Shayan Plaza, Ward No. 5, Dewan Chowk, Mindi Bahawudin
Phaliya	Hellan Road, Phaliya
Malakwal	Badshahpur Road, Malawal
Sargodha	Block No. 15, Azad Road, Sargodha
Bhalwal	Ajanala Road, Near Nadra Office, Bhalwal
Sahiwal	Sargodha-Jhang Road, Near Shell Pump, Sahiwal
Joharabad	Block No. 2, Near MCB, Joharabad
Quidabad	Mian Ada, Near UBL, Qaidabad
Mianwali	Govt. High School, Near Chen One, Mianwali
Piplan	Main Ghalla Mandi, Piplan
Allama Iqbal Town	6- Pak Block, Main Boulevard, Iqbal Town, Lahore
Liaqat Road Rawalpindi	G-518-519, Near MCB, Opposite Bank Alfalah, Main Liaqat Road, Rawalpindi
Sialkot II	Sajjad Plaza, Agha Kamal Road , Sadar Bazaar, Sialkot Cantt.
Abdali Road Multan	Khan Centre, Abdaali Road, Multan
Gujranwala III	Shop No 9&10, Main Shiekhupura Road, Mian Sansi, Khiali, Gujranwala
New Garden Town Lahore	28-B-Ali Block, New Garden Town, Lahore
DHA - Lahore	49 /A, XX, DHA Phase III, Lahore Cantt.
Islamabad	109 East Jinnah Avenue, Next to Domino's, Blue Area, Islamabad
Liaquatabad - Karachi	13BC, KDA No.05, Block 9, Clifton Karachi South, Pakistan

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36 Fair value measurement of financial instruments

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

		Carrying amount					Fair value			
		Held for trading	Held to maturity	Available for sale	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3
On-Balance sheet financial instruments	Note	----- Rupees -----								
<u>31 December 2020</u>										
<u>Financial assets measured at fair value</u>										
Investments - net of provisions	9	-	-	6,448,871,800	-	-	6,448,871,800	-	6,448,871,800	-
<u>Financial assets not measured at fair value</u>										
Cash and cash equivalents	34	-	-	-	4,421,178,460	-	4,421,178,460	-	-	-
Advances - net of provisions	10	-	-	-	21,246,108,856	-	21,246,108,856	-	-	-
Other assets	12 & 36.1	-	-	-	5,081,411,808	-	5,081,411,808	-	-	-
		-	-	-	30,748,699,124	-	30,748,699,124	-	-	-
Financial liabilities measured at fair value		-	-	-	-	-	-	-	-	-
<u>Financial liabilities not measured at fair value</u>										
Deposits and other accounts	14	-	-	-	-	26,082,761,045	26,082,761,045	-	-	-
Borrowings	15	-	-	-	-	4,710,503,886	4,710,503,886	-	-	-
Subordinate debt	16	-	-	-	-	800,000,000	800,000,000	-	-	-
Other liabilities	17 & 36.2	-	-	-	-	2,765,574,783	2,765,574,783	-	-	-
		-	-	-	-	34,358,839,714	34,358,839,714	-	-	-

NOTES

		Carrying amount					Fair value			
		Held for trading	Held to maturity	Available for sale	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3
On-Balance sheet financial instruments	Note	----- Rupees -----								
<u>31 December 2019</u>										
Financial assets measured at fair value										
Investments - net of provisions	9	5,968,466,000	-	275,992,500	-	-	6,244,458,500	-	6,244,458,500	-
<u>Financial assets not measured at fair value</u>										
Cash and cash equivalents	34	-	-	-	3,238,192,041	-	3,238,192,041	-	-	-
Advances - net of provisions	10	-	-	-	22,038,804,318	-	22,038,804,318	-	-	-
Other assets	12 & 36.1	-	-	-	2,388,530,066	-	2,388,530,066	-	-	-
		-	-	-	27,665,526,425	-	27,665,526,425	-	-	-
Financial liabilities measured at fair value										
		-	-	-	-	-	-	-	-	-
<u>Financial liabilities not measured at fair value</u>										
Deposits and other accounts	14	-	-	-	-	23,911,341,828	23,911,341,828	-	-	-
Borrowings	15	-	-	-	-	4,752,852,994	4,752,852,994	-	-	-
Subordinate debt	16	-	-	-	-	800,000,000	800,000,000	-	-	-
Other liabilities	17 & 36.2	-	-	-	-	3,040,842,787	3,040,842,787	-	-	-
		-	-	-	-	32,505,037,609	32,505,037,609	-	-	-

36.1 These exclude stationary and stamp on hand and prepayments.

36.2 These exclude withholding and current tax liability.

36.3 Fair value versus carrying amounts

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

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37 Financial assets and liabilities

37.1 Interest rate risk management

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

	Effective yield / interest rate %	Interest bearing / exposed to yield / interest risk					2020					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	Upto one month	Over one month upto six months	Over six months upto one year	Over one year	Sub total	Total
Financial assets																	
On balance sheet:																	
Cash and balances with SBP and NBP	5.50 - 8.75	725,909	-	-	-	725,909	1,571,349,121	-	-	-	1,571,349,121	-	-	-	-	1,571,349,121	1,572,075,030
Balances with other banks/NBFI/NBFBs	5.50 - 13.60	2,687,325,942	-	-	-	2,687,325,942	161,777,488	-	-	-	161,777,488	-	-	-	-	161,777,488	2,849,103,430
Investments - net of provisions	6.39 - 13.48	2,290,511,600	4,158,360,200	-	-	6,448,871,800	-	-	-	-	-	-	-	-	-	-	6,448,871,800
Advances-net of provisions	5.00 - 51.44	1,957,195,046	9,627,852,108	7,836,520,929	1,824,540,773	21,246,108,856	-	-	-	-	-	-	-	-	-	-	21,246,108,856
Other assets	-	6,935,758,497	13,786,212,308	7,836,520,929	1,824,540,773	30,383,032,507	5,070,833,338	-	-	-	5,070,833,338	-	-	-	10,578,470	5,081,411,808	37,197,570,924
Off balance sheet																	
Total		6,935,758,497	13,786,212,308	7,836,520,929	1,824,540,773	30,383,032,507	6,803,959,947	-	-	-	6,803,959,947	-	-	-	10,578,470	6,814,538,417	37,197,570,924
Financial liabilities																	
On balance sheet:																	
Deposit and other accounts	0.00 - 14.25	9,686,172,019	6,443,195,235	2,784,671,512	4,406,241,683	23,320,280,449	2,762,480,596	-	-	-	2,762,480,596	-	-	-	-	2,762,480,596	26,082,761,045
Borrowings including subordinated loan	5.95 - 14.94	748,003,886	159,375,000	168,750,000	4,434,375,000	5,510,503,886	-	-	-	-	-	-	-	-	-	-	5,510,503,886
Other liabilities	8.55 - 11.55	21,930,028	59,963,856	79,786,431	1,356,102,815	1,517,783,130	994,224,104	-	25,356,755	228,210,794	1,247,791,653	-	25,356,755	228,210,794	4,010,272,249	2,765,574,783	34,358,839,714
		10,456,105,933	6,662,534,091	3,033,207,943	10,196,719,498	30,348,567,465	3,756,704,700	-	25,356,755	228,210,794	4,010,272,249	-	25,356,755	228,210,794	4,010,272,249	34,358,839,714	
Off balance sheet																	
Total		10,456,105,933	6,662,534,091	3,033,207,943	10,196,719,498	30,348,567,465	3,756,704,700	-	25,356,755	228,210,794	4,010,272,249	-	25,356,755	228,210,794	4,010,272,249	34,358,839,714	
On balance sheet gap		(3,520,347,436)	7,123,678,217	4,803,312,986	(8,372,178,725)	34,465,042	3,047,255,247	-	(25,356,755)	(217,632,324)	2,804,266,168	-	(25,356,755)	(217,632,324)	2,804,266,168	2,838,731,210	
Off balance sheet gap																	

Adm/MS/24

Financial assets and liabilities

		2019										
Effective yield / interest rate %	Interest bearing / exposed to yield / interest risk					Non-Interest bearing / not exposed to yield / interest risk					Total	
	Upto one month	Over one month upto six months	Over six months upto one year	Over one year	Sub total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year	Sub total		
Rupees												
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
		5,774,137,346	10,039,105,719	11,890,179,296	2,026,310,177	29,729,732,538	4,169,403,917	-	-	10,848,470	4,180,252,387	33,909,984,925
Off balance sheet												
		-	-	-	-	-	-	-	-	-	-	-
Total		5,774,137,346	10,039,105,719	11,890,179,296	2,026,310,177	29,729,732,538	4,169,403,917	-	-	10,848,470	4,180,252,387	33,909,984,925
Financial liabilities												
On balance sheet:												
Deposits 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	10.19 - 16.45	-	790,352,994	150,000,000	4,612,500,000	5,552,852,994	-	-	-	-	-	5,552,852,994
Other liabilities	11.55	7,454,814	37,274,072	44,728,886	1,509,196,981	1,598,654,753	1,217,766,429	3,281,350	-	221,140,255	1,442,188,034	3,040,842,787
		7,830,021,131	5,422,813,251	3,414,685,028	12,170,353,210	28,837,872,620	3,442,743,384	3,281,350	-	221,140,255	3,667,164,989	32,505,037,609
Off balance sheet												
		-	-	-	-	-	-	-	-	-	-	-
Total		7,830,021,131	5,422,813,251	3,414,685,028	12,170,353,210	28,837,872,620	3,442,743,384	3,281,350	-	221,140,255	3,667,164,989	32,505,037,609
On balance sheet gap		(2,055,883,785)	4,616,292,468	8,475,494,268	(10,144,043,033)	891,859,918	726,660,533	(3,281,350)	-	(210,291,785)	513,087,398	1,404,947,316
Off balance sheet gap		-	-	-	-	-	-	-	-	-	-	-

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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. 31,718.89 million (2019: Rs. 31,112.08 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 2020. As at 31 December 2020, the paid up share capital net of discount, of the Bank stood at Rs. 2,259.85 million (2019: 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 2020, the Bank's capital adequacy ratio (CAR) is appropriately 20.93% (2019: 19.78%) of its risk weighted assets, as against the minimum requirement of 15% prescribed by SBP.

10/02/2021

39 Maturities of assets and liabilities

	2020				
	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
	----- Rupees -----				
<u>Market rate assets</u>					
Advances	21,246,108,856	1,957,195,046	9,627,852,108	7,836,520,929	1,824,540,773
Investments	6,448,871,800	2,290,511,600	4,158,360,200	-	-
Other earning assets	2,688,051,851	2,688,051,851	-	-	-
Total market rate assets	30,383,032,507	6,935,758,497	13,786,212,308	7,836,520,929	1,824,540,773
Other non-earning assets	9,467,848,677	6,942,782,716	258,409,615	240,095,792	2,026,560,554
Total assets	39,850,881,184	13,878,541,213	14,044,621,923	8,076,616,721	3,851,101,327
<u>Market rate liabilities</u>					
Time deposits of Rs. 100,000 and above	14,745,525,426	1,223,565,185	6,404,998,546	2,756,211,870	4,360,749,825
Time deposits below Rs. 100,000	148,070,060	35,921,871	38,196,690	28,459,642	45,491,857
Borrowings	5,510,503,886	748,003,886	159,375,000	168,750,000	4,434,375,000
Other cost bearing liabilities	9,944,456,456	8,448,603,354	59,963,856	79,786,431	1,356,102,815
Total market rate liabilities	30,348,555,828	10,456,094,296	6,662,534,092	3,033,207,943	10,196,719,497
Other non-cost bearing liabilities	4,258,850,514	4,005,282,965	-	25,356,755	228,210,794
Total liabilities	34,607,406,342	14,461,377,261	6,662,534,092	3,058,564,698	10,424,930,291

10/11/2021

2019				
Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
----- Rupees -----				

Market rate assets

Advances	22,038,804,318	1,706,990,626	6,688,901,119	11,616,602,396	2,026,310,177
Investments	6,244,458,500	2,620,677,000	3,350,204,600	273,576,900	-
Other earning assets	1,446,469,720	1,446,469,720	-	-	-
Total market rate assets	29,729,732,538	5,774,137,346	10,039,105,719	11,890,179,296	2,026,310,177
Other non-earning assets	7,582,156,476	4,244,187,461	317,856,690	478,612,632	2,541,499,693
Total assets	37,311,889,014	10,018,324,807	10,356,962,409	12,368,791,928	4,567,809,870

Market rate liabilities

Time deposits of Rs. 100,000 and above	16,302,180,155	2,543,477,355	4,569,175,720	3,198,259,823	5,991,267,257
Time deposits below Rs. 100,000	132,231,696	27,135,941	26,010,464	21,696,319	57,388,972
Borrowings	5,552,852,994	-	790,352,994	150,000,000	4,612,500,000
Other cost bearing liabilities	6,850,607,775	5,259,407,836	37,274,072	44,728,886	1,509,196,981
Total market rate liabilities	28,837,872,620	7,830,021,132	5,422,813,250	3,414,685,028	12,170,353,210
Other non-cost bearing liabilities	3,755,709,490	3,531,287,885	3,281,350	-	221,140,255
Total liabilities	32,593,582,110	11,361,309,017	5,426,094,600	3,414,685,028	12,391,493,465

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

	2020					
	Equity			Liabilities		
	Issued, subscribed and paid-up capital	Discount on issue of shares	Unappropriated profit	Deferred grants	Subordinated loan	Lease liabilities
	----- Rupees -----					
Balance as at 01 January 2020	6,348,887,110	(4,089,040,293)	1,563,709,236	2,154,960	800,000,000	1,598,654,753
<u>Changes from financing cash flows</u>						
Debt received	-	-	-	-	-	-
Dividends paid	-	-	(410,000,000)	-	-	-
Grant received	-	-	-	-	-	-
Payment of lease liabilities	-	-	-	-	-	(244,436,777)
Loan repaid	-	-	-	-	-	-
	-	-	(410,000,000)	-	-	(244,436,777)
<u>Other changes</u>						
Notional interest on lease liabilities	-	-	-	-	-	158,107,383
Addition in lease liabilities	-	-	-	-	-	10,252,591
Impact of derecognition	-	-	-	-	-	(39,026,749)
Amortization of grant	-	-	-	(1,854,960)	-	-
Total comprehensive income for the year	-	-	920,562,845	-	-	-
<u>Transfer to :</u>						
Statutory reserve	-	-	(180,932,615)	-	-	-
Depositors' protection fund	-	-	(45,233,154)	-	-	-
	-	-	694,397,076	(1,854,960)	-	129,333,225
Balance as at 31 December 2020	6,348,887,110	(4,089,040,293)	1,848,106,312	300,000	800,000,000	1,483,551,201

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

Mahesh Desai

41 Provident Fund

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

	Note	2020 Rupees Un-audited	2019 Rupees Audited
Size of the fund		590,120,298	572,112,510
Total investments	41.1	427,435,382	566,039,438
% age of investments made		72.4%	98.9%

41.1 Breakup of investments

	2020 Rupees	2019 Rupees	2020 Relative %	2019 of size of the fund
Mutual fund	135,382	24,619,695	0.0%	4.3%
Term deposit receipts (TDRs)	100,000,000	119,244,625	16.9%	20.8%
Market treasury bills	-	419,751,509	0.0%	73.4%
Pakistan investment bonds	327,300,000	2,423,609	55.5%	0.4%
	<u>427,435,382</u>	<u>566,039,438</u>	<u>72.4%</u>	<u>98.9%</u>

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

42 Material outsourcing arrangements

In compliance to the BPRD circular no. 06 of 2017 of SBP, the material outsourcing arrangements of the Bank are listed below:

Sr. Number	Name of service provider	Name of service	Estimated cost
1	Haven Security Services (Pvt) Ltd.	Security guards services	24,635,435
2	Security Organizing System	Security guards services	88,010,451
3	E-Ocean Pvt Ltd	SMS alerts to clients on transactions	8,088,158
4	Red Communication Art	Digital marketing and advertisement	15,087,887
5	Lotus	Digital marketing and advertisement	5,298,457

43 Complaints Management Mechanism

The Bank is a customer oriented organization and gives due consideration to the valuable feedback of its customers. Complaints are treated as opportunity to align our products/services and processes to serve the customers in a best possible way. The Bank ensures that resolution of complaints is comprehensive, appropriate and is dealt with agility; keeping customers informed of their complaint status 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. During the year 13,590 (2019: 19,398) complaints were received by the Bank and were resolved with average resolution time of 3 days (2019: 3.73 days).

44 Non adjusting event after the balance sheet date

The Board of Directors of the Bank in their meeting held on _____, have decided on the dividend for the year ended 31 December 2020 @ _____% (Rs. _____ per share).

Munir K. Khan

45 Impact of COVID-19 on the financial statements

On 30 January 2020, the World Health Organization (WHO) declared the outbreak a "Public Health Emergency of International Concern" and on 11 March 2020, the WHO declared the COVID-19 outbreak to be a pandemic in recognition of its rapid spread across the globe. Many countries, including Pakistan, have taken stringent steps to help contain further spread of the virus. While these events and conditions have resulted in general economic uncertainty, however, to dampen the adverse effects of COVID-19 and to enable the Microfinance Banks continue to fulfill their role in funding the real economy, SBP issued Circular dated 26 March 2020 regarding "Regulatory relief to dampen the effects of COVID-19". This circular allowed certain relaxations to MFBs where MFBs could defer / restructure principal / markup amounts. Management has evaluated the impact of COVID-19 and concluded that there are no material implications of COVID-19 on the operations of the Bank that require specific disclosure in financial statements as disclosed in notes 10.5, 10.6 and 10.7 of these financial statements.

46 General

- Figures have been rounded to the nearest Rupee unless otherwise specified.
- 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.

47 Date of authorization

These financial statement were authorized for issue by the Board of Directors of the Bank on 25 Feb 21

MAHMOUD KHA

Chief Executive Officer

Chairman

Director

Director