

INNOVATING DIGITAL FINANCE

FOR A FINANCIALLY INCLUSIVE PAKISTAN

Annual Report 2021



easypaisa

Annual Report 2021

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Telenor Microfinance Bank Limited,
Head Office, 19-C, Main Khayban-e-Nishat, Phase 6, DHA, Karachi.

www.telenorbank.pk

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PAKISTAN'S NO. 1 PAYMENTS APP

HIGHLIGHTS - 2021



CUSTOMER GROWTH

MORE THAN
10 MILLION CUSTOMERS
USED THE EASYPAlSA APP
IN ANY MONTH



GROWING USER CONFIDENCE

CUSTOMERS TRUSTED US
WITH PKR 20 BILLION +
OF DEPOSITS



LARGEST AGENT NETWORK

MORE THAN 150,000 AGENTS
ACROSS PAKISTAN WORKING
TILL LATE NIGHTS AND ON
WEEKENDS



WINNING BIG AS A BRAND

WON 10+ AWARDS
IN A YEAR INCLUDING
7 EFFIES



MONUMENTAL TRANSACTION VOLUME

1.1 BILLION TRANSACTIONS
WORTH PKR 3 TRILLION
PROCESSED
(6% OF THE NATIONAL GDP)



A PAYMENT APP FOR ALL TELCO CUSTOMERS

10% OF THE TOTAL TELCO
INDUSTRY AIRTIME AND
BUNDLES SOLD



EASIEST WAY TO SEND MONEY

MOST LOVED APP TO SEND
MONEY TO OTHER WALLETS
OR OTHER BANKS OR TO BE
COLLECTED AT AGENTS



LEADING THE INDUSTRY IN CUSTOMER AWARENESS

MASSIVE INVESTMENT INTO ONE
OF IT'S KIND FRAUD AWARENESS
CAMPAIGN, PINCHOR



BEST APP RATING 4.2

ONE OF THE TOP RATED
PAKISTANI FINANCIAL
SERVICES APP WITH THE
HIGHEST DOWNLOADS



RECORD BREAKING NUMBER OF BILL PAYMENTS

75 MILLION BILLS PAID
FOR MORE THAN 250
UNIQUE BILLERS



MERCHANT PAYMENTS ACROSS PAKISTAN

PAYMENTS AT THOUSANDS
OF ONLINE AND RETAIL
MERCHANTS

CONTRIBUTION TOWARDS A FINANCIALLY INCLUSIVE PAKISTAN



US \$267 MILLION



PKR 41 BILLION

Long Term

A+

Short Term

A1

JCR VIS & PACRA

easypaisa

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OUR STRATEGY



ABOUT US

Since inception, we have been at the forefront of Pakistan's fintech landscape, a journey made possible by introducing innovative best-in-class digital financial solutions.

Designed to operate as a fintech, we have been a key player in the evolution of the country's financial ecosystem. Guided by our shareholders, Telenor Group, one of the world's leading telecom operators across Asia and the Nordics, and Ant Group, operator of Alipay, the world's largest open digital lifestyle platform, we provide secure and convenient digital financial services to the masses through our digital payments platform, Easypaisa.

Through our nationwide network of close to 189,000 registered branchless banking agents serving millions of customers, we are determined to play our role in transforming Pakistan into a cashless and financially inclusive society through the power of collaboration and technology.

INTEGRITY AND HONESTY

Demonstrated by transparency, commitment and truthfulness.

CUSTOMER FOCUSED

Demonstrated by always keeping customers first. All actions and decisions should bear in mind the impact on both our internal and external customers.

EXTREME OWNERSHIP

Demonstrated by taking responsibility and accepting accountability for all outcomes.

COLLABORATION AND TEAMWORK

Demonstrated by working collectively and helping each other succeed.

CULTURAL EXCELLENCE

When we say we are a family, we mean it. We have normalized cheering up, motivating, and rooting for each other to an extent that our people don't know how to not work as a team.

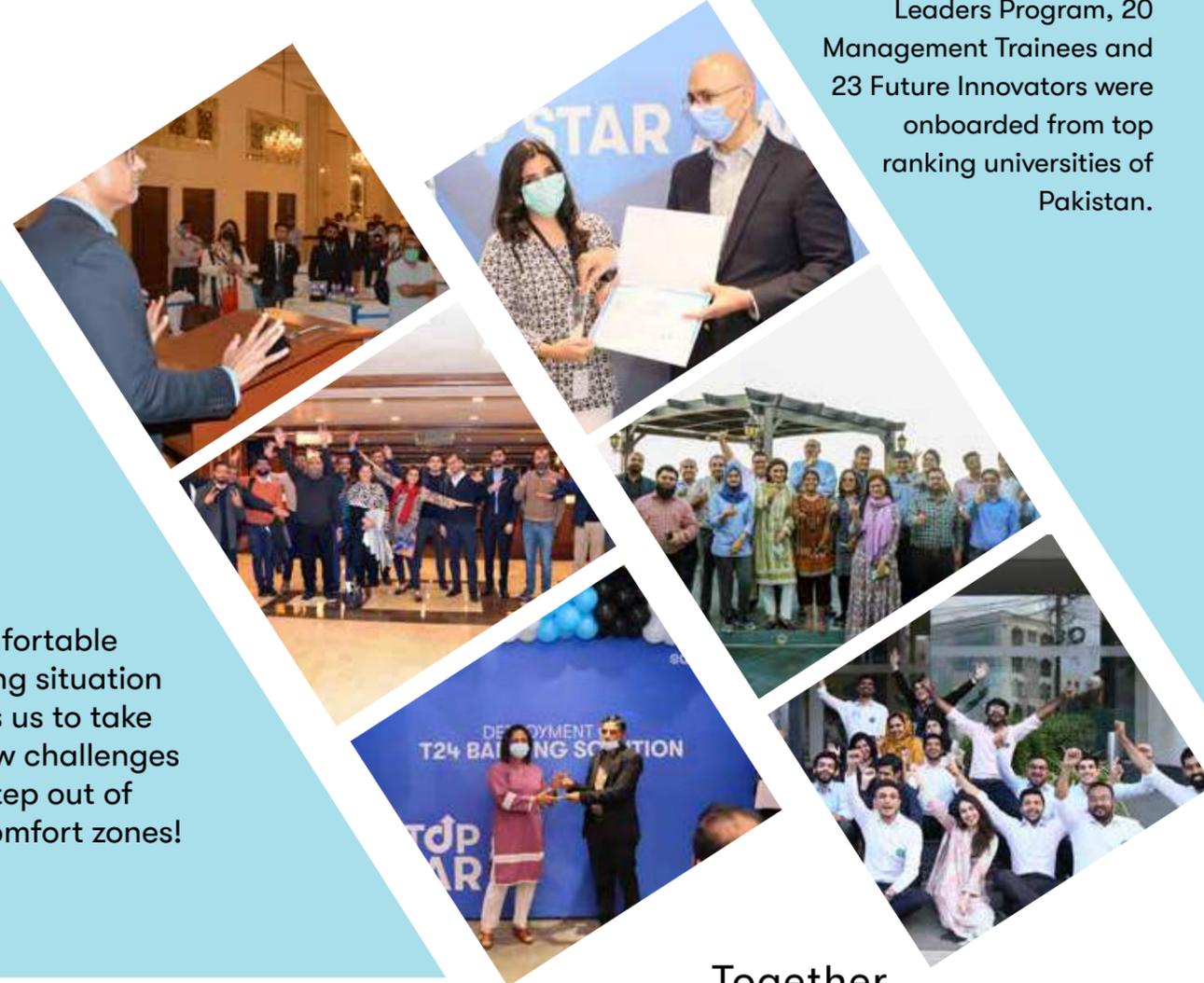
WE FUNCTION ON COFFEE AND CULTURE AND AN ABUNDANCE OF BOTH IS REFLECTED IN HOW WE WORK!



FUTURE LEADERS PROGRAM 2021

As part of the Future Leaders Program, 20 Management Trainees and 23 Future Innovators were onboarded from top ranking universities of Pakistan.

A comfortable working situation allows us to take on new challenges and step out of our comfort zones!



Together we grow!



We work hard, and we play harder!



We have a new cultural identity that empowers us to collaborate, innovate and grow together as #one.

We are #one
We are GEN-o

Scan QR Code to learn more about our culture



APPCON'21

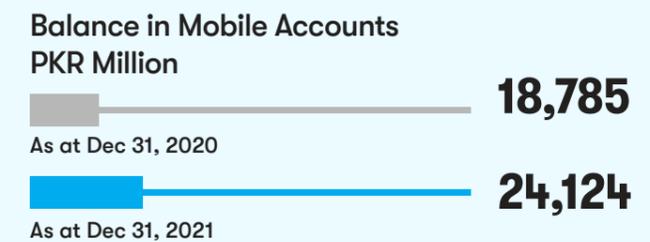
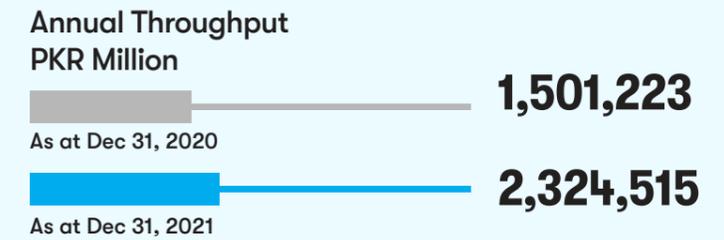
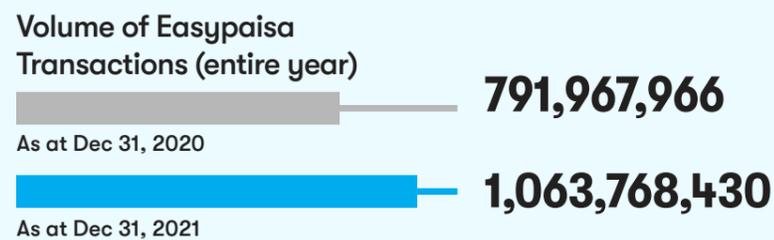
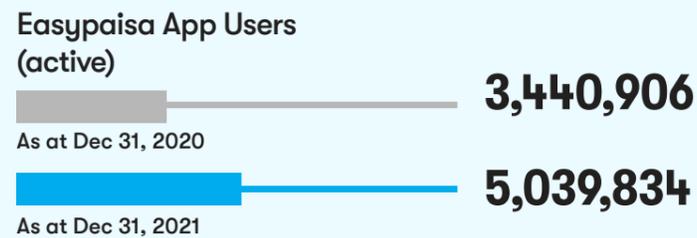
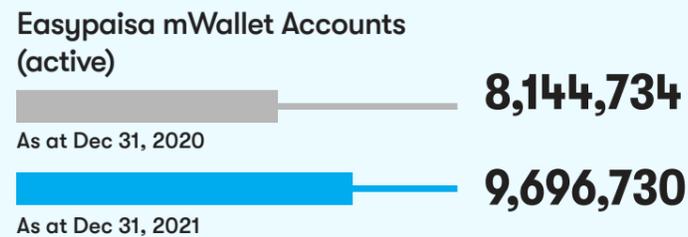
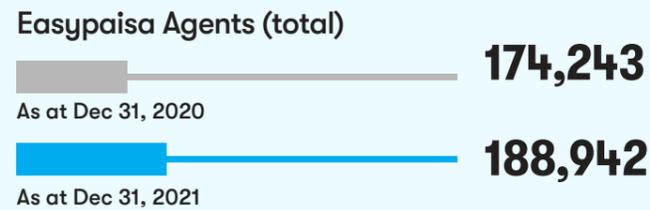
Our flagship inter-university app-development contest which provides a platform for the youth to showcase their tech skills.

ETHICAL CONDUCT

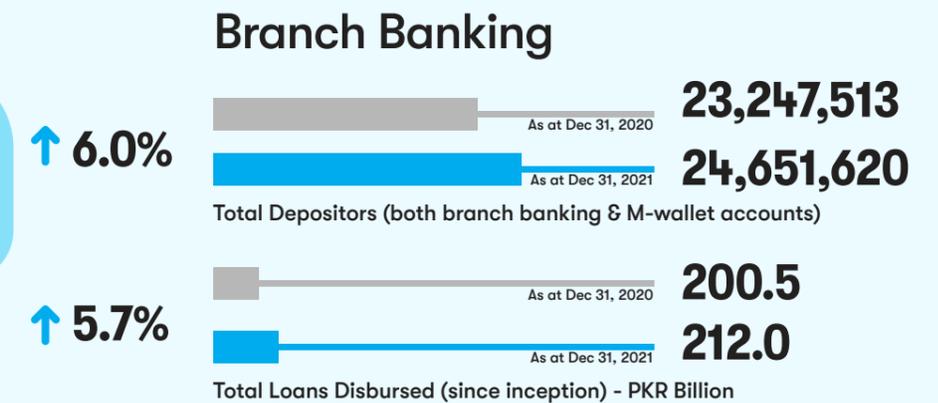
- Integrity and Honesty is at the heart of everything we do.
- The foundation of our business is laid on our Code of Conduct, Laws and Governance Standards.
- Speaking-up in good faith is the duty of every one of us.
- All our colleagues are encouraged to demonstrate our core values in every action they take.



2021 AT A GLANCE



Avg. transactions per mWallet per month
10 TRANSACTIONS



OUR JOURNEY

2005

- Launched First ever Voice Aided Biometric ATMs in Pakistan
- Launched Micro Business Lending
- Obtained license from State Bank of Pakistan (SBP)

2006-7

- Launched Lending against Gold & Saving Certificates
- Established National Footprint

2008

- Launched Micro Group Lending
- Branchless Banking license granted by State Bank of Pakistan (SBP)
- 51% stake acquired by Telenor Group

2009-10

- Launched country's 1st Bill Payment & Money Transfer Service
- Awarded the Best Mobile Money Launch of the Year
- Best New Entrant in Global Mobile Money Transfer Award
- Winner of 3 Base of Pyramid Awards from SBP in 2010-11
- Launched 24x7 Banking
- Launched Micro Health Insurance
- Launched Micro Savings Program

2010

- First Retail Microfinance Bank to be listed at the KSE

2012-13

- Launched Senior Citizen Savings Product
- Launched Dairy & Animal Financing
- Consumer Choice Award for Best Microfinance Bank in Pakistan
- Launched Private School Financing
- Launched Home Based Solar Financing
- Launched Agri Group Lending
- Launched Gold Savings Program

2014

- Launched Handset Financing
- GSMA Award Winner for Best Mobile Product

2015

- Launched Smart Business Shops Pilot LMFCs (Last Mile Financial Centers)
- Launched Phone Banking Doorstep Money Transfer
- Launched Easypaisa Sehat Sahara
- Won People's Choice Award for easypay
- Launched the online payment gateway for E-Commerce merchants and Black Friday at Daraz.pk

2016

- Launched Easypaisa Android App, Car Insurance & Digital Lending
- Won "Bank the Unbanked" and "Best Microfinance Bank" award at Pakistan Banking Awards
- Telenor Group acquired 100% stake

2017

- Transformation to Telenor Microfinance Bank
- Launched Pakistan's first online donation portal
- Project MOQR launched to digitize loan application forms
- The largest & fastest BVS deployed on retail channel

2018

- Entered into a Strategic partnership with Ant Group to deliver inclusive financial services in Pakistan
- Commercial launch of easypaisa QR payments with Mastercard QR
- Launch of Easypaisa Loan
- Soft launch of the new and improved Easypaisa App on Android and iOS
- Launched blockchain enabled international remittance in collaboration with Alipay (China) and Valjau (Malaysia)

2019

- Innovation in Payments - The Innovators Award
- Brand Revamp Uthoo Pehlu Qadim
- Easypaisa Rebranding
- Most Innovative MFI Award
- New Easypaisa App launch
- Launch of Easypaisa Enable Pay and Credit
- Moved to new, custom built offices in Karachi and Islamabad
- Received Second Tranche of Investment from Ant Group

2020

- Best Financial Inclusion Payments Program by Emerging Payments Association
- Big Golden Roll Award
- 7 Effies
- Dragons of Asia 2021
- Hands & UNOCHA Award for Covid-19 Relief Efforts
- Received US\$ 45M equity investment from shareholders
- One Show Asia Showcase

2021

- In-app customer servicing launched
- First mini app launched for grocery delivery
- Money transfer journey revamped
- Digital Merchant Onboarding launched
- Temenos T2x Go Live
- 7 Effies
- Dragons of Asia 2021
- Hands & UNOCHA Award for Covid-19 Relief Efforts
- Open API Gateway launched
- First Cashless Service Center inaugurated

AWARDS



Best Mobile Money Launch of the year
First Retail Microfinance TFC Listed in Karachi Stock Exchange



Best Mobile Money Transfer Entrant of the Year at the world's first Money Transfer Awards
Three Base of Pyramid Awards by SBP



Best New Entrant in Global Mobile Money Transfer Awards



Mobile Money Sprinter by GSMA MMU



Best Mobile Money Service at The GSMA Awards
Best Mobile Service For Women In Emerging Markets At The GSMA Awards



People's Choice Award In Dow Jones & Wall Street Journal's Financial Inclusion Challenge



Best in Digital by Pakistan Advertising Society
Best Microfinance Bank Award at the Pakistan Banking Awards
Bank the Unbanked Award at the Pakistan Banking Awards
Financial Innovation Award in the category of Most Innovative Application Technology at the Financial Innovation Awards



Best Microfinance Bank Award at the Pakistan Banking Awards
Bank the Unbanked at the Pakistan Banking Awards
Best Mobile Payments Solution at the Global Mobile Awards



GSMA Mobile Money Certification



Innovation in Payment Awards Under 'The Innovators 2019' Banner of Global Finance Magazine
Most Innovative MFI in the 13th Citi Microentrepreneurship Awards



One Show Asia Showcase 2020
Innovation in Payments Award under 'The Innovators 2020' Banner of the Global Finance Magazine
Ad Stars Award
Big Golden Roll Award
Best Financial Inclusion Payments Program by the emerging Payments Association



- Dragons of Asia 2021
- Hands & UNOCHA Award for Covid-19 relief initiatives
- 7 Effies

BOARD OF DIRECTORS



Irfan Ul Wahab Khan
Chairman & Director



Henning Thronsen
Director



Uzma Munaf Khan
Independent Director



Zhixian Li
Director



Zhang Lu
Director



Hua Hao
Director



M. Mudassar Aqil
President & CEO



Lars Erik Tellmann
Director



Amjad Waheed
Independent Director

People Committee

Mr. Irfan Ul Wahab Khan Chairman
Ms. Uzma Munaf Khan Member
Mr. Zhixian Li Member

IT Committee

Mr. Zhixian Li Chairman
Mr. Irfan Ul Wahab Khan Member
Mr. Lars Erik Tellmann Member

Audit Committee

Dr. Amjad Waheed Chairman
Mr. Henning Thronsen Member

Legal Advisors

M/s. Haidermota & Co.
Advocates and Corporate Counsel

Compliance Committee

Mr. Lars Erik Tellmann Chairman
Dr. Amjad Waheed Member

Risk Management Committee

Ms. Uzma Munaf Khan Chairperson
Mr. Henning Thronsen Member
Mr. Lars Erik Tellmann Member

Auditors

EY Ford Rhodes
Chartered Accountants

LEADERSHIP TEAM



M. Mudassar Aqil
President & CEO



M. Farhanullah Khan
Chief Financial Officer



Khurram Gul Agha
Chief Information Officer



Pouruchisty Sidhwa
Chief Human Resource Officer



Rizwan Ikram
Chief Risk Officer



Syed Ahmar Nizam
Head of Branch Banking



Omar Moeen Malik
Business Head Easy Paisa



Syed Umar Viqar
Head of Operations



Amna Abbas
Chief Legal Officer & Company Secretary



Aamir Ali
Chief Compliance Officer



Junaid Yousuf Kara
Chief Audit Executive

MESSAGE FROM THE CHAIRMAN



I would like to take this opportunity to thank our valued customers for trusting Telenor Microfinance Bank and its flagship digital payments platform Easypaisa, for fulfilling their digital financial needs. We are honored to serve millions of Pakistanis nationwide by providing convenient and secure digital financial services.

The year 2021 saw a gradual turnaround of economic activities after two pandemic-stricken years of uncertainty and chaos around the globe. Re-opening of the global economy commenced early 2021 with countries easing the lockdown restrictions. A surge in demand side inflation distorted global supply chain especially commodities. The world experienced a new way of working i.e., hybrid model of conducting business.

The wide application of COVID-19 vaccines kept the virus spread under control which led to economic recovery throughout the year. However, new variants of the virus keep disrupting economic practices from time to time, reducing expected growth forecasts for Year 2022 to 4.1% as compared to the actual growth of 5.5% in 2021.

State Bank of Pakistan (SBP) acted proactively to align the monetary policy with the Ministry of Finance's goal of sustainable growth. After cutting down policy rate from 13.25 % to 7.25 % in 2020, the SBP revised the policy rate in the year 2021 to curb demand side inflation, with policy rate closing at 9.75%.

As the torchbearer of Pakistan's digital financial inclusion, Telenor Microfinance Bank with its digital payments platform Easypaisa reached new heights by streamlining existing product lines and expanding its portfolio through collaborations and best-in-class technology solutions.

The drive towards digital practices enabled us to expand our footprint across the country with close to 189,000 registered agents throughout Pakistan. We witnessed a growth of 19 % in total monthly active Easypaisa mobile wallet accounts. While the Easypaisa App became the most used app of Pakistani origin, with over 5 million monthly active app users.

In 2021, transactions on the Easypaisa platform witnessed a growth of 34%, while more than PKR 3 trillion were successfully moved through the platform, constituting more than 6 % of the country's GDP. Throughout the year, Easypaisa users conducted an average of 10 transactions every month.

One of the major highlights was the implementation of the state-of-the-art core banking application - Temenos's T24. By going live on this platform, the Bank was able to fast-track its digital transformation journey and come up with more innovative and efficient digital financial solutions for its entire customer base.

Post implementation of a robust risk management framework and streamlined compliance policies, we are pleased to share that the branch banking side of the business is recovering from the aftermath of the pandemic.

During 2021, our first Cashless Service Center (CSC) was inaugurated. CSCs bring lending to the customers' doorstep and significantly reduce the entire application turnaround time. In addition to reducing cash handling costs, the backend process is now fully digital and paper light.

Our steadfast commitment to the Bank's vision of creating a transparent economy that all Pakistanis can participate in has been strongly endorsed by our shareholders who, in 2021 alone invested US\$ 70.2 million (PKR 11.6 billion) renewing their commitment of making a cashless and financially inclusive Pakistan. On behalf of the entire Bank, I would like to thank our shareholders for their continued and unwavering support.

I would like to congratulate State Bank of Pakistan for their innovative and promising policies which are paving the way for digitalization of the financial ecosystem. Moreover, our regulator has always been a strong proponent of innovative ideas and has supported us in every step of our journey and continues to do so.

I would also like to extend my heartfelt gratitude to my fellow board members, the management as well as all colleagues of Telenor Microfinance Bank, who continue to work with the same passion and dedication as they did a decade ago when we were just gearing up to revolutionize Pakistan's financial landscape.

Irfan Ul Wahab Khan
Chairman





MESSAGE FROM THE CEO



As economic activities rebounded from the pandemic, Pakistan's digital realm surged with the opportunity of creating a financially inclusive society. In a cash-dominated economy, convincing people to continue transactions digitally was an uphill task that mandated constant efforts from key stakeholders including the government and regulators. During all this, the need to strengthen the ecosystem became imperative to ensure that the gains made were sustainable.

Economic activities witnessed a resurgence after hitting a standstill during the COVID-19 pandemic. Almost every industry including manufacturing, retail, and services sectors experienced revitalization post lockdowns where businesses were shut down.

Pakistan's GDP bounced back to 5.4% (restated) from a negative 0.1% in the corresponding year with major contribution from industrial and services sector. State Bank of Pakistan (SBP) continued to introduce groundbreaking initiatives to support its digital vision for the economy. These included the RAAST platform, Roshan Digital Accounts and various other initiatives to boost and sustain the financial health of Pakistan.

The country has 191 million cellular subscribers, 86% of the total population representing a growth opportunity in the digital landscape. Changing global dynamics and extensive expansion of services portfolio within the digital banking ecosystem is driving significant growth. The country's e-Banking transactions rose by 30% during FY2021, showcasing the growth trend in the segment.

In the Year 2021, we at Telenor Microfinance Bank (TMB) reasserted the importance of our mission and vision. The shifting realities caused by COVID-19 led us to continue with a focus on our belief of creating a cashless and financially inclusive Pakistan through the power of collaboration and technology.

Our flagship platform Easypaisa continued its growth trajectory at an accelerated pace. The active user base of our wallet grew by 20% to 10 million monthly active users. During the year, over 1 billion transactions were processed with a throughput of PKR 3 trillion. Our mobile App, which is the most used app of Pakistan origin, posted an increase of 45% in the monthly active users closing the year with more than 5 million customers.

Over the year, we have invested heavily in improving our operational capabilities through unique and robust initiatives. We upgraded our core banking system with Temenos T24. Simultaneously, mini apps functionality was integrated into the Easypaisa platform for enhanced convenience of users and added use cases from a wide range of industries. Similarly, our Open APIs platform enabled convenient collaborations on the Easypaisa App, and a Digital Merchant Onboarding process within the Easypaisa App brought seamless convenience for small businesses looking for digital payment options.

In line with our vision of creating a transparent economy for all Pakistanis, we are focused on strengthening Easypaisa into a platform business that can enable digital payments that will benefit individuals and businesses alike.

On the other hand, I take great pride in sharing that our lending

business is also now back on track after the implementation of a robust risk management framework and streamlined compliance policies.

The alignment of the branch banking business with the Easypaisa channel will continue to provide innovative digital lending solutions. In line with our mission and strategic direction, we inaugurated the Bank's first Cashless Service Center (CSC) in Manga Mandi, Lahore. Under a completely digital and paper-light process, the first of many CSCs offer doorstep delivery of financial services to users without the need of visiting a bank branch.

Moreover, through an in-house call center and innovative methods of handling customer complaints, the latest of which is in-App support, we are redefining one of our core values, Customer Focus, in order to provide best-in-class services.

Throughout the year, we also continued to focus on transforming the organization's culture through learning and development, engagement, and recognition of colleagues on various forums.

As a progressive and innovative Bank designed to operate as a fintech, we continue to derive customer-centric solutions that facilitate the overall digital financial infrastructure. Our focus on building value through collaborations is diversifying and growing rapidly. During 2021, we partnered with numerous organizations, both public and private to enable digital payments for their users.

Our efforts were also recognized across diverse domains, with more than 10 national and international accolades. These included Effies, Dragons of Asia, and a UNOCHA award for Covid-19 relief initiatives.

Considering the performance during 2021, I would like to extend my gratitude to the Board of Directors along with our shareholders Telenor Group and Ant Group for their unflinching support and endorsement of our commitment to the organization's vision by investing US\$ 70 million (PKR 11.6 billion) in the business in the same year.

I would also like to thank the entire team at Telenor Microfinance Bank for their continued hard work that is enabling us to build a digitally evolved and financially inclusive Pakistan.

M. Mudassar Aqil
President & CEO

TECHNOLOGY

FOR A FINANCIALLY INCLUSIVE PAKISTAN



TECHNOLOGY



Core Banking System Upgrade - Temenos Transact

Telenor Microfinance Bank continued its transformation journey towards digitally robust and streamlined operational procedures by going live on Temenos Transact (T24) modern core banking platform, in partnership with NdcTech.

The Temenos infrastructure offers sophisticated Digital Platform (Internet and Mobile), Financial Crime Mitigation, and Business Intelligence Analytics solutions.

Temenos T24 has empowered us to move closer to our digital transformation in a seamless manner.

Seamless Easypaisa Integration - Open APIs



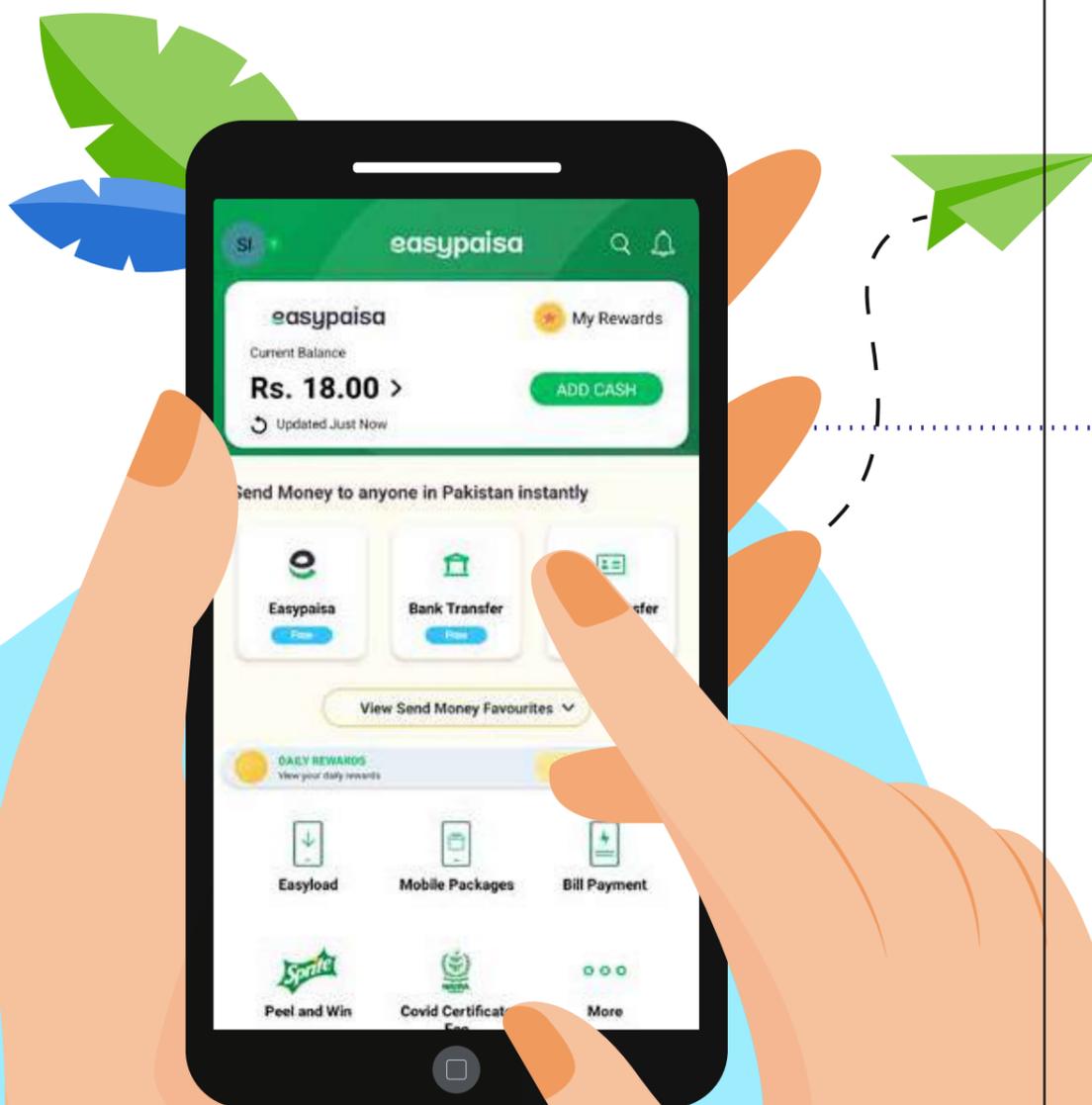
Our flagship payments platform's Open APIs enable seamless integration for third-party applications in line with our mission of creating value through technology and collaboration.

The Open APIs act as an underlying layer through which businesses can facilitate comprehensive digital payments via Easypaisa, including money transfers, IBFT, bill payment, and other payments directly through their websites or applications.

The unique platform has simplified the process of digital integration for numerous businesses across Pakistan that are working with the objective of establishing a modern and sustainable cashless model.



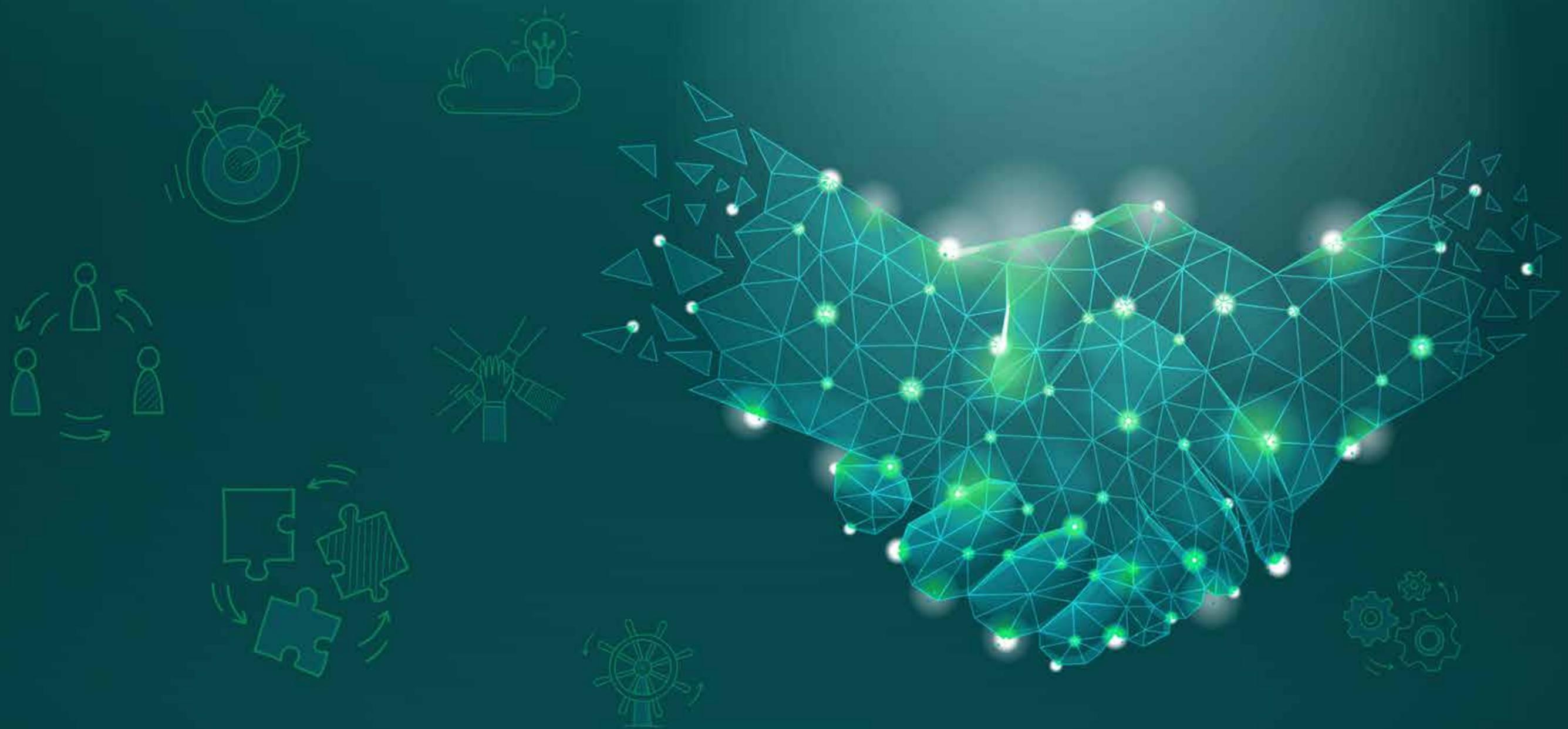
NEW FUNCTIONALITY ON EASYPAISA APP



- Mini Apps Program
- Digital Merchant Onboarding
- Improved bill payment journey - save bill and bill payment alert functionality
- Revamped money transfer journey - m-wallets, bank accounts and CNICs
- Customer Support Portal for in-App self service
- Money Transfer through RAAST ID

PARTNERSHIPS

FOR A FINANCIALLY INCLUSIVE PAKISTAN



OUR PARTNERS



CUSTOMER EXPERIENCE

FOR A FINANCIALLY INCLUSIVE PAKISTAN



SERVING MILLIONS OF PAKISTANIS

9.5M+ active mobile accounts



5M+ active users on telco-agnostic App



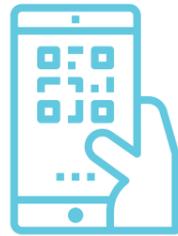
180K+ active agents



88 branches and service centers



BRANCHLESS FULFILLMENT OF LENDING SERVICES



With customers at the core of everything we do, we are proud to introduce a redefined lending model that is truly digital and paper-light. Our new branchless fulfillment process for our borrowers allows them to avail lending products without visiting a branch. Customer acquisition and loan application is done at the customer's doorstep, from start till end. The application moves to the appraisal stage digitally, and upon approval the loan amount is credited to customer's Easypaisa wallet.

In order to create further convenience for customers, Telenor Microfinance Bank is leveraging its retail merchant network that allows borrowers to repay their installments and withdraw their loan amount in addition to other Alternate Delivery Channels (App, USSD, Debit Card).

To augment this branchless lending process, we have also developed a low cost and scalable distribution model that has enabled us to enhance our footprint cost effectively. This model will facilitate us in reaching out to underbanked population across Pakistan.



Doorstep delivery of lending products

Paper-light and cashless

Quick turnaround time

Access to digital finance via Alternate Delivery Channels including Debit Cards and 185,000+ registered agents

Availability of digital channels for credit management, reducing cash handling costs



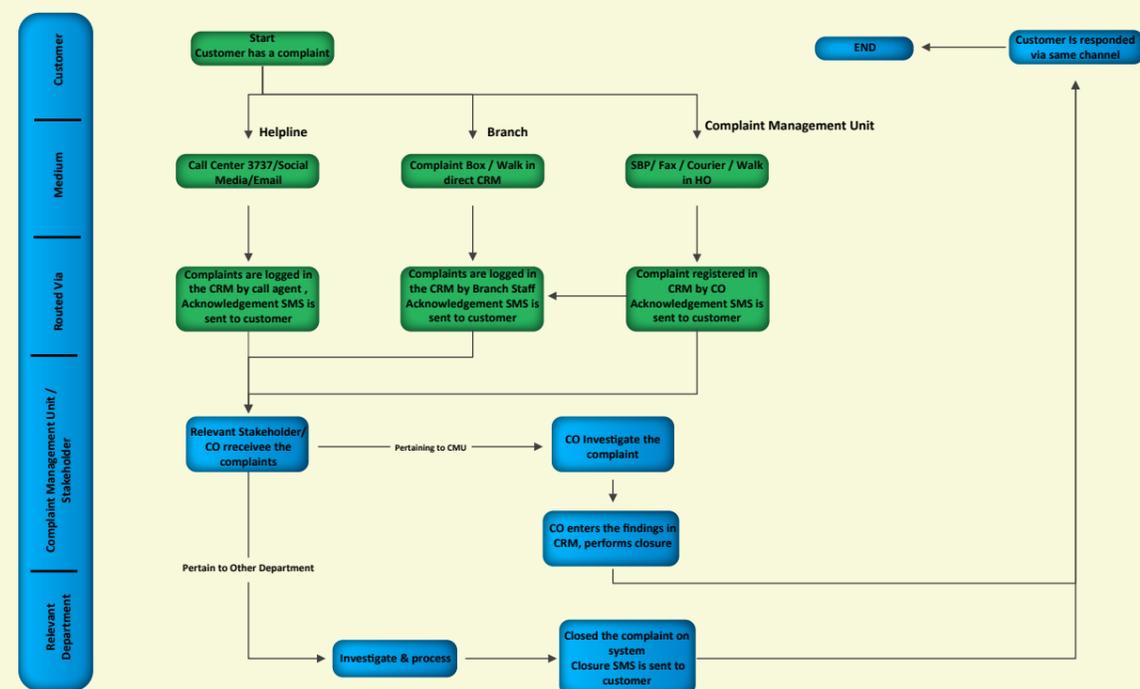
Scan QR Code To Learn More About Our Cashless Sales 

INTERNAL COMPLAINT HANDLING MECHANISM

At Telenor Microfinance Bank, we always keep customers first and strive to make their experience delightful. To ensure that all customer complaints are handled with complete ownership for satisfactory resolution, an independent centralized system is in place to deal with the customer complaints received from various channels. These channels have been made available to cater to the the wide-ranging demographics of our customer base. The following points are given special consideration:

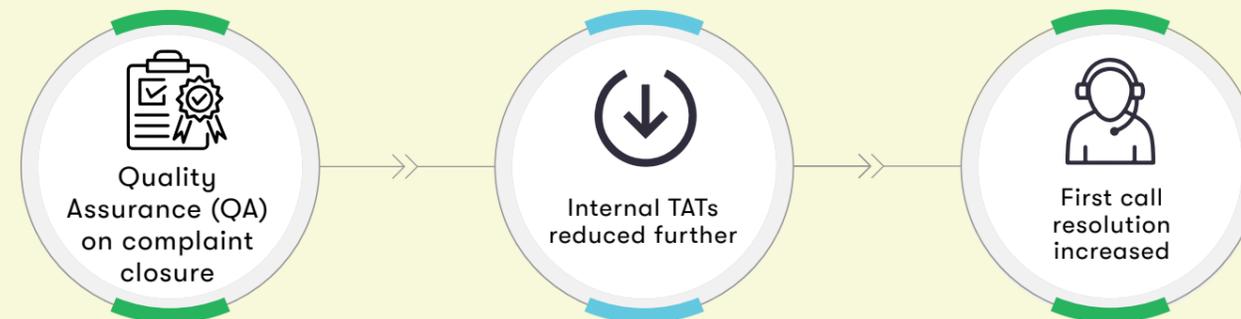
- i. Provide visible and easily accessible complaint registration platforms to customers.
- ii. Prioritize the voice of customer received through complaints.
- iii. Provide fair and honest resolution to customer complaints.
- iv. Ensure all complaints are dealt as per the standard Turnaround Time (TATs).
- v. Use customer complaints as an opportunity to improve processes and ensure minimum recurrence.

Telenor Microfinance Bank - Complaint Management Process

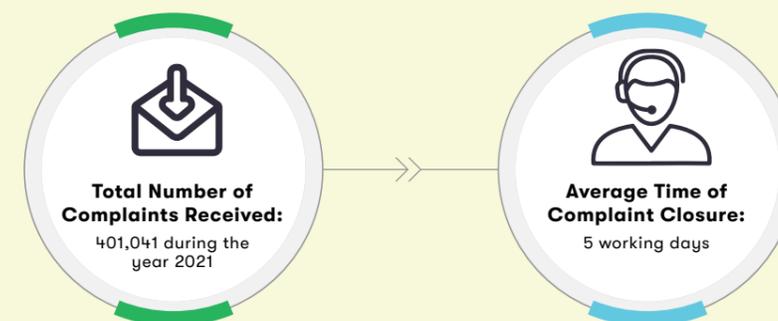


CO – Complaint Officer
CRM – Customer Relationship Management
CMU- Complaint Management Unit

NEW INITIATIVES



ACHEVEMENTS



OUR CUSTOMERS



Ali Khokhar

My family lives in interior Sindh but I live and work in Karachi. For many years, sending money back home was a huge hassle. That is until I was introduced to Easypaisa. Fortunately, there is an agent near my home, so my parents can withdraw cash easily but with the Easypaisa App, they make some payments such as utility bills online.



Abdul Samad

Long queues and network errors have always been my worst nightmare while paying utility bills. Since I make bill payments every month, I was on the look out for an easy and convenient way for paying my utility bills. With Easypaisa App, life is so much simpler. It takes a few minutes and can be done from almost anywhere. Plus, every utility I use is now on one single platform which has made my life even easier.



Hiba Dawood Ali

Upon exploring my Easypaisa App recently, I came to know that there's a whole in-app online grocery store named Grocer App. To my surprise the product range is huge and the prices are affordable too. I have been ordering lately through the App and my experience of getting the products delivered at my home in Rawalpindi has been exceptional. It's a real Super-App experience!



Yasir Bukhari

I remember a time when the only options for mobile top-ups were to buy cards at retail outlets, scratch them and finally reload our balance. Easypaisa has revolutionized the whole process through its telco-agnostic App. Easypaisa even enables direct subscription of various packages of all telcos in Pakistan, making our lives even easier.

OUR RETAILERS



Umair Arshad

I belong to a small town of Punjab. For the last five years, I've been operating an Easypaisa shop here and business has been great. People appreciate the convenience that this service brings to their life and in the process, the life of us merchants has improved too. I am able to earn extra money thanks to Easypaisa.



Kashif Mazhar

My men's salon is one of many in Karachi's Liaquatabad area. I heard about Easypaisa's QR code facility during the COVID-19 lockdowns. At first, I thought who in this area would ever pay through QR codes, but I decided to try it anyway. Not only have I been able to introduce a lot of people to Easypaisa through this feature, but now a big chunk of my clients also pay by scanning the QR code.

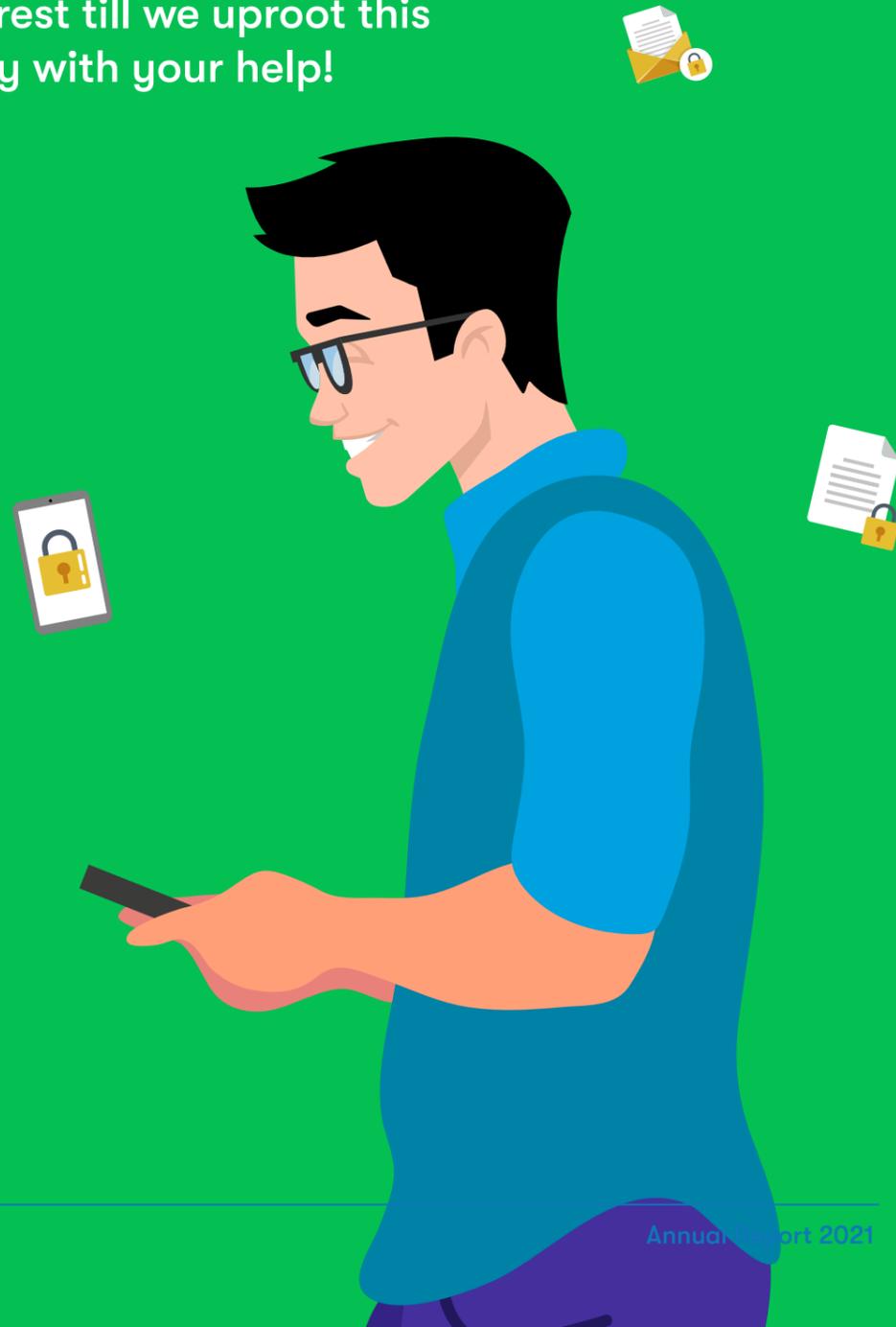


Yasir - Simpaisa

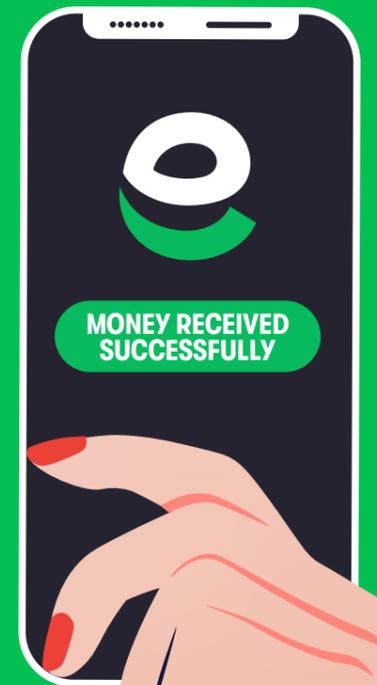
As a payment facilitator, Simpaisa's clientele has been international for the most part. And among them, gaming merchants have dominated that category. Integrating Easypaisa into our offering has enabled us to acquire a huge customer base and realize greater conversion rate with higher success ratios. Similarly, our merchants have also faced an overwhelmingly positive response as well. The reason is, Easypaisa has led us to serve a very large untapped market – the young, unbanked population. Pakistan has a huge gaming market mostly dominated by the youth – teens under the age of 18, with little income of their own and no registered bank account or access to credit or debit card. Thus, Easypaisa has proved to be a leading wallet with its outstanding performing helping its merchant's like us to expand our horizons.

STAY EASY, BUT ALSO STAY CAUTIOUS!

Online fraud is a real nuisance,
and we won't rest till we uproot this
menace, surely with your help!



FERRRR FERRRR



FINANCIAL STATEMENTS



DIRECTORS' REPORT TO THE SHAREHOLDERS

On behalf of the Board of Directors, we are pleased to present the Directors' Report and audited financial statements of Telenor Microfinance Bank Limited (the Bank), for the year ended December 31, 2021.

Macro-economic review:

Global Overview

2021 started with a positive sentiment for possible global economic recovery expectations based on gradual cessation of coronavirus-impacted economic downturn witnessed in 2020. The paradigm global shift witnessed in 2020 in the form of rapid adaption of the new normal and hybrid way of conducting business continued during 2021.

Global economy initially was on track for even higher recovery levels, with countries gradually easing the lockdown restrictions leading to resumption of business activities. However, COVID-19 Omicron variant which emerged in the latter half of 2021 again prompted global preventive restrictions while also impacting growth trajectory. The key positive aspect to note is that concerted preventive measures and broad-based vaccination levels across the globe either controlled the spread of the new variant or in most cases led to asymptomatic and milder symptoms in affected populace.

As economic pace gained momentum, instigated by a surge in global demand levels, there was a massive disruption in global supply chain amidst pressure on logistics infrastructure across multitude of goods and commodities.

Resultantly IMF stipulated that there was a rising inflation trend worldwide at 4.35% in 2021 including major developed economies witnessing unprecedented inflation levels in last few decades. Rising inflation levels along with supply shortages pose a renewed threat to the anticipated global economic growth outlook.

A developing situation with global implications also started immediately after the period under review, with hostilities starting between Russia and Ukraine. The same has impacted global stock markets and Brent crude oil crossed USD 130 per barrel after 9 years.

According to IMF, global GDP growth in 2021 reached 5.5 % against negative 3.6% in 2020. While IMF initially scaled down the GDP growth momentum expectations in 2022 to 4.1%, the developing situation noted above may further compound the adverse growth levels.

Pakistan Perspective:

Pakistan successfully steered through the pandemic and is considered as one of the major success stories in the global fight against the pandemic. This continued success in 2021, accomplished without a complete country-wide lockdowns, can be attributed to the pro-active broad-based measures adopted by GoP including micro-lockdowns duly acknowledged by the global health bodies including World Health Organization (WHO).

On the economic front, 2021 proved to be successful for Pakistan in comparison to 2020. Despite ongoing after-effects of the global pandemic, the restated GDP growth in 2021 was 5.4% compared to negative 0.1% in 2020 with Industrial and Services sectors mainly contributing towards the GDP growth.

Pakistan's balance of payment challenges remained significantly impacted by the global rising prices especially in the energy sector and accordingly current account deficit crossed USD 12.2 Billion in CY'21 as compared to a surplus of USD 0.2 Billion in CY'20.

PKR parity remained stable up to May 2021 and even appreciated to 156 against the USD owing to higher inflows and controlled outflows. However, this appreciation was short-lived as the impact of the epidemic settled down. Consequently, SBP had to remain active in the FX market to curb the rising CA deficit and PKR parity, and parity dropped to PKR 176.51 against USD at the close of the year, which is YoY 10% depreciation from 2020.

The proactive measures noted above supplemented by 3% growth in foreign workers' remittances, along with higher investments in Roshan Digital Account (RDA) which closed at approximately USD 3 Billion plus at the close of the period under review, assisted the overall growth in country's FX reserves by 16% YoY to close at USD 23,882 Million.

The multi-faceted evolving global and domestic challenges significantly impacted the CPI level in the country as FTM CPI for Dec '21 was recorded at 12.3% at the close of 2021. With per capita GDP at USD 1,666 compounded by the double-digit inflation level, purchasing power ability continues to be adversely impacted, hindering sustainable economic growth in all segments of the society.

SBP remained fully cognizant of the rapidly evolving economic situation. After a massive cut of 625 bps in CY'20 to stimulate economic growth under COVID impacted scenario, SBP maintained the policy rate in first 9 months of 2021. However, under the emerging domestic and external challenging situation, SBP had to intervene and changed its stance in Q4'21 to especially manage demand side inflation and CA deficit by increasing the policy rate by 225 bps, which closed at 9.75%.

Overall domestic commercial banking sector posted strong growth in the Year 2021. Banking sector deposits grew 17 % on YoY basis to close at PKR 20.9 trillion in 2021. Advances also increased by 19% during the year under review.

Microfinance Banks (MFB) overview:

MFB sector slightly rebounded with 21% growth in sector advances closing the year at PKR 393 billion. Average PAR for the industry was 5% reaching a maximum of 6.4% in Q3'21. Focus during the year remained on secured lending with shift towards higher ticket size. SBP supported the aforesaid, by increasing the ceiling for Gold secured portfolio from the previous 35% to 45% till June'22.

In view of the challenges emanating from COVID-19 crisis particularly with reference to the difficulty in collections/recoveries against portfolio restructured under SBP guidelines, the resultant bottom-line pressures will continue to erode sector equity levels, thereby compounding challenges for the sector for compliance with SBP's CAR regulations in the short term. To counter these challenges, the sector continues to adopt mitigating strategies encompassing fresh equity calls along with raising of Tier-II capital during the year under review.

Customers especially under agriculture, live-stock and bullet category remained most vulnerable segment due to repayment capacity being impaired affecting industry PAR. The aforesaid customers are also affected by rising inflation which has further eroded their limited cash-flows and repayment capacities.

Business Review:

While 2020 witnessed global pandemic led massive disruptions as businesses switched to a digital/hybrid way of working model. This paradigm shift to rapidly adapt under evolving business dynamics, regulatory frameworks and digital landscape momentum continued in 2021 specially in the financial sector.

The fintech industry growth maintained its pace in Pakistan. TMB maintained its position as one of the premier market leaders in this niche segment of digital financial sector. The Bank successfully increased its monthly active mobile accounts to 9.7 million at the close of 2021, registering a 19% growth vs 2020. Easypaisa App remained one of the largest and most popular financial services apps in the country with 5 million monthly active users, registering a 46% increase in 2021 vs 2020. TMB has reasserted itself as a truly telco agnostic platform by processing 10% of the total industry mobile recharge (all telco operators).

Amidst challenges emanating from evolving regulatory framework and steady pace of adoption of monetization use cases by the customers, the primary focus of the Bank remained on acquiring quality customers while further optimizing associated marketing and distribution costs across our robust channels. Despite significant abovementioned growth traction in both overall Mobile Wallets and Apps users, a major milestone during the period under review is the Bank's success in successfully curtailing its overall marketing spend by 36% on YoY basis. This clearly reflects evolving positive customer behavior towards increasingly rely on EP for day-to-day usage irrespective of the underlying incentives.

Despite bottom-line pressures amidst rising inflation and adverse USD denominated platform and acquisition (partial) costs, TMB maintained its focus on continuous provision of uninterrupted services to its valued customers. In 2021, approximately 1.1 billion transactions (34% growth vs. 2020) and throughput valuing more than PKR 3 trillion (54% growth vs 2020) in aggregate were successfully managed across the country via Easypaisa platform, constituting more than 6 % of the country's GDP.

This impressive growth in throughput and transaction levels clearly demonstrate the systemic importance of TMB's Easypaisa platform in the country's economic activities. TMB aspires to maintain this momentum by providing even higher service levels to our valued and rising customer base across the breadth of the country.

TMB continues to enhance its product and services portfolio. In the quest to become a platform player and in an industry first, TMB introduced open APIs and Mini App architecture to ensure smooth and agile integration with its partners and enhance use cases.

A major milestone during the period under review, TMB developed an in-house payment-based credit scoring model with an international partner to serve its nano-lending customers. Pilot roll-out plan has been aligned and launched in Q1'22.

During the year, TMB continued its focus on on-going fraud prevention campaigns. The most prominent being the "Pin Chor" TVC campaign which was widely acknowledged and aimed at improving awareness amongst users. Supplemented by Bank strengthened controls have further reduced fraud incidences. In addition, TMB's overall creative and innovative marketing campaigns continue to play a pivotal role in Bank's robust growth in customer acquisition and traction levels. This was independently acknowledged as Easypaisa won more than 10 prestigious brand awards, including 7 Effies awards, which is a pre-eminent and internationally recognized award in all forms of marketing and branding activities.

Remaining fully abreast with the changing regulatory environment, TMB took an active role in SBP's RAAST initiative (Fast payment system) phase 1, which went live in Q1 2022 with Fund transfer services (P2P) use case. This has simplified the fund transfer transaction, with an enhanced payment use case portfolio. As Raast is expected to significantly impact the financial services eco-system in the country, TMB aspires to leverage this opportunity under Raast environment in the payments space.

One of the major highlights was the successful implementation of the state-of-the-art core banking application - Temenos's T24. By going live on this platform, the Bank was able to fast-track its digital transformation journey and launch more innovative and efficient digital financial solutions for its entire customer base. While TMB continues to leverage A Plus, Ant Group's proprietary digital financial services software application Group, for Risk Management, Compliance, Marketing and BI operations for its Easypaisa business.

2021 was year of rebuilding for branch banking network as the Bank formally restarted its formal lending operations after significant work in 2020 towards optimizing Branch Network and associated staffing along with augmentation of the Risk platform including centralized credit underwriting process and independent verification controls. Higher ticket micro enterprise (MSME) loans were also launched during the year under review to reinforce our market presence and augment lending products. Overall, Bank disbursed PKR c.11.5 billion new loans to 100K+customers across the country, with more than 90% of disbursements made through easy paisa m-wallet account.

In line with Bank's strategic direction, Bank also inaugurated its first Cashless Service Center (CSC) in Manga Mandi, Lahore, under a completely digital, paper-light process and low-cost business model. Bank intends to leverage and scale up this CSCs model to offer doorstep delivery of financial services, including traditional micro-finance loans, without the need of visiting a physical bank branch.

COVID 19 continued to disrupt BAU followed by prevalent closure of businesses due to lockdowns which severely impacted field operations. Periodic lockdowns and market closures also impacted the repayment obligations of the borrowers to meet their financial obligations. The most affected portfolio was the one which was granted relief in payment obligations over extended timeframe majorly in 2020. Upon maturities in 2021, significant pressure was witnessed in the repayment capacities especially in the Agri-based bullet loans, resulting in higher than anticipated loan losses and mark-up suspension. However, it is important to note that TMB, despite network optimization and staff challenges, managed to still collect PKR c.2.5 billion against the restructured pool. Bank intends to vigorously follow-up recovery efforts in 2022 as well from this portfolio.

TMB's overall deposit book increased by PKR 3 billion to close at PKR 39 billion, out of which PKR 24 billion deposits have been raised through Easypaisa platform customers. TMB has total 24.6 million deposit customers, out of which 23.8 million are M-Wallet customers and 0.8 million are under micro-finance banking operations respectively.

With cautious approach toward new lending operations under highly challenging market dynamics and Bank's risk averse business model, overall advances closed at PKR 11.8 billion. At the close of the year, the total borrowing customers of the Bank stood at 178,000, out of which 43,000 were nano lending customers.

Owing to TMB's cautious lending strategy and steady growth in Easypaisa mobile wallet deposits, ADR remained low during the period under review. TMB diverted the surplus funding towards the risk-free investments primarily in GoP's short term Treasury Bills to circumvent the rising interest rate risk scenario while remaining adequately liquid.

The internationally recognized and reputable shareholders continued to support the transformation journey of the Bank during the year under review, with fresh equity injection of USD 41 million and USD 29 million in Jan'21 and Nov'21 respectively. The cumulative equity injection between the Year 2018-2021 aggregated to a total of USD 268 million. The Bank's remains highly liquid, and the CAR remains at 18.26 % as at Dec 31, 2021, which is well above the SBP stipulated 15% benchmark. With USD 22 million additional equity injected in Feb 2022, total equity injection by the sponsors now aggregate to USD 290 Million in the aforesaid period.

During the year under review, Telenor Group announced its intention to consider potential sale of its 55% ownership stake in Telenor Microfinance Bank in Pakistan, in line with its global strategic objectives. The process to evaluate interested buyers was initiated in 2021. Subsequent to the year end, SBP has given an in-principal approval to few bidders to conduct their due diligence process, while reviewing the remaining applicants. It must be elaborated that this change in partial ownership will not impact the future of the Bank, as it continues to strive towards bringing financial inclusion across Pakistan.

TMB therefore remains on track towards a sustainable growth as it strives to accomplish its objective to digitize the financial industry and continue to play a pivotal role in the evolution of financially inclusive economy. The management's vision, mission and long-term strategic ambitions remain in sync with these ambitions, geared towards revolutionizing the payments and financial industry landscape of Pakistan.

Financial Review

During the year 2021, the Bank's primary focus was maintained towards Branchless banking customer acquisition, retention and engagement levels as elaborated in the business review. In line with MAU growth, revenue from mobile accounts increased by approximately 22% on YoY basis, with a declining trend primarily in OTC revenues in line with evolving customer behavior under low priced/free IBFT regime. The Bank reported a YoY increase of 58% in offline revenue basically comprising of corporate income under various partnerships with multi-faceted entities.

Accordingly, despite challenges emanating from dynamic regulatory framework under the pandemic scenario, the branchless banking gross revenue remained stable YoY to close at PKR 5.7 billion.

Post restart of fresh NTB lending towards end of Q4 2020, the Bank continued to build up on new lending portfolio in 2021 with a cautious approach and a robust risk control environment in place. The Bank disbursed total new loans aggregating to PKR 11.5 billion during the period under review through its branch network.

In line with the overall sector, the under-performing COVID relief rescheduled portfolio adversely impacted both the mark-up and provisioning levels during 2021. These borrowers remained under pressure to repay obligations, which included additional accrued mark-up, post the relief period maturities.

While the Bank recorded a net interest income of PKR 2 billion during the year, this included impact of markup suspension to the extent of PKR 2.1 billion mainly related to the restructured portfolio under COVID relief program. Similarly, the credit impairment charge of Rs 2.9 billion booked during the year under review as per the regulatory regime in vogue, included 83% charge pertaining to this affected portfolio. The Bank's management is closely monitoring the challenges in the restructured portfolio and now focused efforts are being made to salvage recovery measures over extended periods spilling over in 2022 by enhanced customer engagement.

The augmented risk platform, enhanced credit monitoring controls along with robust health checks monitoring mechanisms deployed remain effective in maintaining the quality of the Bank's fresh NTB asset portfolio going forward. The legacy and restructured portfolio now constitutes only 17% of the closing gross loan portfolio as at year end and majority of the impairment charge has already been taken by the Bank.

In view of the challenges and to circumvent the evolving bottom-line pressures, the management remained extremely pro-active and prudently optimized the administrative expenses which were curtailed to PKR 17 billion reflecting a YoY savings of 9% despite closer to double digit CPI levels during the period under review. The primary savings were derived from the optimization strategy adopted towards customer incentives and associated marketing costs incurred for the branchless customers, as they were curtailed with an aggregated net savings of PKR 1.4 billion despite posting robust growth levels of 19% and 47% YoY in both MAUs and Easypaisa app users respectively. Resultantly, the Bank reported net loss after tax of PKR 10.765 billion during the period under review.

Total asset base of the Bank amounted to PKR 54.5 billion. Cash and Cash equivalents of the Bank closed at PKR 14.6 billion. On the liabilities side, the CASA and CA ratios of the Bank improved significantly to close at 77% and 69% in 2021 as compared to 68% and 58% respectively at the end of 2020. The Bank's net advances to deposit (ADR) ratio was 28% as at year end, which is reflective of the cautious strategy on advances adopted upon relaunch of lending operations during the year along with simultaneous stability of well-diversified deposit base comprising mainly of the granular branchless deposits.

TMB's Equity base stood at PKR 6 billion which enabled a robust Capital Adequacy Ratio (CAR) of 18.26% as of December 31, 2021 and is well above the minimum required threshold prescribed by the State Bank of Pakistan.

The Bank was not required to transfer any amount to the Statutory Reserve and Depositors' Protection Fund during the year 2021 due to net loss. However, an amount of PKR 26 million on account of profit earned on the investments of the Depositors' Protection Fund has been transferred to the same during the year under review.

Changes in Composition in Board of Directors

During the year under review, Mr. Hua Hao and Mr. Zhang Lu were elected on the Board of Directors of the Bank on behalf of Alipay (Hong Kong) Holding Limited. They were elected in place of the previous Directors Mr. Ji Xu and Mr. Zheng Liu. Appointment of all the directors is under FPT approval process, with the SBP.

Existing Shareholding

TMB is jointly held by Telenor Pakistan B.V, a joint stock company based in Amsterdam with 55% shareholding and Alipay (Hong Kong) Holding Limited with 45% shareholding.

The holding company of Telenor Pakistan B.V. is Telenor ASA, Norway, while the holding company of Alipay (Hong Kong) Holding Limited is Ant Group Co., Ltd, China (Formerly Ant Small and Micro Financial Services Group Company Limited).

During the year Telenor Pakistan B.V and Alipay (Hong Kong) Holding further invested USD 41 million and USD 29 million in the Bank during the months of Jan'21 and Nov'21 respectively, in proportion of existing shareholding. While the shareholders also injected an additional USD 22 million in Feb'22 after the close of the period under review.

Corporate Governance

The Board of Directors of the Bank is responsible to the shareholders for the management of the Bank. It acknowledges the responsibility for the system of sound internal controls and is committed to uphold the highest standards of Corporate Governance.

Statement of Corporate Governance:

The Directors are pleased to state that:

- The financial statements, prepared by the management of the Bank present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of account of the Bank have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- The Bank has followed all applicable accounting standards, as applicable to Microfinance Banks in Pakistan, in preparation of these financial statements.
- During the year, the Bank reported a net of tax loss of PKR 10,765 million. The detail of which has been elaborated in the financial performance.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- Risk management platform of the Bank has been adequately augmented while remaining fully abreast with the evolving challenges under the dynamic economic and operating environment including the challenges resulting from global pandemic.
- Despite the aforementioned losses, the management has a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future, as elaborated in note 1.5 to the financial statements. Accordingly, the financial statements have been prepared on a going concern basis.
- During the year, twelve board meetings were held. These meetings were attended by the directors as under:

Name of Director	Designation	Meetings	Meetings Attended
Existing Members			
Mr. Irfan Ul Wahab Khan	Chairman	7	6
Mr. Mohammad Mudassar Aqil	President & CEO	7	7
Mr. Zhixian Li	Director	7	7
Mr. Hua Hao *	Director	5	5
Mr. Zhang Lu *	Director	5	5
Mr. Henning Thronsen	Director	7	7
Mr. Lars Erik Tellman	Director	7	7
Ms. Uzma Munaf Khan	Independent Director	7	7
Mr. Amjad Waheed	Independent Director	7	7
Outgoing Members			
Mr. Zheng Liu	Director	2	
Mr. Ji Xu	Director	2	
*Attended 5 meetings as observer; FPT under SBP approval process			

The key information as to operating and financial data of the Bank is available in the annual report. The categories and pattern of shareholding as required by the Companies Act, 2017 are also included in the annual report.

Audit Committee

The Audit Committee consists of three members comprising of: two non-executive directors: Mr. Henning Thronsen along with Mr. Zhang Lu and one Independent Director, Dr. Amjad Waheed (Chairperson).

Credit Rating

The credit rating companies PACRA has retained the long-term and short-term rating of the Bank to "A+" and "A-1" respectively, while JCR VIS maintained a long and short-term rating of "A" and "A-1" respectively to the Bank.

External Audit Report

The External Auditors of the Bank, without qualifying their opinion, have drawn attention of the shareholders to the following point as a para of emphasis:

i. As the Bank incurred a net loss of Rs. 10.765 billion during the year and resultantly accumulated losses aggregated to Rs. 37.999 billion as at year end, the external auditors have emphasized on going concern assumption used in preparation of financial statements. Management believes that the Bank will continue to meet its capital adequacy requirement, operate its business, realize its assets and discharge its liabilities in the normal course of business. Following key factors have been considered for appropriateness of going concern assumption:

- Subsequent to year end, the Bank revised its business plan, which also envisages additional sponsor capital injection to absorb the adverse effects of COVID-19 situation on its business operations and future strategic expansion of its business. Board of Directors of the Bank has approved this business plan in January 2022 which envisages further injections in the Bank's equity over the period of the following three years. The sponsors of the Bank have also made equity injection of USD 22 million in February 2022 in accordance with this approved business plan.
- Capital Adequacy Ratio (CAR) of the Bank was 18.26% as at 31 December 2021, which is fully compliant with the regulatory requirements.
- The Bank is regulated by the State Bank of Pakistan (SBP) and both the sponsors of the Bank remain committed to the regulatory framework under the terms of the approval of SBP regarding their acquisition of the shares of the Bank. Accordingly, they remain committed to financially support the Bank in complying with the Minimum Capital Requirement and CAR as prescribed by SBP from time to time.
- The Bank has continued to maintain an acceptable liquidity position and the deposit base as expected in line with the business plan.
- In terms of the business plan and strategy approved by the Board. The Bank intends to expand its digital platforms to grow the business and rationalize cost structure to achieve profitability going forward.

The Board of Directors endorses the management's view of having a reasonable expectation that the Bank has adequate resources and support from its shareholders to continue in operational existence for the foreseeable future.

External Auditors Appointment for 2022

The retiring Auditors Messrs. EY Ford Rhodes, Chartered Accountants, being eligible have offered themselves for reappointment as external auditors for the year ending December 31, 2022, in the forthcoming Annual General Meeting of the Bank. Audit Committee of the Board has also recommended the reappointment of EY Ford Rhodes for the next term.

Pattern of Shareholding

The pattern of shareholding of the bank as at December 31, 2021 is as follows

No. of shareholders	Shareholders	No. of shares	% Shareholding
1	Telenor Pakistan B. V	301,371,785	55%
1	Alipay (Hong Kong) Holding Limited	246,576,930	45%
1	Ms. Uzma Munaf Ahmed Khan	10	Less than 0.001%
1	Mr. Amjad Waheed	10	Less than 0.001%
4		547,948,735	100%

Financial Highlights

Key performance highlights for the last six years are summarized and annexed to this report.

Earnings per Share

Loss per share of the Bank for the year ended 2021 is PKR 22.27 compared to PKR 25.02 as at end of Year 2020.

Employee Benefits Schemes

Value of investments including accrued income of provident and gratuity funds as at December 31, 2021, on the basis of respective un-audited financial statements are:

Provident fund: PKR 760.07 million
Gratuity fund: PKR 888.35 million

Remuneration of Chief Executive Officer and Directors

The details of Directors' fees and remuneration of Chief Executive Officer are given in Note 34 and note 35 to the Financial Statements.

Economic Outlook

Economic recovery witnessed in 2021 may be adversely impacted by the fast-developing scenario amidst the evolving Geo-political scenario. While GoP remains very pro-active in controlling the epidemic, the possible emergence of new variants continues to pose additional threats to future growth outlook.

According to IMF, Pakistan circumvented Covid-19 pandemic in previous two years with strengthened buffers in view of GoP's multifaceted policy response to the unprecedented pandemic crisis. However, enhanced external pressures emerging specially in the last quarter of 2021, including a widening current account deficit and currency depreciation pressures on the exchange rate have reinforced domestic inflation pressures. The country remains vulnerable to economic challenges emanating from possible new pandemic variants, tighter international financial conditions, possible rise in geopolitical tensions along with unforeseen delays in GoP's planned structural reforms.

Business Outlook

Pakistan is a country with immense Digital Financial Services potential. Pakistan is the 6th most populous country in the world with the 4th highest number of unbanked adults (~100 million) i.e., 1 out of every 20th unbanked person in the world is a Pakistani.

With 65% of the country's population is aged between 15 and 40 years, who are increasingly adopting new technology including overwhelming rise in internet adoption, it is anticipated that the financial inclusion landscape in Pakistan will continue to rapidly evolve.

Digital ecosystem in Pakistan is transforming with broadband penetration almost reaching 50%. Smart phone adoption and penetration continues to increase supplemented by recent initiation of local assembly by reputed international players like Samsung and Xiaomi.

Resultantly, the adoption of Mobile Wallets is increasing at a rapid pace with 70% growth in new bank accounts, in the last 5 years, coming from Mobile Wallets. Surge in customers' averseness to physical cash handling is leading to phenomenal rise in digital transaction throughputs, which augurs well for the envisaged growth in Digital Financial Services in Pakistan.

As a major policy stakeholder in this digital transformation journey, GoP is pursuing a multipronged implementation strategy encompassing nascent policy interventions to pro-actively create a harmonized regulatory environment along with initiating programs geared towards supporting digital awareness and associated skills development to harness a culture of indigenous research and innovation.

Overall, with the policies and frameworks introduced the SBP, there is a supportive regulatory environment in the country. Initiatives like RAAST, Digital Onboarding and Licensing frameworks are set to transform the financial services industry and Pakistan's digital journey is all set to take off to the next level, as reflected by the growth in overall digital and fintech companies which are also attracting significant rise in FDI investment.

Accordingly, SBP's licensing framework noted above was further augmented subsequent to the year under review, when SBP issued the final Digital banking Licensing and Regulatory framework. SBP has solicited applications for issuance of 5 digital banking licenses in the form either a Digital Retail Bank (DRB) or a Digital Full Bank (DFB). This is expected to further transform the banking landscape in Pakistan, taking a leap forward from the traditional brick and mortar set ups towards a new era of digital banking.

The most encouraging part of the regulation is that MFB's have been allowed conversion to Digital retail banks. The Bank intends to participate in this transformation journey envisaged by the SBP as it is well positioned to acquire a DRB license.

Easypaisa was the first entrant in the Digital Financial Services (DFS) space and irrespectively the Bank is continuously aspiring to remain a leader in the rapidly evolving DFS landscape by offering best in class products and services with the focus on retaining the industry's best UI/UX user experience. Easypaisa intends to transition from a #1 Payment App to the next phase, where the target is to reimagine banking in Pakistan by becoming a mass market Digital Financial services provider across the country, offering both digitized productive and consumptions lending options while enhancing payments portfolio.

In this next phase, Easypaisa plans to further leverage the alliances across multitude of products and services under its Open APIs and Mini-app programs to become a lifestyle Super APP while keeping seamless Digital payments at its core. The envisaged platform business model aims to further augment multifaceted partnerships and augment user ecosystems. The primary purpose remains to simplify and provide convenient lifestyle use cases under one app.

TMB will continue to scale up and digitize the productive lending business via cashless centers which will complement our ambition to promote financial inclusion ambition. The low-cost cashless service center model with limited staff and infrastructure will revamp our existing footprint to cashless service centers and expanding the network with 25 new cashless centers in Year 2022.

Robust yet cautious growth in the fresh lending operations along with delayed recoveries from the re-structured loans under COVID related policies will continue to be a major focus area in traditional MFB operations in 2022. Owing to these initiatives taken by TMB, traditional productive lending operations of the Bank are targeted to become self-sustainable in 2022.

While TMB aims to pursue growth in its monthly active user base, the primary focus in the short term on the Easypaisa side is to maintain emphasis on persistently optimizing the branchless business model in terms of reducing underlying costs while augmenting new revenue lines and leveraging data to monetize use cases. The Bank is working diligently towards scaling up a robust digital lending capability with state-of-the-art in-house credit scoring capabilities (Algorithms) built on payments data.

Applicability of IFRS 9 to banks in Pakistan has been deferred to accounting periods beginning on or after January 01, 2022. The impact of the application of IFRS 9 in Pakistan on the Bank's financial statements is being assessed and final implementation guidelines are awaited from the State Bank of Pakistan.

Going forward we intend to adopt a multi-pronged strategy geared towards leveraging the opportunities in 2022 along with continued focus on gaining a more robust footprint in both lines of businesses. The management intends to build on Bank's strong digital platform and further integrate the productive and consumption lending activities primarily under a unified Easypaisa channel to augment product suite and derive shareholders' value without losing focus on developing a financially inclusive and digital economy in Pakistan.

Appreciation and Acknowledgment

We take this opportunity to express our gratitude to our customers and business partners for their continued support and trust. We offer sincere appreciation to the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan for their guidance and cooperation extended to the Bank. Finally, we are also thankful to our associates, staff and colleagues for their committed services provided to our valued customers.

On behalf of the Board of Directors

Mr. Mohammad Mudassar Aqil
President / Chief Executive Officer

Mr. Irfan Ul Wahab Khan
Chairman

Place: Karachi
Dated: March 21, 2022

SIX-YEAR FINANCIAL SUMMARY: BALANCE SHEET

	Rs.'000					
	2021	2020	2019	2018	2017	2016
Assets						
Cash and balances with SBP & NBP	3,900,068	2,881,781	3,463,741	4,210,306	3,497,633	3,116,926
Balances with other banks	10,717,441	6,352,885	7,408,549	3,864,399	4,310,776	2,558,937
Lending to financial institutions	-	6,971,827	4,950,000	5,473,364	3,368,059	323,215
Investments	17,752,663	11,855,007	13,773,400	9,008,445	6,767,309	11,568,227
Advances - net of provisions	10,769,884	11,090,960	19,998,939	32,944,819	24,761,653	15,835,248
Operating fixed assets	8,366,835	8,650,391	7,667,057	3,001,351	1,729,560	1,041,611
Other assets	3,037,994	4,590,701	3,598,248	3,963,292	3,052,877	1,844,687
Deferred tax asset - net	-	-	-	-	-	14,795
Total Assets	54,544,885	52,393,552	60,859,934	62,465,976	47,487,867	36,303,646
Liabilities						
Deposits and other accounts	39,042,927	36,963,810	41,170,537	42,274,909	36,664,927	27,829,780
Borrowings	-	-	-	-	-	-
Other liabilities	9,476,029	10,265,105	11,369,058	6,369,572	5,805,111	3,887,957
Deferred tax liabilities	-	-	-	-	12,034	-
Total Liabilities	48,518,956	47,228,915	52,539,595	48,644,481	42,482,072	31,717,737
Net Assets	6,025,929	5,164,637	8,320,339	13,821,495	5,005,795	4,585,909
REPRESENTED BY:						
Share capital	5,479,488	4,277,589	4,277,589	3,547,269	1,346,939	1,346,939
Advance against future issue of right shares	-	7,442,699	-	-	-	-
Reserves	38,527,068	20,616,746	20,585,009	10,412,953	1,405,571	1,286,756
Accumulated (Loss) / Profit	(37,999,226)	(27,205,476)	(16,556,869)	(192,172)	2,229,020	1,943,880
	6,007,330	5,131,558	8,305,729	13,768,050	4,981,530	4,577,575
Surplus / (Deficit) on revaluation of assets - net of tax	2,797	15,809	(4,130)	(2,359)	(911)	(1,527)
Deferred grants	15,802	17,270	18,740	55,804	25,176	9,861
	6,025,929	5,164,637	8,320,339	13,821,495	5,005,795	4,585,909

SIX-YEAR FINANCIAL SUMMARY: PROFIT AND LOSS STATEMENT

	Rs.'000					
	2021	2020	2019	2018	2017	2016
Mark-up / return / interest earned	3,998,418	5,981,102	9,288,624	8,721,206	6,063,887	4,486,604
Mark-up / return / interest expensed	(1,926,625)	(2,771,116)	(3,671,426)	(2,595,036)	(1,767,054)	(1,113,495)
Net mark-up / interest income	2,071,793	3,209,986	5,617,198	6,126,170	4,296,833	3,373,109
Reversal / (provision) against non-performing loans and advances	(2,881,607)	(1,929,693)	(8,819,976)	(1,365,385)	(217,003)	(66,384)
Bad debts written off directly	(52,083)	(85,021)	(49,502)	(21,124)	(24,746)	(37,171)
	(2,933,690)	(2,014,714)	(8,869,478)	(1,386,509)	(241,749)	(103,555)
Net mark-up / interest income after provisions	(861,897)	1,195,272	(3,252,280)	4,739,661	4,055,084	3,269,554
Non mark-up / interest income						
Fee, commission and brokerage income	6,257,904	6,302,800	8,241,218	8,172,650	8,352,400	1,530,390
Other income	1,482,709	893,850	296,886	214,128	135,108	122,830
Total non mark-up / interest income	7,740,613	7,196,650	8,538,104	8,386,778	8,487,508	1,653,220
	6,878,716	8,391,922	5,285,824	13,126,439	12,542,592	4,922,774
Non mark-up / interest expenses						
Administrative expenses	(17,000,461)	(18,774,865)	(20,818,968)	(14,948,448)	(11,811,976)	(3,485,207)
Other provisions / write offs	(321,246)	(38,429)	(250,891)	(272,601)	(29,549)	(37,396)
Other charges	(1,133)	(210)	(116)	(19,358)	(13,623)	(30,886)
Total non mark-up / interest expenses	(17,322,840)	(18,813,504)	(21,069,975)	(15,240,407)	(11,855,148)	(3,553,489)
(Loss) / Profit before taxation	(10,444,124)	(10,421,582)	(15,784,151)	(2,113,968)	687,444	1,369,285
Taxation	(320,647)	(282,369)	(447,382)	(401,770)	(270,688)	(473,931)
(Loss) / Profit after taxation	(10,764,771)	(10,703,951)	(16,231,533)	(2,515,738)	416,756	895,354

SIX-YEAR FINANCIAL SUMMARY: CASHFLOW STATEMENT

Rs.'000

	2021	2020	2019	2018	2017	2016
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Cashflow statement - Summary						
Cash flow from operating activities	77,060	(8,981,482)	(615,487)	(7,095,671)	(1,954,717)	11,129,496
Cash flow from investing activities	(5,974,340)	323,779	(6,688,057)	(3,858,171)	4,071,948	(8,073,713)
Cash flow from financing activities	11,280,123	7,020,079	10,101,129	11,220,138	15,315	(86,448)
Net increase in cash and cash equivalents	5,382,843	(1,637,624)	2,797,585	266,296	2,132,546	2,969,335
Cash and cash equivalents at beginning of the year	9,234,666	10,872,290	8,074,705	7,808,409	5,675,863	2,706,528
Cash and cash equivalents at end of the year	14,617,509	9,234,666	10,872,290	8,074,705	7,808,409	5,675,863

	2021	2020	2019	2018	2017	2016
--	------	------	------	------	------	------

Financial Ratios:						
Return on Equity (RoE)	(179%)	(207%)	(195%)	(18%)	8%	20%
Return on Assets (RoA)	(20%)	(20%)	(27%)	(4%)	1%	2%
Deposits to Liabilities	80%	78%	78%	87%	86%	88%
Net Advance to Deposit	28%	30%	49%	78%	68%	57%
Investment to Deposit	45%	32%	33%	21%	18%	42%
Total Asset to Shareholders' Fund	9.1	10.1	7.3	4.5	9.5	7.9
Capital Adequacy ratio (CAR)	18.3%	18.9%	24.6%	35.2%	19.5%	30.6%
(Loss) / Earning Per Share - PKR	(22.27)	(25.02)	(44.92)	(7.09)	1.87	6.65

Other Information:						
Number of Branches	66	89	120	103	85	74
Number of Employees	3,240	2,592	3,694	3,559	3,420	3,473
Number of Borrowers	177,987	305,619	896,694	694,441	535,413	385,417
Number of Depositors	24,651,621	23,247,513	17,182,377	9,198,446	8,122,495	8,573,293

INDEPENDENT AUDITOR'S REPORT

To the members of Telenor Microfinance Bank Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the annexed financial statements of Telenor Microfinance Bank Limited (the Bank), which comprise the balance sheet as at 31 December 2021, the profit and loss account, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, the statement of comprehensive income, statement of changes in equity and cash flow statement together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan, and give the information required by the Microfinance Institution Ordinance, 2001 and Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at 31 December 2021 and of the loss, other comprehensive loss, the changes in equity and its cash flows for the year then ended.

Basis for Opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to note 1.5 to the financial statements, which indicates that the Bank has incurred a net loss after tax of Rs.10,765 million and due to continuing losses particularly from the last financial year, its accumulated losses amount to Rs. 37,999 million as of 31 December 2021. The said note also describe the management's future plans and key risks and uncertainties in relation thereto. These conditions indicate the existence of material uncertainty which may cast significant doubt about the Bank's ability to continue as a going concern. In order to support the operations of the bank, the sponsors of the Bank have also made equity injection of Rs. 3,899 million (USD 22 million) in February 2022 in accordance with the approved business plan. Our opinion is not qualified in respect of this matter.

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

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

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

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

Responsibilities of Management and the Board of Directors for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances,

but not for the purpose of expressing an opinion on the effectiveness of the internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

• Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

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

Report on Other Legal and Regulatory Requirements

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

- a) proper books of account have been kept by the Bank as required by the Companies Act, 2017 (XIX of 2017);

- b) the balance sheet, the profit and loss account, the statement of comprehensive income, statement of changes in equity and cash flow statement together with the notes thereon have been drawn up in conformity with the Companies Act, 2017(XIX of 2017) and are in agreement with the books of account and returns;

- c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Bank's business; and

- d) zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

The engagement partner on the audit resulting in this independent auditor's report is Arslan Khalid.

EY Ford Rhodes Chartered Accountants

Place: Karachi

Dated: 29 March 2022

UDIN: AR2021101914K9IMtnTe

BALANCE SHEET

AS AT 31 DECEMBER 2021

2021	2020		Note	2021	2020
----- (USD in '000) -----				----- (Rupees in '000) -----	
ASSETS					
Cash and balances with State Bank of Pakistan and National Bank of Pakistan					
21,890	16,174		6	3,900,068	2,881,781
60,153	35,657	Balances with other banks	7	10,717,441	6,352,885
-	39,130	Lendings to financial institutions	8	-	6,971,827
99,639	66,538	Investments	9	17,752,663	11,855,007
60,448	62,250	Advances - net of provisions	10	10,769,884	11,090,960
46,960	48,552	Operating fixed assets	11	8,366,835	8,650,391
17,051	25,766	Other assets	12	3,037,994	4,590,701
-	-	Deferred tax asset - net	13	-	-
306,141	294,067	Total assets		54,544,885	52,393,552
LIABILITIES					
219,134	207,465	Deposits and other accounts	14	39,042,927	36,963,810
-	-	Borrowings		-	-
-	-	Subordinated debt		-	-
53,185	57,614	Other liabilities	15	9,476,029	10,265,105
-	-	Deferred tax liability - net	13	-	-
272,319	265,079	Total liabilities		48,518,956	47,228,915
33,822	28,988	NET ASSETS		6,025,929	5,164,637
REPRESENTED BY:					
30,754	24,009	Share capital	16	5,479,488	4,277,589
-	41,773	Advance against future issue of right shares		-	7,442,699
216,239	115,715	Reserves		38,527,068	20,616,746
(213,276)	(152,695)	Accumulated losses		(37,999,226)	(27,205,476)
33,717	28,802			6,007,330	5,131,558
16	89	Surplus / (deficit) on revaluation of assets - net of deferred tax	17	2,797	15,809
89	97	Deferred grants	18	15,802	17,270
33,822	28,988			6,025,929	5,164,637
MEMORANDUM / OFF BALANCE SHEET ITEMS					
			19		

The annexed notes 1 to 40 form an integral part of these financial statements.

President and
Chief Executive Officer

Chairman

Director

Director

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2021

2021	2020		Note	2021	2020
----- (USD in '000) -----				----- (Rupees in '000) -----	
22,442	33,570	Mark-up / return / interest earned	20	3,998,418	5,981,102
(10,813)	(15,553)	Mark-up / return / interest expensed	21	(1,926,625)	(2,771,116)
11,629	18,017	Net mark-up / return / interest income		2,071,793	3,209,986
(16,173)	(10,831)	Provision against non-performing loans and advances - net	10.3	(2,881,607)	(1,929,693)
-	-	Provision for diminution in the value of investments		-	-
(292)	(477)	Bad debts written off directly	10.4	(52,083)	(85,021)
(16,465)	(11,308)			(2,933,690)	(2,014,714)
(4,836)	6,709	Net mark-up / return / interest income / (expense) after provisions		(861,897)	1,195,272
NON MARK-UP / NON INTEREST INCOME					
35,123	35,375	Fee, commission and brokerage income	22	6,257,904	6,302,800
-	-	Dividend income		-	-
8,322	5,017	Other income	23	1,482,709	893,850
43,445	40,392	Total non-mark-up / non-interest income		7,740,613	7,196,650
38,609	47,101			6,878,716	8,391,922
NON MARK-UP / NON INTEREST EXPENSES					
(95,418)	(105,377)	Administrative expenses	24	(17,000,461)	(18,774,865)
(1,803)	(216)	Other provisions / write-offs	25	(321,246)	(38,429)
(6)	(1)	Other charges	26	(1,133)	(210)
(97,227)	(105,594)	Total non-mark-up / non-interest expenses		(17,322,840)	(18,813,504)
(58,618)	(58,493)			(10,444,124)	(10,421,582)
-	-	Extraordinary / unusual items		-	-
(58,618)	(58,493)	LOSS BEFORE TAXATION		(10,444,124)	(10,421,582)
(1,585)	(1,615)	Taxation - current	27	(282,470)	(287,753)
(177)	(215)	- prior	27	(31,595)	(38,328)
(37)	245	- deferred	27	(6,582)	43,712
(1,799)	(1,585)			(320,647)	(282,369)
(60,417)	(60,078)	LOSS AFTER TAXATION		(10,764,771)	(10,703,951)
(152,695)	(92,928)	Accumulated loss brought forward		(27,205,476)	(16,556,869)
(60,436)	(59,589)	Total comprehensive loss for the year		(10,767,874)	(10,616,870)
(213,131)	(152,517)			(37,973,350)	(27,173,739)
Appropriations:					
Transfer to:					
-	-	Statutory reserve		-	-
-	-	Capital reserve		-	-
(145)	(178)	Depositors' Protection Fund		(25,876)	(31,737)
-	-	Revenue reserve		-	-
-	-	Proposed cash dividend		-	-
(145)	(178)			(25,876)	(31,737)
(213,276)	(152,695)	Accumulated loss carried forward		(37,999,226)	(27,205,476)
USD					
(0.13)	(0.14)	Loss per share - Basic and diluted	28.1	(22.27)	(25.02)
(Rupees)					

The annexed notes 1 to 40 form an integral part of these financial statements.

President and
Chief Executive Officer

Chairman

Director

Director

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

2021	2020		Note	2021	2020
----- (USD in '000) -----				----- (Rupees in '000) -----	
(60,417)	(60,078)	Loss after taxation		(10,764,771)	(10,703,951)
Other Comprehensive income / (loss)					
Item not to be reclassified to statement of profit and loss in subsequent periods - net of tax					
(25)	688	Remeasurement gain / (loss) on defined benefit obligation	33.3.4	(4,370)	122,649
7	(200)	Related tax impact	13.2	1,267	(35,568)
(18)	488			(3,103)	87,081
(60,435)	(59,590)	Comprehensive loss for the year transferred to equity		(10,767,874)	(10,616,870)
Component of comprehensive income / (loss) for the year not transferred to equity					
Item to be reclassified to statement of profit and loss subsequently on sale - net of tax					
Surplus / (deficit) on revaluation of 'available for sale' investments					
(103)	158			(18,327)	28,083
30	(46)	Related tax impact	13.2	5,315	(8,144)
(73)	112	Comprehensive loss for the year not transferred to equity		(13,012)	19,939

The annexed notes 1 to 40 form an integral part of these financial statements.

President and
Chief Executive Officer

Chairman

Director

Director

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital	Advance against future issue of right shares	Capital reserves				Accumulated losses	Total
			Share premium	Statutory reserve	Depositors' protection fund	Total capital reserves		
----- (Rupees in '000) -----								
Balance as at 01 January 2020	4,277,589	-	19,471,229	802,481	311,299	20,585,009	(16,556,869)	8,305,729
Comprehensive loss for the year								
Loss after tax for the year	-	-	-	-	-	-	(10,703,951)	(10,703,951)
Other comprehensive loss - net of tax	-	-	-	-	-	-	87,081	87,081
Total comprehensive loss for the year	-	-	-	-	-	-	(10,616,870)	(10,616,870)
Transfer to statutory reserve *	-	-	-	-	-	-	-	-
Advance against future issue of right shares	-	7,442,699	-	-	-	-	-	7,442,699
Transfer to Depositors' Protection Fund	-	-	-	-	-	-	-	-
- return on investments	-	-	-	-	31,737	31,737	(31,737)	-
Balance as at 31 December 2020	4,277,589	7,442,699	19,471,229	802,481	343,036	20,616,746	(27,205,476)	5,131,558
Comprehensive loss for the year								
Loss after tax for the year	-	-	-	-	-	-	(10,764,771)	(10,764,771)
Other comprehensive income - net of tax	-	-	-	-	-	-	(3,103)	(3,103)
Total comprehensive loss for the year	-	-	-	-	-	-	(10,767,874)	(10,767,874)
Transfer to statutory reserve *	-	-	-	-	-	-	-	-
Advance against future issue of right shares	-	11,643,646	-	-	-	-	-	11,643,646
Issue of share capital	1,201,899	(19,086,345)	17,884,446	-	-	17,884,446	-	-
Transfer to Depositors' Protection Fund	-	-	-	-	-	-	-	-
- return on investments	-	-	-	-	25,876	25,876	(25,876)	-
Balance as at 31 December 2021	5,479,488	-	37,355,675	802,481	368,912	38,527,068	(37,999,226)	6,007,330

* In accordance with the requirements of the Microfinance Institutions Ordinance, 2001 and the Prudential Regulations for Microfinance Banks issued by the SBP (Prudential Regulations), the Bank is required to transfer an amount equivalent to 20% of profit after tax to the statutory reserve. No amount has been allocated to this reserve in the current year as there is a loss after tax for the year.

** In accordance with the requirements of the Microfinance Institutions Ordinance, 2001 and the Prudential Regulations, the Bank is required to transfer an amount equivalent to 5% of profit after tax to the Depositors' Protection Fund, plus the return earned on such funds. Although there is loss after tax for the year, an amount equal to the profit earned on the investments of the fund has been credited to this fund during the year.

The annexed notes 1 to 40 form an integral part of these financial statements.

President and
Chief Executive Officer

Chairman

Director

Director

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2021

2021	2020	Note	2021	2020
----- (USD in '000) -----			----- (Rupees in '000) -----	
CASH FLOW FROM OPERATING ACTIVITIES				
(65,342)	(65,203)		(10,444,124)	(10,421,582)
Loss before taxation				
Adjustments for non cash and other items:				
5,657	6,165		904,211	985,443
1,973	2,289		315,387	365,897
2,210	1,605		353,212	256,604
2,012	2,109		321,635	337,060
18,029	12,073		2,881,607	1,929,693
326	532		52,083	85,021
999	1,192		159,667	190,561
1,880	(1,028)		300,483	(164,253)
130	674		20,763	107,715
(7,579)	(8,636)		(1,211,306)	(1,380,254)
(9)	(9)		(1,468)	(1,470)
(101)	-		(16,122)	-
9	134		1,465	21,342
25,536	17,100		4,081,617	2,733,359
(Increase) / decrease in operating assets				
43,619	(12,650)		6,971,827	(2,021,827)
(16,346)	43,128		(2,612,614)	6,893,265
8,646	(3,703)		1,381,952	(591,819)
35,919	26,775		5,741,165	4,279,619
(Decrease) / increase in operating liabilities				
13,008	(26,319)		2,079,117	(4,206,727)
(5,271)	(4,967)		(842,497)	(793,866)
7,737	(31,286)		1,236,620	(5,000,593)
(2,481)	(2,088)		(396,582)	(333,740)
(886)	(1,492)		(141,636)	(238,545)
483	(56,194)		77,060	(8,981,482)
CASH FLOW FROM INVESTING ACTIVITIES				
(29,437)	20,814		(4,704,985)	3,326,730
(7,956)	(18,900)		(1,271,707)	(3,020,845)
15	112		2,352	17,894
(37,378)	2,026		(5,974,340)	323,779
CASH FLOW FROM FINANCING ACTIVITIES				
72,848	46,565		11,643,646	7,442,699
(2,274)	(2,644)		(363,523)	(422,620)
70,574	43,921		11,280,123	7,020,079
33,679	(10,247)		5,382,843	(1,637,624)
Net (decrease) / increase in cash and cash equivalents				
57,776	68,022		9,234,666	10,872,290
91,455	57,775		14,617,509	9,234,666

The annexed notes 1 to 40 form an integral part of these financial statements.

President and
Chief Executive Officer

Chairman

Director

Director

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

1. STATUS AND NATURE OF BUSINESS

1.1 Telenor Microfinance Bank Limited (the Bank) was incorporated in Pakistan on 01 August 2005 as a public limited company under the Companies Ordinance, 1984 (Repealed with the enactment of the Companies Act, 2017 on 30 May 2017). The Bank obtained microfinance banking license from the State Bank of Pakistan (SBP) on 05 August 2005 to operate on a nationwide basis and received the certificate of commencement of business from the Securities and Exchange Commission of Pakistan (SECP) on 05 September 2005.

1.2 The Bank's principal business is to provide Microfinance banking and related services to the poor and under-served segment of the society with a view to alleviate poverty under the Microfinance Institutions Ordinance, 2001. In 2009, the Bank also started Branchless Banking services under the Branchless Banking license from the SBP.

The Bank's registered office is situated at 19-C, Main Khayaban-e-Nishat, Phase VI, DHA, Karachi.

1.3 The Bank is jointly held by Telenor Pakistan B.V, a joint stock company based in Amsterdam with 55% shareholding (31 December 2020: 55%) and Alipay (Hong Kong) Holding Limited with 45% (31 December 2020: 45%) shareholding.

The holding company of Telenor Pakistan B.V. is Telenor ASA, Norway, while the holding company of Alipay (Hong Kong) Holding Limited is Ant Group Co. Ltd. China (Formerly Ant Small and Micro Financial Services Group Company Limited).

1.4 The credit rating of the Bank as of April 30, 2021 is as follows:

Credit rating company	Long term	Short term
PACRA	A+	A1
JCR-VIS	A	A1

1.5 Going concern basis of accounting

During the year ended 31 December 2021, the Bank has incurred a net loss after tax of Rs. 10,765 million and due to continuing losses its accumulated losses amount to Rs. 37,999 million as at 31 December 2021. In order to mitigate the impact of losses, the shareholders have injected equity amounting to Rs. 19,086 million (USD 115.2 million) during the years 2020 and 2021 and a further capitalization plan has also been approved by the Board of Directors based on the future business financial projections and business plan of the Bank keeping in view the capital adequacy requirements of the State Bank of Pakistan.

These factors indicates the existence of the material uncertainties regarding sustainability of future operations of the Bank, however, these financial statements have been prepared on going concern basis as the Directors have reasonable expectation that the Bank will have the resources to continue its business and comply with regulatory capital requirements based on the following factors:

- Subsequent to year end, the Bank has revised its business plan, which also envisages additional sponsor capital injection to absorb the adverse effects of COVID-19 situation on its business operations and future strategic expansion of its business. Board of Directors of the Bank has approved the business plan in January 2022 which envisages further injections in the Bank's equity over the period of three years. The sponsors of the Bank have also made equity injection of Rs. 3,899 million (USD 22 million) in February 2022 in accordance with the approved business plan.

- Capital Adequacy Ratio (CAR) of the Bank was 18.26% at 31 December 2021 and was compliant with the regulatory requirements.

- The Bank is regulated by the State Bank of Pakistan (SBP) and both the sponsors of the Bank remain committed to the regulatory framework under the terms of the approval of SBP regarding their acquisition of the shares of the Bank. Accordingly, they remain committed to financially support the Bank in complying with the Minimum Capital Requirement and CAR as prescribed by SBP from time to time.

- The Bank has continued to maintain an acceptable liquidity position and the deposit base as expected in line with the business plan.

- In terms of the business plan and strategy approved by the Board the Bank intends to expand its digital platforms to grow the business and rationalize cost structure to achieve profitability going forward.

The key risks and uncertainties associated with the above referred matters includes the ability of the Bank to achieve the results set out as per the revised business plan. In this respect particular challenges include, (but not limited to) Bank's ability to maintain and improve the level of asset quality, ensure capital inflows as per the approved business plan and execution of cost optimization initiatives envisaged under the aforementioned plan.

The assessment of the appropriateness of using the going concern basis of accounting has been subject to a due governance process involving the Audit Committee and Board of Directors of the Bank. In making such assessments, the Board has taken into account all facts and circumstances as referred to in above paragraphs and have concluded that the current situation along with the risk and uncertainties set out above and their consequential effects, represents a material uncertainty which may cast significant doubt upon the Bank's ability to continue as a going concern. In case, the Bank is unable to continue as a going concern, the Bank may not be able to realize its assets and discharge its liabilities in the normal course of business. Nevertheless, after considering the financial projections, in particular, those for the period up to 31 December 2022, the Directors have reasonable expectations that the Bank will have adequate resources to continue its business over this period. For these reasons, the Board of Directors and the management of the Bank continued to adopt the going concern basis in preparing these financial statements.

2. BASIS OF PRESENTATION

These financial statements have been prepared in compliance with the format as prescribed under the Banking Surveillance Department (BSD) Circular No. 11 dated 30 December 2003 issued by the State Bank of Pakistan (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. The accounting and reporting standards 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 (including Prudential Regulations for Microfinance Banks) and Securities and Exchange Commission of Pakistan (SECP).

Wherever 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 SBP and the SECP differ with the requirements of the IFRS or IFAS, 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 SBP and SECP shall prevail.

3.2 The SBP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and IAS 40, 'Investment Property' for Banking Companies in Pakistan through BSD Circular Letter 10 dated 26 August 2002 till further instructions. SECP has deferred the applicability of IFRS 7 'Financial Instruments: Disclosures' through its notification S.R.O 411 (I) / 2008 dated 28 April 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements of Prudential Regulation for Microfinance Banks or directives issued by SBP.

4. BASIS OF MEASUREMENT

4.1 Accounting convention

These financial statements have been prepared under historical cost convention except that available-for-sale and held-for-trading investments are measured at fair value.

4.2 Functional and presentation currency

These financial statements have been presented in Pakistani Rupees, which is the Bank's functional and presentation currency.

As an additional information, the US Dollar amounts reported in the balance sheet, profit and loss account, statement of comprehensive income and cash flow statement are stated solely for the convenience of the users of financial statements. For the purpose of translation to US Dollar, spot rate of Rs. 178.1690 per US Dollar has been used for 2021 and 2020 as it was the prevalent rate on the reporting date.

4.3 Standards, interpretations and amendments to accounting and reporting standards as applicable in Pakistan that are effective in the current year

The Bank has adopted the following accounting standards, interpretations and amendments of IFRSs and the improvements to accounting standards which became effective for the current year:

- COVID-19-Related Rent Concessions - Amendment to IFRS 16

The IASB has issued amendments to IFRS 16 (the amendments) to provide optional practical relief for lessees in accounting for rent concessions. Under the practical expedient, lessees are not required to assess whether eligible rent concessions are lease modifications, and instead are permitted to account for them as if they were not lease modifications. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the conditions described in IFRS 16 paragraph 46B are met.

- Interest Rate Benchmark Reform - Phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free markup rate (RFR).

The above mentioned amendments to IFRSs did not have any material impact on these financial statements.

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

IFRS 9 Financial Instruments

As per the SBP's BPRD Circular Letter no. 24 dated July 05, 2021, the applicability of IFRS 9 to banks in Pakistan has been deferred to accounting periods beginning on or after January 01, 2022. However, SBP has directed the banks in Pakistan to submit IFRS 9 parallel run results and proforma financial statements on periodic basis based on the instructions issued by the SBP for parallel run of IFRS 9 and the Bank has been complying with these requirements. The impact of the application of IFRS 9 on Bank's financial statements is being assessed based on parallel run guidelines while final implementation guidelines are awaited.

Further, the following IFRS as notified under the Companies Act, 2017 and the amendments thereto will be effective for future accounting periods and not early adopted:

Standard and Amendments

Effective date (accounting periods beginning on or after)

- IAS 37 - Onerous Contracts – Cost of Fulfilling a Contract, (Amendments)	January 01, 2022
- IAS 1 and IFRS Practice Statement 2 - Disclosure of Accounting Policies	January 01, 2023
- IAS 16 - Property, Plant and Equipment: Proceeds before Intended Use (Amendments)	January 01, 2022
- IFRS 3 - Reference to the Conceptual Framework (Amendments)	January 01, 2022
- IAS 1 - Classification of liabilities as current or non-current (Amendments)	January 01, 2022
- IFRS 9 - Financial Instrument - Fees in the '10 per cent' test for derecognition of financial liabilities	January 01, 2022
- IAS 8 - Definition of Accounting Estimates	January 01, 2023
- IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)	Not yet announced

The above standards, amendments and improvements are not expected to have any material impact on the financial statements of the Bank for the future periods.

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

Standards

Effective date (accounting periods beginning on or after)

- IFRS 1 - First time adoption of IFRSs	January 01, 2004
- IFRS 17 - Insurance Contracts	January 01, 2023

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are consistent with those of the corresponding year.

5.1 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents represent cash in hand and balances held with State Bank of Pakistan (SBP) and National Bank of Pakistan (NBP), balances held with other banks in current and deposit accounts and TDRs having a maturity up to 3 months. Cash and cash equivalents are carried at cost in the balance sheet.

5.2 Lendings to financial institutions

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

5.3 Investments

The investments of the Bank, upon initial recognition, are classified as held-for-trading, held-to-maturity or available-for-sale, as appropriate.

Initial measurement

All purchases and sales of investments that require delivery within the time frame established by regulations or market convention are recognised at the trade date. The trade date is the date on which the Bank commits to purchase or sell the investment.

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 and loss account.

Subsequent measurement

Held-for-trading

These represent investments, 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.

Investments classified as held-for-trading are subsequently measured at fair value. Any unrealised surplus / deficit arising on revaluation is taken to the profit and loss account in accordance with the requirements prescribed by SBP.

Held-to-maturity

These are investments with fixed or determinable payments and fixed maturities which the Bank has the intention and ability to hold till maturity.

Investments classified as held-to-maturity are subsequently measured at amortised cost using the effective interest rate method, less any impairment recognised to reflect irrecoverable amounts. Profit on held to maturity investments is recognised on a time proportion basis taking into account effective yield on the investments.

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. Any unrealised surplus / deficit arising on revaluation is recorded in the surplus / deficit on revaluation of securities account (shown as part of equity in Balance Sheet) and is taken to the profit and loss account either when realised upon disposal or when the investment is considered to be impaired.

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 and loss account.

5.4 Advances

Advances are stated net of specific and general provisions which are determined on the basis of the Prudential Regulations for Microfinance Banks (the Prudential Regulations) issued by SBP and general provisions as explained below. 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 into the 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 accordance with the Prudential Regulations, the Bank maintains specific provision for potential loan losses for all non-performing advances as follows:

OAEM	Nil
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 equivalent to 1% of the net outstanding unsecured balance (advances net of specific provisions) for potential loan losses. The Bank also recognises general and specific provisions in addition to the above general provisions when the circumstances indicate delinquency in the portfolio.

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.

In addition to the above classifications prescribed in Prudential Regulation, the Bank also maintains specific and general provisions against the irregular loans (disclosed in more detail in note 10 to these financial statements).

5.5 Operating fixed assets

5.5.1 Property and equipment and depreciation

These 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 using the straight-line basis over the estimated useful lives of assets. Depreciation on additions is charged from the month in which the assets are available for use. No depreciation is charged from the month in which the assets are disposed off. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each reporting date.

Gains and losses on disposal of assets are determined by comparing the sale proceeds with the carrying amount are included in the profit and loss account.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. Normal repairs and maintenance are charged to the profit and loss account as and when incurred. Major repairs and renovations that increase the useful life of an asset are capitalised.

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.

5.5.2 Capital work-in-progress

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

5.5.3 Intangible assets and amortisation

Intangible assets with a definite useful life are stated at cost less accumulated amortisation and impairment (if any). These are amortised from the month, when these assets are available for use, using the straight-line method (on cost less residual value, if any), whereby the cost of the intangible asset is amortised on the basis of the estimated useful life over which economic benefits are expected to flow to the Bank. The residual value (if any), useful lives and the amortisation method is reviewed and adjusted, if appropriate, at each balance sheet date.

5.5.4 Right-of-use assets and their related lease liability

Right of-use assets

On initial recognition, right-of-use assets are measured at an amount equal to initial lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to be incurred to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located.

Right-of-use assets are subsequently stated at cost less any accumulated depreciation and accumulated impairment losses and are adjusted for any remeasurement of lease liability. The remeasurement of lease liability will only occur in cases where the terms of the lease are changed during the lease tenor.

Right-of-use assets are depreciated over their expected useful lives using the straight-line method. Depreciation on additions (new leases) is charged from the month in which the leases are entered into. No depreciation is charged in the month in which the leases mature or are terminated.

Lease liability against right-of-use assets

The lease liabilities are initially measured as the present value of the remaining lease payments, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Bank's incremental borrowing rate.

The lease liability is subsequently measured at amortised cost using the effective interest rate method. The lease liability is also remeasured to reflect any reassessment or change in lease terms. These remeasurements of lease liabilities are recognised as adjustments to the carrying amount of related right-of-use assets after the date of initial recognition.

Each lease payment is allocated between a reduction of the liability and a finance cost. The finance cost is charged to the profit and loss account as markup expense over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

5.6 Impairment

5.6.1 Non-financial assets (except for deferred tax assets)

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated pre-tax future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

5.6.2 Financial assets

A financial asset, other than advances, 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 recognised in the profit and loss account.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost reversal is recognised in the profit and loss account. However, impairment against the loans and advances are recognised in the manner explained in note 5.4 above.

5.7 Financial instruments

5.7.1 Financial assets and financial liabilities

All financial assets and liabilities are recognized at the time when the Bank becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the Bank loses control of the contractual rights that comprise the financial asset. Financial liabilities are derecognized when these 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 and loss account.

Financial assets and liabilities carried on the balance sheet include cash and bank balances, lending to financial institutions, investments, advances, deposits and certain other payables / receivables. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the relevant policy notes.

5.7.2 Off setting

Financial assets and financial liabilities are off-set and the net amount is reported in the balance sheet 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.

5.8 Provisions

Provisions are recognised when the Bank has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimates.

5.9 Deferred grant

The grant related to an asset is recognised in the balance sheet initially as deferred income when there is reasonable certainty that it will be received and that the Bank will comply with the conditions attached to it. Grants that compensate the Bank for expenses incurred are recognised as revenue in the profit and loss account on a systematic basis in the same period in which the expenses are incurred. Grants that compensate the Bank for the cost of an asset are recognised in the profit and loss account on a systematic basis over the useful life of the asset acquired from grant proceeds.

5.10 Staff retirement benefits

5.10.1 Defined benefit plan

The Bank operates a funded gratuity scheme for its eligible permanent employees. Provision is made in these financial statements based on the actuarial valuation carried out on the balance sheet date (31 December 2021) using the projected unit credit method. When the calculation results in a potential asset for the Bank, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reduction in future contribution to the plan (if material). The above benefits are payable to staff at the time of separation / retirement from the Bank's services subject to the completion of qualifying period of service. Remeasurement component which is the net of actuarial gains and losses is recognized immediately in other comprehensive income where as service cost and net interest income / expense are charged to the profit and loss account.

5.10.2 Defined contribution plan

The Bank also operates a recognised provident fund scheme for its eligible employees. Equal monthly contributions are made, both by the Bank and the employees, to the Fund at the rate of 10% of the basic salary. The contribution of the Bank is charged to the profit and loss account.

5.11 Revenue recognition

- Mark-up / return / interest earned on advances, investments and bank balances is recognised on a time proportion basis, except that in the case of advances classified under the Prudential Regulations on which mark-up is recognised on receipt basis.

- Gain or loss on sale of securities is accounted for in the period in which the sale / settlement occurs.
- Fee, commission and service fee income is recognised as services are rendered except that in case of nano loans, the fee income is spread over the period of loan.
- Other income is recognised on accrual basis when the services have been rendered except that early and late payment charges and recovery of written off loans are recognized on receipt basis.

5.12 Taxation

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

Current

Provision for current taxation is based on the taxable income for the year determined in accordance with the provisions of Income Tax Ordinance, 2001 and is recognized in relation to the income stream taxable under different basis. The charge for tax also includes adjustments, where considered necessary relating to prior years.

Deferred

Deferred tax is recognised using the balance sheet liability method on all temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deductible temporary differences (deferred tax assets) are temporary differences that are deductible from the taxable income of future periods when the carrying amount of the asset or liability is recovered or settled. Taxable temporary differences (deferred tax liabilities) are temporary differences that will result in a tax liability in future periods when the carrying amount of the asset or liability is recovered or settled. Deferred tax is calculated at the tax rates that are expected to be applicable to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted as at the Balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Where objective evidence exists that the carrying value of a deferred tax asset may not be recoverable, the deferred tax asset is reduced to its recoverable value. The difference between the carrying value and the recoverable value is recognised through the profit and loss account as a deferred tax expense.

5.13 Foreign currency transactions

Foreign currency transactions are translated into Pakistani 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 the profit and loss account.

5.14 Earnings per share

The Bank presents basic and diluted earnings per share (EPS). 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. There were no dilutive potential ordinary shares in issue as at 31 December 2021.

5.15 Dividend distribution

Declaration of dividend to holders of the equity instruments of the Bank is recognised as liability in the period in which it is declared.

5.16 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.

5.17 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 SBP in a remunerative account.

5.18 Employees Share Appreciation Rights (ESAR)

The Bank grants share appreciation rights to its certain employees under the Bank's Employee Share Appreciation Rights Scheme (ESAR) as approved by the Board of Directors which are settled in cash (Cash Settled Transactons).

Under the terms of ESAR, the vesting of rights is subject to the completion of a minimum service from the grant date upon which the respective employee becomes eligible for the proportionate share appreciation rights. These rights are fully vested upon completion of the service period of four years from the grant date.

Upon completion of the vesting period, these rights are exercisable subject to the terms and conditions of the approved plan and any relevant regulatory requirements at that time, up to an amount equivalent to the appreciation in the fair value of the rights at the time of exercise, over the base price at the grant date, as approved by the Board of Directors.

The amount of appreciation in fair value of rights is recognized as an expense with the increase in corresponding liability over the vesting period, net off impact of employee turnover. The liability is remeasured at each reporting date and at settlement date based on the fair value of the right. Any changes in the liability are recognized in the profit and loss account.

When an invested right lapse either by virtue of an employee not conforming to the vesting conditions or failure to exercise the rights during the exercise window, after recognition of an employee compensation expense in the profit and loss account, such employee compensation expense is reversed in the profit and loss account equal to the amortized portion with a corresponding effect to the liability.

5.19 Key accounting estimates and judgments

The preparation of financial statements in conformity with the accounting and reporting standards as applicable in Pakistan requires management to make judgment, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgment about carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimate. The estimate and underlying assumption are reviewed on an ongoing basis.

Revision to accounting estimates are recognized in the period in which the estimate is 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. In particular, information about significant areas of estimation, uncertainty and critical judgment in applying accounting policies that have most significant effect on the amount recognized in the financial statements are as follows:

i) Classification and provisioning of investments (notes 5.3 and 9)

Held-to-maturity

As described in note 5.3, held-to-maturity securities are investments where the management has positive intent and ability to hold to maturity. The classification of these securities involves management judgment as to whether the financial assets are held-to-maturity investments.

Held-for-trading

Investments classified as held-for-trading are those which the Bank has acquired with an intention to trade by taking advantage of short term market interest rate movements.

Available-for-sale

Investments which are not classified as held-for-trading or held-to-maturity are classified as available-for-sale.

ii) Provision against advances (notes 5.4 and 10)

The basis of provision against the advances portfolio are as mentioned in note 5.4. However, the actual results may differ, as provision is made on an estimated basis as per the guidelines given by SBP and Bank's internal assessment.

iii) Current and deferred taxation (notes 5.12)

In making the estimates for income taxes currently payable by the Bank, the management looks at the current income tax laws and the decisions of appellate authorities on certain issues in the past. In making the provision for deferred taxes, estimates of the Bank's future taxable profits are taken into account.

iv) Payable against staff retirement benefits (notes 5.10)

The key actuarial assumptions concerning the valuation of the defined benefit plan and the sources of estimation are disclosed in note 33 to these financial statements.

v) Operating fixed assets, depreciation and amortisation (notes 5.5)

In making estimates of the depreciation / amortization method, the management uses method and rates which reflects the pattern in which economic benefits are expected to be consumed by the Bank. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits in the assets, the method and depreciation rates are changed to reflect the change in pattern. Such change is accounted for as change in accounting estimates in accordance with International Accounting Standards - 8, "Accounting Policies, Changes in Accounting Estimates and Errors".

vi) Right-of-use assets and their related lease liability (note 5.5.4)

Management uses judgement in estimating the incremental borrowing rate for the recognition of lease liability and corresponding right-of-use assets under IFRS 16 including the term of the lease.

vii) Fair value of share appreciation right

The Bank determines the fair value of share appreciation rights using a board approved pricing model. For these cash-settled rights, the liability needs to be remeasured at the end of each reporting period up to the date of settlement, with any changes in fair value recognised in profit or loss account. This requires a reassessment of the estimates used at the end of each reporting period.

	Note	2021 ----- (Rupees in '000) -----	2020 ----- (Rupees in '000) -----
6. CASH AND BALANCES WITH STATE BANK OF PAKISTAN AND NATIONAL BANK OF PAKISTAN			
Cash in hand - local currency		595,237	716,452
Balance with State Bank of Pakistan - current account		3,272,156	2,099,426
Balance with National Bank of Pakistan - current account		32,675	65,903
	6.1	3,304,831	2,165,329
		3,900,068	2,881,781

6.1 This includes current accounts maintained with State Bank of Pakistan (SBP) and National Bank of Pakistan (NBP) to meet the minimum balance requirement equivalent to 5% as cash reserve and 10% as liquidity reserve of the Bank's time and demand liabilities in accordance with the Prudential Regulations.

	Note	2021 ----- (Rupees in '000) -----	2020 ----- (Rupees in '000) -----
7. BALANCES WITH OTHER BANKS			
In Pakistan			
- Current accounts		261,857	250,799
- PLS deposit accounts	7.1 & 7.2	7,955,584	4,102,086
- Fixed term deposits	7.3	2,500,000	2,000,000
		10,717,441	6,352,885

7.1 This represents demand deposits with various financial institutions carrying markup at rates ranging between 7% to 13.% per annum (31 December 2020: 5.50% to 8.00% per annum).

7.2 Certain guarantees of Rs. 124.5 million (31 December 2020: Rs. 7.5 million) which have been given on behalf of the Bank by other financial institution for the Bank's branchless banking customers/ service providers. These guarantees are secured against the profit and loss sharing deposits maintained with the same financial institution.

7.3 This represent fixed term deposit with a commercial bank carrying mark-up rate at 12.30% (31 December 2020: 7.45% to 7.50% per annum) and having maturity in January 2022 (31 December 2020: January 2021).

	Note	2021 ----- (Rupees in '000) -----	2020 ----- (Rupees in '000) -----
8. LENDINGS TO FINANCIAL INSTITUTIONS			
Call money lendings - unsecured		-	4,300,000
Repurchase agreement lendings (reverse repo)		-	2,671,827
		-	6,971,827

8.1 This represent call money lendings to various financial institutions in 2020 carrying mark-up rate ranging from 6.05% to 7.50% per annum and having maturity in January 2021.

8.2 Securities held as collateral against lending to financial institutions (Reverse repo)

	2021			2020		
	Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
----- (Rupees in '000) -----						
Market treasury bills (face value)	-	-	-	2,700,000	-	2,700,000
	-	-	-	2,700,000	-	2,700,000

	Note	2021 ----- (Rupees in '000) -----	2020 ----- (Rupees in '000) -----
9. INVESTMENTS			
Federal Government Securities - available for sale	9.1	17,748,724	11,832,741
Market Treasury Bills	17	3,939	22,266
Surplus / (deficit) on revaluation of investment		17,752,663	11,855,007

9.1 These carry mark-up at rates ranging between 10.4% to 10.94% (31 December 2020: 6.86% to 9.40%) per annum and having maturities up to Mar 2022 (31 December 2020: May 2021). These securities have an aggregate face value of Rs. 18,031 million (31 December 2020: Rs. 12,000 million).

	Note	2021		2020	
		Number of loans outstanding	(Rupees in '000)	Number of loans outstanding	(Rupees in '000)

10. ADVANCES - net of provisions

Loan Type					
Micro credit					
Advances - gross					
- Secured	10.1	41,779	3,959,619	57,254	4,862,413
- Unsecured	10.2	136,208	7,836,452	248,365	7,864,081
		177,987	11,796,071	305,619	12,726,494
Less: Provision held					
- Specific	10.1	32,829	(957,472)	56,537	(1,572,518)
- General	10.2		(68,715)		(63,016)
	10.3		(1,026,187)		(1,635,534)
Advances - net of provisions			10,769,884		11,090,960

10.1 Particulars of non-performing advances

Advances include Rs. 2,007.31 million (31 December 2020: Rs. 2,103.91 million) which have been placed under non-performing status as detailed below:

	2021				
	Amount outstanding			Provision required	Provision held
	Secured	Unsecured	Total		
----- (Rupees in '000) -----					
Other Assets Especially					
Mentioned (OAEM)	114,275	314,235	428,510	-	-
Substandard	64,334	275,465	339,799	68,866	68,866
Doubtful	10,294	673,332	683,627	336,666	336,666
Loss	3,445	551,939	555,383	551,940	551,940
	192,348	1,814,971	2,007,319	957,472	957,472

	2020				
	Amount outstanding			Provision required	Provision held
	Secured	Unsecured	Total		
----- (Rupees in '000) -----					
Other Assets Especially					
Mentioned (OAEM)	41,437	102,210	143,647	-	-
Substandard	27,508	77,056	104,564	19,282	19,282
Doubtful	22,097	558,047	580,144	279,515	279,515
Loss	2,431	1,273,119	1,275,550	1,273,721	1,273,721
	93,473	2,010,432	2,103,905	1,572,518	1,572,518

10.2 This represents general provision of Rs. 68.715 million (31 December 2020: Rs. 63.016 million) equivalent to 1% of the net outstanding unsecured advances (advances net of specific provision) held in accordance with the requirements of the Prudential Regulations for Microfinance Banks.

10.3 Particulars of provision against non-performing advances

Note	2021			2020		
	Specific	General	Total	Specific	General	Total
----- (Rupees in '000) -----						
Opening balance	1,572,518	63,016	1,635,534	3,993,209	3,468,417	7,461,626
Charge for the year	2,988,543	5,699	2,994,242	5,555,338	12,076	5,567,414
Reversals	(112,635)	-	(112,635)	(220,244)	(3,417,477)	(3,637,721)
	2,875,908	5,699	2,881,607	5,335,094	(3,405,401)	1,929,693
Amount written off	10.4 (3,490,954)	-	(3,490,954)	(7,755,785)	-	(7,755,785)
Closing balance	957,472	68,715	1,026,187	1,572,518	63,016	1,635,534

10.4 Particulars of write offs

	2021	2020
----- (Rupees in '000) -----		
Against provisions	3,490,954	7,755,785
Directly charged to the profit and loss account	52,083	85,021
	3,543,037	7,840,806

11. OPERATING FIXED ASSETS

	Note	2021	2020
----- (Rupees in '000) -----			
Property and equipment	11.1	3,641,022	3,107,338
Intangible assets	11.2	2,324,119	593,011
Capital work-in-progress	11.3	509,134	2,784,232
Right-of-use assets	11.4	1,892,560	2,165,810
		8,366,835	8,650,391

11.1 Property and equipment

	2021							
	Cost		Depreciation			Book value		Rate of depreciation per annum
	As at 1 January	Additions / (disposals / write-offs)	As at 31 December	As at 1 January	Charge / (reversals / Write-offs)	As at 31 December	As at 31 December	
----- (Rupees in '000) -----								%
Leasehold improvement	607,365	57,483 (22,572)	642,276	239,602	56,638 (10,708)	285,532	356,744	10 - 33
Office furniture and fixtures	371,644	1,187 (21,174)	351,657	150,783	30,564 (12,906)	168,441	183,216	10
Office equipments	908,919	42,516 (13,778)	937,656	498,318	141,764 (9,921)	630,161	307,495	20
Computer equipments	4,290,672	1,361,300 -	5,651,972	2,198,105	665,244 -	2,863,349	2,788,623	12.5 - 33
Vehicles	160,865	- (24,034)	136,831	145,319	10,001 (23,433)	131,887	4,944	20 - 25
	6,339,465	1,462,486 (81,558)	7,720,392	3,232,127	904,211 (56,968)	4,079,370	3,641,022	

	2020							
	Cost		Depreciation			Book value		Rate of depreciation per annum
	As at 1 January	Additions / (disposals / write-offs)	As at 31 December	As at 1 January	Charge / (reversals / Write-offs)	As at 31 December	As at 31 December	
----- (Rupees in '000) -----								%
Leasehold improvement	773,752	42,107 (208,494)	607,365	214,837	165,034 (140,269)	239,602	367,763	10 - 33
Office furniture and fixtures	379,029	85,994 (93,379)	371,644	168,657	37,368 (55,242)	150,783	220,861	10
Office equipments	945,786	109,270 (146,137)	908,919	457,685	152,657 (112,024)	498,318	410,601	20
Computer equipments	3,796,876	493,987 (191)	4,290,672	1,592,025	606,269 (189)	2,198,105	2,092,567	12.5 - 33
Vehicles	199,858	- (38,993)	160,865	153,468	24,115 (32,264)	145,319	15,546	20 - 25
	6,095,301	731,358 (487,194)	6,339,465	2,586,672	985,443 (339,988)	3,232,127	3,107,338	

11.1.1 Property and equipment include assets costing Rs. 1,976.57 million (31 December 2020: Rs. 1,747.17 million) which are fully depreciated and still in use.

11.1.2 The details of assets disposed off during the year, having original cost or book value in excess of Rs. 1,000,000 or Rs. 250,000 respectively (whichever is less) are as follows:

	Cost	Accumulated depreciation	Written down value	Sale proceeds	Gain / (loss)	Mode of disposal	Particulars of buyers
(Rupees in '000)							
Vehicles							
Vehicle - Audi	17,637	17,637	-	-	-	Bank's Policy	Chief Executive Officer
Vehicle - Toyota Corolla	1,926	1,797	128	128	-	Bank's Policy	Employee
Vehicle - Toyota Corolla	1,890	1,669	220	220	-	Bank's Policy	Ex-Employee
Vehicle - Toyota Corolla	1,853	1,674	179	179	-	Bank's Policy	Ex-Employee
2021	23,306	22,777	527	527	-		
2020	24,612	18,315	6,297	5,003	(1,294)		

11.2 Intangible assets

2021								
Note	Cost		Amortisation			Book value		Rate of depreciation per annum (%)
	As at 1 January 2020	Additions / (disposals)	As at 31 December 2020	As at 1 January 2020	Charge for the year	As at 31 December 2020	As at 31 December 2020	
(Rupees in '000)								
Computer software								
11.2.1	1,255,191	2,084,320	3,339,511	662,180	353,212	1,015,392	2,324,119	6.7 - 33

2020								
Note	Cost		Amortisation			Book value		Rate of depreciation per annum (%)
	As at 1 January 2020	Additions / (disposals)	As at 31 December 2020	As at 1 January 2020	Charge for the year	As at 31 December 2020	As at 31 December 2020	
(Rupees in '000)								
Computer software								
	1,196,622	58,569	1,255,191	405,576	256,604	662,180	593,011	12.5 - 33

11.2.1 Intangible assets include software costing Rs. 514.57 million (31 December 2020: Rs. 206.96 million) which are fully amortised and still in use.

11.3 Capital work-in-progress

	Civil works	Office Equipment	Furniture and Fixtures	Computer Equipment	Computer Softwares	Total
(Rupees in '000)						
As at 01 January 2021	-	-	-	797,828	1,986,404	2,784,232
Additions during the year	-	-	-	479,557	181,193	660,750
Capitalized during the year	-	-	-	(1,035,015)	(1,675,040)	(2,710,055)
Adjustments during the year	-	-	-	-	(225,793)	(225,793)
As at 31 December 2021	-	-	-	242,370	266,764	509,134
	Civil works	Office Equipment	Furniture and Fixtures	Computer Equipment	Computer Softwares	Total
(Rupees in '000)						
As at 01 January 2020	9,920	69,984	38,548	437,160	-	555,612
Additions during the year	-	-	-	360,668	1,986,404	2,347,072
Capitalized during the year	(9,920)	(69,984)	(38,548)	-	-	(118,452)
As at 31 December 2020	-	-	-	797,828	1,986,404	2,784,232

11.4 Right-of-use assets - buildings

	2021	2020
(Rupees in '000)		
Opening	2,165,810	2,811,770
Additions during the year	185,580	57,467
Deletions during the year	(144,579)	(138,545)
Impact of remeasurement during the year	1,136	(198,985)
Depreciation charge	(315,387)	(365,897)
Closing	1,892,560	2,165,810

Cost of the above assets are being depreciated over the period ranging between one to ten years.

11.5 Impairment testing

In view of accumulated losses as mentioned in note 1.5, the Bank carried out an exercise to test its non-financial assets for impairment as of 31 December 2021.

For impairment testing purposes, the recoverable amount of cash generating units is determined based on a value-in-use calculation using cash flow projections from Business Plan as approved by the Board of Directors of the Bank covering a four year period and applying the expected value approach. The discount rate applied to cash flow projections is 16% per annum (which is further sensitized to 19.6% per annum) for impairment testing of cash generating units. The growth rate used to extrapolate the cash flows beyond the five-year period is 3%. As a result of such test, the management has concluded that the recoverable amount of cash generating units is higher than their carrying value and accordingly, no provision for impairment is required in the financial statements.

Key assumptions used in value-in-use calculations

The calculation of value-in-use is most sensitive to the following assumptions:

- Discount rates
- Key business assumptions

Discount rates

The discount rate reflects current market assessment of the rate of return required for the business and is calculated using the Capital Asset Pricing Model. The discount rate reflects the target Weighted Average Cost of Capital of the Bank.

Key business assumptions

These assumptions are based on business plan approved by the Board of Directors which includes revenue improvements on the basis of multiple strategies planned including increase in loan disbursement through conventional and digital channel, increase in mobile account users and rationalization of acquisition cost etc.

Sensitivity to changes in assumptions

Management believes that after considering the various scenarios no reasonably possible change in any of the above key

Note	2021	2020
(Rupees in '000)		
	883,364	2,351,893
	24,560	32,307
12.1	497,272	537,202
12.2	225,054	266,210
	369,159	118,215
	117,982	93,874
32.4	77,717	100,118
12.3	628,663	733,281
12.4	118,403	15,230
	-	6,376
	332,625	324,711
	158,976	155,538
	3,433,775	4,734,955
25	(395,781)	(144,254)
	3,037,994	4,590,701

12.1 This represents amount receivable from branchless banking agents against e-cash credited into their M-wallet accounts for providing un-interrupted services to the customers. The balance is unsecured and interest free.

12.2 These represent advance against salaries to staff and executives of the Bank for a maximum period of 60 months. These are partially secured against the retirement benefits of employees.

12.3 Details of the branchless banking transaction fee receivable are as follows:

	Note	2021 ------(Rupees in '000)-----	2020
Commission receivable from Benazir Income Support Program (BISP)		362,462	362,462
Commission receivable from utility companies		111,362	161,103
Commission receivable from insurance companies		43,826	108,321
Commission on disbursement services from financial institutions		3,091	9,657
Commission receivable from the Federal and Provincial Governments		81,631	90,661
Others		26,291	1,077
	12.3.1	628,663	733,281

12.3.1 This represents commission receivable for disbursements on behalf of the entities.

12.4 Movement in advance tax - net

Balance as at 1 January		15,230	7,571
Taxes paid during the year		396,582	333,740
Provision for taxation for the year	27	(293,409)	(326,081)
Balance as at 31 December		118,403	15,230

Refer note 19.1 also for tax related matters.

13. DEFERRED TAX ASSET / (LIABILITY) - net

13.1 Deferred tax asset comprises of deductible / (taxable) timing differences in respect of the following:

	Note	2021 ------(Rupees in '000)-----	2020
Deductible temporary differences			
- Un-absorbed tax depreciation		365,745	294,180
		365,745	294,180
Taxable temporary differences			
- Accelerated tax depreciation allowance		(330,302)	(252,155)
- Remeasurement gain on defined benefit obligation		(34,301)	(35,568)
- Surplus on revaluation of assets (investments)		(1,142)	(6,457)
	13.2	(365,745)	(294,180)
		-	-

13.2 Movement in deferred tax assets / (liability) is as follows:

	Balance as at 1 January 2020	Recognised in statement of profit or loss	Recognised in other comprehensive income	Deficit on revaluation of assets	Balance as at 31 December 2020	Recognised in statement of profit or loss	Recognised in other comprehensive income	Deficit on revaluation of assets	Balance as at 31 December 2021
------(Rupees in '000)-----									
Deductible temporary differences arising in respect of:									
- Un-absorbed tax depreciation	273,360	20,820	-	-	294,180	71,565	-	-	365,745
Taxable temporary differences arising in respect of:									
- Accelerated tax depreciation allowance	(275,047)	22,892	-	-	(252,155)	(78,147)	-	-	(330,302)
- Remeasurement of defined benefit liability	-	-	(35,568)	-	(35,568)	-	1,267	-	(34,301)
- Deficit / (surplus) on revaluation of assets	1,687	-	(8,144)	-	(6,457)	-	5,315	-	(1,142)
	(273,360)	22,892	(43,712)	-	(294,180)	(78,147)	6,582	-	(365,745)
	-	43,712	(43,712)	-	-	(6,582)	6,582	-	-

13.3 As of 31 December 2021, the carry forward tax loss and other deductible temporary difference amount to Rs. 35,817 million (2020: Rs. 25,529 million) and Rs. 1,241 million (2020: Rs. 1,780 million) respectively. Unrecognized deferred tax asset due to carry forward tax losses and other deductible timing differences calculated at the current rate of taxation amounts to Rs. 10,746 million (2020: Rs. 7,920 million). Such deferred tax asset has not been recognized in these financial statements due to uncertainty of realizability of the amount.

14. DEPOSITS AND OTHER ACCOUNTS

	2021		2020	
	Number of accounts	(Rupees in '000)	Number of accounts	(Rupees in '000)
Current deposits	24,459,615	26,933,710	23,102,887	21,539,432
Saving deposits	183,681	3,143,373	133,937	3,570,771
Fixed deposits	8,325	8,965,844	10,689	11,853,607
	24,651,621	39,042,927	23,247,513	36,963,810

14.1 Particulars of deposits by ownership

	2021		2020	
	Number of accounts	(Rupees in '000)	Number of accounts	(Rupees in '000)
Individual depositors	24,650,715	37,385,789	23,246,293	35,430,364
Institutional depositors				
- Corporations / firms etc	838	1,569,317	1,176	1,432,642
- Banks / financial institutions	68	87,821	44	100,804
	24,651,621	39,042,927	23,247,513	36,963,810

	Note	2021	2020
		----- (Rupees in '000) -----	

15. OTHER LIABILITIES

Mark-up / return / interest payable			
Accrued expenses			
Payable to related parties		64,047	82,095
Commission payable - branchless banking		2,620,355	2,144,309
Provision for staff bonus	15.1	821,335	2,125,255
Withholding tax payable		173,577	137,878
Payable to defined contribution plan		225,000	250,000
Payable to Worker's Welfare Fund		140,259	155,101
Lease liability against right-of-use assets		3,987	3,987
Bills payable	15.2	102,453	102,453
Switch settlement liability - net	15.4	2,298,447	2,314,659
Payable against branchless banking transactions		189,693	176,366
Employee share appreciation right liability		229,642	501,979
Provisions against contingencies	15.3	2,079,599	1,906,427
Others	15.5	40,126	15,117
		191,260	128,604
		296,249	220,875
		9,476,029	10,265,105

15.1 Details of amounts payable to related parties are as follows:

Alipay Singapore Pte. Ltd	307,898	1,318,634
Telenor Pakistan (Private) Limited	180,813	516,439
Telenor Procurement Company	260,986	167,806
Telenor Financial Services	15,899	70,593
Telenor Global Shared Services	54,779	50,823
Telenor ASA	960	960
	821,335	2,125,255

15.2 Through Finance Act, 2008, the Federal Government introduced amendments to the Workers' Welfare Fund (WWF) Ordinance, 1971 whereby the definition of industrial establishment was extended. The amendments were challenged at various levels and conflicting judgments were rendered by the Lahore High Court, Sindh High Court and Peshawar High Court. Appeals against these orders were filed in the Supreme Court. Further, as a consequence of passage of 18th Amendment to the Constitution, levy for Workers Welfare was also introduced by the Government of Sindh (Sindh WWF) which was effective from 01 January 2014.

However, the Supreme Court of Pakistan vide its order dated 10 November 2016 has held that the amendments made in the law introduced by the Federal Government for the levy of Workers Welfare Fund were not lawful as this is not in the nature of tax and therefore could not have been introduced through the money bill. The Federal Board of Revenue has filed review petitions against the above judgment with the prayer that it may kindly be reviewed in the name of justice. These petitions are currently pending with the Supreme Court of Pakistan.

In 2018, the Bank was served with a notice from Sindh Revenue Board (SRB), claiming the SWWF contribution for tax year 2017 and subsequently the Bank obtained a stay order from Sindh High court against said tax demand. However the Bank has continued to maintain the full provision on a prudent basis.

15.3 Details of amount payable against branchless banking transactions are as follow:

	Note	2021	2020
		----- (Rupees in '000) -----	
Over counter transactions	15.3.1	1,454,031	1,322,014
Utility bills collections		586,734	519,364
Others		38,834	65,049
		2,079,599	1,906,427

15.3.1 This includes Rs. 944.401 million (31 December 2020: Rs. 820.289 million) outstanding for more than one year in respect of 'over the counter' transactions.

	2021	2020
	----- (Rupees in '000) -----	

15.4 Lease liability against right-of-use assets

Opening	2,314,659	2,682,835
Additions during the year	182,287	57,467
Deletions during the year	(159,711)	(141,514)
Impact of remeasurement during the year	3,100	(198,569)
Finance Cost	321,635	337,060
Payment of lease liability	(363,523)	(422,620)
Closing	2,298,447	2,314,659

15.5 The Bank employees are granted share appreciation rights (SARs), settled in cash. The liability for these rights is remeasured at the end of each reporting period until settled, at the fair value of the share appreciation rights, by applying Board approved pricing model, taking into account the terms and conditions on which the share appreciation rights were granted and the extent to which the employees have rendered services to date.

Reconciliation of share appreciation rights from beginning to end of the year is as follows:

	2021	2020
	----- (Numbers in '000) -----	
Opening	3,366	3,636
Granted during the year	12,786	639
Forfeited during the year	(4,575)	(909)
Closing	11,577	3,366

16. SHARE CAPITAL

16.1 Authorised capital

2021	2020		2021	2020
(Number of shares in '000)			(Rupees in '000)	
2,200,000	450,000	Ordinary shares of Rs.10 each	22,000,000	4,500,000

16.2 Issued, subscribed and paid-up capital

2021	2020		2021	2020
(Number of shares in '000)			(Rupees in '000)	
547,949	427,759	Ordinary shares of Rs.10 each fully paid in cash	5,479,488	4,277,589

	Note	2021	2020
		----- (Rupees in '000) -----	

16.3 Reconciliation of number of shares outstanding

Number of shares outstanding at the beginning of the year		427,759	427,759
Issuance of right shares	16.3.1	120,190	-
Number of shares outstanding at the ending of the year		547,949	427,759

16.3.1 These shares were subscribed by Telenor Pakistan B.V. and Alipay (Hong Kong) Holding Limited in proportion to their existing shareholding.

16.4 As at 31 December 2021, the shareholding of Telenor Pakistan B.V. and Alipay (Hong Kong) Holding Limited was 55% and 45% respectively.

17. SURPLUS ON REVALUATION OF ASSETS - net of deferred tax

	Note	2021	2020
		----- (Rupees in '000) -----	
Deficit on Available-for-sale investments			
Federal Government Securities	9	3,939	22,266
Related tax effect	13	(1,142)	(6,457)
		2,797	15,809

18. DEFERRED GRANTS

Grant received from			2021	2020
State Bank of Pakistan	18.1		1,426	1,426
Consultative Group to Assist the Poor	18.2		3,347	3,347
Soros Economic Development Fund	18.3		149	149
The Aga Khan Agency for Microfinance	18.4		64	64
Financial Sector Strengthening Programme	18.5		219	219
Frankfurt School of Management	18.6		2,451	2,451
GSMA Mobile for Development Foundation Inc (GSMA Foundation)	18.7		2,205	2,205
Karandaz Pakistan	18.8		5,941	7,409
	18.9		15,802	17,270

18.1 Represents USD grant received from the SBP under the Institutional Strengthening Fund of the Financial Inclusion Program (FIP) sponsored by Department of International Development - UK for the inclusive economic growth and improved livelihood opportunities for poor and marginalized groups in Pakistan and improved access to financial services for these groups.

18.2 Represents USD grant received from International Bank for Reconstruction and Development and International Development Association for Consultative Group to Assist the Poor to assist the Bank in achieving its growth goals for financial services to lower income clients via institutional capacity building and training and to develop, launch and scale up mobile banking using agent distribution network and cell phone technologies.

18.3 Represents USD grant received from Soros Economic Development Fund to assist the Bank in expanding the outreach of microfinance services to low and moderate income clients by connecting to an interbank ATM switch and a payment settlement network.

18.4 Represents USD grant received from Aga Khan Agency for Microfinance to provide finance for life insurance premium of specific depositors.

18.5 Represents USD grant received from Swiss Agency for Development and Corporation under the Financial Sector Strengthening program to provide technical support for maintenance of IT infrastructure of the Bank.

18.6 Represents USD grant received from Frankfurt School of Management to provide financial support to implement a project on Promotion of Renewable Energy Technologies.

18.7 Represents GBP grant received from GSMA Foundation for implementing Solar financing project.

18.8 Represents grant received in Pak Rupees from Karandaz Pakistan to incentivize the development of a product for international remittances. The balance at the year end represents amount utilized for capital expenditure which shall be recorded as income over the useful life of the related asset.

	2021	2020
	----- (Rupees in '000) -----	
18.8.1 Details of the income recognized during the year is as follows:		
Balance as at 01 January	7,409	8,879
Amount recognized as income during the year	(1,468)	(1,470)
Balance as at 31 December	5,941	7,409

18.9 The Bank continues to maintain the above balances till the time of confirmation / clarity has been received from the grantors that it is no more payable to them.

	Note	2021	2020
		----- (Rupees in '000) -----	

19. MEMORANDUM / OFF BALANCE SHEET ITEMS

Contingent liabilities	19.1	292,050	285,830
Commitments in respect of:			
Acquisition of operating fixed assets		251,488	505,400
		543,538	791,230

19.1 Contingencies

19.1.1 The Bank was served with an order from Sindh Revenue Board (SRB) creating demand on account of alleged non/short payment of output sales tax and alleged inadmissible input tax adjustment amounting to Rs. 73.03 million (including penalty) for the tax periods from July 2011 to June 2016. The Bank had filed an appeal with Commissioner (Appeals) after paying 25% of the tax demand and the proceedings are still in process. No provision has been recorded as the Bank's tax advisor is confident of a favorable decision.

Further, SRB also initiated proceedings with respect to Sindh Sales Tax paid during the tax periods from July 2016 till June 2020 and the Bank has duly submitted requisite details alongwith a legal response to the notice.

19.1.2 The Bank was served with an order from Khyber Pakhtunkhwa Revenue Authority (KPRA) creating a demand aggregating to Rs. 13.59 million against input tax disallowances and sales tax withholding in relation to certain tax periods from September 2016 to January 2018. The Bank filed an appeal with Collector (Appeals) which was disposed against the Bank on September 25, 2019. Although, during Feb 2021, Appellate Tribunal, KPK has remanded the case back to KPRA for fresh adjudication, the afore-said decision of KPRA-Tribunal has been challenged by the Bank before Peshawar High Court and Bank expects a favorable outcome in the case. Accordingly, no provision has been made in the books.

19.1.3 During 2019, a recovery notice of Rs. 17.95 million (including penalty and surcharge) was received by the Bank from Punjab Revenue Authority (PRA). The Order against the said notice was passed by the Authority during February 2018 in relation to withholding sales tax for the period January to December 2016, however, it was not received by the Bank till May 23, 2019. The Bank acquired a stay order against this demand from Lahore High Court. The Bank also filed an appeal before the Commissioner (Appeals) where the matter is still sub-judice. As the demand is considered unlawful and has been raised without proper verification of facts, no provision has been made in the books and a favorable outcome is expected in appeals.

19.1.4 "During the year, the Bank received amended assessment Orders with respect Tax Year 2015 and tax year 2017 raising a demand of Rs. 74.51 million and Rs. 88.00 million respectively whereas during last year the Bank was served with amended assessment Orders with respect to Tax Years 2016, 2018 and 2019 raising demand of Rs. 51.73 million, Rs. 92.74 million and Rs. 40.70 million respectively.

The Bank has challenged afore-said Orders at relevant appellate fora and based on the merits of the aforementioned matters expects a favorable outcome."

19.1.5 The Bank had received notice from FBR regarding selection for audit u/s. 177 of the Income Tax Ordinance, 2001 for the tax year 2016. Based on the information submitted with respect to tax year 2016, tax officer has initiated amendment of assessment proceedings during the year which are still at the show cause notice stage. No demand has been raised by tax authorities.

19.1.6 The Bank's references with respect to withholding income tax audits of markup payments for tax years 2012, 2014 and 2015 are pending with Sindh High Court. Though the Bank expects a favorable outcome in view of the legal position, potential exposure has been fully provided for in the books as an abundant caution.

	Note	2021 '(Rupees in '000)	2020
20. MARK-UP / RETURN / INTEREST EARNED			
On:			
Advances		1,889,058	3,711,302
Available-for-sale investments in Government Securities		1,211,306	1,380,254
Deposits with financial institutions / banks		349,290	347,398
Call money lendings		418,445	415,602
Repurchase agreement lendings		130,319	126,546
		3,998,418	5,981,102

	Note	2021 '(Rupees in '000)	2020
21. MARK-UP / RETURN / INTEREST EXPENSED			
On:			
Deposits		1,604,990	2,433,186
Borrowings		-	870
Lease liabilities against right-of-use assets	21.1	321,635	337,060
		1,926,625	2,771,116

21.1 This represent financial charges on unwinding of lease liabilities related to right-of-use assets.

	Note	2021 '(Rupees in '000)	2020
22. FEE, COMMISSION AND BROKERAGE INCOME			
Loan processing fee	21.1	562,986	560,904
Income from branchless banking	21.2	5,694,918	5,741,896
		6,257,904	6,302,800

22.1 This includes fee of Rs. 313.931 million (31 December 2020: Rs. 446.88 million) in respect of nano-loans advanced during the year.

	Note	2021 '(Rupees in '000)	2020
22.2 Income from branchless banking			
Service fee on money transfer services		3,768,708	4,453,994
Commission on funds collection services on behalf of corporate clients		1,741,158	1,099,153
Commission from insurance companies		142,651	142,841
Commission on disbursement services on behalf of financial institutions		42,401	35,916
Others		-	9,992
		5,694,918	5,741,896

	Note	2021 '(Rupees in '000)	2020
23. OTHER INCOME			
Cheque book fees, ATM fees and other service charges		84,193	89,071
Recoveries against advances written off		1,389,010	821,114
Grant income	18.8	1,468	1,470
Loss on sale of operating fixed assets		(1,465)	(21,342)
Gain / (loss) on termination of lease contracts		16,122	(2,969)
(Loss) / gain on sale of securities		(6,619)	6,506
		1,482,709	893,850

	Note	2021 '(Rupees in '000)	2020
24. ADMINISTRATIVE EXPENSES			
Salaries and other allowances		3,653,476	3,907,735
Charge for defined benefit plan	33.3.3	159,667	190,561
Contribution to defined contribution plan	33	130,063	156,278
Staff welfare		74,199	51,870
Training and capacity building		80,552	57,491
Employee share appreciation right expense	15.5	25,009	15,117
Non-executive directors' fees, allowances and other expenses		7,000	9,368
Commission - Branchless Banking	24.1	4,309,924	4,684,239
Customer Incentives		713,397	2,563,895
Advertisement		1,668,149	1,174,130
Professional consultancy charges		454,405	517,760
Customer verification charges		298,303	363,741
Legal and professional charges		207,326	163,783
Depreciation	11.1	904,211	985,443
Depreciation on right-of-use assets	11.4	315,387	365,897
Amortisation	11.2	353,212	256,604
Repairs and maintenance - IT		1,269,672	1,159,724
Insurance		352,561	423,479
Repairs and maintenance - General		260,383	316,611
Security services		221,998	306,622
Travelling and conveyance		99,644	108,081
Communication		452,015	385,608
Bank charge		441,538	273,886
Utilities		124,102	118,010
Printing and stationery		228,519	155,227
Auditors' remuneration	24.2	6,859	5,584
Donations		-	3,531
Other expenses		188,890	54,590
		17,000,461	18,774,865

24.1 This represents commission paid / payable to retailers and franchisees in respect of branchless banking services.

	Note	2021 (Rupees in '000)	2020
24.2 Auditors' remuneration			
Audit fee		3,575	3,250
Half year review fee		1,375	1,250
Fee for other services as statutory auditors		1,120	800
Out-of-pocket expenses		789	284
		6,859	5,584

25. OTHER PROVISIONS / WRITE OFFS

Write off against Operating Fixed Assets		20,763	107,715
Write off against Other Assets		-	8,542
(Reversal) / Provision against other Assets		251,506	(164,253)
Other provisions		48,977	86,425
		321,246	38,429

26. OTHER CHARGES

This represents penalties imposed by the State Bank of Pakistan (SBP) in respect of various non-compliances of Prudential Regulations for Microfinance Banks and other directives issued by the SBP.

27. TAXATION

Current tax		282,470	287,753
Prior tax		31,595	38,328
Deferred tax	13.2	6,582	(43,712)
		320,647	282,369

27.1 The Bank has filed returns upto tax year 2020 which are deemed to be assessed orders under section 120 of the Income Tax Ordinance, 2001 unless any amendments have been made by the Tax Authorities. Certain tax related appeals are pending, details of which are mentioned in note 19.1 to these financial statements.

27.2 As the Bank is currently in losses, the current tax expense represents minimum turnover tax and tax on certain services treated as final tax in accordance with the relevant provisions of Income Tax Ordinance, 2001.

28. LOSS PER SHARE

28.1 Basic

Loss after taxation for the year		(10,764,771)	(10,703,951)
Weighted average ordinary shares		483,310	427,759
Loss per share - Basic and diluted		(22.27)	(25.02)

29. CASH AND CASH EQUIVALENTS

Cash and balances with SBP and NBP	6	3,900,068	2,881,781
Balances with other banks	7	10,717,441	6,352,885
		14,617,509	9,234,666

29.1 Reconciliation of movement of liabilities to cash flows arising from financing activities

	2021					Deferred grant	Total
	Deposits and other accounts	Liabilities Other liabilities	Share capital (including share premium)	Equity Reserves	Accumulated loss		
Balance as at 1 January 2021	36,963,810	10,265,105	11,720,288	20,616,746	(27,205,476)	17,270	52,377,743
Changes from financing cash flows							
Issuance of share capital (including share premium)	-	-	(6,240,800)	17,884,446	-	-	11,643,646
Other changes - liability related							
Changes in deposits and other accounts	2,079,117	-	-	-	-	-	2,079,117
Changes in other liabilities	-	(789,076)	-	-	-	-	(789,076)
Changes in deferred grants	-	-	-	-	-	(1,468)	(1,468)
Total liability related to other changes	2,079,117	(789,076)	-	-	-	(1,468)	1,288,573
Total equity related other changes	-	-	-	25,876	(10,793,750)	-	10,767,874
Balance as at 31 December 2021	39,042,927	9,476,029	5,479,488	38,527,068	(37,999,226)	15,802	54,542,088

	2021					Deferred grant	Total
	Deposits and other accounts	Liabilities Other liabilities	Share capital (including share premium)	Equity Reserves	Accumulated loss		
Balance as at 1 January 2020	41,170,537	11,369,058	4,277,589	20,585,009	(16,556,869)	18,740	60,864,064
Changes from financing cash flows							
Issuance of share capital (including share premium)	-	-	-	-	-	-	-
Other changes - liability related							
Changes in deposits and other accounts	(4,206,727)	-	-	-	-	-	(4,206,727)
Changes in other liabilities	-	(1,103,953)	-	-	-	-	(1,103,953)
Changes in deferred grants	-	-	-	-	-	(1,470)	(1,470)
Total liability related to other changes	(4,206,727)	(1,103,953)	-	-	-	(1,470)	(5,312,150)
Total equity related other changes	-	-	7,442,699	31,737	(10,648,607)	-	(3,174,171)
Balance as at 31 December 2020	36,963,810	10,265,105	11,720,288	20,616,746	(27,205,476)	17,270	52,377,743

30. NUMBER OF EMPLOYEES

	2021			2020		
	Credit / sales staff	Banking / support staff	Total	Credit / sales staff	Banking / support staff	Total
	(Numbers)			(Numbers)		
Permanent	592	1,608	2,200	568	1,725	2,293
Contractual	441	599	1,040	113	186	299
	1,033	2,207	3,240	681	1,911	2,592

31. NUMBER OF BRANCHES

	2021	2020
As at 01 January	89	120
Opened during the year	-	-
Closed during the year	(23)	(31)
As at 31 December	66	89

32. DEFINED BENEFIT PLAN

32.1 General description

As disclosed in note 5.10, the Bank operates a funded gratuity scheme for all its employees, who have completed minimum qualifying period of service. Contributions to the fund are made in accordance with the rules of the fund. Gratuity is payable to the employees on the cessation of employment on death, retirement, resignation, termination or permanent disability. The normal retirement age is 60 years.

The gratuity is payable under the following basis:

Old policy rules before 1 January 2017	
Length of service less than 6 months	
Length of service greater than or equal to 6 months but less than 5 years	One month's basic salary for each year of service
Length of service greater than or equal to 5 years	One month's gross salary for each year of service

New policy rules after 1 January 2017

Length of service less than 5 years	Nil
Length of service greater than or equal to 5 years	One month's gross salary for each year of service

32.2 Principal actuarial assumptions

The latest actuarial valuation of the gratuity scheme was carried out as at 31 December 2020. Following are the significant assumptions used in the valuation:

	2021	2020
	(% per annum)	
- Discount rate	11.75	9.75
- Salary increase rate	10.75	8.75
- Expected rate of return on plan assets	11.75	9.75
- Mortality rates assumed	SLIC 2001-05	SLIC 2001-05
	Note	
	2021	2020
	(Rupees in '000)	

32.3 Amount recognised in balance sheet

Present value of defined benefit obligations		
Fair value of plan assets	33.3.1	
	33.3.2	
	(77,717)	(100,118)

	Note	2021	2020
		(Rupees in '000)	
33.3.1 Movement in present value of defined benefit obligations			
Balance as at 1 January		788,446	810,788
Current service cost		179,305	194,668
Interest cost		64,266	80,320
Employees transferred from Telenor Pakistan (Private) Limited		-	3,887
Benefits paid by the plan		(197,649)	(149,066)
Remeasurement loss / (gain) on obligations		(23,736)	(152,151)
Balance as at 31 December		810,632	788,446

33.3.2 Movement in fair value of plan assets

Balance as at 1 January	888,564	740,273
Contributions to the fund	141,636	238,545
Benefits paid by the plan	(197,649)	(149,066)
Expected return on plan assets	83,904	88,314
Remeasurement loss on plan assets	(28,106)	(29,502)
Balance as at 31 December	888,349	888,564

33.3.3 Amount recognised in the profit or loss account

Current service cost	179,305	194,668
Net interest	(19,638)	(7,994)
Employee transferred	-	3,887
	159,667	190,561

33.3.4 Remeasurements recognised in other comprehensive income (OCI)

Remeasurement loss / (gain) on obligation - due to experience adjustment	(23,736)	(152,151)
Remeasurement loss on fair value of plan assets	28,106	29,502
Remeasurement loss for the year - net	4,370	(122,649)

32.4 Movement in defined benefit plan

Balance as at 1 January	(100,118)	70,515
Expense charged in the current year	159,667	190,561
Remeasurements recognised in OCI during the year	4,370	(122,649)
Contributions to gratuity fund	(141,636)	(238,545)
Balance as at 31 December	(77,717)	(100,118)

32.5 Plan assets consist of the following:

Bank balances	555,080	489,728
Term Deposit Receipt (TDRs)	333,269	398,836
	888,349	888,564

32.6 Maturity profile of defined benefit obligation

	Years	
Weighted average duration of the present value of defined benefit obligation	9.32	9.45
Distribution of timing of benefit payments		
Years		
1	102,994	76,273
2	70,615	67,740
3	70,159	66,318
4	75,090	64,546
5	62,626	67,985
6 - 10	295,351	251,642
11+	3,031,155	2,054,095

Benefit Payments

2021 2020
(Rupees in '000)

32.7 Sensitivity analysis on significant actuarial assumptions:

Defined benefit liability	2021	2020
Base	780,351	757,758
Discount rate +1%	713,212	691,841
Discount rate -1%	858,654	835,019
Future salary increases +1%	862,522	838,849
Future salary increases -1%	708,858	687,529

32.8 Expected expense and contribution to the plan

Based on actuarial advice, the management estimates that the charge in respect of defined benefit plan for the year ending 31 December 2021 would be Rs. 158.385 million.

33. DEFINED CONTRIBUTION PLAN

The Bank operates an approved funded contributory provident fund for all its permanent employees to which monthly contributions are made both by the Bank and the employees at the rate of 10% of basic salary.

34. REMUNERATION OF DIRECTORS AND EXECUTIVES

	2021			2020		
	President / Chief Executive Officer	Directors	Executives	President / Chief Executive Officer	Directors	Executives
	(Rupees in '000)			(Rupees in '000)		

Fees	-	7,000	-	-	9,368	-
Managerial remuneration	30,087	-	950,120	28,587	-	973,451
Charge for defined benefit plan	3,009	-	88,347	2,859	-	94,108
Contribution to defined contribution plan	3,761	-	118,430	3,573	-	121,275
Rent and house maintenance	9,026	-	285,036	8,576	-	292,036
Utilities	3,009	-	95,012	2,859	-	97,345
Medical	4,889	-	147,925	4,646	-	151,094
Conveyance	-	-	173,573	-	-	170,294
Special allowance	9,940	-	48,399	10,170	-	50,784
	63,721	7,000	1,906,842	61,270	9,368	1,950,387

Number of persons	1	2	642	1	2	622
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34.1 Executive means employees other than President / Chief Executive Officer & Directors whose basic salary exceeds Rs. 500,000 in a financial year.

35. RELATED PARTIES TRANSACTIONS AND BALANCES

The Bank has related party relationships with its shareholders, associates, key management personnel, directors and employees' retirement benefit plans.

Contribution / charge in respect of staff retirement benefits are made in accordance with actuarial valuation / terms of the contribution plan. Remuneration of key management personnel are in accordance with the terms of their employment. Other transactions are at agreed terms.

Balances and transactions with related parties are summarised as follows:

	2021					2020					
	Note	Associates	Key management personnel (note 35.2)	Directors	Retirement benefit plans	Total	Associates	Key management personnel (note 35.2)	Directors	Retirement benefit plans	Total
	(Rupees in '000)										
Loans											
At 1 January	-	-	19,824	-	-	19,824	-	21,233	-	-	21,233
Given during the year	-	-	6,620	-	-	6,620	-	15,949	-	-	15,949
Repaid during the year	-	-	(16,522)	-	-	(16,522)	-	(17,358)	-	-	(17,358)
	35.1	-	9,922	-	-	9,922	-	19,824	-	-	19,824
Deposits											
At 1 January	9,900	1,358	560	703,437	715,255	15,575	980	16,036	1,458,447	1,491,038	
Received during the year	-	24,979	-	2,536,180	2,561,159	3,488	39,587	525	759,259	802,859	
Withdrawn during the year	(4,900)	(25,829)	-	(3,123,524)	(3,154,253)	(9,163)	(39,209)	(16,001)	(1,514,269)	(1,578,642)	
	5,000	508	560	116,093	122,162	9,900	1,358	560	703,437	715,255	
Other Assets											
Receivable from defined benefit plan	-	-	-	77,717	77,717	-	-	-	100,118	100,118	
	-	-	-	77,717	77,717	-	-	-	100,118	100,118	
Other Liabilities											
Payable against goods and services	821,335	-	-	-	821,335	2,125,255	-	-	-	2,125,255	
Payable to defined contribution plan	-	-	-	3,987	3,987	-	-	-	3,987	3,987	
Payable to defined benefit plan	-	-	-	-	-	-	-	-	-	-	
	821,335	-	-	3,987	825,322	2,125,255	-	-	3,987	2,129,242	
Capital Expenditure	39,710	-	-	-	39,710	1,318,634	-	-	-	1,318,634	
Transactions during the period											
Directors' meeting fees	-	-	7,000	-	7,000	-	-	9,368	-	9,368	
Remuneration of Key Management Personnel	-	179,387	63,721	-	243,108	-	250,042	61,270	-	311,312	
Mark-up expense	-	-	-	25,997	25,997	-	-	-	128,456	128,456	
Communication expense	65,845	-	-	-	65,845	78,478	-	-	-	78,478	
Rent	19,705	-	-	-	19,705	25,356	-	-	-	25,356	
Professional consultancy charges	150,849	-	-	-	150,849	433,880	-	-	-	433,880	
Other charges	3,384	-	-	-	3,384	2,903	-	-	-	2,903	
Repair and maintenance	483,963	-	-	-	483,963	136,636	-	-	-	136,636	
Advertisement	223,163	-	-	-	223,163	957,981	-	-	-	957,981	
	946,909	179,387	70,721	25,997	1,223,014	1,635,234	250,042	70,638	128,456	2,084,370	

35.1 This represents interest free loan to the key management personnel of the Bank for a maximum period of 60 months. These are secured against the retirement benefits of the employees.

35.2 Key management personnel represents the senior management of the Bank other than the Chief Executive Officer (included in the 'Directors' column).

36. SCHEDULE OF MATURITY DISTRIBUTION OF ASSETS AND LIABILITIES

	2021				
	Total	Upto one Month	Over one month upto six months	Over six months upto one year	Over one year
----- (Rupees in '000) -----					
Interest bearing assets					
Advances	10,769,884	1,836,427	1,892,820	4,397,121	2,643,516
Investments	17,752,663	7,197,456	10,555,207	-	-
Lending to financial institutions	-	-	-	-	-
Balances with other banks - deposit accounts	10,455,584	10,455,584	-	-	-
	38,978,131	19,489,467	12,448,027	4,397,121	2,643,516
Other non-earning assets					
Cash and balances with SBP and NBP	3,900,068	3,900,068	-	-	-
Balances with other banks - current accounts	261,857	261,857	-	-	-
Operating fixed assets	8,366,835	138,376	696,487	2,331,861	5,200,111
Other assets	3,037,994	908,801	925,071	379,080	825,041
	15,566,754	5,209,102	1,621,558	2,710,941	6,025,152
Total assets	54,544,885	24,698,569	14,069,585	7,108,062	8,668,668
Interest bearing liabilities					
Large time deposits above Rs. 100,000	8,848,984	581,210	2,319,153	4,601,130	1,347,491
All other time deposits (including fixed rate deposits)	116,433	5,495	36,970	57,579	16,389
Other cost bearing deposits	3,143,800	3,143,800	-	-	-
	12,109,217	3,730,505	2,356,123	4,658,709	1,363,880
Other non-cost bearing liabilities					
Current deposits	26,933,710	26,933,710	-	-	-
Other liabilities	9,476,029	2,645,686	2,776,124	475,881	3,578,337
Deferred grant	15,802	-	-	-	15,802
	36,425,541	29,579,396	2,776,124	475,881	3,594,139
Total liabilities	48,534,758	33,309,901	5,132,247	5,134,590	4,958,019

	2020				
	Total	Upto one Month	Over one month upto six months	Over six months upto one year	Over one year
----- (Rupees in '000) -----					
Interest bearing assets					
Advances	11,090,960	1,498,061	3,237,756	5,390,538	964,605
Investments	11,855,007	2,989,845	8,865,162	-	-
Lending to financial institutions	6,971,827	6,971,827	-	-	-
Balances with other banks - deposit accounts	6,102,086	6,102,086	-	-	-
	36,019,880	17,561,819	12,102,918	5,390,538	964,605
Other non-earning assets					
Cash and balances with SBP and NBP	2,881,781	2,881,781	-	-	-
Balances with other banks - current accounts	250,799	250,799	-	-	-
Operating fixed assets	8,650,391	114,035	3,310,361	615,996	4,609,999
Other assets	4,462,097	1,034,668	2,044,393	931,410	451,626
	16,245,068	4,281,283	5,354,754	1,547,406	5,061,625
Total assets	52,264,948	21,843,102	17,457,672	6,937,944	6,026,230
Interest bearing liabilities					
Large time deposits above Rs. 100,000	11,659,102	409,022	8,777,901	1,032,048	1,440,130
All other time deposits (including fixed rate deposits)	194,505	7,435	129,779	23,007	34,284
Other cost bearing deposits	3,570,771	3,570,771	-	-	-
	15,424,378	3,987,228	8,907,680	1,055,055	1,474,414
Other non-cost bearing liabilities					
Current deposits	21,539,432	21,539,432	-	-	-
Other liabilities	10,136,501	4,748,831	3,063,795	(64,693)	2,388,568
Deferred grant	17,270	-	-	-	17,270
	31,693,203	26,288,263	3,063,795	(64,693)	2,405,838
Total liabilities	47,117,581	30,275,491	11,971,475	990,362	3,880,252

Above maturity profile has been prepared based on contractual maturities. Consequently, all demand assets and liabilities such as running finance, current accounts and saving accounts are shown as having a maturity up to one month.

37. FINANCIAL RISK MANAGEMENT

37.1 Interest / mark-up rate risk

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates. The Bank's interest rate exposure is low due to the short-term nature of the majority of business transactions. Interest rate risk is also controlled through flexible credit pricing mechanism and variable deposit rates. Optimization of yield is achieved through the Bank's investment strategy which aims on attaining a balance between yield and liquidity under the strategic guidance of Asset and Liability Management Committee (ALCO).

	2021					
	Effective yield / interest rate %	Total	Upto one Month	Over one month upto six months	Over six months upto one year	Over one year
(Rupees in '000)						
Assets						
Balances with other banks - deposit accounts	7.25% - 13%	10,455,584	10,455,584	-	-	-
Lending to financial institutions		-	-	-	-	-
Investment	10.4% to 10.94%	17,752,663	7,197,456	10,555,207	-	-
Advances	16% to 53%	10,769,884	1,836,427	1,892,820	4,397,121	2,643,516
		38,978,131	19,489,467	12,448,027	4,397,121	2,643,516
Liabilities						
Deposits	4.5% to 14.5%	12,109,217	3,730,505	2,356,123	4,658,709	1,363,880
Lease liability against right-of-use assets	9.8% to 15%	2,298,447	80,442	111,347	(60,385)	2,167,043
On balance sheet gap		24,570,467	15,678,520	9,980,557	(201,203)	(887,407)

	2021					
	Effective yield / interest rate %	Total	Upto one Month	Over one month upto six months	Over six months upto one year	Over one year
(Rupees in '000)						
Assets						
Balances with other banks - deposit accounts	5.5% to 8%	6,102,086	6,102,086	-	-	-
Lending to financial institutions	6.05% to 7.5%	6,971,827	6,971,827	-	-	-
Investment	6.86% to 9.4%	11,855,007	2,989,845	8,865,162	-	-
Advances	14% to 36%	11,090,960	1,498,061	3,237,756	5,390,538	964,605
		36,019,880	17,561,819	12,102,918	5,390,538	964,605
Liabilities						
Deposits	4.5% to 16%	15,424,378	3,987,228	8,907,681	1,055,055	1,474,414
Lease liability against right-of-use assets	13% to 15%	2,314,659	2,525	67,715	(74,084)	2,318,503
On balance sheet gap		18,280,843	13,572,066	3,127,522	4,409,567	(2,828,312)

Above workings have been prepared on the basis of the earlier of repricing or contractual maturity of the instruments.

37.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank's credit risk is primarily attributable to its advances, lendings, other receivable and balances at banks. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. The Bank has an effective loan disbursement and recovery monitoring system which allows it to evaluate borrowers' credit worthiness and identify potential problem loans. A provision for loan losses is maintained as required by the Prudential Regulations and as required based on delinquency. Investments are made in the government securities.

37.2.1 Exposure to credit risk

Credit risk of the Bank arises principally from bank balances, lendings to financial institutions, advances, and other receivables. In summary, the maximum exposure to credit risk as at 31 December was as follows:

	2021			2020	
	Note	Financial assets	Maximum exposure	Financial assets	Maximum exposure
(Rupees in '000)					
Bank balances	6 & 7	14,022,272	10,750,116	8,518,214	6,418,788
Lendings to financial institutions	8	-	-	6,971,827	6,971,827
Advances	10	10,769,884	10,769,884	11,090,960	11,090,960
Other receivables	12	3,575,223	3,575,223	4,104,111	4,104,111
		28,367,379	25,095,223	30,685,112	28,585,686

Investments in Government Securities are not considered as exposed to interest rate risk.

37.2.2 Concentration of credit risk

As at 31 December, the concentration of the financial assets in terms of the economic sectors was as follows:

Note	2021	2020
(Rupees in '000)		
Distributors and retailers	497,272	528,202
Financial institutions	13,083,975	15,507,058
Employees	225,054	266,210
Individuals	10,729,757	13,458,143
Corporates	515,595	703,281
Others	3,315,727	222,219
	28,367,380	30,685,113

37.2.3 Bank balances

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

Bank	2021		Amount
	Long term	Short term	
Allied Bank Limited	AAA	A1+	255,408
Bank Alfalah Limited	AA+	A1+	220,555
Bank Of Punjab	AA+	A1+	178
Citi Bank	Aa3	P-1	9,709
FINCA Microfinance Bank Limited	A	A1	27
Habib Bank Limited	AAA	A1+	4,013,227
JS Bank Limited	AA-	A1+	1,156,493
MCB Bank Limited	AAA	A1+	239,762
National Bank of Pakistan	AAA	A1+	32,675
Samba Bank Limited	AA	A1	-
Soneri Bank Limited	AA-	A1+	-
Standard Chartered Bank Limited	AAA	A1+	21,008
The First Micro Finance Bank Limited	A+	A1	1,007,798
United Bank Limited	AAA	A1+	1,295,550
			8,252,390

The above ratings are assigned by PACRA, JCR-VIS and Standard and Poor's and are based on the latest available ratings.

37.3 Liquidity risk

Liquidity risk is the risk that the Bank will not be able to raise funds to meet its commitments. At present, the bank is not exposed to this risk as there is sufficient cash placed with various commercial banks at the year end.

The Assets and Liability Management Committee (ALCO) of the Bank is responsible for the oversight of liquidity management and meets on a monthly basis or more frequently, if required. The Bank's approach to liquidity management is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking sustained damage to business franchises. A centralized approach is adopted, based on an integrated framework incorporating an assessment of all material known and expected cash flows and the availability of collateral which could be used to secure additional funding if required. The framework entails careful monitoring and control of the daily liquidity position, and regular liquidity stress testing under a variety of scenarios. These encompass both normal and stressed market conditions, including general market crises and the possibility that access to markets could be impacted by a stress event affecting some part of the Bank's business.

37.4 Fair value of financial Instruments

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

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

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

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

On balance sheet
financial instruments

	Carrying amount (2021)				Total	Fair value (2021)			
	Available for sale	Cash and cash equivalents	Loans and receivables	Other financial liabilities		Level 1	Level 2	Level 3	Level 4

Financial assets measured at fair value

- Investments - market treasury bills	17,748,724	-	-	-	17,748,724	-	17,752,663	-	17,752,663
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Financial assets not measured at fair value

- Cash and bank balances with SBP and NBP	-	3,900,068	-	-	3,900,068	-	-	-	-
- Balances with other banks	-	10,717,441	-	-	10,717,441	-	-	-	-
- Advances	-	-	10,769,884	-	10,769,884	-	-	-	-
- Other assets	-	-	3,037,994	-	3,037,994	-	-	-	-
	17,748,724	14,617,509	13,807,878	-	46,174,111	-	17,752,663	-	17,752,663

Financial liabilities not measured at fair value

- Deposits and other accounts	-	-	-	(39,042,927)	(39,042,927)	-	-	-	-
- Other liabilities	-	-	-	(9,476,029)	(9,476,029)	-	-	-	-
	-	-	-	(48,518,956)	(48,518,956)	-	-	-	-
	17,748,724	14,617,509	13,807,878	(48,518,956)	(2,344,845)	-	17,752,663	-	17,752,663

	Carrying amount (2020)				Total	Fair value (2020)			
	Available for sale	Cash and cash equivalents	Loans and receivables	Other financial liabilities		Level 1	Level 2	Level 3	Level 4

Financial assets measured at fair value

- Investments - market treasury bills	11,832,741	-	-	-	11,832,741	-	11,855,007	-	11,855,007
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Financial assets not measured at fair value

- Cash and bank balances with SBP and NBP	-	2,881,781	-	-	2,881,781	-	-	-	-
- Balances with other banks	-	6,352,885	-	-	6,352,885	-	-	-	-
- Lending to financial instruments	-	-	6,971,827	-	6,971,827	-	-	-	-
- Advances	-	-	11,090,960	-	11,090,960	-	-	-	-
- Other assets	-	-	4,462,097	-	4,462,097	-	-	-	-
	11,832,741	9,234,666	22,524,884	-	43,592,291	-	11,855,007	-	11,855,007

Financial liabilities not measured at fair value

- Deposits and other accounts	-	-	-	(36,963,810)	(36,963,810)	-	-	-	-
- Other liabilities	-	-	-	(10,136,501)	(10,136,501)	-	-	-	-
	-	-	-	(47,100,311)	(47,100,311)	-	-	-	-
	11,832,741	9,234,666	22,524,884	(47,100,311)	(3,508,020)	-	11,855,007	-	11,855,007

38. CAPITAL RISK MANAGEMENT

38.1 The objective of managing capital is to safeguard the Bank's ability to continue as a going concern, so that it could continue to provide adequate returns and benefits to stakeholders by pricing products and services commensurately with the level of risk. 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.

38.2 Goals of managing capital

The Bank's objectives when managing its capital are:

- To comply with the capital requirements set by the SBP.
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders.
- To maintain a strong capital base to support the development of its business.

38.3 Statutory minimum capital requirement (MCR) and management of capital

As per amendments in Prudential Regulation (R-1) issued vide BPRD Circular No. 10 of 2015 dated 03 June 2015, the minimum capital requirement (MCR) for Microfinance Banks operating at national level is Rs. 1 billion. In line with the SBP requirements, the Bank's eligible capital for MCR purposes includes paid up share capital net of losses and balance in share premium reserve.

As of 31 December 2021, the Bank's eligible capital for MCR was as follows:

	2021	2020
	(Rupees in '000)	
Fully paid-up ordinary shares	5,479,488	4,277,589
Advance against future issue of right shares	-	7,442,699
Balance in share premium account	37,355,675	19,471,229
Accumulated losses	(37,999,226)	(27,205,476)
Eligible capital for MCR	4,835,937	3,986,041
Statutory reserve	802,481	802,481
Depositors protection fund	368,912	343,036
Net assets (before revaluation surplus / deficit and deferred grants)	6,007,330	5,131,558

Furthermore, in line with requirements of abovementioned circular, the Bank is also required to maintain Capital Adequacy Ratio (CAR) equivalent to at least 15% of its risk weighted assets.

The adequacy of the capital is tested with reference to the risk-weighted assets of the Bank as it enables the Bank to assess the long-term soundness. As the Bank conducts business on a wide area network basis, it is critical that the Bank is able to continuously monitor the exposure across the entire organization.

As at 31 December 2021, the Bank's Capital adequacy ratio (CAR) was 18.26% (31 December 2020: 18.73%) of its weighted exposure, as against the minimum requirement of 15% prescribed by SBP.

39. GENERAL

39.1 The comparative information have been re-arranged and reclassified for comparison purposes.

39.2 Captions, as prescribed by BSD Circular No. 11, dated 30 December 2003 issued by SBP, in respect of which there are no amounts, have not been reproduced in these financial statements, except for the captions of the balance sheet and profit and loss account.

39.3 Figures have been rounded off to the nearest thousand rupees, unless otherwise specified.

40. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Bank in their meeting held on 21 March 2022.

President and
Chief Executive Officer

Chairman

Director

Director

