

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PAK OMAN MICROFINANCE BANK LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the annexed financial statements of PAK OMAN MICROFINANCE BANK LIMITED (the Bank), which comprise the statement of financial position as at December 31, 2022, the statement of profit or loss, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity 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 statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by Microfinance Institutions 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 December 31, 2022 and of the profit and other comprehensive income, its cash flows and the changes in equity 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 Director's report for the year ended December 31, 2022 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.

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 and the requirements of Companies Act, 2017 (XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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 Companies Act, 2017 (XIX of 2017);
- b) the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity together with the notes thereon have been drawn up in conformity with 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 for the purpose of the Bank's business; and
- d) no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Other Matter

The financial statements of Pak Oman Microfinance Bank Limited for the year ended December 31, 2021, were audited by another firm of Chartered Accountants who expressed an unmodified opinion on those financial statements via their report dated March 31, 2022.

The engagement partner on the audit resulting in this independent auditor's report is Zulfikar Ali Causer.

KARACHI

DATED: 28 MAR 2023

UDIN: AR202210067yunjhSql6




BDO EBRAHIM & CO.
CHARTERED ACCOUNTANTS

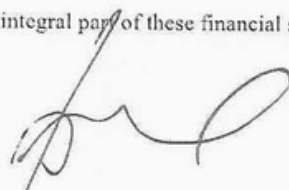
PAK OMAN MICROFINANCE BANK LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2022

	Note	2022 ------(Rupees)-----	2021
ASSETS			
Cash and balances with SBP and NBP	6	96,335,117	88,026,731
Balances with other banks / NBFIs / MFBs	7	1,119,240,396	894,388,932
Investments - net of provision	8	312,032,150	286,396,358
Advances - net of provisions	9	5,286,759,877	5,372,014,802
Operating fixed assets	10	339,423,768	284,582,431
Other assets	11	425,906,757	176,497,959
Deferred tax asset - net	12	100,626,934	78,956,186
Total assets		7,680,324,999	7,180,863,399
LIABILITIES			
Deposits and other accounts	13	2,413,803,587	1,771,282,584
Borrowings	14	1,982,284,483	2,482,284,483
Other liabilities	15	759,027,589	521,226,063
Deferred tax liabilities - net		-	-
Total liabilities		5,155,115,659	4,774,793,130
NET ASSETS		2,525,209,340	2,406,070,269
REPRESENTED BY:			
Share capital	16.2	2,308,300,000	2,308,300,000
Statutory & General Reserves		180,570,971	149,312,606
Accumulated profit / (losses)		36,248,928	(51,709,976)
		2,525,119,899	2,405,902,630
Surplus on revaluation of assets - net of deferred tax	17	89,441	167,639
		2,525,209,340	2,406,070,269
MEMORANDUM / OFF BALANCE SHEET ITEMS	18		

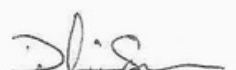
The annexed notes from 1 to 38 form an integral part of these financial statements.




President / Chief Executive



Chairman



Director

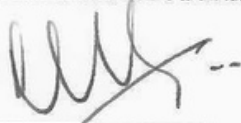


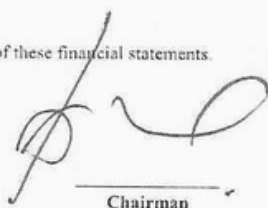
Director

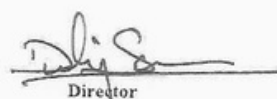
PAK OMAN MICROFINANCE BANK LIMITED
STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED DECEMBER 31, 2022

	2022	2021
Note	(Rupees)	
Mark-up / return / interest earned	19 2,393,459,083	1,574,352,224
Mark-up / return / interest expensed	20 (564,793,156)	(224,685,269)
Net mark-up / return / interest income	1,828,665,927	1,349,666,955
Provision against non-performing loans and advances	9.3 (736,631,598)	(315,539,372)
Provision for diminution in the value of investments	-	-
Bad debts written off directly	-	-
Net mark-up / return / interest income after provisions	1,092,034,329	1,034,127,583
NON MARK-UP / NON INTEREST INCOME		
Fee, commission and brokerage income	171,254,805	217,518,909
Dividend income	-	-
Other income	21 101,561,040	100,094,112
Total non-mark-up / non-interest income	272,815,845	317,613,021
	1,364,850,174	1,351,740,604
NON MARK-UP / NON INTEREST EXPENSES		
Administrative expenses	22 1,239,933,131	1,020,851,738
Other provisions/write offs	-	-
Other charges	23 -	7,097,154
Total non mark-up / non interest expenses	1,239,933,131	1,027,948,892
Extra ordinary / unusual items	-	-
PROFIT BEFORE TAXATION	124,917,043	323,791,712
Taxation - current	51,326,082	84,833,714
Taxation - prior years	(18,557,104)	-
Taxation - deferred	(22,510,023)	23,032,049
PROFIT AFTER TAXATION	10,258,955	107,865,763
	114,658,088	215,925,949
Unappropriated loss brought forward	(51,709,976)	(215,300,851)
Total comprehensive income for the year	116,623,426	217,572,362
	64,913,450	2,271,511
APPROPRIATIONS:		
Transfer to:		
Statutory reserve	(22,931,618)	(43,185,190)
Capital reserve	-	-
Depositors' protection fund	(5,732,904)	(10,796,297)
Revenue reserve	-	-
Proposed cash dividend	-	-
	(28,664,522)	(53,981,487)
Unappropriated profit / (loss) carried forward	36,248,928	(51,709,976)
Earnings per share - basic and diluted	29 0.497	0.935

The annexed notes from 1 to 38 form an integral part of these financial statements.


President / Chief Executive


Chairman

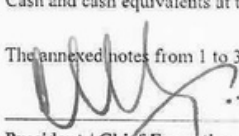

Director


Director

PAK OMAN MICROFINANCE BANK LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022

	Note	2022 ----- (Rupees) -----	2021 -----
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		124,917,043	323,791,712
Less: dividend income		-	-
		<u>124,917,043</u>	<u>323,791,712</u>
Adjustments for non-cash charges:			
Depreciation	10.1	103,600,898	64,302,843
Amortisation	10.2	10,505,082	8,684,560
Provision against non-performing advances	9.3	736,631,598	315,539,372
Reversal of provision for advances		(730,916,839)	
Reversal of provision for diminution in the value of investments		(320,320)	(109,282)
Gain on disposal of fixed assets	21	(1,651,978)	(483,921)
Finance cost on lease obligation		21,011,047	5,962,864
Provision for gratuity	26.6	15,003,309	11,355,174
Surplus on revaluation on investments			(236,111)
(Reversal) / Provision for leave fare assistance	22	(2,166,105)	24,404,985
		<u>151,696,692</u>	<u>429,420,484</u>
		<u>276,613,735</u>	<u>753,212,196</u>
Decrease / (increase) in operating assets			
Advances		79,540,167	(3,199,712,824)
Other assets (excluding advance taxation)		(236,559,831)	30,602,174
		<u>(157,019,664)</u>	<u>(3,169,110,650)</u>
Increase / (decrease) in operating liabilities			
Deposits and other accounts		642,521,003	1,764,581,293
Other liabilities (excluding current taxation)		280,738,261	183,851,102
		<u>923,259,264</u>	<u>1,948,432,395</u>
		<u>1,042,853,335</u>	<u>(467,466,059)</u>
Income tax paid		(40,096,004)	(62,625,615)
Gratuity paid	26.5	(11,798,151)	(3,800,000)
Leave fare assistance paid		(12,322,166)	(16,208,533)
Net cash flows generated from / (used in) operating activities		<u>978,637,014</u>	<u>(550,100,207)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available for sale securities		11,473,097	(47,349,051)
Net investments in held to maturity securities		(36,788,569)	(199,298,272)
Net investments in held for trading securities		-	-
Dividend received		-	-
Rentals paid against lease obligation		(52,866,355)	(75,866,090)
Net investment in operating fixed assets		(170,452,702)	(81,389,705)
Sale proceeds of property and equipment disposed-off		3,157,365	1,168,822
Net cash outflow from investing activities		<u>(245,477,164)</u>	<u>(402,734,296)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowings		(500,000,000)	500,000,000
Net cash (outflow) / inflow from financing activities		<u>(500,000,000)</u>	<u>500,000,000</u>
Increase / (decrease) in cash and cash equivalents		<u>233,159,850</u>	<u>(452,834,503)</u>
Cash and cash equivalents at the beginning of the year		982,415,663	1,435,250,166
Cash and cash equivalents at the end of the year	31	<u>1,215,575,513</u>	<u>982,415,663</u>

The annexed notes from 1 to 38 form an integral part of these financial statements.


President / Chief Executive


Chairman

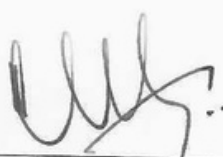

Director


Director


PAK OMAN MICROFINANCE BANK LIMITED
 STATEMENT OF COMPREHESIVE INCOME
 FOR THE YEAR ENDED DECEMBER 31, 2022

	2022	2021
Note	----- (Rupees) -----	
Profit after taxation	114,658,088	215,925,949
Other comprehensive income		
Item not to be reclassified to statement of profit and loss in subsequent periods - net of tax		
Remeasurement of defined benefit obligation	2,768,081	2,318,891
Related tax impact	(802,743)	(672,478)
	1,965,338	1,646,413
Comprehensive income for the year transferred to equity	<u>116,623,426</u>	<u>217,572,362</u>
Comprehensive income for the year not transferred to equity		
Item to be reclassified to statement of profit and loss subsequently on sale - net of tax		
Surplus on revaluation of 'available for sale' investments	125,973	236,111
Related tax impact	(36,532)	(68,472)
Comprehensive income for the year not transferred to equity	<u>89,441</u>	<u>167,639</u>

The annexed notes from 1 to 38 form an integral part of these financial statements.



 President / Chief Executive



 Chairman



 Director



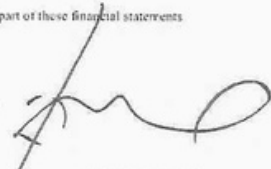
 Director


PAK OMAN MICROFINANCE BANK LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2022

	Capital reserves				Revenue reserves		Total
	Share capital	Share premium	Statutory reserve	Depositors' Protection Fund (Rupees)	Total Capital Reserve	Accumulated losses	
Balance as at December 31, 2020	2,308,300,000	52,041,600	32,059,174	9,975,327	2,402,376,101	(215,300,851)	2,187,075,250
Total comprehensive income:							
Profit after tax for the year ended December 31, 2021	-	-	-	-	-	215,925,949	215,925,949
Other comprehensive income - net of tax	-	-	-	-	-	1,646,413	1,646,413
Total comprehensive income	-	-	-	-	-	217,572,362	217,572,362
Transfer to Statutory Reserve	-	-	43,185,190	-	43,185,190	(43,185,190)	-
Transfer to Depositors' Protection Fund - 5% of the profit after tax - return on investment - net of tax	-	-	-	10,796,297	10,796,297	(10,796,297)	-
	-	-	-	1,255,018	1,255,018	-	1,255,018
	-	-	-	12,051,315	12,051,315	(10,796,297)	1,255,018
Balance as at December 31, 2021	2,308,300,000	52,041,600	75,244,364	22,026,642	2,457,612,606	(51,709,976)	2,405,902,630
Balance as at January 31, 2021	2,308,300,000	52,041,600	75,244,364	22,026,642	2,457,612,606	(51,709,976)	2,405,902,630
Total comprehensive income:							
Profit after tax for the year ended December 31, 2022	-	-	-	-	-	114,658,088	114,658,088
Other comprehensive income - net of tax	-	-	-	-	-	1,965,338	1,965,338
Total comprehensive income	-	-	-	-	-	116,623,426	116,623,426
Transfer to statutory reserve	-	-	22,931,618	-	22,931,618	(22,931,618)	-
Transfer to Depositors' Protection Fund - 5% of the profit after tax - return on investment - net of tax	-	-	-	5,732,904	5,732,904	(5,732,904)	-
	-	-	-	2,593,843	2,593,843	-	2,593,843
	-	-	-	8,326,747	8,326,747	(5,732,904)	2,593,843
Balance as at December 31, 2022	2,308,300,000	52,041,600	98,175,982	30,353,389	2,458,870,971	36,248,928	2,525,119,899

The annexed notes from 1 to 38 form an integral part of these financial statements.


President / Chief Executive


Chairman


Director


Director

PAK OMAN MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2022

1 STATUS AND NATURE OF BUSINESS

- 1.1 Pak Oman Microfinance Bank Limited (the Bank) was incorporated on March 9, 2006 as a public limited company under Companies Ordinance, 1984 (Repealed with the enactment of the Companies Act, 2017 on May 30, 2017) and was granted license by the State Bank of Pakistan (SBP) on April 12, 2006. The Bank received certificate of commencement of business on May 6, 2006, effective from May 8, 2006. The Bank's principal business is to provide microfinance services to the poor and under served segment of the society as envisaged under the Microfinance Institutions Ordinance, 2001. The registered office of the Bank is situated at D-7 Parveen Building Shaheed-e-Millat Road, Bangalore Town, Karachi, Pakistan. As at December 31, 2022, the Bank has 61 branches (2021: 43) and 22 service centers (2021: 33) in operation in all provinces of Pakistan, and Azad Jammu & Kashmir other than Gilgit Baltistan, including the Federal Capital Islamabad and is licensed to operate nationwide.

In the year 2016, the Board of Directors of the Bank entered into an agreement with LOLC PLC, the Parent Company, who in lieu of the agreement acquired the majority of the stake (50.1%) in the Bank. As per the signed agreement dated February 3, 2017, the existing shareholders retained their shareholdings while new 115,648,000 shares were issued (equal to the existing issued and paid up capital) at an offer price of Rs.10.5 each (face value of Rs.10 each).

In the year 2021, the Board of Directors of the Bank again entered into an agreement with LOLC PLC, the Parent Company, who in lieu of the agreement acquired the remaining of the stake (49.9%) in the Bank. As per the signed agreement dated October 26, 2021, LOLC Asia Private Limited has acquired 33% shareholding from Ministry of Finance Sultanate of Oman and 17% from Pak Oman investment Company Limited at an agreed price of PKR 10.5 per share. The shares has been transferred on the name of the LOLC Asia Private Limited, the Parent Company on February 24, 2022.

- 1.2 JCR-VIS has determined the Bank's medium to long-term rating as 'A-' and the short-term rating as 'A-2'.

2 BASIS OF PRESENTATION

These financial statements have been presented in accordance with the requirements of Banking Surveillance Department Circular No. 11 dated December 30, 2003 issued by SBP.

The Bank believes that there is no significant doubt on the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

2 STATEMENT OF COMPLIANCE

2.1 These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. Accounting and reporting standards as applicable in Pakistan comprise of :

- International Financial Reporting Standard issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act, 2017.
- The Microfinance Institutions Ordinance, 2001, the Prudential Regulations for Microfinance Banks and directives issued by the Securities and Exchange Commission of Pakistan and the SBP.

Where provisions of and directives issued under the Companies Act, 2017, Microfinance Institutions Ordinance, 2001, the Prudential Regulations for Microfinance Banks and directives issued by the Securities and Exchange Commission of Pakistan and the SBP differ from the IFRS, the provisions of and directives issued under the Companies Act, 2017, Microfinance Institutions Ordinance, 2001, the Prudential Regulations for Microfinance Banks and directives issued by the Securities and Exchange Commission of Pakistan and the SBP have been followed.

2.2 The SBP, through its BSD Circular No. 10 dated August 26, 2002, has deferred the implementation of International Accounting Standard (IAS) 39 - "Financial Instruments: Recognition and Measurement" and IAS 40 - "Investment Property" for Banking Companies in Pakistan, till further instructions. Accordingly, the requirements of these Standards have not been considered in the preparation of these financial statements. Further, the SECP has deferred the applicability of International Financial Reporting Standard (IFRS) 7 "Financial Instruments: Disclosures" through its S.R.O. 411(I)/2008 dated April 28, 2008. Accordingly, the requirements of this standard have also not been considered in the preparation of these financial statements. However, investments and non-banking assets have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.

Moreover, recently SBP through its BPRD Circular letter No. 03 of 2022, dated July 05, 2022, extend the date of implementation of IFRS-9 till January 01, 2024. Accordingly, the requirements of this standard have also not been considered in the preparation of these financial statements. However, during the transition period, the Bank is required to carry out the parallel run reporting for submission of IFRS-9 pro-forma on quarterly, half yearly and annual financial statements for the current reporting period.

2.3 New accounting standards, amendments and IFRS interpretations that are effective for the year ended December 31, 2022

The following standards, amendments and interpretations are effective for the year ended December 31, 2022. These standards, amendments and interpretations are either not relevant to the Bank's operations or are not expected to have significant impact on the financial statements other than certain additional disclosures.

	Effective date (annual periods beginning on or after)
Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	January 01, 2022
Amendments to IFRS 16 'Leases' - Extended practical relief regarding Covid - 19 related rent concessions	April 01, 2021
Amendments to IAS 16 'Property, Plant and Equipment' - Proceeds before intended use	January 01, 2022
Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' - Onerous Contracts - Cost of fulfilling a contract	January 01, 2022
Certain annual improvements have also been made to a number of IFRSs.	

2.4 New accounting standards, amendments and interpretations that are not yet effective

The following standards, amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them. These standards, amendments and interpretations are either not relevant to the Bank's operations or are not expected to have significant impact on the Bank's financial statements other than certain additional disclosures.

Amendments to IFRS 16 'Leases' - Lease liability in a sale and leaseback	January 01, 2024
Amendments to IAS 1 'Presentation of Financial Statements' - Non-current liabilities with covenants	January 01, 2024
Amendments to IAS 1 'Presentation of Financial Statements' - Classification of liabilities as current or non-current	January 01, 2024

	Effective date (annual periods beginning on or after)
Amendments to IAS 1 'Presentation of Financial Statements' - Disclosure of Accounting Policies	January 01, 2023
Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' - Definition of Accounting Estimates	January 01, 2023
Amendments to IAS 12 'Income Taxes' - Deferred Tax related to Assets and Liabilities arising from a single transaction	January 01, 2023

The following new standards and interpretations have been issued by the International Accounting Standards Board (IASB), which have not been adopted locally by the Securities and Exchange Commission of Pakistan (SECP):

IFRS 1 First Time Adoption of International Financial Reporting Standards;
IFRS 17 Insurance Contracts.

2.5 Early adoption of standards

The Bank has not early adopted any new or amended standard in 2022.

4 BASIS OF MEASUREMENT

4.1 Accounting convention

These financial statements have been prepared under the historical cost convention except for certain investments that have been marked to market and are carried at fair value and staff retirement benefits which are measured at present value.

4.2 Functional and presentation currency

These financial statements are presented in Pakistani rupees ('Rupees' or 'Rs.'), which is also the functional currency of the Bank, and have been rounded off to the nearest rupee.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the presentation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

5.1 Cash and cash equivalents

Cash and cash equivalents for the purpose of cash flow statement represent cash in hand and balances held with State Bank of Pakistan, balances with other banks in current and deposit accounts and TDRs having a maturity upto 3 months. Cash and cash equivalents are carried at cost in the statement of financial position.

5.2 Lendings to financial institutions

Lendings include term lendings and unsecured lendings to financial institutions. These are stated net of provision, if any. Mark-up on such lendings is charged to profit or loss account on a time proportionate basis using effective interest rate method except mark-up on impaired / delinquent lendings, which are recognized on receipt basis.

5.3 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 fair value plus transaction costs associated with the investments. Held-for-trading investments are initially measured at fair value and transaction costs are expensed out in the profit or loss account.

Purchase 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 sell the investment.

5.3.1 Held-for-trading

These represent securities, which are either acquired for the purpose of generating profit from short-term fluctuations in prices or dealer's margin or are securities included in the portfolio in which a pattern of short-term profit making exists. After initial measurement, such investments are carried at fair value and the surplus / (deficit) arising as a result of revaluation is taken to profit or loss account.

5.3.2 Held-to-maturity

These are securities with fixed or determinable payments and fixed maturities which the Bank has the intention and ability to hold till maturity. After initial measurement, such investments are carried at amortized cost.

5.3.3 Available-for-sale

These are investments which do not fall under the held-for-trading and held-to-maturity categories. After initial measurement, such investments are measured at fair value. The surplus / (deficit) arising on revaluation is shown in the statement of financial position below equity which is taken to the profit or loss account when actually realized upon disposal.

Premium or discount on securities classified as available-for-sale and held-to-maturity is amortized using effective interest method and taken to the profit or loss account.

5.3.4 Impairment

Impairment in the value of equity 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 statement of financial position below equity is thereof removed and recognized in the profit and loss account.

5.4 Advances

These are stated at cost net of specific and general provisions which are determined on the basis of the Prudential Regulations (the Regulations) for Microfinance Banks issued by SBP and charged to profit or loss account. Advances are written off according to the Prudential Regulations or when there is no realistic prospect of recovery. These regulations prescribe a time based criteria for classification of non-performing advances in to following categories:

5.4.1 General loans

a) Other Assets Especially Mentioned (OAEM)

These are advances in arrears (payment / instalments overdue) of 30 days or more but less than 60 days.

b) Substandard

These are advances in arrears (payment / instalments overdue) for 60 days or more but less than 90 days.

c) Doubtful

These are advances in arrears (payment / instalments overdue) for 90 days or more but less than 180 days.

d) Loss

These are advances in arrears (payment / instalments overdue) for 180 days or more.

In addition the Bank maintains a watch list of all accounts delinquent by 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 for potential loan losses for all non-performing advances as follows:

OAEM	10% of outstanding principal of only Micro Enterprise loans net of cash collaterals and gold (ornaments and bullion) realizable without recourse to a Court of Law.
Substandard	25% of outstanding principal net of cash collaterals and gold (ornaments and bullion) realizable without recourse to a Court of Law.
Doubtful	50% of outstanding principal net of cash collaterals and gold (ornaments and bullion) realizable without recourse to a Court of Law.
Loss	100% of outstanding principal net of cash collaterals and gold (ornaments and bullion) realizable without recourse to a Court of Law.

5.4.2 Housing loan

a) Other Assets Especially Mentioned (OAEM)

These are advances in arrears (payment / instalments overdue) of 90 days or more but less than 180 days.

b) Substandard

These are advances in arrears (payment / instalments overdue) for 180 days or more but less than One year.

c) Doubtful

These are advances in arrears (payment / instalments overdue) for One year or more but less than two years.

d) Loss

These are advances in arrears (payment / instalments overdue) for two years or more.

Non-performing advances in respect of Housing loans are written off one month after 5 years from the date of classification of financing. However, the Bank continues its efforts for recovery of the written off balances.

In addition the Bank maintains a watch list of accounts delinquent for Housing loans by 5 - 90 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 for potential loan losses for all non-performing advances as follows:

OAEM	10% of outstanding principal of only Micro Enterprise loans net of cash collaterals and gold (ornaments and bullion) realizable without recourse to a Court of Law.
Substandard	25% of outstanding principal net of cash collaterals and gold (ornaments and bullion) realizable without recourse to a Court of Law.
Doubtful	50% of outstanding principal net of cash collaterals and gold (ornaments and bullion) realizable without recourse to a Court of Law.
Loss	100% of outstanding principal net of cash collaterals and gold (ornaments and bullion) realizable without recourse to a Court of Law.

5.4.3 Microenterprise loans

a) Other Assets Especially Mentioned (OAEM)

These are advances in arrears (payment / instalments overdue) of 90 days or more but less than 180 days.

b) Substandard

These are advances in arrears (payment / instalments overdue) for 180 days or more but less than One year.

c) Doubtful

These are advances in arrears (payment / instalments overdue) for One year or more but less 18 months from the due date.

d) Loss

These are advances in arrears (payment / instalments overdue) for 18 months or more from the due date.

Non-performing advances in respect of Microenterprise loans are written off one month after 5years from the date of classification if the NPL's are secured against mortgaged residential, commervial industrial properties (Land and Building only) and for all other one month after 3 years from the date of classification. However, the Bank continues its efforts for recovery of the written off balances.

In addition the Bank maintains a watch list of accounts delinquent for Microenterprise loans by 5 - 90 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 for potential loan losses for all non-performing advances as follows:

OAEM	10% of outstanding principal of only Micro Enterprise loans net of cash collaterals and gold (ornaments and bullion) realizable without recourse to a Court of Law.
Substandard	25% of outstanding principal net of cash collaterals and gold (ornaments and bullion) realizable without recourse to a Court of Law.
Doubtful	50% of outstanding principal net of cash collaterals and gold (ornaments and bullion) realizable without recourse to a Court of Law.
Loss	100% of outstanding principal net of cash collaterals and gold (ornaments and bullion) realizable without recourse to a Court of Law.

In addition, a general provision is made in accordance with the requirements of the Prudential Regulations for Microfinance Banks issued by SBP equivalent to 1% of the net outstanding balance (advances net of specific provisions) for potential loan losses.

Non-performing advances are written off one month after the loan is classified as "Loss". However, the Bank continues its efforts for recovery of the written off balances.

Under exceptional circumstances management reschedules repayment terms for clients who have suffered catastrophic events and who appear willing and able to fully repay their loans. The classification made as per the Regulation is not changed due to such rescheduling.

5.5 Operating fixed assets and intangibles

5.5.1 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that are directly attributable to the acquisition of items.

Depreciation is charged to profit or loss account at the rates mentioned in note 10.1 applying the straight line method over estimated useful life of assets. The asset's residual values and useful lives are reviewed annually, and adjusted if required.

Full depreciation is charged on additions in the month of purchase and no depreciation is charged on disposals in the month of disposal.

Subsequent costs are included in the asset's carrying amounts or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Bank and the cost of the asset can be measured reliably. The carrying amount of the replaced asset is derecognized. All other repairs and maintenance are charged to the profit or loss account as and when incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains / losses on disposals of property and equipment are determined by comparing proceeds with the carrying amount. These are recognized in the profit or loss account.

5.5.2 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.

5.5.3 Intangible assets

Intangible assets with a definite useful lives are stated at cost less accumulated amortization and accumulated impairment losses, if any. These are amortized using the straight line method at the rates mentioned in note 10.2 over their estimated useful life.

Amortization is charged on additions from the date the asset available for use and on disposals up to the date of disposal.

The asset's residual values and useful lives are reviewed annually, and adjusted if required, at each reporting date.

5.5.4 Impairment

5.6 Non-Financial Assets (except for deferred tax assets)

The Bank assesses at the end of each reporting period whether there is any indication that non-financial assets except deferred tax 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 values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in profit or loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. 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.

5.6.1 Financial Assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost reversal is recognized in profit or loss.

5.6.2 Grants

Grants are initially recognized at fair value in the statement of financial position when there is a reasonable assurance that the grant will be received and that the Bank will comply with all the attached conditions.

Grants relating to operating fixed assets are recorded as deferred revenue in the statement of financial position and recognized as income on a systematic basis over the useful lives of the assets acquired from grant proceeds.

5.7 Staff retirement benefits

5.7.1 Defined contribution plan

The Bank also operates a recognized provident fund for its eligible employees. Equal monthly contributions are made by the Bank and its employees to the fund at the rate of 8.33% (2019: 8.33%) of basic salary per month.

5.7.2 Defined benefit plan

The Bank operates a funded-gratuity scheme for all of its permanent employees. The scheme was approved on 16 September 2014. Contributions to the fund are made every year based on actuarial valuation. The actuarial valuation is carried out using the Projected Unit Credit Method (PUCM). Under this method, the cost of providing gratuity is charged to the profit or loss account so as to spread the cost over the service lives of the employees in accordance with the actuarial valuation. All actuarial gains and losses are recognized in Other Comprehensive Income (OCI) in the periods in which they occur.

5.7.3 Compensated absences

Compensated absences (leaves) of employees are accounted for in the period in which these absences are earned. Provisions to cover the obligations are made using the current salary level of employees.

5.8 Taxation

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

5.8.1 Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account applicable tax credits, rebates and exemptions available, if any or minimum tax applicable in accordance with the Income Tax Ordinance, 2001. The charge for the current tax also includes adjustments where necessary, relating to prior years which arise from assessments framed / finalized during the year.

5.8.2 Deferred

Deferred tax is recognized using the balance sheet liability method on all temporary differences arising at the date of reporting between the amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax asset is recognized on all deductible temporary differences and carry forward of unused tax losses, minimum tax and alternate corporate tax (ACT), if any, to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be

The carrying amount of the deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to the periods when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to gain / (loss) recognized in surplus / (deficit) on revaluation of assets is charged / credited to such account.

5.9 Deposits

Deposits are recorded at the proceeds received. Deposit costs are recognized as an expense in the period in which these are incurred using effective mark-up / interest rate method.

5.10 Statutory reserve

The Bank is required under the Microfinance Institutions Ordinance, 2001 to maintain a statutory reserve to which an appropriation equivalent to 20% of the annual after tax profit is made till such time the reserves are equal to paid-up capital and thereafter 5% of profit after

5.11 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 the obligation can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimates.

5.12 Depositors' protection fund

The Bank is required under the Microfinance Institutions Ordinance, 2001 to contribute 5% of its annual after tax profit to the Depositors' protection fund for the purpose of providing security or guarantee to persons depositing money in the Bank and profits earned on the investments of the fund shall be credited to the depositors' protection fund and such fund shall either be invested in Government securities or deposited with State Bank in a remunerative account.

5.13 Revenue recognition

- Return on investment / lending to financial institutions is recognized using effective interest rate method.
- Mark-up / interest / return on performing advances is recognized using effective interest rate method except that income suspended in accordance with the requirements of the Prudential Regulations for Microfinance Banks, is taken to income when actually received.
- Interest or mark-up recoverable on non-performing advances and classified investments is recognized on a receipt basis.
- Dividend income is recognized when the right to receive dividend is established.
- Processing fees is recognized when services are performed.
- Capital gains / (losses) on sale of investments are recognized in the profit or loss account at the time of sale.
- Moratorium income is a fee charged to a borrower for provision of loan relaxation. It is accrued on the basis of expectation of recoverability of the income.
- Other income are recognized on accrual basis.

5.14 Financial instruments

5.14.1 Financial assets and financial liabilities

All financial assets and financial liabilities are recognized at the time when the Bank becomes a party to the contractual provisions of the instrument. At the time of initial recognition, all the financial assets and financial liabilities are measured at cost, which is the fair value of the consideration given or received for it. Subsequently, these are stated at their nominal values as reduced by appropriate allowances for estimated irrecoverable amounts, if any. All the financial assets are derecognized at the time when the Bank loses control of the contractual rights that comprise the financial assets. All financial liabilities are derecognized at the time when they are extinguished i.e. when the obligation specified in the contract is discharged, cancelled, or expired. Any gain or loss on derecognition of financial assets and financial liabilities is taken to profit or loss account.

5.14.2 Off setting

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

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

5.15 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates. The financial statements are presented in Pak Rupee, which is the Bank's functional and presentation currency.

5.16 Foreign currency translations

Foreign currency transactions are translated into Pak Rupees (functional currency) using the exchange rate prevailing at the date of transactions. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees using the exchange rate prevailing at the reporting date. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translations of monetary assets and liabilities denominated in foreign currencies at reporting date are included in profit or loss account.

5.17 Earnings per share

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

5.18 Dividend and other appropriations

Dividend and appropriation to reserves, except appropriations which are required by the law, are recognized as liability in the Banks' financial statements in the year in which these are approved by the appropriate authorities.

In making estimates of the depreciation / amortization method, the management uses method which reflects the pattern in which economic benefits are expected to be consumed by the Bank.

	Note	2022 -----	2021 -----
(Rupees)			
6 CASH AND BALANCES WITH STATE BANK OF PAKISTAN AND NATIONAL BANK OF PAKISTAN (NBP)			
Cash in hand			
- local currency		2,618,194	2,093,138
Balance with State Bank of Pakistan (SBP)	6.1	93,716,923	85,933,593
		<u>96,335,117</u>	<u>88,026,731</u>
6.1	This represents current accounts maintained with SBP to meet the minimum balance requirement equivalent to 5% as cash reserve of Bank's demand and term deposits with tenor of less than 1 year in accordance with the Prudential Regulations.		
7 BALANCES WITH OTHER BANKS / NBFIS / MFBS			
In Pakistan			
- on local currency current accounts		57,839,401	5,115,776
- on local currency deposit accounts	7.1	1,061,400,995	889,273,156
		<u>1,119,240,396</u>	<u>894,388,932</u>
7.1	These represents deposits with commercial banks carrying mark-up at rates ranging from 14% to 17.25% per annum (2021: 6.5% to 11% per annum).		

	Note	2022	2021
		(Rupees)	
8 INVESTMENTS			
Federal Govt. Securities			
- Pakistan Investment Bonds	8.2	11,919,210	11,796,124
- Market Treasury Bills	8.3	263,807,384	227,141,901
Bonds, Participation Term Certificates & Term Finance Certificates	8.4	5,882,055	6,202,375
Sukuks	8.4	46,305,556	57,458,333
Less: Provision for diminution in value of investments	8.5	15,882,055	16,202,375
Investments - net of provision		<u>312,032,150</u>	<u>286,396,358</u>

8.1 Investments Classification

Available for sale			
Term Finance Certificates	8.4	5,882,055	6,202,375
Sukuks	8.4	46,305,556	57,458,333
		52,187,611	63,660,708
Less: Provision for diminution in value of investment		15,882,055	16,202,375
		<u>36,305,556</u>	<u>47,458,333</u>
Held to maturity			
Federal Government Securities - Pakistan Investment Bonds	8.2	11,919,210	11,796,124
Term Deposit Receipts (TDRs)		-	-
Federal Government Securities - Treasury Bills	8.3	263,807,384	227,141,901
		275,726,594	238,938,025
Investments - net of provision		<u>312,032,150</u>	<u>286,396,358</u>

8.2 Federal Government Securities - Pakistan Investment Bonds

Significant terms and conditions of Pakistan Investment bonds outstanding at the period end are as follows:

Fixed rate instrument	Number of bonds	Face value (Par value Rs. 100)	Carrying amount	Interest rate (Per annum)	Maturity
Pakistan investment bond (PIB)					
- 5 years	50,000	5,000,000	4,986,878	8.00%	12-Jul-23
- 3 years	70,000	7,000,000	6,932,332	7.00%	20-Aug-23
	<u>120,000</u>	<u>12,000,000</u>	<u>11,919,210</u>		

	2022	2021
Note	(Rupees)	
8.3 Federal Government Securities - Treasury Bills		
Purchase price	260,079,160	226,057,286
Amortized during the period	<u>3,728,224</u>	<u>1,084,615</u>
Value as at 31 December	<u><u>263,807,384</u></u>	<u><u>227,141,901</u></u>

8.4 Investments in Term Finance Certificates / Sukuk

Name of the investee company	Profit / markup rate (per annum)	Maturity date	As at December 31, 2022						As at December 31, 2021									
			Number of certificate	Redeemed value	Provision held	Value of investments after provision	Market value	Deficit on revaluation	Number of certificate	Redeemed value	Provision held	Value of investments after provision	Market value	Deficit on revaluation				
Note																		
Term Finance Certificate WorldCall Telecom Limited	6 month KIBOR + 1.6%	2-Oct-21	3,000	4,471,674	4,471,674	-	-	-	3,000	4,750,375	4,750,375	-	-	-				
AgriFish Limited	Fixed rate	5-Mar-15	560	1,400,000	1,400,000	-	Non Traded	-	560	1,400,000	1,400,000	-	Non Traded	-				
			3,256	5,871,674	5,871,674	-	-	-	3,256	6,250,375	6,250,375	-	-	-				
Sukuk																		
TFC Tracker Limited Sukuk	3 month KIBOR + 2%	09-Mar-26	50	36,300,556	-	-	36,300,556	-	50	47,400,300	-	-	47,400,300	-				
AgriFish Limited	6 month KIBOR + 2%	15-Aug-12	2,000	10,000,000	10,000,000	-	Non Traded	-	2,000	10,000,000	10,000,000	-	Non Traded	-				
			2,050	46,300,556	10,000,000	-	36,300,556	-	2,050	57,400,300	10,000,000	-	47,400,300	-				

8.4.1 Investments in WorldCall Telecom and AgriFish Limited amounting to Rp. 4,471,674 and Rp. 1,400,000 respectively are fully provided.

	2022	2021
	(Rupees)	
8.5 Particulars of Provision for Diminution in value of investments		
Opening balance	16,202,375	16,311,657
Charge for the year	-	-
Reversals	(320,320)	(109,282)
Closing balance	<u>15,882,055</u>	<u>16,202,375</u>

9 ADVANCES - NET OF PROVISIONS	Note	Number of loans outstanding	Amount outstanding (Rupees)	Number of loans outstanding	Amount outstanding (Rupees)
Loan type					
Micro credit advances					
- Considered good		51,886	4,704,928,371	49,561	5,193,018,028
- Considered doubtful	9.2	9,544	<u>788,972,796</u>	6,421	<u>390,501,156</u>
			5,493,901,167		5,583,519,184
Less: Provision held					
- Specific provision	9.2	9,544	<u>130,109,712</u>	6,421	<u>123,386,018</u>
- General provision	9.3		<u>103,592,396</u>		<u>104,601,332</u>
			233,702,108		227,987,350
			5,260,199,059		5,355,531,834
Staff loan	9.6		<u>26,560,818</u>		<u>16,482,968</u>
Advances - net of provisions			<u>5,286,759,877</u>		<u>5,372,014,802</u>

9.1 All advances are secured by personal guarantees. Further, a mandatory deposit account equivalent to 10% of amount of advances was required to be kept with the Bank until September 30, 2014. The details of such deposits held with the Bank are disclosed in note 13. The interest rates on the advances is 47.85% per annum (2021: 44% per annum).

9.2 Particulars of non-performing advances

Advances includes Rs. 788,972,796 (2021: Rs. 390,501,156) which have been placed under non-performing status as detailed below:

Category of classification	December 31, 2022			December 31, 2021		
	Amount outstanding	Provision required	Provision held	Amount outstanding	Provision required	Provision held
	(Rupees)					
Other assets especially mentioned	262,344,394	4,953,208	4,953,208	114,618,962	-	-
Sub-standard	194,706,615	29,636,136	29,636,136	101,571,536	25,392,883	25,392,883
Doubtful	328,719,805	92,933,647	92,933,647	152,635,049	76,317,525	76,317,525
Loss	3,201,982	2,586,721	2,586,721	21,675,609	21,675,609	21,675,609
Total	<u>788,972,796</u>	<u>130,109,712</u>	<u>130,109,712</u>	<u>390,501,156</u>	<u>123,386,017</u>	<u>123,386,017</u>

9.3 Particulars of provision against non-performing loans and advances

The movement of provision against non-performing advances is as follows:

	December 31, 2022			December 31, 2021		
	Specific	General	Total	Specific	General	Total
Note	(Rupees)					
Opening balance	123,386,018	104,601,331	227,987,349	45,685,688	24,733,719	70,619,407
Charge / (reversal) for the year	737,640,533	(1,008,935)	736,631,598	235,671,760	79,867,612	315,539,372
Amounts written off	(730,916,839)	-	(730,916,839)	(158,171,430)	-	(158,171,430)
	6,723,694	(1,008,935)	5,714,759	77,500,330	79,867,612	157,367,942
Closing balance	130,109,712	103,592,396	233,702,108	123,386,018	104,601,331	227,987,349

	Note	2022	2021
		(Rupees)	
9.3.1 Particulars of write offs			
Against provision		730,916,839	158,171,430
Directly charged to profit or loss account		-	-
		<u>730,916,839</u>	<u>158,171,430</u>

9.4 This represents general provision equivalent to 1% (2021: 1%) of the net outstanding advances held in accordance with the requirements of the Prudential Regulations for Microfinance Banks.

9.5 Portfolio by type

Micro Business loan	-	524,173
Micro Agri loan	508,307,670	633,277,886
Micro Assets loan	35,012	841,924
Livestock loan	-	313,868
Micro Enterprise loan	3,627,395,673	3,604,553,003
Micro enterprise loan-LSL	-	-
Salary loan	205,834,280	244,736,753
Bara Karobar loan	797,544,623	954,562,293
Fori Qarza	232,915	-
Bullet Zarai Karza	3,869,083	126,553,404
Lease	46,858	2,767,088
Gold Loan	4,551,860	-
Hunermand Khatoon Qarza	292,991,652	-
House loan	53,091,541	15,388,791
	<u>5,493,901,167</u>	<u>5,583,519,183</u>

9.6 This represents personal loans and house loans provided to employees as per the Bank's policy. The title documents of houses for house loans are held by the Bank as collateral and interest at 6 months KIBOR (2021: 6 months KIBOR) is charged.

	Notes	2022	2021
		<u>—————(Rupees)—————</u>	
10 OPERATING FIXED ASSETS			
Property and equipment	10.1	162,272,190	142,565,032
Intangible assets	10.2	10,499,502	7,182,189
Right of use asset	10.3	166,652,076	134,835,210
		<u>339,423,768</u>	<u>284,582,431</u>

18.1 Property and equipment

	2021		2020		Rate of depreciation %
	As at January 01, 2021	Additions / (depreciation)	As at December 31, 2021	As at January 01, 2021	
		(Expense)			
Cost					
Leasehold improvements (Building's fixtures)	64,513,606	48,638,692	113,152,298	32,335,231	20%
Office equipment	31,865,419	1,162,143	49,233,661	14,797,137	20%
Furniture and fixtures	31,865,442	3,639,384	34,875,729	15,314,267	20%
Computers	61,568,794	13,797,439 (173,453)	76,852,789	39,165,369	35%
Vehicles	52,215,677	9,892,423 (2,864,312)	59,243,794	19,401,239	20%
Truck asset clearing	11,351,435	(11,351,435)	-	-	20%
	194,019,661	84,985,571 (15,498,130)	174,507,002	111,498,874	162,476,822

	2021		2020		Rate of depreciation %
	As at January 01, 2021	Additions / (depreciation)	As at December 31, 2021	As at January 01, 2021	
		(Expense)			
DEPRECIATION					
Leasehold improvements (Building's fixtures)	30,595,494	28,316,713	64,315,616	12,898,377	20%
Office equipment	28,235,147	6,997,174 (68,264)	33,864,057	9,731,264	20%
Furniture and fixtures	22,594,276	8,768,189 (166,314)	31,296,151	11,438,877	20%
Computers	44,879,416	17,464,378	61,584,794	30,685,833	35%
Vehicles	38,982,423	18,981,372 (3,184,148)	54,779,647	18,444,849	20%
Truck asset clearing	-	11,351,435	11,351,435	-	20%
	142,691,356	69,918,487 (83,898,653)	128,711,290	63,668,361	142,638,812

18.1.1 This includes property and equipment costing Ba. 103,373,914 (2020: Ba. 94,194,705) that have been fully depreciated as at 31 December 2021 but are still in use.

18.1.2 Details of deposits of assets whose original cost or fair value exceeds Ba. 1 million or Ba. 200,000 respectively whichever is less and property and equipment disposed off in the (fiscal) financial or tax division or in any other related party (irrespective of fair value), are as follows:

Category	2021		2020		Percentage of gross value disposed
	As at January 01, 2021	Additions / (depreciation)	As at December 31, 2021	As at January 01, 2021	
1,000,000-4,999,999	6,333,479	6,333,479	12,666,958	6,333,479	100%

10.2 Intangible assets

	COST			AMORTISATION			Rate of amortization
	As at January 01	Additions / Transfers	As at December 31	As at January 01	Charge for the year	As at December 31	
	(Rupees)						
Computer software							
2022	32,133,353	13,822,394	45,955,747	24,951,163	10,505,082	35,456,245	33%
2021	31,316,073	817,280	32,133,353	16,266,604	8,684,559	24,951,163	33%

10.2.1 This includes intangible assets costing Rs. 19,341,813 (2021: Ra. 6,102,065) that have been fully amortized as at December 31, 2022 but are still in use.

10.3 Right of use of asset

	As at December 31, 2022		
	Cost	Accumulated Depreciation	Net Book Value
	(Rupees)		
At January 1	140,957,426	(6,122,216)	134,835,210
Additions during the year	34,053,769	-	34,053,769
Reassessment during the year	47,717,259	-	-
Depreciation charge for the year	-	(49,954,162)	(49,954,162)
Derecognized during the year	-	-	-
At December 31	<u>222,728,454</u>	<u>(56,076,378)</u>	<u>166,652,076</u>
Useful life	3 - 10 years		

	As at December 31, 2021		
	Cost	Accumulated Depreciation	Net Book Value
	(Rupees)		
At January 1,	117,854,680	(48,299,432)	69,555,248
Additions during the year	37,861,512	-	37,861,512
Reassessment during the year	95,641,917	-	95,641,917
Depreciation charge for the year	-	(30,361,955)	(30,361,955)
Derecognized during the period	(110,400,683)	72,539,171	(37,861,512)
At December 31	<u>140,957,426</u>	<u>(6,122,216)</u>	<u>134,835,210</u>
Useful life	3 years		

	Note	2022	2021
		(Rupees)	
11 OTHER ASSETS			
Income / mark-up accrued on Advances and Investments		317,369,033	104,109,896
Advances, deposits, advance rent and other prepayments		57,375,695	40,058,669
Refundable / advance taxation (payments less provision)	11.1	27,476,802	14,627,834
Others		23,685,227	17,701,559
		<u>425,906,757</u>	<u>176,497,958</u>

	Note	2022	2021
		(Rupees)	
11.1	Movement in advance tax - net		
	Balance as at January 1	14,627,834	36,835,933
	Addition	64,175,050	62,625,615
	Provision for taxation	(51,326,082)	(84,833,714)
	Balance as at December 31	<u>27,476,802</u>	<u>14,627,834</u>

13 DEPOSITS AND OTHER ACCOUNTS

	Note	2022		2021	
		Number of Accounts	Amount (Rupees)	Number of Accounts	Amount (Rupees)
		129	63,539	129	63,539
		133	2,407,222,296	65	1,764,701,293
		14,509	6,517,752	14,509	6,517,752
		<u>14,771</u>	<u>2,413,803,587</u>	<u>14,703</u>	<u>1,771,282,584</u>
13.1	Particulars of deposits by ownership				
	Individual depositors	14,746	981,046,053	14,690	84,501,291
	Institutional depositors - Corporation	25	1,432,757,534	13	1,686,781,293
		<u>14,771</u>	<u>2,413,803,587</u>	<u>14,703</u>	<u>1,771,282,584</u>

13.2 These carry interest rate of 3.50% to 10% (2021: 3.50% to 10%) per annum on saving deposits and 12.13% - 19.56% (2021: 2.00% to 13.50%) per annum for fixed deposits.

14 BORROWINGS

	Borrowing from State Bank of Pakistan	14.1.1	1,982,284,483	1,982,284,483
	Borrowing from Pakistan Microfinance Investment Company Limited	14.1.2	-	500,000,000
			<u>1,982,284,483</u>	<u>2,482,284,483</u>

14.1 Details of borrowings from financial institutions

Secured

	Borrowings from State Bank of Pakistan	14.1.1	1,982,284,483	1,982,284,483
	Borrowing from Pakistan Microfinance Investment Company Limited	14.1.2	-	500,000,000
			<u>1,982,284,483</u>	<u>2,482,284,483</u>

14.1.1 This represents Line of Credit facility carrying interest at 6 month KIBOR minus 100 bps and is repayable in June 2024

14.1.2 The Bank had obtained Line of Credit facility carrying interest at 6 month KIBOR plus 350 bps from Pakistan Microfinance Investment Bank Limited which has been repaid during the financial year 2021 - 2022.

	Note	2022	2021
		(Rupees)	
15			
OTHER LIABILITIES			
Mark-up / interest / return payable		172,239,648	91,646,184
Bank overdraft		19,685,225	34,958,492
Accrued expenses		150,179,066	95,736,833
Payable to LOLC Technology Services Limited		183,012,175	101,552,466
Payable to defined benefit obligation		12,242,228	9,037,070
Provision for compensated absences		16,281,767	14,281,767
Provision for leave fare assistance		708,181	15,196,452
Withholding taxes payable		4,792,517	4,590,831
Sales taxes		597,302	3,893,838
Advance from customer		9,618,067	8,386,588
Security deposit		54,470	2,244,319
Lease obligation	15.1	189,616,943	139,701,223
		<u>759,027,589</u>	<u>521,226,063</u>
15.1			
Lease liability against right-of-use assets			
Opening		139,701,223	76,101,020
Effect of initial recognition		-	-
Additions during the year		34,053,769	37,861,512
Deletions during the year		-	-
Impact of reassessment during the year		47,717,259	95,641,917
Finance cost		21,011,047	5,962,864
Payment of lease liability		(52,866,355)	(75,866,090)
Closing		<u>189,616,943</u>	<u>139,701,223</u>

	December 31, 2022					Balance as at December 31, 2022
	Balance as at January 01, 2021	Recognized in profit or loss account	Recognized in other comprehensive income	Recognized in share premium	Recognized in revaluation of assets account	
	(Rupees)					
Taxable temporary differences						
Surplus on revaluation of investments	68,472	-	36,532	-	-	105,004
Amortization of premium on investments	331,906	(331,906)	-	-	-	-
Difference between accounting book value of fixed assets and tax base	3,366,555	(3,366,555)	-	-	-	-
Difference between accounting book value of lease receivable and tax base	39,102,211	9,328,891	-	-	-	48,431,102
	42,869,144	5,538,439	36,532	-	-	48,434,106
Deductible temporary differences						
Provision for other liabilities	10,496,956	(1,216,862)	(802,743)	-	-	8,477,351
Provision for diminution in value of investments	4,698,688	5,913,901	-	-	-	10,612,589
Difference between accounting book value of fixed assets and tax base		7,308,596	-	-	-	7,308,596
Difference between accounting book value of lease obligation IFRS 16	40,513,355	14,475,558	-	-	-	54,988,913
Provision against non-performing loans and advances	66,116,331	1,637,289	-	-	-	67,753,611
	121,825,330	28,038,433	(802,743)	-	-	149,061,019
Unabsorbed depreciation and carry forward losses						
	-	-	-	-	-	-
	78,956,186	22,510,023	(839,275)	-	-	100,626,934

	December 31, 2021					Balance as at December 31, 2021
	Balance as at January 01, 2020	Recognized in profit or loss account	Recognized in other comprehensive income	Recognized in share premium	Recognized in revaluation of assets account	
	(Rupees)					
Taxable temporary differences						
Surplus on revaluation of securities	-	-	68,472	-	-	68,472
Amortization of premium on investments	164,835	167,071	-	-	-	331,906
Difference between accounting book value of fixed assets and tax base	17,788,693	(14,422,136)	-	-	-	3,366,555
Difference between accounting book value of lease receivable and tax base	-	39,102,211	-	-	-	39,102,211
	17,953,528	24,847,144	68,472	-	-	42,869,144
Deductible temporary differences						
Provision for other liabilities	5,639,721	5,529,713	(672,478)	-	-	10,496,956
Provision for diminution in value of investments	4,730,380	(51,692)	-	-	-	4,678,688
Difference between accounting book value of lease obligation IFRS 16	22,069,296	18,444,059	-	-	-	40,513,355
Provision against non-performing loans and advances	20,479,628	45,636,703	-	-	-	66,116,331
	52,919,025	69,578,783	(672,478)	-	-	121,825,330
Unabsorbed depreciation and carry forward losses						
	67,753,688	(67,753,688)	-	-	-	-
	102,729,185	(23,052,049)	(740,956)	-	-	78,956,186

16 SHARE CAPITAL

16.1 Authorized capital

2022	2021		Note	2022	2021
(Number of shares)				(Rupees)	
<u>250,000,000</u>	<u>250,000,000</u>	Ordinary shares of Rs. 10 each		<u>2,500,000,000</u>	<u>2,500,000,000</u>

16.2 Issued, subscribed and paid-up share capital

<u>230,830,000</u>	<u>230,830,000</u>	Ordinary shares of Rs. 10 each fully paid in cash	16.3	<u>2,308,300,000</u>	<u>2,308,300,000</u>
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16.3 Share capital has been subscribed by the following:

Ministry of Finance - Sultanate of Oman	-	767,112,110
Ministry of Commerce - Sultanate of Oman	-	10
Pak Oman Investment Company Limited	-	384,707,880
LOLC Asia (Private) Limited - Parent Company	<u>2,308,300,000</u>	<u>1,156,480,000</u>
	<u>2,308,300,000</u>	<u>2,308,300,000</u>

16.4 The Board of Directors of the Bank entered into an agreement with LOLC Asia (Private) Limited, the Parent Company, who in lieu of the agreement acquired 100% of the stake in the Bank. As per the signed agreement dated October 26, 2021, LOLC Asia (Private) Limited has acquired 33% shareholding from Ministry of Finance Sultanate of Oman and 17% from Pak Oman Investment Company Limited at an agreed price of PKR 10.5 per share. The shares has been transferred on the name of the LOLC Asia (Private) Limited, the Parent Company on February 24, 2022. Further to comply with the requirements of minimum three members incase of Public Company as per Companies Act, 2017, the Bank requested SBP and seeking approval for transfer to two shares owned by LOLC Asia (Private) Limited in favor of LOLC Asia Holdings (Private) Limited and LOLC Financial Sector Holdings (Private) Limited, which has been granted on January 19, 2023.

17 Surplus on revaluation of assets - net of deffered tax

Sukuks	125,973	236,111
Related tax effect	<u>(36,532)</u>	<u>(68,472)</u>
	<u>89,441</u>	<u>167,639</u>

	Note	2022	2021
		(Rupees)	
18	MEMORANDUM / OFF BALANCE SHEET ITEMS		
Bills for collection		-	-
Acceptances, endorsements and other		-	-
Obligations contingent liabilities			
Contingencies and Commitments for fixed capital expenditure		-	-
		<u>-</u>	<u>-</u>
19	MARK-UP / RETURN / INTEREST EARNED		
Interest / mark-up on:			
- Advances		2,292,242,709	1,502,480,626
- Investment in Government Securities		31,925,273	5,610,607
- Deposit accounts		61,837,739	61,284,723
- Sukuk		6,936,741	3,985,409
- Term deposit receipts		-	422,085
- Staff loan		516,621	568,774
		<u>2,393,459,083</u>	<u>1,574,352,224</u>
20	MARK-UP / RETURN / INTEREST EXPENSED		
- on deposits		262,954,605	49,263,920
- on borrowings		280,827,504	169,458,485
- on lease obligations		21,011,047	5,962,864
		<u>564,793,156</u>	<u>224,685,269</u>
21	OTHER INCOME		
Gain on disposal of fixed assets		1,651,978	483,921
Recoveries against written off advances		75,925,575	46,514,261
Moratorium income		5,134,053	52,015,828
Miscellaneous Income		16,683,329	1,080,102
Reversal of provision for leave fare assistance		2,166,105	-
		<u>101,561,040</u>	<u>100,094,112</u>

22 ADMINISTRATIVE EXPENSES	Note	2022	2021
		(Rupees)	
Salaries, allowances etc.		660,567,996	511,711,145
Bonus to employees		22,000,000	20,336,735
Contribution to defined contribution plan		13,235,607	12,771,978
Charge for defined benefit obligation		15,003,309	11,355,174
Charge for leave fare assistance		-	24,404,985
Non-executive directors' allowances and other expenses		69,800	1,900,000
Training		5,387,619	3,607,090
Rent, rates and taxes		46,227,689	52,843,860
Legal and professional charges		11,369,285	13,124,175
Utilities		19,036,914	13,775,158
Communications		31,963,864	32,247,477
System Maintenance (Fusion charges)		81,836,621	43,043,957
Repairs and maintenance		10,946,973	22,410,909
Vehicle running		1,052,971	1,185,255
Insurance		33,583,162	22,826,979
Travel and transportation		32,895,222	24,683,252
Stationery and printing		57,321,607	33,232,612
Fees and subscription		9,583,502	17,806,083
Advertisement and business promotions		20,491,749	21,164,968
Auditors' remuneration	22.1	1,414,017	2,133,040
Depreciation	10.1	53,646,736	33,940,888
Depreciation on right-of-use assets		49,954,162	30,361,955
Amortization of intangible assets	10.2	10,505,082	8,684,560
Bank charges		7,867,776	8,430,899
Security expense		20,670,182	24,444,185
Kitchen expenses		6,594,056	9,580,836
Entertainment expenses		3,136,017	3,200,863
Medical staff		211,479	710,274
Archiving		2,398,671	2,853,992
Fuel Expense		9,990,129	9,064,046
Other expenses		970,934	3,014,408
		<u>1,239,933,131</u>	<u>1,020,851,738</u>

	Note	2022	2021
		(Rupees)	
22.1 Auditors' remuneration			
Audit services			
Audit fee		1,190,250	1,400,434
Sales tax		104,742	182,056
Out of pocket expenses		119,025	550,550
		<u>1,414,017</u>	<u>2,133,040</u>

23 In the financial year ended December 31, 2021, the State Bank of Pakistan conducted a full scope inspection of the bank in terms of the Section 21 of the Microfinance Institution Ordinance, 2001 and thereby imposed a penalty.

24 TAXATION

For the year			
- current		51,326,082	84,833,714
- deferred		(22,510,023)	23,032,049
		<u>28,816,059</u>	<u>107,865,763</u>
For prior year			
- current		(18,557,104)	-
- deferred		-	-
		<u>(18,557,104)</u>	<u>-</u>
		<u>10,258,955</u>	<u>107,865,763</u>

The Finance Act 2007 had introduced amendments to the Income Tax Ordinance, 2001, through which income of Microfinance Banks has been conditionally exempted from tax for five years commencing January 01, 2008 under clause 66 (viii) of Part I of the Second Schedule. However, the Finance Act 2007 had also introduced the Seventh Schedule to the Income Tax Ordinance, 2001 which is applicable to Banking Companies. Under Rule 8 of the Seventh Schedule, no exemptions of the Second Schedule are to apply to Banking Companies. The exemption of Clause 66 (viii) therefore appears to be overruled by Rule 8 of the Seventh Schedule. However, based on the opinion of the Bank's lawyer, the Bank continues to prepare and submit its tax returns as a microfinance institution and does not follow the Seventh Schedule.

	Note	2022	2021
		(Rupees)	
24.1 Relationship between tax expense and accounting profit			
Profit before taxation		124,917,043	323,791,712
Tax at the applicable rate of 29%		36,225,942	93,899,596
Tax effect due to change in tax rate		3,864,068	-
Tax effect of income taxed at different rate		(277,470)	(329,968)
Tax effect on unused tax losses adjusted during this year		(9,557,510)	(66,848,860)
Tax effect of capital loss / (gain) on listed shares and mutual funds		(331,906)	-
Prior year		(18,557,104)	-
Net tax effect of admissible and inadmissible expense		3,259,260	80,428,954
Others		(4,366,325)	716,041
		<u>10,258,955</u>	<u>107,865,763</u>

25 NUMBER OF EMPLOYEES

	2022			2021		
	Credit / Sales	Banking / Support	Total	Credit / Sales	Banking / Support	Total
Permanent	327	481	808	551	259	810
Contractual	322	140	462	271	74	345
Total number of employees	<u>649</u>	<u>621</u>	<u>1,270</u>	<u>822</u>	<u>333</u>	<u>1,155</u>

26 DEFINED BENEFIT PLAN

26.1 Staff Gratuity Scheme

As disclosed in note 5.7.2, the Bank operates an approved funded gratuity scheme for its employees. The accounting policy for recognizing actuarial gains and losses is also disclosed in note 5.12.2 to the financial statements. The information in notes 26.1.1 to 26.11 relating to the 2022 and 2021 financial year has been obtained from the actuarial valuation report.

26.1.1 Principal actuarial assumptions

The latest actuarial valuation for defined benefit plan scheme was carried out as at December 31, 2022 using the Projected Unit Credit Method (PUCM). The following significant assumptions were used for the actuarial valuation:

	2022	2021
	(Percent per annum)	
Discount rate	14.50	11.50
Expected rate of increase in salary levels - senior employees	11.50	8.50
Expected rate of increase in salary levels - other employees	11.50	8.50

Mortality rates assumed were based on the 70% of the EFU(61-66) table.

26.2 The amounts recognized in the statement of financial position are as follows:	Note	2022	2021
		—————(Rupees)—————	
Present value of defined benefit obligation	26.3	26,531,421	28,754,319
Fair value of plan assets	26.4	<u>(14,289,193)</u>	<u>(19,717,249)</u>
		<u>12,242,228</u>	<u>9,037,070</u>

26.3 Movement in the present value of defined benefit obligation

Present value of obligation as at January 1	28,754,319	23,414,356
Current service cost	14,483,275	11,179,351
Interest cost	2,636,253	1,858,432
Benefits paid	(11,660,753)	(6,646,402)
Actuarial (gain) / loss on remeasurement of obligation	(7,681,673)	(1,051,418)
Present value of obligation as at December 31	<u>26,531,421</u>	<u>28,754,319</u>

26.4 Movement in the fair value of plan assets

Fair value of assets as at January 1	19,717,249	19,613,569
Expected return	2,116,219	1,682,609
Contributions	9,030,070	3,800,000
Benefits paid	(11,660,753)	(6,646,402)
Actuarial (loss) / gain	(4,913,592)	1,267,473
Fair value of assets as at December 31	<u>14,289,193</u>	<u>19,717,249</u>

	Note	2022 ----- (Rupees)	2021 -----
26.5	Movement in the net liability recognized in the statement of financial position are as follows:		
		9,037,070	3,800,787
	Opening liability		
	Charge for the year	15,003,309	11,355,174
	26.6		
	Other comprehensive income	(2,768,081)	(2,318,891)
	Contributions	(9,030,070)	(3,800,000)
	Closing liability	<u>12,242,228</u>	<u>9,037,070</u>
26.6	The amount recognized in the profit or loss account is as follows:		
	Current service cost	14,483,275	11,179,351
	Interest cost	520,034	175,823
	Net charge for the year	<u>15,003,309</u>	<u>11,355,174</u>
26.7	Actuarial losses / (gains)		
	Net unrecognized actuarial (losses) / gains as at January 1	-	-
	Actuarial (gain) / loss on remeasurement of obligation	26.7.1	
		(2,768,081)	(2,318,891)
		<u>(2,768,081)</u>	<u>(2,318,891)</u>
	Actuarial gain / (loss) recognized in:		
	- other comprehensive income	2,768,081	2,318,891
	- profit or loss account	-	-
	Net unrecognized actuarial (losses) / gains as at December 31	<u>-</u>	<u>-</u>
26.7.1	Actuarial losses / (gains) on remeasurement of obligation comprise of:		
	Demographic assumptions	-	-
	Financial loss	-	-
	Experience adjustment	(7,681,673)	(1,051,418)
	Investment return	4,913,592	(1,267,473)
		<u>(2,768,081)</u>	<u>(2,318,891)</u>

26.8 Sensitivity analysis

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
	(Rupees)		
Discount rate	1%	(1,203,859)	1,320,589
Salary increases	1%	1,345,212	(1,245,457)

26.9 Historical information

	2022	2021	2020	2019
	(Rupees)			
Present value of defined benefit obligation	26,531,421	28,754,319	23,414,356	20,237,005
Fair value of plan assets	(14,289,193)	(19,717,249)	(19,613,569)	(15,461,016)
Deficit	<u>12,242,228</u>	<u>9,037,070</u>	<u>3,800,787</u>	<u>4,775,989</u>

26.10 The expected gratuity expense and contribution for the next year ending 31 December 2023 works out to Rs. 16,614,715 and Rs. 18,639,394 respectively.

26.11 The average duration of the plan 5.5 years on December 31, 2022 (2021: 5.5 years).

27 NUMBER OF BRANCHES

	2022	2021
	(Rupees)	
Branches at the beginning of the year	43	31
Opened during the year	5	12
Transfer from Service Centers	13	-
Closed during the year	-	-
Branches at the end of the year	<u>61</u>	<u>43</u>

27.1 The Bank also has 22 service centers (2021: 33) in operation along with branches.

28 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

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

	2022			2021		
	President / Chief Executive Officer	Directors	Executives	President / Chief Executive Officer	Directors	Executives
	(Rupees)					
Director fees	-	200,000	-	-	1,900,000	-
Managerial remuneration	17,120,880	-	75,259,992	5,508,000	-	52,204,167
Contribution to defined contribution plan	-	-	2,949,828	-	-	2,079,032
Medical allowance	879,120	-	2,434,608	612,000	-	3,674,632
Conveyance	-	-	2,820,000	-	-	2,260,000
Bonus	-	-	-	-	-	-
Charge for defined Benefit plan	-	-	5,935,612	-	-	5,059,763
	<u>18,000,000</u>	<u>200,000</u>	<u>89,400,040</u>	<u>6,120,000</u>	<u>1,900,000</u>	<u>65,277,594</u>
Number of persons at period end	<u>1</u>	<u>9</u>	<u>23</u>	<u>1</u>	<u>9</u>	<u>20</u>

28.1 The Bank has provided free use of Bank's maintained car to the Chief Executive Officer.

28.2 Executive means an employee, other than the Chief Executive and Directors, whose basic salary exceeds twelve hundred thousand rupees in a financial year.

29 EARNINGS PER SHARE

29.1 Basic		2022	2021
Profit after taxation	Rupees	<u>114,658,088</u>	<u>215,925,949</u>
Weighted average number of ordinary shares	Number	<u>230,830,000</u>	<u>230,830,000</u>
Earnings per share	Rupee	<u>0.497</u>	<u>0.935</u>

29.2 Diluted

No figure for diluted earnings per share has been presented as the Bank has not issued any instrument which would have an impact on basic earnings per share when exercised.

30 RELATED PARTY TRANSACTIONS

The Bank has related party relationship with its parent, associates, employee benefit plans, and its key management personnel (including their associates).

Contributions to the accounts in respect of staff retirement benefits are made in accordance with actuarial valuation / terms of the contribution plan. Remuneration of the key management personnel is in accordance with the terms of their employment. Other transactions are carried out as per agreed terms.

The details of transactions with related parties, other than those which have been specifically disclosed elsewhere in the financial statements are as follows:

- 30.1 The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

Nature of related party transaction	2022			2021				
	As at January 01, 2022	Given / made during the year	Repaid / sale during the year	As at December 31, 2021	As at January 01, 2021	Given / made during the year	Repaid / sale during the year	As at December 31, 2021
(Rupees)								
Advances - staff loans								
Key management personnel	3,623,280	18,824,080	3,696,245	9,955,094	2,588,428	2,800,000	953,148	3,623,280

	Note	2022 (Rupees)	2021
Other payable			
Gratuity fund		12,242,228	9,037,070
LOLC holding limited		2,344,388	2,344,388
LOLC Technology Services Limited			
-System cost		145,317,965	63,862,378
-Staff Deployed		35,345,700	35,345,700
Other receivable			
LOLC (Private) Limited		2,802,066	2,802,066
Mark-up income			
Associates		-	-
Key management personnel		111,762	178,428

	Note	2022 (Rupees)	2021
Expenses for the year			
Remuneration to key management personnel		89,400,040	19,014,300
Non-executive director's fee / remuneration		200,000	1,900,000
Charge for defined contribution plan		13,235,607	12,771,978
Charge for defined benefit obligation		15,003,309	11,355,174
Repairs and maintenance		1,995,000	1,050,000
System Maintenance (Fusion charges)		81,836,621	43,043,957

31 CASH AND CASH EQUIVALENT

Cash and balances with SBP and NBP	6	96,335,117	88,026,731
Balances with other banks / NBFIs / MFBs	7	1,119,240,396	894,388,932
		<u>1,215,575,513</u>	<u>982,415,663</u>

32 CAPITAL MANAGEMENT

32.1 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. It is the policy of the Bank to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

32.2 Goals of managing capital

The goals of managing capital of the Bank are as follows:

- To be an appropriately capitalized institution, as defined by the regulatory authorities and
- Maintain strong ratings and to protect the Bank against unexpected events;
- Availability of adequate capital (including the quantum) at a reasonable cost so as to enable the Bank to expand; and
- Achieve low overall cost of capital with appropriate mix of capital elements.

The Bank has 67.13% gearing ratio as at December 31, 2022, due to borrowing from State Bank of Pakistan

32.3 Statutory minimum capital requirement and management of capital

32.3.1 As per amendments on Prudential Regulations (R-1) issued vide BPRD Circular No. 10 of 2015 dated June 03, 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 December 31, 2018. As of December 31, 2022, the share capital of the Bank stood at Rs. 2,308.300 million (2021: Rs. 2,308.300 million) and paid up capital of the Bank free of losses is Rs. 2,308 million (2021: Rs. 2,256 million).

32.3.2 At present, the Bank defines capital as shareholders' equity i.e. share capital and reserves. The capital of the Bank is managed keeping in view the minimum "Capital Adequacy Ratio" (15%) required by the Prudential Regulations for 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 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 December 31, 2022 the Bank's CAR was approximately 37.87% (2021: 64.93%) of its weighted exposure.

33 FINANCIAL ASSETS AND LIABILITIES

33.1 Interest rate risk

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 lendings to financial institutions, investments, Bank deposits and advances. This risk is managed by regular review of market rates.

33.2 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 its lendings to financial institutions. However, the Bank believes that it is not exposed to major concentration of credit risk. The Bank's credit risk in lendings to financial institutions is limited because the counter party is an associated undertaking having 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 for Microfinance Banks / Institutions. Maximum amount of financial assets which are subject to credit risk amount to Rs. 6,814 million (2021: Rs. 6,691 million).

The analysis below summarizes the credit quality of the Bank's bank balances:

Bank	Rating category	As on	As on
		December 31, 2022	December 31, 2021
		———— (Percentage) ————	
Bank balances			
Local Currency			
United Bank Limited-Current account	AAA	0.9%	-2.8%
United Bank Limited-PLS account	AAA	0.1%	0.0%
Habib Bank Limited-Current account	AAA	2.0%	0.6%
Habib Bank Limited-PLS account	AAA	0.1%	0.0%
Allied Bank Limited-Current account	AAA	2.4%	-1.3%
Allied Bank Limited-PLS account	AAA	-1.8%	-1.1%
Askari Bank -PLS account	AA+	0.3%	0.1%
JS Bank-PLS account	AA-	4.3%	2.3%
Khushali Bank - Saving account	A+	91.7%	21.3%
U Microfinance Bank Limited - Saving account	A+	0.0%	75.7%
Telenor Microfinance Bank-Saving account	A	0.0%	0.0%
NRSP Microfinance Bank Limited - Saving account	A	0.0%	5.2%
Mobilink Bank-Saving account	A	0.0%	0.0%

33.3 Liquidity risk

Liquidity risk is the risk of being unable to raise funds at a reasonable price to meet commitments when they fall due, or to take advantage of investment opportunities when they arise. The management ensures that funds are available at all times to meet the funding requirements of the Bank. The Bank manages this risk by maintaining sufficient liquidity at Head Office and Branches. Maximum amount of financial assets which are subject to liquidity risk amount to Rs. 1,215.56 million (2021: Rs. 958.05 million).

34 SCHEDULE OF MATURITY DISTRIBUTION OF MARKET RATE ASSETS & LIABILITIES

	2022				
	Total	Up to one month	Over one month up to six months	Over six months up to one year	Over one year
————— (Rupees) —————					
Advances - net of provisions	5,286,759,877	-	120,241,026	348,346,777	4,821,172,074
Investments	312,073,768	-	230,174,539	28,893,812	53,805,417
Other earning assets	-	-	-	-	-
Total market rate assets	5,598,833,645	-	350,415,565	377,240,589	4,874,977,491
Total assets	5,598,833,645	-	350,415,565	377,240,589	4,874,977,491
Market rate liabilities					
Large time deposits above rupees 100,000	-	-	-	-	-
All other time deposits - (including fixed rate deposits)	2,407,222,296	-	938,379,008	1,372,420,600	96,423,288
Borrowings	1,982,284,483	-	-	-	1,982,284,483
Other liabilities	145,664,083	-	-	-	145,664,083
Total market rate liabilities	4,535,170,862	-	938,379,008	1,372,420,600	2,224,371,854
Other non-cost bearing liabilities	6,581,291	6,581,291	-	-	-
Total liabilities	4,541,752,153	6,581,291	938,379,008	1,372,420,600	2,224,371,854

	2021				
	Total	Up to one month	Over one month up to six months (Rupees)	Over six months up to one year	Over one year
Advances - net of provisions	5,372,014,802	-	122,180,047	350,915,881	4,898,918,874
Investments	286,396,358	-	211,235,792	25,782,255	49,378,311
Other earning assets	-	-	-	-	-
Total market rate assets	5,658,411,160	-	333,415,839	376,698,136	4,948,297,185
Total assets	5,658,411,160	-	333,415,839	376,698,136	4,948,297,185
Market rate liabilities					
Large time deposits above rupees 100,000	-	-	-	-	-
All other time deposits - (including fixed rate deposits)	1,764,701,293	200,000,000	817,001,293	684,900,000	62,800,000
Borrowings	2,482,284,483	-	-	500,000,000	1,982,284,483
Other liabilities	139,701,223	-	-	-	139,701,223
Total market rate liabilities	4,386,686,999	200,000,000	817,001,293	1,184,900,000	2,164,785,706
Other non-cost bearing liabilities	6,581,291	6,581,291	-	-	-
Total liabilities	4,393,268,290	206,581,291	817,001,293	1,184,900,000	2,164,785,706

35 Fair value of financial Instruments

Fair value is an amount for which an asset can be exchanged, or liability settled, between knowledgeable willing parties in arm's length transaction. Consequently, differences may arise between the carrying values and the fair values estimates. The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs use in making the measurements:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurements using input other than quoted prices included within level 1 that are observable for the asset or liability,
either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value measurements using input for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

36. GENERAL

- Comparative information has been reclassified, rearranged or additionally incorporated in these financial statements for the purposes of better presentation.
- Figures have been rounded off 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 December 30, 2003 issued by the State Bank of Pakistan (SBP) in respect of forms of financial statements for Microfinance Institutions / Banks, these captions have not been reproduced.

37. SUBSEQUENT EVENT

Subsequent to the year end, The SECP and SBP has approved the application filed for change in the name of the Bank and allowed the Bank to change its name from January 01, 2023. Thereafter, the Bank shall be known as "LOLC Microfinance Bank Limited"

38. DATE OF AUTHORISATION


These financial statements were authorized for issue on 28 March 2023 by the Board of Directors of the Bank.




President / Chief Executive



Chairman



Director



Director