

STEPPING INTO
THE DIGITAL WORLD

2017
ANNUAL REPORT





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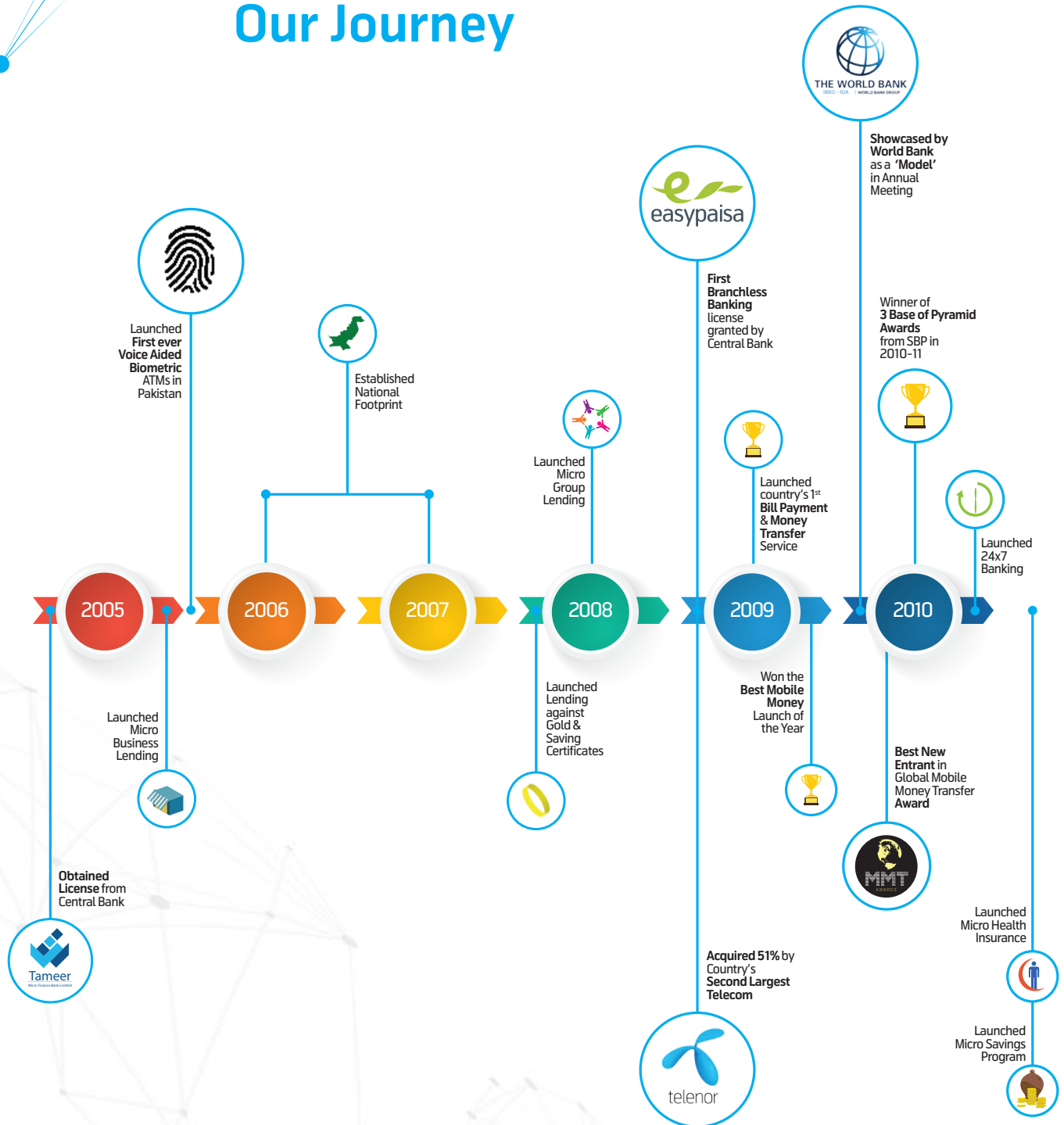
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Our Journey





Shortlisted by International Finance Corporation for Sustainable Finance Awards



Consumer Choice Award Best Microfinance Bank in Pakistan



Launched Home Based Solar Financing



Launched Private School Financing



GSMA Award Winner 2014 Best Mobile Product



Launched Smart Business Shops Pilot LMFCs (Last Mile Financial Centers)



Entered 5 year partnership with Govt of Punjab to provide PKR 100b loans to 450,000 farmers through digital platform



Transformation to Telenor Microfinance Bank

2011

First Retail Microfinance Bank to be listed at the KSE



2012

CSR Business Excellence Award of Environmental of Sustainability



Launched Senior Citizen Savings Product



Launched Dairy & Animal Financing

2013

Launched Agri Group Lending



Launched Gold Savings Program



Launched Micro Enterprise Lending



2014

Launched Phone Banking Doorstep Money Transfer

Launched Handset Financing



2015

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

Partnered with Daraz & Yayvo for 2017's highest online sales



Launched Pakistan's first online donation portal, donateonline.



Telenor Bank won "Best Microfinance Bank" and "Bank the Unbanked" awards at Pakistan Banking Awards 2017



The largest & fastest BVS deployed on retail channel



ENR of RS 25 Billion achieved (highest ever)



Project MORR launched to digitize loan application forms





About Us

Telenor Microfinance Bank Limited (Formerly Tameer Microfinance Bank Limited) is Pakistan's leading microfinance bank, with over 2.4 million borrowers and more than 120 billion PKR disbursed in loans. In 2009, we launched Pakistan's first mobile banking platform 'Easypaisa', which now has 19.9 million customers. With a distribution network of approximately 119 thousand agents and 178 touchpoints, we have one of the largest footprints nationwide.

We provide microfinance and mobile financial services to the underprivileged and underbanked segment of the society, with an aim to contribute towards empowering societies.



Vision

Empowering societies by banking the unbanked

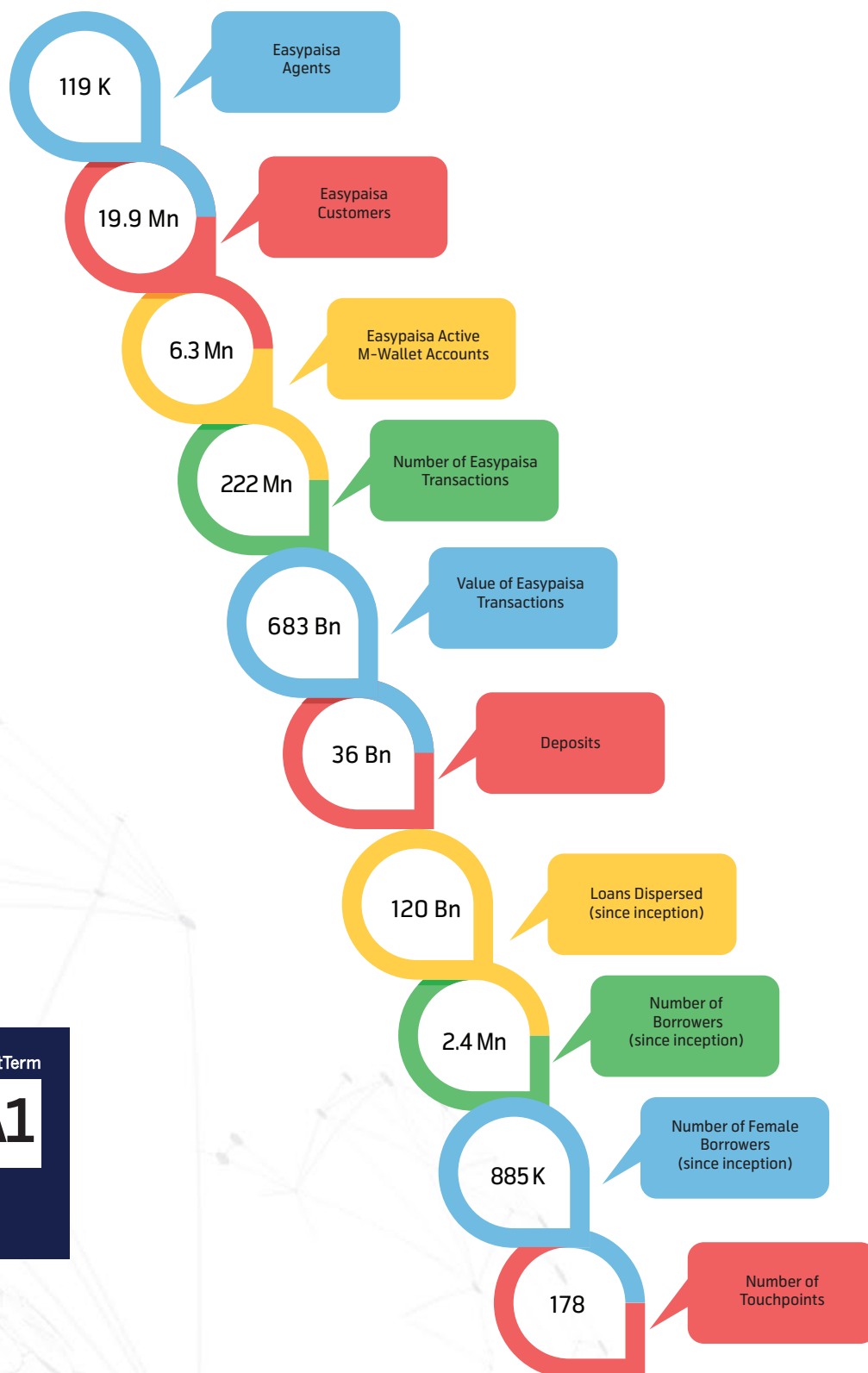
Mission

Providing the unbanked of the world with instant access to relevant, convenient and affordable financial services

Values

Keep promises, Be inspiring, Make it easy and Be respectful

Highlights 2017



Long Term	ShortTerm
A+	A1
Rated by JCR-VIS & PACRA	

Achievements

Best Microfinance Bank – Pakistan Banking Awards 2017

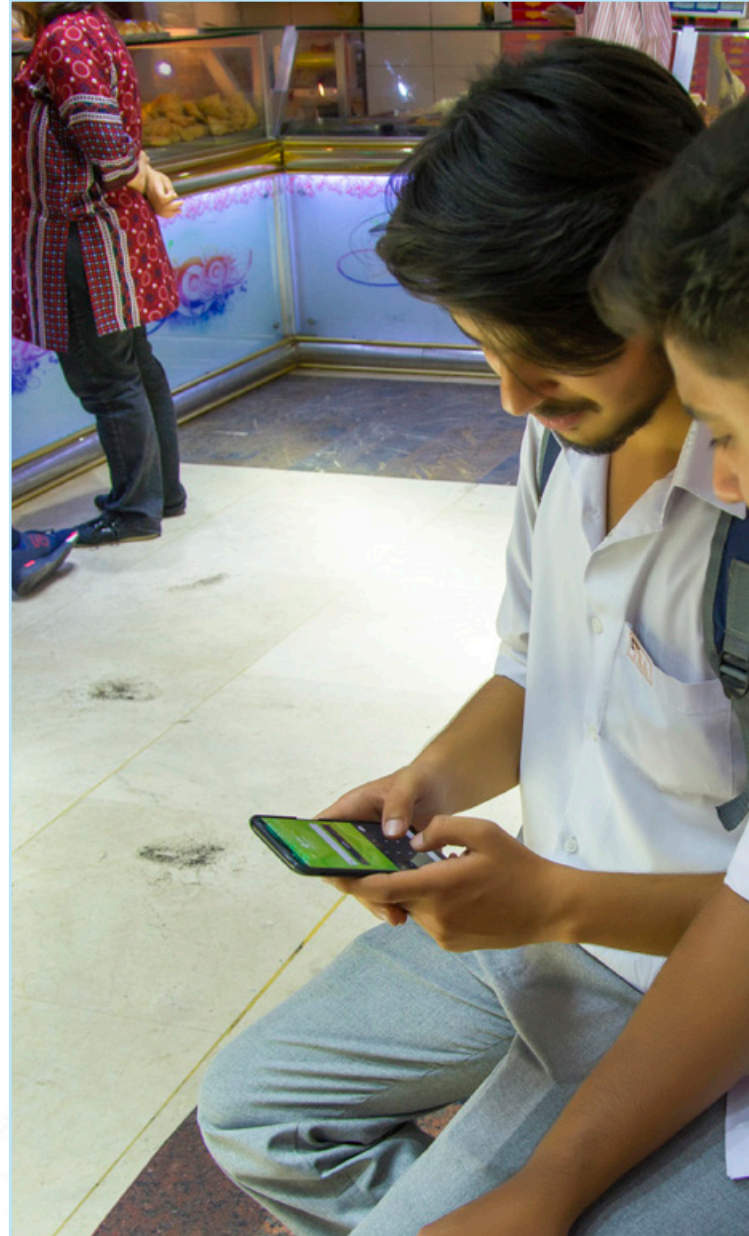
Bank the Unbanked – Pakistan Banking Awards 2017



GSMA Mobile Money Certification

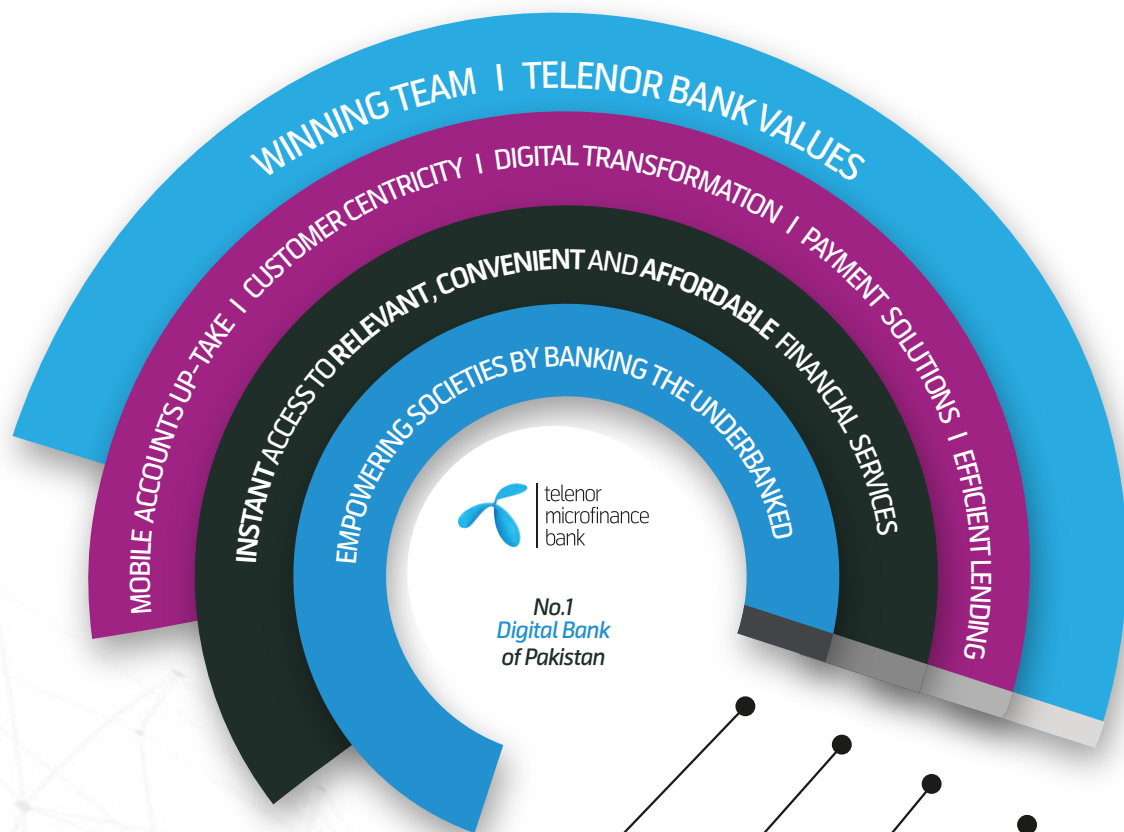


Keep Promises





Strategic Pillars



VISION



MISSION



STRATEGIC
FOCUS AREAS



ENABLERS

Financial Solutions

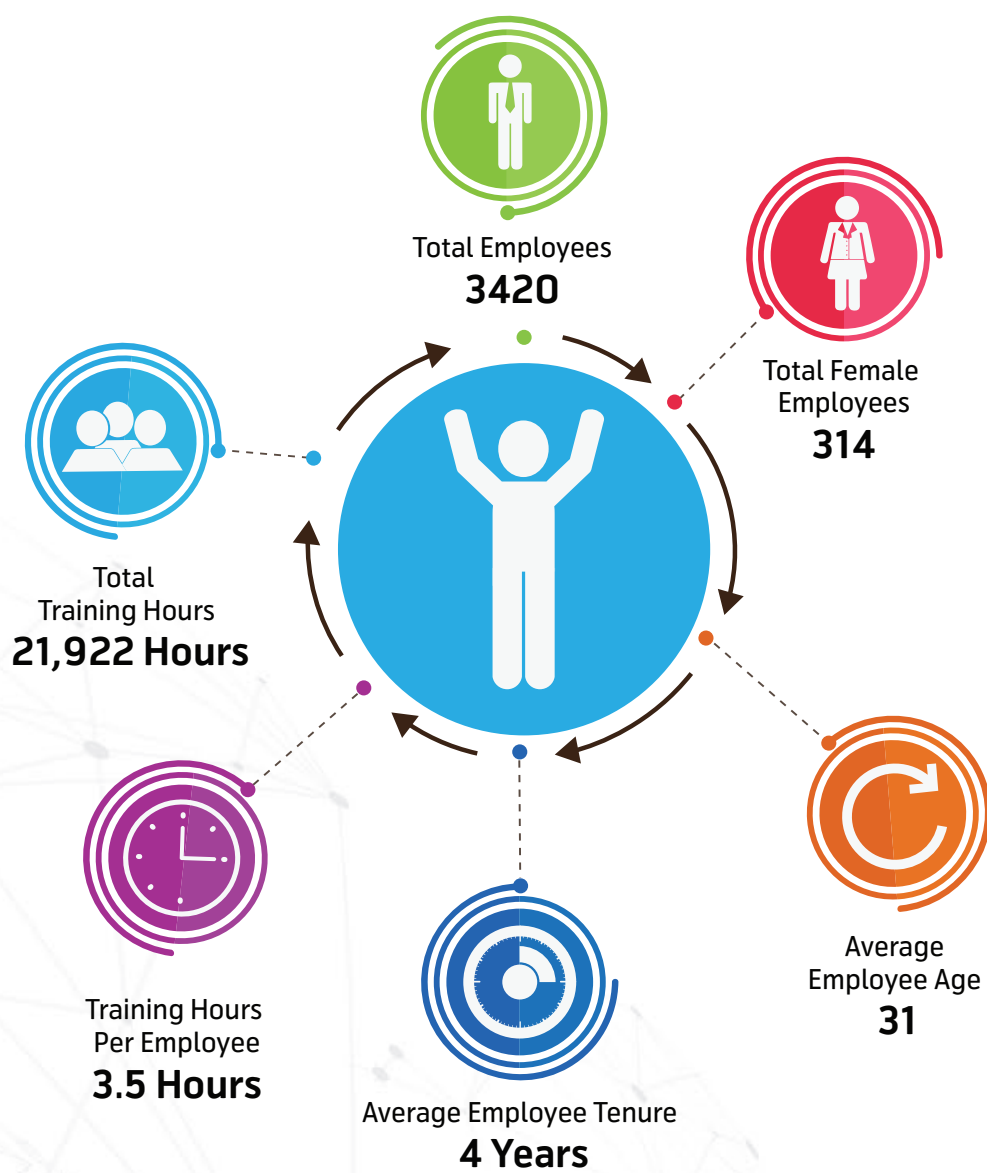




Be Inspiring



Changing Lives



Ethics Compliance



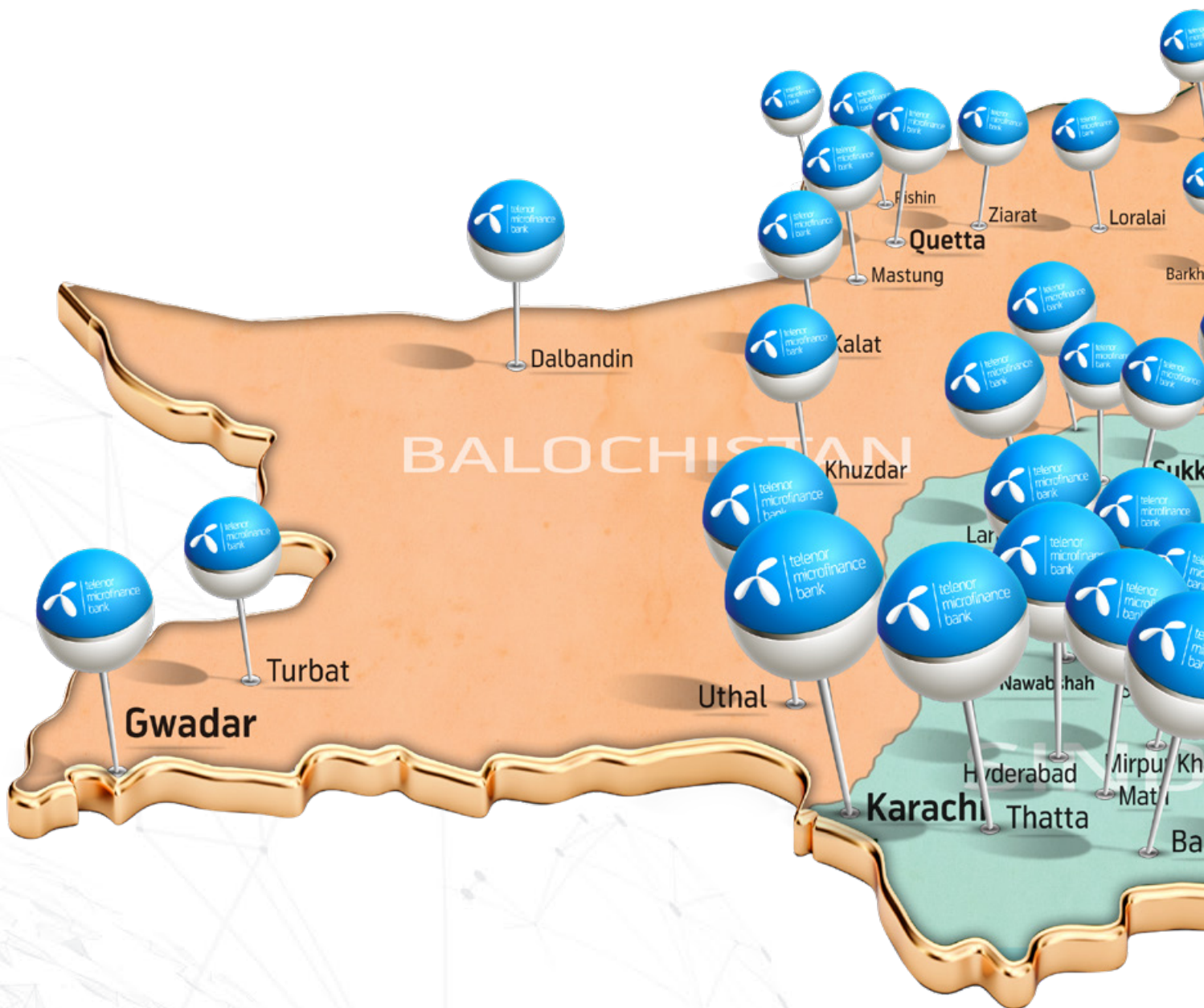


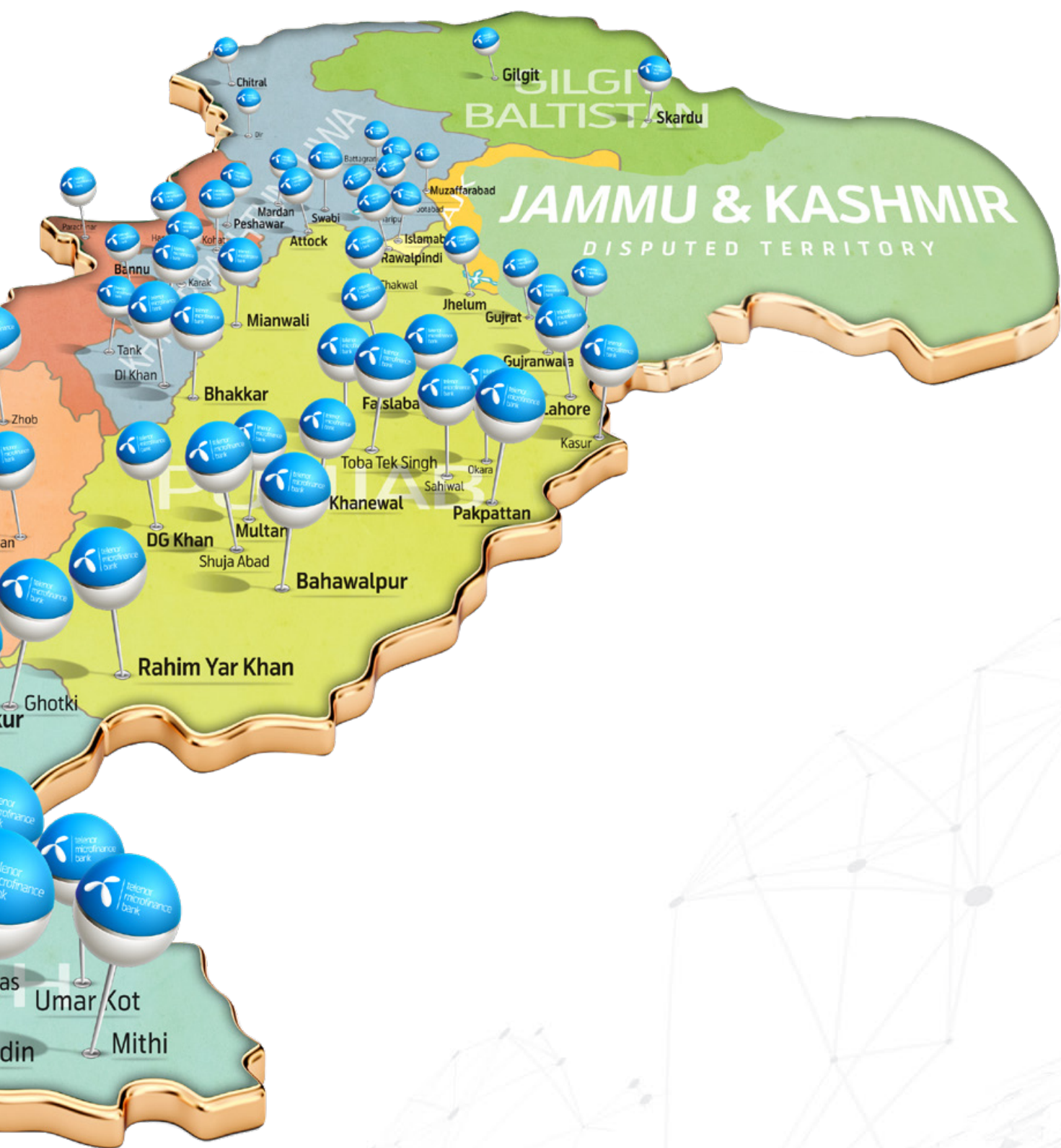
Make It Easy



Reaching Pakistan

- 178 touchpoints including branches
- Approximately 119 thousand Easypaisa Agents across Pakistan





"I dreamt of establishing my own beauty Salon for years and took multiple beautician courses to gain the necessary skills. However, my dream of becoming an entrepreneur was hampered by financial constraints.



Waiting for a miracle, I heard about Telenor Microfinance Bank's 'Karoobar Loan' and decided to shape my own destiny. I applied for an easy loan worth Rs. 150,000 to start a new life. In no time at all, my business thrived and I paid off my loan within the stipulated time. Now my business has established a name in the market, I have been recognized and awarded a gold medal by the National Beauty and Hair Organization. I'm grateful to Telenor Microfinance Bank for making my dream come true. The loan was instantly processed, released and the repayment process was also convenient. Thank you." – Asifa

"My father passed away due to a cardiac arrest, he was the only breadwinner of our family. His untimely death propelled my family into a serious predicament, triggered by a host of financial problems. Luckily, my father had purchased a life insurance plan worth Rs. 100,000 from Telenor Microfinance Bank. We claimed the insurance, which the bank processed on priority and released. With that money, I started a general store near my house. The store is frequented by residents of our neighborhood to purchase item of daily use now. With the sales constantly improving, we are financially stable and look forward to our future with much optimism." – Muhammad Shahbaz



"I left my hometown of Narowal a few years ago to pursue a career as a car driver in Islamabad. I'm the only breadwinner in my family and I used to send money through a bus service that operates between Narowal and Islamabad. My family collected the money from the bus stand every month. Sometimes, the bus



Empowering Societies



schedule would falter and my parents would have to wait for hours. I was aware of the problem and sought ways to eliminate my parent's suffering. In 2016, I heard about Easypaisa for the first time, a service that could transfer money instantly and my parents could collect it from the nearest Easypaisa shop at their convenience. I subscribed to the service immediately and the rest is history. Now I'm a regular customer and thankful to Easypaisa for bringing much needed respite to my aged parents." – Basit



"I belong to Gujranwala and hold an MBA degree from a reputed university. After completing my degree, I decided to establish a school in my area. However, the cost of setting up a school was out of my reach. I heard about Telenor Microfinance Bank's 'School Financing Loan' and applied. The loan was processed without delay and I received the money soon.

I have started the school for primary classes initially and intend to build on it gradually. I owe it to Telenor Microfinance Bank. My school wouldn't have seen the light of day if it weren't for the School Financing Loan." – Asma

"I am a resident of Orangi Town Karachi, and was working at a garment factory as a tailor. My pay was minimal so I was barely able to meet my family's needs. With the amount of money that I earned from that job, it was becoming impossible to feed 7 hungry mouths, let alone pay for their education.



I learned about Telenor Microfinance Bank's Enterprise Loan and thought about doing something of my own to improve my financial conditions. I applied for the loan and got it surprisingly easily with a very soft repayment plan. With that amount, I bought sewing machines and started my own tailoring shop.

That's when things started improving for me. My business grew and I took another loan from Telenor Bank to set up a fabric shop followed by another shop for sewing accessories. Today, I own three shops and I am very grateful to Telenor Bank for helping me change my life for the better." – Abul Hasan

Our Culture

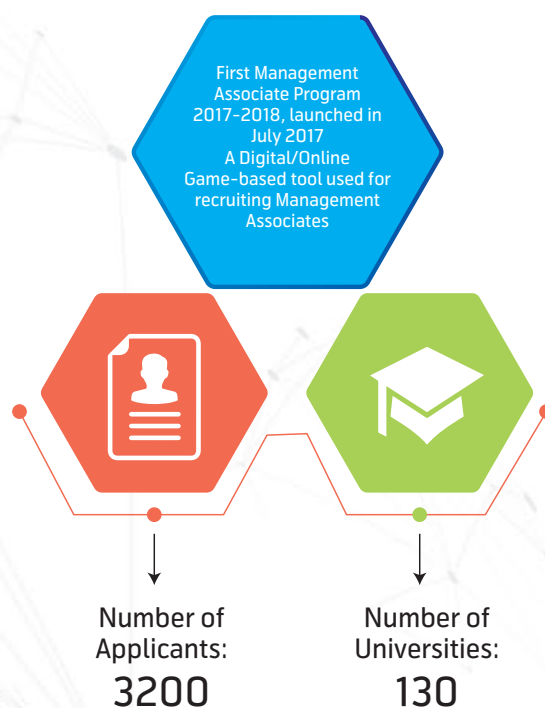
Employee Engagement Survey



Our strengths, as per the survey are:

1. Customer Orientation
2. Clarity of Strategy
3. Change Readiness

Management Associate Program





Customer Services

Telenor Microfinance Bank has a centralized Complaint Management System where all complaints are received, processed, investigated and resolved on fast track basis. These systems establish self-acting standards that provide a clear understanding of customer queries relating to bank services, products and account management.

This system guarantees high customer satisfaction as it allows us to resolve complaints proficiently by overcoming gaps, employing effective controls and ensuring their strict compliance. To record their suggestions and/or complaints, our customers contact us through multiple channels such as circulars (pasted at branches), at call centres, on our website and through direct interaction.

36,793 direct complaints were resolved successfully in 2017 with an average turnaround time of 3 working days.



Be Respectful



Corporate Information

Board of Directors

Mr. Petter Borre Furberg	Chairman
Mr. Shahid Mustafa	President & CEO
Mr. Irfan Wahab Khan	Director
Mr. Roar Bjaerum	Director
Mr. Aslam Hayat	Director
Mr. Henning Thronsen	Director
Ms. Uzma Khan	Independent Director

People Committee

Mr. Irfan Wahab Khan
Ms. Uzma Khan

Legal Advisors

Haidermota BNR & Co.
Barristers & Corporate Consultants

Risk Management Committee

Mr. Roar Bjaerum
Mr. Henning Thronsen

Audit Committee

Ms. Uzma Khan
Mr. Henning Thronsen
Mr. Roar Bjaerum

Auditors

KPMG Taseer Hadi & Co.
Chartered Accountants

Registered Head Office

Telenor Microfinance Bank Limited (Formerly Tameer Microfinance Bank Limited)
A-15, Block 7-8, Central Commercial Area,
K.C.H.S. Union, Karachi - 75350, Pakistan
Tel: +92-21-111-111-004
Website: <http://www.telenorbank.pk>



Executive Committee

Shahid Mustafa

President & CEO

Asif Javed

Chief Operating Officer

Murtaza Ali

Chief Financial Officer

Tariq Anwar

Chief Risk Officer

Naresh Karia

Chief Compliance Officer

Umaima Sohaib

Chief People Officer

Shahzad Najam

Head of Customer Acquisition

Omar Moeen Malik

Head of Digital Payments

Muhammad Yahya Khan

Chief Digital Officer & Chief Financial Inclusion Officer

Sana Tariq

Chief Legal Officer/Ethics Compliance & Company Secretary



Internal Audit Function

Asad Abbas

(Head of Internal Audit)



Petter-Børre Furberg

Message from the Chairman

2017 has been a year of tremendous success, growth, and recognition at Telenor Microfinance Bank. Committed to our mission of empowering the Pakistani society, we continued to lead the country's financial transformation with inclusive solutions.

Being the first year of joint operations of branchless banking business (Easypaisa) and microfinance lending business under the new entity Telenor Microfinance Bank Ltd., 2017 was a year of adapting to change and setting new goals and direction. Re-branding activities were successfully completed and operations streamlined.

It gives me great satisfaction that Telenor Microfinance Bank worked tirelessly to promote the digitization of Pakistan's financial landscape by introducing and strengthening its industry-first initiatives. Having launched the country's first biometric money transfer service earlier to facilitate safe transfers of higher amounts, Telenor Microfinance Bank retained the leadership position in the Over-the-Counter Market Share

with more than 49,000 BVS devices including devices sourced from channel partners by the end of FY'17, making it the largest BVS network in Pakistan.

We also moved towards the empowerment and advancement of Pakistan's most important yet neglected sector i.e. agriculture through interest-free credit scheme and digital lending in partnership with the Punjab Agricultural Department under its 'Empowerment of Kissan (farmer) through Digital & Financial Inclusion' initiative. The scheme enables quick and affordable loan processing, streamlining of the underwriting process, and agent-assisted mobile accounts processing to help customers in mobile account opening and digital transaction processing.

We developed and promoted a culture of public/private partnerships, creating synergies between financial players to add efficiency, create value, and bring enablement to our collective inclusion efforts.

The microfinance lending segment has shown promising growth. The Bank achieved an unprecedented portfolio increase of PKR 9 BN (57%) during FY'17 compared to FY'16, and served customers, while controlling delinquency at 1%.

The year 2017 closed with us initiating upgrading of our branches in terms of infrastructure and equipment to deliver an enhanced customer experience. This is one of some key examples of how the Bank is passionate about diversifying in order to empower the Pakistani masses in all possible ways and achieve its digital and financial inclusion goals.

The Bank won two prestigious awards at Pakistan Banking Awards 2017 in 'Best Microfinance Bank' and 'Bank the Unbanked' categories. The credit ratings were also improved in 2017 with Long Term and Short Term ratings securing A+ and A1 statuses respectively, achieving an overall 'Stable' outlook.



Shahid Mustafa

Message from the President & CEO

Pakistan made encouraging socio-economic progress across all sectors during 2017 as the country's business environment improved to attract increased foreign investment. With sizeable developmental projects on the horizon, Pakistan is looking at an upward trajectory.

Setting benchmarks for the country's banking sector, Telenor Microfinance Bank witnessed extraordinary growth and achieved impressive milestones during 2017 across all of its functional areas. Telenor Microfinance Bank's countrywide agents' network grew to 57.5 thousand, extending quality services to more than 19.9 million customers from all economic tiers, with special focus on financially enabling the underserved segment. Similarly, the services uptake witnessed remarkable upsurge with the number of active mobile accounts currently standing at 6.2 million, which facilitated transactions worth Rs. 684 million during 2017. Telenor Microfinance Bank has also disbursed loans worth Rs. 120 billion so far to extend easy access of finance to

millions of underserved Pakistanis.

The year also marked an extensive transformation for us; where the bank was rebranded as Telenor Microfinance Bank from *Tameer Microfinance Bank* after Telenor Group completed a 100% acquisition. The transformation not only reinforced our goals through integration of Innovation Technologies but also helped us grow, simultaneously enabling us to revolutionize the customers' banking experience.

We strongly believe in the potential of digital technology as the most efficient way forward. Since our inception, we have been the flag bearer of digitalization in the banking sector. Our branchless banking service, 'Easypaisa' has now evolved into a 360 degree digital financial platform, providing a range of financial services ranging from Gilgit to Karachi.

Being a socially conscious business entity, Telenor Microfinance Bank takes very seriously its role of creating value for the society. 'Enabling societies' is a

core theme that directs every operation carried out from our platforms and we always have an eye out for the needs of the masses. Our aim is to leverage digital and financial technology to remove barriers that stall socio-economic progress and human development.

Our focus has always been on Colleagues, Customers and Responsible Conduct. We will continue to use our core competencies to strengthen the important economic sectors of the country.

We owe our partners, stakeholders, customers and employees a lot of gratitude as they have been instrumental in us exceeding their expectations. We hope that they will continue their unremitting support to the bank and help us serve the people with added efficacy and enthusiasm forever.

Six-Year Financial Summary

for the year ended 31 December 2017

2017

2016

2015

2014

2013

2012

----- (Rupees in '000) -----

Balance Sheet

Assets

Cash and balances with SBP & NBP	3,497,633	3,116,926	1,588,338	1,371,733	1,225,227	730,133
Balances with other banks	4,154,764	2,558,937	1,118,190	717,070	571,006	927,509
Lending to financial institutions	3,368,059	323,215	346,702	-	-	-
Investments	6,767,309	11,568,227	3,784,189	3,775,640	3,471,857	3,604,983
Advances - net of provisions	24,761,653	15,835,248	12,125,628	8,941,759	8,311,128	6,687,865
Operating fixed assets	1,729,560	1,041,611	645,474	556,761	480,237	349,240
Other assets	2,848,790	1,844,687	1,433,577	1,030,330	1,131,244	948,668
Deferred tax asset - net	-	14,795	16,025	-	-	101,466
Total Assets	47,127,768	36,303,646	21,058,123	16,393,293	15,190,699	13,349,864

Liabilities

Deposits and other accounts	36,664,927	27,829,780	15,678,541	12,261,354	10,627,546	8,371,951
Borrowings	-	-	85,474	239,211	501,280	1,391,257
Subordinated debt	-	-	-	-	989,757	971,886
Other liabilities	5,445,012	3,887,957	1,604,825	1,044,847	854,124	775,513
Deferred tax liabilities	12,034	-	-	3,960	8,567	-
Total Liabilities	42,121,973	31,717,737	17,368,840	13,549,372	12,981,274	11,510,607

Net Assets

5,005,795	4,585,909	3,689,283	2,843,921	2,209,425	1,839,257
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REPRESENTED BY:

Share capital	1,346,939	1,346,939	1,346,939	1,346,939	1,346,939	1,346,939
Reserves	1,405,571	1,286,756	1,050,952	828,142	641,705	540,611
Accumulated Profit / (Loss)	2,229,020	1,943,880	1,260,896	646,831	205,787	(61,041)
	4,981,530	4,577,575	3,658,787	2,821,912	2,194,431	1,826,509
Deficit on revaluation of assets - net of tax	(911)	(1,527)	(836)	(959)	(1,388)	(55)
Deferred grants	25,176	9,861	31,332	22,968	16,382	12,803
	5,005,795	4,585,909	3,689,283	2,843,921	2,209,425	1,839,257

Six-Year Financial Summary

for the year ended 31 December 2017

	2017	2016	2015	2014	2013	2012
----- (Rupees in '000) -----						
Profit and Loss Statement						
Mark-up / return / interest earned	6,063,887	4,486,604	3,503,342	3,054,770	2,519,124	1,951,549
Mark-up / return / interest expensed	(1,767,054)	(1,113,495)	(662,922)	(766,186)	(1,035,160)	(773,757)
Net mark-up / interest income	4,296,833	3,373,109	2,840,420	2,288,584	1,483,964	1,177,792
Reversal / (provision) against non-performing loans and advances	(217,003)	(66,384)	(43,262)	(26,120)	(11,390)	(11,416)
Provision for diminution in the value of investments	-	-	-	-	-	-
Bad debts written off directly	(24,746)	(37,171)	(36,514)	(89,462)	(42,058)	(11,721)
	(241,749)	(103,555)	(79,776)	(115,582)	(53,448)	(23,137)
Net mark-up / interest income after provisions	4,055,084	3,269,554	2,760,644	2,173,002	1,430,516	1,154,655
Non mark-up / interest income						
Fee, commission and brokerage income	8,352,400	1,530,390	1,427,207	1,195,071	876,464	627,838
Dividend income	-	-	-	-	-	-
Other income	135,108	122,830	166,851	99,164	69,796	91,786
Total non mark-up / interest income	8,487,508	1,653,220	1,594,058	1,294,235	946,260	719,624
	12,542,592	4,922,774	4,354,702	3,467,237	2,376,776	1,874,279
Non mark-up / interest expenses						
Administrative expenses	(11,795,637)	(3,485,207)	(3,045,569)	(2,425,400)	(1,745,878)	(1,353,755)
Other provisions / write offs	(29,549)	(37,396)	-	(309)	(2,806)	(6,535)
Other charges	(29,962)	(30,886)	(26,839)	(21,039)	(12,660)	(10,594)
Total non mark-up / interest expenses	(11,855,148)	(3,553,489)	(3,072,408)	(2,446,748)	(1,761,344)	(1,370,884)
	687,444	1,369,285	1,282,294	1,020,489	615,432	503,395
Extraordinary / unusual items	-	-	-	-	-	-
Profit before taxation	687,444	1,369,285	1,282,294	1,020,489	615,432	503,395
Taxation	(270,688)	(473,931)	(430,554)	(311,996)	(233,677)	(129,056)
Profit after taxation	416,756	895,354	851,740	708,493	381,755	374,339

Six-Year Financial Summary

for the year ended 31 December 2017

	2017	2016	2015	2014	2013	2012
----- (Rupees in '000) -----						
Cashflow Statement - Summary						
Cash flow from operating activities	(2,110,729)	11,129,496	682,078	1,814,795	844,795	2,582,647
Cash flow from investing activities	4,071,948	(8,073,713)	56,200	(243,206)	172,497	(3,319,659)
Cash flow from financing activities	15,315	(86,448)	(120,553)	(1,279,019)	(878,700)	619,052
Net increase in cash and cash equivalents	1,976,534	2,969,335	617,725	292,570	138,592	(117,960)
Cash and cash equivalents at beginning of the year	5,675,863	2,706,528	2,088,803	1,796,233	1,657,642	1,775,602
Cash and cash equivalents at end of the year	7,652,397	5,675,863	2,706,528	2,088,803	1,796,234	1,657,642
Financial Ratios:						
Return On Equity (ROE)	8%	20%	23%	25%	17%	20%
Return On Assets (ROA)	1%	2%	4%	4%	3%	3%
Deposits to Liabilities	87%	88%	90%	90%	82%	73%
Advance to Deposit	68%	57%	77%	73%	78%	80%
Borrowing to Liability (%)	0.0%	0.0%	0.5%	2%	11%	21%
Total Asset to Shareholders' Fund	9.41	7.92	5.71	5.76	6.88	7.26
Capital Adequacy ratio (CAR)	19.51%	30.56%	37.00%	64.00%	64.00%	73.00%
Earning Per Share	3.09	6.65	6.32	5.26	2.83	2.78
Other Information:						
Number of Branches	85	74	66	57	49	45
Number of Employees	3,420	3,473	2,520	2,058	1,692	1,495
Number of Borrowers	535,413	385,417	287,285	226,870	197,811	154,973
Number of Depositors	8,122,495	8,573,293	4,958,736	3,841,340	1,643,313	923,963

Directors' Report

I am pleased to present the Directors' Report and audited financial statements of Telenor Microfinance Bank Limited (formerly known as Tameer Microfinance Bank Limited), thereafter referred to in the report as 'the bank', for the year ended December 31, 2017.

Performance Review

2017 marked the first year of joint operations of branchless banking business (Easypaisa) and microfinance lending business, under the new entity Telenor Microfinance Bank Ltd. During the same year, restructuring of processes and organization, and re-branding activities were completed in order to streamline the operations of Telenor Microfinance Bank Ltd. as one entity.

In Compliance to SBP's guidelines and in order to increase the bank's digital footprint, the bank rolled out implementation of about 30,500 BVS devices across its retail channel and retained the leadership position in the Over the Counter Market Share. By the end of FY '17, the bank's digital footprint has crossed 49,000 BVS devices including devices sourced from channel partner, making it the largest BVS network in Pakistan.

On the lending side, the bank achieved an unprecedented portfolio increase of PKR 9 BN during the financial year FY '17, 57% as compared to FY '16, and served an additional 150,000 customers, while controlling delinquency at 1%, despite growth in portfolio.

The bank continues to work towards its vision of financial inclusion and empowering the society. Multiple initiatives were launched in order to improve the outreach to the underserved customers. These initiatives include, but are not limited to the following: pilot launches for digital lending – which will enable quick and affordable loan processing, streamlining of the

underwriting process, agent assisted mobile accounts processing – to help customers in mobile account opening and digital transactions processing, and initiation of upgradation of our branches in terms of infrastructure and equipment.

Financial Results

The bank reported Profit before tax (PBT) of PKR 687 MN and Profit after tax (PAT) of PKR 417 MN and also generated PKR 1.977 BN net cash flow during the year. Net markup income of the Bank was reported at PKR 4,297 MN, up by 27% over last year.

PKR in Millions	FY 17	FY 16
Net interest income	4,297	3,373
Net interest income after provisions	4,055	3,270
Advances – Gross	25,003	15,945
Deposits	36,582	27,830
PAR %	1.02%	0.6%

The total asset base of the Bank amounted to PKR 47.127 billion, with an increase of 30% over FY 2016. Cash and Cash equivalents of the bank have also increased by 35% over 2016 to close at PKR 7.625 BN while the net advances grew by 56% over 2016. On the liabilities side, the deposit base of the Bank recorded an increase of PKR 8.83 BN (32%) over December 2016 with CASA% of 50.6%.

Transfer to Reserves

As per the requirements of Microfinance Institution Ordinance, 2001 and the Prudential Regulations for Microfinance Banks issued by the State Bank of Pakistan, the Bank has transferred an amount equivalent to 20% of profit after tax to the statutory reserve (PKR

83.351 million) and 5% of profit after tax to the Depositors' Protection Fund (PKR 35.464 million) during 2017.

Capital Adequacy Ratio

The bank's Capital Adequacy Ratio as on December 31, 2017 was 19.51%.

Change in Composition in Board of Directors

Casual vacancies occurred during the year 2017 created by the resignations of the directors, these were replaced as follows:

Outgoing Directors	Incoming Directors
Mr. Ali Riaz Chaudhry	Mr. Shahid Mustafa
Ms. Tine Wollebekk	Mr. Petter-Bore Furberg
Mr. Salim Raza	

Holding Company

During the year Telenor Pakistan B.V. (a joint stock company based in Amsterdam) acquired 50.99% shareholding of the Bank from Telenor Pakistan (Private) Limited. Telenor Microfinance Bank Limited is now the wholly owned subsidiary of Telenor Pakistan B.V. part of Telenor Group. Telenor ASA a listed Telecom company in Norway is the ultimate parent of the Bank.

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:

- a) 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.
- b) Proper books of account of the Bank have been maintained.
- c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d) These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, the Microfinance Institutions Ordinance, 2001 and the regulations / directives issued by the SECP and SBP. Wherever the requirements of the Companies Ordinance, 1984, the Microfinance Institutions Ordinance, 2001 or the regulations / directives issued by the SECP and SBP differ with the requirements of IFRSs, the requirements of the Companies Ordinance, 1984, the Microfinance Institutions Ordinance, 2001 or the requirements of the said regulations / directives shall prevail.
- e) The system of internal control is sound in design and has been effectively implemented and monitored. The ultimate responsibility of the effectiveness of internal control system and its monitoring lies with the Board. An Audit Committee has been formed for the purpose that meets periodically and independently throughout the year with the management and also the internal and external auditors to discuss the effectiveness of internal control system and other financial reporting matters. In addition, there are financial forecasts and budgetary control procedures in place, which are reviewed and monitored throughout the year to indicate and evaluate the variances from the budget.
- f) There are no significant doubts upon the bank's ability to continue as a going concern.
- g) During the year, four board meetings were held. These meetings were attended by the directors as under:

Name of Directors	Designation	Number of Meetings	
		Eligible to attend	Attended
Mr. Ali Riaz Chaudhry**	Chief Executive	3	3
Ms. Tine Wollebekk**	Chairperson	2	2
Mr. Roar Bjaerum	Director	4	4
Mr. Salim Raza**	Director	3	3
Mr. Irfan Wahab Khan	Director	4	4
Mr. Henning Thronsen	Director	4	4
Mr. Aslam Hayat	Director	4	4
Ms. Uzma Khan	Director	4	4
Mr. Shahid Mustafa	Chief Executive	1	1
Mr. Petter-Bore Furberg	Chairman	1	1

** These directors resigned during the year.

The following changes have taken place in the Board of Directors during the year ended December 31, 2017:

- Mr. Shahid Mustafa attended the 63rd Board of Directors' (BOD) meeting on 28 November 2017, in place of Mr. Ali Riaz Chaudhry as President and CEO of the Bank. Mr. Ali's resignation was approved in the 62nd BOD Meeting dated 17 August 2017. Furthermore, Mr. Petter Furberg attended 63rd BOD Meeting dated 28 November 2017 and his appointment was approved by SBP on 15th August 2017.
- h) 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 Ordinance, 1984 are also included in the annual report.
- i) No trading was carried out in the shares of the bank during the year by the Directors, Chief Executive Officer, Chief Financial Officer, Company Secretary, Chief Internal Auditor or their spouses and minor children.

Audit Committee

The Audit Committee consists of two Non-executive directors, Mr. Roar Bjaerum and Mr. Henning Thronsen and one Independent Director, Ms. Uzma Khan.

Credit Rating

Based on the results for the year ended December 31, 2016, the credit rating company PACRA/JCR VIS has retained the long-term entity rating of Telenor Microfinance Bank Limited (TMBL) to "A+" (Single A Plus) [Previous: "A+"] while maintaining the short-term rating at "A1" (A One)

Auditors

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

Events after Balance Sheet Date

There were no subsequent events reported

The Pattern of Shareholding

The Pattern of Shareholding as of December 31, 2017 is annexed with this report.

Financial Highlights

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

Earnings Per Share

Earnings per share of the bank for the year ended 2017 is 3.09 compared to 6.65 as at end of year 2016.

Employee Benefits Schemes

Value of investments including accrued income of provident and gratuity funds as at December 31, 2017 on the basis of unaudited financial statements are:

Provident Fund	434,223,105
Gratuity Fund	255,453,396

Appreciation & 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

Shahid Mustafa
President / Chief Executive Officer

Petter-Bore Furberg
Chairman

Place: Karachi
Dated: February 22, 2018

ڈائریکٹرز رپورٹ:

ٹیلی مائیکرو فنانس بینک 2017 ڈائریکٹرز کا تبصرہ:

ہمیں ٹیلی مائیکرو فنانس بینک لمیٹڈ (سابقہ تعمیر مائیکرو فنانس بینک لمیٹڈ) جسے درج ذیل بینک کھلا جانے کا، کی سالانہ ڈائریکٹرز رپورٹ اور ڈاٹ شدہ مالیاتی گوشوارے پیش کرتے ہوئے انتہائی مسرت محسوس ہو رہی ہے۔

ڈائریکٹرز کی سالانہ رپورٹ:

روان سال کا آغاز اس بینک نے اپنی نئی پیمان ٹیلی مائیکرو فنانس بینک لمیٹڈ کے سائے تلے برانچ لیس بینکنگ کا کاروبار اور مائیکرو فنانس کی فراہمی کا کاروبار کے مشترکہ آپریشن کے ساتھ کی علاوہ ازیں بینک نے دوران سال آپریشن میں ہم آہنگی کے حصول کے لئے انتظامی تبدیلیوں اور دی برانڈنگ کا سلسلہ مکمل کیا۔

سٹیٹ بینک آف پاکستان (SBP) کے قواعد و ضوابط کے مطابق اور بینک کا ڈیجیٹل دائرہ پھیلاؤ کی خاطر بینک نے اپنے پورے ریٹیل چینل میں لگ بھگ 30,500 ڈیوائسز پر عمل درآمد کا آغاز کیا اور آئندہ کاؤنٹر (Over the Counter) مارکیٹ شیئر میں لیڈر شپ پوزیشن قائم رکھی۔ مالی سال 2017 کے اختتام تک بینک کا ڈیجیٹل دائرہ بڑھ کر BVS 49,000 ڈیوائسز تک پہنچ گیا جس میں چینل پارٹنرز کی طرف سے شامل کردہ ڈیوائسز بھی بشمول ہیں۔ اس طرح بینک کے پاس پاکستان میں BVS ڈیوائسز کا سب سے بڑا نیٹ ورک موجود ہے۔

قرضوں کی مدد میں، بینک نے پہلی مرتبہ مالی سال 2017 میں پورٹ فولیو میں 9 ارب روپے کا اضافہ دیکھا جو کہ مالی سال 2016 کے مقابلے میں 57% تھا، جبکہ اس عرصہ میں 150,000 صارفین کو خدمات فراہم کی گئیں اور پورٹ فولیو میں اضافہ کے باوجود قرضوں کی ناپیدگی کی شرح 1% رہی۔

بینک مالیاتی دائرہ میں زیادہ سے زیادہ سے لوگوں کا شامل کرنے اور سماجی طبقات کو مضبوط کرنے کے اپنے نصب العین پر زور شور سے کام جاری رکھے ہوئے ہے۔ کم مستفید صارفین تک رسائی میں اضافہ کرنے کے لئے مختلف اقدامات اٹھائے گئے ہیں۔ ان اقدامات میں، علاوہ دیگر شامل ہیں؛ ڈیجیٹل طریقے سے قرض دینے کے پائلٹ پروجیکٹ کا آغاز۔ اس سے قرضے فراہم کرنے کا پروسس تیز اور قابل استطاعت ہوگا قرضہ فراہم کرنے کے عمل میں ہم آہنگی، ایجنٹ کے تعاون سے موبائل اکاؤنٹ کی پراسینک تاکہ موبائل اکاؤنٹ کھولنے اور ڈیجیٹل ٹرانز ایکشن پراسس کرنے میں کنسومر کی مدد کی جائے اور انفراسٹرکچر اور آلات کے حوالے سے اپنی شاخوں کو اپ گریڈ کرنے کے عمل کا آغاز۔

مالیاتی نتائج:

مذکورہ سال میں بینک کا منافع قبل از ٹیکس (PBT) 687 ملین روپے اور بعد از ٹیکس منافع (PAT) 147 ملین روپے رہا اور مالی سال کے دوران 1.977 ارب روپے کا کیش فلو پیدا کیا گیا ہے بینک کی خالص مارک اپ آمدنی 4.297 ملین روپے ہیں جو کہ گزشتہ سال کے مقابلے میں 27% زیادہ ہے۔

ملین روپے میں	مالی سال 17	مالی سال 16
نیٹ مارک اپ کی آمدنی	4,297	3,373
نیٹ مارک اپ آمدنی بعد از پروویز	4,055	3,270
مجموعی قرضاجات	25,003	15,945
ڈیپوٹ	36,582	27,830
ناپیدگی کی شرح (PAR %)	1.02%	0.6%

بینک کے کل اثاثہ جات کی مالیت 47,127 ارب روپے ہیں۔ جو کہ گزشتہ سال کے مقابلے میں 30% زیادہ ہے۔ بینک کے کیش اور کیش کے مساوی اثاثہ جات بھی 2016 کے مقابلے میں 35% بڑھ کر 7.625 ارب پر بند ہوئے جبکہ خالص قرضاجات میں بھی 2016 کے مقابلے میں 56% اضافہ ہوا قرضہ جات کے حوالے سے بینک کی ڈیپازٹ میں بھی دسمبر 2016 کے مقابلے میں 8.83 ارب روپے (32%) اضافہ ریکارڈ کیا گیا جس میں CASR کی شرح 50.6% تھی۔

ذخائر کی منتقلی:

مانیکرو فنانس ادارے آرڈیننس 2001 اور اسٹیٹ بینک آف پاکستان کی طرف سے جاری کردہ مانیکرو فنانس بینکوں کے لئے پروڈینشل ریگولیشنز کی قواعد و ضوابط کے مطابق بینک نے 20% بعد از ٹیکس منافع کے برابر مبلغ رقم 83.351 ملین روپے قانونی ریزرو میں منتقل کی ہے اور 5 فیصد بعد از ٹیکس کے مساوی رقم 35.464 ملین روپے ڈیپازٹرز پر پرفیکشن فنڈ میں منتقل کی ہے۔

مشحکم مالیاتی تناسب:

بینک کا مالیاتی سرمایہ کا تناسب نئے مانیکرو فنانس بینکاری ضوابط کے تحت 31 دسمبر 2016 کے مقابلے میں اس سال 19.51% پر مشحکم رہا۔

بورڈ آف ڈائریکٹرز کی ساخت میں تبدیلی:

اس سال کی ڈائریکٹرز کے استعفوں سے متوقعہ اسامیاں درج ذیل طور پر کی گئیں۔

سجدہ شہزاد ہونے والے ڈائریکٹرز	نئے ڈائریکٹر
جناب علی ریاض چوہدری	جناب پیٹر بورفر برگ
یٹنا وولک	جناب شاہد مصطفیٰ
جناب سلیم رضا	

ہولڈنگ کمپنی:

مالی سال کے دوران ٹیلی نار پاکستان BV (ایمسر ڈیم کی جوائنٹ شک کمپنی) نے ٹیلی نار پاکستان (پراویٹ) لمیٹڈ سے بینک کے 50.99% حصص حاصل کر لئے۔ ٹیلی نار مانیکرو فنانس بینک لمیٹڈ اب ٹیلی نار گروپ کی کمپنی ٹیلی نار پاکستان بی وی کا 100% ملکیاتی ذیلی ادارہ ہے۔ ناروے میں رجسٹرڈ ٹیلی کام کمپنی ٹیلی نار ASA بینک کا حتمی سربراہ ہے۔

کارپوریٹ گورننس کی پاسداری:

بینک کے بورڈ آف ڈائریکٹرز کے بینک کے انتظام کے لئے حصص یافتگان کے سامنے ذمہ داریاں ہیں۔ یہ بورڈ اندرونی انضباط کے نظام کے لئے ذمہ داری کو تسلیم کرتا ہے اور کارپوریٹ گورننس کے اعلیٰ ترین معیار کو برقرار رکھنے کے لئے مصروف عمل ہے۔

کارپوریٹ گورننس کے تحت بیان:

ڈائریکٹرز کارپوریٹ گورننس کے تحت مطلوبہ درج ذیل نکات بمصرت پیش کرتے ہیں۔

۱۔ بینک کی انتظامی کی طرف سے تیار کردہ مالیاتی گوشوارے منصفانہ طور پر بینک کے معاملات کے صورت حال، سرگرمیوں کے نتائج، زیر گردش نقدی اور ایکویٹی میں تبدیلیاں پیش کرتے ہیں۔

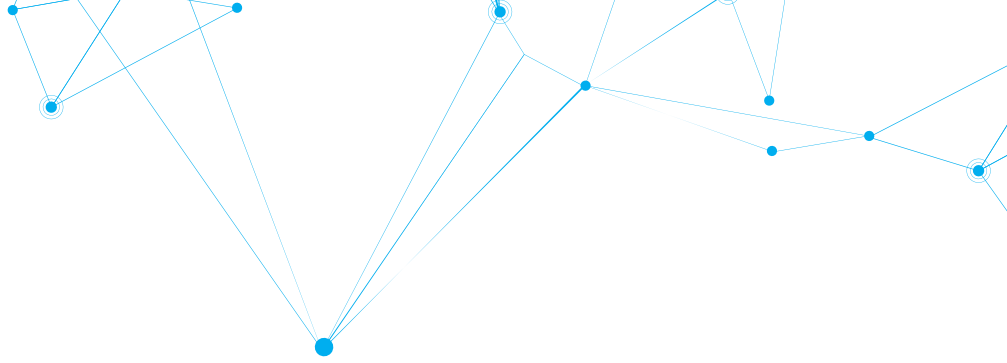
۲۔ بینک کے کھاتوں کا مناسب انتظام رکھا گیا ہے۔

۳۔ مالیاتی گوشواروں کی تیاری میں مستقبلاً مناسب کھاتہ داری کی پالیسیوں کا اطلاق کیا گیا ہے۔ نیز کھاتہ داری کے مالیاتی تخمینہ موضوع اور محتاط اندازوں پر مبنی ہے۔

۴۔ یہ مالیاتی گوشوارے پاکستان میں لاگو منظور کھاتہ داری کے معیار کے مطابق تیار کیئے گئے ہیں۔ اس کھاتہ داری کے معیار میں یہ شامل ہیں بین الاقوامی مالیاتی رپورٹنگ کے معیار (IFRSs) جو کہ بین الاقوامی کھاتہ داری کے معیار کے

بورڈ (IASB) کے جاری کردہ ہیں کمپیئر آرڈیننس 1984 مانیکرو فنانس ادارے آرڈیننس 2001 سیکورٹی اینڈ ایکسچینج کمیشن آف پاکستان (SECP) اور اسٹیٹ بینک آف پاکستان (SBP) کے جاری کردہ قواعد و ضوابط کے تحت

منظور شدہ ہیں۔ بصورت دیگر بین الاقوامی مالیاتی رپورٹنگ کے معیار (IFRSs) کے قواعد اگر کمپیئر آرڈیننس 1984 کی ضروریات مانیکرو فنانس ادارے 2001 یا سیکورٹی ایکسچینج کمیشن آف پاکستان



(SECP) اور اسٹیٹ بینک آف پاکستان (SBP) کے جاری کردہ قواعد و ضوابط و ہدایات میں اختلاف درپہ ہوا صورت میں کمپنیز آرڈیننس 1984 کی ضروریات مانیکرو فنانس کمپنیز آرڈیننس 2001 یا SECP اور SBP کے جاری کردہ قواعد و ضوابط غالب ہونگے۔

۵۔ اندرونی انضباط کے نظام کا ڈھانچہ کارآمد ہے اور موثر طریقے سے عمل درآمد بھی ہے۔ اندرونی انضباط کے نظام اور اس کی نگرانی کی حتمی ذمہ داری بورڈ پر لازم ہے۔ آڈٹ کمیٹی کی تشکیل کے مقاصد میں شامل ہے کہ وہ اندرونی انضباط کے نظام اور دیگر مالیاتی امور کی رپورٹنگ کے موثر اطلاقی کی نگرانی کے لئے اندرونی اور بیرونی آڈیٹرز اور انتظامیہ کے ساتھ سال بھر وقفہ وقفہ سے آزادانہ طور پر مشوراتی ملاقاتیں کرتا ہے۔ مزید برآں مکمل سال مسلسل مالی پیش گوئی اور بجٹ کنٹرول کے ذریعہ کارکردگی کی نگرانی کی جاتی ہے۔

۶۔ بینک کے کاروبار جاری و ساری رکھنے کی اہلیت پر کوئی قابل ذکر خدشات نہیں ہیں۔

۷۔ رواں سال کے دوران چار بورڈ کے اجلاس منعقد ہوئے جن میں ڈائریکٹرز کی شرکت مندرجہ ذیل ہے۔

ڈائریکٹرز کے نام	عہدہ	اجلاس کی تعداد شرکت کے اہل شریک
جناب علی ریاض چوہدری**	چیف ایگزیکٹو	3
محترمہ ٹینا وولک**	چیئر مین	2
جناب روبرجہ بھارم	ڈائریکٹر	4
جناب سلیم رضا**	ڈائریکٹر	3
جناب عرفان وہاب خان	ڈائریکٹر	4
جناب ہینگ تھروٹن	ڈائریکٹر	4
جناب اسلم حیات	ڈائریکٹر	4
محترمہ عظمیٰ خان	ڈائریکٹر	4
جناب شاہد مصطفیٰ	چیف ایگزیکٹو	1
جناب پیٹر بورفر برگ	چیئر مین	1

** یہ ڈائریکٹرز گزشتہ سال کے دوران مستعفی ہو گئے۔

رواں سال 2017 کے دوران بورڈ آف ڈائریکٹرز میں مندرجہ ذیل تبدیلیاں واقع ہوئی:

جناب شاہد مصطفیٰ نے 28 نومبر 2017 کو جناب علی ریاض چوہدری کے متبادل بینک کے صدر اور چیف ایگزیکٹو کی حیثیت سے بورڈ آف ڈائریکٹرز کے 63 ویں اجلاس میں شرکت کی جناب علی ریاض کا استعفیٰ 17 اگست 2017 کو ہونے والے بورڈ آف ڈائریکٹرز کے 62 ویں اجلاس میں منظور کیا گیا تھا۔ مزید برآں جناب پیٹر فر برگ نے 28 نومبر 2017 کو ہونے والے بورڈ آف ڈائریکٹرز کے 63 ویں اجلاس میں شرکت کی SBP نے 15 اگست 2017 کو انکی تعیناتی کی منظوری دی تھی۔

۸۔ بینک کے آپریٹنگ اور مالیاتی اعداد و شمار اس سالانہ رپورٹ میں شامل ہیں۔ بینک حصص داری کی ساخت اور اقسام باتھ کمپنیز آرڈیننس 1984 بھی اس سالانہ رپورٹ کا حصہ ہیں۔

۹۔ محترم سلیم رضا جو بینک کے 10 نوکن حصص کے حاصل کنندہ ہیں ان کے علاوہ کسی بھی ڈائریکٹر نے بینک کے حصص حاصل نہیں کیئے۔ علاوہ ازیں اقلیتی شیئر ہولڈرز کے حصص ٹیلی نار پاکستان (BV) لمیٹڈ کو منتقل ہوئے مندرجہ بالا لین دین کے علاوہ بینک کے ڈائریکٹرز، چیف ایگزیکٹو آفیسر، چیف فنانس آفیسر، کمپنی سیکریٹری، چیف انٹرنل آڈیٹر سمیت ان کے شریک حیات اور نابالغ بچوں نے بینک کے حصص کی لین دین نہیں کی۔

آڈٹ کمیٹی:

بینک کی آڈٹ کمیٹی دو غیر ایگزیکٹو ڈائریکٹرز جناب روبرجہ بھارم اور جناب ہینگ تھروٹن اور ایک غیر جانبدار ڈائریکٹر محترمہ عظمیٰ خان پر مشتمل ہے۔

کریڈٹ ریٹنگ:

31 دسمبر 2016 کے اختتامی نتائج کی بنیاد پر PACRA اور JCR-VIS، کریڈٹ کی ریٹنگ کمپنیز نے ٹیلی نارمیکس کو پائلٹ لیمینڈ کو طویل المدت ریٹنگ کو A+ اور مختصر مدت ریٹنگ کو A1 پر برقرار رکھا۔

آڈیٹرز:

موجودہ آڈیٹرز میسرز KPMG تاثیر ہادی اینڈ کو چارٹرڈ اکاؤنٹنٹس ریٹائر ہو رہے ہیں۔ اور اسیت کی بنیاد پر آئندہ اجلاس عام میں خود کو دوبارہ تقرری کے لئے پیش کرتے ہیں۔ بورڈ آڈٹ کمیٹی پر میسرز KPMG تاثیر ہادی اینڈ کو چارٹرڈ اکاؤنٹنٹس کو بینک کے آڈیٹرز کی حیثیت سے دوبارہ تقرری کی سفارش پیش کرتے ہیں۔

بیلنس شیٹ کی تاریخ کے بعد رونما ہونے والے واقعات:

بیلنس شیٹ کی تاریخ کے بعد کوئی بھی واقعات رونما نہیں ہوئے۔

حصص داری کا ڈھانچہ:

31 دسمبر 2017 کا حصص داری کا ڈھانچہ اس پورٹ کے ساتھ منسلک ہے۔

مالیاتی کارکردگی کی جھلکیاں:

گزشتہ 6 سالوں کی مالیاتی کارکردگی کی جھلکیاں اس رپورٹ کے ساتھ منسلک ہیں۔

فی حصص آمدنی:

بینک کی آمدنی برائے 3.09 2017 ہے جبکہ سال 2016 میں یہ 6.65 تھا۔

پروڈیٹ فنڈ اور گریجویٹ فنڈ کی اسکیمیں:

ان فنڈز کی سرمایہ کاری کی مالیت بشمول مجموعی آمدنی مطابق 31 دسمبر 2017 کے غیر آڈٹ شدہ مالیاتی گوشواروں کی بنیاد پر درج ذیل ہے۔

پروڈیٹ فنڈ 434,223,105

گریجویٹ فنڈ 255,453,396

قدرشناسی اور مقبولیت:

ہم اس موقع کا فائدہ اٹھاتے ہوئے اپنے صارفین اور کاروباری شراکت داروں کی مستقل حمایت اور بحروسے کے حاصل ہونے پر اظہار تشکر پیش کرتے ہیں۔ ہم اسٹیٹ بینک آف پاکستان اور سیکوریٹیز اینڈ ایکسچینج کمیشن آف پاکستان کے شکر گزار ہیں کہ انکی مستقبل رہنمائی اور تعاون بینک کے شامل حال رہی۔ ہم صارفین کو دی گئی پر عزم خدمات کے لئے اپنے ملازمین کا شکریہ ادا کرتے ہیں۔

منجانب بورڈ آف ڈائریکٹرز:

شاہد مصطفیٰ

صدر رجسٹرڈ ایگزیکٹو آفیسر

پیٹر بورفر برگ

چیئرمین

کراچی

22 فروری 2018

بہتنام

تاریخ

Auditors' Report to the Members

We have audited the annexed balance sheet of Telenor Microfinance Bank Limited (the "Bank") as at 31 December 2017 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended 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 our audit.

It is the responsibility of the Bank's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the repealed Companies Ordinance, 1984 and the Microfinance Institution Ordinance, 2001. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- (a) in our opinion, proper books of account have been kept by the Bank as required by the repealed Companies Ordinance, 1984 and the Microfinance Institutions Ordinance, 2001;
- (b) in our opinion:
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the repealed Companies Ordinance, 1984 and the

Microfinance Institution Ordinance, 2001, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

- (ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
- (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank;
- (c) 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, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the repealed Companies Ordinance, 1984 and the Microfinance Institutions Ordinance, 2001 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 2017 and of the profit, its comprehensive income, cash flows and changes in equity for the year then ended; and
- (d) in our opinion 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.

KPMG Taseer Hadi & Co.
Chartered Accountants
Mazhar Saleem

Dated: March 08, 2018
Place: Karachi

Balance Sheet

as at 31 December 201

	2017	2016
Note	----- (Rupees in '000) -----	
6	3,497,633	3,116,926
7	4,154,764	2,558,937
8	3,368,059	323,215
9	6,767,309	11,568,227
10	24,761,653	15,835,248
11	1,729,560	1,041,611
12	2,848,790	1,844,687
13	-	14,795
	47,127,768	36,303,646
14	36,664,927	27,829,780
	-	-
	-	-
15	5,445,012	3,887,957
13	12,034	-
	42,121,973	31,717,737
	5,005,795	4,585,909
16	1,346,939	1,346,939
	1,405,571	1,286,756
	2,229,020	1,943,880
	4,981,530	4,577,575
17	(911)	(1,527)
18	25,176	9,861
	5,005,795	4,585,909

MEMORANDUM / OFF BALANCE SHEET ITEMS

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

President &
Chief Executive Officer

Chairman

Director

Director

Profit and Loss Account

for the year ended 31 December 2017

		2017	2016
	Note	----- (Rupees in '000) -----	
Mark-up / return / interest earned	20	6,063,887	4,486,604
Mark-up / return / interest expensed	21	(1,767,054)	(1,113,495)
Net mark-up / interest income		4,296,833	3,373,109
Provision against non-performing loans and advances	10.3	(217,003)	(66,384)
Provision for diminution in the value of investments		-	-
Bad debts written off directly	10.4	(24,746)	(37,171)
		(241,749)	(103,555)
Net mark-up / interest income after provisions		4,055,084	3,269,554
NON MARK UP / NON INTEREST INCOME			
Fee, commission and brokerage income	22	8,352,400	1,530,390
Dividend income		-	-
Other income	23	135,108	122,830
		8,487,508	1,653,220
Total non mark-up / non interest income		12,542,592	4,922,774
NON MARK UP / NON INTEREST EXPENSES			
Administrative expenses	24	(11,795,637)	(3,485,207)
Other provisions / write offs	25	(29,549)	(37,396)
Other charges	26	(29,962)	(30,886)
		(11,855,148)	(3,553,489)
Total non mark-up / non interest expenses		687,444	1,369,285
Extraordinary / unusual items		-	-
PROFIT BEFORE TAXATION		687,444	1,369,285
Taxation - current	27	(187,365)	(453,569)
- prior	27	(51,272)	(28,897)
- deferred	27	(32,051)	8,535
		(270,688)	(473,931)
PROFIT AFTER TAXATION		416,756	895,354
OTHER COMPREHENSIVE INCOME			
Items not to be reclassified to profit and loss account in subsequent periods - net of tax		(12,801)	23,434
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		403,955	918,788
Accumulated profit brought forward		1,943,880	1,260,896
Profit available for appropriation		2,347,835	2,179,684

Profit And Loss Account

for the year ended 31 December 2017

	2017	2016
Note	----- (Rupees in '000) -----	

APPROPRIATIONS:

Transfer to:

Statutory reserve	(83,351)	(179,071)
Capital reserve	-	-
Depositors' Protection Fund	(35,464)	(56,733)
Contribution to MSDF / DPF / RMF	-	-
Revenue reserve	-	-
Proposed cash dividend	-	-

ACCUMULATED PROFIT CARRIED FORWARD

Earnings per share - Basic and diluted

28	3.09	6.65
----	------	------

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

President &
Chief Executive Officer

Chairman

Director

Director

Statement of Comprehensive Income

for the year ended 31 December 2017

		2017	2016
	Note	----- (Rupees in '000) -----	
Profit after taxation		416,756	895,354
Other Comprehensive Income			
Items not to be reclassified to profit and loss account in subsequent periods			
Remeasurement (loss) / gain of defined benefit liability	32.3.4	(18,288)	33,478
Related tax impact	13.2	5,487	(10,044)
		(12,801)	23,434
Comprehensive income for the year transferred to equity		403,955	918,788
Component of comprehensive income for the year not transferred to equity			
Surplus / deficit on revaluation of 'available for sale' investments		881	(970)
Related tax impact	13.2	(265)	279
		616	(691)
Total comprehensive income for the year		404,571	918,097

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

President &
Chief Executive Officer

Chairman

Director

Director

Statement of Changes in Equity

for the year ended 31 December 2017

	Capital reserves					
	Share capital	Share premium	Statutory reserve	Depositor's Protection Fund	Accumulated profit	Total
	----- (Rupees in '000) -----					
Balance as at 1 January 2016	1,346,939	343,469	540,059	167,424	1,260,896	3,658,787
Total comprehensive income for the year						
Profit after tax for the year	-	-	-	-	895,354	895,354
Other comprehensive income - net of tax	-	-	-	-	23,434	23,434
	-	-	-	-	918,788	918,788
Transfer to statutory reserve	-	-	179,071	-	(179,071)	-
Transfer to Depositors' Protection Fund						
- 5% of the profit after tax	-	-	-	44,768	(44,768)	-
- return on investment - net of tax	-	-	-	11,965	(11,965)	-
	-	-	-	56,733	56,733	-
Balance as at 31 December 2016	1,346,939	343,469	719,130	224,157	1,943,880	4,577,575
Total comprehensive income for the year						
Profit after tax for the year	-	-	-	-	416,756	416,756
Other comprehensive income - net of tax	-	-	-	-	(12,801)	(12,801)
	-	-	-	-	403,955	403,955
Transfer to statutory reserve	-	-	83,351	-	(83,351)	-
Transfer to Depositors' Protection Fund						
- 5% of the profit after tax	-	-	-	20,838	(20,838)	-
- return on investment - net of tax	-	-	-	14,626	(14,626)	-
	-	-	-	35,464	(35,464)	-
Balance as at 31 December 2017	1,346,939	343,469	802,481	259,621	2,229,020	4,981,530

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

President &
Chief Executive Officer

Chairman

Director

Director

Cash Flow Statement

for the year ended 31 December 2017

		2017	2016
	Note	----- (Rupees in '000) -----	
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		687,444	1,369,285
Adjustments for non cash items			
Depreciation	24	403,792	181,436
Amortisation	24	24,224	26,389
Finance charges on leased assets	24	-	676
Provision against non-performing loans and advances	10.3	217,003	66,384
Bad debts written off directly	10.4	24,746	37,171
Provision for gratuity	24	228,898	40,324
Other provisions		29,549	37,396
Amortisation of discount on available for sale investments	20	(383,499)	(312,003)
Grant income	23	-	(21,471)
Gain on sale of operating fixed assets	23	(9,899)	(3,254)
		534,814	53,048
Decrease / (increase) in operating assets			
Lending to financial institutions		(3,044,844)	23,487
Advances		(9,168,154)	(3,813,175)
Other assets (excluding advance taxation)		(1,011,055)	(409,271)
		(13,224,053)	(4,198,959)
Increase in operating liabilities			
Deposits and other accounts		8,835,147	12,274,522
Other liabilities (excluding current taxation)		1,533,645	2,175,639
		10,368,792	14,450,161
Income tax paid		(270,656)	(504,996)
Payment against defined benefit plan		(207,070)	(39,043)
Net cash (used in) / inflows from operating activities		(2,110,729)	11,129,496
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in available-for-sale securities		(38,288,304)	(36,281,934)
Investments in operating fixed assets		(1,141,580)	(611,601)
Proceeds from redemption of available-for-sale securities		43,473,599	28,808,929
Sale proceeds from disposal of operating fixed assets		28,233	10,893
Net cash inflows from / (used in) investing activities		4,071,948	(8,073,713)
CASH FLOW FROM FINANCING ACTIVITIES			
Grant received		15,315	-
Borrowings from financial institutions		-	(85,474)
Payments of lease obligation		-	(974)
Net cash inflows from / (used in) financing activities		15,315	(86,448)
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of the year		5,675,863	2,706,528
Cash and cash equivalents at end of the year	29	7,652,397	5,675,863

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

President & Chief Executive
Officer

Chairman

Director

Director

Notes to the Financial Statements

for the year ended 31 December 2017

1. STATUS AND NATURE OF BUSINESS

Telenor Microfinance Bank Limited, (formerly Tameer Microfinance Bank Ltd.) (The Bank) was incorporated in Pakistan on 01 August 2005 as a public limited company under the Companies Ordinance, 1984. 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. The Bank is a subsidiary of Telenor Pakistan B.V. a joint stock company based in Amsterdam (the Holding Company) which owns 99.99% shareholding in the Bank as at 31 December 2017 (31 December 2016: 49%). The Bank's registered office is situated at 15-A, Block 7 & 8, KCHS Union, Karachi. The Bank's principal business is to provide Microfinance banking and related services to the poor and underserved 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 with Telenor Pakistan (Private) Limited (former holding company) under the Branchless Banking license from the SBP. As at 31 December 2017, the Bank has 85 branches (2016: 74) in operation across all provinces of Pakistan.

During the year, Telenor Pakistan B.V. a joint stock company based in Amsterdam acquired 50.99% shareholding of the Bank from Telenor Pakistan (Private) Limited. The credit rating companies PACRA and JCR-VIS maintained the long-term entity rating of the Bank at "A+" and short term rating at "A1" as of 28 April 2017.

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 SBP.

3. STATEMENT OF COMPLIANCE

- 3.1** These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, the provisions of and directives issued under the requirements of the Companies Ordinance, 1984, the Microfinance Institutions Ordinance, 2001, and the directives issued by the SECP and SBP. Wherever the requirements of the Companies Ordinance, 1984, the Microfinance Institutions Ordinance, 2001, and the directives issued by the SECP and SBP differ with the requirements of IFRSs, the requirements of the Companies Ordinance, 1984, the Microfinance Institutions Ordinance, 2001, or the requirements of the said directives shall prevail.
- 3.2** The Companies Ordinance, 1984 was repealed by enactment of the Companies Act, 2017 on 30 May 2017. The circular no. 23/2017 dated 04 October 2017 of SECP has clarified that all those companies whose financial year closes on or before 31 December 2017 can prepare financial statements in accordance with the repealed Companies Ordinance, 1984.
- 3.3** The SBP vide BSD Circular No. 10, dated 26 August 2002 has deferred the applicability of the International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement" and IAS 40, "Investment Property" for banking companies till further instructions. Further, the SECP vide its SRO 633 (I)/ 2014, dated 10 July 2014 has deferred the applicability of International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement", IAS 40, "Investment Property" and International Financial Reporting Standard (IFRS) 7, "Financial Instruments: Disclosures" for banking companies till further instructions. 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 prescribed by SBP through various circulars /regulations.

4. BASIS OF MEASUREMENT

4.1 Accounting convention

These financial statements have been prepared under historical cost convention except for available-for-sale investments which 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.

Notes to the Financial Statements

for the year ended 31 December 2017

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These have been consistently applied to all the years presented.

5.1 Standards, interpretations and amendments to published approved accounting standards that became effective in the current year

There are certain new and amended standards, interpretations and amendments that are mandatory for the Bank's accounting periods beginning on or after 1st January, 2017 but are considered not to be relevant or do not have any significant effect on the Bank's operations and therefore not detailed in these financial statements.

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

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 January, 2018:

- Classification and measurement of Share Based Payment transactions amendments to IFRS 2 – Share-based Payment clarify the accounting for certain types of arrangements and are effective for annual periods beginning on or after 01 January 2018. The amendments cover three accounting areas (a) measurement of cash-settled share-based payments; (b) classification of share-based payments settled net of tax withholdings; and (c) accounting for a modification of a share-based payment from cash-settled to equity-settled. The new requirements could affect the classification and/or measurement of these arrangements and potentially the timing and amount of expense recognized for new and outstanding awards. The amendments are not likely to have an impact on Bank's financial statements.
- Annual Improvements to IFRSs 2014-2016 Cycle [Amendments to IAS 28 'Investments in Associates and Joint Ventures'] (effective for annual periods beginning on or after 01 January 2018) clarifies that a venture capital organization and other similar entities may elect to measure investments in associates and joint ventures at fair value through profit or loss, for each associate or joint venture separately at the time of initial recognition of investment. Furthermore, similar election is available to non-investment entity that has an interest in an associate or joint venture that is an investment entity, when applying the equity method, to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture. The amendments are not likely to have an impact on Bank's financial statements.
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for annual periods beginning on or after 01 January 2018) clarifies which date should be used for translation when a foreign currency transaction involves payment or receipt in advance of the item it relates to. The related item is translated using the exchange rate on the date the advance foreign currency is received or paid and the prepayment or deferred income is recognized. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) would remain the date on which receipt of payment from advance consideration was recognized. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. The application of interpretation is not likely to have an impact on Bank's financial statements.
- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 01 January 2019) clarifies the accounting for income tax when there is uncertainty over income tax treatments under IAS 12. The interpretation requires the uncertainty over tax treatment be reflected in the measurement of current and deferred tax. The application of interpretation is not likely to have impact on Bank's financial statements.
- IFRS 15 'Revenue from contracts with customers' (effective for annual periods beginning on or after 01 July 2018). IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programmes'. The Bank is currently in the process of analyzing the potential impact of changes required in revenue recognition policies on adoption of the standard.

Notes to the Financial Statements

for the year ended 31 December 2017

- IFRS 9 'Financial Instruments' and amendment - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 01 July 2018 and 01 January 2019 respectively). IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Bank is currently awaiting instructions from SBP as applicability of IAS 39 was deferred by SBP till further instructions.
- Amendment to IAS 28 'Investments in Associates and Joint Ventures' - Long term interests in Associates and Joint Ventures (effective for annual periods beginning on or after 01 January 2019). An amendment to IAS 28 Investments in Associates and Joint Ventures will affect companies that finance such entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or 'LTI'). The amendment and accompanying example state that LTI are in the scope of both IFRS 9 and IAS 28 and explain the annual sequence in which both standards are to be applied. The amendment is not likely to have an impact on the Bank's financial statements.

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

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements the amendment aims to clarify the accounting treatment when a company increases its interest in a joint operation that meets the definition of a business. A company remeasures its previously held interest in a joint operation when it obtains control of the business. A company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- IAS 12 Income Taxes - the amendment clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transaction that generates the distributable profits.
- IAS 23 Borrowing Costs, the amendment clarifies that a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

The above amendments are not likely to have an impact on the Bank's financial statements.

In addition, the Companies Act, 2017 was enacted on 30 May 2017 and according to circular referred to in note 3.2, for financial statements purposes would be applicable to financial statements for periods after 01 January 2018. The Companies Act, 2017 would result in additional disclosures and certain changes in the financial statements presentation.

5.3 Cash and cash equivalents

These include cash in hand, balances with SBP and National Bank of Pakistan (NBP) and balances with other banks. These are carried at cost in the balance sheet.

5.4 Lendings to financial institutions

Lendings includes term lendings and unsecured lendings to financial institutions. These are stated net of provision, if any.

5.5 Investments

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

Investments (other than held-for-trading) are initially measured at fair value plus transaction costs associated with the investments. Held-for-trading investments are initially measured at fair value and transaction costs are expensed out in the profit and loss account.

Notes to the Financial Statements

for the year ended 31 December 2017

Purchase and sale of investments that require delivery within the time frame established by regulation or market convention are recognised at the trade date, which is the date the Bank commits to purchase or sell the investment.

Held-for-trading

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

Held-to-maturity

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

Available-for-sale

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

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

Provision for impairment in the value of equity securities is made after considering objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of these investments. A significant or prolonged decline in the value of security is also considered as an objective evidence of impairment. Provision for diminution in the value of debt securities is made as per the Prudential Regulations. In the event of impairment of available for sale securities, the cumulative loss that had been recognized directly in surplus on revaluation of securities on the balance sheet below equity is thereof removed and recognized in the profit and loss account.

5.6 Advances

Advances are stated net of specific and general provisions which are determined on the basis of the Prudential Regulations for Microfinance Banks issued by SBP. 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 60days.

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.

Notes to the Financial Statements

for the year ended 31 December 2017

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

In addition the Bank maintains a watch list of all accounts delinquent by 5 - 29 days. However, such accounts are not treated as non-performing for the purpose of classification / provisioning.

In accordance with the Regulations, the Bank maintains specific provision for potential loan losses for all non-performing advances as follows:

OAEM	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 for Microfinance Banks issued by SBP equivalent to 1% of the net outstanding balance (advances net of specific provisions) for potential loan losses.

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

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

5.7 Operating fixed assets

5.7.1 Property and equipment

a) Owned

These are stated at cost less accumulated depreciation and impairment (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. Full month's depreciation is charged in the month of addition and no depreciation is charged for the month in which the disposal is made. The residual value, depreciation methods and useful lives are reviewed and adjusted (if appropriate) at each balance sheet 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. All other repairs and maintenance are charged to the profit and loss account. 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.

b) Leased

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as assets subject to finance lease. These are stated at amounts equal to the lower of their fair value and the present value of minimum lease payments at inception of the lease, less accumulated depreciation and impairment (if any). Financial charges are allocated over the period of the lease term so as to provide a constant periodic rate of financial charge on the outstanding liability. Depreciation is charged on the basis similar to owned assets.

Notes to the Financial Statements

for the year ended 31 December 2017

5.7.2 Capital work-in-progress

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

5.7.3 Intangible assets

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, 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, useful life and amortisation method is reviewed and adjusted, if appropriate, at each balance sheet date.

5.8 Impairment

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

The Bank assesses at the end of each reporting period whether there is any indication that non-financial assets except deferred tax assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of the amount which would have been determined had there been no impairment. Reversal of impairment loss is recognized as income.

5.8.2 Financial assets

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

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

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

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

5.9 Financial instruments

5.9.1 Financial assets and financial liabilities

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

Notes to the Financial Statements

for the year ended 31 December 2017

5.9.2 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.

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

5.10 Derivative financial instruments

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

5.11 Sale of securities under repurchase obligation

Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the balance sheet and are measured in accordance with accounting policies for investments. Amounts received under these agreements are recorded as repurchase agreement borrowings. The difference between sale and repurchase price is amortised as expense over the term of the repo agreement.

5.12 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.

5.13 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.

5.14 Staff retirement benefits

Defined benefit plan

The Bank operates a funded gratuity scheme for its eligible permanent and contractual employees. Provision is made annually on the basis of actuarial recommendations based on projected unit credit method. Qualifying service period is five years. Remeasurement gain/loss is recognized in statement of comprehensive income in the year in which they arise.

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.

Notes to the Financial Statements

for the year ended 31 December 2017

5.15 Revenue recognition

- Mark-up / interest / return on advances and investments is recognised on accrual time proportion basis, except in the case of advances classified under the Prudential Regulations on which mark-up is recognised on receipt basis.
- Return on bank balances is recognised on accrual basis.
- Gain or loss on sale of securities is accounted for in the period in which the sale / settlement occurs.
- Fee, commission and brokerage income is recognised as services are rendered.
- Dividend income is recognised when the right to receive dividend is established.
- Other income is recognised on accrual basis when financial services are rendered.

5.16 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 equity, in which case it is recognised in equity.

Current

Provision for current taxation is based on the taxable income for the year determined in accordance with the Income Tax Ordinance, 2001. The charge for tax also includes adjustments, where considered necessary relating to prior years.

Deferred

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. A deferred tax asset is recognised only to the extent it is probable that future taxable profits will be available against which the asset can be realised. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefits will be realised. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the balance sheet date.

5.17 Foreign currency transactions

Foreign currency transactions are translated into Pak Rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into rupees at the exchange rates prevailing at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using exchange rates at the date when the fair value in a foreign currency are translated using exchange rates at the date when the fair value was determined. Exchange gains or losses are included in profit and loss account.

5.18 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 and approved by the appropriate authorities.

Notes to the Financial Statements

for the year ended 31 December 2017

5.19 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.

5.20 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.

5.21 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS, if any, is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. There were no dilutive potential ordinary shares in issue as at 31 December 2017.

5.22 Critical accounting estimates and judgments

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

i) Classification and provisioning of investments (notes 5.5 and 9)

Held-to-maturity securities

As described in note 5.5, 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. Impairment loss in respect of investments is recognized based on management's assessment.

Held-for-trading securities

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 and are to be sold within 90 days.

Available-for-sale securities

Investments which are not classified as held-for-trading or held-to-maturity are classified as available-for-sale. Impairment loss in respect of investments is recognized based on management's assessment.

Notes to the Financial Statements

for the year ended 31 December 2017

- ii) **Provision against advances (notes 5.6 and 10)**
 Apart from the provision determined on the basis of time based criteria given in the Prudential Regulations of the SBP, management also applies subjective criteria of classification and accordingly the classification of an advance may be downgraded on the basis of evaluation of the credit worthiness of the borrower, its cash flows, operations in its account and adequacy of security in order to ensure accurate measurement of the provision.
- iii) **Provision for current and deferred taxation (notes 5.16, 13 and 27)**
 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) **Provision for staff retirement benefits (notes 5.14, 15 and 24)**
 The key actuarial assumptions concerning the valuation of the defined benefit plan and the sources of estimation are disclosed in note 33.2 to these financial statements.
- v) **Fixed assets, depreciation and amortization (notes 5.7, 11 and 24)**
 In making estimates of the depreciation / amortization method, the management uses method which reflects the pattern in which economic benefits are expected to be consumed by the Bank.

6. CASH AND BALANCES WITH STATE BANK OF PAKISTAN (SBP) AND NATIONAL BANK OF PAKISTAN (NBP)

		2017	2016
	Note	----- (Rupees in '000) -----	
Cash in hand		1,508,998	840,750
Balance with SBP		1,882,288	2,218,914
Balance with NBP		106,347	57,262
	6.1	1,988,635	2,276,176
		3,497,633	3,116,926

- 6.1 This represents current accounts maintained with SBP and 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.

7. BALANCES WITH OTHER BANKS

In Pakistan			
- Current accounts		16,046	7,914
- PLS deposit accounts	7.1	1,738,718	1,351,023
- Term deposit accounts	7.2	2,400,000	1,200,000
		4,154,764	2,558,937

Notes to the Financial Statements

for the year ended 31 December 2017

7.1 This represents demand deposits with commercial banks carrying mark-up at rates ranging from 4.00% to 6.10% (2016: 4.00% to 6.10%) per annum.

7.2 These represents term deposits with commercial banks carrying mark-up at rates ranging from 6.25% to 6.50% (2016: 6.40% to 7.00%) per annum and having maturity in January 2018.

8. LENDING TO FINANCIAL INSTITUTIONS

Repurchase agreement lendings (reverse repo)
Call money lendings

	2017	2016
Note	----- (Rupees in '000) -----	
8.1	1,368,059	323,215
8.2	2,000,000	-
	3,368,059	323,215

8.1 This represents reverse repo transactions carrying mark-up at rates ranging from 5.85% to 5.86% (2016: 5.75%) per annum and having maturity in January 2018. As at 31 December 2017, the Bank held market treasury bills amounting to Rs. 1,375 million as collateral against the reverse repo transaction.

8.2 This represents call money transactions with commercial banks carrying mark-up at rates ranging from 5.85% to 5.90% (2016: Nil) per annum and having maturity in January 2018.

9. INVESTMENTS

Federal Government Securities - available-for-sale

Market Treasury Bills

Deficit on revaluation

9.1	6,768,610	11,570,409
17	(1,301)	(2,182)
	6,767,309	11,568,227

9.1 These carry interest rates ranging between 5.94% to 6.05% (2016: 5.75% to 5.99%) per annum and having maturity upto March 2018. These securities have an aggregate face value of Rs. 6,800 million (2016: Rs.11,625 million).

10. ADVANCES - NET OF PROVISIONS

Loan Type

Micro credit

- Secured
- Unsecured

Less: Provision held

- Specific
- General

		2017		2016	
		Number of loans outstanding	(Rupees in '000)	Number of loans outstanding	(Rupees in '000)
Note	----- (Rupees in '000) -----			----- (Rupees in '000) -----	
		104,377	7,030,686	95,665	6,014,188
		431,036	17,971,827	289,752	9,931,130
		535,413	25,002,513	385,417	15,945,318
		3,076	(61,759)	1,656	(10,868)
		-	(179,101)	-	(99,202)
			(240,860)		(110,070)
			24,761,653		15,835,248

Notes to the Financial Statements

for the year ended 31 December 2017

10.1 Particulars of non-performing advances

	2017				
	Amount outstanding			Provision required	Provision held
	Secured	Unsecured	Total		
	----- (Rupees in '000) -----				
Other Assets Especially Mentioned (OAEM)	53,156	47,516	100,672	-	-
Substandard	25,756	34,795	60,551	8,699	8,699
Doubtful	5,452	67,285	72,737	33,643	33,643
Loss	3,361	19,417	22,778	19,417	19,417
	<u>87,725</u>	<u>169,013</u>	<u>256,738</u>	<u>61,759</u>	<u>61,759</u>

	2016				
	Amount outstanding			Provision required	Provision held
	Secured	Unsecured	Total		
	----- (Rupees in '000) -----				
Other Assets Especially Mentioned (OAEM)	23,629	14,609	38,238	-	-
Substandard	17,979	7,367	25,346	1,842	1,842
Doubtful	11,223	12,268	23,491	6,134	6,134
Loss	5,807	2,892	8,699	2,892	2,892
	<u>58,638</u>	<u>37,136</u>	<u>95,774</u>	<u>10,868</u>	<u>10,868</u>

10.1.1 Advances include Rs.256.738 million (2016: Rs.95.774 million) which have been placed under non-performing status.

10.2 This represents general provision equivalent to 1% of the net outstanding unsecured advances (advances net of specific provisions) held in accordance with the requirements of the Prudential Regulations for Microfinance Banks.

10.3 Particulars of provision against non-performing advances

	Note	2017			2016		
		Specific	General	Total	Specific	General	Total
		(Rupees in '000)			(Rupees in '000)		
Opening balance		10,868	99,202	110,070	2,619	57,843	60,462
Charge for the year		172,951	79,899	252,850	41,487	41,359	82,846
Reversals		(35,847)	-	(35,847)	(16,462)	-	(16,462)
		137,104	79,899	217,003	25,025	41,359	66,384
Amount written off	10.4	(86,213)	-	(86,213)	(16,776)	-	(16,776)
Closing balance		<u>61,759</u>	<u>179,101</u>	<u>240,860</u>	<u>10,868</u>	<u>99,202</u>	<u>110,070</u>

Notes to the Financial Statements

for the year ended 31 December 2017

10.4 Particulars of write offs

	2017	2016
Note	----- (Rupees in '000) -----	
Against provisions	86,213	16,776
Directly charged to profit and loss account	24,746	37,171
	110,959	53,947

11. OPERATING FIXED ASSETS

Property and equipment	11.1	1,600,088	765,153
Intangible assets	11.2	69,645	28,287
Capital work-in-progress - advance against purchase of fixed assets	11.3	59,827	248,171
		1,729,560	1,041,611

11.1 Property and equipment

	2017											
	Cost					Depreciation					Book value	
	As at 1 January 2017	Additions / (disposals)	Transfers	Write offs	As at 31 December 2017	As at 1 January 2017	Charge / (reversals)	Transfers	Write offs	As at 31 December 2017	As at 31 December 2017	Rate of depreciation per annum
	----- (Rupees in '000) -----											(%)
Owned												
Leasehold improvement	227,364	32,116 (11)	-	(5,476)	253,993	72,862	23,462 (3)	-	(507)	95,814	158,179	10
Office furniture and fixtures	234,772	50,386 (189)	-	(1,428)	283,541	95,380	24,688 (44)	-	(117)	119,907	163,634	10
Office equipment	375,875	140,043 (79)	-	(1,247)	514,592	198,770	68,730 (60)	-	(245)	267,195	247,397	20
Computer equipment	379,964	976,920 (585)	-	-	1,356,299	284,389	215,892 (515)	-	-	499,766	856,533	33
Vehicles	284,693	64,877 (46,109)	7,343	-	310,804	87,146	71,020 (28,018)	6,311	-	136,459	174,345	20 - 25
	1,502,668	1,264,342 (46,973)	7,343	(8,151)	2,719,229	738,547	403,792 (28,640)	6,311	(869)	1,119,141	1,600,088	
Leased												
Vehicles	7,343	- (7,343)	-	-	-	6,311	- (6,311)	-	-	-	-	20
	1,510,011	1,264,342 (46,973)	-	(8,151)	2,719,229	744,858	403,792 (28,640)	-	(869)	1,119,141	1,600,088	

Notes to the Financial Statements

for the year ended 31 December 2017

	2016											
	Cost					Depreciation					Book value	
	As at 1 January 2017	Additions / (disposals)	Transfers	Write offs	As at 31 December 2016	As at 1 January 2016	Charge / (reversals)	Transfers	Write offs	As at 31 December 2016	As at 31 December 2016	Rate of depreciation per annum
	(Rupees in '000)											(%)
Owned												
Leasehold improvement	179,592	47,772	-	-	227,364	53,063	19,799	-	-	72,862	154,502	10
Office furniture and fixtures	197,450	37,322	-	-	234,772	75,232	20,148	-	-	95,380	139,392	10
Office equipment	280,192	95,683	-	-	375,875	147,692	51,078	-	-	198,770	177,105	20
Computer equipment	304,175	76,720	-	-	379,964	231,560	53,599	-	-	284,389	95,575	33
Vehicles	191,610	131,671	1,422	-	284,693	83,321	35,504	853	-	87,146	197,547	20-25
		(931)					(770)					
		(40,010)					(32,532)					
	1,153,019	389,168	1,422	-	1,502,668	590,868	180,128	853	-	738,547	764,121	
		(27,389)					(33,302)					
Leased												
Vehicles	8,765	-	(1,422)	-	7,343	5,856	1,308	(853)	-	6,311	1,032	20
	1,161,784	389,168	-	-	1,510,011	596,724	181,436	-	-	744,858	765,153	
		(27,389)					(14,832)					

11.1.1 Property and equipment include assets costing Rs.427.670 million (2016: Rs.384.206 million) which are fully depreciated and still in use.

11.1.2 Deletions of fixed assets during the year with original cost or book value in excess of Rs.1,000,000 or Rs.250,000 respectively (whichever is less) are as follows:

Vehicles Owned	Note	Cost	Accumulated depreciation	Written down value	Sale proceeds	Gain / (loss)	Mode of disposal	Particulars of buyers
(Rupees in '000)								
Suzuki Cultus		1,014	827	187	187	-	Bank's Policy	Employee
Honda City		1,685	1,061	624	624	-	Bank's Policy	Ex - employee
Honda City		1,851	528	1,323	1,323	-	Bank's Policy	Ex - employee
Suzuki Cultus		1,074	429	645	645	-	Bank's Policy	Employee
Toyota Corolla		1,763	1,322	441	441	-	Bank's Policy	Employee
Suzuki Cultus		1,074	465	609	609	-	Bank's Policy	Employee
Toyota Corolla		1,743	1,483	260	260	-	Bank's Policy	Employee
Honda City		1,671	1,531	140	140	-	Bank's Policy	Ex - employee

Notes to the Financial Statements

for the year ended 31 December 2017

Vehicles Owned	Note	Cost	Accumulated depreciation	Written down value	Sale proceeds	Gain / (loss)	Mode of disposal	Particulars of buyers
(Rupees in '000)								
Honda City		1,670	1,503	167	167	-	Bank's Policy	Ex - employee
Suzuki Cultus		1,043	921	122	122	-	Bank's Policy	Employee
Suzuki Cultus		1,049	804	245	245	-	Bank's Policy	Employee
Suzuki Bolan		710	426	284	566	282	Auction	Waseem Shoukat
Suzuki Bolan		746	93	653	465	(188)	Auction	Qurban Ali
Suzuki Mehran		714	297	417	589	172	Auction	Abid Ansar
Suzuki Bolan		710	453	257	583	326	Auction	Khawar Butt
Suzuki Bolan		710	453	257	558	301	Auction	Muhammad Mohsin Mumtaz
Suzuki Bolan		720	414	306	624	318	Auction	Adnan Naseer Ahmed
Suzuki Bolan		715	402	313	530	217	Auction	Abid Ansar
Suzuki Bolan		753	404	349	624	275	Auction	Muhammad Mohsin Mumtaz
Suzuki Bolan		753	404	349	619	270	Auction	Muhammad Mohsin Mumtaz
Suzuki Bolan		753	404	349	556	207	Auction	Muhammad Sohail Iqbal
Suzuki Bolan		716	260	456	656	200	Auction	Abid Ansar
Suzuki Bolan		716	260	456	663	207	Auction	Muhammad Mohsin Mumtaz
Suzuki Bolan		726	263	463	641	178	Auction	Muhammad Mohsin Mumtaz
Suzuki Bolan		716	224	492	663	171	Auction	Muhammad Mohsin Mumtaz
Suzuki Bolan		726	218	508	641	133	Auction	Muhammad Mohsin Mumtaz
Suzuki Bolan		726	209	517	641	124	Auction	Muhammad Mohsin Mumtaz
Suzuki Bolan		726	209	517	685	168	Auction	Muhammad Mohsin Mumtaz
Suzuki Bolan		726	191	535	685	150	Auction	Muhammad Mohsin Mumtaz
Suzuki Bolan		726	191	535	680	145	Auction	Muhammad Mohsin Mumtaz
Suzuki Bolan		726	191	535	670	135	Auction	Muhammad Mohsin Mumtaz
Suzuki Bolan		739	111	628	694	66	Auction	Muhammad Mohsin Mumtaz
Suzuki Bolan		746	112	634	674	40	Auction	Muhammad Mohsin Mumtaz
Suzuki Bolan		767	115	652	630	(22)	Auction	Muhammad Mohsin Mumtaz
Suzuki Bolan		746	112	634	682	48	Auction	Muhammad Waqas Ahmed
2017		33,149	17,290	15,859	19,782	3,923		

2016	33,871	28,379	5,492	6,020	528
------	--------	--------	-------	-------	-----

Vehicles Leased	Note	Cost	Accumulated depreciation	Written down value	Sale proceeds	Gain / (loss)	Mode of disposal	Particulars of buyers
(Rupees in '000)								
Honda City		1,560	1,357	203	203	-	Bank's Policy	Ex - employee
2017	11.1.2.1	1,560	1,357	203	203	-		
2016		1,422	854	568	1,160	592		

11.1.2.1 The ownership of these assets were transferred to the Bank before disposal.

Notes to the Financial Statements

for the year ended 31 December 2017

11.2 Intangible assets

	2017							
	Cost			Amortization			Book value	
	As at 1 January 2017	Additions	As at 31 December 2017	As at 1 January 2017	Charge for the year	As at 31 December 2017	As at 31 December 2017	Rate of Amortization per annum (%)
	(Rupees in '000)							(%)
Computer software	141,431	65,582	207,013	113,144	24,224	137,368	69,645	33

	2016							
	Cost			Amortization			Book value	
	As at 1 January 2016	Additions	As at 31 December 2016	As at 1 January 2016	Charge for the year	As at 31 December 2016	As at 31 December 2016	Rate of Amortization per annum (%)
	(Rupees in '000)							(%)
Computer software	114,803	26,628	141,431	86,755	26,389	113,144	28,287	33

11.3 CAPITAL WORK-IN-PROGRESS

	Note	2017	2016
		(Rupees in '000)	
Civil works		23,204	5,374
Equipments		9,487	127,957
Advance to suppliers		4,057	114,840
Liscences / intangibles		23,079	-
		59,827	248,171

12. OTHER ASSETS

Mark-up / return / interest accrued		1,203,070	830,480
Receivable from branchless banking agents	12.1	534,900	-
Loans to employees	12.2	298,762	142,395
Security deposits		38,610	47,792
Prepayments - rent		101,627	106,007
- others		8,488	7,707
Receivable from defined benefit plan	32.4	-	16,705
Branchless banking transaction fee receivable		364,461	368,211
Advance tax - net	12.3	64,372	32,353
Receivable from SBP against livestock insurance		44,571	88,421
Receivable from SBP against international remittances		7,007	21,939
Others		242,585	220,073
		2,908,453	1,882,083
Less: Provision held against other assets	25	(59,663)	(37,396)
Other assets		2,848,790	1,844,687

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 during weekends and holidays.

Notes to the Financial Statements

for the year ended 31 December 2017

12.2 These represent interest free loans to staff and executives of the Bank for a maximum period of 60 months. These are secured against the retirement benefits of employees and / or mortgaged assets.

12.3 Movement in Advance tax – net

Balance as at 1 January

Tax paid

Provision for taxation

Balance as at 31 December

2017	2016
----- (Rupees in '000) -----	
32,353	9,823
270,656	504,996
(238,637)	(482,466)
64,372	32,353

13. DEFERRED TAX ASSET / (LIABILITY) – NET

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

Deductible temporary differences

- Provision against non-performing advances
- Deficit on revaluation of assets
- Remeasurment of defined benefit liability
- Other provisions / write-off

72,258	33,021
390	655
11,467	5,980
17,899	11,219
102,014	50,875
(114,048)	(36,080)
(12,034)	14,795

Taxable temporary differences

- Accelerated tax depreciation allowance

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

Balance as at 1 January 2016	Recognised in profit and loss account	Recognised in other comprehensive income	Deficit on revaluation of assets	Balance as at 31 December 2016	Recognised in profit and loss account	Recognised in other comprehensive income	Deficit on revaluation of assets	Balance as at 31 December 2017
------------------------------	---------------------------------------	--	----------------------------------	--------------------------------	---------------------------------------	--	----------------------------------	--------------------------------

----- (Rupees in '000) -----

Deductible temporary differences arising in respect of:

- Provision against non-performing advances
- Deficit on revaluation of assets
- Remeasurment of defined benefit liability
- Other provisions / write off

18,743	14,278	-	-	33,021	39,237	-	-	72,258
376	-	-	279	655	-	-	(265)	390
16,024	-	(10,044)	-	5,980	-	5,487	-	11,467
-	11,219	-	-	11,219	6,680	-	-	17,899
35,143	25,497	(10,044)	279	50,875	45,917	5,487	(265)	102,014

Notes to the Financial Statements

for the year ended 31 December 2017

	Balance as at 1 January 2016	Recognised in profit and loss account	Recognised in other comprehensive income	Deficit on revaluation of assets	Balance as at 31 December 2016	Recognised in profit and loss account	Recognised in other comprehensive income	Deficit on revaluation of assets	Balance as at 31 December 2017
	(Rupees in '000)								
Taxable temporary differences arising in respect of:									
- Accelerated tax									
depreciation allowance	(19,118)	(16,962)	-	-	(36,080)	(77,968)	-	-	(114,048)
	16,025	8,535	(10,044)	279	14,795	(32,051)	5,487	(265)	(12,034)

14. DEPOSITS AND OTHER ACCOUNTS

	2017		2016	
	Number	(Rupees in '000)	Number	(Rupees in '000)
Current deposits	7,929,932	14,366,579	8,375,724	12,536,029
Fixed deposits	10,039	18,125,078	14,006	13,191,822
Saving deposits	182,524	4,173,270	183,563	2,101,929
	8,122,495	36,664,927	8,573,293	27,829,780

14.1 Particulars of deposits by ownership

	2017		2016	
	Number	(Rupees in '000)	Number	(Rupees in '000)
Individual depositors	8,121,511	24,529,096	8,572,502	20,815,055
Institutional depositors				
- Corporations / firms etc.	863	5,838,150	685	4,393,006
- Banks / financial institutions	121	6,297,681	106	2,621,719
	8,122,495	36,664,927	8,573,293	27,829,780

15 OTHER LIABILITIES

	Note	2017	2016
		(Rupees in '000)	
Mark-up / return / interest payable		286,931	318,966
Accrued expenses	15.1	1,096,396	408,182
Payable against service level agreement	22.1	497,252	-
Commission payable - branchless banking	22.1 & 24.1	118,845	-
Provision for staff bonus		246,530	127,000
Withholding tax payable		63,396	12,298

Notes to the Financial Statements

for the year ended 31 December 2017

		2017	2016
	Note	----- (Rupees in '000) -----	
Payable to defined contribution plan		12,661	14,191
Payable to defined benefit plan	32.4	23,411	-
Payable to Workers' Welfare Fund	15.2	102,453	87,652
Bills payable		289,211	816,392
ATM settlement account		887,357	692,796
Payable against branchless banking transactions	15.3	1,632,897	1,345,052
Others		187,672	65,428
		5,445,012	3,887,957

15.1 This includes payable against selling and marketing expenses related to branchless banking business amounting to Rs. 231 million (2016: Nil), maintenance of branchless banking software amounting to Rs. 145 million (2016: Nil), rent to Telenor Pakistan (Private) Limited amounting to Rs. 123 million (2016: Nil) and outsourcing of call center amounting to Rs. 63 million (2016: Nil).

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.

A legal advice has been obtained by the Pakistan Banks Association which highlights that consequent to filing of these review petitions, a risk has arisen and the judgment is not conclusive or final till the review petitions are decided. Accordingly, the Bank has continued to maintain full provision in respect of WWF from the date of its levy till 31 December 2017. No allocation between the Federal Government levy and Sindh WWF has been made to date.

15.3 This includes Rs. 360.821 million (2016: Rs. 247.186 million) outstanding since more than one year in respect of 'over the counter' transactions.

16. SHARE CAPITAL

16.1 Authorised share capital

2017	2016
(Number of shares in '000)	
270,000	270,000

Ordinary shares of Rs.10 each

	2017	2016
Note	----- (Rupees in '000) -----	
	2,700,000	2,700,000

Notes to the Financial Statements

for the year ended 31 December 2017

16.2 Issued, subscribed and paid-up share capital

2017	2016
(Number of shares in '000)	
134,694	134,694

Ordinary shares of Rs.10 each fully paid in cash

Note	2017	2016
	----- (Rupees in '000) -----	
	1,346,939	1,346,939

17. DEFICIT ON REVALUATION OF ASSETS - NET OF DEFERRED TAX

Available-for-sale investments

Federal Government Securities
Related deferred tax effect

	(1,301)	(2,182)
13	390	390
	(911)	(1,527)

18. DEFERRED GRANTS

Grant received from

State Bank of Pakistan
Consultative Group to Assist the Poor
Soros Economic Development Fund
The Aga Khan Agency for Microfinance
Financial Sector Strengthening Programme
Frankfurt School of Management
Gates Foundation
GSMA Mobile for Development Foundation Inc (GSMA Foundation)
Karandaaz Pakistan

18.1	1,426	7,060
18.2	3,347	3,355
18.3	149	149
18.4	64	64
18.5	219	219
18.6	2,451	2,451
18.7	-	15,829
18.8	2,205	2,205
18.9	15,315	-
	25,176	31,332

Grant income recognised during the year

State Bank of Pakistan
Consultative Group to Assist the Poor
Gates Foundation

	-	(5,634)
	-	(8)
	-	(15,829)
23	-	(21,471)
	25,176	9,861

18.1 Represents USD grant received from 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.

Notes to the Financial Statements

for the year ended 31 December 2017

- 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 USD grant received from Bill and Malinda Gates Foundation to provide financial support to establish branchless banking operations.
- 18.8** Represents GBP grant received from GSMA Foundation for implementing Solar financing project.
- 18.9** Represents PKR grant received from Karandaaz Pakistan to incentivize the development and commercialization of a product for enabling the beneficiaries to send remittances to Pakistan.

19. MEMORANDUM / OFF BALANCE SHEET ITEMS

Bills for collection
Acceptances, endorsements and other obligations
Contingent liabilities

	2017	2016
Note	----- (Rupees in '000) -----	
	-	-
	-	-
	-	-
	-	-

20. MARK-UP / RETURN / INTEREST EARNED

On:

Advances
Available-for-sale investments in government securities
Deposits with financial institutions / banks

Call money lendings
Repurchase agreement lendings

	5,490,216	3,970,237
	383,499	312,003
	95,176	107,424
	41,057	43,589
	53,939	53,351
	6,063,887	4,486,604

21. MARK-UP / RETURN / INTEREST EXPENSED

On:

Deposits
Borrowings

	1,766,997	1,108,768
	57	4,727
	1,767,054	1,113,495

Notes to the Financial Statements

for the year ended 31 December 2017

22. FEE, COMMISSION AND BROKERAGE INCOME

		2017	2016
	Note	----- (Rupees in '000) -----	
Loan processing fee		524,730	395,822
Income from branchless banking	22.1	7,775,397	1,092,721
Others		52,273	41,847
		8,352,400	1,530,390

22.1 The Bank and Telenor Pakistan (Private) Limited (related party) mutually consented to terminate the revenue sharing agreement related to 'easy paisa' branchless banking business and transfer complete branchless banking setup to the Bank. Accordingly, from 01 January 2017, the revenue and expenses related to branchless banking business are recorded by the Bank and a service level agreement has been entered into between the Bank and Telenor Pakistan (Private) Limited as per which professional consultancy charges are to be paid by the Bank to Telenor Pakistan (Private) Limited. Previously, 14% share was recorded by the Bank under the above mentioned revenue sharing agreement.

23. OTHER INCOME

		2017	2016
	Note	----- (Rupees in '000) -----	
Grant income		-	21,471
Cheque book fees, ATM fees and other service charges		72,686	64,869
Recoveries against advances written off		52,523	33,236
Gain on sale of operating fixed assets		9,899	3,254
		135,108	122,830

24. ADMINISTRATIVE EXPENSES

Salaries and other allowances		2,685,374	1,670,412
Contribution to defined contribution plan		116,690	65,522
Charge for defined benefit plan	32.3.3	228,898	40,324
Staff welfare		59,363	44,227
Training and capacity building		5,289	7,822
Rent and taxes		277,674	169,437
Legal and professional charges		47,938	18,934
Utilities		61,904	52,377
Communication		79,929	70,462
Finance charges on leased assets		-	676
Travelling and conveyance		139,488	82,871
Insurance		218,180	134,397
Printing and stationery		83,713	66,616
Repairs and maintenance		313,679	146,463
Auditors' remuneration	24.2	3,678	3,794
Depreciation	11.1	403,792	181,436

Notes to the Financial Statements

for the year ended 31 December 2017

		2017	2016
	Note	----- (Rupees in '000) -----	
Amortisation	11.2	24,224	26,389
Advertisement		576,450	19,539
Security services		176,911	89,030
Customer verification charges		318,616	152,982
Professional consultancy charges	22.1	545,233	30,481
Bank charges		146,498	130,784
Deposit mobilization commission		-	122,579
Other expenses		112,868	157,653
Commission - Branchless Banking	22.1 & 24.1	5,169,248	-
		11,795,637	3,485,207

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

24.2 Auditors' remuneration

Audit fee	1,600	1,380
Half yearly review fee	652	552
Special certifications	565	1,050
Out-of-pocket expenses	636	577
	3,453	3,559
Sales tax	225	235
	3,678	3,794

25. OTHER PROVISIONS / WRITE OFFS

This represent provision recorded during the year against receivable with respect to cash management services provided by the Bank and write offs with respect to operating fixed assets.

26. OTHER CHARGES

		2017	2016
	Note	----- (Rupees in '000) -----	
Workers' Welfare Fund		16,339	27,944
Penalty imposed by SBP		13,623	2,942
		29,962	30,886

27. TAXATION

Current			
- for the year		187,365	453,569
- for prior years	27.3	51,272	28,897
Deferred	13.2	32,051	(8,535)
		270,688	473,931

Notes to the Financial Statements

for the year ended 31 December 2017

27.1 Relationship between tax expense and accounting profit

	2017	2016
Note	----- (Rupees in '000) -----	
Profit before taxation	687,444	1,369,285
Tax at the rate of 30% (2016: 31%)	206,233	424,478
Tax effects of:		
Change in rate	-	284
Prior year tax	51,272	28,897
Permanent differences	10,878	2,919
Non deductible expenses	4,902	16,944
Others	(2,597)	409
	270,688	473,931

27.2 The Bank has filed returns upto tax year 2017 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.

27.3 This includes super tax under section 4B of the Income Tax Ordinance, 2001 imposed as per Finance Act 2017 at the rate of 3% of income for tax year 2017 for rehabilitation of displaced persons.

28. BASIC AND DILUTED EARNINGS PER SHARE - BASIC AND DILUTED

Profit after taxation for the year (Rupees in '000)	416,756	895,354
Weighted average ordinary shares (Numbers in '000)	134,694	134,694
Earnings per share - Basic and Diluted (Rupees)	3.09	6.65

29. CASH AND CASH EQUIVALENTS

Cash and balances with SBP and NBP	6	3,497,633	3,116,926
Balances with other banks	7	4,154,764	2,558,937
		7,652,397	5,675,863

30. NUMBER OF EMPLOYEES

	2017			2016		
	Credit / sales staff	Banking / support staff	Total	Credit/ sales staff	Banking / support staff	Total
	----- (Numbers) -----			----- (Numbers) -----		
Permanent	1,318	2,102	3,420	1,369	2,104	3,473
	1,318	2,102	3,420	1,369	2,104	3,473

Notes to the Financial Statements

for the year ended 31 December 2017

31. NUMBER OF BRANCHES

As at 01 January
Opened during the year

2017	2016
----- (Numbers) -----	
74	66
11	8
85	74

32. DEFINED BENEFIT PLAN

32.1 General description

As disclosed in note 5.14, 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. The benefit is equal to one month's last drawn gross salary for each year of eligible service or part thereof, subject to a minimum of five years of service.

32.2 Principal actuarial assumptions

The latest actuarial valuation of the gratuity scheme was carried out as at 31 December, 2017. Following are the significant assumptions used in the valuation:

- Discount rate
- Salary increase rate
- Expected rate of return on plan assets
- Mortality rates assumed

2017	2016
----- (% per annum) -----	
9.50	7.25
7.50	7.25
9.50	7.25
SLIC 2001-05	SLIC 2001-05

32.3 Amount Recognized in the balance sheet

Present value of defined benefit obligations
Fair value of plan assets

2017	2016
----- (Rupees in '000) -----	
531,626	220,865
(508,215)	(237,570)
23,411	(16,705)

32.3.1 Movement in present value of defined benefit obligations

Balance as at 1 January
Current service cost
Interest cost
Employee transferred from Telenor Pakistan (Private) Limited
Benefits paid by the plan
Remeasurement (gain) / loss on obligations
Past Service Cost - due to change in benefit structure
Balance as at 31 December

220,865	226,496
65,393	40,686
14,094	18,318
86,898	-
(52,923)	(45,935)
26,789	(18,700)
170,510	-
531,626	220,865

Notes to the Financial Statements

for the year ended 31 December 2017

32.3.2 Movement in fair value of plan assets

	2017	2016
	----- (Rupees in '000) -----	
Balance as at 1 January	237,570	211,004
Contributions to the fund	207,070	39,043
Receivable from Telenor Pakistan (Private) Limited - Gratuity Fund	86,898	-
Benefits paid by the plan	(52,923)	(45,935)
Expected return on plan assets	21,099	18,680
Remeasurement gain / (loss) on plan assets	8,501	14,778
Balance as at 31 December	508,215	237,570

32.3.3 Amount recognised in the Profit and loss account

Current service cost	65,393	40,686
Past service cost	170,510	-
Net Interest	(7,005)	(362)
	228,898	40,324

32.3.4 Remeasurements recognized in other comprehensive income (OCI)

Remeasurement loss / (gain) on obligation	26,789	(18,700)
Remeasurement of fair value of plan assets	(8,501)	(14,778)
Remeasurement loss / (gain) for the year - net	18,288	(33,478)

32.3.4.1 Remeasurement loss / (gain) on obligation

Loss / (gain) due to change in experience adjustments	26,789	(18,700)
---	--------	----------

32.3.4.2 Remeasurement gain on plan assets

Actual net return on plan assets	-	33,458
Less: Interest income on plan assets	8,501	(18,680)
	8,501	14,778

32.4 Movement in defined benefit plan

Balance as at 1 January	(16,705)	15,492
Expense charged in the current year	228,898	40,324
Remeasurements recognized in OCI during the year	18,288	(33,478)
Contributions to gratuity fund	(207,070)	(39,043)
Balance as at 31 December	23,411	(16,705)

Notes to the Financial Statements

for the year ended 31 December 2017

32.5 Plan assets consist of

TDR
Bank balances
Receivable from Telenor Pakistan (Private) Limited - Gratuity Fund

2017	2016
----- (Rupees in '000) -----	
420,120	235,529
1,197	2,041
86,898	-
508,215	237,570

32.6 Maturity profile of defined benefit obligation

Weighted average duration of the present value of defined benefit obligation

10.06	10.32
-------	-------

Distribution of timing of benefit payments

Years

1

2

3

4

5

6 - 10

11+

Benefit Payments	
2017	2016
----- (Rupees in '000) -----	
83,917	34,741
46,650	18,466
42,098	15,538
41,484	13,426
33,966	13,561
165,825	62,832
1,370,101	439,676

32.7 Sensitivity analysis on significant actuarial assumptions: Defined benefit liability

Base
Discount rate +1%
Discount rate -1%
Future salary increases +1%
Future salary increases -1%

531,626	220,862
487,744	200,181
583,694	245,766
581,792	245,514
488,629	200,003

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 2018 would be Rs.127.102 million.

33. DEFINED CONTRIBUTION PLAN

33.1 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.

Notes to the Financial Statements

for the year ended 31 December 2017

33.2 Disclosures relating to Provident Fund

	2017 (Unaudited)	2016 (Unaudited)
	----- (Rupees in '000) -----	
Size of the fund	448,734	286,427
Cost of investments made	404,000	255,606
Percentage of investments made	90%	89%
Fair value of investments	434,223	277,156
Break-up of investments		
TDR's	431,402	272,550
Bank balances	2,821	4,606
	434,223	277,156

The figures for 2017 and 2016 are based on the un-audited financial statements of the Provident Fund. Investments out of Provident Fund have been made in accordance with the provisions of section 227 of the Ordinance and the rules formulated for this purpose.

34. REMUNERATION OF DIRECTORS AND EXECUTIVES

	2017			2016		
	President /Chief Executive	Directors	Executives	President / Chief Executive	Directors	Executives
	----- (Rupees in '000) -----			----- (Rupees in '000) -----		
Fees	-	650	-	-	1,000	-
Managerial remuneration	34,994	-	480,829	32,448	-	208,614
Charge for defined benefit plan	3,047	-	56,737	2,369	-	17,211
Contribution to defined contribution plan	2,145	-	47,409	3,143	-	20,924
Rent and house maintenance	14,918	-	134,536	11,407	-	60,261
Utilities	1,008	-	48,083	2,717	-	20,042
Medical	1,008	-	44,665	1,303	-	33,427
Conveyance	-	-	39,481	-	-	6,649
Others	8,062	-	40,025	615	-	2,353
Membership fee	-	-	4,500	88	-	1,725
	65,182	650	896,265	54,090	1,000	371,206
Number of persons	2*	7	320	2*	8	159

* Includes remuneration of Ex-Chief Executive of the Bank.

34.1 In addition to the above, the Chief Executive and certain executives are provided with use of Company maintained car.

Notes to the Financial Statements

for the year ended 31 December 2017

34.2 Executive means employees other than President / Chief Executive & Directors whose basic salary exceeds Rs. 500,000 in a financial year.

35. RELATED PARTY TRANSACTIONS

Related parties of the Bank comprise of the Holding Company, associates (including entities having directors in common with the Bank), retirement benefit funds, major share holders, directors and key management personnel and their close family members. Contribution to the accounts 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 carried out as per agreed terms.

Transactions with related parties, other than those which have been specifically disclosed elsewhere in the financial statements, are summarised as follows:

	2017					2016				
	Holding company	Telenor Pakistan (Private) Limited (holding company)	Directors and key management personnel	Others	Total	Holding company	Telenor Pakistan (Private) Limited (holding company)	Directors and key management personnel	Others	Total
Advances										
At 1 January	-	-	5,611	-	5,611	-	-	47,787	-	47,787
Given during the year	-	-	44,859	-	44,859	-	-	7,847	-	7,847
Repaid during the year	-	-	(9,635)	-	(9,635)	-	-	(50,023)	-	(50,023)
At 31 December	-	-	40,835	-	40,835	-	-	5,611	-	5,611
Deposits										
At 1 January	-	57,977	17,445	469,550	544,972	-	282,853	10,614	407,440	700,907
Received during the year	-	21,973,348	49,609	1,116,080	23,139,037	-	58,144,895	134,762	735,112	59,014,769
Withdrawn during the year	-	(21,981,326)	(52,147)	(788,390)	(22,821,863)	-	(58,369,771)	(127,931)	(673,002)	(59,170,704)
At 31 December	-	49,999	14,907	797,240	862,146	-	57,977	17,445	469,550	544,972
Mark-up expense	-	-	648	74,705	75,353	-	-	476	56,201	56,677
Communication expenses	-	5,286	-	-	5,286	-	811	-	-	811
Sale of vehicles	-	-	4,963	-	4,963	-	-	3,665	-	3,665
Payable against branchless banking transactions	-	302,249	-	211	302,460	-	340,558	-	-	340,558
Mark-up payable	-	-	37	53,741	53,778	-	-	23	40,272	40,295
Rent and taxes	-	122,973	-	-	122,973	-	-	-	-	-
Professional consultancy charges	-	498,250	-	-	498,250	-	-	-	-	-
Repair and maintenance	-	97,357	-	11,957	109,314	-	-	-	-	-
Security services	-	2,604	-	-	2,604	-	-	-	-	-
Advertisement	-	24,389	-	22,637	47,026	-	-	-	-	-

Notes to the Financial Statements

for the year ended 31 December 2017

	2017					2016				
	Holding company	Telenor Pakistan (Private) Limited (holding company)	Directors and key management personnel	Others	Total	Holding company	Telenor Pakistan (Private) Limited (holding company)	Directors and key management personnel	Others	Total
Insurance	-	5,041	-	-	5,041	-	-	-	-	-
Travelling and conveyance	-	8,818	-	-	8,818	-	-	-	-	-
Miscellaneous payable	-	865,964	-	42,027	907,991	-	105,995	-	42,214	148,209
Deposit mobilization fee	-	-	-	-	-	-	122,579	-	-	122,579
Other receivable	3,215	58,487	-	-	61,702	-	58,287	-	-	58,287
Payable to defined contribution plan	-	-	-	12,661	12,661	-	-	-	14,191	14,191
Receivable from defined benefit plan	-	-	-	-	-	-	-	-	16,705	16,705
Payable from defined benefit plan	-	-	-	23,411	23,411	-	-	-	-	-

36. SCHEDULE OF MATURITY DISTRIBUTION OF MARKET RATE ASSETS AND LIABILITIES

	2017				
	Total	Upto one Month	Over one month upto six months	Over six months upto one year	Over one year
----- (Rupees in '000) -----					
Market rate assets					
Advances	24,761,653	1,077,921	5,904,353	11,234,086	6,545,293
Investments	6,767,309	2,845,817	3,921,492	-	-
Lending to financial institutions	3,368,059	3,368,059	-	-	-
Balances with other banks - deposit accounts	4,138,718	4,138,718	-	-	-
	39,035,739	11,430,515	9,825,845	11,234,086	6,545,293
Other non-earning assets					
Cash and balances with SBP and NBP	3,497,633	3,497,633	-	-	-
Balances with other banks - current accounts	16,046	16,046	-	-	-
Operating fixed assets	1,729,560	-	-	-	1,729,560
Other assets	2,848,790	731,495	1,175,680	532,374	409,241
Deferred tax asset - net	-	-	-	-	-
	8,092,029	4,245,174	1,175,680	532,374	2,138,801
Total assets	47,127,768	15,675,689	11,001,525	11,766,460	8,684,094

Notes to the Financial Statements

for the year ended 31 December 2017

2017				
Total	Upto one Month	Over one month upto six months	Over six months upto one year	Over one year

----- (Rupees in '000) -----

Market rate liabilities

Large time deposits above Rs. 100,000	17,912,704	1,253,111	7,957,350	3,285,566	5,416,677
All other time deposits (including fixed rate deposits)	212,374	10,935	52,118	29,657	119,664
Other cost bearing deposits	4,173,270	4,173,270	-	-	-
	22,298,348	5,437,316	8,009,468	3,315,223	5,536,341

Other non-cost bearing liabilities

Current deposits	14,366,579	14,366,579	-	-	-
Other liabilities	5,445,012	3,221,144	2,059,393	133,945	30,530
Deferred tax liabilities-net	12,034	-	12,034	-	-
	19,823,625	17,587,723	2,071,427	133,945	30,530
Total Liabilities	42,121,973	23,025,039	10,080,895	3,449,168	5,566,871

2016				
Total	Upto one Month	Over one month upto six months	Over six months upto one year	Over one year

----- (Rupees in '000) -----

Market rate assets

Advances	15,835,248	645,928	4,059,779	7,130,583	3,998,958
Investments	11,568,227	6,114,527	5,453,700	-	-
Lending to financial institutions	323,215	323,215	-	-	-
Balances with other banks - deposit accounts	2,551,023	2,551,023	-	-	-
	30,277,713	9,634,693	9,513,479	7,130,583	3,998,958

Other non-earning assets

Cash and balances with SBP and NBP	3,116,926	3,116,926	-	-	-
Balances with other banks - current accounts	7,914	7,914	-	-	-
Operating fixed assets	1,041,611	-	-	-	1,041,611
Other assets	1,844,687	137,023	1,082,180	413,234	212,250
Deferred tax asset - net	14,795	-	14,795	-	-
	6,025,933	3,261,863	1,096,975	413,234	1,253,861
Total assets	36,303,646	12,896,556	10,610,454	7,543,817	5,252,819

Notes to the Financial Statements

for the year ended 31 December 2017

	2016				
	Total	Upto one Month	Over one month upto six months	Over six months upto one year	Over one year
----- (Rupees in '000) -----					
Market liabilities					
Large time deposits above Rs. 100,000	12,905,635	911,632	4,845,257	3,351,559	3,797,187
All other time deposits (including fixed rate deposits)	286,187	21,995	87,270	106,580	70,342
Other cost bearing deposits	2,101,929	2,101,929	-	-	-
Borrowings	-	-	-	-	-
	15,293,751	3,035,556	4,932,527	3,458,139	3,867,529
Other non-cost bearing liabilities					
Current deposits	12,536,029	12,536,029	-	-	-
Other liabilities	3,887,957	2,075,240	1,732,959	61,063	18,695
	16,423,986	14,611,269	1,732,959	61,063	18,695
Total liabilities	<u>31,717,737</u>	<u>17,646,825</u>	<u>6,665,486</u>	<u>3,519,202</u>	<u>3,886,224</u>

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 ALCO.

Notes to the Financial Statements

for the year ended 31 December 2017

2017					
Exposed to yield / interest risk					
Effective yield / interest rate %	Total	Upto one month	One month to six month	Over six month to one year	Over one year to five years

----- (Rupees in '000) -----

Assets

Balances with other banks / MFBs	4% to 6.10%	4,138,718	4,138,718	-	-	-
Lending to financial institutions	5.85% to 5.86%	3,368,059	3,368,059	-	-	-
Investments	5.94% to 6.05%	6,767,309	2,845,817	3,921,492	-	-
Advances	14% to 31%	24,761,653	1,077,921	5,904,353	11,234,086	6,545,293
		39,035,739	11,430,515	9,825,845	11,234,086	6,545,293

Liabilities

Deposits	5% to 14%	22,298,348	5,437,316	8,009,468	3,315,223	5,536,341
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On balance sheet gap

		16,737,391	5,993,199	1,816,377	7,918,863	1,008,952
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2016					
Exposed to yield / interest risk					
Effective yield / interest rate %	Total	Upto one month	One month to six month	Over six month to one year	Over one year to five years

----- (Rupees in '000) -----

Assets

Balances with other banks / MFBs	4.00% to 7.00%	2,551,023	2,551,023	-	-	-
Lending to financial institutions	5.75%	323,215	323,215	-	-	-
Investments	5.75% to 5.99%	11,568,227	6,114,527	5,453,700	-	-
Advances	16% to 31%	15,835,248	645,928	4,059,779	7,130,583	3,998,958
		30,277,713	9,634,693	9,513,479	7,130,583	3,998,958

Liabilities

Deposits	5.50% to 14%	15,293,751	3,035,556	4,932,527	3,458,139	3,867,529
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On balance sheet gap

		14,983,962	6,599,137	4,580,952	3,672,444	131,429
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Notes to the Financial Statements

for the year ended 31 December 2017

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 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. Investments are mainly in government securities or other securities having good credit rating. Maximum amount of financial assets which are subject to credit risk amount to Rs. 38,456 million (2016: Rs.23,526 million).

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 transactions. Consequently, differences may arise between the carrying values and the fair value 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).

Notes to the Financial Statements

for the year ended 31 December 2017

On balance sheet financial instruments

		2017									
		Carrying amount					Fair value				
		Available for sale	Cash and cash equivalents	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total	
Note		----- (Rupees in '000) -----									
	Financial assets measured at fair value										
	- Investments - market treasury bills	6,768,610	-	-	-	6,768,610	-	6,767,309	-	6,767,309	
	Financial assets not measured at fair value	37.4.1									
	- Cash and bank balances with SBP and NBP	-	3,497,633	-	-	3,497,633					
	- Balances with other banks	-	4,154,764	-	-	4,154,764					
	- Lending to financial instruments	-	-	3,368,059	-	3,368,059					
	- Advances	-	-	24,761,653	-	24,761,653					
	- Other assets	-	-	2,674,303	-	2,674,303					
		6,768,610	7,652,397	30,804,015	-	45,225,022	-	6,767,309	-	6,767,309	
	Financial liabilities not measured at fair value	37.4.1									
	- Deposits and other accounts	-	-	-	(36,664,927)	(36,664,927)					
	- Other liabilities	-	-	-	(5,445,012)	(5,445,012)					
		-	-	-	(42,109,939)	(42,109,939)	-	-	-	-	
		6,768,610	7,652,397	30,804,015	(42,109,939)	3,115,083	-	6,767,309	-	6,767,309	

		2016								
		Carrying amount				Fair value				
		Available for sale	Cash and cash equivalents	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Note		(Rupees in '000)								
Financial assets measured at fair value										
	- Investments – market treasury bills	11,570,409	-	-	-	11,570,409	-	11,568,227	-	11,568,227
Financial assets not measured at fair value										
37.4.1										
	- Cash and bank balances with SBP and NBP	-	3,116,926	-	-	3,116,926				
	- Balances with other banks	-	2,558,937	-	-	2,558,937				
	- Lending to financial instruments	-	-	323,215	-	323,215				
	- Advances	-	-	15,835,248	-	15,835,248				
	- Other assets	-	-	1,698,620	-	1,698,620				
		11,570,409	5,675,863	17,857,083	-	35,103,355	-	11,568,227	-	11,568,227
Financial liabilities not measured at fair value										
37.4.1										
	- Deposits and other accounts	-	-	-	(27,829,780)	(27,829,780)				
	- Borrowings	-	-	-	-	-				
	- Other liabilities	-	-	-	(3,887,957)	(3,887,957)				
		-	-	-	(31,717,737)	(31,717,737))	-	-	-	-
		11,570,409	5,675,863	17,857,083	(31,717,737)	3,385,618	-	11,568,227	-	11,568,227

Statement of Changes in Equity

for the year ended 31 December 2017

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

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 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 and management of capital

As per amendments on Prudential Regulations (R-1) issued vide BPRD Circular No. 10 of 2015 dated 3 June 2015, the minimum paid up capital requirement (MCR), free of losses for Microfinance Banks operating at national level is Rs. 1,000 million as at 31 December 2017. As of 31 December 2017, the share capital of the Bank stood at Rs. 1,346.939 million (2016: Rs. 1,346.939 million) and paid up capital of the Bank free of losses is Rs. 5,090 million (2016: Rs. 4,632 million).

The capital of the Bank is managed keeping in view the minimum CAR (15%) required by the Prudential Regulations for Microfinance Banks / Institutions. The adequacy of the capital is tested with reference to the risk-weighted assets of the Bank. The calculation of capital adequacy enables the Bank to assess the long-term soundness. As the Bank conducts business on a wide area network basis, it is critical that it is able to continuously monitor the exposure across the entire organization.

The Bank manages its capital structure and makes adjustments to it in light of the changes in regulatory and economic conditions. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend paid to shareholders, return capital to shareholders or issue new shares.

As at 31 December 2017, the Bank's Capital adequacy ratio (CAR) was appropriately 19% (2016: 31%) of its weighted exposure, as against the minimum requirement of 15% prescribed by SBP.

39. GENERAL

- 39.1 Comparative information has been reclassified, rearranged or additionally incorporated in these financial statements for the purposes of better presentation.
- 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 on February 23, 2018.

President &
Chief Executive Officer

Chairman

Director

Director



Pattern of Shareholding

as at 31 December 2017

S.R NO.	NAME	ADDRESS	PASSPORT/CNIC	NATIONALITY	%	NO. OF SHARES
1.	Telenor Pakistan B.V	Prins Bernhardplein 200,1097 JB, Amsterdam, the Netherlands	N/A	Dutch	100.00	134,693,868
2.	Mr. Salim Raza	64/1, 15th Street, Khyaban-e-Mujahid, D.H.A, Phase 5, Karachi, Pakistan.	42301-8289235-1	Pakistani	Nominal Shareholder	10





Credits

Design & Concept

Telenor Microfinance Bank Limited

Photography

Asad Abbas
Umair Siddiqui
Tariq Shahood Alam

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