



telenor
microfinance
bank

آنهاؤپلا قدم

TRANSFORMING DIGITAL FINANCE

Annual Report 2018

TABLE OF CONTENTS

4
Our Journey

6
About Us

7
Vision, Mission & Values

10
Strategic Pillars

11
Highlights 2018

12
2018 at a glance

16
Transforming Lives

17
Serving Customers

18

Reaching Pakistan

22

Financial Solutions

26

Corporate Information

28

Message from the Chairman

30

Message from the President & CEO

32

Financial Summary – Six Years

35

Directors' Report

43

Directors' Report (Urdu)

44

Auditor's Report

48

Balance Sheet

49

Profit & Loss Account

50

Statement of Comprehensive Income

51

Statement of Changes in Equity

52

Statement of Cash Flow

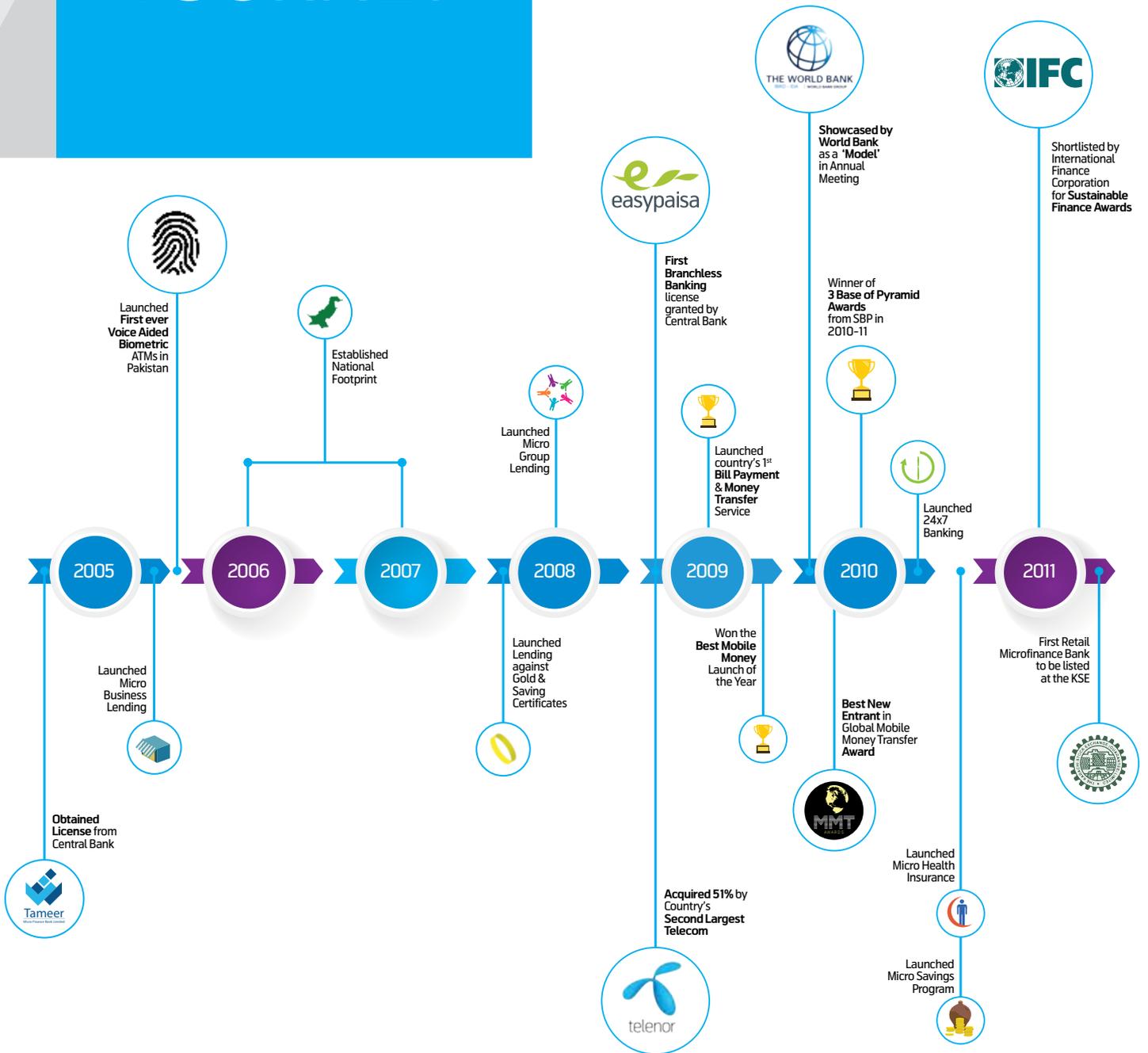
53

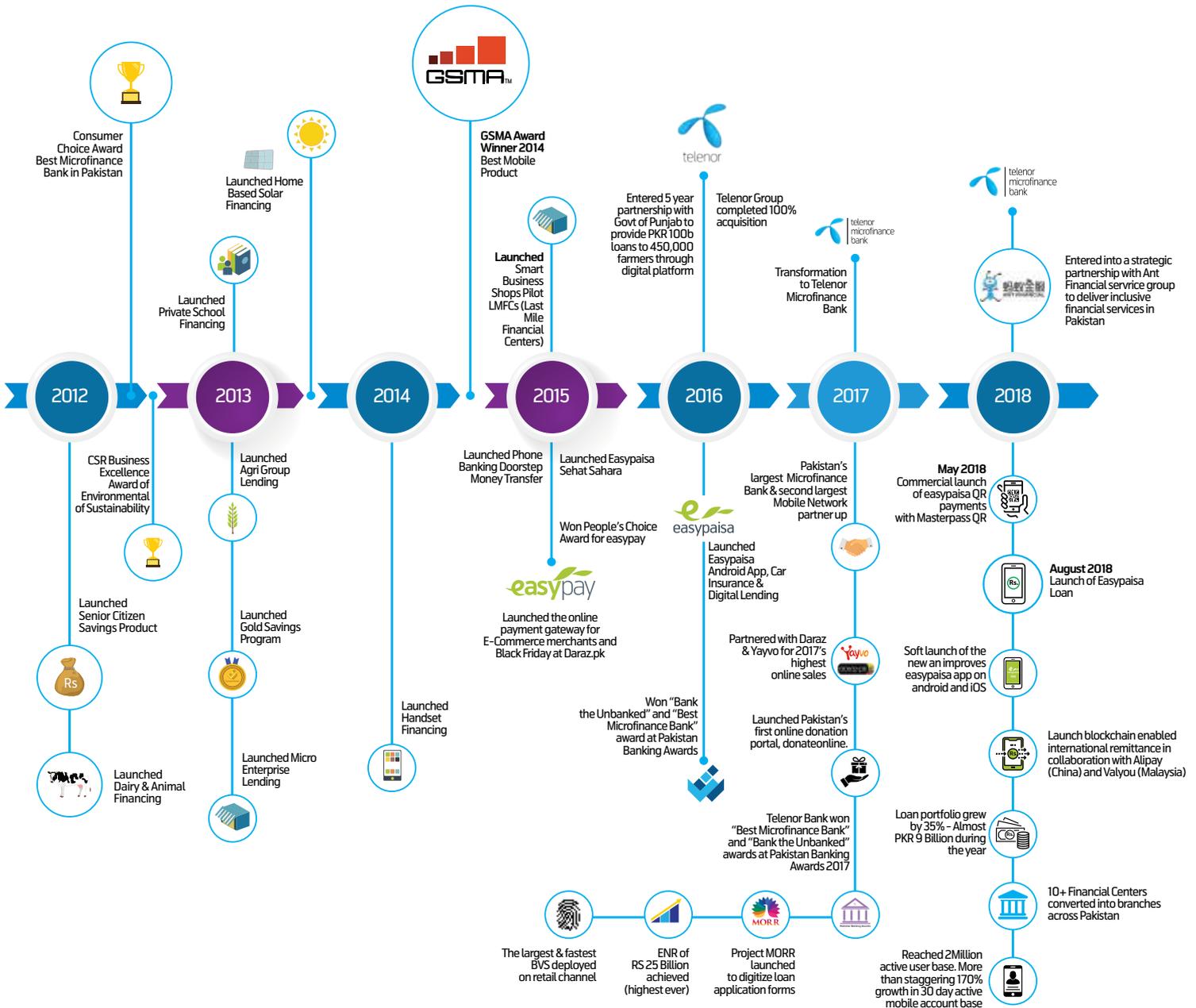
Notes to the Financial Statements

88

Pattern of Shareholding

OUR JOURNEY





ABOUT US

Telenor Microfinance Bank Limited is Pakistan's leading microfinance institution having a distribution network of over 130 thousand agents and 177 touchpoints nationwide. It provides microfinance and related financial services to the underprivileged and unbanked segment of the country, with an aim to empower societies.

'Easypaisa', Telenor Microfinance Bank's mobile banking platform, which now has 24.7 million customers, in 2009 pioneered branchless banking in Pakistan.

In 2018, Ant Financial Services Group, an affiliate company of Alibaba Group bought shares in Telenor Microfinance Bank, to enhance the bank's mobile payment and digital financial services. With the Bank's knowledge and local market presence and Ant Financial's technology in Alipay, world's leading payment and lifestyle platform, and other financial services, it has embarked on an extraordinary journey of innovation to achieve financial empowerment for the people of Pakistan.

VISION

Transform the financial landscape to benefit the people of Pakistan

MISSION

Instant access to convenient digital financial services

BEHAVIOURS

- Always Explore
- Create Together
- Keep Promises
- Be Respectful



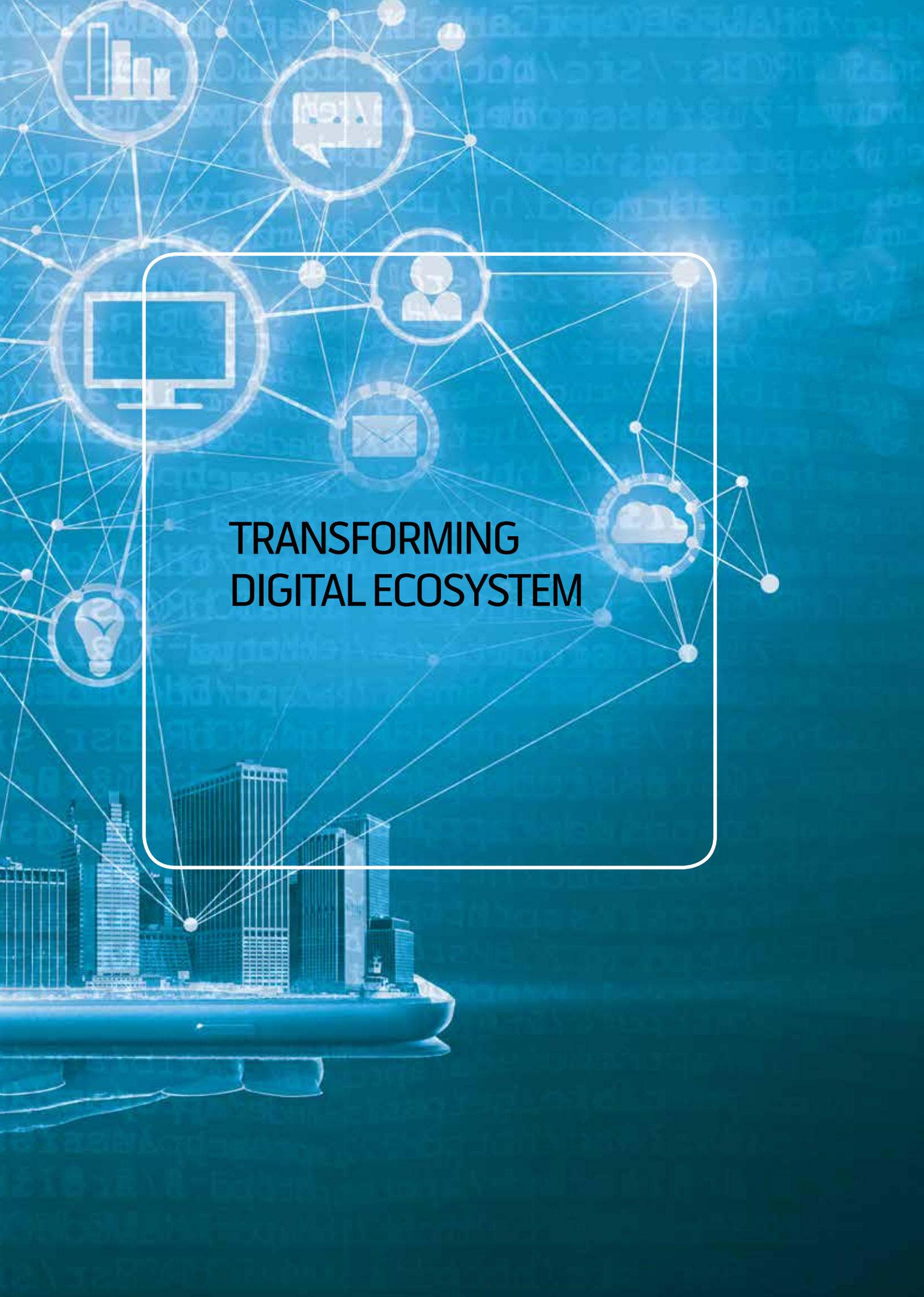
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Telenor Microfinance Bank Limited | تیلنور میکروفنانس بینک لمیٹڈ

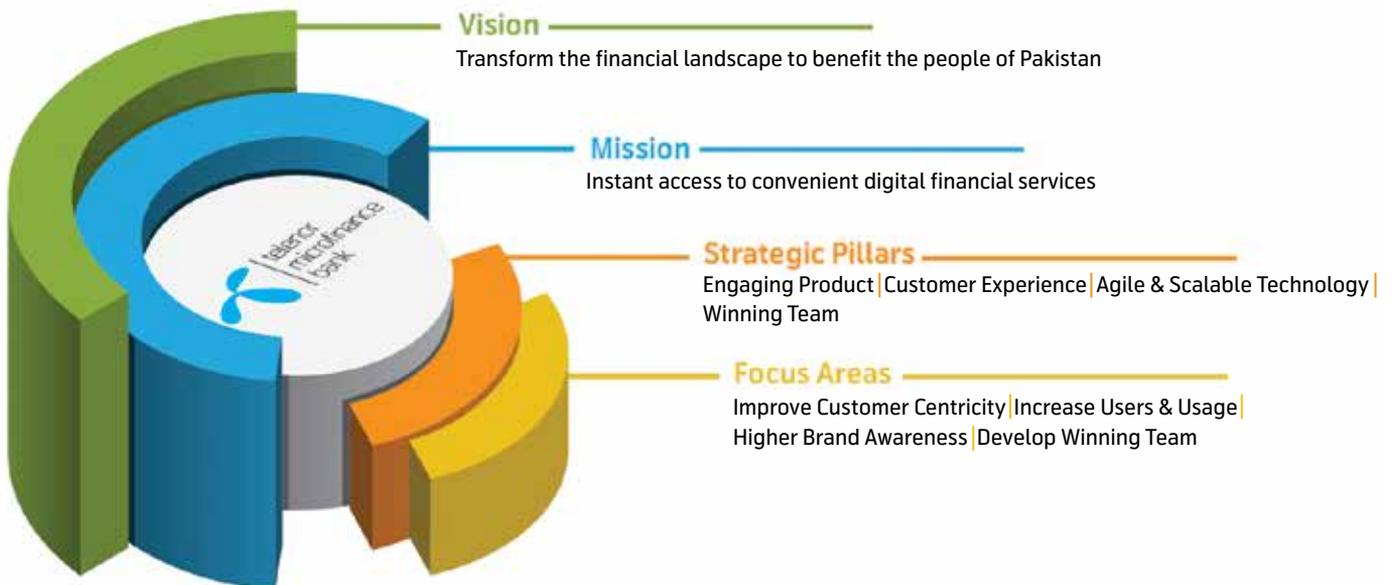
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TRANSFORMING DIGITAL ECOSYSTEM

STRATEGIC PILLARS



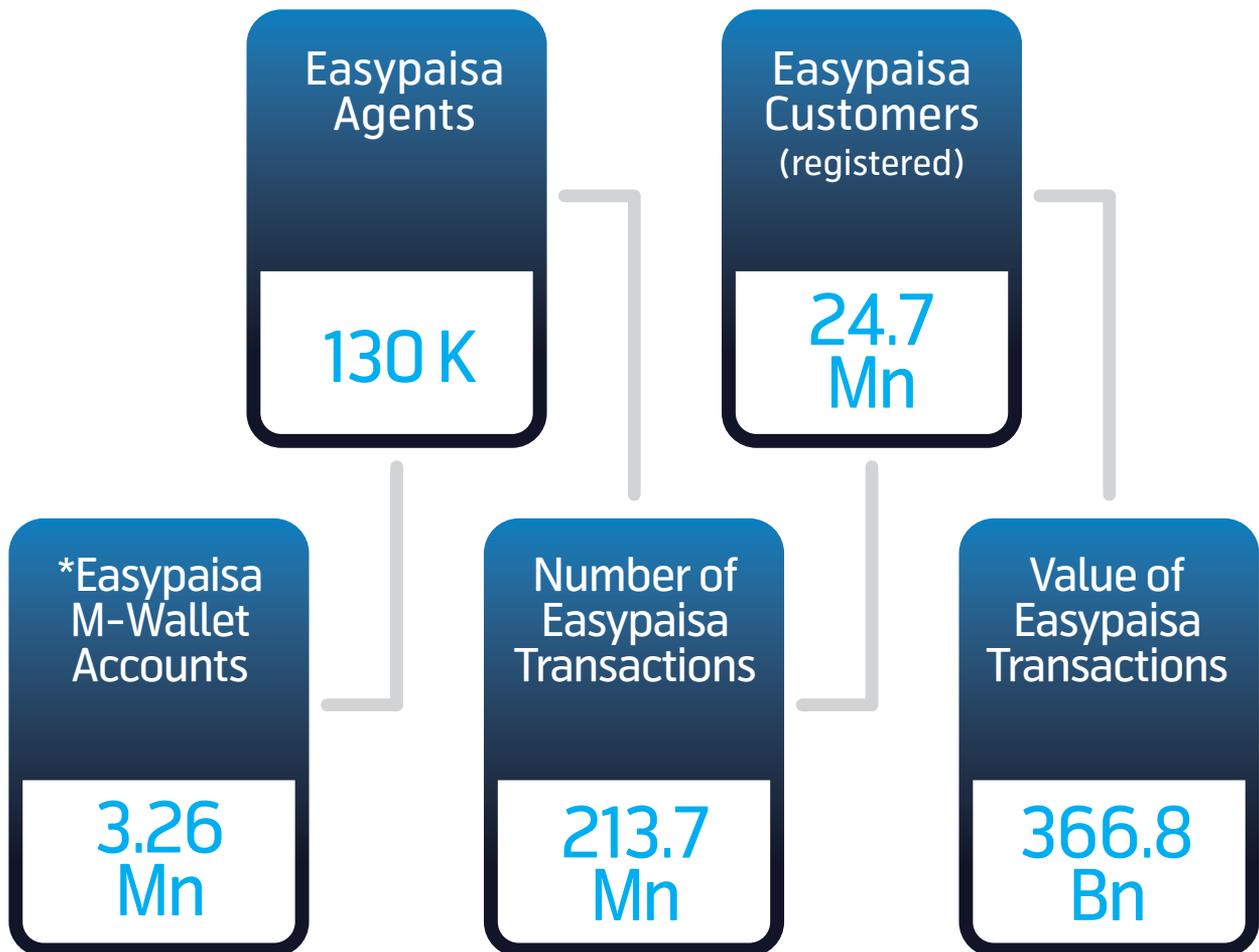
HIGHLIGHTS 2018

NEW SHAREHOLDER - ANT FINANCIAL

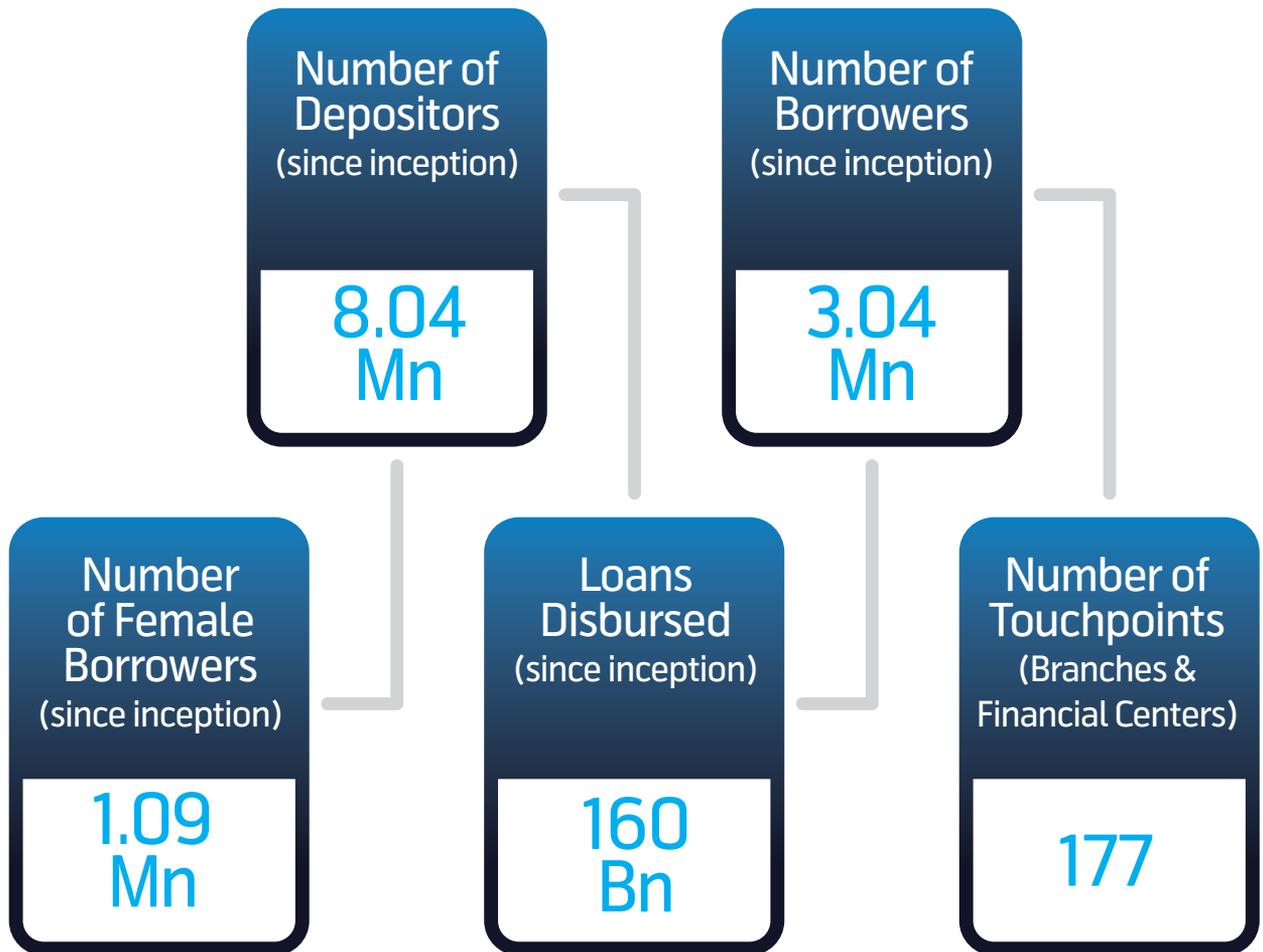


In March 2018, a memorandum of understanding was signed at the Prime Minister Secretariat in the presence of the then Prime Minister, Mr. Shahid Khaqan Abbasi, government officials and Management of Telenor and Ant Financial.

2018 AT A GLANCE



*Monthly Active Users





0345612

LOGIN





**TRANSFORMING
CUSTOMER EXPERIENCE**

TRANSFORMING LIVES

"I had never thought that a miracle like this could ever happen and my biggest dream could be so close to realization. I would recommend everyone to subscribe to Telenor Microfinance Bank's Kamyab Mustakbil, not because of the scholarship reward, but for the benefits the insurance plan offers to people with limited means like me."

- [Fakhar Uzaman](#)



"Our family used to survive on daily wages as my husband is a mason who is often unable to find work. My neighbor advised me to take a loan from Telenor Microfinance Bank and start a small business. Through this loan, I opened a general store and started supporting my family. Over the years, by taking more loans I not only improved my store's stock but also was able to make a permanent structure for my shop. I am grateful to the bank for empowering me and my family."

- [Aisha Bibi](#)



"Easypaisa's blockchain based international remittance service is a blessing for families like ours who have relatives working abroad. My brother Gulbaz used to send money from Malaysia every month through conventional channels, which not only took a lot of time, but withdrawing the amount was also a hassle. Now with this service, not only does the process take minutes, but I can withdraw money conveniently as well."

- [Muhammad Rahim](#)



SERVING CUSTOMERS

Telenor Microfinance Bank Internal Complaint Handling Mechanism

Telenor Microfinance Bank Ltd. has a Customer Services and Quality Assurance department which receives and manages all complaints. The bank has systems and procedures to deal with the customer complaints received from all channels. These channels have been made available considering the wide-ranging demographics of our customer base. The following points are given special consideration:

- i. Provide visible and easily accessible complaint registration to customers.
- ii. Resolve all customer complaints with honesty and in a fair manner. Ensure all complaints are dealt as per standard TATs.
- iii. Use customer complaints as an opportunity to improve and ensure minimum recurrence.

New Initiatives:

- i. Centralized System and Reporting of Complaints.
- ii. Comprehensive Reports for Management Review.
- iii. Separate Policy for Complaint Handling.
- iv. Increased complaint work codes in order to capture the essence of customers' voice.

Total Number of Complaints Received:

Telenor Microfinance Bank received a total of 104,028 complaints during the year 2018.

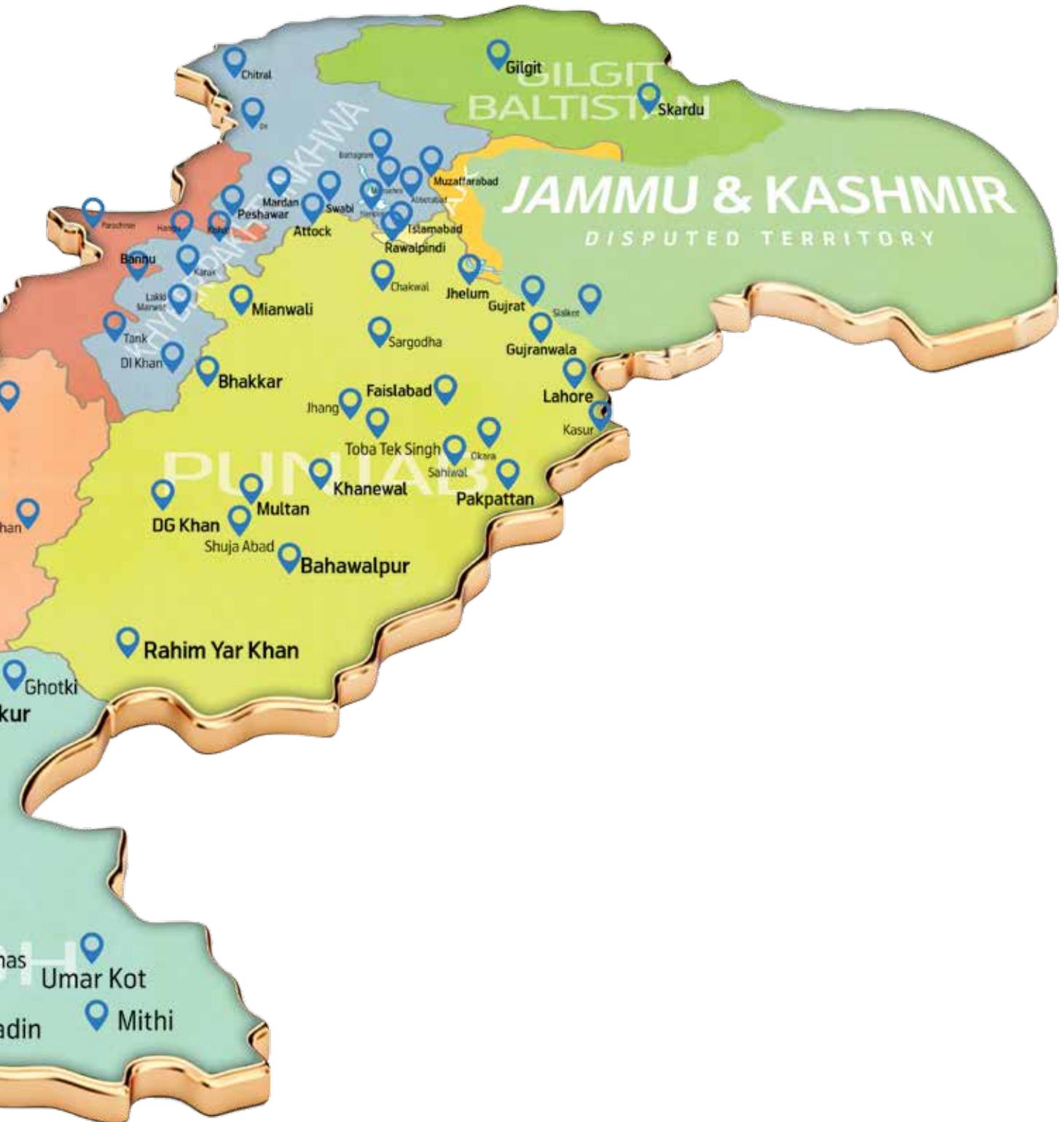
Average Time of Complaint Closure:

The Bank has standard TATs in place and the average TAT for complaint resolution for 2018 was 06 working days.

REACHING PAKISTAN

- 177 touchpoints including branches and financial centers
- 130 thousand Easypaisa Agents









**TRANSFORMING
FINANCIAL SOLUTIONS**

FINANCIAL SOLUTIONS

Digital Payments



Digital Lending



International Remittance



Insurance



Sarmaya Qarza



Karobar Loan



Group Loan



Agri Loan

Digital Wallets



Disbursement/
Collection Solutions



House Loan



Microenterprise
Lending



Deposit
Solutions



Micro Insurance
Solutions



Aghaz Loan







اُنھاؤ پہلا قدم



CORPORATE INFORMATION

BOARD OF DIRECTORS



Irfan Wahab Khan
Chairman



Shahid Mustafa
President & CEO



Klas Berthelsson
Director



Roar Bjaerum
Director



Henning Thronsen
Director



Uzma Khan
Independent Director



Khalid Qurashi
Independent Director

PEOPLE COMMITTEE

Irfan Wahab Khan (Chairman)
Uzma Khan

IT COMMITTEE

Roar Bjaerum (Chairman)
Irfan Wahab Khan
Uzma Khan

RISK MANAGEMENT COMMITTEE

Roar Bjaerum (Chairman)
Henning Thronsen

AUDIT COMMITTEE

Uzma Khan (Chairperson)
Roar Bjaerum
Henning Thronsen

AUDITORS

KPMG Taseer Hadi & Co.
Chartered Accountants

LEGAL ADVISORS

Haidermota BNR & Co.
Barristers & Corporate Consultants

LEADERSHIP TEAM



Shahid Mustafa
President & CEO



Aslam Hayat
Chief Compliance Officer



Murtaza Ali
Chief Financial Officer



Khawaja Asif Javed
Head of Branch Banking



Pouruchisty Sidhwa
Chief Human Resources
Officer



Jahanzeb Khan
Chief Product Officer



Tariq Anwar
Chief Risk Officer



Khurram Malik
Head of Branchless
Banking



Sana Tariq
Chief Legal Officer, Company
Secretary & Ethics Compliance
Officer



Khurram Gul Agha
Head of Operations



Humayun Sabir Aziz
Acting Chief Information
Officer

INTERNAL AUDIT FUNCTION



Asad Abbas
Chief Audit Executive

MESSAGE FROM THE CHAIRMAN

In 2018, we have been able to get good traction on Pakistan's digital transformation. This has resulted in easier and more engaging customer journey and core operations that lend themselves to even better automation and digitalization. 2018 was a benchmark year in terms of growth. The bank remains committed to ICT powered inclusion solutions that are empowering Pakistani society.

Telenor Microfinance Bank received the esteemed GSMA Mobile Money Certification for its branchless banking service Easypaisa in 2018. The Certification represents a strong, proactive move on behalf of the mobile money industry, and the Bank's certified status demonstrates its commitment to delivering quality, safe, and fair services to customers. Pakistan has one of the region's, as well as the world's, widest financial inclusion gaps with about 100 million adults still lacking access to formal and regulated financial services. Thanks to Easypaisa and similar services that followed, Pakistan is leading the



way in South Asia in mobile money despite the low use of digital financial instruments.

It is heartening to note that 2018 saw Telenor Microfinance Bank partnering with the world's leading payment provider, Ant Financial, this strategic partnership will strengthen Telenor Microfinance Bank's payment platform and set new standards in the digital banking business in Pakistan. Ant Financial invested USD 184.5 Million for a 45% stake in Telenor Microfinance Bank, this partnership is aligned with Telenor's overall strategy of focusing on financial services efforts in emerging markets, making sure that we build and modernize businesses in line with customer needs. I'm truly excited about the opportunities this partnership brings for the Bank going forward.

Telenor Microfinance Bank has established 47,151 BVS enabled retailers across its retail channel and has retained a leadership position in the Over the Counter (OTC) market share. In addition to an upward trend in branchless banking growth, Telenor Microfinance Bank has shown promising growth in the microfinance lending segment too. I'm delighted to share that the Bank achieved a portfolio increase of PKR 9 Billion (36%) during the financial year FY '18 as compared to FY '17.

Telenor Microfinance Bank saw some very promising progress on the branch banking front. The 30 day active mobile account base saw an industry wise unprecedented 170% growth, reaching 3.25 Million unique customers at the end of 2018. The app customer base crossed 0.6 million, growing at a monumental 891% as compared to FY 17. We closed 2018 with the bank initiating an upgrade of our branches in terms of infrastructure and equipment to deliver an enhanced customer experience.

It is with a great sense of pride to see that the Bank has inculcated a unique culture where people convert their passions into action which has propelled us on a continuous journey of growth and innovation. We have been building on our most revered assets: our brand, our business strengths,

our reach, and the strong commitment of our management and employees. We have a robust tradition of growing people who have demonstrated the ability to deliver excellent results in different ways. The success of Telenor Microfinance Bank depends on every employee in the organization. Ultimately in our business, it is people who make things happen with consumers, customers, our business partners, and the communities in which we work. I would like to express my acknowledgement of all the employees for their strong efforts and achievements. Furthermore, evolving consumer needs and preferences, along with the opportunities embedded in the use of new technologies serve as constant motivators and inspire the Bank's innovative capabilities

At Telenor Microfinance Bank empowering societies has been the core of our business objectives. Today, we do so with more relevance and personalization than ever. Delivering with efficiency requires continually exploring smarter and simpler ways of working together as a team. We're making sure that our customers are empowered in their everyday lives. To us, it's more than good business. It's truly about enabling societies. Our efforts make Telenor Bank more fit for the future and positions the company for further growth.

Irfan Wahab Khan

Chairman, Board of Directors,
Telenor Microfinance Bank

MESSAGE FROM THE PRESIDENT & CEO

Telenor Microfinance Bank's ambitions for digital development are well aligned with the Government's ambition of a Digital Pakistan. Telenor Microfinance Bank (TMB) is leading the Information Communication Technology (ICT)-powered digital revolution in Pakistan with a number of innovative products and industry first solutions. We are firmly focused on digitalization for the masses and are the pioneer of financial services aimed at higher financial inclusion

Telenor Microfinance Bank witnessed extraordinary growth and achieved impressive milestones during 2018 across all of its functional areas. In March of 2018 Telenor Group signed a strategic partnership agreement with Ant Financial Services Group in Pakistan, to further develop the Bank's mobile payment and digital financial services.



This partnership will support us in achieving our collective mission of bringing formal financial services to Pakistan's unbanked population. I am happy to share that with its improved user experience, the Easypaisa mobile payment platform will be providing inclusive financial services in a transparent, safe, low cost, and efficient way. Digitalizing financial services offers a promising solution in order to overcome problems of reach and scale.

The Bank's countrywide agent network grew to about 130 Thousand. This enabled the Bank to extend quality services to more than 24.7 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 more than 3.26 million which facilitated transactions worth more than 366.8 billion rupees during 2018. Telenor Microfinance Bank has also disbursed loans worth 160 billion rupees so far to extend easy access of finance to millions of underserved Pakistanis.

The year 2018 was characterized by transformation and clarification of Telenor Microfinance Bank's strategic direction, and the management expressed its acknowledgement to the employees for their strong efforts and achievements. We focused on implementing the strategy set in December 2017 and entered the year with a clear roadmap on how to create and capture value for our shareholders, customers, employees and society. Portfolio simplification, digitalization, innovation, and governance are key elements of the new strategic direction.

Digitalization of processes to foster strong and engaging relationships with customers, while at the same time capturing efficiency opportunities, have been pivotal to achieve results in 2018, and will also be going forward. Changes in customer behavior and preferences, as well as opportunities

embedded in the use of new technologies are constant motivators and inspiration to Telenor's Banks innovative capabilities. To support Telenor Microfinance Bank's business integrity, risk management, and performance in Pakistan's market, we have strengthened the processes and structures connected to internal audit, investigation, and compliance.

Looking ahead, our focus will be on continued value creation. Our future strategy is based on driving and capturing growth and becoming even more efficient in how it operates, delivers services and how customers experience the company. To be the trusted partner of our customers in their digital life is the very essence of our ambition. Telenor Microfinance Bank is evolving to become a top performing company delivering long term value for shareholders, customers, employees, and society.

Shahid Mustafa

President & CEO,
Telenor Microfinance Bank

Six-Year Financial Summary:

	2018	2017	2016	2015	2014	2013
Balance Sheet						
Assets						
Cash and balances with SBP & NBP	4,210,306	3,497,633	3,116,926	1,588,338	1,371,733	1,225,227
Balances with other banks	3,864,399	4,310,776	2,558,937	1,118,190	717,070	571,006
Lending to financial institutions	5,473,364	3,368,059	323,215	346,702	-	-
Investments	9,008,445	6,767,309	11,568,227	3,784,189	3,775,640	3,471,857
Advances - net of provisions	32,944,819	24,761,653	15,835,248	12,125,628	8,941,759	8,311,128
Operating fixed assets	3,001,351	1,729,560	1,041,611	645,474	556,761	480,237
Other assets	3,963,292	3,052,877	1,844,687	1,433,577	1,030,330	1,131,244
Deferred tax asset - net	-	-	14,795	16,025	-	-
Total Assets	62,465,976	47,487,867	36,303,646	21,058,123	16,393,293	15,190,699
Liabilities						
Deposits and other accounts	42,274,909	36,664,927	27,829,780	15,678,541	12,261,354	10,627,546
Borrowings	-	-	-	85,474	239,211	501,280
Subordinated debt	-	-	-	-	-	989,757
Other liabilities	6,369,572	5,805,111	3,887,957	1,604,825	1,044,847	854,124
Deferred tax liabilities	153,066	12,034	-	-	3,960	8,567
Total Liabilities	48,797,547	42,482,072	31,717,737	17,368,840	13,549,372	12,981,274
Net Assets	13,668,429	5,005,795	4,585,909	3,689,283	2,843,921	2,209,425
REPRESENTED BY:						
Share capital	3,547,269	1,346,939	1,346,939	1,346,939	1,346,939	1,346,939
Reserves	10,412,953	1,405,571	1,286,756	1,050,952	828,142	641,705
Accumulated (Loss) / Profit	(345,238)	2,229,020	1,943,880	1,260,896	646,831	205,787
	13,614,984	4,981,530	4,577,575	3,658,787	2,821,912	2,194,431
Deficit on revaluation of assets - net of tax	(2,359)	(911)	(1,527)	(836)	(959)	(1,388)
Deferred grants	55,804	25,176	9,861	31,332	22,968	16,382
	13,668,429	5,005,795	4,585,909	3,689,283	2,843,921	2,209,425

Six-Year Financial Summary:

	2018	2017	2016	2015	2014	2013
Profit and Loss Statement						
Mark-up / return / interest earned	8,721,206	6,063,887	4,486,604	3,503,342	3,054,770	2,519,124
Mark-up / return / interest expensed	(2,595,036)	(1,767,054)	(1,113,495)	(662,922)	(766,186)	(1,035,160)
Net mark-up / interest income	6,126,170	4,296,833	3,373,109	2,840,420	2,288,584	1,483,964
Reversal / (provision) against non-performing loans and advances	(1,365,385)	(217,003)	(66,384)	(43,262)	(26,120)	(11,390)
Provision for diminution in the value of investments	-	-	-	-	-	-
Bad debts written off directly	(21,124)	(24,746)	(37,171)	(36,514)	(89,462)	(42,058)
	(1,386,509)	(241,749)	(103,555)	(79,776)	(115,582)	(53,448)
Net mark-up / interest income after provisions	4,739,661	4,055,084	3,269,554	2,760,644	2,173,002	1,430,516
Non mark-up / interest income						
Fee, commission and brokerage income	8,172,650	8,352,400	1,530,390	1,427,207	1,195,071	876,464
Dividend income	-	-	-	-	-	-
Other income	214,128	135,108	122,830	166,851	99,164	69,796
Total non mark-up / interest income	8,386,778	8,487,508	1,653,220	1,594,058	1,294,235	946,260
	13,126,439	12,542,592	4,922,774	4,354,702	3,467,237	2,376,776
Non mark-up / interest expenses						
Administrative expenses	(14,948,448)	(11,811,976)	(3,485,207)	(3,045,569)	(2,425,400)	(1,745,878)
Other provisions / write offs	(272,601)	(29,549)	(37,396)	-	(309)	(2,806)
Other charges	(19,358)	(13,623)	(30,886)	(26,839)	(21,039)	(12,660)
Total non mark-up / interest expenses	(15,240,407)	(11,855,148)	(3,553,489)	(3,072,408)	(2,446,748)	(1,761,344)
	(2,113,968)	687,444	1,369,285	1,282,294	1,020,489	615,432
Extraordinary / unusual items	-	-	-	-	-	-
Profit before taxation	(2,113,968)	687,444	1,369,285	1,282,294	1,020,489	615,432
Taxation	(401,770)	(270,688)	(473,931)	(430,554)	(311,996)	(233,677)
Profit after taxation	(2,515,738)	416,756	895,354	851,740	708,493	381,755

Six-Year Financial Summary:

	2018	2017	2016	2015	2014	2013
Cashflow statement - Summary						
Cash flow from operating activities	(7,095,671)	(1,954,717)	11,129,496	682,078	1,814,795	844,795
Cash flow from investing activities	(3,858,171)	4,071,948	(8,073,713)	56,200	(243,206)	172,497
Cash flow from financing activities	11,220,138	15,315	(86,448)	(120,553)	(1,279,019)	(878,700)
Net increase in cash and cash equivalents	266,296	2,132,546	2,969,335	617,725	292,570	138,592
Cash and cash equivalents at beginning of the year	7,808,409	5,675,863	2,706,528	2,088,803	1,796,233	1,657,642
Cash and cash equivalents at end of the year	8,074,705	7,808,409	5,675,863	2,706,528	2,088,803	1,796,234

Financial Ratios:

Return On Equity (ROE)	(18%)	8%	20%	23%	25%	17%
Return On Assets (RoA)	(4%)	1%	2%	4%	4%	3%
Deposits to Liabilities	87%	86%	88%	90%	90%	82%
Advance to Deposit	78%	68%	57%	77%	73%	78%
Borrowing to Liability	0%	0%	0%	1%	2%	11%
Total Asset to Shareholders' Fund	4.6	9.5	7.9	5.7	5.8	6.9
Capital Adequacy ratio (CAR)	35.2%	19.5%	30.6%	37.0%	64.0%	64.0%
(Loss) / Earning Per Share - PKR	(9.64)	1.87	6.65	6.32	5.26	2.83

Other Information:

Number of Branches	103	85	74	66	57	49
Number of Employees	3,559	3,420	3,473	2,520	2,058	1,692
Number of Borrowers	694,441	535,413	385,417	287,285	226,870	197,811
Number of Depositors	9,198,446	8,122,495	8,573,293	4,958,736	3,841,340	1,643,313

DIRECTORS' REPORT

I am pleased to present the Directors' Report and audited financial statements of Telenor Microfinance Bank Limited, thereafter referred to in the report as 'the bank', for the year ended December 31, 2018.

Performance Review

A major milestone for 2018 was the culmination of strategic partnership between Telenor Group and Ant Financial; Telenor Microfinance Bank's local market presence and substantial user base along with Ant's technological expertise were combined to enhance the mobile money landscape and inclusive financial services in Pakistan. During 2018, five new leadership team members joined the Bank, and the organization assumed the product and sales structure; these changes have been instrumental in helping the Bank achieve its targets.

In continuation with our aim to increase the Bank's digital footprint, the Bank now has close to 50,000 BVS enabled locations, making it Pakistan's largest BVS network. On the lending side, the Bank achieved a gross portfolio increase of PKR 9.2 BN during the financial year FY18, a 36.7% increase from the previous year.

The 30 Day active Mobile Account base saw an industry wise unprecedented 170% growth, reaching 3.25 Million unique customers at the end of 2018. The app customer base crossed 0.6 million, growing at a monumental 891% as compared to FY17. These developments signify the Bank's renewed focus on Mobile Account growth for establishing itself as a strong contender in Pakistan's Fintech space.

To exhibit our constant commitment to enhancing customer's convenience, multiple initiatives were

launched throughout 2018. Some of the major undertakings included the soft launch of our brand new Easypaisa App with advanced functionalities and enhanced use cases, the commercial launch of our Nano Loan product which offers financing up to PKR 10K delivered to the Easypaisa Mobile Account within a matter of minutes, and enhancement of our customer reach points, both in terms of branch and retail network. Significant developments were also made for Pakistan's first Blockchain enabled International Remittance product to further strengthen our arsenal of use cases.

The performance outlook cements the Bank's pivotal position in the market, in both the branch and the branchless banking arena.

Financial Results

In accordance with the strategy to increase the digital footprint in the market, the Bank has increased its marketing expense by over four times compared to last year and incurred a total marketing expense of PKR 2,520 MN. This includes various customer incentive campaigns and discounts to increase the overall customer base in branchless banking segment. There is a corresponding increase in other ancillary customer acquisition costs to support the branchless banking proposition.

Resultantly, the bank reported Loss before tax of PKR 2,114 MN, net loss of PKR 2,516 MN and generated PKR 266 MN net cash flow during the year. Net markup income of the Bank was reported at PKR 6,126 MN, up by 42.6% over last year.

PKR in Millions	FY 18	FY 17
Net interest income	6,126	4,297
Net interest income after provisions	4,740	4,055
Advances – Gross	34,188	25,003
Deposits	42,275	36,665
% PAR	4.10%	1.03%

akistan B.V, a joint stock company based in Amsterdam. The total asset base of the Bank amounted to PKR 62,466 MN, with an increase of 31.5% over FY17. Cash and Cash equivalents of the bank also increased by 3.4% over 2017 to close at PKR 8,075 MN while the net advances grew by 33.1% over 2017. On the liabilities side, the deposit base of the Bank recorded an increase of PKR 5,610 MN (15.3%) over December 2017 with CASA% of 48.8% as at December 31, 2018.

Transfer to Reserves

The Bank could not transfer any amount to the statutory reserve (PKR 83.351 million during 2017) nor to the Depositors' Protection Fund (PKR 35.464 million during 2017) due to net loss during the year 2018 under the requirements of Microfinance Institution Ordinance, 2001 and the Prudential Regulations for Microfinance Banks issued by the State Bank of Pakistan. However an amount of PKR 18.202 MN on account of profit earned on the investments of the Depositors' Protection Fund has been transferred to the same during the year.

Capital Adequacy Ratio

The bank's Capital Adequacy Ratio as on December 31, 2018 was 35.22%.

Change in Composition in Board of Directors

Casual vacancies occurred during the year 2018 created by the resignations of the directors, these were replaced as follows:

Outgoing Directors	Incoming Directors
Mr. Muhammad Aslam Hayat	Mr. Khalid Qurashi
Ms. Gunn Ingemundsen	

Holding Company

Telenor Pakistan B.V, a joint stock company based in Amsterdam is the holding company with 66.32% shareholding in the bank (2017: 99.99%). During the year, Alipay (Hong Kong) Holding Limited acquired

33.68% of the shareholding in the Bank by way of further issue of capital under section 83 of the Companies Act, 2017.

Corporate Governance

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

Statement of Corporate governance

The Directors are pleased to state that:

- The financial statements, prepared by the management of the Bank present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of account of the Bank have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- 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 Act, 2017, the requirements of the Companies Act, 2017, the Microfinance Institutions Ordinance, 2001 and the regulations / directives issued by the SECP and SBP. Wherever the requirements of the Companies Act, 2017, 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 Act, 2017, the Microfinance Institutions Ordinance, 2001 or the requirements of the said regulations / directives shall prevail.
- The auditors, without qualifying their opinion, have drawn attention of the shareholders to the following points:
 - The auditors have emphasized in the audit report on suspense account balance recognized in the Financial Statements. As at 31 December 2018, there was an un-reconciled balance of PKR 0.936 MN in a suspense account and was charged to the profit and loss account. The management carries out reconciliations of these accounts to ensure proper recording and are charged to profit and loss account, if required. Although immaterial, the

bank's Management has enhanced the processes and internal controls and also intends to upgrade the technological infrastructure.

- ii. The auditors have emphasized in the auditor report on recognition of additional provision recognized in the financial statements on delinquent advances. The Management has prudently created provisions against loan losses owing to higher delinquency in few branches where certain anomalies were identified in the credit underwriting process. Conservatively, the management has also created general provision against portfolio in branches where delinquency has been on a rising trend.

The management is continuously making changes in the disbursement and recovery processes to keep a check on the delinquency ratio and to ensure timely recovery of its advances.

- iii. During the year, the Chief Executive Officer was provided with an advance salary without prior approval through members' resolution. Subsequently, this is being ratified to ensure compliance with the requirements of the Companies Act 2017.

- f) During the year the bank reported a net of tax loss of PKR 2,516 MN primarily due to increased investment in customer acquisition cost by PKR 1,943 MN over prior year to develop and promote the digital landscape of the country. Moreover the bank enhanced provision on its loan portfolio as a matter of prudence by PKR 663 million over and above the required provision under applicable regulations to adequately cover the rising delinquency trend. With the similar prudence approach the bank decided not to recognize the deferred tax asset of PKR 737 MN for 2018 in view of its continued focus on investing in the customer acquisition cost. The bank's normal operations continue to remain profitable excluding impact of these unusual items.

- g) 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.

- h) There are no significant doubts upon the bank's ability to continue as a going concern.

- i) During the year, eight 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. Shahid Mustafa	Chief Executive	8	8
Mr. Petter-Bore Furberg	Chairperson	8	8
Mr. Roar Bjaerum	Director	8	8
Mr. Irfan Wahab Khan	Director	8	8
Mr. Henning Thronsen	Director	8	8
Mr. Aslam Hayat**	Director	3	3
Ms. Uzma Khan	Director	8	8
Ms. Gunn Ingemundsen**	Director	1	1
Mr. Klas Berthelsson	Director	6	6

** These directors resigned during the year.

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

- k) 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 three members comprising of; two Non-executive directors, Mr. Roar Bjaerum and Mr. Henning Thronsen, and one Independent Director, Ms. Uzma Khan (Chairperson)

Credit Rating

Based on the results for the year ended December 31, 2017, 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

Mr. Shahid Mustafa Chief Executive Officer resigned on 26th February 2019 and is currently serving his notice period. The Board of Directors has initiated the process of appointing the new Chief Executive Officer. Mr. Khalid Qurashi received Clearance under Fit & Proper criterion from the State Bank of Pakistan on 06th February, 2019.

Pattern of Shareholding

The pattern of Shareholding as at December 31, 2018 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 2018 is (9.64) compared to 1.87 (restated) as at end of year 2017.

Employee Benefits Schemes

Value of investments including accrued income of provident and gratuity funds as at December 31, 2018 on the basis of un-audited financial statements are:

Provident Fund	662.770 MN
Gratuity Fund	577.139 MN

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

Irfan Wahab Khan
Chairman

Place : Karachi
Dated : April 29, 2019

سکدوش ہونے والے آڈیٹرز میسرز کے پی ایم جی تاثیر ہادی اینڈ کمپنی چارٹرڈ اکاؤنٹینٹس نے اپنی اہلیت کی بنیاد پر آئندہ ہونے والے سالانہ اجلاس عام میں خود کو دوبارہ ترقی کے لیے پیش کیا ہے۔ بورڈ کی آڈٹ کمیٹی نے اگلی میعاد کے لیے کے پی ایم جی کی دوبارہ ترقی کی سفارش کی ہے۔

بیلنس شیٹ کی تاریخ کے بعد کے واقعات

جناب شاہد مصطفیٰ، چیف ایگزیکٹو آفیسر 26 فروری 2019 کو مستعفی ہو گئے اور فی الوقت نوٹس کی میعاد پوری کر رہے ہیں۔ بورڈ آف ڈائریکٹرز نے نئے چیف ایگزیکٹو آفیسر کی ترقی کا عمل شروع کر دیا ہے۔ جناب خالد قریشی نے 6 فروری 2019 کو اسٹیٹ بینک آف پاکستان سے صحت و موزونیت کے اہلیتی معیار کے تحت منظوری حاصل کی۔

ملکیت حصص کی ساخت

برائے اختتام سال 31 دسمبر 2018، ملکیت حصص کی ساخت اس رپورٹ کے ساتھ منسلک ہے۔

خصوصی مالیاتی عوامل

گزشتہ چھ ماہ میں کارکردگی کے خصوصی بنیادی عوامل کا خلاصہ اس رپورٹ کے ساتھ منسلک ہے۔

فی حصص آمدنیاں

برائے اختتام سال 2018، بینک کی فی حصص آمدنی (9.64) ہے جو کہ سال 2017 کے اختتام پر 1.87 (اعادہ شدہ) تھی۔

ملازمین کے لیے مراعاتی اسکیمیں

سرماہ کاروں کی مالیت، 31 دسمبر 2018 کو پراویڈنٹ اور گریجویٹ فنڈز کی واجب الوصول آمدنیوں کے ساتھ، غیر آڈٹ شدہ مالیاتی گوشواروں کی بنیاد پر یہ رہی:

پراویڈنٹ فنڈ	662.770 ملین
گریجویٹ فنڈ	577.139 ملین

سٹائش و اقرار نامہ

ہم اس موقع سے استفادہ حاصل کرتے ہوئے اپنے کسٹمرز اور کاروباری پارٹنرز کے مسلسل تعاون اور اعتماد پر اظہارِ ممنونیت کرتے ہیں۔ ہم اسٹیٹ بینک آف پاکستان اور سیکورٹیز اینڈ ایکسچینج کمیشن آف پاکستان کو بھی بینک کے لیے ان کی رہنمائی اور تعاون پر پُر خلوص ہدیہ تحسین پیش کرتے ہیں۔ آخر میں، ہم اپنے رفقاء کے کار، عملے اور ساتھی ملازمین کے بھی تہ دل سے شکر گزار ہیں کہ وہ ہمارے گراں قدر کسٹمرز کو خدمات کی فراہمی کے لیے کوشاں رہے۔

حساب الحکم بورڈ

عرفان وہاب خان
چیئر مین

شاہد مصطفیٰ
صدر/ چیف ایگزیکٹو آفیسر

مقام: کراچی

تاریخ: 29 اپریل 2019

کیا جاسکے۔

- (h) مستقبل میں بھی ایک کامیاب کاروباری ادارے کی حیثیت سے اپنی سرگرمیاں جاری رکھنے کے لیے بینک کی اہلیت پر کوئی نمایاں شکوک و شبہات نہیں ہیں۔
- (i) دوران سال، بورڈ کے آٹھ اجلاس منعقد ہوئے، ان اجلاسوں میں ڈائریکٹرز نے درج ذیل تعداد میں شرکت کی:

ڈائریکٹرز کے نام	عہدہ	اجلاسوں کی تعداد	
		شرکت کے اہل	شرکت کردہ
جناب شاہد مصطفیٰ	چیف ایگزیکٹو	8	8
جناب پیٹر بورفر برگ	چیئر پرسن	8	8
جناب روزنجیرم	ڈائریکٹر	8	8
جناب عرفان وہاب خان	ڈائریکٹر	8	8
جناب ہیٹنگ تھروسن	ڈائریکٹر	8	8
جناب اسلم حیات **	ڈائریکٹر	3	3
محترمہ عظمیٰ خان	ڈائریکٹر	8	8
محترمہ گن انگیمڈسن **	ڈائریکٹر	1	1
جناب کلاس برتھیلسن	ڈائریکٹر	6	6

**یہ ڈائریکٹرز دوران سال مستعفی ہو گئے

- (j) بینک کے عملی اور مالیاتی ڈیٹا کے بارے میں بنیادی معلومات سالانہ رپورٹ میں موجود ہیں۔ کمپنیز ایکٹ 2017 کی جانب سے درکار ملکیت حصص کی کیلنگریز اور ساخت بھی سالانہ رپورٹ میں شامل ہیں۔
- (k) دوران سال ڈائریکٹرز، چیف ایگزیکٹو آفیسر، چیف فنانشل آفیسر، کمپنی سیکریٹری، چیف انٹرنل آڈیٹر اور ان کے شریک حیات اور نابالغ بچوں کی جانب سے بینک کے حصص میں کوئی تجارت نہیں کی گئی۔

آڈٹ کمیٹی

آڈٹ کمیٹی تین ارکان پر مشتمل ہے، جن میں سے دونوں ایگزیکٹو ڈائریکٹرز، جناب روزنجیرم اور جناب ہیٹنگ تھروسن، اور ایک خود مختار ڈائریکٹر، محترمہ عظمیٰ خان (چیئر پرسن) شامل ہیں۔

کریڈٹ ریٹنگ

برائے اختتام سال 2017 کے نتائج کی بنیاد پر، کریڈٹ ریٹنگ کمپنی PACRA/JCR نے ٹیلی نارمانیکرو فنانس بینک لمیٹڈ (TMBL) کی طویل المیعاد ادارہ جاتی درجہ بندی کو "A+" (واحد اے پلس) [سابقہ: "A+"]، جبکہ قلیل المیعاد درجہ بندی کو "A1" (اے ون) پر برقرار رکھا۔

آڈیٹرز

اسٹینڈنٹ برائے کارپوریٹ گورننس

ڈائریکٹریہ بیان کرتے ہوئے خوشی محسوس کرتے ہیں کہ:

(a) بینک کی انتظامیہ کی جانب سے تیار کردہ مالیاتی گوشوارے اپنے معاملات کی صورت حال، اپنی کاروباری سرگرمیوں کے نتائج، کیش فلوز اور ایکویٹی میں تبدیلیوں کو منصفانہ انداز میں پیش کرتے ہیں۔

(b) بینک کے درست بھی کھاتے (پراپرٹس آف اکاؤنٹ) برقرار رکھے گئے ہیں۔

(c) مالیاتی گوشواروں کی تیاری میں مناسب اکاؤنٹنگ پالیسیز کا باقاعدگی سے اطلاق کیا گیا ہے اور اکاؤنٹنگ کے تخمینے معقول اور محتاط اندازوں پر مبنی ہیں۔

(d) ان مالیاتی گوشواروں کو پاکستان میں لاگو ہونے والے اکاؤنٹنگ کے منظور شدہ اسٹینڈرڈز کے مطابق تیار کیا گیا ہے۔ منظور شدہ اکاؤنٹنگ کے اسٹینڈرڈز، اکاؤنٹنگ کے اسٹینڈرڈز کے بین الاقوامی بورڈ (IASB) کی جانب سے جاری کردہ بین الاقوامی مالیاتی رپورٹنگ کے اسٹینڈرڈز (IFRSs) پر مشتمل ہیں، جیسا کہ کمپنیز ایکٹ 2017، کمپنیز ایکٹ 2017 کے ضوابط، مائیکروفنانس انسٹیٹیوٹس آرڈیننس 2001 اور SECP اور SBP کی جانب سے جاری کردہ ضوابط/حکمنا موموں میں بیان کیا گیا ہے۔ جہاں بھی کمپنیز ایکٹ 2017، مائیکروفنانس انسٹیٹیوٹس آرڈیننس 2001 یا SECP اور SBP کی جانب سے جاری کردہ ضوابط/حکمنا موموں کے ضوابط IFRSs کے ضوابط سے متصادم ہوں، تو کمپنیز ایکٹ 2017، مائیکروفنانس انسٹیٹیوٹس آرڈیننس 2001 یا مذکورہ ضوابط/حکمنا موموں کے ضوابط لاگو ہوں گے۔

(e) آڈیٹرز نے اپنی رائے کو مشروط کیے بغیر، حصص مالکان کی توجہ درج ذیل نکات کی جانب مبذول کروائی ہے:

(i) آڈیٹرز نے آڈٹ رپورٹ میں مالیاتی گوشواروں میں موجود سسپنس اکاؤنٹ بیلنس پر زور دیا ہے۔ 31 دسمبر 2018 کو، سسپنس اکاؤنٹ میں 0.936 ملین روپے کا غیر تصفیہ شدہ بیلنس تھا اور اس کا پرافٹ اینڈ لوس اکاؤنٹ میں اندراج کیا گیا تھا۔ مینجمنٹ نے ان اکاؤنٹس کا تصفیہ انجام دیا تاکہ ان کے درست اندراج کو یقینی بنایا جائے اور اگر ضرورت ہو، تو انہیں پرافٹ اینڈ لوس اکاؤنٹ میں شامل کیا جائے۔ اگرچہ یہ معمولی نوعیت کا امر ہے، تاہم بینک کی مینجمنٹ نے طریقہ عمل اور داخلی کنٹرولز میں پیش رفت کی ہے اور اس کے ساتھ ساتھ ٹیکنالوجیکل انفراسٹرکچر کو آپ گریڈ کرنے کا بھی ارادہ رکھتی ہے۔

(ii) آڈیٹرز نے آڈٹ رپورٹ میں غیر فعال قرضوں پر مالیاتی گوشواروں میں موجود اضافی پروویژن پر زور دیا ہے۔ مینجمنٹ نے بعض برانچز میں کریڈٹ انڈر رائٹنگ کے عمل کے دوران مخصوص بے قاعدگیوں کی نشاندہی ہونے پر کثیر غیر فعال قرضہ جاتی خساروں پر محتاط انداز میں پروویژن منجھتس کی ہیں۔ حفاظتی نقطہ نظر سے مینجمنٹ نے ان برانچز کے پورٹ فولیو پر بھی عمومی پروویژن رکھی ہیں جہاں غیر فعال قرضوں میں اضافے کا رجحان پایا گیا۔ مینجمنٹ غیر فعال قرضوں کی شرح کو روکنے کے لئے اور قرضوں کی بروقت واپسی کو یقینی بنانے کے لیے قرض کی فراہمی اور وصولی کے طریقہ کار میں مسلسل تبدیلیاں لارہی ہے۔

(iii) دوران سال، چیف ایگزیکٹو آفیسر کو راکین سے پیشگی قرارداد منظور کی کے بغیر ایڈوائس تنخواہ ادا کی گئی۔ چنانچہ، اس کی توثیق کی جا رہی ہے تاکہ کمپنیز ایکٹ 2017 کی شرائط پر پورا اترتا جا سکے۔

(f) دوران سال، بینک کو 2,516 ملین روپے کا بعد از ٹیکس خسارہ ہوا، جس کی بنیادی وجہ ملک میں ڈیجیٹل شعبے کی تخلیق و پیش رفت کے لیے کسٹمر کی تھمبیلی لاگت میں گزشتہ سال کے مقابلے میں 1,943 ملین روپے کی اضافی سرمایہ کاری شامل تھی۔ علاوہ ازیں، بینک نے حفاظتی دوران دہشتی کے تحت بڑھتی ہوئی ناندہنگی کی شرح کے تناظر میں قرضہ جاتی پورٹ فولیو پر مجوزہ ضوابط کے تحت درکار پروویژن کے مقابلے میں بطور تحفظ 663 ملین روپے کی زائد پروویژن رکھیں۔ اسی حفاظتی دوران دہشتی کے تحت، بینک نے کسٹمر کی تھمبیلی لاگت میں سرمایہ کاری پر خصوصی توجہ جاری رکھنے ہوئے 2018 کے 737 ملین روپے کے مؤخر کردہ ٹیکس اثاثوں کی توثیق نہ کرنے کا فیصلہ کیا ہے۔ ان غیر معمولی معاملات سے قطع نظر، بینک کی عمومی سرگرمیاں بدستور منافع بخش رہیں۔

(g) داخلی کنٹرول کا نظام مستحکم و پائیدار بناوٹ کا حامل ہے اور اس کا مؤثر انداز میں نفاذ اور نگرانی کی جا رہی ہے۔ داخلی کنٹرول کے نظام کی مؤثر پذیری اور اس کی نگرانی کی حتمی ذمہ داری بورڈ پر عائد ہوتی ہے۔ اس مقصد کے لیے ایک آڈٹ کمیٹی تشکیل دی گئی ہے جو میعاد اور آزادانہ بنیاد پر پورا سال انتظامیہ اور اس کے ساتھ ساتھ داخلی اور خارجی آڈیٹرز سے داخلی کنٹرول کے نظام کی مؤثر پذیری اور دیگر مالیاتی رپورٹنگ کے معاملات پر بات کرنے کے لیے ملاقات کرتی ہے۔ اس کے علاوہ، مالیاتی پیشگوئیوں اور بجٹ کنٹرول کے طریقہ کار پر نفاذ ہیں، جن کا پورا سال جائزہ لیا جاتا ہے اور نگرانی عمل میں لائی جاتی ہے، تاکہ بجٹ میں ہونے والی کمی پیشگوئیوں کی نشاندہی اور تجزیہ

پاکستانی روپے پلین میں	مالی سال 2018	مالی سال 2017
نیٹ مارک آپ آمدنی	6,126	4,297
نیٹ مارک آپ آمدنی بعد از پروویژنز	4,740	4,055
قرضہ جات۔ مجموعی	34,188	25,003
ڈپازٹس	42,275	36,665
شرح غیر فعال قرضہ جات	4.10%	1.02%

بینک کے مجموعی اثاثہ جات 62,464 ملین روپے مالیت کے ریکارڈ کیے گئے، جن میں مالی سال 2017 کے مقابلے میں 31.5 فیصد کا اضافہ ہوا۔ بینک کا کیش اور کیش کا مساوی زربھی 2017 کے مقابلے میں 3.4 فیصد سے بڑھ کر 8,075 ملین روپے پر بند ہوا، جبکہ حتمی قرضہ جات 2017 کے مقابلے میں 33.1 فیصد سے بڑھے۔ واجب ادائیگیوں کے حوالے سے، بینک کے ڈپازٹس کے شعبے میں دسمبر 2017 کے مقابلے میں 5,610 ملین روپے (15.3 فیصد) کا اضافہ ہوا، جبکہ 31 دسمبر 2018 کو CASA کی شرح 48.8 فیصد رہی۔

مالی ذخائر میں منتقلی

بینک، سال 2018 میں ہونے والے حتمی خسارے کے باعث، مائیکروفنانس انسٹی ٹیوشن آرڈیننس، 2001 کی جانب سے عائد کردہ ضوابط اور اسٹیٹ بینک آف پاکستان کی جانب سے جاری کردہ محتاط عملی ضوابط کے تحت نہ تو باضابطہ مالی ذخائر (2017 کے دوران 83.351 ملین روپے) اور نہ ہی ڈپازٹرز کے حفاظتی فنڈ (2017 کے دوران 35.464 ملین روپے) میں کوئی رقم جمع کروا سکا۔ بہر حال، ڈپازٹرز کے حفاظتی فنڈ پر منافع کی مدد میں 18.202 ملین روپے منتقل کیے گئے ہیں۔

سرمائے کی موزونیت کا تناسب

31 دسمبر، 2018 کو بینک کا سرمائے کی موزونیت کا تناسب 35.22 فیصد تھا۔

بورڈ آف ڈائریکٹرز کی تشکیل میں تبدیلیاں

ڈائریکٹرز کے استعفوں کے باعث سال 2018 میں غیر باضابطہ سامیاں پیدا ہوئیں، انہیں درج ذیل اشخاص کے ذریعے پُر کیا گیا:

مستعفی ہونے والے ڈائریکٹرز	نئے آنے والے ڈائریکٹرز
جناب محمد اسلم حیات محترمہ گن انگیمنڈسن	جناب خالد قریشی

ملکیتی کمپنی

ٹیلی نار پاکستان بی وی، جو کہ ایسٹرڈیم میں قائم ایک مشترکہ اسٹاک کمپنی ہے، بینک میں 66.32 فیصد ملکیت حصص کے ساتھ ملکیتی کمپنی کی حیثیت رکھتی ہے (2017: 99.99 فیصد)۔ دوران سال، Alipay (ہانگ کانگ) ہولڈنگ لمیٹڈ نے کمپنیز ایکٹ، 2017 کے سیکشن 83 کے تحت مزید سرمائے کے اجراء کے ذریعے بینک میں 33.68 فیصد ملکیت حصص حاصل کی۔

کارپوریٹ گورننس

بینک کا بورڈ آف ڈائریکٹرز، بینک کے نظم و نسق کے لیے حصص مالکان کو جو ابده ہے۔ یہ مستحکم داخلی کنٹرولز کے نظام کی ذمہ داری لیتا ہے اور کارپوریٹ گورننس کے اعلیٰ ترین معیار کو برقرار رکھنے کے لیے کوشاں رہتا ہے۔

ڈائریکٹرز رپورٹ برائے حصص مالکان | 2018

میں انتہائی مسرت کے ساتھ، رپورٹ میں 'بینک' کے نام سے موسوم، ٹیلی نارمانیکروفنانس بینک لمیٹڈ کی ڈائریکٹرز رپورٹ اور آڈٹ شدہ مالیاتی گوشوارے برائے اختتام سال 31 دسمبر، 2018 پیش کر رہا ہوں۔

کارکردگی کا جائزہ

سال 2018 کا ایک بڑا سنگ میل ٹیلی نارگروپ اور آنت (Ant) فنانشل کے درمیان اسٹریٹیجک پارٹنرشپ کا نقطہ عروج تھا؛ ٹیلی نارمانیکروفنانس بینک کی مقامی مارکیٹ میں موجودگی اور نمایاں صارف نمائندگی کے ساتھ آنت کی ٹیکنالوجیکل مہارت کو پاکستان میں موبائل مَنی کے منظر نامے اور مجتمع مالیاتی خدمات کے عروج کے لیے باہم یکجا کیا گیا۔ سال 2018 کے دوران، لیڈرشپ ٹیم کے پانچ نئے ارکان بینک میں شامل ہوئے، اور ادارے نے پراڈکٹ اور سیلز کا اسٹریکچر اختیار کیا؛ یہ تبدیلیاں بینک کے لیے اپنے اہداف کے حصول میں مرکزی اہمیت کی حامل رہیں۔

بینک کے ڈیجیٹل اثرات میں پیش رفت کے اپنے مقصد کو جاری رکھتے ہوئے، بینک اب تقریباً 50,000 بی وی ایس اہلیت کی حامل لوکیشنز رکھتا ہے، جو اسے پاکستان کا سب سے بڑا بی وی ایس نیٹ ورک بناتی ہیں۔ قرض کی فراہمی کے لحاظ سے، بینک نے مالیاتی سال 2018 کے دوران 9.2 بلین روپے کا اضافہ شدہ مجموعی پورٹ فولیو حاصل کیا، جس میں گزشتہ سال کے مقابلے میں 36.7 فیصد کا اضافہ ہوا۔

30 دن ایکٹیو موبائل اکاؤنٹ کے شعبے میں بلحاظ انڈسٹری، 170 فیصد کا بے مثال اضافہ ہوا، اور یوں یہ تعداد سال 2018 کے اختتام پر 3.25 بلین منفرد کسٹمرز تک جا پہنچی۔ آپ کسٹمر کے شعبے نے مالی سال 2017 کے مقابلے میں شاندار 891 فیصد کے اضافے کے ساتھ 0.6 بلین کے ہندسے کو عبور کیا۔ یہ تمام تر پیش رفت پاکستان کے فن ٹیک کے شعبے میں خود کو ایک مضبوط حریف کے طور پر مستحکم کرنے کے لیے موبائل اکاؤنٹ پر بینک کے تجدید یافتہ مطمح نظر کو واضح کرتی ہیں۔

کسٹمرز کی سہولیات میں اضافے کی خاطر اپنے عزم و ارادے کے اظہار کے لیے، 2018 کے پورے سال کے دوران مختلف نئے اقدامات متعارف کروائے گئے۔ چند بڑے اقدامات میں جدید ترین فعالیت اور پہلے سے بہتر استعمال کے ساتھ ہمارے جدید ترین ایزی پیسے آپ کو محدود پیمانے پر متعارف کروانا، ہماری Nano Loan پراڈکٹ کو تجارتی طور پر متعارف کروانا، جو کہ چند منٹوں میں ایزی پیسے موبائل اکاؤنٹ میں فراہم کر دینے والی 10 ہزار روپے تک قرض کی فراہمی، اور کسٹمر تک رسائی کے مراکز میں اضافے کو، براؤنچ اور ریٹیل نیٹ ورک دونوں لحاظ سے پیش کرتی ہے۔ ہمارے استعمال کے پہلو کو مزید مستحکم کرنے کے لیے پاکستان کے اوپن بلاک چین کی حامل بین الاقوامی ترسیل زر کے لیے نمایاں پیش رفت بھی کی گئی۔

کارکردگی کا جائزہ، براؤنچ اور براؤنچ لیس بینکنگ، دونوں طرح سے مارکیٹ میں بینک کی مرکزی حیثیت کو مضبوط کرتا ہے۔

مالیاتی نتائج

مارکیٹ میں ڈیجیٹل پیش رفت میں اضافے کی حکمت عملی کے ساتھ، بینک نے گزشتہ سال کے مقابلے میں اپنے مارکیٹنگ کے اخراجات کو چار گنا بڑھایا ہے اور اس سال 2,520 ملین روپے کی مجموعی مارکیٹنگ کے اخراجات برداشت کیے۔ اس میں کسٹمرز کے لیے سود مند مختلف اشتہاری مہمات اور براؤنچ لیس بینکنگ کے شعبے میں مجموعی کسٹمرز میں اضافے کے لیے رعایتی پیکیجز شامل ہیں۔ براؤنچ لیس بینکنگ کے عمل کی معاونت کے لیے کسٹمر کی دیگر ضمنی تھیلیاتی لاگتوں میں اسی نسبت سے اضافہ ہوا ہے۔

نتیجتاً، بینک کو مذکورہ سال کے دوران 2,114 ملین روپے کا خسارہ قبل از ٹیکس اور 2,516 ملین روپے کا حتمی خسارہ ہوا اور 266 ملین روپے کا حتمی کیش فلو جاری ہوا۔ بینک کی حتمی مارک اپ آمدنی گزشتہ سال کے مقابلے میں 42.6 فیصد سے بڑھ کر 6,126 ملین روپے ریکارڈ کی گئی۔

INDEPENDENT AUDITOR'S REPORT

To the Members of Telenor Microfinance Bank Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the annexed financial statements of **Telenor Microfinance Bank Limited** (“the Bank”), which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan, and give the information required by the Microfinance Institution Ordinance, 2001 and Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at 31 December 2018 and of the profits and other comprehensive income, the changes in equity and its cash flows for the year then ended.

Basis for Opinion

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

Emphasis of Matter

We draw attention to the following notes to the financial statements:

- note 25.1 regarding the reconciliation of certain account balances carried out by the Bank during the year and expense recorded on account of the reconciliation process;

- note 10.6 regarding specific and general provision of Rs. 271 million and Rs. 392 million respectively recorded on delinquent advances identified in certain branches of the Bank due to control overrides and the basis of general provision as more fully explained in that note;
- note 12.2 regarding the loan to an ex-director of the Bank which is not permissible under section 182 of the Companies Act, 2017 and the Prudential Regulations for microfinance banks.

Our opinion is not qualified in respect of these matters.

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

Management is responsible for the other information. The other information comprises the information included in the Bank's Director Report for the year ended 31 December 2018 but does not include the financial statements and our auditor's report thereon.

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

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

Responsibilities of Management and Board of Directors for the Financial Statements

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

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

Board of directors is responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Banks internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of managements use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Banks ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

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

- a) proper books of account have been kept by the Bank as required by the Microfinance Institutions Ordinance, 2001 and Companies Act, 2017 (XIX of 2017);
- b) the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes thereon have been drawn up in conformity with the Microfinance Institution Ordinance, 2001 and Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account;
- c) investments made, expenditure incurred and guarantees extended during the year were in accordance with the objects and powers of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank; and
- d) 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.

Other Matter

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

Date: 30 April 2019

KPMG Taseer Hadi & Co.
Chartered Accountants

Karachi

FINANCIAL STATEMENTS

Balance Sheet

As at 31 December 2018

	Note	2018 (Rupees in '000)	2017 (Rupees in '000)
ASSETS			
Cash and balances with State Bank of Pakistan and National Bank of Pakistan	6	4,210,306	3,497,633
Balances with other banks	7	3,864,399	4,310,776
Lending to financial institutions	8	5,473,364	3,368,059
Investments	9	9,008,445	6,767,309
Advances - net of provisions	10	32,944,819	24,761,653
Operating fixed assets	11	3,001,351	1,729,560
Other assets	12	3,963,292	3,052,877
Deferred tax asset - net	15	-	-
Total assets		62,465,976	47,487,867
LIABILITIES			
Deposits and other accounts	13	42,274,909	36,664,927
Borrowings		-	-
Subordinated debt		-	-
Other liabilities	14	6,369,572	5,805,111
Deferred tax liability - net	15	153,066	12,034
Total liabilities		48,797,547	42,482,072
NET ASSETS		13,668,429	5,005,795
REPRESENTED BY:			
Share capital	16	3,547,269	1,346,939
Reserves		10,412,953	1,405,571
Accumulated profit		(345,238)	2,229,020
		13,614,984	4,981,530
Deficit on revaluation of assets - net of deferred tax	17	(2,359)	(911)
Deferred grants	18	55,804	25,176
		13,668,429	5,005,795
MEMORANDUM / OFF BALANCE SHEET ITEMS	19		

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

Profit and Loss Account

For the year ended 31 December 2018

	Note	2018 (Rupees in '000)	2017
Mark-up / return / interest earned	20	8,721,206	6,063,887
Mark-up / return / interest expensed	21	(2,595,036)	(1,767,054)
Net mark-up / return / interest income		6,126,170	4,296,833
Provision against non-performing loans and advances	10.3	(1,365,385)	(217,003)
Provision for diminution in the value of investments		-	-
Bad debts written off directly	10.4	(21,124)	(24,746)
		(1,386,509)	(241,749)
Net mark-up / return / interest income after provisions		4,739,661	4,055,084
NON MARK-UP / NON INTEREST INCOME			
Fee, commission and brokerage income	22	8,172,650	8,352,400
Dividend income		-	-
Other income	23	214,128	135,108
Total non mark-up / non interest income		8,386,778	8,487,508
		13,126,439	12,542,592
NON MARK-UP / NON INTEREST EXPENSES			
Administrative expenses	24	(14,948,448)	(11,811,976)
Other provisions / write offs	25	(272,601)	(29,549)
Other charges	26	(19,358)	(13,623)
Total non mark-up / non interest expenses		(15,240,407)	(11,855,148)
		(2,113,968)	687,444
Extraordinary / unusual items		-	-
(LOSS) / PROFIT BEFORE TAXATION		(2,113,968)	687,444
Taxation - current	27	(228,444)	(187,365)
- prior	27	(43,233)	(51,272)
- deferred	27	(130,093)	(32,051)
		(401,770)	(270,688)
(LOSS) / PROFIT AFTER TAXATION		(2,515,738)	416,756
OTHER COMPREHENSIVE INCOME			
Items not to be reclassified to profit and loss account in subsequent periods - net of tax		(40,318)	(12,801)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(2,556,056)	403,955
Accumulated profit brought forward		2,229,020	1,943,880
Accumulated (loss) / profit available for appropriation		(327,036)	2,347,835
APPROPRIATIONS:			
Transfer to:			
Statutory reserve		-	(83,351)
Capital reserve		-	-
Depositors' Protection Fund		(18,202)	(35,464)
Contribution to MSDF / DPF / RMF		-	-
Revenue reserve		-	-
Proposed cash dividend		-	-
ACCUMULATED (LOSS) / PROFIT CARRIED FORWARD		(345,238)	2,229,020
			(Rupees)
(Loss) / earnings per share - Basic and diluted	28	(9.64)	1.87

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

Statement of Comprehensive Income

For the year ended 31 December 2018

	Note	2018 (Rupees in '000)	2017
(Loss) / profit after taxation		(2,515,738)	416,756
Other Comprehensive Income			
<i>Item not to be reclassified to profit and loss account in subsequent periods</i>			
Remeasurement loss on defined benefit liability	32.3.4	(28,851)	(18,288)
Tax	15.2	(11,467)	5,487
		(40,318)	(12,801)
Comprehensive (loss) / income for the year transferred to equity		(2,556,056)	403,955
Component of comprehensive income for the year not transferred to equity			
<i>Item that may be reclassified to profit and loss account subsequently on sale</i>			
(Deficit) / surplus on revaluation of 'available for sale' investments	15.2	(1,976)	881
Related tax impact		528	(265)
		(1,448)	616
Total comprehensive (loss) / income for the year		(2,557,504)	404,571

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

Statement of Changes in Equity

For the year ended 31 December 2018

Note	Capital reserves				Total Capital Reserve	Accumulated profit / (loss)	Total
	Share capital	Share premium	Statutory reserve	Depositors' Protection Fund			
Balance as at 1 January 2017	1,346,939	343,469	719,130	224,157	1,286,756	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	(83,351)	-
Transfer to Depositors' Protection Fund **	-	-	-	35,464	35,464	(35,464)	-
Balance as at 31 December 2017	<u>1,346,939</u>	<u>343,469</u>	<u>802,481</u>	<u>259,621</u>	<u>1,405,571</u>	<u>2,229,020</u>	<u>4,981,530</u>
Total comprehensive loss for the year							
Loss after tax for the year	-	-	-	-	-	(2,515,738)	(2,515,738)
Other comprehensive income - net of tax	-	-	-	-	-	(40,318)	(40,318)
	-	-	-	-	-	(2,556,056)	(2,556,056)
Transfer to statutory reserve *	-	-	-	-	-	-	-
Transfer to Depositors' Protection Fund **	-	-	-	18,202	18,202	(18,202)	-
Issue of share capital	16.2 2,200,330	8,989,180	-	-	8,989,180	-	11,189,510
Balance as at 31 December 2018	<u>3,547,269</u>	<u>9,332,649</u>	<u>802,481</u>	<u>277,823</u>	<u>10,412,953</u>	<u>(345,238)</u>	<u>13,614,984</u>

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

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

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

Cash Flow Statement

For the year ended 31 December 2018

	Note	2018 (Rupees in '000)	2017
CASH FLOW FROM OPERATING ACTIVITIES			
(Loss) / profit before taxation		(2,113,968)	687,444
Adjustments for non cash and other items			
Depreciation	24	703,935	403,792
Amortisation	24	63,287	24,224
Provision against non-performing loans and advances	10.3	1,365,385	217,003
Bad debts written off directly	10.4	21,124	24,746
Provision for gratuity	24	155,007	228,898
Amortisation of discount on available for sale securities	20	(424,012)	(383,499)
Loss / (gain) on sale of operating fixed assets	23	57	(9,899)
		1,884,783	505,265
Increase in operating assets			
Lending to financial institutions		(2,105,305)	(3,044,844)
Advances		(9,569,675)	(9,168,154)
Other assets (excluding advance taxation and receivable from defined benefit plan)		(921,894)	(1,185,593)
		(12,596,874)	(13,398,591)
Increase in operating liabilities			
Deposits and other accounts		5,609,982	8,835,147
Other liabilities		587,873	1,893,744
		6,197,855	10,728,891
Income tax paid		(235,840)	(270,656)
Payment against defined benefit plan		(231,627)	(207,070)
Net cash used in operating activities		(7,095,671)	(1,954,717)
CASH FLOW FROM INVESTING ACTIVITIES			
Investment in available for sale securities		(35,534,845)	(38,288,304)
Investment in operating fixed assets		(2,076,363)	(1,141,580)
Proceeds from redemption of available for sale securities		33,715,744	43,473,599
Sale proceeds from disposal of operating fixed assets		37,293	28,233
Net cash (used in) / generated from investing activities		(3,858,171)	4,071,948
CASH FLOW FROM FINANCING ACTIVITIES			
Grant received		30,628	15,315
Issue of share capital		11,189,510	-
Net cash generated from financing activities		11,220,138	15,315
Net increase in cash and cash equivalents		266,296	2,132,546
Cash and cash equivalents at beginning of the year		7,808,409	5,675,863
Cash and cash equivalents at end of the year	29	8,074,705	7,808,409

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

Notes to the Financial Statements

For the year ended 31 December 2018

1 STATUS AND NATURE OF BUSINESS

- 1.1** Telenor Microfinance Bank Limited (the Bank) was incorporated in Pakistan on 01 August 2005 as a public limited company under the Companies Ordinance, 1984 (Repealed with the enactment of the Companies Act, 2017 on May 30, 2017). The Bank obtained microfinance banking license from the State Bank of Pakistan (SBP) on 05 August 2005 to operate on a nationwide basis and received the certificate of commencement of business from the Securities and Exchange Commission of Pakistan (SECP) on 05 September 2005.
- 1.2** The Bank's principal business is to provide Microfinance banking and related services to the poor and 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 2018, the Bank has 103 branches (2017: 85) in operation across all provinces of Pakistan. The Bank's registered office is situated at 15-A, Block 7 & 8, KCHS Union, Karachi.
- 1.3** The Bank is a subsidiary of Telenor Pakistan B.V, a joint stock company based in Amsterdam (the Holding Company) with 66.32% shareholding in the Bank (2017: 99.99%). The ultimate holding company is Telenor ASA, Norway. During the year, Alipay (Hong Kong) Holding Limited acquired 33.68% of the shareholding in the Bank by way of further issue of capital under Section 83 of the Companies Act, 2017.
- 1.4** The credit rating companies PACRA and JCR-VIS have maintained the long term entity rating of the Bank at "A+" and short term rating at "A1" as of 7 November 2018 and 27 April 2018 respectively.

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 the accounting and reporting standards as applicable in Pakistan. Accounting and reporting standards applicable in Pakistan comprise of:
- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;
 - Provisions of and directives issued under the Companies Act, 2017;
 - The Microfinance Institutions Ordinance, 2001, the Prudential Regulations for Microfinance Banks and directives issued by the Securities and Exchange Commission of Pakistan and the SBP.

Where provisions of and directives issued under the Companies Act, 2017, Microfinance Institutions Ordinance, 2001, the Prudential Regulations for Microfinance Banks and directives issued by the Securities and Exchange Commission of Pakistan and the SBP differ with the requirements of the IFRS, the provisions of and directives issued under the Companies Act, 2017, Microfinance Institutions Ordinance, 2001, the Prudential Regulations for Microfinance Banks and directives issued by the Securities and Exchange Commission of Pakistan and the SBP have been followed.

- 3.2** The SBP vide BSD Circular No. 10, dated 26 August 2002 has deferred the applicability of International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement" and International Accounting Standard (IAS) 40, "Investment Property". Further, the SECP has deferred the applicability of International Financial Reporting Standard (IFRS) 7, "Financial Instruments: Disclosures" through its notification S.R.O. 633(I)/2014 dated 10 July 2014. 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 the SBP through various circulars / regulations.

Notes to the Financial Statements

For the year ended 31 December 2018

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 are presented in Pakistani Rupees, which is the Bank's functional and presentation currency.

4.3 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 01 January 2018 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;

In addition, Companies Act, 2017 also became effective for the financial statements for the year ended 31 December 2018. As the Bank's financial statements are prepared in accordance with the format prescribed by SBP, it did not have a direct impact on the financial statements except for the disclosure of related parties transactions as required by fifth schedule of Companies Act, 2017. The definition of related parties as given in IAS 24, "Related parties" has been followed.

4.4 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 1 January 2019:

- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 1 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 an impact on the Bank's financial statements.
- IFRS 15 'Revenue from contracts with customers' (effective for annual periods beginning on or after July 1, 2018). IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. 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 assessing the impact of this standard on its financial statements.
- IFRS 16 'Leases' (effective for annual period beginning on or after 1 January 2019). IFRS 16 replaces existing leasing guidance, including IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases- Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. IFRS 16 introduces a single, on-statement of financial position lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases. The Bank is currently in the process of assessing the impact of this standard on its financial statements.
- Amendment to IFRS 3 'Business Combinations' – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of annual period beginning on or after 1 January 2020). The IASB has issued amendments aiming to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments include an election to use a concentration test. The standard is effective for transactions in the future and therefore would not have an impact on past financial statements.

Notes to the Financial Statements

For the year ended 31 December 2018

- IFRS 9 'Financial Instruments' and amendment – Prepayment Features with Negative Compensation (effective for annual periods ending on or after 30 June 2019 and 1 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 in the process of assessing the impact of this standard on its financial statements.
- Amendment to IAS 28 'Investments in Associates and Joint Ventures' – Long Term Interests in Associates and Joint Ventures (effective for annual period beginning on or after 1 January 2019). The amendment 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 amendments are not likely to have an impact on the Bank's financial statements.
- Amendments to IAS 19 'Employee Benefits' – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income. The application of amendments is not likely to have an impact on the Bank's financial statements.
- Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' (effective for annual periods beginning on or after 1 January 2020). The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. In addition, the IASB has also issued guidance on how to make materiality judgements when preparing their general purpose financial statements in accordance with IFRS Standards.
- Annual Improvements to IFRS Standards 2015–2017 Cycle – the improvements address amendments to following approved accounting standards:
 - IFRS 3 'Business Combinations' and IFRS 11 'Joint Arrangement' – 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 clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised 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 effective from annual period beginning on or after 1 January 2019 and are not likely to have an impact on the Bank's financial statements.

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 Cash and cash equivalents

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

Notes to the Financial Statements

For the year ended 31 December 2018

5.2 Lendings to financial institutions

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

5.3 Investments

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

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.

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 investments, which are either acquired for the purpose of generating profit from short-term fluctuations in prices or dealer's margin or are securities included in the portfolio in which a pattern of short-term profit making exists.

After initial measurement, such investments are carried at fair value and the surplus / (deficit) arising as a result of revaluation is taken to the profit and loss account in accordance with the requirements prescribed by SBP.

Held-to-maturity

These are investments with fixed or determinable payments and fixed maturities which the Bank has the intention and ability to hold till maturity. After initial measurement, such investments are carried at amortised cost, less provision for impairment in value, if any, and amortised cost is calculated taking into account effective interest rate method. Profit on held to maturity investments is recognised on a time proportion basis taking into account effective yield on the investments.

Available-for-sale

These are investments which do not fall under the held-for-trading and held-to-maturity categories. After initial measurement, such investments are measured at fair value. 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.

Impairment

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

5.4 Advances

Advances are stated net of specific and general provisions which are determined on the basis of the Prudential Regulations for Microfinance Banks (the Prudential Regulations) issued by SBP and general provisions as explained below. Advances are written off according to the Prudential Regulations or when there is no realistic prospect of

Notes to the Financial Statements

For the year ended 31 December 2018

recovery. These regulations prescribe a time based criteria for classification of non-performing advances into the following categories:

a) Other Assets Especially Mentioned (OAEM)

These are advances in arrears (payment / instalments overdue) of 30 days or more but less than 60 days.

b) Substandard

These are advances in arrears (payment / instalments overdue) for 60 days or more but less than 90 days.

c) Doubtful

These are advances in arrears (payment / instalments overdue) for 90 days or more but less than 180 days.

d) Loss

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

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

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

In addition, a general provision is made in accordance with the requirements of the Prudential Regulations equivalent to 1% of the net outstanding balance (advances net of specific provisions) for potential loan losses. The Bank also recognises general provisions in addition to the above general provisions when the circumstances indicate delinquency in the portfolio.

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

Under exceptional circumstances, the management reschedules repayment terms for clients who have suffered catastrophic events and who appear willing and able to fully repay their loans. Such rescheduling does not have any effects on the classification of the loan as per the Prudential Regulations.

5.5 Operating fixed assets

5.5.1 Property and equipment

These are stated at cost less accumulated depreciation and accumulated impairment losses (if any). Cost includes expenditure that are directly attributable to the acquisition of items. Depreciation is charged using the straight-line basis over the estimated useful lives of assets. 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

Notes to the Financial Statements

For the year ended 31 December 2018

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.

5.5.2 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.

5.5.3 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 (on cost less residential value, if any), whereby the cost of the intangible asset is amortised on the basis of the estimated useful life over which economic benefits are expected to flow to the Bank. The residual value, useful life and amortisation method is reviewed and adjusted, if appropriate, at each balance sheet date.

5.6 Impairment

5.6.1 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 recognised in the 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 recognised as income.

5.6.2 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 recognised in the profit and loss account.

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

5.7 Financial instruments

5.7.1 Financial assets and financial liabilities

All financial assets and 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

Notes to the Financial Statements

For the year ended 31 December 2018

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 the profit and loss account.

5.7.2 Off setting

Financial assets and financial liabilities are off-set and the net amount is reported in the balance sheet when there is a legally enforceable right to off-set the recognised amounts and the Bank intends to settle either on a net basis, or to realise the assets and to settle the liabilities simultaneously.

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

5.8 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.

5.9 Borrowings

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.

5.10 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.

5.11 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.

5.12 Staff retirement benefits

5.12.1 Defined benefit plan

The Bank operates a funded gratuity scheme for its eligible permanent employees. Provision is made in these financial statements based on the actuarial valuation carried out on the balance sheet date (31 December 2018) using the projected unit credit method. When the calculation results in a potential asset for the Bank, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reduction in future contribution to the plan (if material). The above benefits are payable to staff at the time of separation / retirement from the Bank's services subject to the completion of qualifying period of service. Remeasurement component which is the net of actuarial gains and losses is recognized immediately in other comprehensive income where as service cost and net interest income / expense are charged to the profit and loss account.

Notes to the Financial Statements

For the year ended 31 December 2018

5.12.1 Defined contribution plan

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

5.13 Revenue recognition

- Mark-up / return / interest earned on advances, investments and bank balances is recognised on a time proportion basis, except in the case of advances classified under the Prudential Regulations on which mark-up is recognised on receipt basis.
- Gain or loss on sale of securities is accounted for in the period in which the sale / settlement occurs.
- Fee, commission and 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 then financial services have been rendered.

5.14 Taxation

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

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 statement of financial position 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.

5.15 Foreign currency transactions

Foreign currency transactions are translated into Pakistani Rupees (functional currency) using the exchange rate prevailing at the date of transactions. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees using the exchange rate prevailing at the reporting date. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translations of monetary assets and liabilities denominated in foreign currencies at reporting date are included in the profit and loss account.

5.16 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 2018.

Notes to the Financial Statements

For the year ended 31 December 2018

5.17 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.

5.18 Statutory reserve

The Bank is required under the Microfinance Institutions Ordinance, 2001 to maintain a statutory reserve to which an appropriation equivalent to 20% of the annual after tax profit is made till such time the reserves are equal to paid-up capital and thereafter 5% of profit after taxes.

5.19 Depositors' protection fund

The Bank is required under the Microfinance Institutions Ordinance, 2001 to contribute 5% of its annual after tax profit to the Depositors' protection fund for the purpose of providing security or guarantee to persons depositing money in the Bank and profits earned on the investments of the fund shall be credited to the depositors' protection fund and such fund shall either be invested in Government securities or deposited with State Bank in a remunerative account.

5.20 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 5.3 and 9)

Held-to-maturity

As described in note 5.3, held-to-maturity securities are investments where the management has positive intent and ability to hold to maturity. The classification of these securities involves management judgment as to whether the financial assets are held-to-maturity investments. Impairment loss in respect of investments is recognised based on management's assessment.

Held-for-trading

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

Available-for-sale

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

ii) Provision against advances (notes 5.4 and 10)

The basis of provision against the non-performing portfolio are as mentioned in note 5.4. However, the actual results may differ, as provision is made on an estimated basis as per the guidelines given by SBP.

iii) Current and deferred taxation (notes 5.14)

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.

Notes to the Financial Statements

For the year ended 31 December 2018

iv) Provision for staff retirement benefits (notes 5.12)

The key actuarial assumptions concerning the valuation of the defined benefit plan and the sources of estimation are disclosed in note 32 to these financial statements.

v) Fixed assets, depreciation and amortisation (notes 5.5)

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)	Note	2018		2017	
			(Rupees in '000)			
	Cash in hand - local currency		1,094,817		1,508,998	
	Balance with State Bank of Pakistan - current account		3,013,734		1,882,288	
	Balance with National Bank of Pakistan - current account		101,755		106,347	
		6.1	3,115,489		1,988,635	
			<u>4,210,306</u>		<u>3,497,633</u>	

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	Note	2018		2017	
			(Rupees in '000)			
	In Pakistan					
	- Current accounts		51,891		16,046	
	- PLS deposit accounts	7.1 & 19.2.1	3,212,508		1,894,730	
	- Fixed term deposits	7.2	600,000		2,400,000	
			<u>3,864,399</u>		<u>4,310,776</u>	

7.1 This represents demand deposits with various commercial banks carrying mark-up at rates ranging from 8% to 11.45% (2017: 4% to 6.10%) per annum.

7.2 This represents fixed term deposit with a commercial bank carrying mark-up rate of 11.5% (2017: 6.25% to 6.50%) per annum and having maturity in January 2019 (2017: January 2018).

8	LENDINGS TO FINANCIAL INSTITUTIONS	Note	2018		2017	
			(Rupees in '000)			
	Repurchase agreement lendings (reverse repo)	8.1	3,973,364		1,368,059	
	Call money lendings - unsecured	8.2	1,500,000		2,000,000	
			<u>5,473,364</u>		<u>3,368,059</u>	

8.1 This represents reverse repo transactions carrying mark-up at rates ranging from 10.10% to 10.25% (2017: 5.85% to 5.86%) per annum and having maturity in January 2019 (2017: January 2018).

8.2 These represent call money lendings to a commercial bank carrying mark-up rate of 10.25% (2017: 5.85% to 5.90%) per annum and having maturity in January 2019 (2017: January 2018).

Notes to the Financial Statements

For the year ended 31 December 2018

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

	2018			2017		
	Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
----- (Rupees in '000) -----						
Market treasury bills (face value)	4,000,000	-	4,000,000	1,375,000	-	1,375,000

Fair value of the above securities as at year end amounted to Rs. 3,975 million (2017: Rs. 1,369 million).

9 INVESTMENTS

	Note	2018 (Rupees in '000)	2017 (Rupees in '000)
Federal Government Securities - available-for-sale			
Market Treasury Bills	9.1	9,011,722	6,768,610
Deficit on revaluation of investments	17	(3,277)	(1,301)
		<u>9,008,445</u>	<u>6,767,309</u>

9.1 These carry interest rates ranging from 8.75% to 10.35% (2017: 5.94% to 6.05%) per annum, having maturities upto March 2019 (2017: March 2018). These securities have an aggregate face value of Rs. 9,098 million (2017: Rs. 6,800 million).

10 ADVANCES - net of provisions

Loan Type	Note	2018		2017	
		Number of loans outstanding	(Rupees in '000)	Number of loans outstanding	(Rupees in '000)
Micro credit					
- Secured		99,736	6,965,111	104,377	7,030,686
- Unsecured	10.1.1	594,705	27,222,439	431,036	17,971,827
		<u>694,441</u>	<u>34,187,550</u>	<u>535,413</u>	<u>25,002,513</u>
Less: Provision held					
- Specific	10.1 & 10.6	31,608	(572,968)	3,076	(61,759)
- General	10.2	-	(669,763)	-	(179,101)
	10.3		(1,242,731)		(240,860)
Advances - net of provisions			<u>32,944,819</u>		<u>24,761,653</u>

10.1 Particulars of non-performing advances

	2018			Provision required	Provision held
	Amount outstanding		Total		
	Secured	Unsecured			
----- (Rupees in '000) -----					
Other Assets Especially Mentioned (OAEM)	23,588	386,751	410,339	-	-
Substandard	15,942	262,660	278,602	65,665	65,665
Doubtful	4,092	341,162	345,254	170,581	170,581
Loss	30,956	336,722	367,678	336,722	336,722
	<u>74,578</u>	<u>1,327,295</u>	<u>1,401,873</u>	<u>572,968</u>	<u>572,968</u>

Notes to the Financial Statements

For the year ended 31 December 2018

	2017			Provision required	Provision held
	Amount outstanding		Total		
	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>

10.1.1 Advances include Rs.1,401.873 million (2017: Rs.256.738 million) which have been placed under non-performing status.

10.2 This includes general provision of Rs. 266 million equivalent to 1% of the net outstanding unsecured advances (advances net of specific provision) held in accordance with the requirements of the Prudential Regulations for Microfinance Banks and Rs. 392 million as explained in detail in note 10.6.

10.3 Particulars of provision against non-performing advances

Note	2018			2017		
	Specific	General	Total	Specific	General	Total
----- (Rupees in '000) -----						
Opening balance	61,759	179,101	240,860	10,868	99,202	110,070
Charge for the year	984,657	490,662	1,475,319	172,951	79,899	252,850
Reversals	(109,934)	-	(109,934)	(35,847)	-	(35,847)
	<u>874,723</u>	<u>490,662</u>	<u>1,365,385</u>	<u>137,104</u>	<u>79,899</u>	<u>217,003</u>
Amount written off	(363,514)	-	(363,514)	(86,213)	-	(86,213)
Closing balance	<u>572,968</u>	<u>669,763</u>	<u>1,242,731</u>	<u>61,759</u>	<u>179,101</u>	<u>240,860</u>

10.4 Particulars of write offs

Against provisions
Directly charged to the profit and loss account

2018	2017
(Rupees in '000)	
363,514	86,213
21,124	24,746
<u>384,638</u>	<u>110,959</u>

10.5 Pursuant to the prevailing drought conditions in the Sindh region, the Government of Sindh identified and declared 513 Dehs as 'Calamity Affected Areas' and requested the State Bank of Pakistan (SBP) to provide relief to the borrowers in these areas.

In response to the request of the Government of Sindh, the SBP vide its letter AC&MFD/MFPD/74073/2018-24664 dated November 8, 2018, advised all scheduled and microfinance banks to take possible measures to provide relief to the adversely affected borrowers in line with the Prudential Regulation - 9 : 'Rescheduling / restructuring of loans'.

In continuation to the aforementioned letter, the SBP vide its letter AC&MFD/MFPD/MFB/8865 & 11606/2019-6723 dated March 21, 2019, specifically advised all microfinance banks to defer provisioning for a period upto one year, against loans and advances restructured / rescheduled in calamity affected areas after November 8, 2018. Furthermore, the loan will again be classified in the same category it was in at the time of rescheduling / restructuring and the unrealised markup on such loans taken to profit and loss account shall also be reversed where a borrower subsequently defaults (either in principal or markup) after the rescheduled / restructured loan (eligible as above) has been declassified by the microfinance bank.

Accordingly starting from November 2018, the Bank has restructured / rescheduled loans amounting to Rs. 115 million as at 31 December 2018 to performing status and has deferred the provisioning on the same

Notes to the Financial Statements

For the year ended 31 December 2018

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	Cost	Accumulated depreciation	Written down value	Sale proceeds	Gain / (loss)	Mode of disposal	Particulars of buyers
	----- (Rupees in '000) -----						
Motor vehicle - Toyota Corolla	1,785	1,522	263	263	-	Bank's Policy	Employee
Motor vehicle - Toyota Landcruiser Jeep	6,000	4,333	1,667	1,667	-	Bank's Policy	Employee
Motor vehicle - Toyota Corolla	1,882	1,035	847	973	126	Bank's Policy	Ex - employee
Motor vehicle - Toyota Corolla	1,882	1,098	784	1,035	251	Bank's Policy	Employee
Motor vehicle - Honda Civic	2,669	1,424	1,245	1,246	1	Bank's Policy	Employee
Motor vehicle - Suzuki Cultus	1,043	1,043	-	-	-	Bank's Policy	Employee
Motor vehicle - Honda Civic Automatic	2,657	1,904	753	797	44	Bank's Policy	Ex - employee
Motor vehicle - Honda Civic Automatic	2,657	1,948	709	753	44	Bank's Policy	Employee
Motor vehicle - Toyota Corolla	1,694	680	1,014	1,016	2	Bank's Policy	Ex - employee
Motor vehicle - Toyota Corolla	1,714	1,714	-	-	-	Bank's Policy	Employee
Motor vehicle - Hino Truck	1,633	1,225	408	777	369	Auction	Mr. Haider Ali
Motor vehicle - Hino Truck	1,650	1,237	413	713	300	Auction	Mr. Haider Ali
Motor vehicle - Hino Truck	1,650	1,237	413	724	311	Auction	Mr. Haider Ali
Motor vehicle - Toyota Hilux	3,487	2,615	872	1,571	699	Auction	Mr. Muhammad Javeed
Motor vehicle - Shehzore	1,264	948	316	531	215	Auction	Syed Shehnaz Ul Hassan
Motor vehicle - Hino Truck	2,517	1,888	629	995	366	Auction	Phoenix Armour (Private) Limited
Motor vehicle - Hino Truck	2,517	1,888	629	1,001	372	Auction	Phoenix Armour (Private) Limited
Motor vehicle - Toyota Hilux	2,619	1,964	655	816	161	Auction	Phoenix Armour (Private) Limited
Motor vehicle - Shehzore	2,806	1,298	1,508	2,021	513	Auction	Mr. Mohammad Umer Shamshad
Motor vehicle - Shehzore	2,806	1,298	1,508	1,941	433	Auction	Mr. Mohammad Umer Shamshad
Motor vehicle - Shehzore	3,715	1,393	2,322	1,300	(1,022)	Auction	Fauji Security Service Private Limited
Motor vehicle - Toyota Hilux	2,841	923	1,918	1,400	(518)	Auction	Fauji Security Service Private Limited
Motor vehicle - Toyota Hilux	3,829	-	3,829	1,800	(2,029)	Auction	Phoenix Armour (Private) Limited
Motor vehicle - Van	716	411	305	512	207	Auction	Mr. Owais Muhammad
Motor vehicle - Van	706	397	309	477	168	Auction	Mr. Mohsin Mumtaz
Motor vehicle - Van	740	370	370	542	172	Auction	Mr. Mohsin Mumtaz
Motor vehicle - Van	706	344	362	532	170	Auction	Mr. Qurban Ali
Motor vehicle - Van	706	335	371	513	142	Auction	Mr. Asmat Khan Sherani
Motor vehicle - Van	706	335	371	552	181	Auction	Seven Star CNG
Motor vehicle - Van	706	335	371	517	146	Auction	Mr. Owais Muhammad
Motor vehicle - Suzuki Bolan	716	278	438	550	112	Auction	Mr. Mohsin Ahmed Khan
Motor vehicle - Suzuki Bolan	716	278	438	537	99	Auction	Mr. Mohsin Mumtaz
Motor vehicle - Suzuki Bolan	717	215	502	511	9	Auction	Mr. Asmat Khan Sherani
2018	64,452	37,913	26,539	28,583	2,044		
2017	33,149	17,290	15,859	19,782	3,923		

11.2 Intangible assets

Note	2018								
	Cost			Amortisation			Book value		Rate of amortisation per annum (%)
	As at 1 January 2018	Additions	As at 31 December 2018	As at 1 January 2018	Charge for the year	As at 31 December 2018	As at 31 December 2018		
	----- (Rupees in '000) -----								
Computer software	207,013	413,899	620,912	137,368	63,287	200,655	420,257	33	
	2017								
	Cost			Amortisation			Book value		Rate of amortisation per annum (%)
	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		
	----- (Rupees in '000) -----								
Computer software	141,431	65,582	207,013	113,144	24,224	137,368	69,645	33	

11.2.1 Intangible assets include software costing Rs.114.756 million (2017: Rs.101.900 million) which are fully amortised and still in use.

11.2.2 This mainly includes data base licenses amounting to Rs 191.573 million.

Notes to the Financial Statements

For the year ended 31 December 2018

11.3	Note	2018 (Rupees in '000)	2017 (Rupees in '000)
Civil works		38,990	23,204
Advance for equipments		160,072	9,487
Advance to suppliers		-	4,057
Licenses / intangibles		136,825	23,079
		<u>335,887</u>	<u>59,827</u>
12 OTHER ASSETS			
Mark-up / return / interest accrued		1,878,603	1,154,145
Receivable from branchless banking agents	12.1	468,575	534,900
Loans to employees	12.2	307,193	298,762
Security deposits		42,389	38,610
Prepayments - rent		96,432	101,627
Prepayments - others		16,621	8,488
Receivable from defined benefit plan	32.4	24,358	-
Branchless banking transaction fee receivable	12.3	819,636	675,960
Advance tax - net	12.4	28,535	64,372
Receivable from SBP against livestock insurance		25,473	44,571
Receivable from SBP against international remittances		4,168	7,007
Advance sales tax		337,954	113,014
Others		128,073	71,084
		<u>4,178,010</u>	<u>3,112,540</u>
Less: Provision held against other assets	25	<u>(214,718)</u>	<u>(59,663)</u>
		<u>3,963,292</u>	<u>3,052,877</u>

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.

12.2 This represents advance against salaries to staff and executives of the Bank for a maximum period of 36 months. These are secured against the retirement benefits of employees. This includes advance salary of Rs. 10.02 million due from the ex-Chief Executive Officer of the Bank, repayable in 2 years. Under the Companies Act, 2017 a company shall not make a loan to a director unless the transaction has been approved by a resolution of the members of the company. It also stipulates that this restriction shall not apply to a company which in the ordinary course of its business provides loans. However, the Bank is cognisant of the fact that approval of the members was not taken at the time of disbursement of advance salary of Rs. 12 million as disbursement of this category of loan and of this amount is not considered as disbursement in the ordinary course of business. Besides interest if charged is not considered to be material. In addition, under the Prudential Regulations for microfinance banks, no exposure can be taken on its directors. Nonetheless, the Bank intends to settle this amount through adjustment against his dues.

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

	2018 (Rupees in '000)	2017 (Rupees in '000)
Receivable from Benazir Income Support Program (BISP)	497,570	475,374
Commission receivable from utility companies	100,606	60,796
Commission receivable from insurance companies	131,115	88,520
Commission on disbursement services from financial institutions	41,249	18,523
Receivable from Federal and Provincial Government	36,708	19,413
Others	12,388	13,334
	<u>819,636</u>	<u>675,960</u>

Notes to the Financial Statements

For the year ended 31 December 2018

	2018 (Rupees in '000)	2017 (Rupees in '000)
12.4 Movement in Advance tax - net		
Balance as at 1 January	64,372	32,353
Taxes paid during the year	235,840	270,656
Provision for taxation	(271,677)	(238,637)
Balance as at 31 December	<u>28,535</u>	<u>64,372</u>

Refer note 19.1.1 and 19.1.2 also for the tax related matters.

13 DEPOSITS AND OTHER ACCOUNTS	2018		2017	
	Number	(Rupees in '000)	Number	(Rupees in '000)
Current deposits	9,007,655	11,036,931	7,929,932	14,366,579
Fixed deposits	10,994	21,631,302	10,039	18,125,078
Saving deposits	179,797	9,606,676	182,524	4,173,270
	<u>9,198,446</u>	<u>42,274,909</u>	<u>8,122,495</u>	<u>36,664,927</u>

13.1 Particulars of deposits by ownership	2018		2017	
	Number	(Rupees in '000)	Number	(Rupees in '000)
Individual depositors	9,197,359	22,956,738	8,121,511	24,529,096
Institutional depositors				
- Corporations / firms etc.	961	8,911,254	863	5,838,150
- Banks / financial institutions	126	10,406,917	121	6,297,681
	<u>9,198,446</u>	<u>42,274,909</u>	<u>8,122,495</u>	<u>36,664,927</u>

14 OTHER LIABILITIES	Note	2018 (Rupees in '000)	2017 (Rupees in '000)
Mark-up / return / interest payable		280,058	286,931
Accrued expenses	14.1	2,825,399	1,535,161
Commission payable - branchless banking	24.1	133,490	118,845
Provision for staff bonus		350,698	246,530
Withholding tax payable (subsequently paid)		76,137	63,396
Payable to defined contribution plan		63,873	12,661
Payable to defined benefit plan	32.4	-	23,411
Payable to Worker's Welfare Fund	14.2	102,453	102,453
Bills payable		413,446	289,211
Switch settlement liability		274,392	1,297,454
Payable against branchless banking transactions	14.3	1,678,802	1,632,897
Others		170,824	196,161
		<u>6,369,572</u>	<u>5,805,111</u>

Notes to the Financial Statements

For the year ended 31 December 2018

- 14.1 This includes payable to Telenor Pakistan (Private) Limited against a service level agreement amounting to Rs. 185 million (2017: Rs. 497 million) and purchase of GSM bundles for customers incentives relating to branchless banking business amounting to Rs. 514 million (2017: Nil), rent amounting to Rs. 98 million (2017: Rs. 123 million) and outsourcing of call center amounting to Rs. 106 million (2017: Rs. 63 million). It also includes an amount of Rs. 17 million (2017: Rs. 9.2 million) payable to Telenor Group financial services against the maintenance of branchless banking software.
- 14.2 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.

During the period, the bank was served with an order from Sindh Revenue Board (SRB), claiming the SWWF contribution for tax year 2017 and subsequently the bank has obtained a stay order from Sindh High court against said tax demand. However the bank has continued to maintain the full provision of previous years on prudent basis.

- 14.3 This includes Rs. 502.953 million (2017: Rs. 360.821 million) outstanding since more than one year in respect of 'over the counter' transactions. Total amount due under this category of transactions as at the year end amounted to Rs. 1,009.85 million (2017: Rs. 972.72 million).

Remaining balance includes Rs. 347.981 million (2017: Rs. 337.246 million) due to utility companies on account of collections on their behalf. It also includes Rs. 343.787 million (2017: Rs. 302.249 million) due to Telenor Pakistan (Private) Limited (a related party) on account of payments made on behalf of the Bank.

- 14.4 Reconciliation of movement of liabilities to cash flows arising from financing activities

	2018						Total
	Liabilities		Equity				
	Deposits and other accounts	Other liabilities	Share capital	Reserves	Accumulated profit / (loss)	Deferred grant and deficit on revaluation of investments	
----- (Rupees in '000) -----							
Balance as at 1 January 2018	36,664,927	5,805,111	1,346,939	1,405,571	2,229,020	24,265	47,475,833
Changes from financing cash flows							
Issuance of share capital	-	-	2,200,330	8,989,180	-	-	11,189,510
Other changes - liability related							
Changes in deposits and other accounts	5,609,982	-	-	-	-	-	5,609,982
Changes in other liabilities	-	564,461	-	-	-	-	564,461
Changes in deficit on revaluation of assets	-	-	-	-	-	(1,448)	(1,448)
Changes in deferred grants	-	-	-	-	-	30,628	30,628
Total liability related to other changes	5,609,982	564,461	-	-	-	29,180	6,203,623
Total equity related other changes	-	-	-	-	(2,556,056)	-	(2,556,056)
Balance as at 31 December 2018	42,274,909	6,369,572	3,547,269	10,394,751	(327,036)	53,445	62,312,910

Notes to the Financial Statements

For the year ended 31 December 2018

	2017						Total
	Liabilities		Equity				
	Deposits and other accounts	Other liabilities	Share capital	Reserves	Accumulated profit	Deferred grant and deficit on revaluation of investments	
----- (Rupees in '000) -----							
Balance as at 1 January 2017	27,829,780	3,887,957	1,346,939	1,286,756	1,943,880	8,334	36,303,646
Changes from financing cash flows	-	-	-	-	-	-	-
Other changes - liability related							
Changes in deposits and other accounts	8,835,147	-	-	-	-	-	8,835,147
Changes in other liabilities	-	1,917,154	-	-	-	-	1,917,154
Changes in deficit on revaluation of assets	-	-	-	-	-	616	616
Changes in deferred grants	-	-	-	-	-	15,315	15,315
Total liability related changes	8,835,147	1,917,154	-	-	-	15,931	10,768,232
Total equity related other changes	-	-	-	118,815	285,140	-	403,955
Balance as at 31 December 2017	36,664,927	5,805,111	1,346,939	1,405,571	2,229,020	24,265	47,475,833

15 DEFERRED TAX ASSET / (LIABILITY) - net

15.1 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 (investments)
- Remeasurment of defined benefit liability
- Other provisions / write-off

Taxable temporary differences

- Accelerated tax depreciation allowance

	2018	2017
	(Rupees in '000)	
	-	72,258
	918	390
	-	11,467
	-	17,899
	918	102,014
	(153,984)	(114,048)
	(153,066)	(12,034)

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

	Balance as at 1 January 2017	Recognised in statement of profit or loss	Recognised in other comprehensive income	Deficit on revaluation of assets	Balance as at 31 December 2017	Recognised in statement of profit or loss	Recognised in other comprehensive income	Deficit on revaluation of assets	Balance as at 31 December 2018
----- (Rupees in '000) -----									
Deductible temporary differences arising in respect of:									
- Provision against non-performing advances	33,021	39,237	-	-	72,258	(72,258)	-	-	-
- Deficit on revaluation of assets	655	-	-	(265)	390	-	-	528	918
- Remeasurment of defined benefit liability	5,980	-	5,487	-	11,467	-	(11,467)	-	-
- Other provisions / write off	11,219	6,680	-	-	17,899	(17,899)	-	-	-
	50,875	45,917	5,487	(265)	102,014	(90,157)	(11,467)	528	918
Taxable temporary differences arising in respect of:									
- Accelerated tax depreciation allowance	(36,080)	(77,968)	-	-	(114,048)	(39,936)	-	-	(153,984)
	14,795	(32,051)	5,487	(265)	(12,034)	(130,093)	(11,467)	528	(153,066)

15.3 As a matter of prudence, the Bank has not recorded deferred tax asset of Rs. 114 million, Rs. 382.3 million, Rs. 259.24 million and Rs. 43.415 million on deductible temporary differences representing taxable business losses of Rs 407.2 million, loan losses of Rs. 1,365.4 million, unabsorbed tax depreciation of Rs. 925.85 million and provisions against other assets of Rs. 155.055 million respectively. Further, the Bank during the year decided to derecognize deferred tax asset of Rs. 72.26 million on provision against non-performing loans, Rs. 11.467 million on remeasurement of defined benefit liability and Rs. 17.9 million on provisions against other assets.

Notes to the Financial Statements

For the year ended 31 December 2018

16 SHARE CAPITAL

16.1 Authorised share capital

	2018 (Number of shares in '000)	2017 (Number of shares in '000)		Note	2018 (Rupees in '000)	2017 (Rupees in '000)
	<u>450,000</u>	<u>270,000</u>	Ordinary shares of Rs.10 each	16.1.1	<u>4,500,000</u>	<u>2,700,000</u>

16.1.1 During the year, the shareholders of the Bank in their Annual General Meeting (AGM) held on 27 April 2018, passed a special resolution and approved the increase in authorised share capital of the Bank from Rs. 2.7 billion to Rs. 4.5 billion divided into 450 million shares of Rs. 10 each.

16.2 Issued, subscribed and paid-up share capital

	2018 (Number of shares in '000)	2017 (Number of shares in '000)		Note	2018 (Rupees in '000)	2017 (Rupees in '000)
	<u>354,727</u>	<u>134,694</u>	Ordinary shares of Rs.10 each fully paid in cash		<u>3,547,269</u>	<u>1,346,939</u>

16.3 Reconciliation of number of shares outstanding

Number of shares outstanding at the beginning of the year					134,694	134,694
Issuance of right shares				16.3.1	147,001	-
Issuance of shares otherwise than right				16.3.2	73,032	-
Number of shares outstanding at the ending of the year					<u>354,727</u>	<u>134,694</u>

16.3.1 These shares have been subscribed by Telenor Pakistan B.V.

16.3.2 These shares have been subscribed by Alipay (Hong Kong) Holding Limited at a premium of Rs. 123 above par. In addition, Telenor Pakistan B.V. transferred 46,427,493 shares to Ali pay (Hong Kong) Holding Limited. Accordingly, as at 31 December 2018, Ali pay (Hong Kong) Holding Limited held 33.68% stake in the Bank.

Remaining shares are held by Telenor Pakistan B.V., based in Amsterdam, Netherland.

17 DEFICIT ON REVALUATION OF ASSETS - net of deferred tax

		Note	2018 (Rupees in '000)	2017 (Rupees in '000)
Available-for-sale investments				
Federal Government Securities			(3,277)	(1,301)
Related deferred tax effect		15	918	390
			<u>(2,359)</u>	<u>(911)</u>

18 DEFERRED GRANTS

Grant received from

State Bank of Pakistan	18.1	1,426	1,426
Consultative Group to Assist the Poor	18.2	3,347	3,347
Soros Economic Development Fund	18.3	149	149
The Aga Khan Agency for Microfinance	18.4	64	64
Financial Sector Strengthening Programme	18.5	219	219
Frankfurt School of Management	18.6	2,451	2,451
GSMA Mobile for Development Foundation Inc (GSMA Foundation)	18.7	2,205	2,205
Karandaaz Pakistan	18.8	45,943	15,315
		<u>55,804</u>	<u>25,176</u>

Notes to the Financial Statements

For the year ended 31 December 2018

- 18.1 Represents USD grant received from the SBP under the Institutional Strengthening Fund of the Financial Inclusion Program (FIP) sponsored by Department of International Development - UK for the inclusive economic growth and improved livelihood opportunities for poor and marginalized groups in Pakistan and improved access to financial services for these groups.
- 18.2 Represents USD grant received from International Bank for Reconstruction and Development and International Development Association for Consultative Group to Assist the Poor to assist the Bank in achieving its growth goals for financial services to lower income clients via institutional capacity building and training and to develop, launch and scale up mobile banking using agent distribution network and cell phone technologies.
- 18.3 Represents USD grant received from Soros Economic Development Fund to assist the Bank in expanding the outreach of microfinance services to low and moderate income clients by connecting to an interbank ATM switch and a payment settlement network.
- 18.4 Represents USD grant received from Aga Khan Agency for Microfinance to provide finance for life insurance premium of specific depositors.
- 18.5 Represents USD grant received from Swiss Agency for Development and Corporation under the Financial Sector Strengthening program to provide technical support for maintenance of IT infrastructure of the Bank.
- 18.6 Represents USD grant received from Frankfurt School of Management to provide financial support to implement a project on Promotion of Renewable Energy Technologies.
- 18.7 Represents GBP grant received from GSMA Foundation for implementing Solar financing project.
- 18.8 Represents grant received in Pak Rupees from Karandaz Pakistan to incentivize the development of a product for international remittances. Details of the movement are as follows:

	Note	2018 (Rupees in '000)	2017
Balance as at 01 January		15,315	-
Received during the year		30,628	15,315
Balance as at 31 December		45,943	15,315

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

	Note	2018 (Rupees in '000)	2017
19 MEMORANDUM / OFF BALANCE SHEET ITEMS			
Contingent liabilities	19.1	94,080	-
Bills for collection		-	-
Acceptances, endorsements and other obligations (including commitments)	19.2	341,259	254,507
		435,339	254,507

19.1 Contingencies

- 19.1.1 The Bank has been served with an order from Sindh Revenue Board (SRB) claiming additional sales tax amounting to Rs. 69.33 million (including penalty) for the tax periods from July 2011 to June 2016 on certain of its income. The Bank has filed an appeal with Commissioner (Appeals) Inland Revenue and based on the opinion of its tax advisor, is confident of a favourable decision.

- 19.1.2 The Bank was served with an order from Deputy Commissioner Inland Revenue claiming additional withholding tax on profit on debt under section 161 / 205 for tax year 2012 and tax year 2013 amounting to Rs. 8.441 million and Rs. 8.706 million respectively including default surcharge and penalty. The Bank has filed an appeal with Commissioner (Appeals) Inland Revenue and based on the opinion of its tax adviser, is confident of a favorable decision. For this reason, provision against the above balance has not been made.

Notes to the Financial Statements

For the year ended 31 December 2018

19.1.3 During the year, a case has been filed against the Bank by its ex-employee amounting to Rs. 7.6 million. However, the Bank has not recorded any provision against the above as, based on the opinion of its legal advisor, it is confident of a favorable decision.

19.2 Acceptances, endorsements and other obligations

19.2.1 Guarantees

This represents guarantees of Rs. 119.367 million (2017: Rs. 119.367 million) given on behalf of the Bank by other financial institutions for the Bank's clients. These guarantees are secured against the profit and loss sharing deposits mentioned in note 7 to these financial statements.

19.2.2 Commitments

	Note	2018 (Rupees in '000)	2017
Commitments in respect of:			
Operating leases	19.2.2.1	98,987	96,265
Acquisition of operating fixed assets		122,905	38,875
		<u>221,892</u>	<u>135,140</u>

19.2.2.1 Commitments in respect of operating leases

Not later than one year	98,219	94,396
Later than one year and not later than five years	768	1,869
	<u>98,987</u>	<u>96,265</u>

20 MARK-UP / RETURN / INTEREST EARNED

On:		
Advances	7,928,966	5,490,216
Available-for-sale investments in Government securities	424,012	383,499
Deposits with financial institutions / banks	114,980	95,176
Call money lendings	114,098	41,057
Repurchase agreement lendings	139,150	53,939
	<u>8,721,206</u>	<u>6,063,887</u>

21 MARK-UP / RETURN / INTEREST EXPENSED

On:		
Deposits	2,594,804	1,766,997
Borrowings	232	57
	<u>2,595,036</u>	<u>1,767,054</u>

22 FEE, COMMISSION AND BROKERAGE INCOME

Loan processing fee	717,810	524,730
Income from branchless banking	7,426,524	7,775,397
Others	28,316	52,273
	<u>8,172,650</u>	<u>8,352,400</u>

22.1 Income from branchless banking

Service fee on money transfer services	6,097,473	6,307,486
Commission from utility companies	634,334	571,276
Commission from BISP (Benazir Income Support Programme)	431,876	553,392
Commission from insurance companies	137,489	197,092
Commission on disbursement services from a financial institution	52,063	60,805
Others	73,289	85,346
	<u>7,426,524</u>	<u>7,775,397</u>

Notes to the Financial Statements

For the year ended 31 December 2018

23 OTHER INCOME	Note	2018 (Rupees in '000)	2017
Cheque book fees, ATM fees and other service charges		125,039	72,686
Recoveries against advances written off		89,146	52,523
(Loss) / gain on sale of operating fixed assets		(57)	9,899
		<u>214,128</u>	<u>135,108</u>
24 ADMINISTRATIVE EXPENSES			
Salaries and other allowances		3,180,030	2,685,374
Contribution to defined contribution plan		119,040	116,690
Charge for defined benefit plan	32.3.3	155,007	228,898
Staff welfare		79,107	59,363
Training and capacity building		13,592	5,289
Rent and taxes		305,111	277,674
Legal and professional charges		36,780	47,938
Utilities		74,123	61,904
Communication		117,416	79,929
Travelling and conveyance		178,280	139,488
Insurance		295,525	218,180
Printing and stationery		65,143	83,713
Repairs and maintenance		528,971	313,679
Auditors' remuneration	24.2	13,024	12,321
Depreciation	11.1	703,935	403,792
Amortisation	11.2	63,287	24,224
Advertisement		2,519,587	576,450
Security services		220,009	176,911
Customer verification charges		394,281	318,616
Professional consultancy charges		477,391	536,590
Bank charges		142,280	146,498
Other expenses		451,345	129,207
Commission - Branchless Banking	24.1	4,815,184	5,169,248
		<u>14,948,448</u>	<u>11,811,976</u>

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

24.2 Auditors' remuneration	Note	2018 (Rupees in '000)	2017
Audit fee		1,760	1,600
Half yearly review fee		715	652
Fee for other services as statutory auditors		1,315	365
Taxation services		5,905	4,153
Advisory services		2,313	4,485
Out-of-pocket expenses		1,016	1,066
		<u>13,024</u>	<u>12,321</u>

25 OTHER PROVISIONS / WRITE OFFS

Balance as at 1 January		59,663	37,396
Further amount provided	25.1	272,601	29,549
Provision written off		(117,546)	(7,282)
Balance as at 31 December	12	<u>214,718</u>	<u>59,663</u>

Notes to the Financial Statements

For the year ended 31 December 2018

25.1 This includes provision of Rs. 0.936 million against certain unreconciled balances relating to deposit accounts, certain internal accounts and other balances. The Bank's practice is to maintain the above difference in a suspense account. During the year, the Bank carried out a reconciliation process of these accounts and reconciled a significant portion of the balances. Consequently, the Bank charged off Rs. 87 million to the profit and loss account. However, balance of Rs. 0.936 million could not be reconciled and accordingly has also been charged off to the profit and loss account. The Bank is no more continuing with the reconciliation process as a significant portion of the earlier balance has already been reconciled and charged off. Furthermore, subsequent to the year end, no additional charge / balance was noted out of the above account.

26 OTHER CHARGES

This represents penalties imposed by the State Bank of Pakistan (SBP) in respect of various non-compliances of Prudential Regulations for Microfinance Banks and other directives issued by the SBP. This also includes Rs. 12.065 million accrued in respect of penalties against various instances of non-compliance with the Anti Money Laundering (AML) and Combating Financing of Terrorism (CFT) regulations.

27 TAXATION

	Note	2018 (Rupees in '000)	2017
Current tax	27.3	228,444	187,365
Prior tax	27.3	43,233	51,272
Deferred tax	15.2	130,093	32,051
		<u>401,770</u>	<u>270,688</u>

27.1 Reconciliation of tax charge to the accounting loss is as follows:

Accounting (loss) / profit before tax for the year		(2,113,968)	687,444
Tax at the rate of 29% (2017: 30%)		(613,051)	206,233
Deferred tax asset not recognised		647,373	-
Minimum tax charge for the year		211,945	-
Tax under Final Tax Regime		16,499	-
Prior year tax		43,233	51,272
Deferred tax asset written off	15.2	90,157	-
Permanent difference		5,614	10,878
Non deductible expenses		-	4,902
Others		-	(2,597)
		<u>401,770</u>	<u>270,688</u>

27.2 The Bank has filed returns upto tax year 2018 which are deemed to be assessed orders under section 120 of the Income Tax Ordinance, 2001 unless any amendments have been made by the Tax Authorities. Certain tax related appeals are pending, details of which are mentioned in note 19.1.1 and 19.1.2 to these financial statements.

27.3 This includes super tax under section 4B of the Income Tax Ordinance, 2001 imposed as per Finance Act 2018 at the rate of 3% of taxable income for tax year 2018.

Notes to the Financial Statements

For the year ended 31 December 2018

28 EARNINGS PER SHARE

2018 2017
(Rupees in '000)

28.1 Basic

(Loss) / profit after taxation for the year	<u>(2,515,738)</u>	<u>416,756</u>
		(Number in '000) (Restated)
Weighted average ordinary shares	<u>261,009</u>	<u>223,457</u>
		(Rupees) (Restated)
(Loss) / earnings per share - Basic and diluted	<u>(9.64)</u>	<u>1.87</u>

28.2 Diluted

No figure for diluted earnings per share has been presented as the Bank has not issued any instrument which would have an impact on basic earnings per share when exercised.

29 CASH AND CASH EQUIVALENTS

Note 2018 2017
(Rupees in '000)

Cash and balances with SBP and NBP	6	<u>4,210,306</u>	<u>3,497,633</u>
Balances with other banks	7	<u>3,864,399</u>	<u>4,310,776</u>
		<u>8,074,705</u>	<u>7,808,409</u>

30 NUMBER OF EMPLOYEES

	2018			2017		
	Credit / sales staff	Banking / support staff	Total	Credit / sales staff	Banking / support staff	Total
	----- (Numbers) -----			----- (Numbers) -----		
Permanent	1,606	1,940	3,546	1,318	2,102	3,420
Contractual	-	13	13	-	-	-
	<u>1,606</u>	<u>1,953</u>	<u>3,559</u>	<u>1,318</u>	<u>2,102</u>	<u>3,420</u>

31 NUMBER OF BRANCHES

2018 2017
(Numbers)

As at 01 January	<u>85</u>	<u>74</u>
Opened during the year	<u>18</u>	<u>11</u>
As at 31 December	<u>103</u>	<u>85</u>

Notes to the Financial Statements

For the year ended 31 December 2018

32 DEFINED BENEFIT PLAN

32.1 General description

As disclosed in note 5.12.1, the Bank operates a funded gratuity scheme for all its employees, who have completed minimum qualifying period of service. Contributions to the fund are made in accordance with the rules of the fund. Gratuity is payable to the employees on the cessation of employment on death, retirement, resignation, termination or permanent disability. The normal retirement age is 60 years.

The gratuity is payable as per the following basis:

Old policy rules before 1 January 2017

Length of service less than 6 months	Nil
Length of service greater than or equal to 6 months but less than 5 years	One month's basic salary for each year of service
Length of service greater than or equal to 5 years	One month's gross salary for each year of service

New policy rules after 1 January 2017

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

32.2 Principal actuarial assumptions

The latest actuarial valuation of the gratuity scheme was carried out as at 31 December 2018. Following are the significant assumptions used in the valuation:

	2018 (% per annum)	2017 (% per annum)
- Discount rate	13.25	9.50
- Salary increase rate	11.25	7.50
- Expected rate of return on plan assets	13.25	9.50

	2018	2017
- Mortality rates assumed	SLIC 2001-05	SLIC 2001-05

32.3 Amount recognised in the Statement of Financial Position

	Note	2018 (Rupees in '000)	2017 (Rupees in '000)
Present value of defined benefit obligations	32.3.1	645,542	531,626
Fair value of plan assets	32.3.2	(669,900)	(508,215)
		<u>(24,358)</u>	<u>23,411</u>

32.3.1 Movement in present value of defined benefit obligations

Balance as at 1 January	531,626	220,865
Current service cost	129,081	65,393
Past service cost - due to change in benefit structure	-	170,510
Interest cost	46,619	14,094
Employees transferred from Telenor Pakistan (Private) Limited	30,577	86,898
Benefits paid by the plan	(81,798)	(52,923)
Remeasurement (gain) / loss on obligations	(10,563)	26,789
Balance as at 31 December	<u>645,542</u>	<u>531,626</u>

Notes to the Financial Statements

For the year ended 31 December 2018

32.3.2 Movement in fair value of plan assets	Note	2018 (Rupees in '000)	2017
Balance as at 1 January		508,215	237,570
Contributions to the fund		149,832	207,070
Receivable from Telenor Pakistan (Private) Limited - Gratuity Fund		-	86,898
Benefits paid by the plan		(81,798)	(52,923)
Benefits paid on behalf of fund		81,795	-
Expected return on plan assets		51,270	21,099
Remeasurement (loss) / gain on plan assets		(39,414)	8,501
Balance as at 31 December		<u>669,900</u>	<u>508,215</u>
32.3.3 Amount recognised in the Profit and loss account			
Current service cost		129,081	65,393
Past service cost		-	170,510
Net interest		(4,651)	(7,005)
Employees transferred		30,577	-
		<u>155,007</u>	<u>228,898</u>
32.3.4 Remeasurements recognised in other comprehensive income (OCI)			
Remeasurement (gain) / loss on obligation - due to experience adjustment		(10,563)	26,789
Remeasurement loss / (gain) on the fair value of plan assets		39,414	(8,501)
Remeasurement loss for the year - net		<u>28,851</u>	<u>18,288</u>
32.4 Movement in defined benefit plan			
Balance as at 1 January		23,411	(16,705)
Expense charged in the current year	32.3.3	155,007	228,898
Remeasurements recognised in OCI during the year	32.3.4	28,851	18,288
Contributions to gratuity fund	32.3.2	(149,832)	(207,070)
Benefits paid on behalf of fund	32.3.2	(81,795)	-
Balance as at 31 December		<u>(24,358)</u>	<u>23,411</u>
32.5 Plan assets consist of the following:			
Term Deposit Receipts		-	420,120
Bank balances		577,141	1,197
Receivable from Telenor Pakistan (Private) Limited - Gratuity Fund		-	86,898
Receivable from Provident Fund	32.5.1	92,759	-
		<u>669,900</u>	<u>508,215</u>
32.5.1 Represents an inadvertent payment made to the Provident Fund instead of the Gratuity Fund. Subsequent to the year end, the amount was received by the Gratuity Fund.			
32.6 Maturity profile of defined benefit obligation		2018	2017
Weighted average duration of the present value of defined benefit obligation		<u>8.46</u>	<u>10.06</u>

Notes to the Financial Statements

For the year ended 31 December 2018

Distribution of timing of benefit payments

Years

	Benefit Payments	
	2018	2017
	(Rupees in '000)	
1	106,211	83,917
2	72,724	46,650
3	70,924	42,098
4	61,191	41,484
5	64,184	33,966
6 - 10	285,863	165,825
11+	2,823,632	1,370,101

32.7 Sensitivity analysis on significant actuarial assumptions: Defined benefit liability

	2018	2017
	(Rupees in '000)	
Base	645,542	531,626
Discount rate +1%	598,587	487,744
Discount rate -1%	700,182	583,694
Future salary increases +1%	702,726	581,792
Future salary increases -1%	595,683	488,629

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 2019 would be Rs.134.864 million.

33 DEFINED CONTRIBUTION PLAN

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

Investments out of Provident Fund have been made in accordance with the provisions of section 218 of the Companies Act, 2017 and the rules formulated for this purpose.

34 REMUNERATION OF DIRECTORS AND EXECUTIVES

	2018			2017		
	President / Chief Executive	Directors	Executives	President / Chief Executive	Directors	Executives
	(Rupees in '000)			(Rupees in '000)		
Fees	-	650	-	-	650	-
Managerial remuneration	25,333	-	620,121	34,994	-	480,829
Charge for defined benefit plan	2,533	-	54,418	3,047	-	56,737
Contribution to defined contribution plan	3,167	-	77,040	2,145	-	47,409
Rent and house maintenance	7,600	-	177,119	14,918	-	134,536
Utilities	2,533	-	58,890	1,008	-	48,083
Medical	4,116	-	91,872	1,008	-	44,665
Conveyance	-	-	90,986	-	-	39,481
Others (special allowance)	12,000	-	11,928	8,062	-	40,025
Membership fee	-	-	-	-	-	4,500
	<u>57,282</u>	<u>650</u>	<u>1,182,374</u>	<u>65,182</u>	<u>650</u>	<u>896,265</u>
Number of persons	<u>1</u>	<u>7</u>	<u>421</u>	<u>2*</u>	<u>7</u>	<u>320</u>

* Include remuneration of Ex - Chief Executive of the Bank (i.e. two directors at different point of times).

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

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

Notes to the Financial Statements

For the year ended 31 December 2018

35 RELATED PARTY TRANSACTIONS

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

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.

Balances and transactions with related parties are summarised as follows:

	2018						2017					
	Holding Company	Associates	Key management personnel	Directors	Retirement benefit plans	Total	Holding Company	Associates	Key management personnel	Directors	Retirement benefit plans	Total
----- (Rupees in '000) -----												
Loans												
At 1 January	-	-	37,299	-	-	37,299	-	-	5,611	-	-	5,611
Given during the year	-	-	23,875	12,667	-	36,542	-	-	41,323	-	-	41,323
Repaid during the year	-	-	(28,610)	(2,638)	-	(31,248)	-	-	(9,635)	-	-	(9,635)
At 31 December	35.1	-	32,564	10,029	-	42,593	-	-	37,299	-	-	37,299
Deposits												
At 1 January	-	51,316	13,047	-	795,923	860,286	-	57,978	17,445	-	469,550	544,973
Received during the year	-	28,426,059	23,360	-	2,720,380	31,169,799	-	21,990,503	49,610	-	1,098,925	23,139,038
Withdrawn during the year	-	(28,454,721)	(35,661)	-	(2,273,244)	(30,763,626)	-	(21,997,165)	(54,008)	-	(772,552)	(22,823,725)
At 31 December	-	22,654	746	-	1,243,059	1,266,459	-	51,316	13,047	-	795,923	860,286
Other Assets												
Other receivable	-	-	-	-	-	-	3,215	-	-	-	-	3,215
Receivable from defined benefit plan	-	-	-	-	24,358	24,358	-	-	-	-	-	-
	-	-	-	-	24,358	24,358	3,215	-	-	-	-	3,215
Other Liabilities												
Payable against branchless banking transactions	-	344,074	-	-	-	344,074	-	302,249	-	-	-	302,249
Miscellaneous payable	-	1,105,931	-	-	-	1,105,931	-	807,477	-	-	-	807,477
Payable to defined contribution plan	-	-	-	-	63,873	63,873	-	-	-	-	12,661	12,661
Payable to defined benefit plan	-	-	-	-	-	-	-	-	-	-	23,411	23,411
	-	1,450,005	-	-	63,873	1,513,878	-	1,109,726	-	-	36,072	1,145,798
Capital Expenditure	-	708,484	-	-	-	708,484	-	-	-	-	-	-

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

	2018						2017					
	Holding Company	Associates	Key management personnel	Directors	Retirement benefit plans	Total	Holding Company	Associates	Key management personnel	Directors	Retirement benefit plans	Total
----- (Rupees in '000) -----												
Transactions during the period												
Mark-up expense	-	-	-	-	65,790	65,790	-	-	648	-	74,705	75,353
Communication expenses	-	-	-	-	-	-	-	5,286	-	-	-	5,286
Sale of vehicles	-	-	3,128	-	-	3,128	-	-	4,963	-	-	4,963
Rent	-	119,394	-	-	-	119,394	-	122,973	-	-	-	122,973
Professional consultancy charges	-	419,671	-	-	-	419,671	-	498,250	-	-	-	498,250
Other charges	-	-	-	-	-	-	-	16,463	-	-	-	16,463
Repair and maintenance	-	34,579	-	-	-	34,579	-	109,314	-	-	-	109,314
Advertisement	-	756,152	-	-	-	756,152	-	47,026	-	-	-	47,026
	-	1,329,796	3,128	-	65,790	1,398,714	-	799,312	5,611	-	74,705	879,628

Notes to the Financial Statements

For the year ended 31 December 2018

36 SCHEDULE OF MATURITY DISTRIBUTION OF MARKET RATE ASSETS AND LIABILITIES

	Total	Upto one Month	2018		
			Over one month upto six months	Over six months upto one year	Over one year
----- (Rupees in '000) -----					
Market rate assets					
Advances	32,944,819	1,611,994	7,995,005	14,611,694	8,726,126
Investments	9,008,445	3,996,630	5,011,815	-	-
Lending to financial institutions	5,473,364	5,473,364	-	-	-
Balances with other banks - deposit accounts	3,812,508	3,812,508	-	-	-
	51,239,136	14,894,496	13,006,820	14,611,694	8,726,126
Other non-earning assets					
Cash and balances with SBP and NBP	4,210,306	4,210,306	-	-	-
Balances with other banks - current accounts	51,891	51,891	-	-	-
Operating fixed assets	3,001,351	104,707	523,387	627,711	1,745,546
Other assets	3,963,292	2,589,740	295,022	72,669	1,003,435
	11,226,840	6,956,644	818,409	700,380	2,748,981
Total assets	62,465,976	21,851,140	13,825,229	15,312,074	11,475,107
Market rate liabilities					
Large time deposits above Rs. 100,000	21,421,740	2,728,663	9,533,040	5,529,549	3,630,488
All other time deposits (including fixed rate deposits)	209,562	7,613	32,190	75,610	94,149
Other cost bearing deposits	9,606,676	9,606,676	-	-	-
	31,237,978	12,342,952	9,565,230	5,605,159	3,724,637
Other non-cost bearing liabilities					
Current deposits	11,036,931	11,036,931	-	-	-
Other liabilities	6,369,572	3,407,530	2,238,253	702,184	19,179
Deferred tax liability - net	153,066	-	-	153,066	-
Deferred grant	55,804	-	-	55,804	-
	17,615,373	14,444,461	2,238,253	911,054	19,179
Total liabilities	48,853,351	26,787,413	11,803,483	6,516,213	3,743,816
----- (Rupees in '000) -----					
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	4,294,730	4,294,730	-	-	-
	39,191,751	11,586,527	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	3,052,887	935,592	1,175,680	532,374	409,241
	8,296,126	4,449,271	1,175,680	532,374	2,138,801
Total assets	47,487,877	16,035,798	11,001,525	11,766,460	8,684,094
Market 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					
Other liabilities	14,366,579	14,366,579	-	-	-
Deferred tax liability - net	5,805,111	3,309,664	2,330,972	133,945	30,530
Deferred tax grant	12,034	-	12,034	-	-
	25,176	-	-	25,176	-
	20,208,900	17,676,243	2,343,006	159,121	30,530
Total liabilities	42,507,248	23,113,559	10,352,474	3,474,344	5,566,871

Above maturity profile has been prepared in accordance with International Financial Reporting Standard 7, Financial Instruments: Disclosures, based on contractual maturities. Consequently, all demand assets and liabilities such as running finance, current accounts and saving accounts are shown as having a maturity up to one month.

Notes to the Financial Statements

For the year ended 31 December 2018

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 the Asset and Liability Management Committee (ALCO).

		2018				
		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						
- deposit accounts	8% to 11.45%	3,812,508	3,812,508	-	-	
Lending to financial institutions	11.5%	5,473,364	5,473,364	-	-	
Investment	8.75% to 10.35%	9,008,445	3,996,630	5,011,815	-	
Advances	14% to 31%	32,944,819	1,611,994	7,995,005	14,611,694	
		51,239,136	14,894,496	13,006,820	14,611,694	
					8,726,126	
Liabilities						
Deposits	7.75% to 13%	31,237,978	12,342,952	9,565,230	5,605,159	
					3,724,637	
On balance sheet gap		20,001,158	2,551,544	3,441,590	9,006,535	
					5,001,489	
		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%	4,294,730	4,294,730	-	-	
Lending to financial institutions	5.85% to 5.90%	3,368,059	3,368,059	-	-	
Investment	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	
		39,191,751	11,586,527	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	
On balance sheet gap		16,893,403	6,149,211	1,816,377	7,918,863	
					1,008,952	

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

37.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank's credit risk is primarily attributable to its advances and balances at

Notes to the Financial Statements

For the year ended 31 December 2018

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 the government securities or other securities having good credit rating.

37.2.1 Exposure to credit risk

Credit risk of the Bank arises principally from bank balances, lendings to financial institutions, advances, and other receivables.

In summary, the maximum exposure to credit risk as at 31 December was as follows:

	Note	2018		2017	
		Financial assets	Maximum exposure	Financial assets	Maximum exposure
----- (Rupees in '000) -----					
Bank balances	6 & 7	3,966,154	3,966,154	4,417,123	4,417,123
Lendings to financial institutions	8	5,473,364	5,473,364	3,368,059	3,368,059
Advances	10	32,944,819	32,944,819	24,761,653	24,761,653
Other receivable	12	3,485,296	3,485,296	2,713,798	2,713,798
		<u>45,869,633</u>	<u>45,869,633</u>	<u>35,260,633</u>	<u>35,260,633</u>

37.2.2 Concentration of credit risk

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

	2018 (Rupees in '000)	2017 (Rupees in '000)
Distributors and retailers	468,575	534,900
Financial Institutions	9,439,518	7,785,182
Utilities	100,606	60,796
Employees	307,193	298,762
Individuals	34,805,006	25,915,798
Corporates	681,988	626,586
Others	66,747	38,610
	<u>45,869,633</u>	<u>35,260,634</u>

Notes to the Financial Statements

For the year ended 31 December 2018

37.2.2 Bank balances

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

Bank	Long term	Short term	2018
		(Rupees in '000)	
National Bank of Pakistan	AAA	A1+	101,755
Samba Bank Limited	AA	A1	19,151
Allied Bank Limited	AAA	A1+	408,978
Citi Bank	A+	A1	1,447
MCB Bank Limited	AAA	A1+	203,664
FINCA Microfinance Bank Limited	A	A1	27
Standard Chartered Bank Limited	AAA	A1+	160,273
United Bank Limited	AAA	A1+	420,839
Bank Of Punjab	AA	A1+	20,966
JS Bank Limited	AA-	A1+	1,010,841
Bank Alfalah Limited	AA+	A1+	103,206
Habib Bank Limited	AAA	A1+	4,190
Zarai Taraqiati Bank Limited	AAA	A1+	10,811
Soneri Bank Limited	AA-	A1+	1,000,006
The First Micro Finance Bank Limited	A+	A1	500,000
			<u>3,966,154</u>

The above ratings are assigned by PACRA, JCR-VIS and Standard and Poor's.

37.3 Liquidity risk

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

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

37.4 Fair value of financial Instruments

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2018

On balance sheet financial instruments	2018								
	Carrying amount				Total	Fair value			Total
	Available for sale	Cash and cash equivalents	Loans and receivables	Other financial liabilities		Level 1	Level 2	Level 3	
Note	----- (Rupees in '000) -----								
Financial assets measured at fair value									
- Investments - market treasury bills	9,011,722	-	-	-	9,011,722	-	9,008,445	-	9,008,445
Financial assets not measured at fair value	37.4.1								
- Cash and bank balances with SBP and NBP	-	4,210,306	-	-	4,210,306				
- Balances with other banks	-	3,864,399	-	-	3,864,399				
- Lending to financial institutions	-	-	5,473,364	-	5,473,364				
- Advances	-	-	32,944,819	-	32,944,819				
- Other assets	-	-	3,483,750	-	3,483,750				
	9,011,722	8,074,705	41,901,933	-	58,988,360	-	9,008,445	-	9,008,445
Financial liabilities not measured at fair value	37.4.1								
- Deposits and other accounts	-	-	-	(42,274,909)	(42,274,909)				
- Other liabilities	-	-	-	(6,369,572)	(6,369,572)				
	-	-	-	(48,644,481)	(48,644,481)	-	-	-	-
	9,011,722	8,074,705	41,901,933	(48,644,481)	10,343,879	-	9,008,445	-	9,008,445
On balance sheet financial instruments	2017								
	Carrying amount				Total	Fair value			Total
	Available for sale	Cash and cash equivalents	Loans and receivables	Other financial liabilities		Level 1	Level 2	Level 3	
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	-	4,310,776	-	-	4,310,776				
- Lending to financial institutions	-	-	3,368,059	-	3,368,059				
- Advances	-	-	24,761,653	-	24,761,653				
- Other assets	-	-	2,765,376	-	2,765,376				
	6,768,610	7,808,409	30,895,088	-	45,472,107	-	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)				
- Borrowings	-	-	-	-	-				
- Other liabilities	-	-	-	(5,805,111)	(5,805,111)				
	-	-	-	(42,470,038)	(42,470,038)	-	-	-	-
	6,768,610	7,808,409	30,895,088	(42,470,038)	3,002,069	-	6,767,309	-	6,767,309

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.

Notes to the Financial Statements

For the year ended 31 December 2018

38 CAPITAL RISK MANAGEMENT

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

38.2 Goals of managing capital

The Bank's objectives when managing its capital are:

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

38.3 Statutory minimum capital requirement and management of capital

As per amendments in Prudential Regulation (R-1) issued vide BPRD Circular No. 10 of 2015 dated 3 June 2015, the minimum paid up capital requirement (MCR), free of losses for Microfinance Banks operating at national level is Rs. 1,000 million as at 31 December 2018. As of 31 December 2018, the paid-up capital of the Bank free of losses is Rs. 3,547.269 million (2017: Rs. 1,346.939 million).

At present, the Bank defines capital as shareholders' equity i.e. share capital and reserves. The capital of the Bank is managed keeping in view the minimum "Capital Adequacy Ratio" (15%) required by the Prudential Regulations for Microfinance Banks / Institutions. The adequacy of the capital is tested with reference to the risk-weighted assets of the Bank. The calculation of capital adequacy enables the Bank to assess the long-term soundness. As the Bank conducts business on a wide area network basis, it is critical that it is able to continuously monitor the exposure across the entire organization.

The Bank manages its capital structure and makes adjustments to it in light of 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 2018, the Bank's Capital adequacy ratio (CAR) was approximately 35% (2017: 19%) of its weighted exposure, as against the minimum requirement of 15% prescribed by SBP.

39 GENERAL

39.1 Comparative information has been reclassified or rearranged in these financial statements for the purpose of better presentation. Following major reclassification has been made during the year:

Description	Reclassified from	Reclassified to	2017 (Rupees in '000)
Related party balances	Other assets	Other liabilities (setting off)	<u>58,487</u>
Reclassification of markup suspended on non-performing advances	Other liabilities	Other assets (setting off)	<u>48,925</u>
Reclassification of provision for workers welfare fund	Other charges	Administrative expenses	<u>16,339</u>

Notes to the Financial Statements

For the year ended 31 December 2018

	Debit (Rupees in '000)	Credit
Other assets (Receivable from BISP)	311,499	-
Balances with other banks	156,012	-
Other liability (Switch settlement liability)	-	410,098
Other liability (Others)	-	57,413

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 April 29, 2019.

President & Chief Executive Officer

Chairman

Director

Director

Pattern of Shareholding

As at 31st March, 2019

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	Netherlands	66.4%	235,267,392
2.	Alipay (Hong Kong) Holding Limited	26/F, Tower 1, Times Square 1 Matheson Street Causeway Bay, Hong Kong	N/A	China	33.6%	119,459,505
3.	Mr. Irfan Wahab Khan	35-B, Sector A-1, Township GECHS, Lahore, 54770, Pakistan	35202- 0314472-7	Pakistani	Nominal Shareholder	10
4.	Ms. Uzma Khan	House No.85/2, 27th Street, Off Khayaban- e-Hilal, DHA, Phase 6, Karachi, Pakistan	42301- 7705670-4	Pakistani	Nominal Shareholder	10

Credits

Design & Concept

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bank

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