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PINDEPENDENT AUDITORS REPORT ON REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS TO THE MEMBERS OF LOLC MICROFINANCE BANK LIMITED

Introduction

We have reviewed the accompanying condensed interim statement of financial position of **LOLC Microfinance Bank Limited** (“the Bank”) as at June 30, 2024 and the related condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim statement of changes in equity, condensed interim cash flow statement, and notes to the condensed interim financial statements for the six-month period then ended (herein after referred as the “condensed interim financial statements”). Management is responsible for the preparation and presentation of this condensed interim financial statements in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standards on Review Engagements 2410, “Review of Interim Financial Information performed by the Independent Auditor of the Entity.” A review of condensed interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Other Matter

The figures of condensed interim profit and loss account and condensed interim statement of comprehensive income for the three month period ended June 30, 2024 and June 30, 2023 have not been reviewed and we do not express a conclusion on them.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

The engagement partner on review resulting in this independent auditors review report is Atif Riaz.

ISLAMABAD

DATED:

UDIN:

**BDO EBRAHIM & CO.
CHARTERED ACCOUNTANTS**



LOLC MICROFINANCE BANK LIMITED
CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2024

		June 30, 2024 (Un-audited)	December 31, 2023 (Audited)
	Note	----- Rupees -----	
ASSETS			
Cash and balances with treasury banks	6	462,526,726	111,791,460
Balances with other banks	7	630,295,909	1,215,416,065
Lendings to financial institutions		-	-
Investments	8	108,082,898	412,266,887
Advances	9	3,774,242,332	3,825,025,311
Property and equipment	10	143,325,060	150,021,898
Right-of-use assets	11	206,457,925	223,046,081
Intangible assets	12	15,871,987	14,664,791
Deferred tax assets	13	314,854,032	316,556,555
Other assets	14	227,668,539	402,275,152
		5,883,325,408	6,671,064,200
LIABILITIES			
Bills payable		-	-
Borrowings	15	782,284,483	1,982,284,483
Deposits and other accounts	16	2,183,207,800	928,919,543
Lease liabilities	17	240,844,752	251,940,707
Subordinated debt		-	-
Deferred tax liabilities		-	-
Other liabilities	18	697,889,271	620,847,813
		3,904,226,306	3,783,992,546
		<u>1,979,099,102</u>	<u>2,887,071,654</u>
NET ASSETS			
REPRESENTED BY			
Share capital		3,220,000,000	3,220,000,000
Reserves		183,178,511	182,705,584
Surplus on revaluation of assets - net of tax	19	577,891	201,558
Unappropriated loss		(1,424,657,300)	(515,835,488)
		<u>1,979,099,102</u>	<u>2,887,071,654</u>
CONTINGENCIES AND COMMITMENTS			
	20		

The annexed notes 1 to 38 form an integral part of these condensed interim financial statements (un-audited). *vtan*

President

Chief Financial Officer

Director

Director

Director

LOLC MICROFINANCE BANK LIMITED
CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UN-AUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2024

Note	Quarter Ended		Period Ended		
	June, 30 2024	June, 30 2023	June, 30 2024	June, 30 2023	
----- Rupees -----					
Mark-up / Return / Interest earned	21	498,281,282	576,814,701	991,549,894	1,194,126,881
Mark-up / Return / Interest expensed	22	(165,844,617)	(143,303,303)	(353,171,601)	(329,451,855)
Net mark-up / interest income		332,436,665	433,511,398	638,378,293	864,675,026
NON MARK-UP / INTEREST INCOME					
Fee and commission income	23	32,755,153	43,386,612	89,475,505	103,329,745
Dividend income		-	-	-	-
Foreign exchange income / (loss)		-	-	-	-
Income / (Loss) from derivatives		-	-	-	-
Gain / (Loss) on securities		-	-	-	-
Net gains/(loss) on derecognition of financial assets measured at amortised cost		-	-	-	-
Other income	24	50,472,618	17,457,602	15,442,631	34,820,659
Total non-markup / interest income / (loss)		83,227,771	60,844,214	104,918,136	138,150,404
Total income		415,664,436	494,355,612	743,296,429	1,002,825,430
NON MARK-UP/INTEREST EXPENSES					
Operating expenses	25	423,050,605	392,343,708	873,964,412	746,959,559
Workers welfare fund		-	-	-	-
Other charges	26	-	-	2,716,000	-
Total non-markup / interest expenses		423,050,605	392,343,708	876,680,412	746,959,559
(Loss) / Profit before credit loss allowance		(7,386,169)	102,011,904	(133,383,983)	255,865,871
Credit loss allowance and write offs - net	27	(240,026,376)	(281,717,850)	(431,289,272)	(505,109,555)
LOSS BEFORE LEVIES AND TAXATION		(247,412,545)	(179,705,946)	(564,673,255)	(249,243,684)
Levies	28	(6,228,516)	(7,210,184)	(14,597,524)	(17,178,390)
LOSS BEFORE TAXATION		(253,641,061)	(186,916,130)	(579,270,779)	(266,422,074)
Taxation	29	969,804	58,915,849	2,214,859	60,361,973
LOSS AFTER TAXATION		(252,671,257)	(128,000,281)	(577,055,920)	(206,060,101)
Basic loss per share	30	(1.09)	(0.55)	(2.50)	(0.89)
Diluted loss per share	30	(1.09)	(0.55)	(2.50)	(0.89)

The annexed notes 1 to 38 form an integral part of these condensed interim financial statements (un-audited).

President

Chief Financial Officer

Director

Director

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LOLC MICROFINANCE BANK LIMITED
CONDENSED STATEMENT OF COMPREHENSIVE LOSS (UN-AUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2024

	Quarter Ended		Period Ended	
	June, 30 2024	June, 30 2023	June, 30 2024	June, 30 2023
	----- Rupees -----			
Loss after taxation for the period	(252,671,257)	(128,000,281)	(577,055,920)	(206,060,101)
Other comprehensive loss				
Items that may be reclassified to profit and loss account in subsequent periods:				
Movement in surplus on revaluation of investments	-	-	616,939	89,441
Related tax impact	-	-	(240,606)	(25,938)
Movement in surplus on revaluation of investments - net of tax	-	-	376,333	63,503
Items that will not be reclassified to profit and loss account in subsequent periods:				
Remeasurement of defined benefit obligation	-	-	9,175,453	-
Related tax impact	-	-	(3,676,777)	-
Remeasurement of defined benefit obligation - net of tax	-	-	5,498,676	-
Total comprehensive loss for the year	<u>(252,671,257)</u>	<u>(128,000,281)</u>	<u>(571,180,911)</u>	<u>(205,996,598)</u>

The annexed notes 1 to 38 form an integral part of these condensed interim financial statements (un-audited). *For,*

President

Chief Financial Officer

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LOLC MICROFINANCE BANK LIMITED
CONDENSED STATEMENT OF CHANGES IN EQUITY (UN-AUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2024

	Share capital	Share premium	Statutory reserve	Depositors' Protection Fund	Accumulated losses	Surplus on revaluation of investments	Total
----- Rupees -----							
Balance as at January 01, 2023 (Audited)	2,308,300,000	52,041,600	98,175,982	30,353,389	36,248,928	89,441	2,525,209,340
Profit after taxation for the half year ended June 30, 2023	-	-	-	-	(206,060,101)	-	(206,060,101)
Other comprehensive income for the half year ended June 30, 2023	-	-	-	-	-	(25,938)	(25,938)
Total comprehensive income for the half year ended June 30, 2023	-	-	-	-	(206,060,101)	(25,938)	(206,086,039)
Transfer to Depositors' Protection Fund	-	-	-	1,510,346	-	-	1,510,346
- 5% of the profit after tax	-	-	-	1,510,346	-	-	1,510,346
- return on investment - net of tax	-	-	-	-	-	-	-
Balance as at June 30, 2023 (Un-Audited)	2,308,300,000	52,041,600	98,175,982	31,863,735	(169,811,173)	63,503	2,320,633,647
Profit after taxation for the half year ended December 31, 2023	-	-	-	-	(355,320,229)	-	(355,320,229)
Other comprehensive income for the half year ended December 31, 2023	-	-	-	-	9,295,914	138,055	9,433,969
Total comprehensive income for the half year ended December 31, 2023	-	-	-	-	(346,024,315)	138,055	(345,886,260)
Transfer to Depositors' Protection Fund	-	-	-	624,267	-	-	624,267
- 5% of the profit after tax	-	-	-	624,267	-	-	624,267
- return on investment - net of tax	-	-	-	-	-	-	-
Transactions with owners, recorded directly in equity	911,700,000	-	-	-	-	-	911,700,000
Increase in share capital	911,700,000	-	-	-	-	-	911,700,000
Balance as at December 31, 2023 (Audited)	3,220,000,000	52,041,600	98,175,982	32,488,002	(515,835,488)	201,558	2,887,071,654
Impact of adoption of IFRS-9 (Note 3.3.2)	-	-	-	-	(337,264,568)	-	(337,264,568)
Adjusted Balance as at December 31, 2023	3,220,000,000	52,041,600	98,175,982	32,488,002	(853,100,056)	201,558	2,549,807,086
Profit after taxation for the half year ended June 30, 2024	-	-	-	-	(577,055,920)	-	(577,055,920)
Other comprehensive income for the half year ended June 30, 2024	-	-	-	-	5,498,676	376,333	5,875,009
Total comprehensive income for the half year ended June 30, 2024	-	-	-	-	(571,557,244)	376,333	(571,180,911)
Transfer to Depositors' Protection Fund	-	-	-	472,927	-	-	472,927
- 5% of the profit after tax	-	-	-	472,927	-	-	472,927
- return on investment - net of tax	-	-	-	472,927	-	-	472,927
Balance as at June 30, 2024 (Un-Audited)	3,220,000,000	52,041,600	98,175,982	32,960,929	(1,424,657,300)	577,891	1,979,099,102

The annexed notes 1 to 38 form an integral part of these condensed interim financial statements (un-audited).

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President

Chief Financial Officer

Director

Director

Director

LOLC MICROFINANCE BANK LIMITED
CONDENSED STATEMENT OF CASH FLOWS (UN-AUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2024

	June 30, 2024 (Un-audited)	December 31, 2023 (Audited)
Note	----- Rupees -----	
CASH FLOW FROM OPERATING ACTIVITIES		
Operating profit before working capital changes	40,520,284	37,663,242
(Increase / Decrease in operating assets)		
Advances	(798,854,349)	307,808,785
Other assets (excluding advance taxation)	198,936,983	(85,433,355)
	(599,917,366)	222,375,430
(Increase /Decrease in operating liabilities)		
Deposit and other accounts	1,254,288,257	(827,731,174)
Other liabilities	77,921,952	15,572,955
	1,332,210,209	(812,158,219)
	772,813,127	(552,119,547)
Levies / Income Tax Paid	(41,303,658)	(45,883,846)
Gratuity and leave encashment paid (including contribution)	(12,069,350)	(4,138,548)
	(53,373,008)	(50,022,394)
Net cash used in operating activities	719,440,119	(602,141,941)
CASH FLOW FROM INVESTING ACTIVITIES		
Net investment in classified as amortised cost	299,043,814	5,555,557
Net investment in classified as FVOCI	5,562,671	9,268,060
Rent paid against lease obligation	(37,807,231)	(16,084,595)
Investment in operating fixed assets	(30,922,289)	(25,463,602)
Investment in intangible assets	(6,545,157)	-
Sales proceeds of property and equipments disposed off	16,843,183	-
Net cash generated from / (used in) investing activities	246,174,991	(26,724,580)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of Borrowing from SBP	(1,200,000,000)	-
Net cash used in financing activities	(1,200,000,000)	-
Decrease in cash and cash equivalents	(234,384,890)	(628,866,521)
Cash and cash equivalent at the beginning of the period	1,327,207,525	1,215,575,513
Cash and cash equivalent at the end of the period	1,092,822,635	586,708,992

The annexed notes 1 to 38 form an integral part of these condensed interim financial statements (un-audited). *refm*

President

Chief Financial Officer

Director

Director

Director

LOLC MICROFINANCE bank LIMITED
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2024

1 STATUS AND NATURE OF BUSINESS

LOLC Microfinance bank Limited formerly 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 company is subsidiary of LOLC Asia (Private) Limited and LOLC PLC is a ultimate parent.

The registered office of the bank is situated at 20-C, Khayaban-e-Nishat, Ittehad Commercial Area, Phase-VI, DHA, Karachi, Pakistan. As at 30 June 2024, the bank has 83 branches (2023: 62) 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. The Head office of the bank is situated at Park View Plaza, Bearing No. CB-6300, near Royal Palace Hotel, Jhelum Road, Rawalpindi.

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

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

Name of the bank has been changed from Pak Oman Microfinance bank Limited to LOLC Microfinance bank Limited with the approvals from SECP vide their document B 048901 dated October 10, 2022 and SBP vide their letter No. BPRD (LD-01) / 2022 -12317 dated December 12, 2022. Therefore, the bank shall be known as LOLC Microfinance bank Limited effective from January 01, 2023.

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

2.1 STATEMENT OF COMPLIANCE

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 Standards (IFRS) issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;
- Provisions of and directives issued under The Microfinance Institutions Ordinance, 2001 (the MFI Ordinance) and the Companies Act, 2017; and
- Directives issued by the SBP and the Securities and Exchange Commission of Pakistan (SECP).

Whenever the requirements of the Microfinance Institution Ordinance, 2001, Companies Act, 2017 or the directives issued by the SBP and the SECP differ with the requirements of IFRS or IFAS, the requirements of the Microfinance Institution Ordinance, 2001, the Companies Act, 2017 and the said directives shall prevail.

SBP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and IAS 40, 'Investment Property' for banking Companies through BSD Circular No. 10 dated August 26, 2002. Moreover, SECP has deferred applicability of IFRS 7 'Financial Instruments: Disclosures' on banks through SRO 411(1)/2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these condensed interim financial statements (un-audited).

The disclosures made in these condensed interim financial statements (un-audited) have been limited based on the format prescribed by the SBP vide BPRD Circular Letter No. 3 dated February 9, 2023 and IAS 34, Interim Financial Reporting.

- 2.2 The condensed interim financial statements does not include all the disclosures required in the annual audited financial statements, and should be read in conjunction with the financial statements (audited) of the bank for the year ended December 31, 2023, except for IFRS 9 Financial Instruments adopted w.e.f January 1, 2024.

3 MATERIAL ACCOUNTING POLICY INFORMATION

The material accounting policy information related to preparation of these condensed interim financials statements (un-audited) are consistent with those applied in preparation of annual audited financials statements (audited) of the bank for the year ended December 31, 2023 except for the adoption of IFRS 9 Financial Instruments w.e.f January 1, 2024 and levy as per IFRIC 21 / IAS 37.

3.1 Standards, Interpretations and amendments to published approved accounting standards that are effective in the Current Period

Durning the period, there are certain new and amended standards, interpretations and amendments that are became effective. However, these are considered either not to be relevant or not to have material effect on the financial statements of the bank and therefore are not disclosed.

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

There are certain new and amended standards, interpretations and amendments to the existing accounting and reporting standards that are not effective to the current period. The bank expects that the adoption of the same will not effect the financial statements in the period of initial application.

3.3 Changes in accounting policies and transition disclosures

3.3.1 Impact of IFRIC 31 / IAS 37

During the year, the Company changed its accounting policy of recognizing the portion of income tax paid or payable for the year under the Income Tax Ordinance, 2001, not based on the taxable profits of the Company, as a Levy under IFRIC-21/IAS-37 instead of the current income tax for the year under IAS-12.

The management believes that the new policy provides reliable and more relevant information to the users of the financial statements.

The change in accounting policy has been accounted for retrospectively in accordance with International Accounting Standard 8: "Accounting Policies, Changes in Accounting Estimates and Errors". There is, however, no material impact on the financial statements of the prior years.

Levy

Minimum tax, final tax and super-tax not based on taxable profits are recognised as a levy in the statement of profit or loss. The amount calculated on taxable income using the notified tax rate is recognised as current income tax expense for the year in statement of profit or loss under the scope of IAS 12. Any excess of expected income tax paid or payable for the year under the Income Tax Ordinance, 2001 over the amount designated as current income tax for the year, is then recognised as a levy falling under the scope of IFRIC 21 / IAS 37. Minimum tax under Section (113) of the Income Tax Ordinance, 2001 is chargeable at rate of 1.25% of turnover of the company and adjustable against normal tax in subsequent three tax years.

If any excess paid expected to be realized in subsequent tax years, then such excess shall be recognised as 'deferred tax asset' adjustable against tax liability for subsequent tax years.

3.3.2 Impact of IFRS 9 - Financial Instruments

As permitted by the transitional provisions of IFRS 9, the bank has opted for modified retrospective approach and has not restated comparative figures. Any adjustments to the carrying amount of financial assets and liabilities at the date of transition were recognised in the opening retained earnings at the beginning of current year without restating the comparative figures.

The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurements of financial assets, financial liabilities and Impairment of financial assets, IFRS 9 also significantly amends other standards dealing with the financial instruments such as IFRS 7 financial instrument disclosures.

3.3.3 The key changes to bank's accounting policies resulting from its adoption of IFRS-9 are summarized below.

a) **Classification of Financial Assets**

The bank classifies its financial assets into the following categories.

- At Fair Value through Profit and loss (FVPL);
- At Fair value through other comprehensive Income (FVOCI);
- At amortised cost;

Classification of Equity Instruments

Equity securities that are trading in active market and are held for trading purposes will be classified as FVPL. Equities securities that are not held for trading purpose will be classified as FVOCI; however, gain and losses from the sale of securities classified as FVOCI will not be recycled through profit and loss account. The classification decision is made based on a case by case basis at the time of purchase is documented and is irrevocable.

Classification of Other Financial Assets

Financial assets other then equity will be classified based on their cash flow characteristics and business model assessment.

- a. **Amortised Cost:** These will be classified as amortised cost if the objective is to held the asset only for collecting contractual cash flows (principal and interest).
- b. **FOVCI:** These will be classified as FVOCI if the objective is to collect contractual cash flows (principal and interest) and also to potentially sell the same depending on market conditions. Any unrealised profit and loss on debt instruments classified through FVOCI is reflected in other comprehensive income and is recycled through profit and loss account with the investment is sold.
- c. **FVPL:** This include financial assets:
 - which are not classified either at amortised cost or FVOCI.
 - Which do not have fixed maturity.

In addition, on initial recognition, the bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Subsequent Measurement

Equity and debt securities classified as FVPL

Securities other then unlisted equity securities, are subsequently measured at fair value. Changes in fair value of these securities are taken to profit and loss account.

Changes in the value of unlisted equity securities carried at lower of cost or break up value are taken to the profits and loss account.

Equity and debt securities classified as FVOCI

Securities, other than unlisted equity securities, are subsequently measured at fair value. Changes in the fair value of these securities are recorded in OCI. When a debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit and loss account. When an equity security is derecognised, gain or loss previously recognised in OCI are not recycled through profit and loss account but are transferred directly to retained earnings.

Changes in the value of unlisted equity securities, carried out at lower of cost or break up value are recorded in OCI. When these are derecognised, gain or loss previously recognised in OCI are not recycled through profit and loss account but are directly transferred to retained earnings.

Other Financial Assets Classified at Amortised Cost

Other financial assets initially classified at amortised cost continue to be subsequently measured at amortised cost.

b) Classification of Financial Liabilities

Financial liabilities are either classified as FVPL, when they are held for trading purposes, or at amortised cost. Financial liabilities classified through FVPL are measured at fair value.

Financial liabilities classified at amortised cost are initially recorded at fair value and subsequently measured using the effective interest rate method.

c) Derecognition of financial assets and liabilities

Derecognition for substantial modification of Financial assets

The bank derecognizes a financial asset such as a loan to a customer. when the terms and Conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage I for ECL measurement purposes. unless the new loan is deemed to be POCL.

For financial liabilities, the bank considers a modification substantial based on qualitative factors an it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability or greater than, ten percent. For financial assets this assessment is based on qualitative factors.

Derecognition other than for substantial modification Financial assets

A financial asset (or where applicable, a part of a financial asset) is derecognised when the rights receive cash flows from the financial asset have expired. The bank also recognizes the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified. such an

exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

Reclassification of financial assets and liabilities

From 1 January 2024 the bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the bank: acquires, disposes off or terminates a business line. Financial liabilities are never reclassified. The bank did not reclassify any of its financial assets or liabilities in 2024.

d) Impairment of financial assets (Polity applicable from 1 January 2024)

i) Overview of the ECL principles

IFRS 9 has fundamentally changed the bank's loan loss impairment method by replacing incurred loss approach with a forward-looking ECL approach. From January 01, 2024, the bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments, and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or (LTECL)), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL).

The 12mECL is the portion of LTECLs that represent the ECLs that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending: on the nature of the underlying portfolio of financial instruments.

The bank has established a policy to perform an assessment, at the end of each reporting period, of whether financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1 When loans are first recognised, the bank recognizes an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2 When a loan has shown a significant increase in credit risk since origination, the bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3 Loans considered credit-impaired . The bank records an allowance for the LTECLs

POCI Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition, POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

ii) **The calculation of ECLs**

The bank calculates ECLs based on a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are as follows:

- PD The Probability of Default (PD) is an estimate of: the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PDS is further explained in credit risk management.
- LGD The Loss Given Default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral or credit enhancements that are integral to the loan. It is usually expressed as a percentage of the EAD. The LGD is further explained in credit risk management.
- EAD The Exposure at Default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities and accrued interest from missed payments.

When estimating the ECLs, the bank considers three scenarios (a base case, an upside and a downside). The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the bank the legal right to call it earlier, Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an the financial asset's gross carrying value.

The mechanics of the ECL method are summarized below:

- Stage 1 The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date, The bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three: scenarios as explained above.

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- Stage 2 When a loan has shown a significant increase in credit risk since origination the bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument.
- Stage 3 For loans considered credit-impaired, the bank recognizes the lifetime expected credit losses for these loans. The method is similar to that for stage 2 assets, with the PD set at 100%.
- POCI POCI assets are financial assets that are credit impaired on initial recognition. The bank only recognizes the cumulative changes in lifetime ECLs since initial recognition based on a probability-weighting of the three scenarios, discounted by the credit-adjusted EIR.

Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the Statement of financial position which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

Purchased or originated credit impaired financial assets (POCI)

For POCI financial assets, the bank only recognizes the cumulative changes in LTECL since initial recognition in the loss allowance.

Forward looking information

In its ECL models, the bank relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth
- Consumer price indices

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Two track approach for stage 3 loans

As per instructions issued by SBP, the bank used two track approach for ECL assessment: on stage 3 loans, As per this approach the bank calculated provision / ECL both under Prudential Regulations (PRs) issued by SBP for microfinance banks and IFRS 9 and higher amount has been taken and final ECL.

iii) **Credit risk management**

Credit risk arises from the potential that an obligor is either unwilling to perform on an obligation or its ability is impaired resulting in economic loss to the bank. The bank takes necessary measures to control such risk by monitoring credit exposures, limiting transactions with specific counter parties with increased likelihood of default and continually assessing the creditworthiness of counter parties.

Definition of default and cure

The bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations. advances to customers when the borrower becomes 60 days past due for general loans, 90 days past due for enterprise loans and 180 days past dues for housing loans on its contractual payments.

As a part of a qualitative assessment of whether a customer is in default. The bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the bank carefully considers whether the event should result in treating the: customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sate of the collateral
- A covenant breach not waived by the bank
- The borrower is unable to pay due to any other reason
- The loan facility is restructured / deferred.

It is the bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present. The decision whether to classify an assets as Stage 2 or Stage 1 once cured depends on :the updated delinquency, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition. However, no financial assets is directly classified from stage 3 to stage 1.

iv) **PD estimation process**

The banks entire loans and advances portfolio consist of consumer fending. Consumer lending comprises agriculture, livestock, enterprise, general, gold, house and Islamic loans. The bank does not have credit score card model for consumer lending's,. therefore, the bank used delinquency (day past due) based model for estimation of PDs. Average monthly transitions to default of relevant delinquency states were converted into current 12 months point in time PDs using statistical models. The lifetime PD is developed by applying a maturity profile to the current 12 months PD.

v) **LGD estimation process**

The bank segments its consumer lending products into smaller homogeneous segments, based on key characteristics that are relevant to the estimation of future cash flows. The bank calculate LGD of each segment based historical experiences of cash recoveries from defaults (including

settlements), cost and time of recoveries. One year set back is maintained for calculation of LGD for defaults, Which means parties which are classified as default till end of last year are taken in to the calculation of LGD.

vi) Forward looking information

IFRS 9 requires incorporating future economic conditions into the measurement of ECL. Future economic conditions are incorporated by adjusting estimates of PD to reflect expectations about the stage of economic cycle expected to be prevalent in the economy as-and-when default is expected to arise in the future. The macroeconomic factors were selected based on management judgement and analysis of historical default rates. GDP growth rate and CPI were considered to be the most suitable for the bank's customers. The GDP and CPI forecast were sourced from World bank which were used to determine forward looking Point in time PDS (Pit PDs).

e) Transitional Impact

The bank has adopted IFRS 9 in accordance with the application instructions from 1st January 2024, using the modified retrospective approach and has not restated comparatives for the 2023 reporting period and the difference in carrying amount of financial asset and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1st January 2024 as permitted under specific transitional provision in the standard.

Measurement of Expected Credit Loss allowances

The measurement of ECL allowance for the financial assets measured at amortised cost and at FVOCI is derived using complex models with significant assumptions about future economic conditions and credit behaviour.

A number of significant judgments are applied the accounting requirements for measuring the ECL, such as

- Choosing appropriate models and assumptions for the measurement of ECL.
- Establishing groups of similar financial assets for the purpose of measuring ECL.
- Establishing the number and relevant weightages of forward-looking macroeconomic scenarios for
- Determining whether an asset shows a significant increase in credit risk.

f) Advances

These are stated at cost net of provisions, which are determined based on the higher of Prudential Regulations (the Regulations) for Microfinance banks issued by SBP and IFRS-9, with the amount 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:

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

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

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

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

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3.3.4 Reconciliation of Statement of financial position balances for existing local regulations to

The following table reconciles the carrying amount of financial assets, from their previous measurement category in accordance with the existing local regulations to their new measurement categories upon transition to IFRS 9 January 01, 2024.

Classification under IFRS 9						
	As per previous accounting policy	At FVOCI	At FVPL	At Amortised Cost	Remeasurement under IFRS 9	As per IFRS 9
	Carrying amount as at January 1, 2024					Carrying amount as at January 1, 2024
Cash and cash equivalents	1,327,207,525	-	-	1,327,207,525		1,327,207,525
Advances	3,825,025,311			3,825,025,311	(337,264,568)	3,487,760,743
Investment in financial assets						
Available for sale	412,266,887	-	25,194,443	387,072,444		412,266,887
Other Assets	402,275,152	-	-	402,275,152		387,072,444
Other Liabilities	620,847,813	-	-	620,847,813		-

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The basis for accounting estimates adopted in the preparation of these condensed interim financial statements are the same as that applied in the preparation of the audited annual financial statements for the year ended December 31, 2023.

5 FINANCIAL RISK MANAGEMENT

The financial risk management objectives and policies are consistent with those disclosed in the annual audited financial statements for the year ended December 31, 2023.

		June 30, 2024 (Un-audited)	December 31, 2023 (Audited)
	Note	----- Rupees -----	
6 CASH AND BALANCES WITH TREASURY BANKS			
In hand - local currency		106,267,052	44,434,583
Balance with State Bank of Pakistan (SBP) Local currency current account	6.1	356,259,674	67,356,877
Less: Credit loss allowance		-	-
		<u>462,526,726</u>	<u>111,791,460</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.

		June 30, 2024 (Un-audited)	December 31, 2023 (Audited)
	Note	----- Rupees -----	
7 BALANCES WITH OTHER BANKS			
In Pakistan - in current accounts - in deposit accounts	7.1	93,799,825 <u>536,496,084</u> <u>630,295,909</u>	129,650,354 <u>1,085,765,711</u> <u>1,215,416,065</u>

7.1 These represents deposits with commercial banks carrying mark-up at rates ranging from 17% to 22% per annum (2023: 20.5% to 23.5% per annum).

8 INVESTMENTS

Investment by Type

	June 30, 2024 (Un-audited)			December 31, 2023 (Audited)				
	Fair Value / Amortised Cost	Credit Loss Allowance	Surplus / (Deficit)	Carring Value	Cost / Amortised Cost	Provision for diminution	Surplus / (Deficit)	Carring Value
	----- Rupees -----							
Classified as Amortised Cost								
Federal Government Securities	48,028,630	-	-	48,028,630	187,072,444	-	-	187,072,444
Market treasury bills	40,000,000	-	-	40,000,000	200,000,000	-	-	200,000,000
Term deposit receipts (TDRs)	88,028,630	-	-	88,028,630	387,072,444	-	-	387,072,444
Classified as FVOCI								
Term finance certificates (TFCs)	5,882,055	(5,882,055)	-	-	5,882,055	(5,882,055)	-	-
Sukuk	29,437,329	(10,000,000)	616,939	20,054,268	35,000,000	(10,000,000)	194,443	25,194,443
	35,319,384	(15,882,055)		20,054,268	40,882,055	(15,882,055)	194,443	25,194,443
Total Investments	<u>123,348,014</u>	<u>(15,882,055)</u>	<u>-</u>	<u>108,082,898</u>	<u>427,954,499</u>	<u>(15,882,055)</u>	<u>194,443</u>	<u>412,266,887</u>

June 30, 2024 (Un-audited) Rupees -----
 December 31, 2023 (Audited) Rupees -----

8.1 Investments given as collateral

8.2 Investments - Particulars of credit loss allowance

	June 30, 2024 (Un-audited)			December 31, 2023 (Audited)		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
	Rupees			Rupees		
8.2.1 Investments - Exposure						
Gross carrying amount	412,072,444	-	15,882,055	427,954,499	-	327,914,205
New Investments	83,082,898	-	-	83,082,898	-	387,072,444
Investments derecognised or repaid	(387,689,383)	-	-	(387,689,383)	-	287,032,150
Transfer to stage 1	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-
	(304,606,485)	-	-	(304,606,485)	-	100,040,294
Amounts written off / charged off	-	-	-	-	-	-
Closing balance	107,465,959	-	15,882,055	123,348,014	-	427,954,499

8.2.2 Investments - Credit loss allowance

Credit loss allowance Opening balance	-	-	15,882,055	15,882,055	-	15,882,055
New Investments	-	-	-	-	-	-
Investments derecognised or repaid	-	-	-	-	-	-
Transfer to stage 1	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-
Amounts written off / charged off	-	-	-	-	-	-
Changes in risk parameters	-	-	-	-	-	-
Credit loss allowance closing balance	-	-	15,882,055	15,882,055	-	15,882,055

8.3 Particulars of credit loss allowance against debt securities

	June 30, 2024 (Un-audited)		December 31, 2023 (Audited)	
	NPL	Credit loss allowance	NPL	Credit loss allowance
	Rupees		Rupees	
Domestic				
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	15,882,055	15,882,055	-	-
	15,882,055	15,882,055	-	-

ADVANCES

Loan Type

Loan Type	Performing			Non Performing			Total	
	Stage 1		Stage 2	Stage 3		(Un-audited)	(Audited)	Rupees
	(Un-audited) June 30, 2024	(Audited) December 31, 2023	(Un-audited) June 30, 2024	(Audited) December 31, 2023	(Un-audited) June 30, 2024	(Audited) December 31, 2023	(Un-audited) June 30, 2024	
Microcredits								
Secured	740,409,100	229,463,731	10,176,038	2,169,319	6,372,294	2,353,904	756,957,432	233,986,954
Un-Secured	2,597,499,869	3,026,727,719	193,862,514	177,529,929	622,392,727	643,588,413	3,413,755,110	3,847,846,061
Staff Loan	25,788,159	56,854,569	-	-	-	-	25,788,159	56,854,569
Advances - gross	3,363,697,128	3,313,046,019	204,038,552	179,699,248	628,765,021	645,942,317	4,196,500,701	4,138,687,584
Credit loss allowance against advances								
Stage 1	91,734,547	-	-	-	-	-	91,734,547	-
Stage 2	-	-	16,160,905	-	-	-	16,160,905	-
Stage 3	-	-	-	-	314,362,917	276,298,600	314,362,917	276,298,600
Specific provision	-	37,363,673	-	-	-	-	-	37,363,673
General provision	91,734,547	37,363,673	16,160,905	-	314,362,917	276,298,600	422,258,369	313,662,273
Advances - net of credit loss allowance	3,271,962,581	3,275,682,346	187,877,647	179,699,248	314,402,104	369,643,717	3,774,242,332	3,825,025,311

9.1 Advances - Particulars of credit loss allowance

	June 30, 2024 (Un-audited)			December 31, 2023 (Audited)		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
	Rupees					
3,313,046,019	179,699,248	645,942,317	4,138,687,584	-	-	5,493,901,167
Gross carrying amount						
New advances	1,847,705,200	33,441,373	7,283,732	1,888,430,305	-	3,650,247,033
Advances derecognised or repaid	(1,161,345,993)	(139,664,529)	(125,830,002)	(1,426,840,524)	-	(4,133,321,280)
Transfer to stage 1	46,228,557	(19,690,041)	(26,538,516)	-	-	-
Transfer to stage 2	(227,446,719)	232,169,106	(4,722,387)	-	-	-
Transfer to stage 3	(454,489,936)	(81,916,605)	536,406,541	-	-	(483,074,247)
50,651,109	24,339,304	386,599,368	461,589,781	-	-	(872,139,336)
Amounts written off / charged off	-	-	(403,776,664)	-	-	4,138,687,584
Closing balance	3,363,697,128	204,038,552	628,765,021	4,196,500,701	-	

	June 30, 2024 (Un-audited)			December 31, 2023 (Audited)		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3

9.1.2 Advances - Credit loss allowance

	June 30, 2024 (Un-audited)			December 31, 2023 (Audited)		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Opening balance	37,363,673	-	276,298,600	-	-	233,543,582
New advances	145,817,360	21,841,060	302,011,350	-	-	-
Advances derecognised or repaid	(56,536,793)	(14,577,855)	113,817,638	-	-	-
Transfer to Stage 1	11,265,609	(3,498,144)	(7,767,465)	-	-	-
Transfer to Stage 2	(20,621,197)	23,266,693	(2,645,496)	-	-	-
Transfer to Stage 3	(25,554,105)	(10,870,849)	36,424,954	-	-	1,018,328,224
Specific	-	-	-	-	-	(66,070,027)
General	54,370,874	16,160,905	441,840,981	-	-	952,258,197
Amounts written off/charged Off	-	-	(403,776,664)	-	-	(872,139,336)
Changes in risk parameters	-	-	-	-	-	-
Closing balance	91,734,547	16,160,905	314,362,917	-	-	313,662,443

9.2 Credit loss allowance details

Outstanding gross exposure						
Performing - Stage 1	3,363,697,128	-	-	-	-	3,343,798,604
Under Performing - Stage 2	-	204,038,552	-	-	-	196,810,525
Other assets especially mentioned	-	-	-	-	-	-
Non- Performing - Stage 3						
Substandard	-	-	251,156,188	-	-	231,111,527
Doubtful	-	-	276,154,049	-	-	305,787,440
Loss	-	-	101,454,784	-	-	61,179,488
	-	-	628,765,021	-	-	598,078,455
	3,363,697,128	204,038,552	628,765,021	-	-	4,138,687,584

Corresponding credit loss allowance

Stage 1	91,734,547	-	-	-	-	-
Stage 2	-	16,160,905	-	-	-	-
Stage 3	-	-	314,362,917	-	-	276,298,600
Specific	-	-	-	-	-	37,363,673
General	91,734,547	16,160,905	314,362,917	-	-	313,662,273

June 30, 2024 (Un-audited) Rupees -----
 December 31, 2023 (Audited) Rupees -----

9.3 Particulars of write offs

Against provision	403,776,664	872,139,336
Directly charged to profit or loss account	1,000,000	17,027,897
	404,776,664	889,167,233

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	June 30, 2024 (Un-audited)	December 31, 2023 (Audited)
	----- Rupees -----	
10 PROPERTY AND EQUIPMENT		
Property and equipment	<u>143,325,060</u>	<u>150,021,898</u>
10.1 Additions to property and equipment		
The following additions have been made to property and equipment during the period:		
Leasehold improvements (Building's fixtures)	6,761,709	16,252,784
Office equipment	20,226,891	12,406,285
Furniture and fixture	2,396,440	10,980,224
Computers	1,537,249	9,317,604
	<u>30,922,289</u>	<u>48,956,897</u>
10.2 Disposal of property and equipment		
The net book value of property and equipment disposed off during the period is as follows:		
Furniture and fixture	-	62,500
Computers	-	90,000
Vehicles	9,083,850	2,718,559
	<u>9,083,850</u>	<u>2,871,059</u>
11 RIGHT-OF-USE ASSETS		
Opening balance		
Cost	335,981,347	242,376,399
Accumulated Depreciation	<u>(112,935,266)</u>	<u>(75,724,323)</u>
Net Carrying amount	223,046,081	166,652,076
Additions during the period	4,626,381	34,842,747
Deletions during the period	-	-
Depreciation Charge for the period	(21,214,537)	(37,210,943)
Reassessment during the period		58,762,201
Closing balance	<u>206,457,925</u>	<u>223,046,081</u>
12 INTANGIBLE ASSETS		
Computer software	<u>15,871,987</u>	<u>14,664,791</u>

2024

	June 30, 2024 (Un-audited)	December 31, 2023 (Audited)
	----- Rupees -----	
12.1 Additions to intangible assets		
The following additions have been made to intangible assets during the period:		
Directly purchased	<u>6,545,157</u>	<u>14,639,464</u>
12.2 Disposals of intangible assets		
The net book value of intangible assets disposed off during the period is as follows:		
Directly purchased	<u>-</u>	<u>-</u>
13 DEFERRED TAX ASSETS		
Deductible temporary differences on		
- Tax losses carried forward	120,117,896	162,791,514
- Post retirement employee benefits	10,188,206	31,347,682
- Accelerated tax depreciation against operating fixed	6,354,955	10,845,538
- Credit loss allowance against advances	141,011,498	90,962,059
- Credit loss allowance against investments	4,605,796	4,605,796
- Investments	8,804,723	9,504,017
- Minimum tax under section 113	14,541,984	-
- lease obligation	69,844,978	73,062,805
	<u>375,470,036</u>	<u>383,119,411</u>
Taxable temporary differences on		
- Surplus on revaluation of investments	743,206	1,879,492
- Accelerated tax depreciation against right-of-use assets	59,872,798	64,683,364
	<u>60,616,004</u>	<u>66,562,856</u>
	<u>314,854,032</u>	<u>316,556,555</u>
14 OTHER ASSETS		
Income / Mark-up accrued in local currency - net of credit loss allowance	22,817,049	311,194,637
Advances, deposits, advance rent and other prepayments	77,864,358	46,562,335
Advance taxation / refundable taxes	64,096,905	39,766,535
Others	62,890,227	4,751,645
	<u>227,668,539</u>	<u>402,275,152</u>
Less: Credit loss allowance held against other	-	-
	<u>227,668,539</u>	<u>402,275,152</u>

Redes

		June 30, 2024 (Un-audited)	December 31, 2023 (Audited)
		----- Rupees -----	
		Note	
15	BORROWINGS		
	Unsecured		
	Borrowing from State Bank of Pakistan	15.1	782,284,483 1,982,284,483
15.1	This represents Line of Credit facility carrying interest at 6 month KIBOR minus 100 bps and is repayable in September 2024.		

		June 30, 2024 (Un-audited)	December 31, 2023 (Audited)
		----- Rupees -----	
		Note	
16	DEPOSITS AND OTHER ACCOUNTS		
	Customers		
	Current deposits	32,593,019	13,977,430
	Savings deposits	3,005,526	280,343
	Term deposits	2,147,609,255	914,661,770
		2,183,207,800	928,919,543
	Financial Institutions	-	-
		2,183,207,800	928,919,543

17	LEASE OBLIGATION		
	Balance as at January 1,	251,940,708	231,543,125
	Additions during the period	4,626,381	34,842,747
	Interest expense	22,084,894	41,402,799
	Payment	(37,807,231)	(55,847,964)
	Balance as at June 30,	240,844,752	251,940,707

18	OTHER LIABILITIES		
	Mark-up / Return / Interest payable in local currency	250,602,132	246,456,507
	Accrued expenses	107,435,144	72,584,876
	Payable to shareholders	280,575,560	244,483,136
	Payable to defined benefit plan	33,145,690	26,076,164
	Advance from customer	12,973,312	3,910,823
	Withholding taxes payable	7,999,207	569,633
	Provision for compensated absences	2,510,243	4,878,925
	Sales taxes	2,101,846	4,640,431
	Provision for leave fare assistance	545,337	6,126,675
	Security Deposit	800	11,120,643
		697,889,271	620,847,813

18.1 This majorly represents amount payable to LOLC Technology Services Limited.

	June 30, 2024 (Un-audited)	December 31, 2023 (Audited)
	----- Rupees -----	
19 SURPLUS ON REVALUATION OF ASSETS - NET OF TAX		
Surplus / (deficit) on revaluation of - FVOCI - debt	813,931	283,885
Deferred tax on surplus / (deficit) on revaluation of: - FVOCI - debt	(236,040)	(82,327)
	<u>577,891</u>	<u>201,558</u>

20 CONTINGENCIES AND COMMITMENTS

20.1 Contingencies

The Company has no contingencies as at June 30, 2024 (2023: nil).

20.2 Commitments

The Company has no commitments as at June 30, 2024 (2023: nil).

	June 30, 2024 (Un-audited)	June 30, 2023 (Un-audited)
	----- Rupees -----	
21 MARK-UP RETURN/ INTEREST EARNED		
Interest / mark-up on:		
Loans and advances	868,006,466	1,120,947,371
Investments	44,642,670	33,641,989
Balances with other banks	78,900,758	39,537,521
	<u>991,549,894</u>	<u>1,194,126,881</u>

21.1 Interest income (calculated using effective interest rate method) recognised on:

Financial assets measured at amortised cost

2,740,119	-
-----------	---

22 MARK-UP / RETURN / INTEREST EXPENSED

Deposits	155,853,210	160,523,292
Borrowings	175,233,497	162,063,463
Lease liabilities	22,084,894	6,865,100
	<u>353,171,601</u>	<u>329,451,855</u>

22.1 Interest expense calculated using effective interest rate method

Finance cost on borrowings from SBP

175,233,497	162,063,463
-------------	-------------

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	Note	June 30, 2024 (Un-audited)	June 30, 2023 (Un-audited)
		----- Rupees -----	
23	FEE AND COMMISSION INCOME		
	Loan processing fees	55,172,295	67,179,080
	Overdue interest	34,300,774	36,150,665
	Miscellaneous Income	2,436	-
		<u>89,475,505</u>	<u>103,329,745</u>
24	OTHER INCOME		
	Gain on disposal of fixed assets	7,759,333	-
	Moratorium income	7,623,408	23,716,070
	Miscellaneous Income	59,890	11,104,589
		<u>15,442,631</u>	<u>34,820,659</u>
25	ADMINISTRATIVE EXPENSES		
	Salaries, allowances etc.	512,030,184	423,619,271
	Bonus to employees	24,000,000	4,000,000
	Contribution to defined contribution plan	11,028,279	8,087,533
	Charge for defined benefit plan	9,337,607	8,300,000
	Charge for leave fare assistance	1,577	-
	Non-executive directors' allowances and other expenses	200,000	400,000
	Training	2,769,803	1,472,863
	Rent, rates and taxes	27,152,849	26,771,250
	Legal and professional charges	3,439,789	6,909,661
	Utilities	14,611,635	9,973,527
	Communications	30,569,776	27,577,984
	Fusion expenses	36,239,376	42,460,194
	Repairs and maintenance	4,378,498	9,689,052
	Vehicle running	3,878,232	4,672,977
	Insurance	23,670,834	22,324,939
	Travel and transportation	14,245,459	11,298,852
	Stationery and printing	8,962,645	11,756,105
	IT supplies and software	17,476,148	21,684,125
	Office supplies	5,729,498	1,911,988
	Fees and subscription	7,006,405	11,600,528
	Advertisement and business promotions	12,257,828	12,388,280
	Auditors' remuneration	1,067,400	1,817,251
	Depreciation on property and equipment	28,535,277	28,596,039
	Depreciation on right-of-use assets	21,214,537	24,886,453
	Amortisation of intangible assets	5,337,961	5,458,194
	Bank charges	2,087,034	2,249,452
	Security expense	24,238,950	12,909,297
	Kitchen expenses	4,256,506	4,004,495

	June 30, 2024 (Un-audited)	June 30, 2023 (Un-audited)
	----- Rupees -----	
Entertainment expenses	4,148,554	1,679,547
Medical staff	56,231	42,711
Archiving	2,935,766	1,364,757
Other expenses	11,099,774	(2,947,766)
	<u>873,964,412</u>	<u>746,959,559</u>
25.1 Auditors' remuneration		
Audit services		
Audit fee	796,700	1,580,218
Out of pocket expenses	270,700	237,033
	<u>1,067,400</u>	<u>1,817,251</u>
26 OTHER CHARGES		
Penalties imposed by State Bank of Pakistan	<u>2,716,000</u>	<u>-</u>
27 CREDIT LOSS ALLOWANCE AND WRITE OFFS - NET		
Credit loss allowance against loans & advances	501,623,152	528,503,188
Bad debts written off directly	1,000,000	17,027,897
Recovery of written off / charged off bad debts	(71,333,880)	(40,421,530)
	<u>431,289,272</u>	<u>505,109,555</u>
28 LEVIES		
Minimum tax differential	<u>14,597,524</u>	<u>17,178,390</u>
28.1 The company has paid minimum tax under Section (113) of the Income Tax Ordinance, 2001 against which deferred tax asset has been recorded as it is expected to be realized in subsequent tax years.		

June 30, **June 30,**
2024 **2023**
(Un-audited) **(Un-audited)**
----- Rupees -----

29 TAXATION

For the year

- current
- deferred

-	-
(2,214,859)	60,361,973
(2,214,859)	60,361,973

For prior year

- current
- deferred

-	-
-	-
-	-
(2,214,859)	60,361,973
(2,214,859)	60,361,973

29.1 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.

30 LOSS PER SHARE - BASIC AND DILUTED

Loss after taxation (Rupees)

June 30,	June 30,
2024	2023
(Un-audited)	(Un-audited)
(577,055,920)	(206,060,101)

Weighted average number of ordinary shares (Numbers)

230,830,000	230,830,000
-------------	-------------

Earnings per share - basic and diluted (Rupees)

(2.50)	(0.89)
--------	--------

June 30, **June 30,**
2024 **2023**
(Un-audited) **(Un-audited)**
----- Rupees -----

31 OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES

Loss before levies and taxation

(564,673,255)	(249,243,684)
---------------	---------------

Adjustments for non cash charges:

- Depreciation on property and equipment
- Depreciation on right-of-use assets
- Amortisation of intangible assets

28,535,277	28,596,039
21,214,537	24,886,453
5,337,961	5,458,194

	June 30, 2024 (Un-audited)	June 30, 2023 (Un-audited)
----- Rupees -----		
Credit loss allowance and write-offs	512,372,760	212,801,140
Gain on disposal of fixed assets	(7,759,333)	-
Finance cost on lease obligations	22,084,894	6,865,100
Contribution to defined contribution plan	11,028,279	-
Provision for gratuity	9,337,607	8,300,000
Reversal of refundable tax	3,039,980	-
Provison for leave fare assistance	1,577	-
	<u>605,193,539</u>	<u>286,906,926</u>
	<u>40,520,284</u>	<u>37,663,242</u>

32 CASH AND CASH EQUIVALENTS

Cash and balances with treasury banks	462,526,726	152,949,198
Balances with other banks	630,295,909	433,759,794
	<u>1,092,822,635</u>	<u>586,708,992</u>

33 FAIR VALUE MEASUREMENT

The fair value of quoted securities other than those classified as amortized cost, is based on quoted market price. Quoted securities classified as amortized cost are carried at cost. The fair value of unquoted equity securities, other than investments in associates and subsidiaries, is determined on the basis of the break-up value of these investments as per their latest available audited financial statements.

The fair value of unquoted debt securities, fixed term loans, other assets, other liabilities, fixed term deposits and borrowings cannot be calculated with sufficient reliability due to the absence of a current and active market for these assets and liabilities and reliable data regarding market rates for similar instruments.

The MFB measures fair values using the following fair value hierarchy that reflects the significance of the inputs used 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 inputs other than quoted prices included within Level 1 that are observable for the assets 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).

The table below analyzes financial instruments measured at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised:

June 30, 2024 (Un-audited)			
Level 1	Level 2	Level 3	Total
----- Rupees -----			

On balance sheet financial instruments

Financial assets - measured at fair value

Investments				
- Non-Government debt securities	20,054,268	-	-	20,054,268
	20,054,268	-	-	20,054,268

Financial assets - disclosed but not measured at fair value

Investments				
- Federal Government Securities	-	48,028,630	-	48,028,630
- Non-Government debt securities	-	40,000,000	-	40,000,000
	-	88,028,630	-	88,028,630

Off-balance sheet financial instruments - measured at fair value

	-	-	-	-
	20,054,268	88,028,630	-	108,082,898

December 31, 2023 (Audited)			
Level 1	Level 2	Level 3	Total
----- Rupees -----			

On balance sheet financial instruments

Financial assets - measured at fair value

Investments				
- Non-Government debt securities	25,194,443	-	-	25,194,443
	25,194,443	-	-	25,194,443

Financial assets - disclosed but not measured at fair value

Investments				
- Federal Government Securities	-	187,072,444	-	187,072,444
- Non-Government debt securities	-	200,000,000	-	200,000,000
	-	387,072,444	-	387,072,444

Off-balance sheet financial instruments - measured at fair value

	-	-	-	-
	25,194,443	387,072,444	-	412,266,887

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RELATED PARTY TRANSACTIONS

The MFB has related party transactions with its parent, subsidiaries, associates, joint ventures, employee benefit plans and its directors and key management personnel.

The MFB enters into transactions with related parties in the ordinary course of business and on substantially the same terms as for comparable transactions with person of similar standing. Contributions to and accruals in respect of staff retirement benefits and other benefit plans are made in accordance with the actuarial valuations / terms of the contribution plan. Remuneration to the executives / officers is determined in accordance with the terms of their appointment.

Details of transactions with related parties during the period, other than those which have been disclosed elsewhere in these financial statements are as follows:

	June 30, 2024 (Un-audited)					December 31, 2023 (Audited)								
	Parent	Directors	Key management personnel	Subsidiaries	Associates	Joint venture	Other related parties	Parent	Directors	Key management personnel	Subsidiaries	Associates	Joint venture	Other related parties
Balances with related parties	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balances with other banks / MFBs / DFIs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Advances	-	-	56,854,569	-	-	-	-	-	-	26,560,818	-	-	-	-
Opening balance	-	-	4,024,000	-	-	-	-	-	-	80,044,005	-	-	-	-
Addition during the period / year	-	-	(979,546)	-	-	-	-	-	-	(49,750,254)	-	-	-	-
Repaid during the period / year	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer in / (out) - net	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance	-	-	59,899,023	-	-	-	-	-	-	56,854,569	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	33,145,690	-	-	-	-	-	-	-	26,076,164
Payable to staff retirement fund	-	-	-	-	-	-	-	-	-	-	-	-	-	244,483,136
Payable against IT services	-	-	-	-	-	280,575,560	-	-	-	-	-	-	-	270,559,300
- to LOLC technology services limited	-	-	-	-	-	313,721,250	-	-	-	-	-	-	-	-
Contingencies and commitments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transactions with related parties	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Markup income	-	-	212,555	-	-	-	-	-	-	201,752	-	-	-	-
Expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Remuneration to key management personnel	-	-	125,841,466	-	-	-	-	-	-	129,850,431	-	-	-	-
Non-executive director's fee / remuneration	-	200,000	-	-	-	-	-	-	-	22,435,209	-	-	-	8,087,533
Charge for defined contribution plan	-	-	-	-	-	11,028,279	-	-	-	-	-	-	-	8,300,000
Charge for defined benefit plan	-	-	-	-	-	9,337,607	-	-	-	-	-	-	-	42,460,194
System Maintenance (Fusion charges)	-	-	-	-	-	36,239,376	-	-	-	-	-	-	-	58,847,727
	-	200,000	125,841,466	-	-	56,603,262	-	-	22,435,209	129,850,431	-	-	-	-

The term 'related party' shall have the same meaning as specified under IAS 24 - Related party disclosures

CAPITAL ADEQUACY, LEVERAGE RATIO & LIQUIDITY REQUIREMENTS

	June 30, 2024 (Un-audited)	December 31, 2023 (Audited)
	----- Rupees -----	
Minimum Capital Requirement (MCR):		
Paid-up capital (net of losses)	<u>1,795,342,700</u>	<u>2,704,164,512</u>

As per amendments on Prudential Regulations (R-1) issued vide BPRD Circular No. 10 of 2015 dated June 03, 2015, the minimum paid up capital requirement (MCR), free of losses for Microfinance Banks operating at national level is Rs. 1,000 million.

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.

	June 30, 2024 (Un-audited)	December 31, 2023 (Audited)
	----- Rupees -----	
Capital Adequacy Ratio (CAR):		
Eligible Common Equity Tier 1 (CET 1) Capital	1,610,573,578	2,477,000,000
Eligible Additional Tier 1 (ADT 1) Capital	-	-
Total Eligible Tier 1 Capital	1,610,573,578	2,477,000,000
Eligible Tier 2 Capital	32,960,929	70,000,000
Total Eligible Capital (Tier 1 + Tier 2)	<u>1,643,534,507</u>	<u>2,547,000,000</u>
Risk Weighted Assets (RWAs):	4,236,000,000	5,307,000,000
Common Equity Tier 1 Capital Adequacy Ratio	<u>38.02%</u>	<u>46.67%</u>
Tier 1 Capital Adequacy Ratio	<u>38.02%</u>	<u>46.67%</u>
Total Capital Adequacy Ratio	<u>38.80%</u>	<u>47.99%</u>

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 organisation.

36. GENERAL

Comparative information has been reclassified, rearranged or additionally incorporated in these financial statements for the purposes of better presentation.

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

Where there are no amounts to be disclosed in the account captions as prescribed by BSD Circular No. 3 dated February 9, 2023 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.

37. CORRESPONDING FIGURES

Corresponding figures have been re-arranged and re-classified, wherever considered necessary, for better presentation and classification. Following major reclassification has been made during the year.

	Reclassified from	Reclassified to	2023 Amount Rs.
1	Current income tax	Minimum tax differential	17,178,390
2	Operating fixed assets	Property and equipment	150,021,898
3	Operating fixed assets	Right-of-use assets	223,046,081
4	Operating fixed assets	Intangible assets	14,664,791

38. DATE OF AUTHORISATION

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


President Chief Financial Officer Director Director Director