

DIRECTORS' REPORT
SIXTY SECOND
BOARD OF DIRECTORS MEETING



Pak Oman
Microfinance Bank Limited
پاک عمان مائیکرو فنانس بینک لمیٹڈ

February 28, 2021

Karachi ,Pakistan

DIRECTORS' REPORT TO THE SHAREHOLDERS

We are pleased to present the Directors' Report and audited financial statements of Pak Oman Microfinance Bank Limited for the year ended December 31, 2020.

Economy

The outbreak of epidemic Covid – 19 started hitting the globe in the beginning of 2020, bringing the business activity of the world's economies to a grounding halt. To combat the deadly virus, social distancing and lockdown have been put in place, severely effecting the economic activity in the world. The International Monetary Fund projected a contraction of -3% in 2020, much dreadful than the financial crisis of 2008.

The Economy has struggled to achieve sustained growth. The GDP growth rate for fiscal year 2019 – 20 was -0.4 percent, the first time it fell negative in seven decades. The per Capita income fell by USD 300 to USD 1325. This epidemic has resulted in closures and lockdown resulting in growing unemployment and poverty.

As the economy contracted, one positive consequence was decrease in Pakistan's balance of payments and trade deficit. Not only the economy slowed down, but oil prices were drastically decreased, i.e. less being imported at lower prices. This has brought the current account in surplus for July to Oct of FY 2020.

The economy also saw a record surge in foreign investment in the domestic debt market, as global fund managers expressed confidence in better macroeconomic and exchange rate policies. The elevated level of foreign exchange inflows allowed the SBP to unwind its short-term forward and swap contracts to the tune of US\$ 5.2 billion during the period. This implied that the actual increase in the SBP's reserves position was US\$ 10.7 billion during Jul-Feb 2020 – an average improvement of US\$ 1.3 billion a month.

The State Bank of Pakistan, being the front line force to defend the repercussion of Covid on economy took proactive policy reaction and a cumulative 625 basis point cut was made in the policy rate during a short span of time. The SBP policy committee proactively reduced the policy rate from 13.25 percent to 7 percent. In fact, SBP undertook one of the fastest and largest policy rate cuts globally. The reduction in policy rate was also supported by a number of targeted and temporary interventions in the credit market through refinance schemes that provided much needed cash flow relief to households and businesses.

The present policy of the Government is focused on macroeconomic stabilization. Fiscal performance during first half of FY21 has remained strong and overall economy has stabilized and remains on the path of gradual recovery. The incumbent government has set a target of 2.1 percent for FY 2021, however as per the World Bank's forecast, Pakistan's economic outlook remains fragile for at least two years, as the outbreak of the coronavirus respiratory disease compounded the country's miseries.

Market overview

During financial year 2020, the Country's Micro Finance Industry registered a growth of 5.9 percent in microcredit portfolio to reach Rs. 324 billion at the end of fourth quarter 2020 as against Rs. 306 billion at the end of last year. Similarly, the number of MFB's microcredit

borrowers recorded a decrease of 3.5% percent and reached 7 million by the end of 2020. Growth was also witnessed in MFB's savings that reached PKR 374.4 billion after registering a growth of 39.9 percent. The number of active savers exceeded 64.1 million registering a growth of 35 percent.

The number of branches / service centers dropped to 3,828 from 4,036 as MFBs/MFIs consolidated their operations. The overall industry penetration decreased to 34 percent as compared to 35 percent last year indicating an upsurge in outreach. Overall, MFB's Portfolio at Risk, greater than 30 days, witnessed decline and was reported at 3.3 percent. Micro-enterprise lending has the potential to fill the financing gap between the microfinance and small and medium enterprises. In order to enable Micro finance banks to serve the microenterprise credit requirement, SBP has enhanced the loan size to Rs. 1.0 million in 2019.

The industry outlook for the financial year 2021 is modestly higher growth subject to macro-economic stability and progress in implementing measures to address uncertain conditions for sustainable growth.

Performance for the year

The outbreak of pandemic did not let the Bank to expand its footprint and increase customer outreach, though the first six months of the year where economic activity was at a complete halt and the country was in a complete lockdown, the Bank was severely affected with low disbursements and collection, with high infection ratios. Considering the raising NPL's, SBP issued a circular whereby Moratorium up to one year can be provided to regular customers, with relaxation in provisioning criteria.

The Bank, in accordance with the SBP guideline provided Moratorium to more than 35,000 customers with the outstanding principal base of more than PKR 1.2 billion. The Bank in the first six month of the FY 2020 was only able to disburse PKR 834 million as against PKR 1.1 billion in the first half of FY 2019. The later half of the Bank where covid restrictions were lifted by the government, the Bank disbursed PKR 2.07 billion as compare to PKR 1.56 billion in the last six months of FY 2019. Despite of the Covid, the Bank was successfully able to collect PKR 2.44 billion as against PKR 2.30 Billion in prior year.

The bank recorded portfolio growth of 27 percent and reached Rs. 2.519 billion as compared to Rs. 1.982 billion in the previous year with the borrower's base at 56,658 as compared to 59,688 in prior year. The bank's total assets stood at Rs. 4.446 billion including term deposits and PIBs of Rs. 181.262 million and deposits with other banks of Rs. 1.290 billion.

During the year the Bank micro credit disbursements achieving Rs. 2.736 billion as against Rs. 2.740 billion in prior year, resultantly the mark-up income increased to Rs. 677.5 million as compared to Rs. 649.5 million in the prior year.

On the liability side, the bank is carrying an extended line of credit facility of Rs. 1.982 billion by the State Bank of Pakistan under "Financial Inclusion and Infrastructure Project". Accordingly, mark-up expense was recorded at Rs. 188.13 million, however on the contrary the income from other sources increased to Rs. 262.9 million reaching as against Rs. 249.4 million in prior year.

In such a challenging scenario, the Bank was able to reduce its delinquency ratio to 7.76% as compared to 8.7% in prior year. Consequently, micro loans amounting to Rs. 241.18 million, on a specific identification basis, have been fully provided. The Bank has also made a general provision of Rs. 5.7 million against the outstanding loan portfolio in accordance with the requirements of the prudential regulations for Microfinance Banks.

The Bank has adopted IFRS 16 “Leases” and has recorded depreciation expense and finance cost of Rs. 48.3 million and Rs. 4.3 million respectively. Further, State Bank of Pakistan vide its notification BPRD circular No.4 of 2019 has advised the banking industry to carry out the quantitative impact assessment of IFRS 9 on its financial statements with regards to this financial reporting standard, the Bank has formed a project steering committee who is in process of assessing the quantitative impact for FY 2020. The implementation of IFRS 9 will increase the specific provision maintained by the Bank as the new standard requires to recognize the credit loss on a more prudent basis.

The bank has opened 2 new branch / service centers during the year widening its branch / service center network to 66 locations and operating in all provinces of Pakistan and Azad Jammu and Kashmir other than Gilgit Baltistan. The branch expansion during the year in rural and urban towns is poised to deliver steady results with potential for portfolio growth and strong portfolio quality. Moreover, planned expansion in the year 2021 is expected to achieve strong results in the medium to long term enhancing the value of the stakeholders.

Given the external challenges driven by lockdown in the country and closure of business activity, the Bank has made following progress in financial statements

Particulars	Rs. '000.	Rs. '000.
Loss before Taxation		(238,965)
Taxation - Current	(16,346)	
- Prior Year Adjustment	2,212	
- Deferred	73,460	59,326
Loss after Taxation		(179,639)
Other Comprehensive Income (Items that will not be re-classified subsequently to Profit & Loss account- net of tax)		451
Comprehensive Income for the year		(179,188)
Accumulated Losses brought forward		(36,114)
Transfer to:		
Statutory Reserve		-
Depositors Protection Fund		-
Accumulated losses carried forward		(215,302)
EPS		(0.778)

Transfer to Reserves

As the Bank has suffered loss for the FY 2020, and in light of the Microfinance Institution Ordinance, 2001 and the Prudential Regulations for the Microfinance Banks issued by the

State Bank of Pakistan, the Bank has not any amount to statutory reserve or to the depositors' protection fund.

Capital Adequacy Ratio

The Bank Capital Adequacy Ratio as on Balance Sheet date i.e., December 2020 stood at 64.95 % compared to as 83.89% at the end of December 2019.

Holding Company - LOLC Private Limited

After acquiring 50.10% shareholding in POMBL, the LOLC Group through its wholly owned subsidiary Company LOLC Private Limited, registered in Singapore became the holding company of the bank.

LOLC Group has been a catalyst in facilitating financial inclusion as a leading player in Sri Lanka's SME and microfinance sectors. Their role in microfinance has enabled them to benefit many people and communities. LOLC Group has investments in micro finance in Cambodia, Myanmar, Indonesia in Pakistan and they continue to expand their international presence by actively seeking new opportunities in the region.

Shareholding

The pattern of shareholding is as follows:

Shareholders	Shareholding	
	No. of shares	% age
Ministry of Finance – Sultanate of Oman	76,711,211	33.23%
Ministry of Commerce & Industry – Sultanate of Oman	1	0.00%
Pak Oman Investment Company	38,470,788	16.67%
LOLC Private Limited	115,648,000	50.10%
Total	230,830,000	100%

Board of Directors

Following is the pattern of attendance of Directors in the BoD meetings.

S.No.	Previous Directors	Designation	Meetings Attended
1	H.E. Yahya bin Said bin Abdullah Al Jabri	Chairman	4
2	Mr. Ishara Chinthaka Nanayakkara–	Deputy Chairman	4
3	Mr. Bahauddin Khan	Director	4
4	H.H. Juland Jaifar Salim Al Said	Director	4
5	Mr. Haitham Yousuf Juma Al-Zadjali	Director	4
6	Mr. Rehman Ghani	Director	4
7	Mr. Ali Salman Abbassi	Director	4
8	Mr. Rohana Kumara Wannan Achchige	Director	4
9	Mr. Teizoon Kisat	Chief Executive Officer	2

Statement of Compliance Corporate Governance

The Directors are pleased to state that:

- a) All the resident Directors of the Bank are registered as taxpayers and to the best of our knowledge none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFC or being a member of stock exchange, has been declared as a defaulter by that stock exchange
- b) The Bank has developed a vision/mission statement, overall corporate strategy and significant policies of the Bank. A complete record of particular of significant policies along with the dates on which they were approved or amended has been maintained.
- c) All the powers of the Board have been exercised and decision on material transaction, have been taken by the Board. Appointment and determination of remuneration and terms and conditions of employment of the Chief Executive was approved by the Board.
- d) The meetings of the Board were presided over by the Chairman and the Board met at least once in the quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes were appropriately recorded and circulated.
- e) The Directors have been provided with the copies of the Prudential Regulations, Memorandum and Articles of Association and all other relevant rules and regulations and hence are conversant with the relevant laws applicable to the Company, its policies and procedures and provisions of memorandum and articles of association and are aware of their duties and responsibilities.
- f) The Board has developed and enforced appropriate policy related matters on conflict of interest, the clauses of which are contained in relevant policies to lay down circumstances or considerations when person may be deemed to have actual or potential conflict of interests, and the procedures for disclosing such interest.
- g) The Board has ensured equality of opportunity by establishing open and fair procedures for making appointments and for determining terms and conditions of service.
- h) The Directors' Report has been prepared in compliance with the relevant Laws and Regulations and fully describes the salient matters required to be disclosed.
- i) The financial statements of the Bank were duly signed by the Chief Executive Officer, Chairman and two Directors.
- j) The Directors, Chief Executive Officer and Executives do not hold any interest in the shares of the Bank other that disclosed in the pattern of shareholding.
- k) The Bank has formed various Internal Committees to review periodic performance of the Bank, i.e. Audit Committee, Management Committee (MANCOM), Asset & Liability Committee (ALCO), IT Steering Committee and Risk Management Committee.
- l) The Bank has complied with all the corporate and financial reporting requirements applicable to the Bank.

- m) The Board has formed an Audit Committee. It comprises of five members, who are Non-Executive Directors including two independent Directors. The Chair is held by an Independent Director.
- n) The meetings of the Audit Committee were held at least once in every quarter prior to approval of interim and final results of the Bank. The terms of reference of the committee have been approved by the Board of Directors.
- o) The Board has set-up an effective audit function with employees who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Bank and they are involved in the Internal Audit function on a full time basis.
- p) The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, and registered with Audit Oversight Board of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.
- q) The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listed regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
- r) We confirm that all other material principles contained in the code have been complied

Credit Rating

JCR VIS has maintained the bank's medium to long term entity rating to A- (single A minus) and short term rating A-2 with "Negative" outlook.

Principal Risk

The Bank's credit risk is primarily attributable to its advances, investments and its placement in financial institutions. However, the Bank believes that it is not exposed to major concentration of credit risk. The Bank's credit risk in placement in financial institutions is limited because the counter party have a 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 in loans.

Appointment of Auditors

The retiring Auditors Messrs. EY Ford Rhodes & Co. Chartered Accountants, being eligible have offered themselves for re-appointment in the forthcoming Annual General Meeting. The Audit Committee of the Board has recommended the re-appointment of EY Ford Rhodes for the next term.

Events after Balance Sheet Date

The SBP, in terms of Section 21 of the Microfinance Institution Ordinance 2001, conducted onsite inspection of the Bank covering period from July 01 2013 to June 30 2019. Based on

the assessment in light of observations in the inspection report a composite rating of "3 (Fair)" has been assigned to our bank. Although an improved rating is provided as against the previous SBP inspection report, however SBP has imposed a penalty of PKR 7.1 million on the Bank.

Management Acknowledgment

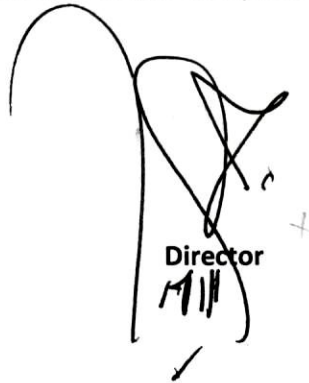
The Board would like to express its sincere gratitude to the Government of Sultanate of Oman, Government of Pakistan, Pak Oman Investment Company Limited and LOLC Private Limited for their continuous support and trust. The Board also wishes to place on record its appreciation for the guidance and cooperation extended to the bank by State Bank of Pakistan and Securities and Exchange Commission of Pakistan.

The Board would like to extend its appreciation to the management and staff members for their dedication, team work, commitment and exceptional efforts.

On behalf of the Board



Kashif Ahmed Siddiqui
Acting Chief Executive Officer



Director

February 28, 2021

CHAIRMAN'S REVIEW REPORT
SIXTY SECOND
BOARD OF DIRECTORS MEETING



Pak Oman
Microfinance Bank Limited
پاک عمان مائیکرو فنانس بینک لمیٹڈ

February 28, 2021

Karachi ,Pakistan

Chairman Review – 2020

The year FY 2020 may be remembered amongst the most hardships periods with respect to health and economy in global history. Probably every individual, business and country witnessed lockdowns and challenges that were never witnessed before. The pandemic brought the business environment to a complete halt. The challenges brought about by the COVID-19 epidemic including unemployment, declining GDP growth, closure of businesses etc. will leave a significant mark on the global economy and may take years to recover. The pandemic has deeply affected the lives of many people around the world. Our heartfelt condolences go out to all those who have lost loved ones during this difficult time.

Economy Outlook

Pakistan's economy was experiencing correction in preceding two years, but further depleted with the outbreak of deadly virus. The Country's microfinance industry was severely impacted by lockdown in the country during the year, though prudent monetary and fiscal policies, supported by the IMF's Extended Fund Facility program, helped the economy move progressively along the stabilization path during the first eight months of FY20. On the Microcredit front, Active Borrowers stood at 7 million, a marginal increase of 2.2% compared to the previous quarter. However, this figure is 3% lower compared to Q4 2019. The GLP of the sector stood at PKR 324 billion, an increase of 5% compared to the prior quarter and 6% greater compared to the GLP in Q4 2019. The proportion of borrowers continued to maintain a gender-balance at 50% each, while the proportion of GLP remained unchanged as female clients remained at 33%. The PAR>30 days decreased from 4.8% to 3.7% as the infection ratio for MFBs declined from 5% to 3.3% whereas it increased for the NBMFCs from 4.2% to 4.9%.

Financial Performance

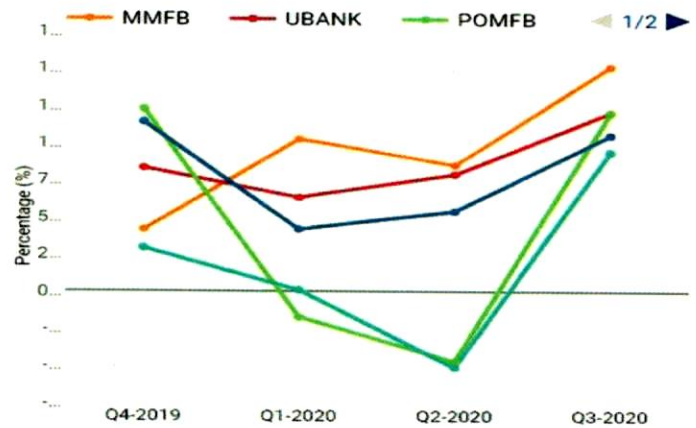
Though the pandemic affected the Pakistani market in March 2020, its effects were already being felt due to Global developments. The repercussion of covid including, lockdown, unemployment, reduction in wages and cessation of economic activity has brought its adverse effect to our bank. The impact of the epidemic was abbreviated when in the month of March 2020, the State Bank of Pakistan provided regulatory relief to dampen the effect of Covid-19.

The first half of the year 2020 was rolled away in lockdowns, social distancing, travel restrictions, curtailing the number of operational branches etc. However, the later half of the year 2020 when the government moved towards smart micro lockdown and restrictions over economic activity were lifted, the microfinance industry made a slight progress. POMFB disbursed over 31,000 microloans with an average ticket size of Rs. 85,000, including 72 percent loans to men borrowers, amounting Rs. 2.01 billion compared to Rs. 917 million in the previous year. As a result, the micro credit portfolio of the bank increased to Rs. 2.519 billion, an increase of 27 percent over prior year. Total assets of the bank stood at Rs. 4.461 billion as at December 31, 2020 in comparison to Rs. 4.634 billion as at December 31, 2019.

I am pleased to inform you that the Bank was ranked in 3rd place among the top 5 fastest growing Microfinance institution by portfolio in Q3 & 4th place in Q4 of 2020.

The income from advances increased by 4 percent to Rs. 677.5 million in comparison to Rs. 649.5 million in the prior year. The Bank earned an Income from other sources of Rs. 262.9 million which was offset by mark up on borrowing of Rs. 188 million. The administrative expenses increased to Rs. 740 million due to personnel, security, fusion related expenses and the cost for deployed Srilankan staff. In such an epidemic scenario the Bank has managed to successfully recover Rs. 29.3 million from written off portfolio as against Rs. 15.5 million in the previous year.

TOP 5 FAST GROWING MFIS % BY PORTFOLIO



Source: Pakistan Microfinance Network

The drop in assets quality and recognition of impairment losses caused an escalation in provisioning for non-performing loans that increased to Rs. 246.8 million as compared to Rs. 225.4 million in last year. However, POMFB has realigned its short term strategy and focused on collection and recoveries, which has reduced the Banks NPL ratio to 7.76% as against the 8.7% in the prior year.

Under the challenging circumstances the bank incurred a loss after tax of Rs. 179 million. The effects of prior year tax have been recognized which has partially offset the losses during the year. Significant increase in provisioning for non-performing loans had an adverse impact on the profitability of the bank.

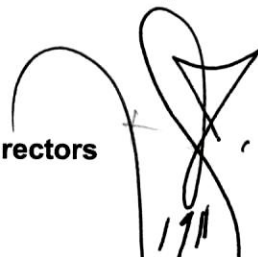
Future Outlook:

In order to improve the business efficacy, the Bank is planning to provide tablet computers and thermal printers to field staff, thus strengthening the control environment and will help to mitigate the delinquency ratio of the Bank with improved MIS. Moreover, the Bank has appointed Head of Digitalization to serve the technological need in the industry, this will ease our borrower in making repayments of installments, keeping track record of his balance and processing of his loan application. Going forward, the Bank intends to initiate the deposit product, in the first phase to launch with the term deposits and thereafter micro savings account.

Acknowledgements:

I believe that under the difficult situation Board has played an important role in providing oversight and guidance to the management as regards appropriate response not only to curtail the losses but also to ensure continued operations and meet the market needs. I would also like to commend the management and our people for their dedication and commitment towards strengthening the Banks governance and operational excellence.

Chairman of the Board of Directors



INDEPENDENT AUDITORS' 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 **31 December 2020**, the profit and loss account, the statement of comprehensive income, the statement of changes in equity and the cash flows statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies and other explanatory information and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, profit and loss account, the statement of comprehensive income, statement of changes in equity and cash flow statement together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan, and give the information required by the Microfinance Institution Ordinance, 2001 and the Companies Act, 2017(XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at 31 December 2020 and of the profit, other comprehensive income, the changes in equity and its cash flows for the year then ended.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the *Auditors' 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 Auditors' Reports Thereon

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditors' reports 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 the Board of Directors for the Financial Statements

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

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

The Board of Directors is 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 auditors' 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 to 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

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

- a) proper books of account have been kept by the Bank as required by the Microfinance Institution Ordinance, 2001 and Companies Act, 2017 (XIX of 2017);
- b) the statement of financial position, the profit or loss account, the statement of comprehensive income, statement of changes in equity and statement of cash flow (together with the notes thereon have been drawn up in conformity with the Microfinance Institution Ordinance, 2001 and the Companies Act, 2017(XIX of 2017) and are in agreement with the books of account and returns;
- c) investments made, expenditure incurred and guarantees extended during the year were in accordance with the objects and powers of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank; and
- d) No zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

The engagement partner on the audit resulting in this independent auditors' report is Shaikh Ahmed Salman.



Chartered Accountants

Place: Karachi

Date: 30 March 2021

PAK OMAN MICROFINANCE BANK LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Note	2020 (Rupees)	2019
ASSETS			
Cash and balances with SBP and NBP	6	3,430,883	3,621,997
Balances with other banks / NBFIs / MFBs	7	1,290,197,281	1,197,269,451
Investments	8	181,261,558	1,258,489,777
Advances - net of provisions	9	2,469,371,985	1,902,927,173
Operating fixed assets	10	170,057,566	132,483,018
Other assets	11	229,270,511	110,713,459
Deferred tax asset - net	12	102,729,184	29,452,631
Total assets		4,446,318,968	4,634,957,506
LIABILITIES			
Deposits and other accounts	13	6,701,291	6,701,291
Borrowings	14	1,982,284,483	1,982,284,483
Other liabilities	15	194,156,924	242,965,937
Lease obligation		76,101,020	37,723,330
Total liabilities		2,259,243,718	2,269,675,041
NET ASSETS		2,187,075,250	2,365,282,465
REPRESENTED BY:			
Share capital	16	2,308,300,000	2,308,300,000
Share premium		52,041,600	52,041,600
Statutory and general reserves		32,059,174	32,059,174
Depositors' protection fund		9,975,327	8,995,465
Accumulated losses		(215,300,851)	(36,113,774)
		2,187,075,250	2,365,282,465
MEMORANDUM / OFF BALANCE SHEET ITEMS	17		

The annexed notes from 1 to 36 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 31 DECEMBER 2020

	Note	2020 (Rupees)	2019
Mark-up / return / interest earned	18	749,580,300	782,766,964
Mark-up / return / interest expensed	19	(188,139,081)	(124,290,216)
Net mark-up / return / interest income		561,441,219	658,476,748
Provision against non-performing loans and advances	9.3	246,876,784	225,418,279
Provision for diminution in the value of investments		-	-
Bad debts written off directly		-	-
Net mark-up / return / interest income after provisions		314,564,435	433,058,469
NON MARK-UP / NON INTEREST INCOME			
Fee, commission and brokerage income		89,212,025	83,846,432
Dividend income		13,738,731	13,729,129
Other income	20	88,022,235	18,704,277
Total non-mark-up / non-interest income		190,972,990	116,279,838
		505,537,425	549,338,307
NON MARK-UP / NON INTEREST EXPENSES			
Administrative expenses	21	740,167,933	488,563,150
Finance cost for Lease		4,334,411	8,225,518
Total non mark-up / non interest expenses		744,502,344	496,788,668
(LOSS) / PROFIT BEFORE TAXATION		(238,964,919)	52,549,639
Taxation - current		16,345,631	30,412,192
- prior years		(2,211,677)	-
- deferred		(73,460,774)	(6,555,393)
(LOSS) / PROFIT AFTER TAXATION	22	(59,326,819)	23,856,799
		(179,638,099)	28,692,840
OTHER COMPREHENSIVE (LOSS) / INCOME			
Items that will not be reclassified subsequently to profit or loss account - net of tax		451,023	1,432,225
COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR		(179,187,077)	30,125,065
Accumulated losses brought forward		(36,113,774)	(59,065,629)
		(215,300,851)	(28,940,564)
APPROPRIATIONS:			
Transfer to:			
Statutory reserve		-	(5,738,568)
Depositors' Protection Fund		-	(1,434,642)
Accumulated losses carried forward		(215,300,851)	(36,113,774)
(Loss) / earning per share - Basic and diluted	27	(0.778)	0.124

The annexed notes from 1 to 36 form an integral part of these financial statements.

President / Chief Executive

Chairman

Director

Director

PAK OMAN MICROFINANCE BANK LIMITED
STATEMENT OF COMPREHENSIVE LOSS
FOR THE YEAR ENDED 31 DECEMBER 2020

	2020	2019
	(Rupees)	
(Loss)/ profit after taxation	(179,638,099)	28,692,840
Other comprehensive (loss) / income		
<i>Items that will not be reclassified subsequently to profit or loss account</i>		
Remeasurement of defined benefit obligation	635,243	2,017,218
Related tax impact	(184,220)	(584,993)
	451,023	1,432,225
Total comprehensive (loss) / income for the year	(179,187,077)	30,125,065

The annexed notes from 1 to 36 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 31 DECEMBER 2020

	Note	2020 (Rupees)	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) / Profit before taxation		(238,964,919)	52,549,639
Less: Dividend income		(13,738,731)	(13,729,129)
		<u>(252,703,649)</u>	<u>38,820,510</u>
Adjustments for non-cash charges:			
Depreciation	21	47,423,116	42,243,683
Amortization	10.2	5,966,730	2,396,084
Amortization of premium on PIBs	18	-	(181,632)
Provision against non-performing advances	9.3	246,876,784	225,418,279
Reversal of provision for diminution in the value of investments		-	(117,267)
Gain on disposal of fixed assets	20	(522,217)	(1,284,676)
Finance cost on lease obligation		4,334,411	8,225,518
Provision for gratuity	24.6	9,660,041	6,714,470
Capital gains on mutual funds		(1,319,322)	(1,131,457)
Surplus on revaluation on investments		-	(582,701)
Provision for leave fare assistance	21	20,943,133	9,720,353
		<u>333,362,677</u>	<u>291,420,654</u>
		80,659,028	330,241,164
(Increase) / decrease in operating assets			
Advances		(813,321,596)	(919,704,459)
Other assets (excluding advance taxation)		(91,312,054)	(52,532,916)
		<u>(904,633,650)</u>	<u>(972,237,375)</u>
Increase / (decrease) in operating liabilities			
Deposits and other accounts		-	(83,010)
Other liabilities (excluding current taxation)		(48,753,770)	128,896,851
		<u>(48,753,770)</u>	<u>128,813,841</u>
		(872,728,393)	(513,182,370)
Income tax paid	11.1	(43,656,885)	(39,582,840)
Gratuity paid	24.5	(10,000,000)	(7,000,000)
Leave fare assistance paid		(16,023,558)	(9,515,214)
Net cash (outflow) from operating activities		(942,408,836)	(569,280,424)
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available for sale securities		-	117,267
Net investments in held to maturity securities		269,890,802	154,328,472
Net investments in held for trading securities		204,318,418	(203,735,717)
Dividend received		13,738,731	13,729,129
Rentals paid against lease obligation		(11,317,238)	(36,359,016)
Investment in operating fixed assets		(46,867,102)	(53,815,930)
Sale proceeds of property and equipment disposed-off		2,362,943	2,835,742
Net cash inflow / (outflow) from investing activities		432,126,554	(122,900,053)
CASH FLOW FROM FINANCING ACTIVITIES			
Borrowings from SBP		-	1,982,284,483
Net cash flow from financing activities		-	1,982,284,483
Increase in cash and cash equivalents		(510,282,282)	1,290,104,006
Cash and cash equivalents at the beginning of the year		<u>1,945,532,448</u>	<u>655,428,442</u>
Cash and cash equivalents at the end of the year	29	<u>1,435,250,166</u>	<u>1,945,532,448</u>

The annexed notes from 1 to 36 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 31 DECEMBER 2020

	Share capital	Share premium	Capital reserves		Revenue reserves	Total
			Statutory reserve	Depositors' Protection Fund	Accumulated losses	
	(Rupees)					
Balance as at 31 December 2018	2,308,300,000	52,041,600	26,320,606	6,873,233	(59,065,629)	2,334,469,810
Total comprehensive income:						
Profit after tax for the year ended 31 December 2019	-	-	-	-	28,692,840	28,692,840
Other comprehensive income - net of tax	-	-	-	-	1,432,225	1,432,225
Total comprehensive income	-	-	-	-	30,125,065	30,125,065
Transfer to Statutory Reserve	-	-	5,738,568	-	(5,738,568)	-
Issue of share capital - deferred tax	-	-	-	-	-	-
Transfer to Depositors' Protection Fund	-	-	-	1,434,642	(1,434,642)	-
- 5% of the profit after tax	-	-	-	687,590	-	687,590
- return on investment - net of tax	-	-	-	2,122,232	(1,434,642)	687,590
Balance as at 31 December 2019	2,308,300,000	52,041,600	32,059,174	8,995,465	(36,113,774)	2,365,282,465
Total comprehensive income:						
Loss after tax for the year ended 31 December 2020	-	-	-	-	(179,638,099)	(179,638,099)
Other comprehensive income - net of tax	-	-	-	-	451,023	451,023
Total comprehensive income	-	-	-	-	(179,187,077)	(179,187,077)
Transfer to statutory reserve	-	-	-	-	-	-
Issue of share capital - deferred tax	-	-	-	-	-	-
Transfer to Depositors' Protection Fund	-	-	-	-	-	-
- 5% of the profit after tax	-	-	-	979,862	-	979,862
- return on investment - net of tax	-	-	-	979,862	-	979,862
Balance as at 31 December 2020	2,308,300,000	52,041,600	32,059,174	9,975,327	(215,300,851)	2,187,075,250

The annexed notes from 1 to 36 form an integral part of these financial statements.

President / Chief Executive

Chairman

Director

Director

**PAK OMAN MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

1. STATUS AND NATURE OF BUSINESS

- 1.1** Pak Oman Microfinance Bank Limited (the Bank) was incorporated on 09 March 2006 as a public limited company under Companies Ordinance, 1984 (Repealed with the enactment of the Companies Act, 2017 on 30 May 2017) and was granted license by the State Bank of Pakistan (SBP) on 12 April 2006. The Bank received certificate of commencement of business on 06 May 2006, effective from 08 May 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 20-C, Khayaban-e-Nishat, Ittehad Commercial Area, Phase-VI, DHA, Karachi, Pakistan. As at 31 December 2020, the Bank has 31 branches (2019: 30) and 35 service centers (2019: 35) 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 03 February 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).

- 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 30 December 2003 issued by SBP.

3. STATEMENT OF COMPLIANCE

- 3.1** These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. Accounting and reporting standards 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.

- 3.2** 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.

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 Pak Rupees, which is also the functional currency of the Bank, and have been rounded off to the nearest Rupee.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Standards, interpretations of and amendments to published approved accounting standards that are effective in the current period

The following standards, amendments and interpretations as notified under the Companies Act, 2017 will be effective for accounting periods beginning on or after January 01, 2021 but are considered not to be relevant or do not have any significant effect on the Bank's operations and therefore not detailed in the financial statements.

Standard, Interpretation or Amendment Standards, interpretations of and amendments to published approved accounting standards that are not yet effective

The following standards, amendments and interpretations as notified under the Companies Act, 2017 will be effective for accounting periods beginning on or after January 01, 2021:

Standard, Interpretation or Amendment	Note	Effective date (annual periods beginning on or after)
IFRS 9 'Financial Instruments'	5.1.3	01 January 2021
Covid-19-Related Rent Concessions - Amendment to IFRS 16		01 June 2020
Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, Classification of Liabilities as Current or Non-current - Amendments to IAS 1		01 January 2021
Reference to the Conceptual Framework – Amendments to IFRS 3		01 January 2022
Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16		01 January 2022
Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37		01 January 2022
Annual improvement process IFRS 1 First-time Adoption of International Financial		01 January 2022
Annual improvement process IFRS 9 Financial Instruments – Fees in the '10 percent' test		01 January 2022
Annual improvement process IAS 41 Agriculture – Taxation in fair value measurements		01 January 2022
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture -		Not yet finalized

Further, following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

Standard	IASB Effective date (annual periods beginning on or after)
IFRS 1 – First time adoption of International Financial Reporting Standards	January 01, 2014
IFRS 17 – Insurance Contracts	January 01, 2023

5.1.3 SBP vide its BPRD Circular No. 04 of 2019 dated 23 October 2019 directed the banks in Pakistan to implement IFRS 9 with effect from 01 January 2021. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carry forward the guidance on recognition and de-recognition of financial instruments from IAS 39. The Bank awaits further instructions and issuance of guidelines from SBP for applicability of IFRS 9.

5.2 Early adoption of standards

The Bank has not early adopted any new or amended standard in 2020.

5.3 Critical accounting estimates and

The preparation of financial statements in conformity with accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Bank's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. Revision to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The areas where various assumptions and estimates are significant to the Bank's financial statements or where judgment was exercised in the application of accounting policy are as follows:

- i) Classification and provisioning of investments (notes 5.5 and 8)
- ii) Provision against advances (notes 5.6 and 9)
- iii) Provision for current and deferred taxation (notes 5.12, 12 and 22)
- iv) Provision for staff retirement benefits (notes 5.11, 15 and 24)
- v) Fixed assets, depreciation and amortization (notes 5.7, 10 and 21)

5.4 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.

5.5 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.

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.

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 amortised cost.

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 realised upon disposal.

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

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.

5.6 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:

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:

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.

5.7 Operating fixed assets and intangibles

5.7.1 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 recognised 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.

5.7.2 Right-of-use (RoU) assets

At the commencement date of the lease, the RoU asset is initially measured at the present value of lease liability. Subsequently, RoU assets are measured at cost, less accumulated depreciation and any impairment losses, and adjusted for any re-measurement of lease liabilities. RoU assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the expected lease term.

5.7.3 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.

5.8 Intangible assets

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

Amortisation 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.

5.9 Impairment

5.9.1 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.

5.9.2 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.

5.9.3 Grants

Grants are initially recognised 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 recognised as income on a systematic basis over the useful lives of the assets acquired from grant proceeds.

5.10 Staff retirement benefits

5.10.1 Defined contribution plan

The Bank also operates a recognised 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.

5.10.2 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.

5.10.3 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.

5.11 Taxation

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

5.11.1 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 / finalised during the year.

5.11.2 Deferred

Deferred tax is recognised 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 recognised for all taxable temporary differences. Deferred tax asset is recognised 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 utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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 utilised.

Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to the periods when the asset is realised 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) recognised in surplus / (deficit) on revaluation of assets is charged / credited to such account.

5.12 Deposits

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

5.13 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 taxes.

5.14 Provisions

Provisions are recognised 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.

5.15 Lease Liability

At the commencement date of the lease, the Bank recognizes lease liability measured at the present value of the lease payments to be made over the lease term and is adjusted for prepayments. The lease payments are discounted using the effective rate implicit lease, unless it is not readily determinable, in which case the lessee may use the incremental rate of borrowing. After the commencement date, the carrying amount of lease liability is increased to reflect the accretion of finance cost and reduced for the lease payments made.

5.16 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.

5.17 Revenue recognition

- Return on investment / lending to financial institutions is recognised using effective interest rate method.
- Mark-up / interest / return on performing advances is recognised using effective interest rate method except that income suspended in accordance with the requirements of the Prudential Regulations for Microfinance Bank, is taken to income when actually received.
- Interest or mark-up recoverable on non-performing advances and classified investments is recognised on a receipt basis.
- Dividend income is recognised when the right to receive dividend is established.
- Processing fees is recognised when services are performed.
- Capital gains / (losses) on sale of investments are recognised 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 recognised on accrual basis.

5.18 Financial instruments

5.18.1 Financial assets and financial liabilities

All financial assets and financial liabilities are recognised 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 derecognised at the time when the Bank loses control of the contractual rights that comprise the financial assets. All financial liabilities are derecognised 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.

5.18.2 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 recognised amounts and the Bank intends to settle either on a net basis, or to realise 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.

5.19 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.

5.20 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.

5.21 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.

5.22 Dividend and other appropriations

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

	Note	2020 (Rupees)	2019
6. CASH AND BALANCES WITH STATE BANK OF PAKISTAN AND NATIONAL BANK OF PAKISTAN			
Cash in hand		1,788,138	1,188,138
Balance with State Bank of Pakistan (SBP)	6.1	1,642,745	2,433,859
Balance with National Bank of Pakistan (NBP)		-	-
		<u>3,430,883</u>	<u>3,621,997</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 time deposits with tenor of less than 1 year in accordance with the Prudential Regulations.

	Note	2020 (Rupees)	2019
7. BALANCES WITH OTHER BANKS			
In Pakistan			
- on local currency current accounts		23,737,957	49,472,963
- on local currency deposit accounts	7.1	1,266,459,324	1,147,796,488
		<u>1,290,197,281</u>	<u>1,197,269,451</u>

7.1 These represents deposits with commercial banks carrying mark-up at rates ranging from 5.50% to 9.75% per annum (2019: 7.00% to 14.30% per annum).

	Note	2020 (Rupees)	2019
8. INVESTMENTS			
Federal Govt. Securities			
- Pakistan Investment Bonds	8.2	9,875,949	9,639,358
- Market Treasury Bills	8.4	29,763,607	299,891,001
Investment in mutual funds	8.6	-	204,318,418
Bonds, Participation Term Certificates & Term Finance Certificates	8.5	6,311,657	6,311,657
Sukuk	8.5	10,000,000	10,000,000
Term Deposit Receipts (TDRs)	8.3	141,622,002	744,641,000
Provision for diminution in value of investments	8.7	(16,311,657)	(16,311,657)
Investments - net of provision		<u>181,261,558</u>	<u>1,258,489,777</u>

8.1 Investments Classification

Held to maturity

Federal Government Securities - Pakistan Investment Bonds	8.2	9,875,949	9,639,358
Term Deposit Receipts (TDRs)	8.3	141,622,002	744,641,000
Federal Government Securities - Treasury Bills	8.4	29,763,607	299,891,001
		<u>181,261,558</u>	<u>1,054,171,359</u>

Available for sale

Term Finance Certificates	8.5	6,311,657	6,311,657
Sukuk	8.5	10,000,000	10,000,000
		<u>16,311,657</u>	<u>16,311,657</u>
		<u>197,573,215</u>	<u>1,070,483,016</u>

Held for trading

Investment in mutual funds	8.6	-	204,318,418
Provision for diminution in value of investments	8.7	(16,311,657)	(16,311,657)
		<u>181,261,558</u>	<u>1,257,907,076</u>
Investments - net of provision		<u>181,261,558</u>	<u>1,258,489,777</u>

8.2 Federal Government Securities - Pakistan Investment Bonds

Note	As at 31 December 2020					As at 31 December 2019					
	Amortised cost of investment	Provision held	Amortised cost less provision	Market value	Surplus on revaluation	Amortised cost of investment	Provision held	Amortised cost less provision	Market value	Surplus on revaluation	
	(Rupees)										
Pakistan Investment Bonds (PIB)	8.2.1	2,908,684	-	2,908,684	-	-	2,726,925	-	2,726,925	-	-
Pakistan Investment Bonds (PIB)	8.2.1	971,023	-	971,023	-	-	918,651	-	918,651	-	-
Pakistan Investment Bonds (PIB)	8.2.2	2,006,936	-	2,006,936	-	-	2,014,437	-	2,014,437	-	-
Pakistan Investment Bonds (PIB)	8.2.2	3,989,306	-	3,989,306	-	-	3,979,345	-	3,979,345	-	-
		9,875,949	-	9,875,949	-	-	9,639,358	-	9,639,358	-	-

8.2.1 PIB's were purchased from Pak Oman Investment Company Limited (POICL), an associated company, on 25 July 2019 and 17 July 2019 having cost of Rs.2,655,162 and Rs.891,795 respectively having maturity on 12 July 2021.

8.2.2 PIB having a face value Rs. 4 million was purchased from Pak Oman Investment Company Limited (POICL), an associated company, on 18 May 2018 at a cost of Rs. 3,964,812 and PIB having a face value Rs. 2 million was purchased from JS Bank Limited on 22 December 2016 at a cost of Rs. 2,043,710. These carry mark-up rate of 7.75% per annum (2019: 7.75%) and 7.75% per annum (2019: 7.75%) respectively and have maturity on 29 December 2021 and 21 April 2021 respectively. The PIBs are classified as Held to Maturity.

8.3 This represents term deposit receipts from Khushhali Microfinance Bank having maturity in January 2021 and carrying mark-up rate of 8.25% per annum (2019: 14.20% to 14.30% per annum).

8.4 Federal Government Securities - Treasury Bills

	Note	2020	2019
Purchase price	8.7.1	29,515,680	290,943,000
Amortized during the period		247,927	8,948,001
Value as at 31 December		29,763,607	299,891,001

8.4.1 This represents 3 months treasury bill with a face value of Rs. 30,000,000 maturing on 11 February 2021.

8.5 Investments in Term Finance Certificates / Sukuk

Name of the investee company	Profit / mark-up rate (per annum)	Maturity date	Note	As at 31 December 2020					As at 31 December 2019						
				Number of certificate	Redeemed value	Provision held	Value of investment after	Market value	Deficit on revaluation	Number of certificates	Redeemed value	Provision held	Value of investment after	Market value	Deficit on revaluation
(Rupees)															
Term Finance Certificate															
WorldCall Telecom Limited	6 month KIBOR + 1.6%	7-Oct-21	8.4.1	3,000	4,861,657	4,861,657	-	-	-	3,000	4,861,657	4,861,657	-	-	-
Agritech Limited	Zero rated	1-Jan-15	8.4.1	290	1,450,000	1,450,000	-	Non Traded	-	290	1,450,000	1,450,000	-	Non Traded	-
				3,290	6,311,657	6,311,657	-	-	-	3,290	6,311,657	6,311,657	-	-	-
Sukuk															
Agritech Limited	6 month KIBOR + 2%	15-Aug-15		2,000	10,000,000	10,000,000	-	Non Traded	-	2,000	10,000,000	10,000,000	-	Non Traded	-

Term Finance Certificates of Rs.5,000 each.

8.5.1 Investments in WorldCall Telecom and Agritech Limited amounting to Rs. 4,861,657 and Rs. 1,450,000 respectively were fully provided in 2015.

8.6 Investment in mutual fund

Name of the investee fund	Number of Units	As at 31 December 2020					As at 31 December 2019				
		Cost of investment	Provision held	Value of investment after provision	Market Value	Surplus / Deficit on revaluation	Cost of investment	Provision held	Value of investment after	Market value	Surplus / Deficit on revaluation
(Rupees)											
MCB Cash Management Optimizer	-	-	-	-	-	-	101,754,583	-	101,754,583	102,048,788	294,205
UBL Liquidity Plus Fund	-	-	-	-	-	-	101,981,134	-	101,981,134	102,269,631	288,496
ABL Cash Fund	-	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	203,735,717	-	203,735,717	204,318,419	582,701

8.7 Particulars of Provision for Diminution in value of investments

	2020	2019
	(Rupees)	
Opening balance	(16,311,657)	(16,428,924)
Charge for the year	-	-
Reversals	-	117,267
Closing balance	<u>(16,311,657)</u>	<u>(16,311,657)</u>

9. ADVANCES - NET OF PROVISIONS

Loan type	Note	2020		2019	
		Number of loans outstanding	Amount outstanding (Rupees)	Number of loans outstanding	Amount outstanding (Rupees)
Micro credit advances					
- Considered good		49,097	2,323,646,592	51,553	1,809,547,916
- Considered doubtful	9.2	7,561	<u>195,611,035</u>	8,150	<u>172,445,250</u>
			<u>2,519,257,627</u>		<u>1,981,993,166</u>
Less: Provision held					
- Specific provision	9.2		<u>45,885,688</u>		<u>74,454,623</u>
- General provision	9.3		<u>24,733,719</u>		<u>19,039,100</u>
	9.3		<u>70,619,408</u>		<u>93,493,723</u>
			<u>2,448,638,219</u>		<u>1,888,499,443</u>
Staff loan	9.6		<u>20,733,766</u>		<u>14,427,730</u>
Advances - net of provisions			<u>2,469,371,985</u>		<u>1,902,927,173</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 30 September 2014. The details of such deposits held with the Bank are disclosed in note 13. The interest rates on the advances is 39% per annum (2019: 39% per annum).

9.2 Particulars of non-performing advances

Advances includes Rs. 195,611,035 (2019: Rs. 172,445,250) which have been placed under non-performing status as detailed below:

Category of classification	2020			2019		
	Amount outstanding	Provision required	Provision held	Amount outstanding	Provision required	Provision held
	(Rupees)					
Other assets especially mentioned	77,069,212	-	-	34,509,553	-	-
Sub-standard	61,513,139	15,378,284	15,378,284	27,334,940	6,833,735	6,833,735
Doubtful	53,042,561	26,521,281	26,521,281	85,959,737	42,979,868	42,979,868
Loss	<u>3,986,123</u>	<u>3,986,123</u>	<u>3,986,123</u>	<u>24,641,020</u>	<u>24,641,020</u>	<u>24,641,020</u>
Total	<u>195,611,035</u>	<u>45,885,688</u>	<u>45,885,688</u>	<u>172,445,250</u>	<u>74,454,623</u>	<u>74,454,623</u>

9.3 Particulars of provision against non-performing loans and advances

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

Note	2020			2019		
	Specific	General	Total	Specific	General	Total
	(Rupees)					
Opening balance	74,454,623	19,039,100	93,493,723	36,440,582	12,107,301	48,547,883
Charge / (reversal) for the year	<u>241,182,165</u>	<u>5,694,619</u>	<u>246,876,784</u>	<u>218,486,480</u>	<u>6,931,799</u>	<u>225,418,279</u>
Amounts written off	<u>(269,751,100)</u>	-	<u>(269,751,100)</u>	<u>(180,472,439)</u>	-	<u>(180,472,439)</u>
	<u>(28,568,935)</u>	<u>5,694,619</u>	<u>(22,874,315)</u>	<u>38,014,041</u>	<u>6,931,799</u>	<u>44,945,840</u>
Closing balance	<u>45,885,688</u>	<u>24,733,719</u>	<u>70,619,408</u>	<u>74,454,623</u>	<u>19,039,100</u>	<u>93,493,723</u>

10.1.1 This includes property and equipment costing Rs. 37,411,667 (2019: Rs. 29,731,903) that have been fully depreciated as at 31 December 2020 but are still in use.

10.1.2 Details of disposals of assets whose original cost or the book value exceeds Rs. 1 million or Rs. 250,000 respectively whichever is less and property and equipment disposed off to the Chief Executive or to a director or to executives or to any other related party, irrespective of the values, are as follows:

	2020					Mode of disposal	Particulars of purchaser
	Cost	Accumulated depreciation	Net book value	Sale proceeds	Gain / (loss)		
<u>Vehicles</u>							
Toyota Corolla	1,563,177	1,015,134	548,043	548,043	-	HR Policy	Javed Anwar
Toyota Corolla	1,916,013	1,532,810	383,203	384,300	1,097	HR Policy	Kashif Ahmed Siddiqui
Suzuki Cultus	1,100,161	880,129	220,032	220,800	768	HR Policy	Gohar Iqbal
Suzuki Cultus	1,100,504	880,403	220,101	220,800	699	HR Policy	Asif Ali
	5,679,855	4,308,476	1,371,379	1,373,943	2,564		

10.2 Right of use of asset

	2020		
	Cost	Accumulated Depreciation	Net Book Value
	----- (Rupees) -----		
At January 1,	72,539,171	(24,149,716)	48,389,455
Additions / Reassessment during the period	45,315,509	-	45,315,509
Depreciation charge for the year	-	(24,149,716)	(24,149,716)
Derecognised during the period	-	-	-
At December 31,	117,854,680	(48,299,432)	69,555,248
Useful life	2-3 years		

	2019		
	Cost	Accumulated Depreciation	Net Book Value
	----- (Rupees) -----		
At January 1,	-	-	-
Recognised upon initial adoption of IFRS 16	72,539,171	-	72,539,171
Additions / Reassessment during the period	-	-	-
Depreciation charge for the year	-	(24,149,716)	(24,149,716)
Derecognised during the period	-	-	-
At December 31,	72,539,171	(24,149,716)	48,389,455
Useful life	2-3 years		

10.3 Intangible assets

	COST			AMORTISATION			Book value as at 31 December	Rate of amortisation
	As at 01 January	Additions	As at 31 December	As at 01 January	Charge for the year	As at 31 December		
	----- (Rupees) -----							
Computer software								
2020	24,192,014	7,124,059	31,316,073	10,299,874	5,966,730	16,266,604	15,049,469	33%
2019	9,520,537	14,671,477	24,192,014	7,903,790	2,396,084	10,299,874	13,892,140	33%

10.3.1 This includes intangible assets costing Rs. 7,813,392 (2019: Rs. 7,272,799) that have been fully amortised as at 31 December 2020 but are still in use.

11. OTHER ASSETS

	Note	2020	2019
		(Rupees)	
Income / mark-up accrued on Advances and Investments		145,909,379	72,247,578
Advances, deposits, advance rent and other prepayments		39,468,889	23,638,073
Refundable / advance taxation (payments less provision)	11.1	36,835,933	6,813,002
Others		7,056,311	8,014,806
		229,270,511	110,713,459

11.1 Movement in advance tax - net

	2020	2019
	(Rupees)	
Balance as at 01 January	6,813,002	(2,357,646)
Tax paid	43,656,885	39,582,840
Provision for taxation	(13,633,954)	(30,412,192)
Balance as at 31 December	36,835,933	6,813,002

12. DEFERRED TAX ASSET-NET

	31 December 2020					Balance as at 31 December 2020
	Balance as at 01 January 2020	Recognised in profit or loss account	Recognised in other comprehensive income	Recognised in share premium	Recognised in revaluation of assets account	
----- (Rupees) -----						
Taxable temporary differences						
Surplus on revaluation of securities	87,405	(87,405)	-	-	-	-
Amortisation of premium on investments	2,619,245	(2,454,410)	-	-	-	164,835
Difference between accounting book value of fixed assets and tax base	14,032,942	3,755,751	-	-	-	17,788,693
Difference between accounting book value of lease receivable and tax	56,683	(56,683)	-	-	-	-
	<u>16,796,275</u>	<u>1,157,253</u>	-	-	-	<u>17,953,528</u>
Deductible temporary differences						
Provision for other liabilities	3,465,580	2,358,361	(184,220)	-	-	5,639,721
Provision for diminution in value of investments	4,730,380	-	-	-	-	4,730,380
Difference between accounting book value of Lease Obligation IFRS 16	10,939,766	11,129,530	-	-	-	22,069,296
Provision against non-performing loans and advances	27,113,180	(6,633,552)	-	-	-	20,479,628
	<u>46,248,906</u>	<u>6,854,339</u>	<u>(184,220)</u>	-	-	<u>52,919,025</u>
Unabsorbed depreciation and carry forward losses	-	67,763,688	-	-	-	67,763,688
	<u>29,452,631</u>	<u>73,460,774</u>	<u>(184,220)</u>	-	-	<u>102,729,184</u>
----- (Rupees) -----						
31 December 2019						
	Balance as at 01 January 2019	Recognised in profit or loss account	Recognised in other comprehensive income	Recognised in share premium	Recognised in revaluation of assets account	Balance as at 31 December 2019
----- (Rupees) -----						
Taxable temporary differences						
Surplus on revaluation of securities	-	-	-	-	87,405	87,405
Amortisation of premium on investments	332,645	2,286,600	-	-	-	2,619,245
Difference between accounting book value of fixed assets and tax base	3,457,310	10,575,632	-	-	-	14,032,942
Difference between accounting book value of lease receivable and tax	-	56,683	-	-	-	56,683
	<u>3,789,955</u>	<u>12,918,915</u>	-	-	<u>87,405</u>	<u>16,796,275</u>
Deductible temporary differences						
Provision for other liabilities	5,028,397	(1,562,817)	-	-	-	3,465,580
Provision for diminution in value of investments	-	4,730,380	-	-	-	4,730,380
Difference between accounting book value of Lease Obligation IFRS 16	-	10,939,766	-	-	-	10,939,766
Provision against non-performing loans and advances	14,078,886	13,034,294	-	-	-	27,113,180
	<u>19,107,283</u>	<u>27,141,623</u>	-	-	-	<u>46,248,906</u>
Minimum tax and alternate corporate tax	-	-	-	-	-	-
Unabsorbed depreciation and carry forward losses	-	-	-	-	-	-
	<u>22,897,238</u>	<u>40,060,538</u>	-	-	<u>87,405</u>	<u>29,452,631</u>

12.1 The deferred tax asset balance recognised in the financial statements represents the management's best estimate of the potential benefit which is expected to be realized in future years in the form of reduced tax liability as the Bank would be able to set off the profits earned in these years against losses carried forward from prior years.

For the purpose of computing this benefit, management has prepared projected financial statements of the Bank using assumptions which are linked to various variable factors such as the economic outlook of the country, new equity injection, investment growth, interest rate movements, expansion in depositors / advances portfolio of the Bank etc.

13. DEPOSITS AND OTHER ACCOUNTS

	Note	2020		2019	
		Number of Accounts	Amount (Rupees)	Number of Accounts	Amount (Rupees)
Saving deposits	13.2	129	63,539	129	63,539
Fixed deposits	13.2	40	120,000	40	120,000
Current deposits - mandatory		13,901	6,172,784	13,901	6,172,784
Current deposits - normal		545	344,968	545	344,968
	13.1	<u>14,615</u>	<u>6,701,291</u>	<u>14,615</u>	<u>6,701,291</u>

13.1 Particulars of deposits by ownership

Individual depositors	14,615	6,701,291	14,615	6,701,291
Institutional depositors - Corporation	-	-	-	-
	<u>14,615</u>	<u>6,701,291</u>	<u>14,615</u>	<u>6,701,291</u>

13.2 These carry interest rate of 3.50% (2019: 3.50%) per annum on saving deposits and 2.00% - 6.50% (2019: 2.00% to 6.50%) per annum for fixed deposits.

	Note	2020 (Rupees)	2019 (Rupees)
14. BORROWINGS			
Borrowing from State Bank of Pakistan	14.1	<u>1,982,284,483</u>	<u>1,982,284,483</u>

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

	Note	2020 (Rupees)	2019 (Rupees)
15. OTHER LIABILITIES			
Mark-up / interest / return payable		60,369,712	120,295,913
Accrued expenses		27,802,266	6,732,532
Payable to shareholders	15.1	71,398,277	1,764,199
Payable to defined benefit plan	24	3,800,787	4,775,989
Provision for compensated absences		9,281,767	5,093,863
Provision for leave fare assistance		7,000,000	2,080,425
Withholding taxes payable		1,074,017	1,986,927
Sales taxes		3,276,736	1,280,172
Advance from customer		6,547,820	98,955,917
Security Deposit		3,605,542	-
		<u>194,156,924</u>	<u>242,965,937</u>

15.1 This represents amount payable to LOLC.

16. SHARE CAPITAL**16.1 Authorised capital**

2020 (Number of shares)	2019		2020 (Rupees)	2019
<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

2020 (Number of shares)	2019		2020 (Rupees)	2019
<u>230,830,000</u>	<u>230,830,000</u>	Ordinary shares of Rs. 10 each fully paid in cash	<u>2,308,300,000</u>	<u>2,308,300,000</u>
			16.3	

16.3 Share capital has been subscribed by the following:

	2020 (Rupees)	2019
Ministry of Finance - Sultanate of Oman	767,112,110	767,112,110
Ministry of Commerce - Sultanate of Oman	10	10
Pak Oman Investment Company Limited	384,707,880	384,707,880
LOLC (Private) Limited - Parent Company	<u>1,156,480,000</u>	<u>1,156,480,000</u>
	<u>2,308,300,000</u>	<u>2,308,300,000</u>

17. MEMORANDUM / OFF BALANCE SHEET ITEMS

There are no memorandum / off balance sheet items as at 31 December 2020 except for the following contingent liabilities:

The Company received a Show Cause Notice No. PRA/Enf-IV/2019/1278 dated 4 March 2019 (SCN) as issued by the learned Additional Commissioner under Sections 24/70 of the Punjab Sales Tax on Services Act, 2012 [Act] read with Punjab Sales Tax on Services Rules, 2012 wherein the Bank was alleged of contravening sections 3,4,10,11,18 and 35 read with section 32(2) of the Act. Further, the appellant was required to show cause as to why tax demand of Rs 5,317,151 for the tax periods 2014 and 2015 should not be made under section 24 of the Act and recovered under section 70 of the Act along with default surcharge and penalty under section 49 and 48 (sr.No.2,3 and 5 of the table) of the ACT.

In response to show-cause notice, the Bank filed detailed reply vide letter No. KST-AA-1273 dated 29 April 2019 explaining the factual and legal position. The Additional Commissioner, without considering the legal and factual detail, passed the impugned Order no. ADC Enf-IV/02/05/2019 dated 2 May 2019 received on 1 July 2019, under section 24 to the Act, wherein the Punjab sales tax demand aggregating to Rs.3,545,352 was raised alongwith penalty of Rs. 177,267 and default surcharge under the provisions of Serial No. 3 of Section 48 and 49 to the Act respectively. The Commissioner (Appeals) PRA has passed order no. 178/2019 dated 18 November 2019 [received on 30 June 2020] under section 65(4) of the Punjab Sales Tax on Services Act, 2012 deleting the imposition of penalty amounting to Rs. 177,267 and confirming the sales tax demand of Rs.3,545,352. The Bank, aggrieved by the decision of the Commissioner (Appeals) PRA, has filed an appeal before the Appellate Tribunal, Punjab Revenue Authority, which is pending for disposal. The Appellate Tribunal, Punjab Revenue Authority has granted stay against the tax demand raised in the order passed by the Commissioner (Appeals) PRA.

18. MARK-UP RETURN/ INTEREST EARNED

	2020 (Rupees)	2019
Interest / mark-up on:		
- Income from Advances	531,947,016	565,762,498
- Income from Investment in Government Securities	16,808,136	33,426,101
- Income from Amortization of Pakistan Investment Bond	-	181,632
- Income from Deposit accounts	161,342,063	128,200,746
- Income from Term deposit receipts	38,924,459	54,773,705
- Income from Staff loan	558,626	422,282
	<u>749,580,300</u>	<u>782,766,964</u>

19. MARK-UP / RETURN / INTEREST EXPENSED	Note	2020 (Rupees)	2019
Deposits		7,246	7,246
Mark-up on borrowing		<u>188,131,835</u>	<u>124,282,970</u>
		<u>188,139,081</u>	<u>124,290,216</u>
20. OTHER INCOME			
Gain on disposal of fixed assets		522,217	1,284,676
Recoveries against written off advances		29,393,391	15,583,137
Capital gain on sale mutual funds unit		1,319,322	1,131,457
Moratorium income	20.1	56,505,631	-
Miscellaneous Income		<u>281,675</u>	<u>705,007</u>
		<u>88,022,235</u>	<u>18,704,277</u>

20.1 This represents the fee charged to borrowers for the deferment of their monthly installments under the regulatory under the regulatory relief provided by the State Bank of Pakistan to dampen the adverse effects of COVID -19.

21. ADMINISTRATIVE EXPENSES

Salaries, allowances etc.		373,584,532	228,454,471
Bonus to employees		-	22,895,322
Contribution to defined contribution plan		13,445,258	10,368,071
Charge for defined benefit plan		9,660,041	6,714,470
Charge for leave fare assistance		20,943,133	9,720,353
Non-executive directors' allowances and other expenses		1,924,579	6,782,439
Training		4,223,922	7,250,269
Rent, rates and taxes		26,476,151	19,856,879
Legal and professional charges		5,581,882	6,451,839
Utilities		12,542,034	6,021,577
Communications		27,953,347	15,954,252
IT maintenance		35,374,676	-
Repairs and maintenance		17,468,091	9,598,227
Vehicle running		3,772,489	3,814,348
Insurance		12,231,014	7,692,012
Travel and transportation		18,411,554	14,010,631
Stationery and printing		25,400,164	21,460,887
Fees and subscription		10,549,801	1,693,231
Advertisement and business promotions		12,013,361	9,726,909
Auditors' remuneration	21.1	1,343,584	1,476,606
Depreciation	10.1	23,228,390	18,093,967
Depreciation on right-of-use assets	10.2	24,149,716	24,149,716
Amortisation of intangible assets	10.3	5,966,730	2,396,084
Bank charges		6,188,416	8,815,879
Security expense		22,839,842	15,762,020
Kitchen expenses		5,796,969	2,604,545
Entertainment expenses		2,761,967	876,943
Medical staff		4,408,389	957,758
Archiving		2,646,205	1,437,962
Other expenses		<u>9,236,687</u>	<u>3,525,483</u>
		<u>740,122,923</u>	<u>488,563,150</u>

21.1 Auditors' remuneration - Audit services

Audit fee		1,035,000	980,830
Out of pocket expenses		<u>308,584</u>	<u>495,776</u>
		<u>1,343,584</u>	<u>1,476,606</u>

22. TAXATION	2020	2019
	(Rupees)	
For the year		
- current	16,345,631	30,412,192
- deferred	<u>(73,460,774)</u>	<u>(6,555,393)</u>
	<u>(57,115,143)</u>	23,856,799
For prior year		
- current	<u>(2,211,677)</u>	7,163,866
- deferred	<u>-</u>	<u>-</u>
	<u>(2,211,677)</u>	7,163,866
	<u><u>(59,326,820)</u></u>	<u><u>31,020,665</u></u>

22.1 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 1 January 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.

22.2 The numerical reconciliation between average tax rate and applicable tax rate has not been presented in these financial statements as the provision for current year income tax has been made under section 113 of the Income Tax Ordinance 2001 (minimum tax on turnover) due to available tax losses brought forward from prior years.

23. NUMBER OF EMPLOYEES

	2020			2019		
	Credit / Sales	Banking / Support	Total	Credit / Sales	Banking / Support	Total
Permanent	351	303	654	291	164	455
Contractual	129	51	180	76	25	101
Total number of employees	<u>480</u>	<u>354</u>	<u>834</u>	<u>367</u>	<u>189</u>	<u>556</u>

24. DEFINED BENEFIT PLAN

24.1 Staff Gratuity Scheme

As disclosed in note 5.11, the Bank operates an approved funded gratuity scheme for its employees. The accounting policy for recognising actuarial gains and losses is also disclosed in note 5.11 to the financial statements. The information in notes 24.1.1 to 24.9 relating to the 2020 and 2019 financial year has been obtained from the actuarial valuation report.

24.1.1 Principal actuarial assumptions

The latest actuarial valuation for defined benefit plan scheme was carried out as at 31 December 2020 using the Projected Unit Credit Method (PUCM). The following significant assumptions were used for the actuarial valuation:

	2020	2019
	(Percent per annum)	
Discount rate	9.25	12.25
Expected rate of increase in salary levels - senior employees	6.25	9.25
Expected rate of increase in salary levels - other employees	6.25	9.25

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

24.2 The amounts recognised in the statement of financial position are as follows:	Note	2020	2019
		(Rupees)	
Present value of defined benefit obligation	24.3	23,414,356	20,237,005
Fair value of plan assets	24.4	<u>(19,613,569)</u>	<u>(15,461,016)</u>
		<u><u>3,800,787</u></u>	<u><u>4,775,989</u></u>

	2020	2019		
	(Rupees)			
24.3 Movement in the present value of defined benefit obligation				
Present value of obligation as at January 1	20,237,005	15,478,160		
Current service cost	9,687,483	6,258,181		
Past service cost	-	-		
Interest cost	2,069,570	1,836,634		
Benefits paid	(6,685,106)	(2,146,370)		
Actuarial (gain) / loss on remeasurement of obligation	(1,894,596)	(1,189,600)		
Present value of obligation as at December 31	<u>23,414,356</u>	<u>20,237,005</u>		
24.4 Movement in the fair value of plan assets				
Fair value of assets as at January 1	15,461,016	8,399,423		
Expected return	2,097,012	1,380,345		
Contributions	10,000,000	7,000,000		
Benefits paid	(6,685,106)	(2,146,370)		
Actuarial gain / (loss)	(1,259,353)	827,618		
Fair value of assets as at December 31	<u>19,613,569</u>	<u>15,461,016</u>		
24.5 Movement in the net liability recognised in the statement of financial position are as follows:				
Opening liability	4,775,989	7,078,737		
Charge for the year	9,660,041	6,714,470		
Other comprehensive income	(635,243)	(2,017,218)		
Benefits paid	(10,000,000)	(7,000,000)		
Closing liability	<u>3,800,787</u>	<u>4,775,989</u>		
24.6 The amount recognised in the profit or loss account is as follows:				
Current service cost	9,687,483	6,258,181		
Interest cost	(27,442)	456,289		
Net charge for the year	<u>9,660,041</u>	<u>6,714,470</u>		
24.7 Actuarial losses / (gains)				
Net unrecognised actuarial (losses) / gains as at January 1	-	-		
Actuarial (gain) / loss on remeasurement of obligation	24.7.1 (635,243)	(2,017,218)		
	(635,243)	(2,017,218)		
Actuarial gain / (loss) recognised in:				
- other comprehensive income	635,243	2,017,218		
- profit or loss account	-	-		
Net unrecognised actuarial (losses) / gains as at December 31	<u>-</u>	<u>-</u>		
24.7.1 Actuarial losses / (gains) on remeasurement of obligation comprise of:				
Experience adjustment	(1,894,596)	(1,189,600)		
Investment return	1,259,353	(827,618)		
	<u>(635,243)</u>	<u>(2,017,218)</u>		
24.8 Sensitivity analysis	Impact on defined benefit obligation			
	Change in assumption	Increase in assumption	Decrease in assumption	
	----- (Rupees) -----			
Discount rate	1%	(1,081,082)	1,188,677	
Salary increases	1%	1,211,944	(1,120,235)	
24.9 Historical information	2020	2019	2018	
	----- (Rupees) -----			
Present value of defined benefit obligation	23,414,356	20,237,005	15,478,160	10,072,655
Fair value of plan assets	(19,613,569)	(15,461,016)	(8,399,423)	(5,645,037)
(Surplus) / deficit	<u>3,800,787</u>	<u>4,775,989</u>	<u>7,078,737</u>	<u>4,427,618</u>
24.10	The expected gratuity expense and contribution for the next year ending 31 December 2021 works out to Rs. 10,978,722 and Rs. 11,939,508 respectively.			
24.11	The average duration of the plan 5.4 years on 31 December 2020 (2019: 5.2 years).			

25. NUMBER OF BRANCHES

	2020	2019
	(Number)	
Branches at the beginning of the year	30	25
Opened during the year	2	5
Closed during the year	1	-
Branches at the end of the year	<u>31</u>	<u>30</u>

25.1 The Bank also has 35 service centers (2019: 35) in operation along with branches.

26. REMUNERATION OF 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:

	2020			2019		
	President / Chief Executive Officer	Directors	Executives	President / Chief Executive Officer	Directors	Executives
	----- (Rupees) -----					
Director fees	-	1,876,000	-	-	1,846,681	-
Managerial remuneration	17,412,500	-	34,933,931	17,310,858	-	31,258,312
Contribution to defined contribution plan	856,765	-	2,745,883	1,468,740	-	2,413,773
Medical allowance	1,142,400	-	3,880,972	1,923,428	-	3,473,146
Conveyance	-	-	2,772,258	-	-	1,631,613
Bonus	-	-	-	2,914,286	-	3,103,346
Charge for defined benefit plan	-	-	3,488,851	1,632,000	-	2,237,500
	<u>19,411,665</u>	<u>1,876,000</u>	<u>47,821,895</u>	<u>25,249,312</u>	<u>1,846,681</u>	<u>44,117,690</u>
Number of persons at period end	<u>1</u>	<u>9</u>	<u>18</u>	<u>1</u>	<u>9</u>	<u>17</u>

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

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

27. (LOSS) / EARNING PER SHARE**27.1 Basic**

	2020	2019
(Loss) / Profit after taxation	<i>Rupees</i> <u>(179,638,099)</u>	<u>28,692,840</u>
Weighted average number of ordinary shares	<i>Number</i> <u>230,830,000</u>	<u>230,830,000</u>
(Loss) / earning per share	<i>Rupee</i> <u>(0.778)</u>	<u>0.124</u>

27.2 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.

28. RELATED PARTY TRANSACTIONS

The Bank has related party relationship with its parent, employee benefit plans, and its key management personnel.

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:

30.3.2 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 31 December 2020 the Bank's CAR was approximately 64.93% (2019: 83.89%) of its weighted exposure.

31. FINANCIAL ASSETS AND LIABILITIES

31.1 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.

	Effective yield / interest rate	Interest bearing					Non-Interest bearing				Total	
		Upto 6 months	Over 6 months to one year	Over 1 year up to five years	Over five years	Sub total	Up to 6 months	Over 6 months to one year	Over 1 year up to five years	Over five years		Sub total
31 December 2020		(Rupees)										
Financial assets												
Cash and balances with SBP / NBP		-	-	-	-	-	3,430,883	-	-	-	3,430,883	3,430,883
Balances with other banks / NBFIs / MFBs	5.50%-9.75%	1,266,459,324	-	-	-	1,266,459,324	23,737,957	-	-	-	23,737,957	1,290,197,281
Investments - net of provisions		171,385,609	9,875,949	-	-	181,261,558	-	-	-	-	-	181,261,558
Advances - net of provisions	39%	881,872,242	883,396,379	704,103,364	-	2,469,371,985	-	-	-	-	-	2,469,371,985
Other assets		-	-	-	-	-	229,270,512	-	-	-	229,270,512	229,270,512
		2,319,717,175	893,272,328	704,103,364	-	3,917,092,867	256,439,352	-	-	-	256,439,351	4,173,532,219
Financial liabilities												
Deposits and other accounts		63,539	120,000	-	-	183,539	6,517,752	-	-	-	6,517,752	6,701,291
Borrowing from SBP		-	-	1,982,284,483	-	1,982,284,483	-	-	-	-	-	1,982,284,483
Other liabilities		-	-	-	-	-	194,156,924	-	-	-	194,156,924	194,156,924
Lease obligation		-	-	76,101,020	-	76,101,020	-	-	-	-	-	76,101,020
		63,539	120,000	2,058,385,503	-	2,058,569,042	200,674,676	-	-	-	200,674,676	2,259,243,718
On balance sheet gap		2,319,653,636	893,152,238	(1,300,302,364)	-	1,858,523,825	55,764,676	-	-	-	55,764,675	1,914,288,501
31 December 2019												
Financial assets												
Cash and balances with SBP / NBP		-	-	-	-	-	3,621,997	-	-	-	3,621,997	3,621,997
Balances with other banks / NBFIs / MFBs	7.00%-14.30%	1,147,796,488	-	-	-	1,147,796,488	49,472,963	-	-	-	49,472,963	1,197,269,451
Investments - net of provisions		1,044,532,001	-	9,639,358	-	1,054,171,359	204,318,418	-	-	-	204,318,418	1,258,489,777
Advances - net of provisions	39%	712,901,781	1,172,065,901	5,224,938	5,000,851	1,895,193,471	-	-	7,733,702	-	7,733,702	1,902,927,173
Other assets		-	-	-	-	-	110,713,459	-	-	-	110,713,459	110,713,459
		2,905,230,270	1,172,065,901	14,864,296	5,000,851	4,097,161,318	368,126,837	-	7,733,702	-	375,860,539	4,473,021,857
Financial liabilities												
Deposits and other accounts		63,539	120,000	-	-	183,539	6,517,752	-	-	-	6,517,752	6,701,291
Borrowing from SBP		-	-	1,982,284,483	-	1,982,284,483	-	-	-	-	-	1,982,284,483
Other liabilities		-	-	-	-	-	242,965,937	-	-	-	242,965,937	242,965,937
Lease obligation		-	-	37,723,330	-	37,723,330	-	-	-	-	-	37,723,330
		63,539	120,000	2,020,007,813	-	2,020,191,352	249,483,689	-	-	-	249,483,689	2,269,675,041
On balance sheet gap		2,905,166,731	1,171,945,901	(2,005,143,517)	5,000,851	2,076,969,966	118,643,148	-	7,733,702	-	126,376,850	2,203,346,816

31.2 Concentration of credit risk

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. 3,901 million (2019: Rs. 4,355 million).

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

Bank	Rating category	As on 31	As on 31
		December 2020	December 2019
		----- (Percentage) -----	
Bank balances			
<i>Local Currency</i>			
United Bank Limited-Current Account	AAA	1.1%	2.7%
United Bank Limited-PLS Account	AAA	2.8%	3.8%
Habib Bank Limited-Current Account	AAA	0.3%	0.4%
Habib Bank Limited-PLS Account	AAA	0.0%	0.0%
Allied Bank Limited-Current Account	AAA	-0.3%	0.1%
Allied Bank Limited-PLS Account	AAA	-0.4%	1.2%
JS Bank-Current Account	AA-	0.0%	0.0%
JS Bank-PLS Account	AA-	-0.2%	10.1%
Telenor Microfinance Bank - TDR	A+	0.0%	0.0%
Khushhali Bank - Saving Account	A+	59.4%	22.4%
U Microfinance Bank Limited - Saving Account	A	19.9%	14.3%
Telenor Microfinance Bank	A+	0.0%	12.1%
Khushhali Bank-TDR	A+	0.0%	14.8%
U Microfinance Bank Limited - TDR	A	0.0%	0.0%
FINCA Microfinance Bank Limited - TDR	A	0.0%	-
NRSP Microfinance Bank Limited - Saving Account	A	17.4%	-
Mobilink Bank - TDR	A	0.0%	18.2%

31.3 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. 1,475 million (2019: Rs. 2,092 million).

32. SCHEDULE OF MATURITY DISTRIBUTION OF MARKET RATE ASSETS & LIABILITIES

	2020				
	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	2,469,371,985	-	881,872,242	883,396,379	704,103,364
Investments	181,261,558	141,622,002	29,763,607	9,875,949	-
Other Earning Assets	-	-	-	-	-
Total market rate assets	2,650,633,543	141,622,002	911,635,849	893,272,328	704,103,364
Other non-earning assets	-	-	-	-	-
Total assets	2,650,633,543	141,622,002	911,635,849	893,272,328	704,103,364
Market rate liabilities					
Large time deposits above rupees 100,000	-	-	-	-	-
All other time deposits - (including fixed rate deposits)	120,000	-	-	120,000	-
Other cost bearing deposits	63,539	63,539	-	-	-
Borrowings	1,982,284,483	-	-	-	1,982,284,483
Lease Obligation	76,101,020	-	-	-	76,101,020
Total market rate liabilities	2,058,569,042	63,539	-	120,000	2,058,385,503
Other non-cost bearing liabilities	6,517,752	6,517,752	-	-	-
Total liabilities	2,065,086,794	6,581,291	-	120,000	2,058,385,503
	2019				
	Total	Up to one month	Over one month up to six months	Over six months up to one year	Over one year
----- (Rupees) -----					
Market rate assets					
Advances - net of provisions	1,902,927,173	146,791,660	566,110,121	1,172,065,901	17,959,491
Investments	1,054,171,359	1,044,532,001	-	9,639,358	-
Other Earning Assets	-	-	-	-	-
Total market rate assets	2,957,098,532	1,191,323,661	566,110,121	1,181,705,259	17,959,491
Other non-earning assets	-	-	-	-	-
Total assets	2,957,098,532	1,191,323,661	566,110,121	1,181,705,259	17,959,491
Market rate liabilities					
Large time deposits above rupees 100,000	-	-	-	-	-
All other time deposits - (including fixed rate deposits)	120,000	-	-	120,000	-
Other cost bearing deposits	63,539	63,539	-	-	-
Borrowings	1,982,284,483	-	-	-	1,982,284,483
Lease Obligation	37,723,330	-	-	-	37,723,330
Total market rate liabilities	2,020,191,352	63,539	-	120,000	2,020,007,813
Other non-cost bearing liabilities	6,517,752	6,517,752	-	-	-
Total liabilities	2,026,709,104	6,581,291	-	120,000	2,020,007,813

33. COVID - 19**33.1 Risk management in the current economic scenario**

The outbreak of coronavirus has severely affected national and global economies. Various businesses are facing different issues with a certain degree of losses. Particularly, businesses are facing problems such as a decrease in demand, supply chain disruptions, raw material shortage, and transportation disruptions, among others. Regulators and governments across the globe have introduced fiscal and economic stimulus measures to mitigate Covid-19 impact.

The State Bank of Pakistan (SBP) has responded to the crisis by cutting the policy rate by 625 basis points to 7 percent and by introducing regulatory measures to maintain banking system soundness and to sustain economic activity. These include (i) allowing microfinance banks to defer clients' payment of principal on loan obligations by one year;

COVID 19 has impacted the banks in Pakistan from various facets which include increase in overall credit risk pertaining to loans and advances portfolio in certain sectors, reduced fee income due to slowdown in economic activity, operational issues such as operations of branches, managing cyber security threat and managing investment banking activities including arrangement of syndicate loans, debt and capital advisory services etc. Major aspects of COVID 19 on the Bank are discussed below:

33.2 Assets quality and credit risk

As the current economic crisis unfolds against the backdrop of a public health emergency, the disruption to economic activity put strain on the solvency of customers and companies. A large number of distressed customers sought help for financial hardships across consumer and commercial lending portfolios. The Risk Management Group of the Bank is monitoring the situation to identify and support borrowers operating in various sectors which are most affected.

The Bank has further strengthened its credit review procedures in the light of COVID 19. The Bank conducted various stress tests on the credit portfolio and is confident that the CAR currently maintained is sufficient to adhere all regulatory and business needs.

33.3 Liquidity management

The Banks has provided customers with relief measures such as payment deferrals and loan restructuring/re-scheduling. Such interventions, while necessary to provide temporary relief to customers, also accompanied enhanced risk management actions on liquidity of the bank. The Asset and Liability Committee (ALCO) of the Bank is monitoring the liquidity position and is taking due precautionary measures where needed. The Bank has conducted various stress tests on its liquidity ratios and is confident that the liquidity buffer (in terms of liquid assets) currently maintained by the Bank is sufficient to cater any adverse movement in cash flow maturity profile.

34. 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).

On balance sheet financial instruments

		2020					Fair value			
		Carrying amount					Level 1	Level 2	Level 3	Total
Note	Available for sale	Held for Maturity	Held for Trading	Loans and receivables	Other financial assets / liabilities	Total				
(Rupees in '000)										
Financial assets measured at fair value										
	- Investments - Mutual fund	-	-	-	-	-	-	-	-	-
	- Others	-	-	-	-	-	-	-	-	-
Financial assets not measured at fair value										
32.1	- Cash and bank balances with SBP and NBP	-	-	-	3,430,883	3,430,883	-	-	-	-
	- Balances with other banks	-	-	-	1,290,197,281	1,290,197,281	-	-	-	-
	- Investments - TDRs	141,622,002	-	-	-	141,622,002	-	141,622,002	-	141,622,002
	- Investments - PIB	9,875,949	-	-	-	9,875,949	-	9,875,949	-	9,875,949
	- Investments - T-Bills	29,763,607	-	-	-	29,763,607	-	29,763,607	-	29,763,607
	- Advances	-	-	2,469,371,985	-	2,469,371,985	-	-	-	-
	- Other assets	-	-	-	229,270,511	229,270,511	-	-	-	-
		181,261,558	-	3,763,000,149	229,270,511	4,173,532,218	-	-	-	-
Financial liabilities not measured at fair value										
32.1	- Deposits and other accounts	-	-	-	6,701,291	6,701,291	-	-	-	-
	- Other liabilities	-	-	-	194,156,924	194,156,924	-	-	-	-
	- Borrowing from SBP	-	-	-	1,982,284,483	1,982,284,483	-	-	-	-
		-	-	-	2,183,142,698	2,183,142,698	-	-	-	-

On balance sheet financial instruments

		2019					Fair value			
		Carrying amount					Level 1	Level 2	Level 3	Total
Note	Available for sale	Held for Maturity	Held for Trading	Loans and receivables	Other financial assets / liabilities	Total				
(Rupees in '000)										
Financial assets measured at fair value										
	- Investments - Mutual fund	-	-	204,318,419	-	204,318,419	204,318,419	-	-	204,318,419
	- Others	-	-	-	-	-	-	-	-	-
Financial assets not measured at fair value										
32.1	- Cash and bank balances with SBP and NBP	-	-	-	3,621,997	3,621,997	-	-	-	-
	- Balances with other banks	-	-	-	1,197,269,451	1,197,269,451	-	-	-	-
	- Investments - TDRs	744,641,000	-	-	-	744,641,000	-	744,641,000	-	744,641,000
	- Investments - PIB	9,639,358	-	-	-	9,639,358	-	9,639,358	-	9,639,358
	- Investments - T-Bills	299,891,001	-	-	-	299,891,001	-	299,891,001	-	299,891,001
	- Advances	-	-	1,902,927,173	-	1,902,927,173	-	-	-	-
	- Other assets	-	-	-	110,713,459	110,713,459	-	-	-	-
		1,054,171,359	204,318,419	3,103,818,621	110,713,459	4,473,021,858	-	-	-	-
Financial liabilities not measured at fair value										
32.1	- Deposits and other accounts	-	-	-	6,701,291	6,701,291	-	-	-	-
	- Other liabilities	-	-	-	242,965,937	242,965,937	-	-	-	-
	- Borrowing from SBP	-	-	-	1,982,284,483	1,982,284,483	-	-	-	-
		-	-	-	2,231,951,711	2,231,951,711	-	-	-	-

34.1 The fair value of financial assets and liabilities not carried at fair value are not significantly different from their carrying values since these assets and liabilities are either short term in nature or in case of loans are frequently repriced.

35. 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 30 December 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 in these financial statements except for the statement of financial position and profit and loss account.

36. DATE OF AUTHORISATION

These financial statements were authorized for issue on _____ by the Board of Directors of the Bank.

President / Chief Executive

Chairman

Director

Director