PAK OMAN MICROFINANCE BANK LIMITED
CONDENSED INTERIM BALANCE SHEET (UN - AUDITED)
AS AT 30 SEPTEMBER 2020

	Note	September 30, 2020	December 31, 2019
		(Rupees)	
ASSETS			
Cash and balances with SBP and NBP	6	**4,880,548**	3,621,997
Balances with other banks / NBFIs / MFBs	7	**1,555,900,684**	1,197,269,451
Investments	8	**306,357,257**	1,258,489,777
Advances - net of provisions	9	**2,013,218,969**	1,902,927,173
Operating fixed assets	10	**121,121,619**	132,483,018
Other assets	11	**224,232,672**	110,713,459
Deferred tax asset - net	12	**36,362,090**	29,452,631
Total assets		**4,262,073,839**	4,634,957,506
LIABILITIES			
Deposits and other accounts	13	**6,771,651**	6,701,291
Borrowings	14	**1,982,284,483**	1,982,284,483
Other liabilities	15	**132,552,078**	242,965,937
Lease obligation		**35,012,505**	37,723,330
Total liabilities		**2,156,620,717**	2,269,675,041
NET ASSETS		**2,105,453,122**	2,365,282,465
REPRESENTED BY:			
Share capital	16.2	**2,308,300,000**	2,308,300,000
Share premium		**52,041,600**	52,041,600
Statutory and general reserves		**32,047,009**	32,059,174
Depositors' protection fund		**9,735,073**	8,995,465
Accumulated losses		**(296,670,560)**	(36,113,774)
		2,105,453,122	2,365,282,465
MEMORANDUM / OFF BALANCE SHEET ITEMS	17		

The annexed notes from 1 to 30 form an integral part of these financial statements.

President / Chief Executive	Chairman	Director	Director

PAK OMAN MICROFINANCE BANK LIMITED
CONDESED INTERIM PROFIT AND LOSS ACCOUNT (UN - AUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020

	Note	Nine Months Ended Sept 30, 2020	Nine Months Ended Sept 30, 2019
		(Rupees)	
Mark-up / return / interest earned	18	**577,829,134**	550,539,958
Mark-up / return / interest expensed	19	**(157,911,107)**	(65,434,349)
Net mark-up / return / interest income		**419,918,027**	485,105,609
Provision against non-performing loans and advances	9.3	**224,432,021**	155,392,698
Provision for diminution in the value of investments		**-**	-
Bad debts written off directly		**-**	-
		224,432,021	155,392,698
Net mark-up / return / interest income after provisions		**195,486,006**	329,712,911
NON MARK-UP / NON INTEREST INCOME			
Fee, commission and brokerage income		**48,952,342**	58,638,726
Dividend income		**13,738,731**	7,773,272
Other income	20	**4,920,745**	1,583,199
Total non-mark-up / non-interest income		**67,611,818**	67,995,197
		263,097,824	397,708,108
NON MARK-UP / NON INTEREST EXPENSES			
Administrative expenses	21	**518,532,032**	335,917,369
Finance cost for Lease		**3,408,348**	4,048,311
Other provision / write off		**-**	-
Other charges		**-**	-
Total non mark-up / non interest expenses		**521,940,380**	339,965,680
Extra ordinary / unusual items		**-**	
PROFIT BEFORE TAXATION		**(258,842,556)**	57,742,428
Taxation - current		**8,623,173**	15,657,046
- prior years			
- deferred		**(6,909,460)**	(5,483,028)
	22	**1,713,713**	10,174,018
PROFIT AFTER TAXATION		**(260,556,269)**	47,568,410
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified subsequently to profit or loss account - net of tax		**-**	-
COMPREHENSIVE INCOME FOR THE YEAR		**(260,556,269)**	47,568,410
Earning per share - Basic and diluted	26	**(1.129)**	0.261

The annexed notes from 1 to 30 form an integral part of these financial statements.

President / Chief Executive **Chairman** **Director** **Director**

PAK OMAN MICROFINANCE BANK LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020

	Note	2020	2019
		(Rupees)	
Profit after taxation		**(260,556,269)**	47,568,410
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss account			
Remeasurement of defined benefit obligation		-	-
Related tax impact		-	-
		-	-
Comprehensive income for the year transferred to equity		**(260,556,269)**	47,568,410
Component of comprehensive income for the year not transferred to equity			
Surplus on revaluation of 'available for sale' investments		-	-
Related tax impact		-	-
Total comprehensive income for the year		**(260,556,269)**	**47,568,410**

The annexed notes from 1 to 30 form an integral part of these financial statements.

President / Chief Executive	Chairman	Director	Director

PAK OMAN MICROFINANCE BANK LIMITED
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UN - AUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020

	Share capital	Share premium	Capital reserves: Statutory reserve	Capital reserves: Depositors' Protection Fund	Revenue reserves: Accumulated losses	Total
	----------	----------	---------- (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						
- 5% of the profit after tax	-	-	-	1,434,642	(1,434,642)	-
- return on investment - net of tax	-	-	-	687,590	-	687,590
	-	-	-	2,122,232	(1,434,642)	687,590
Balance as at 31 December 2019	**2,308,300,000**	**52,041,600**	**32,047,009**	**8,995,466**	**(36,114,291)**	**2,365,269,784**
Total comprehensive income:						
Loss after tax for the year ended 31 July 2020					**(260,556,269)**	**(260,556,269)**
Other comprehensive income - net of tax					**-**	
Total comprehensive income					**(260,556,269)**	**(260,556,269)**
Transfer to statutory reserve					**-**	**-**
Issue of share capital - deferred tax						
Transfer to Depositors' Protection Fund						
- 5% of the profit after tax					**-**	**-**
- return on investment - net of tax				**739,607**		**739,607**
				739,607	**-**	**739,607**
Balance as at 30 September 2020	**2,308,300,000**	**52,041,600**	**32,047,009**	**9,735,073**	**(296,670,560)**	**2,105,453,122**

The annexed notes from 1 to 30 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 NINE MONTHS ENDED SEPTEMBER 30, 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 2019, the Bank has 30 branches (2018: 25) and 35 service centers (2018: 22) 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 year

The Bank has adopted the following standards and amendment to IFRSs which became effective for the current year:

Standard, Interpretation or Amendment

IFRS 15 - Revenue from contracts with customers

IFRS 16 - Leases

Amendment to IAS 28 - Investments in Associates and Joint Ventures - Long Term Interests in Associates and Joint Ventures

Amendments to IAS 19 - Employee Benefits - Plan Amendment, Curtailment or Settlement

Annual Improvements to IFRS Standards 2015–2017 Cycle - the improvements address amendments to following approved accounting standards:

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangement
- IAS 12 Income Taxes
- IAS 23 Borrowing Costs

IFRIC 23 - Uncertainty over Income Tax Treatments

The adoption of the above standards / amendment to accounting standards did not have any effect on these unconsolidated financial statements. The nature and effect of the changes as a result of adoption of IFRS 15 and IFRS 16 are in Note 5.1.1 and 5.1.2 below respectively:

5.1.1 IFRS 15 ‘Revenue from Contracts with Customers’ supersedes IAS 11 'Construction Contracts', IAS 18 'Revenue' and related Interpretations and it applies to all revenue arising from contracts with customers unless those contracts are in the scope of other standards. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

Based on the above assessment, the Bank considers that its existing accounting policies are substantially in compliance with the requirements of IFRS 15.

5.1.2 IFRS 16 Leases supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on balance sheet model.

The Bank has lease contracts for various properties. Before the adoption of IFRS 16, the Bank classified each of its leases (as lessee) at the inception date as an operating lease.

In an operating lease, the leased asset was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under other asset and other liabilities, respectively.

Upon adoption of IFRS 16, the Bank applied the recognition and measurement approach of IFRS 16 for all leases, except for short-term leases and leases of low-value assets. The Bank has adopted modified retrospective approach upon transition to IFRS 16. The standard also provides practical expedients, which have been applied by the Bank.

Accordingly, the Bank recognised right-of-use assets and lease liabilities for those leases where the Bank is the lessee and which were previously accounted for as operating leases. The right-of-use assets and lease liabilities were recognised on the present value of future cash flows, discounted using the incremental borrowing rate at the date of initial application.

	As at September 30, 2020
Impact on Statement of Financial Position	
Increase in fixed assets - right-of-use assets	**-**
Decrease in other assets - advances, deposits,	**-**
Increase in other liabilities - lease liability against right-of-use assets / other payable	**-**

	For the year Sept 30, 2020
Impact on Profit and Loss account	
Increase in mark-up expense - lease liability against right-of-use assets	**3,408,348**
(Increase) / decrease in administrative expenses	
- Depreciation on right-of-use assets	**18,146,045**
- Rent expense	**-**
	18,146,045
Decrease in profit before tax	**21,554,393**
Decrease in profit after tax	**15,303,619**

5.2 **Standards, interpretations of and amendments to published approved accounting standards that are not yet effective**

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

- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for annual periods beginning on or after 01 January 2020). The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. In addition, the IASB has also issued guidance on how to make materiality judgements when preparing their general purpose financial statements in accordance with IFRS Standards.

- Amendment to IFRS 3 'Business Combinations' – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of annual period beginning on or after 01 January 2020). The IASB has issued amendments aiming to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments include an election to use a concentration test. The standard is effective for transactions in the future and therefore would not have an impact on past financial statements.

- IFRS 9 'Financial Instruments' and amendment – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 01 July 2018 and 01 January 2019 respectively). IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. SBP has advised the effective date of implementation of IFRS 9 from January 01, 2021. Meanwhile, SBP has directed banks to perform parallel run of IFRS 9 implementation starting from January 01, 2020 to assess the impact of implementation of IFRS 9.

The above amendments are not likely to have an impact on Bank's financial statements except for IFRS 9 'Financial instruments' the bank is currently evaluating the impact of the said standard. In addition to above Standards, there are certain new and amended standards, interpretations and amendments that are mandatory for accounting periods beginning on or after 01 January 2020 but are considered not to be relevant to the Bank's operations and therefore, are not detailed in these unconsolidated financial statements.

The IASB has also issued the revised Conceptual Framework for Financial Reporting (the Conceptual Framework) in March 2018 which is effective for annual periods beginning on or after 01 January 2020 for preparers of financial statements who develop accounting policies based on the Conceptual Framework. The revised Conceptual Framework is not a standard, and none of the concepts override those in any standard or any requirements in a standard. The purpose of the Conceptual Framework is to assist IASB in developing standards, to help preparers develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards.

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 IFRSs	01 January 2004
IFRS 17 – Insurance Contracts	01 January 2021

5.3 Early adoption of standards

The Bank has not early adopted any new or amended standard in 2019.

5.4 Critical accounting estimates and judgments

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 5.7 and 8)

ii) Provision against advances (notes 5.8 and 9)

iii) Provision for current and deferred taxation (notes 5.13, 11 and 22)

iv) Provision for staff retirement benefits (notes 5.12, 15 and 24)

v) Fixed assets, depreciation and amortization (notes 5.9, 10 and 21)

5.5 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.

5.6 Lendings to financial institutions

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

5.7 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.

5.8 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% (2019: 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.

5.9 Operating fixed assets and intangibles

5.9.1 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.

5.9.2 Capital work in progress

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

5.10 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.

5.11 Impairment

5.11.1 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.

5.11.2 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.

5.11.3 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.

5.12 Staff retirement benefits

5.12.1 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.

5.12.2 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.

5.12.3 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.

5.13 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.

5.13.1 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.

5.13.2 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.

5.14 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.

5.15 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.

5.16 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.

5.17 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.

5.18 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 Banks, 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 recognized when services are performed.

- Capital gains / (losses) on sale of investments are recognised in the profit or loss account at the time of sale.

- Other income are recognised on accrual basis.

5.19 Financial instruments

5.19.1 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.

5.19.2 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.

5.20 Derivative financial instruments

These are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value using appropriate valuation techniques. All derivative financial instruments are carried as assets when fair value is positive and liabilities when fair value is negative. Any change in the fair value of derivative financial instruments is taken to the profit or loss account.

5.21 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.

5.22 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.

5.23 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.

5.24 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	2019
		(Rupees)	
6. CASH AND BALANCES WITH STATE BANK OF PAKISTAN AND NATIONAL BANK OF PAKISTAN			
Cash in hand			
- local currency		**1,768,138**	1,188,138
- foreign currency		**-**	-
Balance with State Bank of Pakistan (SBP)	6.1	**3,112,410**	2,433,859
Balance with National Bank of Pakistan (NBP)		**-**	-
		4,880,548	3,621,997

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	2019
		(Rupees)	
7. BALANCES WITH OTHER BANKS			
In Pakistan			
- on local currency current accounts		**18,968,315**	49,472,963
- on local currency deposit accounts	7.1	**1,536,932,369**	1,147,796,488
		1,555,900,684	1,197,269,451

7.1 These represents deposits with commercial banks carrying mark-up at rates ranging from 7.00% to 12.30% per annum (2019: 7.00% to 14.30% per annum).

		Note	2020	2019
			(Rupees)	
8.	**INVESTMENTS**			
	Federal Govt. Securities			
	- Pakistan Investment Bonds	8.2	**9,813,317**	9,639,358
	- Market Treasury Bills	8.7	**29,722,938**	299,891,001
	Provincial Govt. Securities		**-**	-
	Investment in mutual funds	8.3	**-**	203,735,717.00
	Fully paid up ordinary shares		**-**	-
	Bonds, Participation Term Certificates & Term Finance Certificates	8.4	**16,311,657**	6,311,657
	Sukuk	8.4	**-**	10,000,000
	Term Deposit Receipts (TDRs)	8.5	**266,821,002**	744,641,000
	Provision for diminution in value of investments	8.6	**(16,311,657)**	(16,311,657)
	Surplus on revaluation of held for trading investments	8.3	**-**	582,701.00
	Investments - net of provision		**306,357,257**	1,258,489,777

		Note	2020	2019
8.1	**Investments Classification**			
	Available for sale			
	Term Finance Certificates	8.4	**16,311,657**	**6,311,657**
	Sukuk	8.4	**-**	**10,000,000**
			16,311,657	16,311,657
	Held to maturity			
	Federal Government Securities - Pakistan Investment Bonds	8.2	**9,813,317**	**9,639,358**
	Term Deposit Receipts (TDRs)	8.5	**266,821,002**	**744,641,000**
	Federal Government Securities - Treasury Bills	8.7	**29,722,938**	**299,891,001**
			306,357,257	1,054,171,359
			322,668,914	1,070,483,016
	Held for Trading			
	Investment in mutual funds	8.3	**-**	**203,735,717**
	Provision for diminution in value of investments	8.6	**(16,311,657)**	(16,311,657)
			306,357,257	**1,257,907,076**
	Surplus on revaluation of held for trading	8.3	**-**	582,701.00
	Investments - net of provision		**306,357,257**	**1,258,489,777**

8.2 Federal Government Securities - Pakistan Investment Bonds

	Note	AS AT 30 SEPTEMBER 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	**2,860,558**	**-**	**2,860,558**	**-**	**-**	2,726,925	-	2,726,925	-	-
Pakistan Investment Bonds (PIB)	8.2.1	**956,230**	**-**	**956,230**	**-**	**-**	918,651	-	918,651	-	-
Pakistan Investment Bonds (PIB)	8.2.2	**2,009,802**	**-**	**2,009,802**	**-**	**-**	2,014,437	-	2,014,437	-	-
Pakistan Investment Bonds (PIB)	8.2.2	**3,986,727**	**-**	**3,986,727**	**-**	**-**	3,979,345	-	3,979,345	-	-
		9,813,317	**-**	**9,813,317**	**-**	**-**	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 21 April 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: 9.0%) 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 Investment in mutual fund

Name of the investee fund	Number of Units	AS AT 30 SEPTEMBER 2020					As at 31 December 2019				
		Cost of investment	Provision held	Value of investment after	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

8.4 Investments in Term Finance Certificates / Sukuk

Name of the investee company	Profit / mark-up rate (per annum)	Maturity date	Note	AS AT 30 SEPTEMBER 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)						(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.

8.4.1 Investments in WorldCall Telecom and Agritech Limited amounting to Rs. 4,861,657 and Rs. 1,450,000 respectively were fully provided in 2015. Further in 2019, WorldCall Telecom has made a repayment of Rs. 117,267 and consequently, amount of investment is reduced and provision is reversed with the same amount.

8.5 These represent term deposit receipts having maturity in January 2020 and carrying mark-up rates ranging from 13.0% to 13.25% per annum (2019: 14.20% to 14.30% per annum).

8.6 Particulars of Provision for Diminution in value of investments

	Note	2020	2019
		(Rupees)	
Opening balance		**(16,311,657)**	(16,428,924)
Charge for the year		**-**	-
Reversals		**-**	117,267
Closing balance		**(16,311,657)**	(16,311,657)

8.7 Federal Government Securities - Treasury Bills

	Note	2020	2019
Purchase price	8.7.1	**29,298,750**	290,943,000
Amortized during the period		**424,188**	8,948,001
Disposed			
Value as at 31 December		**29,722,938**	299,891,001

8.7.1 This represents 3 months treasury bill with a face value of Rs. 30,000,000 matured on 02 July 2020.

9. ADVANCES - NET OF PROVISIONS

	Note	2020		2019	
Loan type		**Number of loans outstanding**	**Amount outstanding (Rupees)**	**Number of loans outstanding**	**Amount outstanding (Rupees)**
Micro credit advances					
- Considered good		**47,019**	**1,859,894,403**	51,538	1,806,016,157
- Considered doubtful	9.2	**9,993**	**207,552,122**	8,150	172,445,250
			2,067,446,525		1,978,461,407
Less: Provision held					
- Specific provision	9.2		**65,625,989**		74,454,623
- General provision	9.3		**20,122,940**		19,039,100
	9.3		**85,748,929**		93,493,723
			1,981,697,596		1,884,967,684
Net Investment in Finance Lease		**37**	**10,473,478**	15	3,531,759
Staff loan	9.6		**21,047,895**		14,427,730
Advances - net of provisions			**2,013,218,969**		1,902,927,173

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. 207,552,121 (2019: Rs. 172,445,250) which have been placed under non-performing status as detailed below:

	30 September 2020			31 December 2019		
Category of classification	**Amount outstanding**	**Provision required**	**Provision held**	**Amount outstanding**	**Provision required**	**Provision held**
	---- (Rupees) ----					
Other assets especially mentioned	**52,361,596**	**-**	**-**	34,509,553	-	-
Sub-standard	**68,152,275**	**17,038,069**	**17,038,069**	27,334,940	6,833,735	6,833,735
Doubtful	**76,900,659**	**38,450,330**	**38,450,330**	85,959,737	42,979,868	42,979,868
Loss	**10,137,591**	**10,137,591**	**10,137,591**	24,641,020	24,641,020	24,641,020
Total	**207,552,121**	**65,625,989**	**65,625,990**	172,445,250	74,454,623	74,454,623

9.3 Particulars of provision against non-performing loans and advances

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

	Note	30 September 2020			31 December 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		**223,348,181**	**1,083,840**	**224,432,021**	218,486,480	6,931,799	225,418,279
Amounts written off	9.3.1	**(232,176,815)**	**-**	**(232,176,815)**	(180,472,439)	-	(180,472,439)
		(8,828,634)	**1,083,840**	**(7,744,794)**	38,014,041	6,931,799	44,945,840
Closing balance		**65,625,989**	**20,122,940**	**85,748,929**	74,454,623	19,039,100	93,493,723

9.3.1 Particulars of write offs

	2020	2019
	(Rupees)	
Against provision	**232,176,815**	180,472,439
Directly charged to profit or loss account	**-**	-
	232,176,815	180,472,439

9.4 This represents general provision equivalent to 1% (2019: 1%) of the net outstanding advances held in accordance with the requirements of the Prudential Regulations for Microfinance Banks.

9.5 Portfolio by type

	2020	2019
	(Rupees)	
Micro business loan	**540,263,796**	563,916,129
Micro agri loan	**-**	738,374
Micro assets loan	**1,581,084**	-
Livestock loan	**142,353,275**	330,226,548
New micro business loan	**262,601**	364,672,734
Micro enterprise loan	**1,169,095,064**	449,459,128
Micro enterprise loan-LSL	**-**	173,538,272
Salary loan	**9,219,351**	1,506,345
Bara karobar loan	**109,700,848**	85,038,085
Bullet Zarai Karza	**95,355,873**	9,365,792
Lease	**10,088,112**	3,531,759
	2,077,920,004	1,981,993,166

9.6 This represents personal loans and house loans provided to employees as per the Bank's policy. The title documents of houses for house loans are held by the Bank as collateral and interest of 5% per annum (2019: 5% per annum) is charged on amounts exceeding Rs. 200,000.

10. OPERATING FIXED ASSETS

	Note	2020	2019
		(Rupees)	
Property and equipment	10.1	**70,131,008**	70,201,423
Right of use asset		**30,243,412**	48,389,455
Intangible assets	10.2	**14,073,653**	13,892,140
Fixed Asset Addition Clearing A		**6,673,546**	-
		121,121,619	132,483,018

10.1 Property and equipment

Additions during the period - at cost

	2020	2019
Improvements to leasehold buildings	**6,237,238**	7,964,001
Furniture and fixtures	**628,028**	8,867,830
Electrical, office and computer equipments	**11,204,564**	17,332,636
Vehicles - owned	**5,798,780**	4,979,986
	23,868,610	39,144,453

Disposals during the period - at cost

	2020	2019
Improvements to leasehold buildings	**-**	246,170
Furniture and fixtures	**189,010**	284,297
Electrical, office and computer equipments	**310,000**	159,807
Vehicles - owned	**6,664,944**	5,535,097
	7,163,954	6,225,371

10.1.1 This includes property and equipment costing Rs. 29,731,903 (2019: Rs. 29,708,982) that have been fully depreciated as at 31 December 2019 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						
	Cost	Accumulated depreciation	Net book value	Sale proceeds	Gain / (loss)	Mode of disposal	Particulars of purchaser
	----------	----------	(Rupees)	----------	----------		
Vehicles							
Toyota Corolla	**1,563,177**	**1,015,134**	**548,043**	**548,043**	**-**	HR Policy	Executive
	1,563,177	**1,015,134**	**548,043**	**548,043**	**-**		

10.2 Intangible assets

	COST			AMORTISATION			Book value as at 30 Sept	Rate of amortisation
	As at 01 January	Additions / Transfers	As at 30 Sept	As at 01 January	Charge for the year	As at 30 Sept		
	----------	----------	----------	(Rupees)	----------	----------	----------	
Computer software								
2020	**24,192,014**	**4,735,553**	**28,927,567**	**10,299,874**	**4,554,040**	**14,853,914**	**14,073,653**	**33%**
2019	9,520,537	14,671,477	24,192,014	7,903,790	2,396,084	10,299,874	13,892,140	33%

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

11. OTHER ASSETS

	Note	2020	2019
		(Rupees)	
Income / mark-up accrued on Advances and Investments		**134,436,339**	72,247,578
Advances, deposits, advance rent and other prepayments		**50,085,264**	23,638,073
Refundable / advance taxation (payments less provision)	11.1	**34,997,101**	6,813,002
Others		**4,713,968**	8,014,806
		224,232,672	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	**36,807,272**	39,582,840
Provision for taxation	**(8,623,173)**	(30,412,192)
Balance as at 30 July	**34,997,101**	6,813,002

12. DEFERRED TAX ASSET-NET

	30 Sept 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**	**Balance as at 30 Sept 2020**
	---------- (Rupees) ----------					
Taxable temporary differences						
Surplus on revaluation of securities	**-**	**-**	**-**	**-**	**726,028**	**726,028**
Amortisation of premium on investments	**2,619,245**	**6,135,572**	**-**	**-**	**-**	**8,754,817**
Difference between accounting book value of fixed assets and tax base	**14,032,942**	**- 1,833,125**	**-**	**-**	**-**	**12,199,817**
Difference between accounting book value of lease receivable and tax	**56,683**	**- 56,683**	**-**	**-**	**-**	**-**
	16,708,870	**4,245,764**	**-**	**-**	**726,028**	**21,680,662**
Deductible temporary differences						
Provision for other liabilities	**3,465,580**	**2,897,035**	**-**	**-**	**-**	**6,362,615**
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**	**- 1,127,733**	**-**	**-**	**-**	**9,812,033**
Provision against non-performing loans and advances	**27,113,180**	**3,456,240**	**-**	**-**	**-**	**30,569,420**
	46,248,906	**5,225,542**	**-**	**-**	**-**	**51,474,448**
Cost of issuance of new shares	**-**	**-**	**-**	**-**	**-**	**-**
Minimum tax and alternate corporate tax	**-**	**6,568,304**	**-**	**-**	**-**	**6,568,304**
Unabsorbed depreciation and carry forward losses	**-**	**-**	**-**	**-**	**-**	**-**
	62,957,776	**9,471,306**	**-**	**-**	**726,028**	**36,362,090**

	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
	3,789,955	12,918,915	-	-	87,405	16,796,275
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
	19,107,283	27,141,623	-	-	-	46,248,906
Cost of issuance of new shares	-	-	-	-	-	-
Minimum tax and alternate corporate tax	-	-	-	-	-	-
Unabsorbed depreciation and carry forward losses	-	-	-	-	-	-
	22,897,238	40,060,538	-	-	87,405	29,452,631

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 Number of Accounts	2020 Amount (Rupees)	2019 Number of Accounts	2019 Amount (Rupees)
Saving deposits	13.2	**129**	**87,897**	129	63,539
Fixed deposits	13.2	**40**	**166,002**	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	**14,615**	**6,771,651**	14,615	6,701,291

13.1 Particulars of deposits by ownership

	2020 Number of Accounts	2020 Amount (Rupees)	2019 Number of Accounts	2019 Amount (Rupees)
Individual depositors	**14,615**	**6,771,651**	14,615	6,701,292
Institutional depositors - Corporation	**-**	**-**	-	-
	14,615	**6,771,651**	16,794	6,784,301

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.

14. BORROWINGS

	Note	2020 (Rupees)	2019 (Rupees)
Borrowing from State Bank of Pakistan	14.1	**1,982,284,483**	**1,982,284,483**

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

15. OTHER LIABILITIES

	Note	2020 (Rupees)	2019 (Rupees)
Mark-up / interest / return payable		**30,071,378**	120,295,913
Accrued expenses		**29,747,239**	6,732,532
Payable to shareholders	15.1	**43,568,321**	1,764,199
Payable to defined benefit plan		**975,989**	4,775,989
Provision for compensated absences		**7,149,374**	5,093,863
Provision for leave fare assistance		**8,074,581**	2,080,425
Withholding taxes payable		**939,450**	1,986,927
Sales taxes		**2,787,966**	1,280,172
Advance from customer		**6,184,180**	98,955,917
Deposit control account		**3,053,600**	-
Current taxation (provisions less payments)	11.1	**-**	-
		132,552,078	242,965,937

15.1 This majorly represents amount payable to LOLC (Private) Limited.

15.2 Reconciliation of changes in other liabilities arising from financing activities

	2020 (Rupees)	2019 (Rupees)
Balance as at 01 January	**242,965,937**	116,426,732
Other changes - liability related		
Cash based	**(110,413,859)**	124,521,987
Actuarial gain / (loss) on defined benefit plan	**-**	2,017,218
	(110,413,859)	126,539,205
	132,552,078	242,965,937

16. SHARE CAPITAL

16.1 Authorised capital

2020	2019		2020	2019
(Number of shares)			(Rupees)	
250,000,000	250,000,000	Ordinary shares of Rs. 10 each	**2,500,000,000**	2,500,000,000

16.2 Issued, subscribed and paid-up share capital

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

16.3 Share capital has been subscribed by the following:

	2020	2019
	(Rupees)	
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	**1,156,480,000**	1,156,480,000
	2,308,300,000	2,308,300,000

17. MEMORANDUM / OFF BALANCE SHEET ITEMS

There are no memorandum / off balance sheet items as at 30 Sept 2020 except for the following contingent liabiliti

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-|V/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 salestax demand of As. of Rs.3.545,352. The Bank is in a process of filing an appeal against order passed by the Commissioner (Appeals) PRA, to the

18. MARK-UP RETURN/ INTEREST EARNED

	2020	2019
	(Rupees)	
Interest / mark-up on:		
- Income from Advances	**399,670,376**	414,814,624
- Income from Investment in Government Securities	**16,283,147**	22,037,126
- Income from Deposit accounts	**125,777,657**	83,769,332
- Income from Term deposit receipts	**35,696,069**	29,597,406
- Others `	**401,885**	321,470
	577,829,134	550,539,958

		Note	2020	2019
			(Rupees)	
19.	**MARK-UP / RETURN / INTEREST EXPENSED**			
	Deposits		**7,246**	7,246
	Mark up on borrowing		**157,903,861**	65,427,103
			157,911,107	65,434,349
20.	**OTHER INCOME**			
	Gain on disposal of fixed assets		**363,634**	32,717
	Capital gain on sale mutual funds unit		**1,319,322**	419,025
	Miscellaneous Income		**3,237,789**	1,131,457
			4,920,745	1,583,199
21.	**ADMINISTRATIVE EXPENSES**			
	Salaries, allowances etc.		**269,100,193**	159,024,228
	Bonus to employees		**6,100,000**	7,962,525
	Contribution to defined contribution plan		**10,052,136**	7,383,285
	Charge for defined benefit plan		**6,200,000**	300,000
	Charge for leave fare assistance		**20,460,008**	6,525,554
	Non-executive directors' allowances and other expenses		**1,923,579**	915,200
	Training		**2,757,282**	3,917,192
	Rent, rates and taxes		**17,877,923**	15,610,264
	Legal and professional charges		**3,523,354**	4,740,277
	Utilities		**4,867,971**	3,242,170
	Communications		**14,146,304**	10,688,582
	Fusion expenses		**21,200,000**	-
	Repairs and maintenance		**10,009,439**	5,304,485
	Vehicle running		**1,473,946**	2,348,068
	Insurance		**8,038,172**	7,843,079
	Travel and transportation		**12,733,886**	14,497,129
	Stationery and printing		**15,665,477**	14,600,744
	Fees and subscription		**8,247,640**	3,433,988
	Advertisement and business promotions		**6,042,154**	7,106,532
	Auditors' remuneration	21.1	**1,338,721**	978,333
	Depreciation	10.1	**15,334,841**	14,528,162
	Depreciation on right-of-use assets		**18,146,045**	16,826,655
	Amortisation of intangible assets	10.2	**4,554,040**	1,335,991
	Bank charges		**8,503,668**	7,291,444
	Security expense		**16,000,942**	11,069,012
	Kitchen expenses		**3,461,641**	1,732,315
	Entertainment expenses		**1,539,700**	404,728
	Medical staff		**1,410,257**	-
	Archiving		**2,134,016**	761,370
	Other expenses		**5,688,697**	5,546,057
			518,532,032	335,917,369
21.1	**Auditors' remuneration**			
	Audit services			
	Audit fee		**1,171,397**	724,579
	Out of pocket expenses		**167,324**	253,754
			1,338,721	978,333

22. TAXATION

	2020	2019
	(Rupees)	
For the year		
- current	**8,623,173**	15,657,046
- deferred	**(6,909,460)**	(5,483,028)
	1,713,713	10,174,018
For prior year		
- current	**-**	-
- deferred	**-**	-
	-	-
	1,713,713	10,174,018

22.1 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-|V/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 salestax demand of As. of Rs.3.545,352. The Bank is in a process of filing an appeal against order passed by the Commissioner (Appeals) PRA, to the Appellant Tribunal,

23. NUMBER OF EMPLOYEES

	2020			2019		
	Credit / Sales	Banking / Support	Total	Credit / Sales	Banking / Support	Total
Permanent	**349**	**231**	**580**	**291**	**164**	**455**
Contractual	**107**	**35**	**142**	**76**	**25**	**101**
Total number of employees	**456**	**266**	**722**	367	189	556

24. NUMBER OF BRANCHES

	2020	2019
	(Number)	
Branches at the beginning of the year	**25**	**25**
Opened during the year	**5**	**5**
Closed during the year	**-**	**-**
Branches at the end of the year	**30**	25

24.1 The Bank also has 35 service centers (2019: 24) in operation along with branches.

25. 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	**-**	**1,875,000**	**-**	**-**	**1,846,681**	**-**
Managerial remuneration	**13,219,200**	**-**	**31,072,500**	**17,310,858**	**-**	**31,258,312**
Contribution to defined contribution plan	**1,101,555**	**-**	**2,249,352**	**1,468,740**	**-**	**2,413,773**
Medical allowance	**1,468,800**	**-**	**3,107,250**	**1,923,428**	**-**	**3,473,146**
Conveyance	**-**	**-**	**1,800,000**	**-**	**-**	**1,631,613**
Bonus	**-**	**-**	**-**	**2,914,286**	**-**	**3,103,346**
Charge for defined benefit plan	**1,468,800**	**-**	**717,750**	**1,632,000**	**-**	**2,237,500**
	17,258,355	**1,875,000**	**38,946,852**	25,249,312	1,846,681	44,117,690
Number of persons at period end	**1**	**9**	**16**	**1**	**9**	**17**

25.1 The Bank has provided free use of Bank's maintained car to the Chief Executive Officer. Some executives have also been provided with free use of the Bank owned car in accordance with the terms of their employment.

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

26. EARNING PER SHARE

26.1 Basic

		2020	2019
Profit after taxation	*Rupees*	**(260,556,269)**	47,568,410
Weighted average number of ordinary shares	*Number*	**230,830,000**	230,830,000
Earning per share - Basic and diluted	*Rupee*	**(1.129)**	0.261

26.2 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.

27. RELATED PARTY TRANSACTIONS

The Bank has related party relationship with its parent, associates, employee benefit plans, and its key management personnel (including their associates). The details of investments in associate are stated in note 8 to these financial statements.

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:

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

Nature of related party transaction	2020				2019			
	As at 01 January 2020	Given / made during the year	Repaid / sale during the year	As at 30 Sept 2020	As at 01 January 2019	Given / made during the year	Repaid / sale during the year	As at 31 December 2019
	(Rupees)							
Investments								
Associates	**-**	**-**	**-**	**-**	-	139,334,566	(139,334,566)	-
Lendings to financial institutions								
Associates					-	-	-	-
Advances - staff loans								
Key management personnel	**7,848,361**	**-**	**320,184**	**7,528,177**	10,018,890	1,935,000	(4,105,529)	7,848,361
Acquisition of Intangible Asset								
LOIT Tech	**-**	**-**	**-**	**-**	-		4,159,893	-

	Note	2020	2019
		(Rupees)	
Other payable			
Gratuity fund		**975,989**	4,775,989
Ministry of Finance - Sultanate of Oman		**-**	-
LOLC (Private) Limited		**43,568,321**	1,764,199
Other receivable			
Provident Fund		**32,542**	32,542
LOLC (Private) Limited		**2,802,066**	1,737,475
Mark-up income			
Associates		**-**	-
Key management personnel		**20,439**	2,698,352
Dividend income			
Associates		**-**	2,101,146
Expenses for the year			
Remuneration to key management personnel		**22,878,000**	-
Non-executive director's fee / remuneration		**1,875,000**	-
Charge for defined contribution plan		**10,052,136**	10,368,071
Charge for defined benefit plan		**6,200,000**	6,714,470

28. CAPITAL RISK MANAGEMENT

28.1 The objective of managing capital is to safeguard the Bank's ability to continue as a going concern, so that it could continue to provide adequate returns and benefits to stakeholders by pricing products and services commensurately with the level of risk. It is the policy of the Bank to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

28.2 Goals of managing capital

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

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

The Bank has 94% gearing ratio as at September 30, 2020, due to borrowing from State Bank of Pakistan

28.3 Statutory minimum capital requirement and management of capital

28.3.1 As per amendments on Prudential Regulations (R-1) issued vide BPRD Circular No. 10 of 2015 dated 3 June 2015, the minimum paid up capital requirement (MCR), free of losses for Microfinance Banks operating at national level is Rs. 1,000 million as at 31 December 2018. As of 30 September 2020, the share capital of the Bank stood at Rs. 2,308.300 million (2019: Rs. 2,308.300 million) and paid up capital of the Bank free of losses is Rs. 2,011 million (2019: Rs. 2,272 million).

29. 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.

30. 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