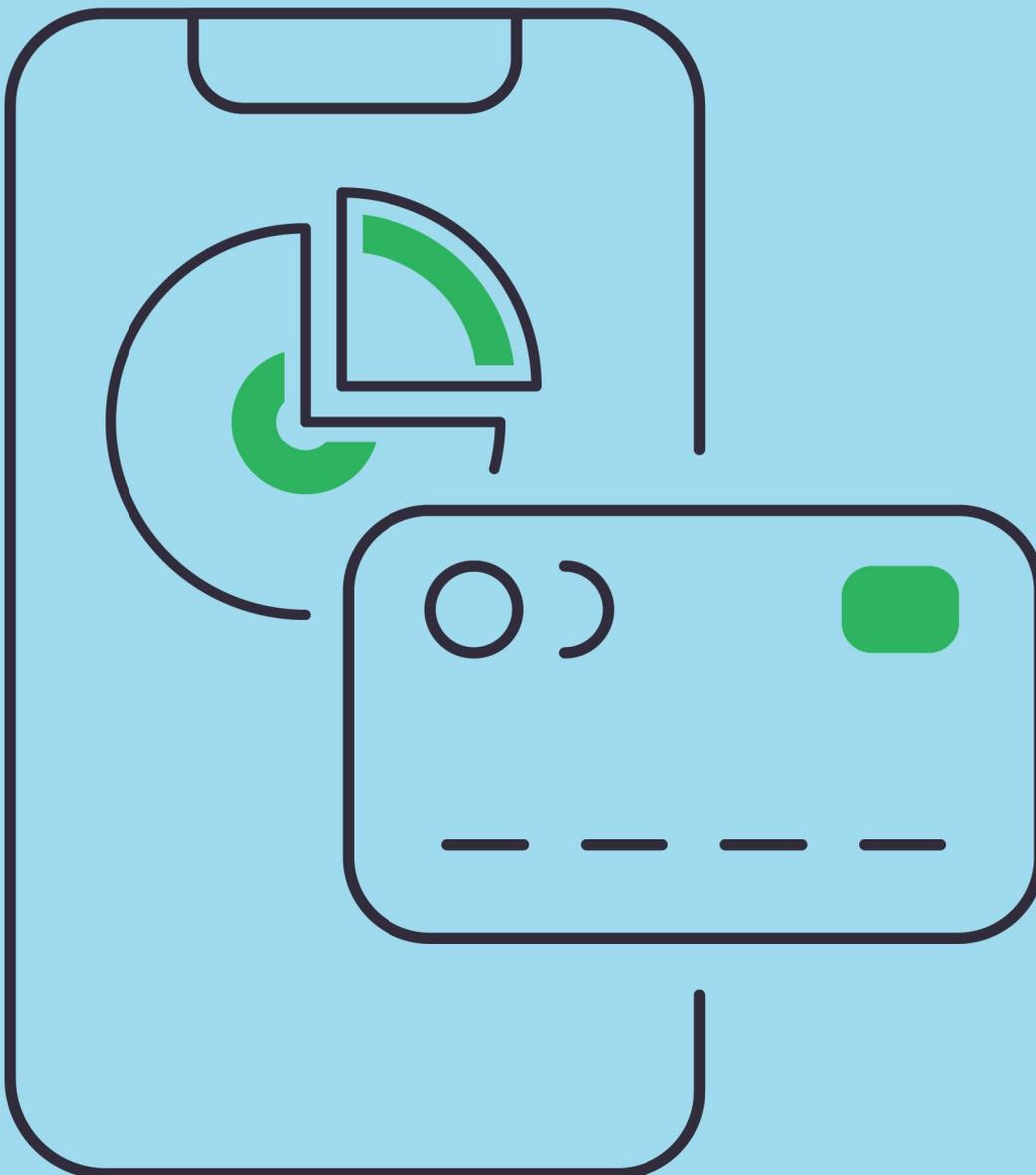


# Evolving Digital Finance

Annual Report 2019



## TELENOR MICROFINANCE BANK STRENGTHENS FURTHER

Telenor Microfinance Bank received USD 70 million equity investment from shareholder Ant Financial (Alibaba Group).

Serving 30 million customers with a country wide branch network and over 150 thousand agents, Telenor Microfinance Bank continues to lead the financial transformation through collaboration and technology enabling a digital Pakistan.



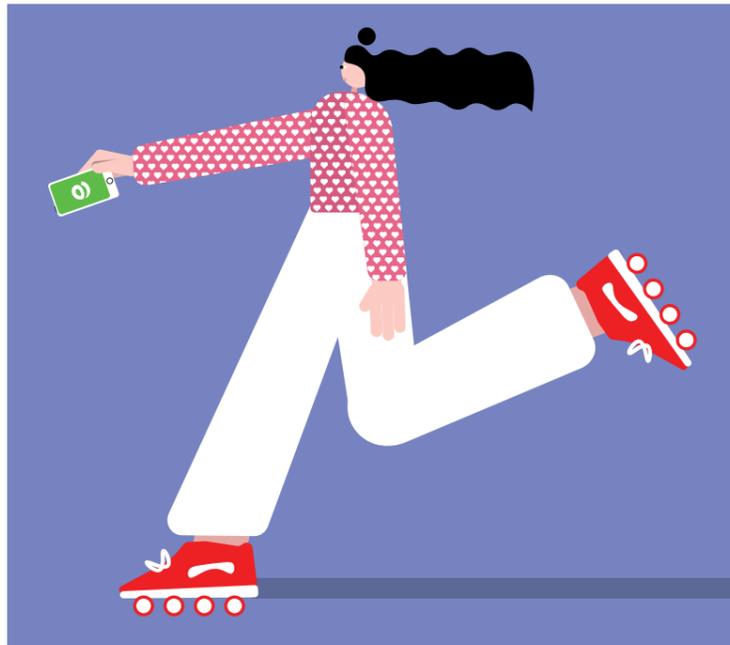
Long Term Short Term

**A+**

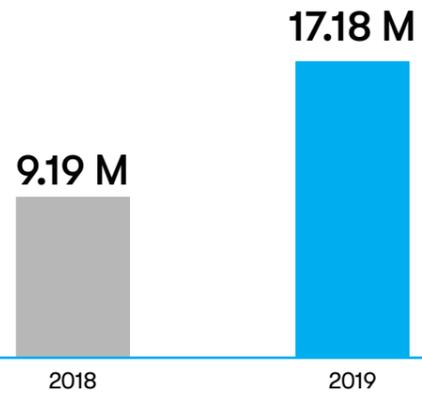
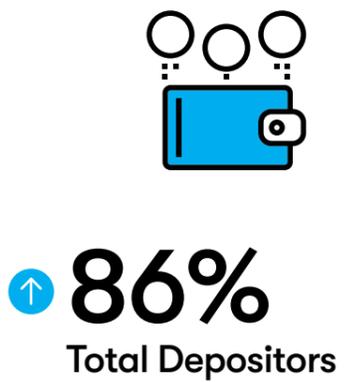
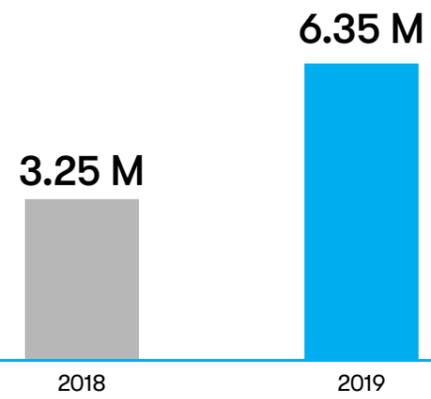
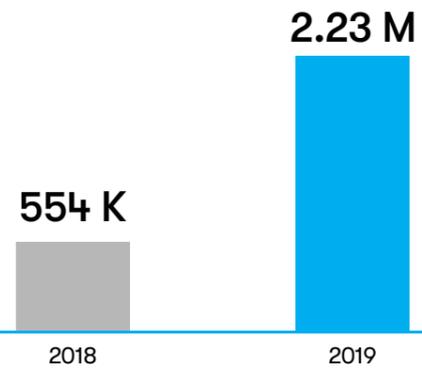
**A1**

Rated by  
VIS & PACRA





# 2019 at a Glance



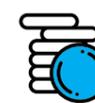
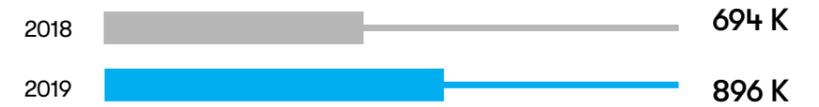
**↑ 110%**  
Volume of Easypaisa Transactions



**↑ 34%**  
Value of Easypaisa Transactions



**↑ 29%**  
Total Borrowers



**↑ 18%**  
Total Loans Disbursed (since inception)

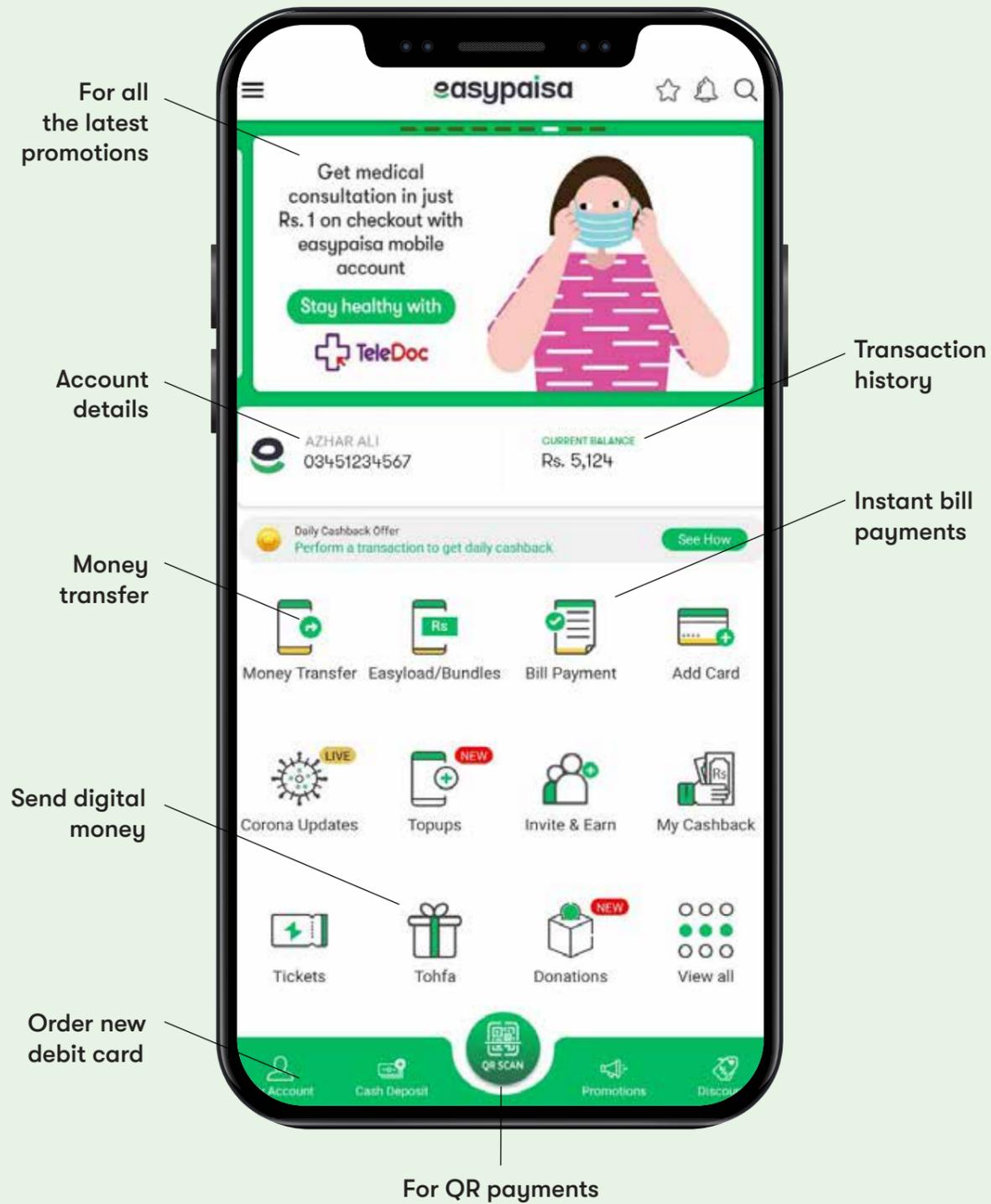


**↑ 15%**  
Easypaisa Agents



# Experience the all new easypaisa app

# Easypaisa Milestones

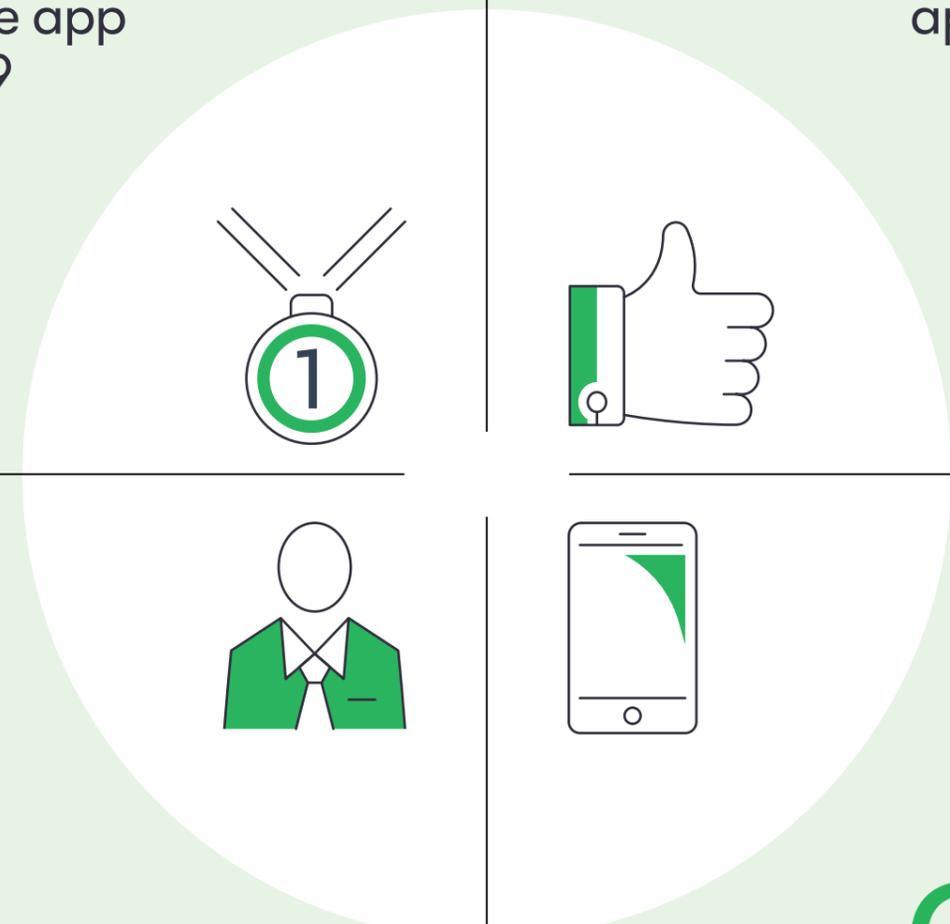


# #1

finance app of 2019

# 4.4

app store rating



# 3x

growth in active app users in 2019

# 2x

more app downloads

# Impacting Digital Economy



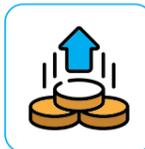
Annual Throughput  
**More than PKR 1 Trillion**



App Users  
**More than 2 Million**  
Highest number of users of any financial app in Pakistan



Balance in Mobile Accounts  
**More than PKR 14 Billion**



Monthly Mobile Account Transactions  
**10 Transactions**  
On average per mobile account per month



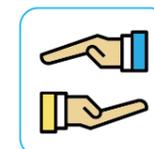
Retailers  
**More than 150,000 Retailers**  
Largest footprint of branchless agents in the country



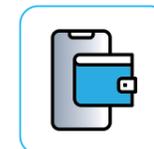
Foreign Investment  
**USD 140 Million**  
Sizeable international investment in any bank operating in Pakistan



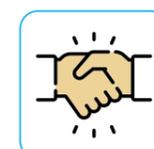
Investment in Customer Education and Engagement  
**PKR 5 Billion in 2019**



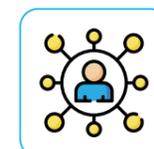
Donations  
**PKR 56 Million (2019 – May 2020)**  
Customers' donations to different charities and relief funds



Digital Payments  
**PKR 12 Billion (2019 – May 2020)**  
Digital payments made by users including online payments (MA), QR payments, till payments, Masterpass QR



Partnerships  
**More than 1200 Industry Players**  
Telecom, food delivery and restaurants, ride hailing, fuel stations, e-commerce, government and others



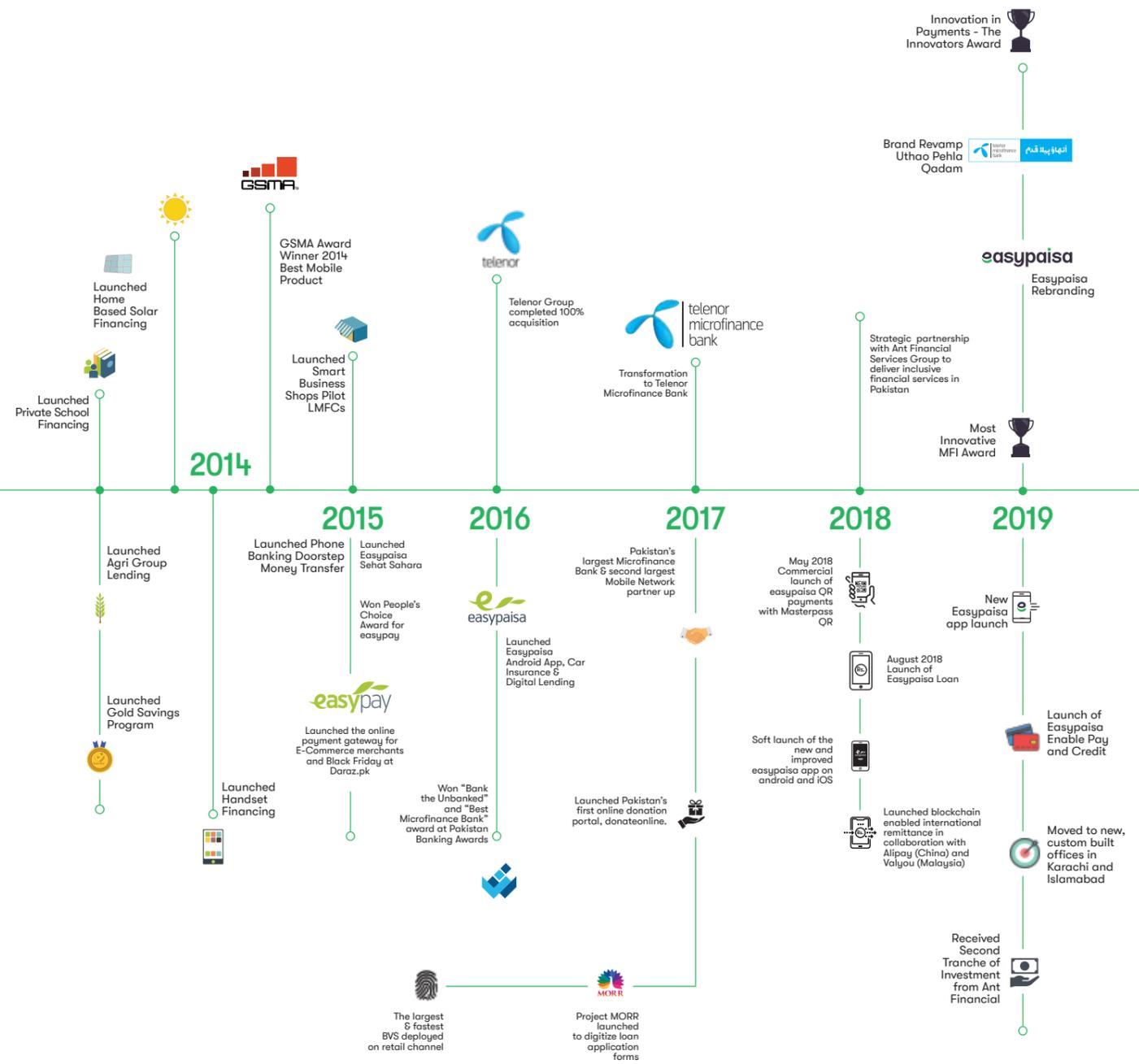
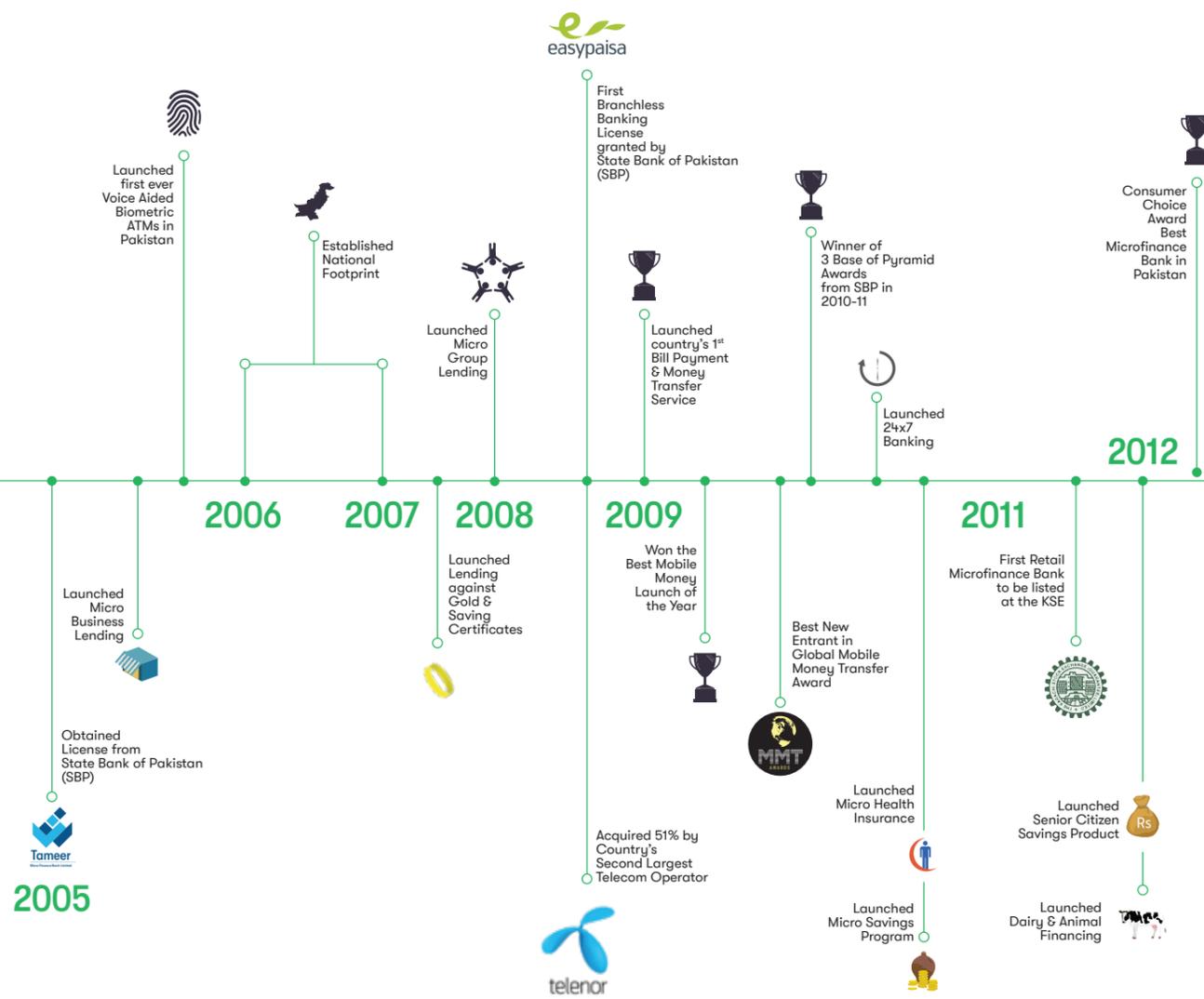
Direct Integration with all Telcos  
**Processing 10% of airtime recharge**

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# Our Journey





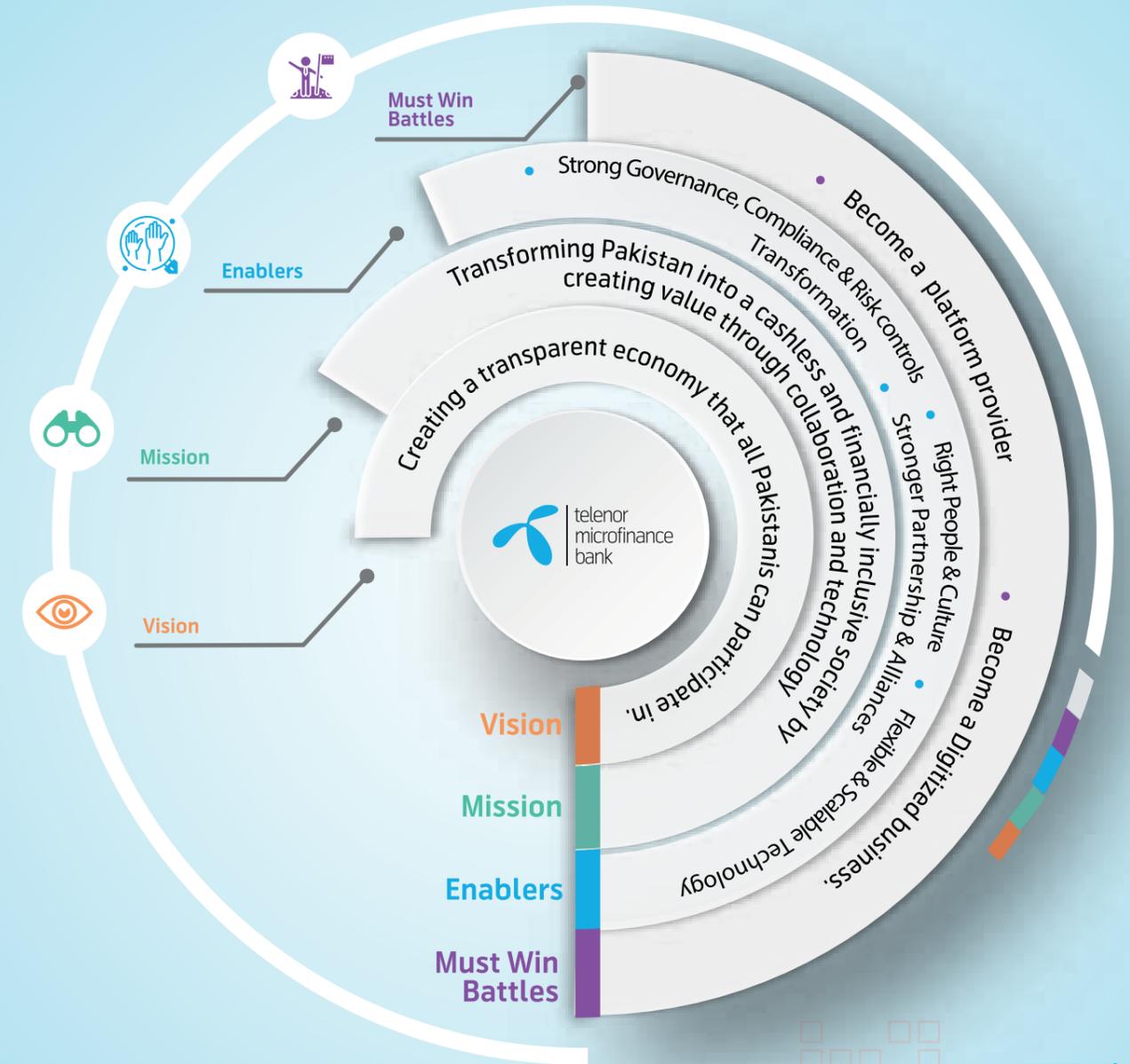
## About Us

Telenor Microfinance Bank Limited is designed to operate as a FinTech that brings in cutting edge technology solutions to the financial sector through the Bank's digital platform Easypaisa. Over the years, the Bank has played a major role in transforming the digital financial landscape of Pakistan by enabling millions of customers to adapt to convenient and secure digital financial solutions.

Telenor Microfinance Bank is jointly owned by Telenor Group, the leading telecommunications company across the Nordics and Asia with 186 million customers, and Ant Financial Services Group, an affiliate company of Alibaba Group and the operator of the world's leading open digital lifestyle platform, Alipay.

With a distribution network of over 150 thousand agents and 156 touchpoints nationwide, Telenor Microfinance Bank is one of the largest microfinance banks of Pakistan that provides a range of innovative banking solutions and related financial services to the underprivileged and unbanked segment of the country, with an aim to empower societies.

# Our Strategy



## Vision

Creating a transparent economy that all Pakistanis can participate in.

## Mission

Transforming Pakistan into a cashless and financially inclusive society by creating value through the power of collaboration and technology.

## Values

Our values serve as a guide for our way of work. They describe how we, through our collaborative efforts, serve our customers better.



### Always explore

We believe growth comes from learning every day. We're curious and we dare to challenge, test, fail fast and pivot.



### Create together

We believe diverse teams find better solutions. We seek different perspectives, share, involve and help each other succeed.



### Keep promises

We believe that trust is key in all our relationships. We take ownership and pride in delivering with precision and integrity.



### Be respectful

We believe in the unique human ability to understand what matters for people. We meet everyone at eye level, listen and show that we care.

## Awards & Recognition

### Winner of 'Innovation in Payments Award'

Under 'The Innovators 2020' banner of Global Finance Magazine

### Winner of 'Innovation in Payments Award'

Under 'The Innovators 2019' banner of Global Finance Magazine

### Winner of 'Most Innovative MFI'

13th Citi Micro-entrepreneurship Awards 2019

### Nominations for GLOMO Awards at Mobile World Congress 2020 Barcelona

- Most Innovative Mobile App
- Diversity in Tech Award



# Board of Directors



# Board of Directors



**Irfan Wahab Khan**  
Chairman



**M. Mudassar Aqil**  
President and CEO



**Zhixian Li**  
Director



**Zheng Liu**  
Director



**Henning Thronsen**  
Director



**Ji Xu**  
Director



**Uzma Khan**  
Independent Director

## People Committee

**Irfan Wahab Khan**  
**Zhixian Li**  
**Uzma Khan**

## IT Committee

**Irfan Wahab Khan**  
**Zhixian Li**

## Auditors

**KPMG Taseer Hadi & Co**

## Audit Committee

**Henning Thronsen**  
**Uzma Khan**  
**Zheng Liu**

## Risk Management Committee

**Zhixian Li**  
**Henning Thronsen**  
**Uzma Khan**

## Legal Advisors

**HaidermotaBNR & Co.**

# Leadership Team



# Leadership Team



**M. Mudassar Aqil**  
President and CEO



**M. Farhanullah Khan**  
Chief Financial Officer



**Sadeed Barlas**  
Chief Risk Officer



**Pouruchisty Sidhwa**  
Chief Human Resource Officer



**Jahanzeb Khan**  
Chief Strategy & Transformation Officer



**Khurram Malik**  
Head of Easypaisa



**Syed Ahmar Nizam**  
Head of Branch Banking



**Khurram Gul Agha**  
Chief Information Officer and Head of Operations



**Aamir Ali**  
Chief Compliance Officer

## Company Secretary



**M. Aslam Hayat**  
Chief Legal Officer and Company Secretary

## Internal Auditor



**Dhunjishaw Jagus**  
Chief Audit Executive

# Message from the Chairman

2019 was a period of tremendous progress, for Telenor Microfinance Bank, in our journey towards promoting a digitally enabled Pakistan, powered by the use of ground-breaking technologies, strategic partnerships, and advanced customer engagement mechanisms.

Our objective, through the year, was to facilitate financial inclusion among the masses, whereby improving on the benchmarks set during the previous year for enhanced technology and digitization in the country. The milestones we achieved this year, in terms of creating a robust digital landscape, have set the pace for rapid development in the sector and we remain ever-committed to being one of the chief architects behind the emerging financial infrastructure of Pakistan.

The strategic partnership agreement between Telenor Group and Ant Financial Services Group, which was signed in March 2018, was closed with the second tranche of USD 70 million in 2019. It further solidifies Telenor Microfinance Bank's capital position to continue its growth in the digital banking space. The shareholders' partnership has enabled us to set a course for enhancing current capabilities and achieve greater diversity in the services that we are offering to various stakeholders.

In 2019, we introduced Pakistan's first blockchain-based cross-border remittance service. The block-chain technology significantly boosted the speed and efficiency of remittances from Malaysia to Pakistan. It also ensures the money transfers are highly secure and transparent through encrypted data records of the transactions.

Since our inception, we have been extending formal financial services to the large majority of Pakistan's population that was previously working with the informal sector. This has facilitated us in working towards creating real and lasting financial inclusion. Driven by our mission of transforming lives, during the year 2019, we continue to take the lead in innovating financial solutions, by launching Easypaisa Loan; an instant digital lending service in Pakistan to meet the demand of easily accessible digital loans.

The year, however, brought new challenges for Telenor Microfinance Bank. 2019 was a tumultuous year for the economy of Pakistan. Still adapting to a change in leadership and with the introduction of newer regulations, our Gross Domestic Product (GDP) growth slowed as economic policies to address the twin deficits took effect. Growth slowed to 3.3 percent in 2019 which was a 2.2 percentage points decline compared to the previous year. This was in lieu of the stabilization measures undertaken by the authorities. The exchange rate was allowed to depreciate, with a cumulative depreciation of 11.5 percent (inter-bank) and the policy rate was raised by 325 bps. While all the sectors of the economy contributed towards this lacklustre performance, major drag came from the commodity-producing sector. The services sector also grew at a relatively lower pace compared to the last few years.

In September 2019, some lending irregularities were observed in the loan portfolio of Telenor Microfinance Bank, resulting in credit losses. To address the anomalies, the management along with strategic guidance from the Board is working towards implementing preventative measures through enhanced internal controls and risk management policies.

Pakistan's fintech sector reflected the overall trends in the economy with decreased consumer spending as a focal point for slow growth in a relatively new field. Despite the overall industry trajectory, our focus on building a digital-financial ecosystem allowed us not only to weather the economic and industrial storm but to sustain through it and emerge with momentum.

Telenor Microfinance Bank's Branchless Division, Easypaisa, established itself as one of the fastest growing digital financial-service in Pakistan. The platform was able to achieve new heights in the number of consumers, the threshold of balances maintained and the amount of transactions carried out across the country.

Telenor Microfinance Bank's aim to increase financial inclusion in the country is parallel to the United Nation's Sustainable Development Goals. The UN Secretary General's Special Advocate for Inclusive Finance for Development, Queen Maxima, visited Pakistan in 2019. In her presence, we were able to initiate our 'Enable Pay and Credit' service aimed at creating a transparent as well as hassle free payment channel between vendors and their dealers.

Our commitment to excellence, ethics, and compliance remains steadfast. We strongly believe that maintaining standards of service quality and effective controls is the key to build trust amongst our customers, our partners and our shareholders.

I would like to take this opportunity to express my gratitude to the State Bank of Pakistan for its continuous commitment to establish a viable and inclusive digital-financial ecosystem in the country.

I would also like to express my gratitude to our management and employees for the impressive amount of work they have done in 2019 to bring in advancements and innovation in our services. I would forward my appreciation to our business partners for their ongoing support and trust in our long-standing relationships.

Last but not least, I also extend our heartfelt thanks to our shareholders who foster our common vision to create a transparent economy which all Pakistanis can participate in.

**Irfan Wahab Khan**  
Chairman, Board of Directors  
Telenor Microfinance Bank





## Message from the CEO

2019 was a year of innovation and technological advancements for Telenor Microfinance Bank. We continued moving forward to enable a digital Pakistan through our technology driven financial services. We saw unprecedented growth in our branchless business which shows the grand shift in behaviours of our consumers towards a digital lifestyle.

2019 turned out to be a challenging year for the economy, on both domestic and international levels as sluggish growth was witnessed on several economic fronts. We witnessed a dip in the country's Gross Domestic Product (GDP), with different sectors depicting mixed reactions. The policy rate was amplified by 325 basis points whereas the exchange rate (inter-bank) depreciated by almost 11.5 percent. These are some factors due to which the consumption and investment in the economy was affected. Despite these obstacles, Telenor Microfinance Bank maintained its position and worked to produce positive outcomes in numerous areas and aspects.

In December 2019, our shareholder Ant Financial injected US\$ 70 million in the Bank as part of the strategic partnership, which was announced in 2018. This partnership with the world's leading FinTech company allows us to share not just financial resources but technical expertise as well to develop solutions for our customers and enhance the way they transact. This equity injection from Ant Financial is a sizeable international investment for any bank operating in Pakistan and it will further facilitate us in growing Easypaisa and diversifying its offerings to provide inclusive financial services to more consumers and small businesses in Pakistan.

We believe our contributions can grow exponentially if various players collaborate to contribute to the digital ecosystem. Thus, we also created unique opportunities by leveraging our own capabilities and those of other players in the industry.

On a consumer level, our efforts were fruitful in collaborating with vibrant partners that include ride-sharing services, e-commerce marketplaces and leading technology manufacturers to integrate digital payments through Easypaisa. 2019 marked a decade for our branchless banking service, Easypaisa. With it, we revamped the Easypaisa App and loaded new features that allow users to perform almost every transaction like bill payments, mobile top-ups, transfers and QR payments to name a few.

With the aim to develop a cashless society for a digitally inclusive Pakistan, we also initiated first of its kind Enable Pay and Credit initiative, which allows a seamless and digitized payment value chain between retailers and distributors while providing the former with access to credit services as well.

Powered by our cutting edge technology, two first of their kind products rolled out in 2019 include Easypaisa Loan – Pakistan's first nano loan, and the country's first blockchain powered remittance service that allows real-time wallet to wallet transfer of funds to Pakistan.

All of these efforts translated into unprecedented growth of Easypaisa. The country's first mobile banking platform, now boasts over 6 million active users, which is a two-fold increase from 2018, and over 2 million active app users, which increased about four times since 2018.

Due to our efforts and in line with our strategic direction, we are successfully changing from an over-the-counter (OTC) service to a mobile wallet based service. The increase in mobile accounts was coupled with an increase of 78% in the total value processed for wallet to wallet based transfers. This points to changing behaviours, with customers adopting wallet-based transactions instead of OTC, which is the next big step needed for digital payments to foster in the country.

Our efforts were also recognized by the industry. In 2019, we won two awards. In recognition of our ability to identify new channels and design tools to create valuable products and solutions, we were awarded the Innovation in Payments award at The Innovators 2019 for our blockchain based international remittance product. The 13th Citi-PPAF Micro-entrepreneurship Awards acknowledged our innovative capabilities by awarding Telenor Microfinance Bank the Most Innovative Microfinance Institution award.

Technology has changed the way that consumers interact with businesses. However, branches still play an important role in a customer's relationship with their bank, and consumers still rely on bank branches to make certain transactions and important decisions.

Through our branch banking business, we are continuously improving upon our services for smooth delivery to our customers throughout our nation-wide network of branches and financial centers. Moreover, we are continuously working to further enhance our internal controls and risk management systems towards the pursuance of our strategic objectives. We are taking all necessary steps to provide inclusive financial services to the underserved through our banking platform.

In September 2019, credit irregularities were observed in the Bank's loan portfolio resulting in credit losses. The management has tirelessly worked towards implementing preventive measures through enhanced internal controls and robust risk management policies. Based on learnings from the last year, we remain steadfast in difficult times and have reinforced our commitment to excellence, ethics, and compliance at all necessary levels. Maintaining standards of service quality is the key to fostering fruitful relationships and we are thankful to our valued customers for their continuous support. Our customers remain our top priority and we are committed to serving them.

Moving forward, our strategic direction is to create a transparent economy that all Pakistanis can participate in. These ambitions for the future of the country's financial landscape align with the government's direction of enabling a Digital Pakistan. We are working tirelessly to transform Pakistan into a cashless and financially inclusive society through the power of collaboration and technology.

As the leader of the fintech revolution in the country and an enabler of lives through technology and digital financial innovation, we aim to continue moving forward for and with Pakistan.

**M. Mudassar Aqil**  
President & CEO  
Telenor Microfinance Bank

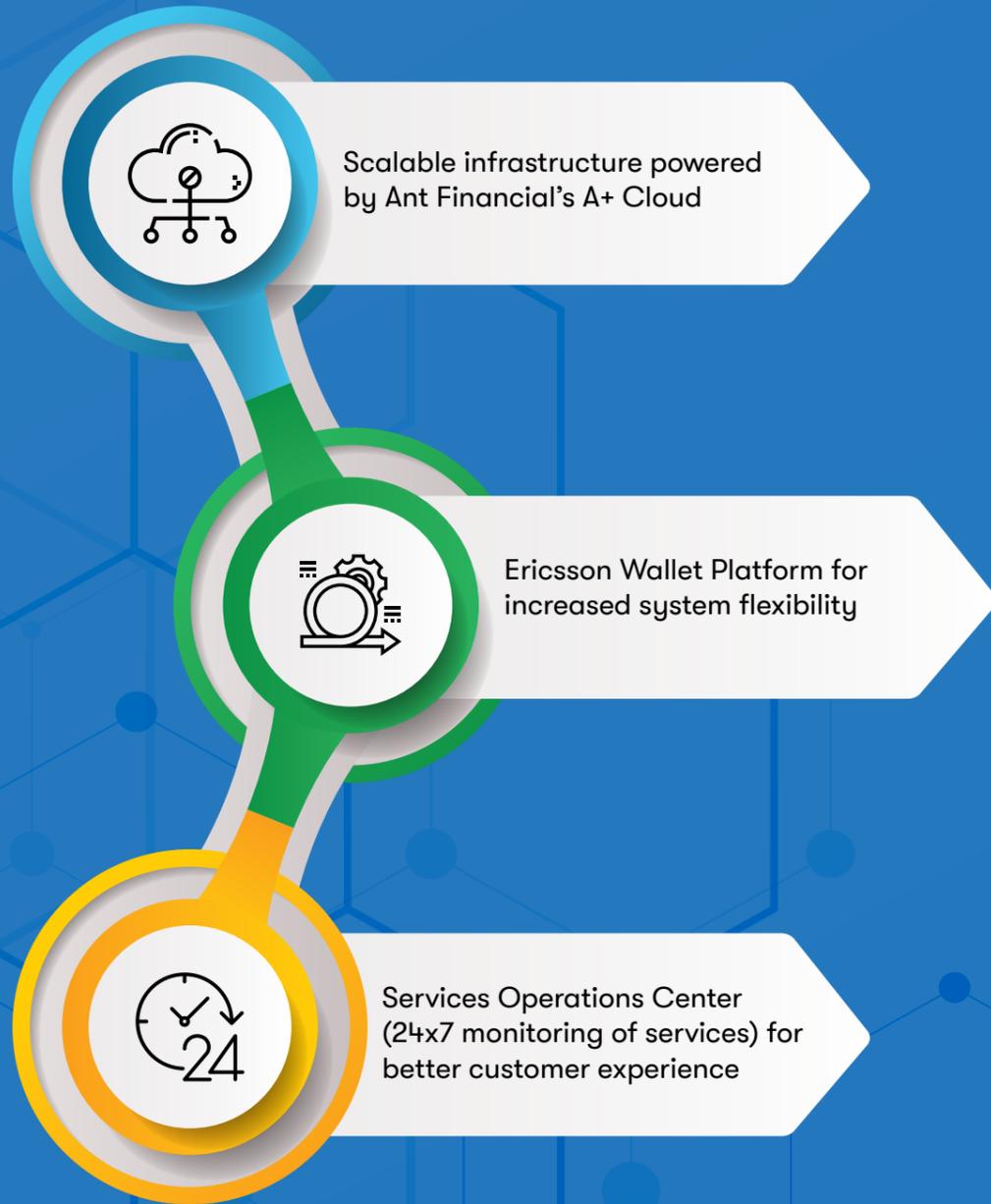




Evolving Digital Finance

# Technology

# Technological Expertise



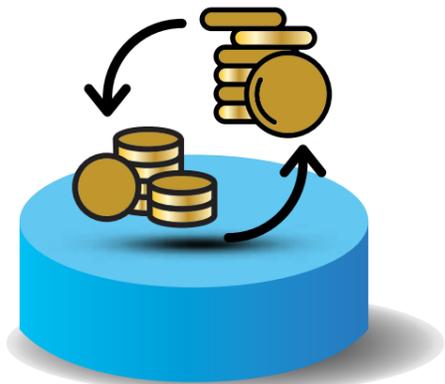
Evolving Digital Finance  
**Innovation**



# Financial Solutions



Digital Payments



International Remittance



Digital Lending



Insurance and Micro Insurance



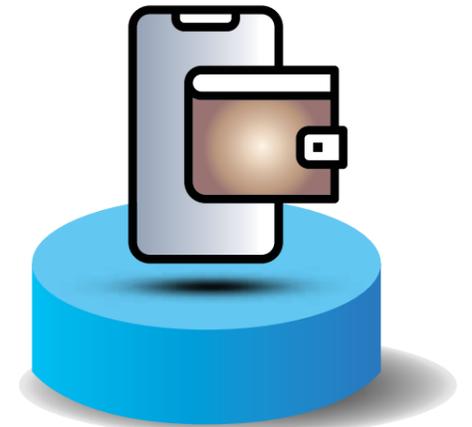
Karobar Loan



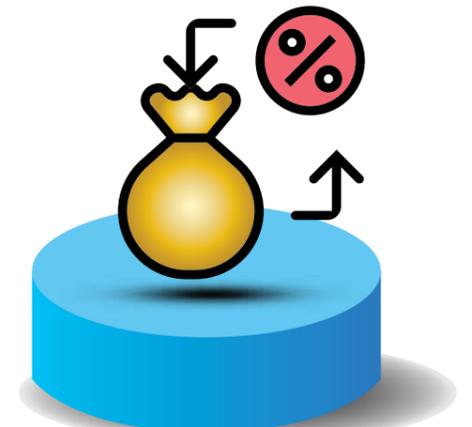
Digital Collection & Disbursements



Deposit Solutions



Digital Wallets



Micro-Enterprise Lending



Evolving Digital Finance  
**Collaboration**



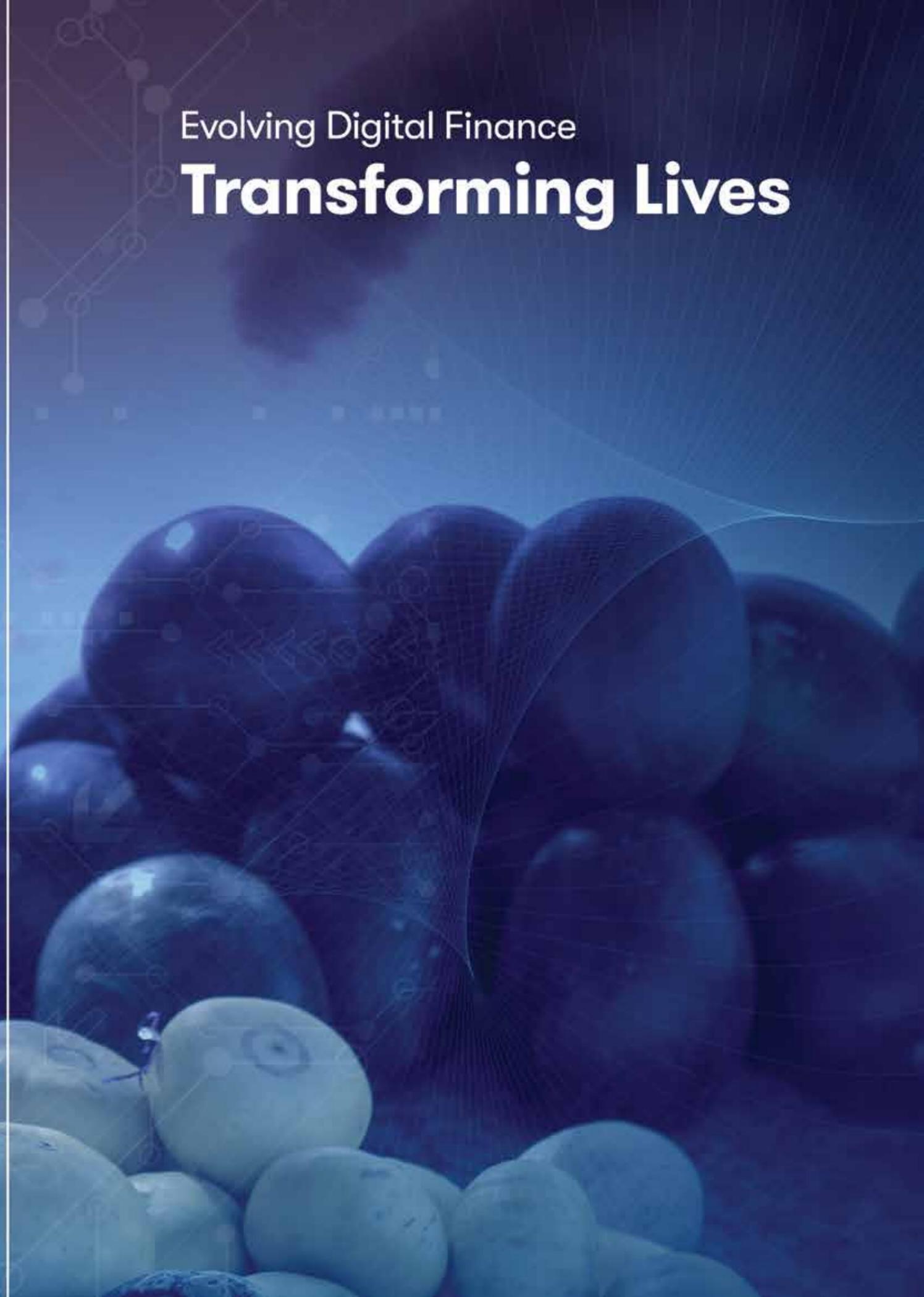
# Our Partners





Evolving Digital Finance

**Transforming Lives**





# Our Retailers

My wife and I come from humble backgrounds. A couple of years ago we used our savings to set up a general store in Peer Colony Walton. I worked as a driver and she was a maid but life was hard for us with 4 kids. This store helped us establish a stable source of income and allowed us both to be able to spend more time with our Children. The store sold essential items but we used to receive a lot of requests for easypaisa and Easypaisa. We were initially reluctant to set up a financial services business at our shop as it involves a lot of cash handling but we could see a clear demand for it in our community so my wife thought that we should give it a try.

Through a fellow shopkeeper who was using Easypaisa, I was introduced to it. I got curious to know the earning mechanism through it. Therefore, I did my research, allocated some budget to set it up, contacted Telenor Microfinance Bank's RSO and began the process. Later, I registered my wife for its training as well so that every customer could be catered to even in my absence. The team members of Easypaisa franchise, in my area, were very supportive. They made it very easy for me and my wife to handle cash. They also supported me in establishing this part of my business, at the start, by educating me on all the products and commissions that I could make through it.

It has not only helped me in making a living but has also helped the people of my community in many ways. We don't have to travel any distances, neither do we have to wait in long queues at the utility bill payment windows at banks. Managing a bank account became easier; even people who are not educated can operate their Easypaisa accounts well.

**Iftikhar Ahmad**  
Bismillah Mobile, Peer Colony, Lahore



In 2016, while driving my car, I met with an accident and lost my right arm. Before the accident, I had a butcher-shop. When I lost my arm, I was unable to carry out my business and for several months, I struggled to earn a living.

Eventually, I decided to open a general store and let go of my butcher-shop. A lot of people would come and ask about Easypaisa. I was unaware of it, however, one of my friends informed me about it. It sparked a sense of hope and I immediately contacted Telenor Microfinance Bank and opened my shop's Easypaisa account.

Initially, I thought the process of understanding profit margins was difficult so I did not get involved, instead I had an assistant who used to manage the setup at my shop. However, soon Telenor Microfinance Bank provided me with thorough training and I resumed the Easypaisa business myself, and I realized that there is a lot of earning in this business.

My Easypaisa earnings have since helped me manage my shop expenses. Through commissions, I pay my shop's rent and electricity bill, which is a great help. I am very thankful to Easypaisa for providing this service to me.

Easypaisa has made life easier for people like me who cannot open bank accounts or are too afraid to try technical things. I am happy that I am now a part of this service and I am helping my community with their financial matters through it, regardless of my disabilities. Thank you Telenor Microfinance Bank.

**Ijaz Bhatti**  
Ghausia Mobile, Manga City



# Our Customers

## Usman Zafar

"I run a small stall that sells french-fries to nearby offices. When I started my business, my family used to subsist on day-to-day earnings. On days when I didn't make enough sales, we would have to skip a meal and hope the next day would be better. Sometimes, my family would have to go a week skipping meals, and the only recourse we had was to ask a neighbor for money. That always created an awkward situation because people living in my neighborhood are all wage-workers, with a similar financial situation to me and so unable to spare. I could not turn to a bank because they would not give someone like me a loan and because my business is new I didn't know if I would make enough money to repay them. This was all until I learned about Easypaisa Loan. Through this I can get money right in my mobile phone, which means I don't have to leave my business and go anywhere, and lose out on my earnings for the day. Taking this loan has helped me buy more raw materials and increase my sales, which means we have now started to save and we don't need to rely on daily earnings. If one day my sales fall short I don't have to worry for my family. I have saved myself the embarrassment of asking my neighbors for a loan."

## Samina Akbar

"I used to live with my parents and 6 siblings in a two room house in Shireen Jinnah Colony. There was never enough space for us all and my parents would give up their own sleep to allow the children a good night's rest. Most families in our locality faced similar situations. Even after I got married, my husband and I had to share a tiny two-bedroom house with my in-laws and their four other children. It was hard. Then, one day, my husband was told about Telenor Microfinance Bank's gold-secured loan. We had never thought about even applying for such a facility because of the complicated procedures involved but in the case of Telenor Microfinance Bank, we were ensured that it would be a hassle-free process and it truly was. My husband and I were able to secure a loan big enough to add two new rooms in the same house. Thanks to the loan, we were able to provide a home for ourselves and our first born who is going to bless this family in a few months. As a mother and as a wife, it gives me great joy to be able to have a roof of my own."



## Mohsin Ali

"I came to Malaysia two years ago because I received an once-in-a-lifetime professional opportunity here. It was tough having to leave my parents back home alone. However, they were the ones who encouraged me to take the leap forward and I've always tried my best to support them financially as well as emotionally and, on both aspects, there have been challenges. Sending money back home had always meant going through banks or other intermediaries. My father had to visit the respective office and wait in queues, which is hard for a person his age. Then, Valyou, Malaysia introduced their blockchain-based remittance service in collaboration with Easypaisa. At first, I didn't understand what it was but then I did some research and talked to the representative for the service here. Quickly, I was convinced that this platform would at least take care of the issues in transferring money to my parents every month. And it did. With a few taps I can send money directly to the Easypaisa app which my father doesn't even have to withdraw at times because all the payments he needs can be made through it. My parents are happy, I'm happy. Thanks to Easypaisa, this is one less thing I have to worry about."

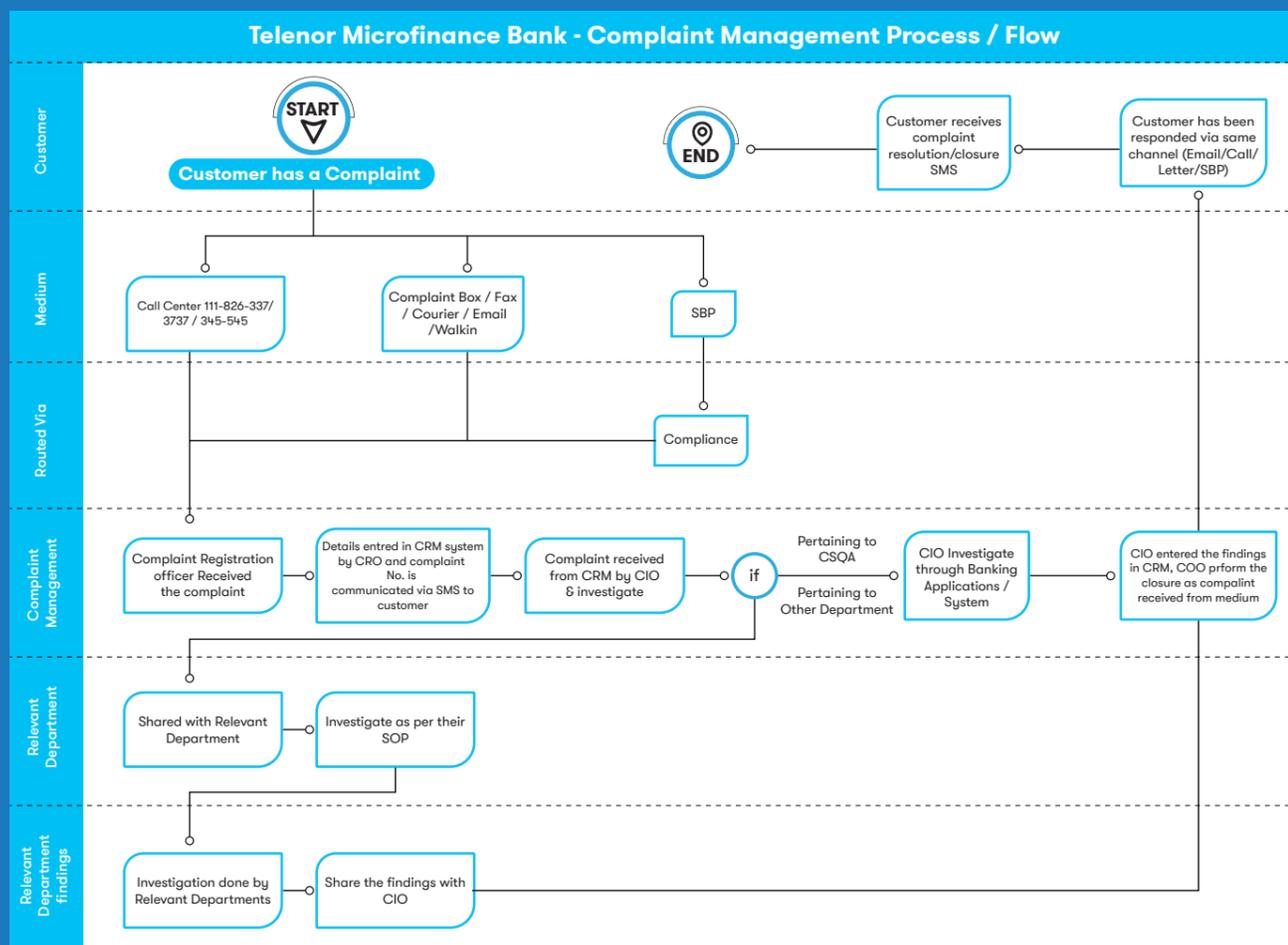
## Saneeya Ahmed

"As part of the newer generation, we've grown up watching tech videos on YouTube. I, for one, have closely followed the way payment mechanisms have evolved around the world. From NFC in credit cards to the same technology being incorporated in phones, I've always been fascinated by it. Living in Pakistan, we know that these systems will take time to be introduced here but Easypaisa has certainly set the ball rolling. Last week I learnt that they introduced QR code payments. I already use the app for topping my airtime, subscribing to data bundles and making money transfers but this new feature is truly amazing. I wanted to try it and not many retailers had the facility at first but now it is spreading quite rapidly. Thanks to Easypaisa, I've even stopped carrying my wallet at times because it's just an extra accessory to take care of all the time and when the phone alone is enough, why would you need a wallet anyway."

# Internal Complaint Handling Mechanism

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

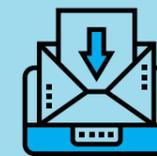
- Provide visible and easily accessible complaint registration platforms to customers.
- Prioritize the voice of customer received through complaints.
- Provide fair and honest resolution to customer complaints.
- Ensure all complaints are dealt as per the standard turnaround time.
- Use customer complaints as opportunity to improve and ensure minimum recurrence.



• CRM – Customer Relationship Management • CIO - Complaint Investigation Officer  
 • CRO - Complaint Registration Officer • CCO - Complaint Closure Officer

## New Initiatives

- Comprehensive reporting to Senior Management & Group
- Awareness campaigns on available complaint registration channels
- Revisit turnaround time to bring them in-line with efforts required for resolution
- Introduce new complaint types to accurately capture the essence of customers' voice
- Carry out targeted surveys to capture customer's perspective on Bank's Complaint Management process



Total Number of Complaints Received in 2019

122,331



Average Time of Complaint Closure:

05 Working Days



Evolving Digital Finance  
**Cultural Excellence**

# Our Culture



Telenor Microfinance Bank believes in building a culture of excellence that derives from a sense of mutual trust between an organization and its employees. We consider our employees as our most important assets, and to unlock their full potential, we empower, engage and invest in their wellbeing.



We have an open and casual work environment so our employees can enjoy themselves while learning and growing with the organization.



Our cultural environment ensures equality and respect for our diverse inclusive workforce.



We are motivated and passionate about our work; challenges drive us to achieve and excel.



Innovation is our mantra; it's how we think, work and act to stay a step ahead.



Teamwork is our way of work, supporting and building each other up is what keeps us strong and united



# Our Conduct

At Telenor Microfinance Bank, high performance is not only about exceeding our goals and targets, but also about how we behave towards each other and those around us.

We want to be a trusted partner – to our customers, shareholders, colleagues, business partners and the community. Our business depends on this trust and we are committed to conduct our business in a responsible, ethical and lawful manner.

The Code of Conduct is the foundation of our corporate culture and sets out high standards of integrity on how we do business. Our Code of Conduct is divided into:

- The Four Code Principles
- The Three Conduct Pillars



# Code Principles

-  **1. We play by the rules**  
We follow laws, regulations and our policies and, if in conflict, we uphold the highest standards.
-  **3. We are transparent and honest**  
We are open and truthful about our challenges.

-  **2. We are accountable for our actions**  
We actively seek information, understand our responsibilities, and recognize our wider impact on the societies in which we operate.
-  **4. We speak up**  
We ask questions when in doubt and raise concerns without fear of retaliation.

# Conduct Pillars



## 1. Take Actions for Customer Satisfaction

We are committed to protecting the privacy, personal information, assets, and confidentiality of all our stakeholders.



## 2. Culture makes the future

We always follow the best practices while dealing with our stakeholders, and always treat our employees and customers with respect.



## 3. Succeed with Business Ethics

We believe in always doing the right thing.



# Financial Statements



# Directors' Report to the Shareholders

On behalf of the Board of Directors, we are pleased to present the Directors' Report and audited financial statements of Telenor Microfinance Bank Limited (the Bank), for the year ended 31 December 2019.

## Macroeconomic Review:

At the inception of 2019, Pakistan faced major macroeconomic challenges including rising core and headline inflation, low level of foreign reserves, burgeoning twin deficits and FATF downgrading possibilities. These policy issues continued to engulf the economy during the year under review, which primarily emanated from consumption led growth in preceding years. Accordingly, contractionary monetary and fiscal policy strategy was adopted by the State Bank of Pakistan (SBP), encompassing the transition towards a flexible exchange rate regime, reduction of development budgets, escalation of consumer energy prices, rising benchmark policy rates along with enhanced focus on broadening of documented economy, to circumvent these imminent challenges.

Resultantly, SBP maintained monetary tightening policy stance throughout the year and policy rate was increased by a cumulative 325 bps during 2019. Simultaneously, SBP also adjusted the PKR/USD parity by 11.5%, to address the deteriorating external front by introducing flexible exchange rate regime. Resultantly, the country witnessed the highest recorded policy rate of 13.25% in the last six years and the PKR/USD parity depreciating to at an all-time high of PKR 162 by the end of 2019.

Average CPI inflation continued to rise from 3.92% in 2018 to 7.34% in 2019 and foreign exchange reserves declined by USD 4 Bn to close at USD 22 Bn in 2019. GDP growth reduced from 5.5% in FY2018 to 3.3% in FY2019.

Being the bankers of the unbanked, microfinance banks (MFBs) were adversely impacted by the aforementioned policy shifts, as rising inflation and economic growth shrinkage has immediate impact upon the repayment capacity of this niche market. Resultantly, MFB sector had to face a host

of systematic challenges catering to the most vulnerable customer base in the economy, coupled with credit monitoring challenges which are inherent in this segment. Sector advances growth pace slowed down as the industry advances grew by just 11% in comparison to 36% in the preceding year to close at to PKR 306 Bn.

Industry portfolio at risk (PAR) peaked at around 5% by the end of 2019 compared to approx. 2% as at last year end, affecting profitability across the MFB industry. Resultant, credit risk impairment coverage adversely impacted earnings owing to heavier provisioning accounted for by MFBs. Another challenge impacting the industry is management of the capital adequacy requirements and majority of the MFBs had to raise Tier-2 capital at higher spreads in an already interest peaked market to remain compliant with the regulatory requirements.

Subsequent to the year end, the global COVID-19 pandemic further compounded the challenges to both the global and domestic GDP growth outlooks respectively. Government of Pakistan (GoP) has implemented lockdown nationwide due to COVID-19 outbreak resulting in scaling down of the domestic economic activity and consumer demand.

In order to provide stimulus to the COVID-19 led recessionary pressures, SBP changed its monetary tightening stance in 2019 towards easing of rates with a cumulative rate cut of 625 bps in the first half of 2020. As the aggregate demand continues to fall, the interest rates may further decline in the future.

Although the SBP is providing relief to borrowers through debt restructuring options, bottom-line of majority of Banks and MFBs is expected to be adversely impacted, as borrowers' repayment capacity remains affected due to COVID-19 situation and resultantly NPLs may increase in the 2020 with possible spill over in 2021.

In view of these significant economic challenges amidst waning economic growth in medium term, the Bank's sustainable future entails higher focus on expanding its robust digital banking platform with higher focus on customer onboarding and

offering customer centric innovative products and services, higher level of service quality, robust risk management and compliance framework.

## Business Review

The Bank remains cognizant of the developing economic scenario, rapidly changing micro-finance sector dynamics and evolving digital landscape of the country, continuously re-aligning its strategies towards digital transformation, comprehensive and innovative product suite along with robust risk, technology and compliance platforms endeavoring towards building long-term sustainable shareholders' value.

With Telenor Group as its major shareholder and further investment by the Ant Financial Services Group (ANT) increasing their shareholding to 45% during the end of 2019, Telenor Microfinance Bank renewed its focus towards long-term excellence. Already being one of the top players in the microfinance industry while also being providers of the one of the largest branchless banking service platforms in the country, ANT's equity injection during 2018 & 2019 enabled the Bank to augment its digital banking horizon even further.

The Bank also welcomed key resources at the top level during the year to guide the organization towards its next transformation stage. The Bank also shifted to a new head office in Karachi along with two new regional offices in Lahore and Islamabad.

The Bank continued with its focus to develop the digital financial ecosystem in the country, with an aggressive acquisition led model in sync with best fin-techs in the world. The Bank has been able to successfully double the number of monthly active (MAU) Mobile Accounts to 6.4 Mn as at the end of 2019 in comparison to 3.3 Mn as at the close of the preceding year end; with a monthly average of 10 transactions per month per mobile wallet user.

Further, a phenomenal growth of about 300% was witnessed for active Easypaisa app users. Easypaisa app has the highest number of digital financial app users in the country. The active branchless banking agents of 70 K – largest footprint of branchless banking agents in Pakistan.

Besides, the Bank also had a conventional branch network of 171 locations nationwide as at the close of the year.

We are pleased to share that the value of Easypaisa transactions reached to almost PKR 1 Tn per annum witnessing a growth of 34% as compared to 2018. The Bank also successfully initiated direct integration of its state-of-the-art App with all Telecom Operators for more interoperability for various use cases during the year under review.

The Bank also introduced Pakistan's first digital lending product and was able to disburse 2.3 Mn digital nano loans valuing over PKR 7 Bn as a pilot since inception. The Bank also continues to grow its strategic partnerships with other institutions by providing payment solutions to them.

The branchless business strategy entailed significant investments on customer acquisition, management of the Easypaisa channel, persistent expansion of branchless banking platform, and entering new partnerships to develop a digital ecosystem respectively. While these costs immediately impact the bottom-line of the Bank, the associated revenues gradually build up as is the norm in global fin-techs, thereby contributing towards the losses posted by the Bank for the year ended 31 December 2019.

However, the traditional lending business of the Bank remained engulfed with significant challenges during the year under review. The Bank encountered high delinquency in its advanced portfolio arising from the aforementioned challenging economic conditions and tough operating environment, impacting the repayment capacity of the microfinance borrowers which are the most vulnerable segment of the economy.

These conditions were further compounded when certain credit irregularities identified by the management. In September 2019, the Bank discovered major credit irregularities in 3 branches from Lahore. These included general weak credit underwriting along with evidences of staff collusion with external elements in violation of the Bank's lending policy. As a proactive measure, after immediately notifying the regulator and law enforcement agencies, the Bank conducted a comprehensive internal review of entire branch network along with related risk and control

frameworks to assess the overall quality of loan portfolio.

This exercise revealed further instances of aforementioned credit irregularities and weak credit underwriting across the network, which adversely impacted the asset quality of the loan portfolio. The economic fallouts of the global COVID-19 pandemic have further augmented the potential challenges for controlling the asset quality deterioration in the Bank's targeted niche unbanked segment.

Acting prudently, Bank immediately stopped lending to new-to-bank clients till the Bank strengthened its risk and control structure in an exhaustive exercise that has been recently completed.

This exercise included implementation of enhanced systems and controls, implementing a renewed focus on highest ethical standards and training of our staff and taking strict legal and disciplinary actions against the staff involved in fraud and policy violations.

The Bank acting prudently also ensured that adequate provisioning has been taken of the identified and potential loan losses during the year under review. Accordingly, the branch banking's lending business is the major contributor towards the adverse bottom line posted for the year under review.

Despite a tough year for the Bank, the management remains confident of turning around the Bank with the support of the sponsor shareholders under of a long term strategic plan, which encompasses significant focus on exponentially growing the Bank's digital platform to cater to both the online and offline customer touch points along with augmented risk management platform, robust controls framework, higher focus on ethics and culture transformation along with optimization of operating costs.

### Financial review

Despite the aforementioned challenging circumstances, the Bank's main focus for the year 2019 was towards branchless banking customer acquisition, retention and engagement to increase numbers of customers and their corresponding activity levels.

In accordance with the strategy to increase the digital footprint in the market, the Bank incurred incremental costs aggregating to a cumulative cost of PKR 5.3 Bn in 2019 compared to PKR 2.5 Bn in 2018. This includes various customer educational campaigns and incentives to increase the overall customer base by almost two folds in 2019. There is a corresponding increase in other ancillary customer acquisition costs to support the branchless banking proposition.

It must be noted that growth of Mobile Wallet users also yielded results on the funding side as Branchless Banking deposits increased by 26% which signifies consumer trust and reliability. The Branchless banking operations total earnings aggregated to PKR 7.3 Bn from service fees and commission under its branchless banking realm.

Going forward, as Easypaisa further grows its transactional throughput, the cost of acquisition per customer will continue to minimize. As per global benchmarking, the Bank's acquisition cost per customer in this segment is on the lower side.

In view of the detection of the aforementioned credit irregularities and being prudent for booking of potential loan losses, the Bank has taken a credit impairment charge of Rs 8,869 Mn for the year ended 31 December 2019, including a provision of Rs 2,683 Mn against specific credit irregularities identified in loans outstanding as at December 31, 2019 and Rs. 776 Mn against credit irregularities identified in loans written-off during the year under review. The bulk of the remaining provision has been recorded as per regular process against non-performing loans under the prudential regulations issued by SBP. While a prudent and conservative general reserve of Rs 3,305 Mn was created against potential credit losses.

The Bank's management remains confident that the total provision coverage of 37% on the unsecured gross loan portfolio is adequate to cover the existing and potential loan losses during the year ended December 31, 2019. In addition, and as explained above the management has also revisited the existing risk platform and credit monitoring controls while simultaneously introducing various health checks to improve quality of its asset portfolio going forward.

Resultantly, the Bank reported loss before tax of PKR 15,784 Mn, loss after tax of PKR 16,352 Mn and generated PKR 2,798 Mn net cash flow during the year.

PKR in Mn	FY 19	FY 18
Net interest income	5,617	6,126
Net interest income after provisions	(3,252)	4,740
Advances – Gross	27,461	34,188
Deposits	41,171	42,275
PAR %	21.1%	4.1%

The total asset base of the Bank amounted to PKR 60,860 Mn. Cash and Cash equivalents of the bank also increased by 35% over 2018 to close at PKR 10,872 Mn mainly owing to decrease in net advances by 39% over the same period. On the liabilities side, the deposit base and CASA ratio of the Bank remained fairly stable with current account deposits contributing 32% of the total deposit base by volume. The Bank's net advances to deposit (ADR) ratio of 49% as at year end is reflective of the stability of its diversified deposit base.

The Bank's Equity base stood at PKR 8,047 Mn. The Bank's Capital Adequacy Ratio (CAR) of 24.6% as at December 31, 2019 stands well above the minimum required threshold prescribed by the State Bank of Pakistan.

The Bank was not required to transfer any amount to the Statutory Reserve and Depositors' Protection Fund during the year 2019 due to net loss. However, an amount of PKR 33.476 Mn on account of profit earned on the investments of the Depositors' Protection Fund has been transferred to the same during the year under review.

### Change in Composition in Board of Directors

Casual vacancies occurred during the year 2019 which were created by the resignations of the directors. These casual vacancies were filled as follows:

Incoming Directors		Outgoing directors	
Mr. Aslam Hayat Khan	Acting CEO	Mr. Petter Borre Furberg	Chairman
Mr. M. Mudassar Aqil	CEO & President	Mr. Shahid Mustafa	CEO & President
Mr. Zhixian Li	Director	Mr. Klas Berthelsson	Director
Mr. Zheng Liu	Director	Mr. Roar Bjaerum	Director
Mr. Ji Xu	Director	Mr. Aslam Hayat Khan	Acting CEO

\*Mr. Khalid Qurashi (Independent Director) resigned in 2020

We sincerely thank all the out-going directors on behalf of the Board for their valuable contribution and guidance during their respective tenures.

### Change in Shareholding

The Bank is jointly held by Telenor Pakistan B.V, a joint stock company based in Amsterdam with 55% shareholding (2018: 66.32%) and Alipay (Hong Kong) Holding Limited with 45% shareholding (2018: 33.68%).

During the year Alipay (Hong Kong) Holding Limited acquired additional 11.32% of shareholding in the Bank by way of further issue of capital under section 83 of the Companies Act, 2017.

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

### 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 except for the following:
  - Effective 01 January 2019, the International Financial Reporting Standard (IFRS) -16 'Leases' became applicable in Pakistan as the same was

adopted by the SECP and SBP. Further details have been disclosed in note 5.1.1 to the financial statements.

ii. In line with the requirements of International Accounting Standard (IAS) - 16, the management has reviewed the estimate of useful life of certain categories of assets and accordingly revised useful life of its infrastructure hardware and core banking application in order to appropriately reflect the expected pattern of associated economic benefits effective January 01, 2019. Further details have been disclosed in note 11.1.1 to the financial statements.

d. The Bank has followed all applicable accounting standards, as applicable to Microfinance Banks in Pakistan, in preparation of these financial statements.

e. During the year, the Bank reported a net of tax loss of PKR 16,352 Mn. The details of which has been elaborated in the financial performance.

f. The system of internal control is sound in design and has been effectively implemented and monitored.

g. Risk management platform of the Bank has been adequately augmented to cater to the identified challenges under the internal review process of the Bank while remaining fully abreast with the evolving challenges under the dynamic economic and operating environment.

h. Despite the aforementioned losses, the management has a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future; as elaborated in note 1.5 to the financial statements. Accordingly, the financial statements have been prepared on a going concern basis.

i. During the year, twelve board meetings were held. These meetings were attended by the directors as under:

Name of Director	Designation	No. of Meetings	Meetings Attended
<b>Existing Members</b>			
Mr. Irfan Wahab Khan	Chairman	12	12
Mr. M. Mudassar Aqil	President & CEO	3	3
Mr. Zhixian Li	Director *	12	12
Mr. Zheng Liu	Director	6	6
Mr. Ji Xu	Director	6	6
Mr. Henning Thronsn	Director	12	11
Mr. Lars Erik Tellman	Director **	-	-
Ms. Uzma Khan	Independent Director	12	12
<b>Outgoing Members</b>			
Mr. Petter Borre Furberg	Chairman	3	3
Mr. Klas Berthelsson	Director	10	9
Mr. Aslam Hayat Khan	Ex-Acting CEO	7	7
Mr. Shahid Mustafa	CEO	2	2
Mr. Khalid Qurashi	Independent Director	11	11
Mr. Roar Bjaerum	Director	7	7
* Attended 6 meetings as observer ** Appointed as Director on October 31, 2019, Fit and Proper Test approved by SBP on May 4, 2020			

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.

### Audit Committee

The Audit Committee consists of three members comprising of; two Non-executive directors, Mr. Zheng Liu and Mr. Henning Thronsen, and one Independent Director, Ms. Uzma Khan (Chairperson).

### Credit Rating

The credit rating companies PACRA and JCR VIS has retained the long-term and short-term rating of the Bank to "A+" (Single A-Plus) and "A-1" (A One) respectively.

### External Audit Report

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

i. As the Bank incurred a net loss of Rs. 16,352 Mn during the year and resultantly accumulated loss aggregated to Rs. 16,830 Mn as at year end, the External Auditors have emphasized on going concern assumption used in preparation of financial statements. Management believes that the Bank will continue to meet its capital adequacy requirement, operate its business, realize its assets, discharge its liabilities and obtain working capital in the normal course of business. Following key factors have been considered for appropriateness of going concern assumption:

a. Management believes that the bank will achieve profitable operations in future and has reasonable expectations that it will have the required resources in line with the Board approved long term strategy, which emphasizes on planned revenue growth along with sustained focus on rationalization of associated operational costs.

b. The Bank is regulated by the State Bank of Pakistan (SBP) and both the shareholders of the Bank remain committed to the regulatory framework under the terms of approval regarding the acquisition of the shares of the Bank. Accordingly, they remain committed to financially support the Bank in complying with the minimum capital requirement and capital adequacy ratio as prescribed by SBP from time to time.

c. Board of Directors of the Bank has approved the business plan of the Bank which envisages future injections in the Bank's equity. This is apart from the injection of Rs. 10,869 Mn (USD 70 million) in November 2019 by Alipay (Hong Kong) Holding Limited as explained in note 16.3 to the financial statements.

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

ii. The External Auditors have emphasized and drawn attention to the recognition of enhanced provision in the financial statements on advances portfolio as whole inclusive of the additional provision in view of the credit irregularities identified by the management through internal portfolio reviews and regular recovery efforts.

The Board of Directors endorses the management's prudent basis of creating these provisions against advances in view of existing and potential credit deterioration due to general economic conditions of the micro credit segment, inflationary pressures on borrowers, credit monitoring and collection challenges inherent in this segment along with additional challenges emanating from global COVID-19 pandemic.

### Change in External Auditors

The present Auditors Messrs. KPMG Taseer Hadi & Co. Chartered Accountants, have completed their term of five years and are retired in pursuance of section 16(2) of Microfinance Institution Ordinance, 2001.

The Board of Directors on recommendation of the Board Audit Committee has recommended to the shareholders of the Bank, the appointment of Messrs. EY Ford Rhodes, Chartered Accountants as statutory auditors of the Bank for the year ending 31 December 2020 in place of the retiring auditors.

### Pattern of Shareholding

The pattern of shareholding of the bank as at 31 December 2019 is as follows:

No. of share holders	Shareholders	No. of shares	% shareholding
1	Telenor Pakistan B.V	235,267,372	55%
1	Alipay (Hong Kong) Holding Limited	192,491,517	45%
1	Ms. Uzma Khan	10	Less than 0.001%
1	Mr. Khalid Qurashi	10	Less than 0.001%
4		427,758,909	100%



ازالے کے لیے بینک نے ریگولیشنز کو نافذ کرنے والے اداروں کو ہم مطلع کیا اور تمام براؤزر کا جامع اندرونی متعلقہ رسک اور کنٹرول فریم ورک کا جائزہ لیا تاکہ لون پورٹ فولیو کی کوئی ایسی سمت کی جاسکے۔

اس کاروائی سے پورے نیٹ ورک میں ایسی ہی بے قاعدگیوں کے بارے میں معلوم ہوا جس کی وجہ سے لون پورٹ فولیو کی کوئی بے ترتیبی سے متاثر ہوئی۔ کوڈ 19 کی وجہ سے بے معاشی حالات نے ان مسائل میں مزید اضافہ کر دیا ہے جس سے اس سیکٹر کی کوئی پر بالخصوص اثر ہوگا۔

مختار روپے سے بینک نے نئے کلائنٹس سے معاملات روک دیئے تاکہ نئے کلائنٹس اور رسک و کنٹرول اسٹریٹجی بہتر ہو جائے جو کہ حال ہی میں مکمل ہوا۔

جس میں شامل تھے، بہتر سسٹم اور کنٹرول، اسٹاف کے لیے بہترین معیاری تربیت اور فراڈ میں موٹ و پالیسی سے مخرف افراد کے لیے سخت قانونی و انضباطی کارروائی۔

بینک نے مکتد قرضی خسارے کے ازالے کے لئے مناسب پروویڈنگ کی۔ اسی وجہ سے متذکرہ سال میں، براؤنج بینکنگ باعث نئی آمدن ہے۔

باوجود اس کے کہ بینک کے لیے ایک سخت تھا، انتظامیہ پورے یقین کے ساتھ، شہر، ہولڈرز کے تعاون سے طویل المدتی پلان کے تحت اسے کامیابی سے سنکار کرے گی جس کا مقصد ڈیجیٹل پلٹ فارم کو بڑھا دینا ہے تاکہ آئن لائن اور آف لائن کسٹمر کی ضروریات پوری کی جاسکیں جس میں رسک مینجمنٹ، کنٹرول فریم ورک، اخلاقیات و گچھ پر زیادہ فوکس اور بالکل فیت خرچ شامل ہیں۔

## مالیاتی جائزہ

متذکرہ بالاسمائل کے باوجود، 2019 میں بینک کا مرکز گاہ براؤنج بینکنگ کسٹمر ایکویزیشن، رٹیشن و انگیجمنٹ تھا، تاکہ کسٹمر کی تعداد اور متعلقہ معاملات میں اضافہ کیا جاسکے۔

ڈیجیٹل میدان میں اپنی موجودگی بڑھانے کے لیے، بینک کی جانب سے 2019 میں 5.3 ارب روپے خرچ کیے گئے جو 2018 میں 2.5 ارب روپے تھے۔ جس میں کسٹمرز کے لیے معلوماتی و دیگر فائدہ مند سہولتیں چلائی گئیں تاکہ 2019 میں کسٹمر کی تعداد میں تقریباً 20% اضافہ کیا گیا جس کا سہارا بینک کے حصول کیلئے خرچ میں اضافہ کیا گیا تاکہ براؤنج لیس بینکنگ کی نمونہ میں اضافہ ہو۔

ملاحظہ ہو کہ موٹ و الٹ بھنے کی وجہ سے براؤنج لیس بینکنگ کے ڈپازٹ میں بھی 26% اضافہ ہوا جو کسٹمرز کے اعتماد کا مظہر ہے۔ سروس فیس اور کمیشن سے براؤنج لیس بینکنگ آپریشن کی کل آمدن 7.3 ارب روپے رہی۔

وقت کے ساتھ جیسا کہ ایزی کی پیسہ کا شہر مزید پروان چڑھتا جا رہا ہے اس کے فی صارف خرچ میں کمی ہوتی جا رہی ہے۔ بالنتیجہ عالمی معیار بینک کا فی صارف خرچ حصول کم تر سطح پر ہے۔

اور جیسا کہ پہلے تذکرہ ہو چکا ہے، جو بے قاعدگیوں ہوئی ہیں، بینک نے برائے سال اختتام پر 31 دسمبر 2019 8,869 ملین روپے کا کریڈٹ امپیر منٹ چارج کیا۔ شناخت شدہ مخصوص کریڈٹ بے قاعدگیوں کی مد میں بینک نے 2,683 ملین روپے آؤٹ اسٹینڈنگ لون پروویزن اور 776 ملین لون رائٹ آف کی مد میں اس مالی سال کے دوران مختص کیے گئے۔ باقی تمام پروویزن اسٹیٹ بینک کی ریگولیشن کے مطابق، بطور نان پرفارمنگ لون کارڈ کیے گئے ہیں۔ جبکہ 3,305 ملین روپے مکتد کریڈٹ لاس کی وجہ سے رکھے گئے۔

بینک کو یقین ہے کہ 31 دسمبر 2019 کو تخم ہونے والے سال میں غیر محفوظ لون پورٹ فولیو پر کل 37% پروویزن کو رتج موجودہ اور مکتد لون لاسز کو کو کرنے کے لیے کافی ہوگا۔ مزید برآں، مینجمنٹ نے، بیک وقت ایسٹ پورٹ فولیو کی

کوئی بہتر کرنے کے لئے اصلاحات نافذ کیں اور موجودہ رسک پلٹ فارم اور کریڈٹ مانیٹرنگ کنٹرول کا دوبارہ جائزہ لیا۔

نتیجتاً، بینک نے 15,784 ملین روپے خسارہ قبل از حصول ڈیکریٹ کیا، اور 16,352 ملین روپے خسارہ بعد از حصول ڈیکریٹ کیا، اور دوران سال 2,798 ملین روپے نیٹ کیش فلو کا اضافہ کیا۔

ملین روپے	مالی سال 2019	مالی سال 2018
نیٹ انٹرسٹ انکم	5,617	6,126
پروویژن کے بعد نیٹ انٹرسٹ انکم	(3,252)	4,740
مجموعی قرضہ جات	274+61	34,188
ڈپازٹ	41,171	42,275
PAR	21.1%	4.1%

بینک کا کل ایسٹ میں 60,860 ملین روپے رہا۔ کیش اور اس کے متواذات بھی 2018 میں 35% بڑھ گئے اور اسی عرصے میں نیٹ ایڈوانسز میں 39% کمی کی وجہ سے 10,872 ملین روپے پر کم ہوئے۔ لائیکویڈٹی کی مد میں، بینک کا ڈپازٹ جس اور کارسار بشو قدر سے مستحکم رہا اور کرنٹ اکاؤنٹ ڈپازٹ کل ڈپازٹ کا 32% رہا۔ بینک کا اے ڈی آر ریٹوشال کے آخر تک 49% رہا، جو اس کے اس کے متوقع ڈپازٹ میں سے استحکام کا مظہر ہے۔

بینک کی ایکویٹی کا حجم 8,057 ملین روپے رہا۔ بینک کا کاپیٹل ڈویوٹی ریٹو جو 31 دسمبر 2019 تک 24.6% رہا، اسٹیٹ بینک کی جاری کردہ حد سے کافی زیادہ ہے۔

سال 2019 میں خالص خسارے کی وجہ سے بینک کو اسٹیٹوری ریزرو اور ڈپازٹرز پر گیکشن فنڈ میں کوئی رقم نہیں رکھوانی پڑی۔ تاہم 33,476 ملین روپے کا پرافٹ جو ڈپازٹرز پر گیکشن فنڈ کی انوشمنٹ سے حاصل ہوا تھا، وہ متذکرہ سال میں ٹرانسفر کیا جاسکا ہے۔

## بورڈ آف ڈائریکٹرز میں تبدیلی

سال 2019 میں کیڑول ویکٹری ڈویوٹی پڑے ہوئے ہیں جس کی وجہ ڈائریکٹرز کی استعفی تھے۔ یہ ویکٹری اس طریق پر پھری گئیں

نئے آنے والے ڈائریکٹر	مستعفی ہونے والے ڈائریکٹر
جناب اسلم حیات خان	لیکنگ سی ای او
جناب محمد مدثر عاقل	جناب پیٹر بورفر برگ
جناب ژئی ٹیان لی	جناب شاہد مصطفیٰ سی ای او / صدر
جناب ژینگ لیو	جناب کلاس برٹھلیسن
جناب جی ژو	جناب رور بحیرم
	جناب اسلم حیات خان

\* جناب خالد قریشی، 2020 میں مستعفی ہونے والے انڈیپنڈنٹ ڈائریکٹر بورڈ کی جانب سے ان کی پیش باخدا مات پر ہم تجرول سے رخصت پانے والے ڈائریکٹرز کے مضمون ہیں۔

## شہر ہولڈنگ میں تبدیلی

بینک، ٹیلی نار پاکستان بی وی، ایسٹراڈیم میں مٹی جو انٹ اسٹاک کمپنی جس کے 55% شہر (2018) میں 66.32% اور ٹیلی پے (ہانگ کانگ) ہولڈنگ ملڈم 45% شہر ہولڈنگ (2018) 33.68% کی مشترکہ (جو انٹ) ملکیت ہے۔

سال کے دوران ٹیلی پے (ہانگ کانگ) ہولڈنگ ملڈم نے اشوآف کیپٹل زبردفعہ 83 کمپنیز ایکٹ، 2017 بینک میں مزید 11.32% شہر ہولڈنگ حاصل کی۔

ٹیلی نار کی ہولڈنگ کمپنی، بی وی، ٹیلی نار اے ایس اے، ناروے ہے، جبکہ ٹیلی پے (ہانگ کانگ) ہولڈنگ ملڈم کی ہولڈنگ کمپنی اینٹ اسٹاک ہانگ کانگ فنانشل سرورگروپ کمپنی ملڈم ہے۔

## کارپوریٹ گورننس

بینک کا بورڈ آف ڈائریکٹرز شہر ہولڈرز کو بینک کی انتظامیہ سے متعلق جوابدہ ہے۔ بورڈ اپنی ذمہ داری سے بخوبی آشنا ہے جو شفاف اندرونی نظام کے لیے ہے اور کارپوریٹ گورننس کی اعلیٰ ترین اقدار کو برقرار رکھنے کے لیے پرعزم ہے۔

## کارپوریٹ گورننس کا اعلامیہ

ڈائریکٹرز مسرت اعلان کرتے ہیں کہ:

(a) - بینک کی فنانشل اسٹیٹمنٹ، جو بینک انتظامیہ نے تیار کی ہے، اس کے نظم نسق، معاملات، کیش فلو اور ایکویٹی میں تبدیلی کو شفافیت سے بیان کرتی ہے۔

(b) - بکس آف اکاؤنٹس احسن طریقے سے مرتب کی گئی ہیں۔

(c) - فنانشل اسٹیٹمنٹس اور اکاؤنٹ اسٹیٹمنٹ بناتے وقت مستند اکاؤنٹنگ پالیسیوں پر عملدرآمد کروایا جاتا ہے، جس سے مندرجہ ذیل مستعفی ہیں۔

i - یکم جنوری 2019 سے نافذ عمل انٹرنیشنل فنانشل رپورٹنگ اسٹینڈرڈ (آئی ایف آر ایس) 16- "لیٹرز" پاکستان میں نافذ ہوا اور ایس ای سی پی اور ایس بی پی نے بھی اپنایا۔ مذید تفصیلات نوٹ 5.1.1 فنانشل اسٹیٹمنٹس میں ملاحظہ کیجئے۔

ii - انٹرنیشنل اکاؤنٹنگ اسٹینڈرڈ 16- (IAS) کے ضوابط کے مطابق انتظامیہ نے کچھ مخصوص اثاثوں کی قابل استعمال میعاد کا جائزہ لیا اور نتیجتاً انفراسٹرکچر بارڈ ویز اور بنیادی بیکارری ایپلیکیشن کی قابل استعمال میعاد میں نظر ثانی کی ہے تاکہ وہ ان اثاثوں سے ملحقہ معاشی فوائد کی بہتر طریقے سے عکاس کر سکے جس کی تفصیل فنانشل اسٹیٹمنٹس نوٹ 11.1.1 میں موجود ہے۔

(d) - فنانشل اسٹیٹمنٹس کی تیاری کے وقت بینک نے انگریز فنانشل رپورٹنگ اسٹینڈرڈ پر عمل کیا ہے۔

(e) - سال کے دوران، بینک نے 16,352 ملین روپے کا خالص خسارہ رپورٹ کیا۔ جس کی تفصیلات فنانشل رپورٹ میں موجود ہیں۔

(f) - انٹرنل کنٹرول سسٹم ڈیزائن کے حساب سے صحیح ہے جس کا موثر انداز سے نفاذ اور نگرانی کی جاتی ہے۔

(g) - بینک کا رسک مینجمنٹ پلٹ فارم مناسب طریق پر رکھا گیا ہے جو اندرونی جائزے کے تحت نشاندہ کردہ مسائل سے نمٹتا ہے، وہ ہیں بدلتے ہوئے حالات سے بھی ہم آہنگ ہے۔

(h) - متذکرہ قبل خسارے کے باوجود، جیسا کہ فنانشل اسٹیٹمنٹس کے نوٹ 1.5 میں بیان کیا گیا ہے، انتظامیہ کا خیال ہے کہ بینک کے پاس کافی وسائل موجود ہیں کہ اپنے وجود و آپریشن کو مستحکم رکھے۔ اسی کو مد نظر رکھتے ہوئے فنانشل اسٹیٹمنٹس تیار کی جارہی ہیں۔

i - سال کے دوران بورڈ کی 12 میٹنگز ہوئیں۔ ان میں مندرجہ ذیل ڈائریکٹرز شامل تھے۔

ڈائریکٹرز کے نام	عہدہ	میٹنگ کی تعداد	شرکت کردہ
موجودہ ممبران			
جناب عرفان وہاب خان	چیئر مین	12	12
جناب محمد مدثر عاقل	صدر و سی ای او	3	3
جناب ژئی ٹیان لی	☆ ڈائریکٹر	12	12
جناب ژینگ لیو	ڈائریکٹر	6	6
جناب جی ژو	ڈائریکٹر	6	6
جناب ہیمنگ تھروٹسن	ڈائریکٹر	12	11
جناب لارنس ایرک ٹیل مین	☆ ڈائریکٹر	-	-
محترمہ عظمیٰ خان	انڈیپنڈنٹ ڈائریکٹر	12	12
مستعفی ہونے والے ممبر			
جناب پیٹر بورفر برگ	چیئر مین	3	3
جناب کلاس برٹھلیسن	ڈائریکٹر	10	9
جناب اسلم حیات خان	سابق قائم مقام سی ای او	7	7
جناب شاہد مصطفیٰ	سی ای او	2	2
جناب خالد قریشی	انڈیپنڈنٹ ڈائریکٹر	11	11
جناب رور بحیرم	ڈائریکٹر	7	7

☆ فقط چھ میٹنگز میں شرکت کی

☆☆ 31 اکتوبر 2019 کو بطور ڈائریکٹر تقرری ہوئی، اور ایس بی پی کی

منظوری 4 مئی 2020 کو ہوئی

i - آپریٹنگ اور فنانشل ڈیٹا کی کلیدی معلومات سالانہ رپورٹ میں موجود ہیں۔ اس کی کاپی اور شہر ہولڈنگ بیرون بھی، جیسا کہ کنٹینر ایکٹ 2017 کے تحت درکار ہوئی ہیں، سالانہ رپورٹ میں موجود ہیں۔

## آؤٹ کیمٹی

یہ کیمٹی تین ممبران پر مشتمل ہے، دونوں ایگزیکٹو ڈائریکٹرز، مسٹرزنگ لیو و مسٹرزنگ تھروٹسن، اور ایک انڈیپنڈنٹ ڈائریکٹر، مس عظمیٰ خان (چیئر پرسن)

## کریڈٹ ریٹنگ

کریڈٹ ریٹنگ کمپنیز PACRA اور JCR-VIS نے بینک کی لوگ ٹرم اور شارٹ ٹرم ریٹنگ بائریٹیج اے پلس اور اے ون رکھی ہے۔

## ایکسٹرنل آؤٹ رپورٹ

بینک کے ایکسٹرنل آؤٹ رٹرن نے اپنی رائے کو شروٹ کیے بغیر شہر ہولڈرز کی مندرجہ ذیل نکات کی جانب توجہ مبذول رکھائی ہے۔

i - جیسا کہ سال کے دوران بینک کو 16,352 ملین روپے کا خالص خسارہ ہوا، نتیجتاً مجموعی خسارہ سال کے آخر تک 16,830 ملین روپے ہو گیا، ایکسٹرنل آؤٹ رٹرن نے مالیاتی گوشوارے میں استعمال کردہ تسلسلی کے مفروضے پر زور دیا ہے۔ انتظامیہ یہ یقین رکھتی ہے کہ بینک سرمائے کی حسب ضرورت فراوانی کو یقین بنائے گا، کاروبار کو جاری رکھے گا، اثاثوں کی وصولی اور واجبات کی ادائیگی سرمائے کا حصول عمومی کاروباری طریقے سے انجام دے سکے گا۔

## Six-Year Financial Summary:

Rs.'000

2019	2018	2017	2016	2015	2014
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## Balance Sheet

Assets	2019	2018	2017	2016	2015	2014
Cash and balances with SBP & NBP	3,463,741	4,210,306	3,497,633	3,116,926	1,588,338	1,371,733
Balances with other banks	7,408,549	3,864,399	4,310,776	2,558,937	1,118,190	717,070
Lending to financial institutions	4,950,000	5,473,364	3,368,059	323,215	346,702	-
Investments	13,773,400	9,008,445	6,767,309	11,568,227	3,784,189	3,775,640
Advances - net of provisions	19,998,939	32,944,819	24,761,653	15,835,248	12,125,628	8,941,759
Operating fixed assets	7,667,057	3,001,351	1,729,560	1,041,611	645,474	556,761
Other assets	3,598,248	3,963,292	3,052,877	1,844,687	1,433,577	1,030,330
Deferred tax asset - net	-	-	-	14,795	16,025	-
<b>Total Assets</b>	<b>60,859,934</b>	<b>62,465,976</b>	<b>47,487,867</b>	<b>36,303,646</b>	<b>21,058,123</b>	<b>16,393,293</b>

Liabilities	2019	2018	2017	2016	2015	2014
Deposits and other accounts	41,170,537	42,274,909	36,664,927	27,829,780	15,678,541	12,261,354
Borrowings	-	-	-	-	85,474	239,211
Subordinated debt	-	-	-	-	-	-
Other liabilities	11,369,058	6,369,572	5,805,111	3,887,957	1,604,825	1,044,847
Deferred tax liabilities	273,360	153,066	12,034	-	-	3,960
<b>Total Liabilities</b>	<b>52,812,955</b>	<b>48,797,547</b>	<b>42,482,072</b>	<b>31,717,737</b>	<b>17,368,840</b>	<b>13,549,372</b>

Net Assets	2019	2018	2017	2016	2015	2014
<b>Net Assets</b>	<b>8,046,979</b>	<b>13,668,429</b>	<b>5,005,795</b>	<b>4,585,909</b>	<b>3,689,283</b>	<b>2,843,921</b>

## REPRESENTED BY:

Share capital	4,277,589	3,547,269	1,346,939	1,346,939	1,346,939	1,346,939
Reserves	20,585,009	10,412,953	1,405,571	1,286,756	1,050,952	828,142
Accumulated (Loss) / Profit	(16,830,229)	(345,238)	2,229,020	1,943,880	1,260,896	646,831
<b>Total</b>	<b>8,032,369</b>	<b>13,614,984</b>	<b>4,981,530</b>	<b>4,577,575</b>	<b>3,658,787</b>	<b>2,821,912</b>
Deficit on revaluation of assets - net of tax	(4,130)	(2,359)	(911)	(1,527)	(836)	(959)
Deferred grants	18,740	55,804	25,176	9,861	31,332	22,968
<b>Total</b>	<b>8,046,979</b>	<b>13,668,429</b>	<b>5,005,795</b>	<b>4,585,909</b>	<b>3,689,283</b>	<b>2,843,921</b>

## ڈائریکٹران کی رپورٹ برائے شیئر ہولڈرز

بورڈ آف ڈائریکٹرز کی جانب سے، ہم ٹیلی نار ماہر و فنانس بینک لمیٹڈ کی ڈائریکٹر رپورٹ و مالیاتی گوشوارے برائے سال ختمیتہ 31 دسمبر 2019 کو سمیرت آپ کی خدمت میں پیش کرتے ہیں۔

## کلیاتی اقتصادیات کا جائزہ

سال 2019 کی ابتدائی سے پاکستان نے کچھ بڑے مسائل جیسے بڑھتی ہوئی کساد بازاری، دگنے خسارے کے ساتھ بیرونی ذخائر میں کمی، ایف اے ٹی ایف ایسٹ میں تیزی کے امکانات۔ گزشتہ سالوں میں معاشی کھپت میں اضافے کی وجہ سے معیشت ان مسائل سے پورے سال گھری رہی۔ مزید برآں، اسٹیٹ بینک نے تنگ معاشی پالیسی والی حکمت عملی اپنائی جس میں پلگ دار کھینچ ریٹ، ڈو پینٹ بٹ بجٹ میں کمی، کنزیومرانز کی قیمت میں اضافہ، معیشت کی بہتری کے لئے پالیسی ریش میں اضافہ بشمول دستاویزی معیشت کی توسیع پر مرکزی توجہ ان چیلنج بھرے حالات پر قابو پانے کے لئے کیا۔

جس کی وجہ سے پورے سال کے لئے اسٹیٹ بینک نے سخت گیر پالیسی کا موقف برقرار رکھا اور 2019 میں ریٹ مجموعاً 325 فی پی ایس تک بڑھا گیا، اس طرح ایک وقت، لچکدار اسٹیج ریٹ کے ذریعے، روپے کی قدر کو ڈالر کے قریب لانے کے لئے 11.5% تک ایڈجسٹ کیا گیا۔ جن کی وجہ سے پچھلے 6 سالوں میں پالیسی ریٹ 13.25% کی بلند ترین سطح پر تک چلا گیا اور ڈالر روپے کی گراوٹ کی وجہ سے 2019 کے آخر تک ریٹ 162 روپے فی ڈالر تک چلا گیا۔

اوسط سی پی ای افراط زر 2018 میں 3.92% کی شرح سے 2019 میں 7.34% تک جا پہنچی اور بیرونی ذخائر 4 ارب ڈالر کی کمی کے باعث 22 ارب ڈالر تک جا پہنچے۔ جی ڈی پی کی شرح نمو 2018 میں 5.5% تھی جو کہ 2019 میں 3.3% تک جا پہنچی۔

ماہر و فنانس بینک کا شعبہ مذکورہ بالا پالیسیوں کی وجہ سے شدید متاثر رہا، کہ مہنگائی اور معاشی نمو کے سکر جانے کی وجہ سے اس مخصوص مارکیٹ کی ادائیگی کے معاملات براہ راست اثر انداز رہے۔ اسی وجہ سے اس سیکٹر کو مختلف مسائل کا سامنا رہا۔ سیکٹریڈوائس گروتھ ریٹ پچھلے سال 36% کی نسبت فقط 11% رہا اور 306 ارب روپے پر اختتام پذیر ہوا۔

انڈسٹریل پورٹ فولیو ایٹ رسک 2019 میں پچھلے سال کی نسبت 2% سے بڑھ کر 5% پہنچ گیا جس نے ایم اف بی انڈسٹری کی منفعت بخشی (پرافٹ ایبلٹی) کو متاثر کیا، کہ ریٹ منٹ کووریج کی وجہ سے آمدن متاثر رہی۔ ایک اور مسئلہ، پہلے سے بڑھی ہوئی شرح سود کے ساتھ ٹھیر 2 کھیل جمع کرنا تھا تا کہ ریٹیکو لیٹری شرائط پر پورا اترتا سکے۔

اور سال کے اختتام کے بعد، کوڈ 19 نامی عالمی وبائی عالمی وبائی جی ڈی پی کی شرح نمو کے مسائل کو مزید بڑھا دیا۔ حکومت پاکستان نے پورے ملک میں لاک ڈاؤن کا نفاذ کیا جس کی وجہ سے معاشی سرگرمیاں اور کنزیومر ڈیمانڈ متاثر ہوئی۔

اس ضمن میں بہتری کی خاطر، اسٹیٹ بینک نے اپنی مانیٹری پالیسی میں نرمی اختیار کی اور 2020 کی پہلی ششماہی میں مجموعی ریٹ کٹ 625 بی پی ایس رہا، اور چونکہ ڈیمانڈ میں مسلسل کمی ہوتی جا رہی ہے تو مستقبل میں شرح سود بھی کم رہے گی۔

اگرچہ اسٹیٹ بینک متروبین کو ریلیف پہنچا رہا ہے لیکن پھر بھی کوڈ 19 کے سبب قرض واپسی میں دشواری کی وجہ سے بینک اور ایم ایف بی متوقع طور پر اس سے شدید متاثر ہو گئے جس سے 2020 تک این پی ایبل بڑھ جائیں گے اور ممکنہ طور پر 2021 تک بڑھنے کا امکان ہے۔

ان معاشی چیلنجز کی وجہ سے بینک کا مستقبل ڈیجیٹل بینکنگ پلیٹ فارم سے جڑا ہے جس میں کسٹمر کو مد نظر رکھتے ہوئے نئی پروڈکٹ اور خدمات متعارف کروانا، اعلیٰ درجے کی سروس کو اپنی، رسک مینجمنٹ اور کھلائنس کے شعبے کو بہتر بنانا ہے۔

## کاروباری جائزہ

بینک کو ملک کے بدلتے معاشی حالات، ماہر و فنانس سیکٹر و ڈیجیٹل نظام کا بخوبی اندازہ ہے، اسی لئے خود کو اس جدید نظام دیکھنا اور جی سے ہم آہنگ کیا ہے جس کا مقصد شیئر ہولڈرز کی اہمیت میں خاطر خواہ اضافہ ہے۔

ٹیلی نار ماہر و فنانس بینک، جس کا میجر شیئر ہولڈر ٹیلی نار گروپ اور جس میں ایبٹ فنانشل سرویز گروپ کی جانب سے مزید انویسٹمنٹ کی گئی ہے، اور جسکی وجہ سے اسکی شیئر ہولڈنگ سال 2019 کے اختتام تک 45% پر جا پہنچی ہے۔ ٹیلی نار ماہر و فنانس بینک نے اپنی توجہ مزید طویل المدتی بہتری و کمال کی جانب مبذول کی، جو کہ پہلے سے ہی ماہر و فنانس انڈسٹری و برانچ لیس بینکنگ میں ایک بڑا نام ہے، ANT کے 2018، 2019 کے ایکویٹی ایکشن اقدام کی وجہ سے بینک نے اپنے ڈیجیٹل پلیٹ فارم کو مزید وسعت دی۔

کمال کی جانب گامزن ہوتے ہوئے اعلیٰ سطح پر مزید وسائل کا اضافہ کیا تاکہ تنظیم کو بہتر سے بہتر کیا جاسکے۔ مزید یہ کہ ایک نئے ہیڈ آفس کا افتتاح کراچی میں کیا گیا اور اسلام آباد اور لاہور، میں علاقائی دفاتر کھولے گئے۔

دنیا کی بہترین ٹیکنالوجی بروئے کار لاتے ہوئے بینک نے اپنی توجہ ڈیجیٹل فنانس ایکوسیٹم پر مرکوز رکھی۔ 2019 میں بینک نے کامیابی کے ساتھ ایکویٹی موٹو ہائل اکائیٹنس کی تعداد میں دلگاہ اضافہ دیکھا جو پچھلے سال کی نسبت 3.3 ملین سے 6.4 ملین تک جا پہنچا، جبکہ موٹو ہائل ٹرانزیکشنز کی اوسط فی صارف فی ماہ 10 تک جا پہنچی ہے۔

مزید یہ کہ ایزی پیسیا استعمال کرنے والوں کی تعداد میں 300% اضافہ ہوا۔ ایزی پیسیا ملک کی سب سے زیادہ استعمال کی جانے والی ڈیجیٹل فنانشل ایپلیکیشن ہے۔ بینک کے ایکویٹی موٹو ہائل لیس بینکنگ اکائیٹنس 70 ہزار ہیں جو کہ پاکستان میں کسی ادارے کی سب سے بڑی تعداد ہے۔ علاوہ ازاں، بینک کی کنٹیکٹ برانچ نیٹورک میں 171 مقامات تھے۔

ہمیں آپ کو بتاتے ہوئے از حد مسرت ہے کہ ایزی پیسیا ترسیلات کی قدر تقریباً 1 کھرب روپے تک جا پہنچیں جو کہ پچھلے سال کی نسبت 34% اضافہ ہے۔ بینک نے دیگر ٹیلی کام آپریٹرز کے ساتھ اپنی اسٹیٹ آف دی آرٹ ایپلیکیشن کو جوڑ دیا تاکہ سال دوران میں اس سے مزید طریقوں سے کام لیا جاسکے۔

بینک کی جانب سے پاکستان کی پہلی ڈیجیٹل ایپلیکیشن برائے قرض خواہی متعارف کرائی گئی جس سے 2.3 ملین ڈیجیٹل نیٹولون دیئے گئے جو کہ 7 ارب روپے کی رقم بنتی ہے۔ بینک نے دیگر اسٹیٹ شرکات داریاں بھی بنائی ہیں تاکہ انہیں معیشت سلوشن کا نظام فراہم کر سکے۔

برانچ لیس بزنس اسٹریٹیجی میں مختلف مراحل جیسے، کسٹمر ایکویزیشن، انویسٹمنٹ، ایزی پیسیا کی مینجمنٹ، برانچ لیس بینکنگ میں اضافہ، اور ڈیجیٹل ایکوسیٹم بڑھانے کے لئے پارٹنرشپ بنانا شامل ہیں۔ اگرچہ یہ اخراجات بینک کی آمدن پر فوری اثر رکھتے ہیں، جس کی وجہ سے خسارے میں بھی اضافہ ہوتا ہے جیسا کہ بینک نے 31 دسمبر 2019 کے اختتام میں گوشوارے ظاہر کیے ہیں۔ یہ عالمی فن ٹیک ماڈل کا خاصہ ہے۔

تاہم متذکرہ سال میں بینک کا روایتی قرض فراہمی کا کاروبار اہم مسائل سے گھرا رہا۔ معاشی مسائل کی وجہ سے قرضوں کی ادائیگی میں سخت مشکلات کا سامنا رہا جس سے ماہر و فنانس قرض داروں کی قرض واپسی کی صلاحیت متاثر ہوئی جو کہ معیشت کا سب سے کمزور طبقہ ہے۔

ان مسائل میں تب اضافہ ہوا جب انتقالیہ نے قرض فراہمی کے نظام میں بے قاعدگیوں کی نشاندہی کی۔ ستمبر 2019 میں بینک نے لاہور کی 3 برانچوں میں متذکرہ بے قاعدگیوں کا انکشاف کیا جس میں کروڑ کر ڈیٹ انڈر رائٹنگ اور عارضی عناصر کے ساتھ اسٹاف کی ٹلی بھگت کے بھی ثبوت سامنے آئے جو کہ بینک کی پالیسی کے یکسر برخلاف ہے۔ جس کے

## Six-Year Financial Summary:

Rs.'000

	2019	2018	2017	2016	2015	2014
<b>Profit and Loss Statement</b>						
Mark-up / return / interest earned	9,288,624	8,721,206	6,063,887	4,486,604	3,503,342	3,054,770
Mark-up / return / interest expensed	(3,671,426)	(2,595,036)	(1,767,054)	(1,113,495)	(662,922)	(766,186)
<b>Net mark-up / interest income</b>	<b>5,617,198</b>	<b>6,126,170</b>	<b>4,296,833</b>	<b>3,373,109</b>	<b>2,840,420</b>	<b>2,288,584</b>
Reversal / (provision) against non-performing loans and advances	(8,819,976)	(1,365,385)	(217,003)	(66,384)	(43,262)	(26,120)
Provision for diminution in the value of investments	-	-	-	-	-	-
Bad debts written off directly	(49,502)	(21,124)	(24,746)	(37,171)	(36,514)	(89,462)
	<b>(8,869,478)</b>	<b>(1,386,509)</b>	<b>(241,749)</b>	<b>(103,555)</b>	<b>(79,776)</b>	<b>(115,582)</b>
<b>Net mark-up / interest income after provisions</b>	<b>(3,252,280)</b>	<b>4,739,661</b>	<b>4,055,084</b>	<b>3,269,554</b>	<b>2,760,644</b>	<b>2,173,002</b>
<b>Non mark-up / interest income</b>						
Fee, commission and brokerage income	8,241,218	8,172,650	8,352,400	1,530,390	1,427,207	1,195,071
Dividend income	-	-	-	-	-	-
Other income	296,886	214,128	135,108	122,830	166,851	99,164
<b>Total non mark-up / interest income</b>	<b>8,538,104</b>	<b>8,386,778</b>	<b>8,487,508</b>	<b>1,653,220</b>	<b>1,594,058</b>	<b>1,294,235</b>
	<b>5,285,824</b>	<b>13,126,439</b>	<b>12,542,592</b>	<b>4,922,774</b>	<b>4,354,702</b>	<b>3,467,237</b>
<b>Non mark-up / interest expenses</b>						
Administrative expenses	(20,818,968)	(14,948,448)	(11,811,976)	(3,485,207)	(3,045,569)	(2,425,400)
Other provisions / write offs	(250,891)	(272,601)	(29,549)	(37,396)	-	(309)
Other charges	(116)	(19,358)	(13,623)	(30,886)	(26,839)	(21,039)
<b>Total non mark-up / interest expenses</b>	<b>(21,069,975)</b>	<b>(15,240,407)</b>	<b>(11,855,148)</b>	<b>(3,553,489)</b>	<b>(3,072,408)</b>	<b>(2,446,748)</b>
	<b>(15,784,151)</b>	<b>(2,113,968)</b>	<b>687,444</b>	<b>1,369,285</b>	<b>1,282,294</b>	<b>1,020,489</b>
Extraordinary / unusual items	-	-	-	-	-	-
<b>Profit before taxation</b>	<b>(15,784,151)</b>	<b>(2,113,968)</b>	<b>687,444</b>	<b>1,369,285</b>	<b>1,282,294</b>	<b>1,020,489</b>
Taxation	(567,676)	(401,770)	(270,688)	(473,931)	(430,554)	(311,996)
<b>Profit after taxation</b>	<b>(16,351,827)</b>	<b>(2,515,738)</b>	<b>416,756</b>	<b>895,354</b>	<b>851,740</b>	<b>708,493</b>

## Six-Year Financial Summary:

Rs.'000

	2019	2018	2017	2016	2015	2014
<b>Cashflow statement - Summary</b>						
Cash flow from operating activities	(615,487)	(7,065,043)	(1,954,717)	11,129,496	682,078	1,814,795
Cash flow from investing activities	(6,688,057)	(3,858,171)	4,071,948	(8,073,713)	56,200	(243,206)
Cash flow from financing activities	10,101,129	11,189,510	15,315	(86,448)	(120,553)	(1,279,019)
<b>Net increase in cash and cash equivalents</b>	<b>2,797,585</b>	<b>266,296</b>	<b>2,132,546</b>	<b>2,969,335</b>	<b>617,725</b>	<b>292,570</b>
Cash and cash equivalents at beginning of the year	8,074,705	7,808,409	5,675,863	2,706,528	2,088,803	1,796,233
<b>Cash and cash equivalents at end of the year</b>	<b>10,872,290</b>	<b>8,074,705</b>	<b>7,808,409</b>	<b>5,675,863</b>	<b>2,706,528</b>	<b>2,088,803</b>

Rs.'000

	2019	2018	2017	2016	2015	2014
<b>Financial Ratios:</b>						
Return On Equity (ROE)	(203%)	(18%)	8%	20%	23%	25%
Return On Assets (RoA)	(27%)	(4%)	1%	2%	4%	4%
Deposits to Liabilities	78%	87%	86%	88%	90%	90%
Advance to Deposit	49%	78%	68%	57%	77%	73%
Investment to Deposit	33%	21%	18%	42%	24%	31%
Borrowing to Liability	0%	0%	0%	0%	1%	2%
Total Asset to Shareholders' Fund	7.6	4.6	9.5	7.9	5.7	5.8
Capital Adequacy ratio (CAR)	24.6%	35.2%	19.5%	30.6%	37.0%	64.0%
(Loss) / Earning Per Share - PKR	(45.25)	(9.64)	1.87	6.65	6.32	5.26

## Other Information:

Number of Branches	120	103	85	74	66	57
Number of Employees	3,694	3,559	3,420	3,473	2,520	2,058
Number of Borrowers	896,694	694,441	535,413	385,417	287,285	226,870
Number of Depositors	17,182,377	9,198,446	8,122,495	8,573,293	4,958,736	3,841,340

# Independent Auditor's Report

To the Members of Telenor Microfinance Bank Limited

Report on the Audit of the Financial Statements

## Opinion

We have audited the annexed financial statements of Telenor Microfinance Bank Limited ("the Bank"), which comprise the balance sheet as at 31 December 2019, and the profit and loss account, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the balance sheet, the profit and loss account, the statement of comprehensive income, the statement of changes in equity and cash flow statement together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan, and give the information required by the Microfinance Institution Ordinance, 2001 and Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at 31 December 2019 and of the loss and other comprehensive loss, the changes in equity and its cash flows for the year then ended.

## Basis for Opinion

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

Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Material Uncertainty relating to Going Concern

We draw attention to note 1.5 to the financial statements, which indicates that the Bank incurred a net loss of Rs. 16,352 million during the year ended 31 December 2019 and, as of that date, its balance of accumulated loss amounted to Rs. 16,830 million. As stated in note 1.5, these events or conditions, along with other matters as set forth in that note, indicate that a material uncertainty exists that may cast significant doubt on the Bank's ability to continue as a going concern.

Our opinion is not modified in respect of the above matter.

## Emphasis of Matter

We draw attention to note 10.5 to the financial statements, which more fully explains about the credit irregularities identified by the Bank, the resultant investigation / recovery exercise by the management and the specific provision of Rs. 2,683 million and general provision of Rs. 3,305 million against the exposures mentioned therein.

Our opinion is not modified in respect of the above matter.

## 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 Directors' Report 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 or 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, and 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.

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

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is

a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

### 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 Companies Act, 2017 (XIX of 2017);

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

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

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

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

Date: 03 July 2020

**KPMG Taseer Hadi & Co.**  
Chartered Accountants

Karachi

## Balance Sheet

### As at 31 December 2019

2019		2018		Note	2019		2018	
-----USD in '000-----		-----USD in '000-----			-----Rupees in '000-----		-----Rupees in '000-----	
<b>ASSETS</b>								
	22,369	27,190		6	3,463,741	4,210,306		
	47,844	24,956		7	7,408,549	3,864,399		
	31,967	35,347		8	4,950,000	5,473,364		
	88,948	58,176		9	13,773,400	9,008,445		
	129,152	212,756		10	19,998,939	32,944,819		
	49,514	19,383		11	7,667,057	3,001,351		
	23,237	25,595		12	3,598,248	3,963,292		
	-	-		13	-	-		
	<b>393,031</b>	<b>403,403</b>			<b>60,859,934</b>	<b>62,465,976</b>		
<b>LIABILITIES</b>								
	265,878	273,010		14	41,170,537	42,274,909		
	-	-			-	-		
	-	-			-	-		
	73,421	41,134		15	11,369,058	6,369,572		
	1,765	990		13	273,360	153,066		
	<b>341,064</b>	<b>315,134</b>			<b>52,812,955</b>	<b>48,797,547</b>		
	<b>51,967</b>	<b>88,269</b>			<b>8,046,979</b>	<b>13,668,429</b>		
<b>NET ASSETS</b>								
	27,625	22,908		16	4,277,589	3,547,269		
	132,937	67,246			20,585,009	10,412,953		
	(108,689)	(2,230)			(16,830,229)	(345,238)		
	<b>51,873</b>	<b>87,924</b>			<b>8,032,369</b>	<b>13,614,984</b>		
	(27)	(15)		17	(4,130)	(2,359)		
	121	360		18	18,740	55,804		
	<b>51,967</b>	<b>88,269</b>			<b>8,046,979</b>	<b>13,668,429</b>		
<b>MEMORANDUM / OFF BALANCE SHEET ITEMS</b>								
				19				

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

President and  
Chief Executive Officer

Chairman

Director

Director

## Profit and Loss Account

### For the year ended 31 December 2019

2019	2018		Note	2019	2018
-----USD in '000-----				-----Rupees in '000-----	
59,986	56,320	Mark-up / return / interest earned	20	9,288,624	8,721,206
(23,710)	(16,759)	Mark-up / return / interest expensed	21	(3,671,426)	(2,595,036)
36,276	39,561	Net mark-up / return / interest income		5,617,198	6,126,170
(56,959)	(8,818)	Provision against non-performing loans and advances - net	10.3	(8,819,976)	(1,365,385)
(320)	(136)	Provision for diminution in the value of investments	10.4	(49,502)	(21,124)
(57,279)	(8,954)	Bad debts written off directly		(8,869,478)	(1,386,509)
(21,003)	30,607	Net mark-up / return / interest income after provisions		(3,252,280)	4,739,661
<b>NON MARK-UP / NON INTEREST INCOME</b>					
53,221	52,779	Fee, commission and brokerage income	22	8,241,218	8,172,650
-	-	Dividend income	23	296,886	214,128
1,917	1,383	Other income		8,538,104	8,386,778
55,138	54,162	Total non-mark-up / non-interest income		5,285,824	13,126,439
34,135	84,769				
<b>NON MARK-UP / NON INTEREST EXPENSES</b>					
(134,448)	(96,537)	Administrative expenses	24	(20,818,968)	(14,948,448)
(1,620)	(1,760)	Other provisions / write-offs	25	(250,891)	(272,601)
(1)	(125)	Other charges	26	(116)	(19,358)
(136,069)	(98,422)	Total non-mark-up / non-interest expenses		(21,069,975)	(15,240,407)
(101,934)	(13,653)			(15,784,151)	(2,113,968)
-	-	Extraordinary / unusual items		-	-
(101,934)	(13,653)	<b>LOSS BEFORE TAXATION</b>		(15,784,151)	(2,113,968)
(2,337)	(1,475)	Taxation - current	27	(361,944)	(228,444)
(547)	(279)	- prior	27	(84,669)	(43,233)
(782)	(840)	- deferred	27	(121,063)	(130,093)
(3,666)	(2,594)			(567,676)	(401,770)
(105,600)	(16,247)	<b>LOSS AFTER TAXATION</b>		(16,351,827)	(2,515,738)
<b>OTHER COMPREHENSIVE LOSS (CARRIED FORWARD TO EQUITY)</b>					
(644)	(260)	Items not to be reclassified to statement of profit or loss in subsequent periods - net of tax (Remeasurement loss on defined benefit obligation)	32.3.4	(99,688)	(40,318)
(106,244)	(16,507)	<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR (CARRIED FORWARD TO EQUITY)</b>		(16,451,515)	(2,556,056)
(2,230)	14,395	Accumulated (loss) / profit brought forward		(345,238)	2,229,020
(108,474)	(2,112)	Accumulated loss available for appropriation		(16,796,753)	(327,036)
<b>APPROPRIATIONS:</b>					
<b>Transfer to:</b>					
-	-	Statutory reserve		-	-
-	-	Capital reserve		-	-
(216)	(118)	Depositors' Protection Fund		(33,476)	(18,202)
-	-	Revenue reserve		-	-
-	-	Proposed cash dividend		-	-
(108,690)	(2,230)	<b>ACCUMULATED LOSS CARRIED FORWARD</b>		(16,830,229)	(345,238)
(USD)				(Rupees)	
(0.29)	(0.06)		28	(45.25)	(9.64)

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

President and  
Chief Executive Officer

Chairman

Director

Director

## Statement of Comprehensive Income

### For the year ended 31 December 2019

2019	2018		Note	2019	2018
-----USD in '000-----				-----Rupees in '000-----	
(105,600)	(16,247)	<b>Loss after taxation</b>		(16,351,827)	(2,515,738)
<b>Other Comprehensive Income</b>					
(644)	(186)	Item not to be reclassified to statement of Profit or loss in subsequent periods		(99,688)	(28,851)
(644)	(74)	Remeasurement loss on defined benefit obligation	32.3.4	(99,688)	(11,467)
	(260)	Related tax impact	13.1	(99,688)	(40,318)
(106,244)	(16,507)	<b>Comprehensive loss for the year transferred to equity</b>		(16,451,515)	(2,556,056)
<b>Component of comprehensive income for the year not transferred to equity</b>					
(16)	(13)	Item to be reclassified to statement of profit or loss subsequently on sale		(2,540)	(1,976)
5	3	Deficit on revaluation of 'available for sale' investments		769	528
(11)	(10)	Related tax impact	13.1	(1,771)	(1,448)
(106,255)	(16,517)	<b>Total comprehensive loss for the year</b>		(16,453,286)	(2,557,504)

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

President and  
Chief Executive Officer

Chairman

Director

Director

## Statement of Changes in Equity

### For the year ended 31 December 2019

	Capital reserves				Total capital reserves	Accumulated profit / (loss)	Total
	Share capital	Share premium	Statutory reserve	Depositors' protection fund			
----- Rupees in '000 -----							
Balance as at 01 January 2018	1,346,939	343,469	802,481	259,621	1,405,571	2,229,020	4,981,530
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)
Total comprehensive loss for the year	-	-	-	-	-	(2,556,056)	(2,556,056)
Transfer to statutory reserve *	-	-	-	-	-	-	-
Issue of share capital	2,200,330	8,989,180	-	-	8,989,180	-	11,189,510
Transfer to Depositors' Protection Fund - return on investments	-	-	-	18,202	18,202	(18,202)	-
Balance as at 31 December 2018	3,547,269	9,332,649	802,481	277,823	10,412,953	(345,238)	13,614,984
Comprehensive loss for the year							
Loss after tax for the year	-	-	-	-	-	(16,351,827)	(16,351,827)
Other comprehensive income - net of tax	-	-	-	-	-	(99,688)	(99,688)
Total comprehensive loss for the year	-	-	-	-	-	(16,451,515)	(16,451,515)
Transfer to statutory reserve *	-	-	-	-	-	-	-
Issue of share capital	730,320	10,138,580	-	-	10,138,580	-	10,868,900
Transfer to Depositors' Protection Fund - return on investments	-	-	-	33,476	33,476	(33,476)	-
Balance as at 31 December 2019	4,277,589	19,471,229	802,481	311,299	20,585,009	(16,830,229)	8,032,369

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

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

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

\_\_\_\_\_  
President and  
Chief Executive Officer

\_\_\_\_\_  
Chairman

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

## Cash Flow Statement

### For the year ended 31 December 2019

2019                      2018  
-----USD in '000-----

(101,934)	(13,652)	
5,451	4,546	
2,664	-	
1,323	409	
1,462	-	
56,959	8,818	
320	136	
1,085	1,001	
606	-	
(6,318)	(2,738)	
(239)	198	
(26)	-	
63,287	12,370	
3,380	(13,596)	
26,325	(61,801)	
1,459	(5,954)	
31,164	(81,351)	
(7,132)	36,229	
14,505	3,796	
7,373	40,025	
(2,749)	(1,523)	
(1,117)	(1,496)	
(3,976)	(45,627)	
(24,470)	(11,748)	
(18,826)	(13,409)	
105	241	
(43,191)	(24,916)	
70,191	72,261	
(4,958)	-	
65,233	72,261	
18,066	1,718	
52,146	50,426	
70,212	52,144	

#### CASH FLOW FROM OPERATING ACTIVITIES

Loss before taxation

#### Adjustments for non cash and other items:

Depreciation  
Depreciation on right-of-use assets  
Amortisation  
Mark-up / Return / Interest expense on lease liability against right-of-use assets  
Provision against non-performing loans and advances  
Bad debts written off directly  
Provision for gratuity  
Provision against other assets  
Amortisation of discount on available for sale securities  
Grant income (recognized) / received  
(Gain) / loss on disposal of operating fixed assets

#### (Increase) / Decrease in operating assets

Lending to financial institutions  
Advances  
Other assets (excluding advance taxation and receivable from defined benefit plan)

#### Increase / (Decrease) in operating liabilities

Deposits and other accounts  
Other liabilities (excluding payable to defined benefit plan)

Income tax paid

Contribution to defined benefit plan

#### Net cash flows from operating activities

#### CASH FLOW FROM INVESTING ACTIVITIES

Net investment in available for sale securities  
Investments in operating fixed assets  
Sale proceeds from disposal of operating fixed assets  
Net cash flows from investing activities

#### CASH FLOW FROM FINANCING ACTIVITIES

Proceeds from issuance of share capital  
Payment of lease liability against right-of-use assets  
Net cash generated from financing activities  
Net increase in cash and cash equivalents

Cash and cash equivalents at beginning of the year

Cash and cash equivalents at end of the year

2019                      2018  
-----Rupees in '000-----

(15,784,151)	(2,113,968)
844,112	703,935
412,512	-
204,921	63,287
226,324	-
8,819,976	1,365,385
49,502	21,124
168,078	155,007
93,789	-
(978,383)	(424,012)
(37,064)	30,628
(4,024)	57
9,799,743	1,915,411
523,364	(2,105,305)
4,076,402	(9,569,675)
225,933	(921,894)
4,825,699	(12,596,874)
(1,104,372)	5,609,982
2,246,136	587,873
1,141,764	6,197,855
(425,649)	(235,840)
(172,893)	(231,627)
(615,487)	(7,065,043)
(3,789,112)	(1,819,101)
(2,915,219)	(2,076,363)
16,274	37,293
(6,688,057)	(3,858,171)
10,868,900	11,189,510
(767,771)	-
10,101,129	11,189,510
2,797,585	266,296
8,074,705	7,808,409
10,872,290	8,074,705

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

\_\_\_\_\_  
President and  
Chief Executive Officer

\_\_\_\_\_  
Chairman

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

## Notes to the Financial Statements

### For the year ended 31 December 2019

#### 1. STATUS AND NATURE OF BUSINESS

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

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

The Bank's registered office is situated at 15-A, Block 7 & 8, KCHS Union, Karachi.

**1.3** The Bank is jointly held by Telenor Pakistan B.V, a joint stock company based in Amsterdam with 55% shareholding (2018: 66.32%) and Alipay (Hong Kong) Holding Limited with 45% shareholding (2018: 33.68%). During the year Alipay (Hong Kong) Holding Limited acquired additional 11.32% of shareholding in the Bank by way of further issue of capital under section 83 of the Companies Act, 2017.

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

**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 30 April 2020.

#### 1.5 Going concern basis of accounting

**1.5.1** Although during the year ended 31 December 2019 the Bank incurred a net loss of Rs. 16,352 million and resultantly, accumulated loss as at 31 December 2019 aggregated to Rs. 16,830 million, these financial statements have been prepared on a going concern basis, which assumes that the Bank will continue to meet its capital adequacy requirement, operate its business, realize its assets, discharge its liabilities and obtain refinancing (if necessary), in the normal course of business.

These losses were for several reasons including primarily due to the rising credit losses as more fully explained in note 10.5 of these financial statements which also indicates about ongoing internal management reviews and the recovery exercises on the advances portfolio.

However, the management has a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Accordingly, these financial statements have been prepared on a going concern basis, based on the following facts:

- Management believes that the bank will achieve profitable operations in future and has reasonable expectations that it will have the required resources in line with the Board approved long term strategy, which emphasizes on planned revenue growth along with sustained focus on rationalization of associated operational costs.

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

## Notes to the Financial Statements

### For the year ended 31 December 2019

-Board of Directors of the Bank (comprising of the representatives of the shareholders) has approved the business plan of the Bank which envisages injections in the Bank's equity. Part of this injection is expected in the next few months. This is apart from the injection of Rs. 10,869 million (USD 70 million) in November 2019 by Alipay (Hong Kong) Holding Limited as explained in note 16.3 to these financial statements.

Management acknowledges that uncertainty remains over the Bank's ability to continue as a going concern. However, as described above, management has a reasonable expectation that the Bank has adequate resources and support from its shareholders to continue in operational existence for the foreseeable future. However, if for any reason, the Bank is unable to continue as a going concern, this could have an impact on the Bank's ability to realize assets at the recognized values and to extinguish liabilities in the normal course of business at the amounts stated in these financial statements.

**1.5.2** Furthermore, subsequent to the year end, a novel strain of coronavirus (COVID-19) has become a pandemic impacting countries across the globe. Although the potential impacts from COVID-19 remain uncertain at this point in time, it is expected to have significant impact on the global economy, businesses, consumer behaviors and consequently on the financial sector as well. The management of the Bank remains fully cognizant of the developing situation and has adopted prudent risk management, health and safety measures to safeguard the customers and employees while ensuring to meet its future financial obligations in the normal course of business activities.

The management acknowledges the potential impacts the pandemic could have over its ability to continue as a going concern. However, based on available information, the management has reasonable expectations that the Bank has adequate resources to continue its operational existence for the foreseeable future and is of the view that this would not affect its ability to continue as a going concern.

#### 2. BASIS OF PRESENTATION

These financial statements have been prepared in compliance with the format as prescribed under the Banking Surveillance Department (BSD) Circular No. 11 dated 30 December 2003 issued by the State Bank of Pakistan (SBP).

The US Dollar amounts reported in the balance sheet, profit and loss account, statement of comprehensive income and cash flow statement are stated as additional information, solely for the convenience of the users of financial statements. For the purpose of translation to US Dollar, spot rate of Rs. 154.8476 per US Dollar has been used for 2019 and 2018, as it was the prevalent rate on the reporting date.

#### 3. STATEMENT OF COMPLIANCE

**3.1** These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards comprise of:

- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;

- Islamic Financial Accounting Standards (IFAS) issued by the Institute of the Chartered Accountants of Pakistan as are notified under the Companies Act, 2017;

- Provisions of and directives issued under The Microfinance Institutions Ordinance, 2001 (the MFI Ordinance) and the Companies Act, 2017; and

- Directives issued by the SBP (including Prudential Regulations for Microfinance Banks) and Securities and Exchange Commission of Pakistan (SECP).

Wherever the provisions of and directives issued under the Companies Act, 2017, Microfinance Institutions Ordinance, 2001, the Prudential Regulations for Microfinance Banks and directives issued by SBP and the SECP differ with the requirements of the IFRS or IFAS, the provisions of and directives issued under the Companies Act, 2017, Microfinance Institutions Ordinance, 2001, the Prudential Regulations for Microfinance Banks and directives issued by SBP and SECP shall prevail.

**3.2** The SBP vide BSD circular No. 10, dated 26 August 2002 has deferred the applicability of International Accounting Standard (IAS) 40, Investment Property, for banking companies till further instructions. Further, the Securities and Exchange Commission of Pakistan (SECP) vide its SRO 633(1) / 2014 dated 14 July 2014 has deferred the applicability of International Accounting Standard (IAS) 39 "Financial Instrument: Recognition and Measurement", International Accounting Standard (IAS) 40 "Investment Property" and International Financial Reporting Standard (IFRS) 7, 'Financial Instruments: Disclosures'. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. Investments have been classified and valued in accordance with the requirements of Prudential Regulation for Microfinance Banks or directives issued by SBP.

**3.3** The State Bank of Pakistan through its BPRD Circular No. 04 of 2019 dated 23 October 2019 has decided that the effective date of International Financial Reporting Standard 9, 'Financial Instruments' implementation is 01 January 2021 for all banks/DFIs/MFBs. Accordingly, the requirements of this standard has not been considered in the preparation of these financial statements.

## 4. BASIS OF MEASUREMENT

### 4.1 Accounting convention

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

### 4.2 Functional and presentation currency

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

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

There are certain new standards and interpretations of and amendments to existing accounting and reporting standards that are mandatory for the Bank's accounting periods beginning on or after 1 January 2019, but are considered either to not be relevant or not to have any significant impact on the Bank and are therefore have not been detailed in these financial statements; except for adopting IFRS 16, detailed in note 5.1 to these financial statements.

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

The following IFRS as notified under the Companies Act 2017 and the amendments and interpretations thereto will be effective for the accounting periods on or after 1 January 2020:

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

## Notes to the Financial Statements

### For the year ended 31 December 2019

- IFRS 9 'Financial Instruments' and amendment – Prepayment Features with Negative Compensation – for Banks and DFIs, the effective date of the standard has been extended to annual periods beginning on or after 01 January 2021 vide SBP BPRD circular no. 4 dated 23 October 2019. 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. According to SBP circular referred to above, the Banks/DFIs are required to have a parallel run of IFRS 9 from 01 January 2020 and are also required to prepare pro-forma financial statements which includes the impact of IFRS 9 from the year ended 31 December 2019.
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for annual periods beginning on or after 01 January 2020). The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. In addition, the IASB has also issued guidance on how to make materiality judgments when preparing their general purpose financial statements in accordance with IFRS Standards.
- On 29 March 2018, the International Accounting Standards Board (the IASB) has issued a revised Conceptual Framework for Financial Reporting which is applicable immediately contains changes that will set a new direction for IFRS in the future. The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs and any inconsistencies with the revised Framework will be subject to the usual due process – this means that the overall impact on standard setting may take some time to crystallise. The companies may use the Framework as a reference for selecting their accounting policies in the absence of specific IFRS requirements. In these cases, companies should review those policies and apply the new guidance retrospectively as of 01 January 2020, unless the new guidance contains specific scope outs.
- Interest Rate Benchmark Reform which amended IFRS 9, IAS 39 and IFRS 7 is applicable for annual financial periods beginning on or after 01 January 2020. The G20 asked the Financial Stability Board (FSB) to undertake a fundamental review of major interest rate benchmarks. Following the review, the FSB published a report setting out its recommended reforms of some major interest rate benchmarks such as IBORs. Public authorities in many jurisdictions have since taken steps to implement those recommendations. This has in turn led to uncertainty about the long-term viability of some interest rate benchmarks. In these amendments, the term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark including its replacement with an alternative benchmark rate, such as that resulting from the FSB's recommendations set out in its July 2014 report 'Reforming Major Interest Rate Benchmarks' (the reform). The amendments made provide relief from the potential effects of the uncertainty caused by the reform.
- IFRS 14 Regulatory Deferral Accounts - (effective for annual periods beginning on or after 01 July 2019) provides interim guidance on accounting for regulatory deferral accounts balances while IASB considers more comprehensive guidance on accounting for the effects of rate regulation. In order to apply the interim standard, an entity has to be rate regulated – i.e. the establishment of prices that can be charged to its customers for goods or services is subject to oversight and/or approved by an authorized body. The term 'regulatory deferral account balance' has been chosen as a neutral descriptor for expense (income) or variance account that is included or is expected to be included by the rate regulator in establishing the rate(s) that can be charged to customers and would not otherwise be recognized as an asset or liability under other IFRSs.

Except for the implementation of IFRS 9 in Pakistan, the Bank expects that adoption of the amendments to existing accounting and reporting standards will not affect its financial statements in the period of initial application. The Bank is in the process of determining the impact of adopting IFRS 9 on its financial statements.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are consistent with those of the corresponding year except as disclosed in note 5.1 below.

### 5.1 Change in an accounting policy

#### 5.1.1 Impact of IFRS 16 - Leases

IFRS 16 replaces existing guidance on accounting for leases, including IAS 17, Leases, IFRIC 4, "Determining whether an Arrangement contains a Lease", SIC-15, Operating Leases - Incentive, and SIC-27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 introduces an on-balance sheet lease accounting model for leases entered by the lessee. A lessee recognizes a right-of-use asset representing its right of using the underlying asset and a corresponding lease liability representing its obligations to make lease payments. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as either finance or operating leases.

On 1 January 2019, the Bank has adopted IFRS-16 'Leases'. It introduces a single lease accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The significant judgement in the implementation was determining if a contract contained a lease. The significant estimate was the determination of incremental borrowing rate. The incremental weighted average borrowing rate applied to lease liabilities on the transition date i.e. 1 January 2019 was 12.86% per annum.

The impact of IFRS 16 on the Bank is particularly where the Bank is a lessee in property lease contracts. The Bank has elected to adopt modified retrospective approach on transition and has not restated comparative information. On 1 January 2019, the Bank recognized a lease liability, being the remaining lease payments discounted using the Bank's incremental borrowing rate at the date of initial application. The corresponding right-of-use asset recognized is the amount of lease payment adjusted by prepaid or accrued lease payments related to these leases. The balance sheet increase as a result of the recognition of lease liability and right-of-use assets as of 1 January 2019 was Rs. 782,701 thousand with no adjustment to retained earnings. The asset is presented in 'Operating fixed asset' and liability is presented in 'Other liabilities'. Also, in relation to these leases under IFRS 16, the Bank has recognized depreciation and interest cost instead of operating lease expenses.

Upto 31 December 2018 asset held under property leases, not equivalent to ownership rights, were charged as operating leases and were not recognized as assets in the balance sheet. Prepayments and accruals under operating leases were recognized in profit and loss account on a straight line basis over the term of the lease.

## Notes to the Financial Statements For the year ended 31 December 2019

The effect of this change in accounting policy is as follows:

#### Impact on Balance Sheet

Increase in operating fixed assets - right-of-use assets  
Decrease in other assets - prepayments  
Increase in other assets - taxation

Increase in other liabilities - lease liability against right-of-use assets  
Decrease in net assets

#### Impact on Profit and Loss account

Increase in mark-up expense - lease liability against right-of-use assets  
(Increase) / decrease in administrative expenses:  
- Depreciation on right-of-use assets  
- Rent expense  
Increase in loss before tax

Decrease in tax  
Increase in loss after tax

31 December 2019  
---Rupees in '000---

2,811,770  
(296,927)  
-

2,514,843

(2,682,835)  
(167,992)

For the year ended  
31 December 2019  
---Rupees in '000---

(226,324)

(412,512)  
470,844  
(167,992)

-  
(167,992)

Had this standard not been applied, assets and liabilities would have been lower by Rs. 2,514.843 million and Rs. 2,682.835 million respectively. Rent expense would have been higher by Rs. 470.844 million and depreciation charge and finance charges would have been lower by Rs. 412.5 million and Rs. 226.324 million respectively.

### 5.2 Cash and cash equivalents

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

### 5.3 Lendings to financial institutions

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

### 5.4 Investments

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

#### Initial measurement

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

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

#### Subsequent measurement

##### Held-for-trading

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

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

##### Held-to-maturity

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

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

##### Available-for-sale

These are investments which do not fall under the held-for-trading and held-to-maturity categories. After initial measurement, such investments are measured at fair value. Any unrealised surplus / deficit arising on revaluation is recorded in the surplus / deficit on revaluation of securities account (shown as part of equity in Balance Sheet) and is taken to the profit and loss account either when realised upon disposal or when the investment is considered to be impaired

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

## 5.5 Advances

Advances are stated net of specific and general provisions which are determined on the basis of the Prudential Regulations for Microfinance Banks (the Prudential Regulations) issued by SBP and general provisions as explained below. Advances are written off according to the Prudential Regulations or when there is no realistic prospect of recovery. These regulations prescribe a time based criteria for classification of non-performing advances into the following categories:

#### a) Other Assets Especially Mentioned (OAEM)

These are advances in arrears (payment / instalments overdue) for 30 days for 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.

## Notes to the Financial Statements

### For the year ended 31 December 2019

#### d) Loss

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

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

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

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

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

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

## 5.6 Operating fixed assets

### 5.6.1 Property and equipment and depreciation

These are stated at cost less accumulated depreciation and accumulated impairment losses (if any).

Cost includes expenditure that are directly attributable to the acquisition of items.

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

### 5.6.2 Capital work-in-progress

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

### 5.6.3 Intangible assets and amortisation

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

### 5.6.4 Right-of-use assets and their related lease liability

#### Right-of-use assets

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

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

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

#### Lease liability against right-of-use assets

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

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

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

## Notes to the Financial Statements

### For the year ended 31 December 2019

### 5.7 Impairment

#### 5.7.1 Non-financial assets (except for deferred tax assets)

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

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

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

#### Impairment Testing

In view of the accumulated losses as at the year end, the management conducted an impairment review at the close of financial year ended 31 December 2019 to determine the extent, if any, of the impairment losses.

The calculation of recoverable amounts of the Cash Generating Units (CGUs) for the purpose of impairment testing was based on values in use, estimated using discounted cash flows. Key assumptions used in determining the value in use calculation were as follows:

Assumptions	How Determined
Budgeted Cash flows	Budgeted Earnings before Interest, Tax and Depreciation (EBITDA) and estimated cash flows were based on past experience duly adjusted for changes in working capital.
Pre-Tax Risk Adjusted Discount Rate	Pre-tax adjusted discount rate of 15.6% was used in the calculation. This discount rate represents cost of capital determined using the Capital Asset Pricing Model (CAPM) approach based on risk free rate of return for ten year Pakistan Investment Bonds (PIBs) issued by the Government of Pakistan adjusted for risk premium and systematic risks.
Long Term Growth Rate	Discounted cash flow projections for seven years have been used and long term growth rate of 5% in perpetuity has been assumed on the basis of nominal Gross Domestic Product (GDP) growth rate for the country of operations.

As part of impairment testing, the management has assured reasonably that impact of possible changes in any of the aforementioned key assumptions would not cause the carrying value of any CGU to exceed its recoverable amount.

## 5.7.2 Financial assets

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

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

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

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost reversal is recognised in the profit and loss account. However, impairment against the loans and advances are recognised in the manner explained in note 5.5 above.

## 5.8 Financial instruments

### 5.8.1 Financial assets and financial liabilities

All financial assets and liabilities are recognized at the time when the Bank becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the Bank loses control of the contractual rights that comprise the financial asset. Financial liabilities are derecognized when they are extinguished i.e. when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of financial assets and financial liabilities is taken to profit and loss account.

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

### 5.8.2 Off setting

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

## 5.9 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.

### 5.10 Deferred grant

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

# Notes to the Financial Statements

## For the year ended 31 December 2019

### 5.11 Staff retirement benefits

#### 5.11.1 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 2019) using the projected unit credit method. When the calculation results in a potential asset for the Bank, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reduction in future contribution to the plan (if material). The above benefits are payable to staff at the time of separation / retirement from the Bank's services subject to the completion of qualifying period of service. Remeasurement component which is the net of actuarial gains and losses is recognized immediately in other comprehensive income where as service cost and net interest income / expense are charged to the profit and loss account.

#### 5.11.2 Defined contribution plan

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

### 5.12 Revenue recognition

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

-Gain or loss on sale of securities is accounted for in the period in which the sale / settlement occurs.

-Fee, commission and service fee income is recognised as services are rendered except that in case of nano loans, the fee income is spread over the period of loan.

-Other income is recognised on accrual basis when the services have been rendered except that early and late payment charges and recovery of written off loans are recognized on receipt basis.

### 5.13 Taxation

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

#### Current

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

#### Deferred

Deferred tax is recognised using the balance sheet liability method on all temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and the amounts used for taxation

purposes. Deductible temporary differences (deferred tax assets) are temporary differences that are deductible from the taxable income of future periods when the carrying amount of the asset or liability is recovered or settled. Taxable temporary differences (deferred tax liabilities) are temporary differences that will result in a tax liability in future periods when the carrying amount of the asset or liability is recovered or settled. Deferred tax is calculated at the tax rates that are expected to be applicable to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted as at the Balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Where objective evidence exists that the carrying value of a deferred tax asset may not be recoverable, the deferred tax asset is reduced to its recoverable value. The difference between the carrying value and the recoverable value is recognised through the profit and loss account as a deferred tax expense.

#### 5.14 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.

#### 5.15 Earnings per share

The Bank presents basic and diluted earnings per share (EPS). Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS, if any, is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. There were no dilutive potential ordinary shares in issue as at 31 December 2019.

#### 5.16 Dividend distribution

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

#### 5.17 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.

#### 5.18 Depositors' protection fund

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

#### 5.19 Critical accounting estimates and judgments

The preparation of financial statements in conformity with the accounting and reporting standards as applicable in Pakistan requires management to make judgment, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be

## Notes to the Financial Statements

### For the year ended 31 December 2019

reasonable under the circumstances, the results of which form the basis of making the judgment about carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimate. The estimate and underlying assumption are reviewed on an ongoing basis.

Revision to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. In particular, information about significant areas of estimation, uncertainty and critical judgment in applying accounting policies that have most significant effect on the amount recognized in the financial statements are as follows:

#### i) Classification and provisioning of investments (notes 5.4 and 9)

##### Held-to-maturity

As described in note 5.4, held-to-maturity securities are investments where the management has positive intent and ability to hold to maturity. The classification of these securities involves management judgment as to whether the financial assets are held-to-maturity investments.

##### Held-for-trading

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

##### Available-for-sale

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

#### ii) Provision against advances (notes 5.5 and 10)

The basis of provision against the advances portfolio are as mentioned in note 5.5. 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 (note 5.13)

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

#### iv) Payable against staff retirement benefits (note 5.11)

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) Operating fixed assets, depreciation and amortisation (note 5.6)

In making estimates of the depreciation / amortization method, the management uses method and rates which reflects the pattern in which economic benefits are expected to be consumed by the Bank. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits in the assets, the method and depreciation rates are changed to reflect the change in pattern. Such change is accounted for as change in accounting estimates in accordance with International Accounting Standards - 8, "Accounting Policies, Changes in Accounting Estimates and Errors". During the year, the Bank has reassessed and changed the useful lives of certain assets as disclosed in note 11.1 to these financial statements.

#### vi) Right-of-use assets and their related lease liability (note 5.6.4)

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

## 6. CASH AND BALANCES WITH STATE BANK OF PAKISTAN AND NATIONAL BANK OF PAKISTAN

Note	2019 -----Rupees in '000-----	2018 -----Rupees in '000-----
	936,918	1,094,817
	2,391,443	3,013,734
	135,380	101,755
6.1	2,526,823	3,115,489
	<u>3,463,741</u>	<u>4,210,306</u>

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

## 7. BALANCES WITH OTHER BANKS

Note	2019 -----Rupees in '000-----	2018 -----Rupees in '000-----
	209,104	51,891
7.1 & 7.2	4,199,445	3,212,508
7.3	3,000,000	600,000
	<u>7,408,549</u>	<u>3,864,399</u>

7.1 This represents demand deposits with various financial institutions carrying markup at rates ranging between 11.25% to 14.25% per annum (2018: 8.00% to 11.45% per annum).

7.2 Includes Rs. 119.36 million (2018: Rs. 119.36 million) held under lien with another commercial bank on account of issuance of guarantees on behalf of the Bank.

7.3 This represents fixed term deposits with various commercial banks carrying mark-up at rates ranging between 14.25% to 14.3% per annum (2018: 11.50% per annum) and having maturity in January 2020 (2018: January 2019).

## 8. LENDINGS TO FINANCIAL INSTITUTIONS

Note	2019 -----Rupees in '000-----	2018 -----Rupees in '000-----
8.1	4,950,000	1,500,000
8.2	-	3,973,364
	<u>4,950,000</u>	<u>5,473,364</u>

8.1 This represent call money lendings to various financial institutions carrying mark-up rate ranging from 13.05% to 13.36% (2018: 10.25%) per annum and having maturity in January 2020 (2018: January 2019).

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

	2019			2018		
	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
	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,000,000</u>	<u>-</u>	<u>4,000,000</u>

8.2.1 Fair value of the above securities as at year end amounted to Rs. Nil (2018: Rs. 3,975 million).

## Notes to the Financial Statements For the year ended 31 December 2019

## 9. INVESTMENTS

Federal Government Securities - available for sale  
Market Treasury Bills  
Deficit on revaluation of investment

Note	2019 -----Rupees in '000-----	2018 -----Rupees in '000-----
9.1	13,779,217	9,011,722
17	(5,817)	(3,277)
	<u>13,773,400</u>	<u>9,008,445</u>

9.1 These carry mark-up at rates ranging between 13.1% to 13.47% (2018: 8.75% to 10.35%) per annum and having maturities up to May 2020 (2018: March 2019). These securities have an aggregate face value of Rs. 14,300 million (2018: Rs. 9,098 million).

## 10. ADVANCES - net of provisions

Loan Type	Note	2019		2018	
		Number of loans outstanding	Rupees in '000	Number of loans outstanding	Rupees in '000
<b>Micro credit</b>					
<b>Advances - gross</b>					
- Secured	10.1	93,525	7,143,892	99,736	6,965,111
- Unsecured	10.1	803,169	20,316,673	594,705	27,222,439
		<u>896,694</u>	<u>27,460,565</u>	<u>694,441</u>	<u>34,187,550</u>
Less: Provision held					
- Specific	10.1	448,556	(3,993,209)	31,608	(572,968)
- General	10.2 10.3		(3,468,417)		(669,763)
			<u>(7,461,626)</u>		<u>(1,242,731)</u>
<b>Advances - net of provisions</b>			<u>19,998,939</u>		<u>32,944,819</u>

### 10.1 Particulars of non-performing advances

Advances include Rs. 5,781.65 million (2018: Rs. 1,401.87 million) which have been placed under non-performing status as detailed below:

	2019			Provision required	Provision held
	Secured	Unsecured	Total		
-----Rupees in '000-----					
Other Assets Especially Mentioned (OAEM)	50,981	726,100	777,081	-	-
Substandard	30,164	592,070	622,234	148,018	148,018
Doubtful	20,452	1,026,451	1,046,903	513,226	513,226
Loss	3,467	3,331,966	3,335,433	3,331,966	3,331,966
	<u>105,064</u>	<u>5,676,587</u>	<u>5,781,651</u>	<u>3,993,209</u>	<u>3,993,209</u>
-----Rupees in '000-----					
2018					
	Secured	Unsecured	Total	Provision required	Provision held
-----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>

10.2 This includes general provision of Rs. 163.234 million (2018: 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. 3,305.182 million (2018: Rs. 392 million) as explained in detail in note 10.5.

### 10.3 Particulars of provision against non-performing advances

Note	2019			2018		
	Specific	General	Total	Specific	General	Total
	-----Rupees in '000-----					
Opening balance	572,968	669,763	1,242,731	61,759	179,101	240,860
Charge for the year	6,605,948	2,798,654	9,404,602	984,657	490,662	1,475,319
Reversals	(584,626)	-	(584,626)	(109,934)	-	(109,934)
	6,021,322	2,798,654	8,819,976	874,723	490,662	1,365,385
Amount written off	(2,601,081)	-	(2,601,081)	(363,514)	-	(363,514)
Closing balance	3,993,209	3,468,417	7,461,626	572,968	669,763	1,242,731

### 10.4 Particulars of write offs

	2019	2018
	-----Rupees in '000-----	
Against provisions	2,601,081	363,514
Directly charged to the profit and loss account	49,502	21,124
	<u>2,650,583</u>	<u>384,638</u>

10.5 The Bank also maintains provisions against its loans and advances in view of potential credit deterioration due to general economic conditions of the micro credit segment, inflationary pressures on borrowers, credit monitoring and collection challenges inherent in this segment.

During the year, these factors were compounded with the identification of certain credit irregularities as a result of management's internal portfolio reviews at the borrower level along with regular business recovery and collection efforts.

Accordingly, the Bank has recorded additional specific provision against these particular loan exposures based on aforementioned identified credit irregularities. However, these ongoing portfolio review and recovery efforts have been impeded by the COVID 19 pandemic. Therefore, the Bank has also recorded additional general provision against the loan exposures whose reassessment is still in progress and also for the potential losses on loan portfolio which has not yet been subject to internal reviews.

Total additional provision in these financial statements in view of the reasons mentioned above amounted to Rs. 5,988 million including specific provision of Rs. 2,683 million and general provision of Rs. 3,305 million as more fully explained above. The Bank has simultaneously suspended the related un-realized interest income as at 31 December 2019.

The Bank has also initiated legal proceedings against certain staff and borrowers in accordance with the findings in these portfolio review exercises.

## Notes to the Financial Statements

### For the year ended 31 December 2019

#### 11. OPERATING FIXED ASSETS

	Note	2019	2018
		-----Rupees in '000-----	
Property and equipment	11.1	3,508,629	2,245,207
Intangible assets	11.2	791,046	420,257
Capital work-in-progress	11.3	555,612	335,887
Right-of-use assets	11.4	2,811,770	-
		<u>7,667,057</u>	<u>3,001,351</u>

#### 11.1 Property and equipment

	2019							
	Cost		Depreciation			Book value		Rate of depreciation
	As at 1 January 2019	Additions / (disposals)	As at 31 December 2019	As at 1 January 2019	Charge / (reversals)	As at 31 December 2019	As at 31 December 2019	per annum (%)
	-----Rupees in '000-----							
Leasehold Improvement	327,086	446,666	773,752	121,658	93,179	214,837	558,915	10 - 300
Office furniture and Fixtures	298,151	85,004 (4,126)	379,029	143,906	27,658 (2,907)	168,657	210,372	10
Office equipments	667,231	282,339 (3,784)	945,786	353,747	107,722 (3,784)	457,685	488,101	20
Computer equipments	2,493,679	1,305,775 (2,578)	3,796,876	1,018,869	575,734 (2,578)	1,592,025	2,204,851	12.5 - 33
Vehicles	230,741	- (30,883)	199,858	133,501	39,819 (19,852)	153,468	46,390	20 - 25
	<u>4,016,888</u>	<u>2,119,784</u> <u>(41,371)</u>	<u>6,095,301</u>	<u>1,771,681</u>	<u>844,112</u> <u>(29,121)</u>	<u>2,586,672</u>	<u>3,508,629</u>	
	-----Rupees in '000-----							
	2018							
	Cost		Depreciation			Book value		Rate of depreciation
	As at 1 January 2018	Additions / (disposals)	As at 31 December 2018	As at 1 January 2018	Charge / (reversals)	As at 31 December 2018	As at 31 December 2018	per annum (%)
	-----Rupees in '000-----							
Leasehold Improvement	253,993	73,093	327,086	95,814	25,844	121,658	205,428	10
Office furniture and Fixtures	283,541	21,584 (6,974)	298,151	119,907	25,176 (1,177)	143,906	154,245	10
Office equipments	514,592	153,037 (398)	667,231	267,195	86,650 (98)	353,747	313,484	20
Computer equipments	1,356,299	1,138,690 (1,310)	2,493,679	499,766	519,430 (327)	1,018,869	1,474,810	33
Vehicles	310,804	- (80,063)	230,741	136,459	46,835 (49,793)	133,501	97,240	20 - 25
	<u>2,719,229</u>	<u>1,386,404</u> <u>(88,745)</u>	<u>4,016,888</u>	<u>1,119,141</u>	<u>703,935</u> <u>(51,395)</u>	<u>1,771,681</u>	<u>2,245,207</u>	

11.1.1 Effective 01 January 2019, the Bank has revised its estimate of the useful lives of few of its computer equipments and softwares, which have been changed from 33% per annum on a straight-line basis to 12.5% and 20% per annum respectively from the months of their respective additions. In addition the useful lives of certain leasehold improvements have also been revised from 10% per annum to the rates ranging between 44% to 300% per annum. The revision has been made after considering the expected pattern of the recovery of economic benefits associated with the use of these assets. The revision has been accounted for as a change in accounting estimate as defined in International Accounting Standards. Had the revision in the useful lives not been made, depreciation and amortization expense and loss for the year before taxation would have been higher by Rs. 285.683 million, while the balance in the above-mentioned assets would have been lower by the same amount. Effect of the above revision, resulting in the reduction of expenses for the next two years would be as follows:

	2020	2021
	-----Rupees in '000-----	
	419,198	336,211

11.1.2 Property and equipment include assets costing Rs. 717.59 million (2018: Rs. 556.90 million) which are fully depreciated and still in use.

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

	Cost	Accumulated depreciation	Written down value	Sale proceeds	Gain / (loss)	Mode of disposal	Particulars of buyers
-----Rupees in '000-----							
<b>Vehicles</b>							
Motor vehicle - Toyota Corolla	1,881	1,505	376	376	-	Bank's Policy	Employee
Motor vehicle - Suzuki Cultus	1,135	579	556	902	346	Auction	Individual
Motor vehicle - Suzuki Cultus	1,025	1,025	-	728	728	Auction	Individual
Motor vehicle - Suzuki Cultus	1,093	692	401	858	457	Auction	Individual
Motor vehicle - Suzuki Cultus	1,171	292	879	959	80	Auction	Individual
Motor vehicle - Suzuki Bolan	695	383	312	475	163	Auction	Individual
Motor vehicle - Suzuki Bolan	717	322	395	521	126	Auction	Individual
Motor vehicle - Suzuki Mehran	721	228	493	608	115	Auction	Individual
Motor vehicle - Toyota Corolla	1,890	882	1,008	1,008	-	Bank's Policy	Employee
Motor vehicle - Toyota Corolla	1,891	693	1,198	1,198	-	Bank's Policy	Employee
Motor vehicle - Toyota Corolla	1,575	953	622	622	-	Bank's Policy	Employee
Motor vehicle - Toyota Corolla	1,917	1,406	511	511	-	Bank's Policy	Employee
Motor vehicle - Suzuki Mehran	710	367	343	343	-	Bank's Policy	Employee
Motor vehicle - Toyota Corolla	1,557	1,557	-	-	-	Bank's Policy	Employee
Motor vehicle - Toyota Corolla	1,154	615	539	539	-	Bank's Policy	Employee
Motor vehicle - Toyota Corolla	1,837	1,776	61	61	-	Bank's Policy	Employee
Motor vehicle - Toyota Corolla	1,942	1,068	874	874	-	Bank's Policy	Employee
Motor vehicle - Toyota Corolla	1,955	1,108	847	847	-	Bank's Policy	Employee
Motor vehicle - Toyota Corolla	1,891	788	1,103	1,103	-	Bank's Policy	Employee
<b>2019</b>	<b>26,757</b>	<b>16,239</b>	<b>10,518</b>	<b>12,533</b>	<b>2,015</b>		
<b>2018</b>	<b>64,452</b>	<b>37,913</b>	<b>26,539</b>	<b>28,583</b>	<b>2,044</b>		

## 11.2 Intangible assets

		2019						
		Cost		Amortisation			Book value	Rate of depreciation per annum
		As at 1 January 2019	Additions	As at 31 December 2019	As at 1 January 2019	Charge for the year	As at 31 December 2019	As at 31 December 2019
		-----Rupees in '000-----						
		(%)						
Computer software	11.2.1	620,912	575,710	1,196,622	200,655	204,921	405,576	791,046
		-----Rupees in '000-----						
		(%)						
		-----Rupees in '000-----						
		(%)						
Computer software		207,013	413,899	620,912	137,368	63,287	200,655	420,257

11.2.1 Intangible assets include software costing Rs. 141.383 million (2018: Rs. 114.756 million) which are fully amortised and still in use.

11.2.2 Refer note 11.1.1 regarding the revision in the useful lives of certain softwares.

## 11.3 Capital work-in-progress

Civil works  
Intangibles - software  
Office Equipment  
Furniture and Fixture

	2019	2018
	-----Rupees in '000-----	
	9,920	38,990
	437,160	136,825
	69,984	160,072
	38,548	-
	<u>555,612</u>	<u>335,887</u>

## 11.4 Right-of-use assets - buildings

This has arisen due to adoption of IFRS-16 as detailed in note 5.1. Movement in right-of-use assets is as follows:

	2019	2018
Effect of initial adoption of IFRS 16 as at 01 January 2019	878,301	-
Additions during the year 2019	2,345,981	-
Depreciation charge	(412,512)	-
	<u>2,811,770</u>	<u>-</u>

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

# Notes to the Financial Statements

## For the year ended 31 December 2019

## 12. OTHER ASSETS

	Note	2019	2018
-----Rupees in '000-----			
Mark-up / return / interest accrued		1,876,934	1,878,603
Service fee receivable on digital loans		30,610	-
Receivable from branchless banking agents	12.1	473,200	468,575
Loans to employees	12.2	288,446	307,193
Security deposits		118,430	42,389
Prepayments - rent		-	96,432
Prepayments - others		109,983	16,621
Receivable from defined benefit plan	32.4	-	24,358
Branchless banking transaction fee receivable	12.3	658,019	819,636
Advance tax - net	12.4	7,571	28,535
Receivable from SBP against livestock insurance		24,248	25,473
Receivable from SBP against international remittances		21,380	4,168
Advance sales tax		176,640	337,954
Others		121,294	128,073
		<u>3,906,755</u>	<u>4,178,010</u>
Less: Provision held against other assets	25	(308,507)	(214,718)
		<u>3,598,248</u>	<u>3,963,292</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. The balance is unsecured and interest free.

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

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

	Note	2019	2018
-----Rupees in '000-----			
Commission receivable from Benazir Income Support Program (BISP)		362,462	497,570
Commission receivable from utility companies		141,670	100,606
Commission receivable from insurance companies		39,594	131,115
Commission on disbursement services from financial institutions		59,370	41,249
Commission receivable from the Federal and Provincial Governments		50,081	36,708
Others		4,842	12,388
	12.3.1	<u>658,019</u>	<u>819,636</u>

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

## 12.4 Movement in advance tax - net

	Note	2019	2018
Balance as at 1 January		28,535	64,372
Taxes paid during the year		425,649	235,840
Provision for taxation for the year		(446,613)	(271,677)
Balance as at 31 December		<u>7,571</u>	<u>28,535</u>

Refer note 19.1 also for tax related matters.

## 13. DEFERRED TAX ASSET / (LIABILITY) - net

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

	Note	2019	2018
-----Rupees in '000-----			
<b>Deductible temporary differences</b>			
- Deficit on revaluation of assets (investments)		1,687	918
		<u>1,687</u>	<u>918</u>
<b>Taxable temporary differences</b>			
- Accelerated tax depreciation allowance		(275,047)	(153,984)
	13.1	<u>(273,360)</u>	<u>(153,066)</u>

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

	Balance as at 1 January 2018	Recognised in statement of profit or loss	Recognised in other comprehensive income	Deficit on revaluation of assets	Balance as at 31 December 2018	Recognised in statement of profit or loss	Recognised in other comprehensive income	Deficit on revaluation of assets	Balance as at 31 December 2019
-----Rupees in '000-----									
<b>Deductible temporary differences arising in respect of:</b>									
- Provision against non-performing advances	72,258	(72,258)	-	-	-	-	-	-	-
- Deficit on revaluation of assets	390	-	-	528	918	-	769	-	1,687
- Remeasurement of defined benefit liability	11,467	-	(11,467)	-	-	-	-	-	-
- Other provisions / write off	17,899	(17,899)	-	-	-	-	-	-	-
	102,014	(90,157)	(11,467)	528	918	-	769	-	1,687
<b>Taxable temporary differences arising in respect of:</b>									
- Accelerated tax depreciation allowance	(114,048)	(39,936)	-	-	(153,984)	(121,063)	-	-	(275,047)
	<u>(12,034)</u>	<u>(130,093)</u>	<u>(11,467)</u>	<u>528</u>	<u>(153,066)</u>	<u>(121,063)</u>	<u>769</u>	<u>-</u>	<u>(273,360)</u>

13.2 As a matter of abundant caution, the Bank has not recorded deferred tax asset of Rs. 2,468.4 million, Rs. 2,163.8 million, Rs. 638.3 million, Rs. 89.5 million and Rs. 28.91 million on deductible temporary differences representing taxable business losses of Rs 8,511.7 million, provisions against non-performing advances of Rs. 7,461.6 million, unabsorbed tax depreciation & amortization of Rs. 2,201.1 million, provisions against other assets of Rs. 308.5 million and on remeasurement of defined benefit plan of Rs. 99.7 million respectively (above amounts have been calculated at 29% which is the applicable tax rate including for the future years).

Notes to the Financial Statements  
For the year ended 31 December 2019

## 14. DEPOSITS AND OTHER ACCOUNTS

	2019		2018	
	Number of accounts	(Rupees in '000)	Number of accounts	(Rupees in '000)
Current deposits	16,989,718	13,247,452	9,007,655	11,036,931
Saving deposits	179,901	6,020,702	179,797	9,606,676
Fixed deposits	12,758	21,902,383	10,994	21,631,302
	<u>17,182,377</u>	<u>41,170,537</u>	<u>9,198,446</u>	<u>42,274,909</u>

## 14.1 Particulars of deposits by ownership

	2019		2018	
	Number	(Rupees in '000)	Number	(Rupees in '000)
Individual depositors	17,181,210	27,178,714	9,197,359	22,956,738
Institutional depositors				
- Corporations / firms etc	1,117	3,927,331	961	8,911,254
- Banks / financial institutions	50	10,064,492	126	10,406,917
	<u>17,182,377</u>	<u>41,170,537</u>	<u>9,198,446</u>	<u>42,274,909</u>

## 15. OTHER LIABILITIES

	Note	2019 -----Rupees in '000-----	2018 -----Rupees in '000-----
Mark-up / return / interest payable		464,820	280,058
Accrued expenses	15.1	4,753,928	2,825,399
Commission payable - branchless banking		172,995	133,490
Provision for staff bonus		233,490	350,698
Withholding tax payable		126,445	76,137
Payable to defined contribution plan		58,819	63,873
Payable to defined benefit plan	32.4	70,515	-
Payable to Worker's Welfare Fund	15.2	102,453	102,453
Lease liability against right-of-use assets	5.1.1 & 15.3	2,682,835	-
Bills payable		791,797	413,446
Switch settlement liability		211,117	274,392
Payable against branchless banking transactions	15.4	1,622,815	1,678,802
Others		77,029	170,824
		<u>11,369,058</u>	<u>6,369,572</u>

15.1 This includes Rs. 1,233 million (2018: Rs. 903 million) payable to Telenor Pakistan (Private) Limited (a related party) in respect of services obtained from them. It also includes an amount of Rs. 240 million payable to Telenor Procurement Company against capital expenditure, Rs. 70 million payable to Telenor Co. against professional services and Rs. 48 million (2018: Rs. 17 million) payable to Telenor Group Financial Services against the maintenance of banking software.

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

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

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

## 15.3 These are repayable as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payment
(Rupees in '000)			
Less than one year	433,870	312,710	121,160
Between one and five year	1,667,085	1,131,389	535,696
More than five year	2,624,709	598,730	2,025,979
	<u>4,725,664</u>	<u>2,042,829</u>	<u>2,682,835</u>

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

	Note	2019 -----Rupees in '000-----	2018 -----Rupees in '000-----
Over counter transactions	15.4.1	1,093,000	1,009,850
Utility bills collections		485,540	347,980
Others		44,275	320,972
		<u>1,622,815</u>	<u>1,678,802</u>

15.4.1 This includes Rs. 634.869 million (2018: Rs. 502.953 million) outstanding for more than one year in respect of 'over the counter' transactions.

## 16. SHARE CAPITAL

### 16.1 Authorised capital

	Note	2019 -----Rupees in '000-----	2018 -----Rupees in '000-----
450,000		450,000	450,000
Ordinary shares of Rs.10 each		<u>4,500,000</u>	<u>4,500,000</u>

### 16.2 Issued, subscribed and paid-up capital

	Note	2019 -----Rupees in '000-----	2018 -----Rupees in '000-----
427,759		354,727	354,727
Ordinary shares of Rs.10 each fully paid in cash		<u>4,277,589</u>	<u>3,547,269</u>

### 16.3 Reconciliation of number of shares outstanding

	Note	2019 -----Rupees in '000-----	2018 -----Rupees in '000-----
Number of shares outstanding at the beginning of the year		354,727	134,694
Issuance of shares otherwise than right	16.3.1	-	147,001
Issuance of right shares	16.3.2	73,032	73,032
Number of shares outstanding at the ending of the year		<u>427,759</u>	<u>354,727</u>

16.3.1 These shares were subscribed by Telenor Pakistan B.V. Further, Telenor Pakistan B.V. held 55% of the Bank's equity as at 31 December 2019.

6.3.2 These shares are subscribed by Alipay (Hong Kong) Holding Limited at a premium of Rs. 139 (2018: Rs. 123) above par. Further, Telenor Pakistan B.V. transferred 46,427,493 shares to Ali pay (Hong Kong) Holding Limited during 2018. Accordingly, at 31 December 2019, Ali pay (Hong Kong) Holding Limited held 45% (2018: 34%) stake in the Bank.

## 17. DEFICIT ON REVALUATION OF ASSETS - net of deferred tax

	Note	2019 -----Rupees in '000-----	2018 -----Rupees in '000-----
Available-for-sale investments			
Federal Government Securities	9	(5,817)	(3,277)
Related tax effect	13	1,687	918
		<u>(4,130)</u>	<u>(2,359)</u>

## 18. DEFERRED GRANTS

	Note	2019 -----Rupees in '000-----	2018 -----Rupees in '000-----
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	8,879	45,943
	18.9	<u>18,740</u>	<u>55,804</u>

## Notes to the Financial Statements For the year ended 31 December 2019

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

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

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

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

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

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

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

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

	2019 -----Rupees in '000-----	2018 -----Rupees in '000-----
18.8.1 Details of the income recognized during the year is as follows:		
Balance as at 01 January	45,943	45,943
Amount recognized as income during the year	(37,064)	-
	<u>8,879</u>	<u>45,943</u>

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.

## 19. MEMORANDUM / OFF BALANCE SHEET ITEMS

	Note	2019 -----Rupees in '000-----	2018 -----Rupees in '000-----
Contingent liabilities	19.1	128,120	94,080
Acceptances, endorsements and other obligations (including commitments)	19.2	398,777	221,802
		<u>526,897</u>	<u>315,882</u>

### 19.1 Contingencies

19.1.1 The Bank was served with an order from Sindh Revenue Board (SRB) claiming additional sales tax amounting to Rs. 73 million (including penalty) for the tax periods from July 2011 to June 2016. The Bank had filed an appeal with Commissioner (Appeals) after paying 25% of the tax demand. and the proceedings are still in process. No additional provision has been recorded as the Bank is confident of a favourable decision.

19.1.2 The Bank has been served with an order by Khyber Pakhtunkhwa Revenue Authority (KPRA) creating a demand aggregating to Rs. 13.59 million against input tax disallowances and sales tax withholding in relation to certain tax periods from September 2016 to January 2018. The Bank filed an appeal with the Collector (Appeals) which was disposed against the Bank on September 25, 2019. As the Tribunal had not been constituted in KPK at that time, the Bank filed a writ petition before Peshawar High Court (PHC) and acquired an interim stay order against the demand while the petition is still pending before PHC. As the demand is unlawful and has been raised without proper verification of facts, no provision has been made in the books and relief is expected from higher appellate forum/s.

19.1.3 During the year, a recovery notice of Rs. 17.09 million (including penalty and surcharge) was received by the Bank from Punjab Revenue Authority (PRA). The Order against the said notice was passed by the Authority during February 2018 in relation to withholding sales tax for the period January to December 2016, however, it was not received by the Bank till 23 May 2019. The Bank has acquired a stay order against this demand from Lahore High Court. The Bank also filed an appeal before the Commissioner (Appeals). As the demand is unlawful and has been raised without proper verification of facts, no provision has been made in the books and a favorable outcome is expected in appeals.

**19.1.4** FBR issued a show cause notice for amendment of assessment of tax year 2016 in May 2017 with the intention of increasing TMB's taxable income by adding back several expenses including write-offs, some provisions etc. A fresh notice was issued in November 2019 and TMB re-filed its detailed factual and legal response and provided related information during December 2019. On 28 February 2020, an assessment Order has been served on the Bank raising a demand of Rs. 51.7 million against which, the Bank has filed an appeal before Commissioner (Appeals) after paying an amount of Rs. 9.16 million. No provision has been made by the Bank against outstanding demand on the expectation of a favorable outcome in appeals.

**19.1.5** The Bank received notices dated 11 November 2019 for conduct of Sales tax and Federal Excise audits, for the period from January 2016 to December 2016 by FBR under sections 25 of the Sales Tax Act, 1990 and section 46 of the Federal Excise Act, 2005, respectively. Accordingly the Bank has provided records requested by FBR and the audit is underway.

**19.1.6** Subsequent to the year end, the Bank received notice from FBR to intimate regarding selection for audit u/s. 177 of the Income Tax Ordinance, 2001 for tax year 2016. The tax authority has requested the Bank to furnish records / documents for audit purposes.

## 19.2 Acceptances, endorsements and other obligations

### 19.2.1 Commitments

Commitments in respect of:

	Note	2019 -----Rupees in '000-----	2018 -----Rupees in '000-----
Operating leases	19.2.1.1	-	98,897
Acquisition of operating fixed assets		398,777	122,905
		<u>398,777</u>	<u>221,802</u>

#### 19.2.1.1 Commitments in respect of operating leases

		2019	2018
Not later than one year		-	98,219
Later than one year and not later than five year		-	768
		<u>-</u>	<u>98,987</u>

## 20. MARK-UP / RETURN / INTEREST EARNED

On:		2019	2018
Advances		7,390,614	7,928,966
Available-for-sale investments in Government Securities		978,383	424,012
Deposits with financial institutions / banks		468,632	114,980
Call money lendings		295,836	114,098
Repurchase agreement lendings		155,159	139,150
		<u>9,288,624</u>	<u>8,721,206</u>

## 21. MARK-UP / RETURN / INTEREST EXPENSED

On:		2019	2018
Deposits		3,443,894	2,594,804
Borrowings		1,208	232
Lease liabilities against right-of-use assets	21.1	226,324	-
		<u>3,671,426</u>	<u>2,595,036</u>

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

## 22. FEE, COMMISSION AND BROKERAGE INCOME

		2019	2018
Loan processing fee	22.1	902,035	717,810
Income from branchless banking	22.2	7,325,651	7,426,524
Others		13,532	28,316
		<u>8,241,218</u>	<u>8,172,650</u>

**22.1** This includes fee of Rs. 336.239 million (2018: Rs. 26.995 million) in respect of nano-loans advanced during the year.

# Notes to the Financial Statements

## For the year ended 31 December 2019

### 22.2 Income from branchless banking

	Note	2019 -----Rupees in '000-----	2018 -----Rupees in '000-----
Service fee on money transfer services		5,904,087	6,097,473
Commission on funds collection services on behalf of coporate clients		756,581	634,334
Commission from BISP (Benazir Income Support Programme)		468,515	431,876
Commission from insurance companies		78,499	137,489
Commission on disbursement services on behalf of financial institutions		92,177	52,063
Others		25,792	73,289
		<u>7,325,651</u>	<u>7,426,524</u>

### 23. OTHER INCOME

	Note	2019	2018
Cheque book fees, ATM fees and other service charges		131,487	125,039
Recoveries against advances written off		119,204	89,146
Grant income	18.8	42,171	-
Gain / (loss) on sale of operating fixed assets		4,024	(57)
		<u>296,886</u>	<u>214,128</u>

### 24. ADMINISTRATIVE EXPENSES

	Note	2019	2018
Salaries and other allowances		3,943,588	3,180,030
Charge for defined benefit plan	32.3.3	168,078	155,007
Contribution to defined contribution plan		154,111	119,040
Staff welfare		125,859	79,107
Training and capacity building		25,287	13,592
Non-executive directors' fees, allowances and other expenses		5,675	650
Commission - Branchless Banking	24.2	5,018,985	4,815,184
Customer Incentives		3,434,503	1,334,255
Advertisement		1,874,065	1,185,332
Professional consultancy charges		618,844	477,391
Customer verification charges		557,837	394,281
Legal and professional charges		103,123	36,780
Depreciation	11.1	844,112	703,935
Depreciation on right-of-use assets	11.4	412,512	-
Amortisation	11.2	204,921	63,287
Repairs and maintenance - IT		688,855	386,594
Insurance		407,501	295,525
Repairs and maintenance - General		343,567	142,377
Security services		307,597	220,009
Travelling and conveyance		294,940	178,280
Communication		239,639	117,416
Bank charges		186,100	142,280
Utilities		123,693	74,123
Printing and stationery		88,085	65,143
Rent and taxes		76,842	305,111
Auditors' remuneration	24.3	17,412	13,024
Other expenses	24.1	553,237	450,695
		<u>20,818,968</u>	<u>14,948,448</u>

**24.1** This includes input tax offered back in proportion to non-taxable revenue amounting to Rs. 381.8 million (2018: Rs. 216.8 million).

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

#### 24.3 Auditors' remuneration

	2019	2018
Audit fee	4,500	1,760
Half year review fee	1,800	715
Fee for other services as statutory auditors	937	1,315
Taxation services	5,949	5,905
Advisory services	3,298	2,313
Out-of-pocket expenses	928	1,016
	<u>17,412</u>	<u>13,024</u>



## 30. NUMBER OF EMPLOYEES

	2019			2018		
	Credit / sales staff	Banking / support staff	Total	Credit / sales staff	Banking / support staff	Total
	-----Numbers-----			-----Numbers-----		
Permanent	1,325	2,059	3,384	1,606	1,940	3,546
Contractual	157	153	310	-	13	13
	<u>1,482</u>	<u>2,212</u>	<u>3,694</u>	<u>1,606</u>	<u>1,953</u>	<u>3,559</u>

## 31. NUMBER OF BRANCHES

	2019	2018
	-----Numbers-----	
As at 01 January	103	85
Opened during the year	17	18
As at 31 December	<u>120</u>	<u>103</u>

## 32. DEFINED BENEFIT PLAN

## 32.1 General description

As disclosed in note 5.12, the Bank operates a funded gratuity scheme for all its employees, who have completed minimum qualifying period of service. Contributions to the fund are made in accordance with the rules of the fund. Gratuity is payable to the employees on the cessation of employment on death, retirement, resignation, termination or permanent disability. The normal retirement age is 60 years.

The gratuity is payable under the following basis:

## Old policy rules before 01 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 01 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 2019. Following are the significant assumptions used in the valuation:

	2019	2018
	-----'(% per annum)-----	
- Discount rate	11.25	13.25
- Salary increase rate	10.25	11.25
- Expected rate of return on plan assets	11.25	13.25

	2019	2018
	SLIC 2001-05	SLIC 2001-05
- Mortality rates assumed		

## 32.3 Amount recognised in balance sheet

	Note	2019	2018
		----- (Rupees in '000) -----	
Present value of defined benefit obligations	32.3.1	810,788	645,542
Fair value of plan assets	32.3.2	<u>(740,273)</u>	<u>(669,900)</u>
		<u>70,515</u>	<u>(24,358)</u>

## 32.3.1 Movement in present value of defined benefit obligations

Balance as at 01 January	645,542	531,626
Current service cost	182,760	129,081
Interest cost	75,500	46,619
Employees transferred from Telenor Pakistan (Private) Limited	-	30,577
Benefits paid by the plan	(154,675)	(81,798)
Remeasurement loss / (gain) on obligations	61,661	(10,563)
Balance as at 31 December	<u>810,788</u>	<u>645,542</u>

Notes to the Financial Statements  
For the year ended 31 December 2019

## 32.3.2 Movement in fair value of plan assets

	Note	2019	2018
		-----Rupees in '000-----	
Balance as at 01 January		669,900	508,215
Contributions to the fund		134,850	149,832
Benefits paid by the plan		(154,675)	(81,798)
Benefits paid on behalf of the fund		38,043	81,795
Expected return on plan assets		90,182	51,270
Remeasurement loss on plan assets		(38,027)	(39,414)
Balance as at 31 December	32.5	<u>740,273</u>	<u>669,900</u>

## 32.3.3 Amount recognised in the profit or loss account

Current service cost	182,760	129,081
Net interest	(14,682)	(4,651)
Employee transferred	-	30,577
	<u>168,078</u>	<u>155,007</u>

## 32.3.4 Remeasurements recognised in other comprehensive income (OCI)

Remeasurement loss / (gain) on obligation - due to experience adjustment	61,661	(10,563)
Remeasurement loss on fair value of plan assets	38,027	39,414
Remeasurement loss for the year - net	<u>99,688</u>	<u>28,851</u>

## 32.4 Movement in defined benefit plan

Balance as at 01 January	(24,358)	23,411
Expense charged in the current year	168,078	155,007
Remeasurements recognised in OCI during the year	99,688	28,851
Contributions to gratuity fund	(134,850)	(149,832)
Benefits paid on behalf of fund	(38,043)	(81,795)
Balance as at 31 December	<u>70,515</u>	<u>(24,358)</u>

## 32.5 Plan assets consist of the following:

Bank balances	739,787	577,141
Receivable from the Provident Fund	486	92,759
	<u>740,273</u>	<u>669,900</u>

## 32.6 Maturity profile of defined benefit obligation

Weighted average duration of the present value of defined benefit obligation	9.11	8.46
--	------	------

Years	Benefit Payments	
	2019	2018
	-----Rupees in '000-----	
1	89,839	106,211
2	84,811	72,724
3	75,785	70,924
4	75,676	61,191
5	66,874	64,184
6 - 10	310,529	285,863
11+	2,834,899	2,823,632

### 32.7 Sensitivity analysis on significant actuarial assumptions: Defined benefit liability

	Benefit Payments	
	2019	2018
	-----Rupees in '000-----	
Base	810,788	645,542
Discount rate +1%	730,092	598,587
Discount rate -1%	875,229	700,182
Future salary increases +1%	879,189	702,726
Future salary increases -1%	725,650	595,683

### 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. 203.054 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

	2019			2018		
	President / Chief Executive	Directors	Executives	President / Chief Executive	Directors	Executives
	-----Rupees in '000-----			-----Rupees in '000-----		
Fees	-	5,675	-	-	650	-
Managerial remuneration	69,320	-	818,143	25,333	-	620,121
Charge for defined benefit plan	3,080	-	77,431	2,533	-	54,418
Contribution to defined Contribution plan	3,915	-	103,795	3,167	-	77,040
Rent and house maintenance	20,796	-	245,443	7,600	-	177,119
Utilities	6,932	-	81,815	2,533	-	58,890
Medical	8,889	-	124,777	4,116	-	91,872
Conveyance	2,612	-	131,388	-	-	90,986
Special allowance	25,000	-	25,563	12,000	-	11,928
	<u>140,544</u>	<u>5,675</u>	<u>1,608,355</u>	<u>57,282</u>	<u>650</u>	<u>1,182,374</u>
Number of persons	3*	2	556	1	7	421

\* Includes remuneration of Ex - Chief Executives of the Bank (i.e. three 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 2019

### 35. RELATED PARTIES TRANSACTIONS AND BALANCES

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

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

Balances and transactions with related parties are summarised as follows:

Note	2019					2018				
	Associates	Key management personnel (note 35.2)	Directors	Retirement benefit plans	Total	Associates	Key management personnel	Directors	Retirement benefit plans	Total
	-----Rupees in '000-----					-----Rupees in '000-----				
<b>Loans</b>										
At 01 January	-	32,564	10,029	-	42,593	-	37,299	-	-	37,299
Given during the year	-	12,645	-	-	12,645	-	23,875	12,667	-	36,542
Repaid during the year	-	(23,976)	(10,029)	-	(34,005)	-	(28,610)	(2,638)	-	(31,248)
At 31 December	-	21,233	-	-	21,233	-	32,564	10,029	-	42,593
<b>Deposits</b>										
At 01 January	22,654	746	-	1,243,059	1,266,459	51,316	13,047	-	795,923	860,286
Received during the year	1,787,851	42,078	16,036	4,400,209	6,246,174	28,426,059	23,360	-	2,720,380	31,169,799
Withdrawn during the year	(1,794,930)	(41,844)	-	(4,184,821)	(6,021,595)	(28,454,721)	(35,661)	-	(2,273,244)	(30,763,626)
At 31 December	15,575	980	16,036	1,458,447	1,491,038	22,654	746	-	1,243,059	1,266,459
<b>Other Assets</b>										
Receivable from defined benefit plan	-	-	-	-	-	-	-	-	24,358	24,358
	-	-	-	-	-	-	-	-	24,358	24,358
<b>Other Liabilities</b>										
Payable against goods and services	1,593,576	-	-	-	1,593,576	1,450,005	-	-	-	1,450,005
Payable to defined contribution plan	-	-	-	58,819	58,819	-	-	-	63,873	63,873
Payable to defined benefit plan	-	-	-	70,516	70,516	-	-	-	-	-
	<u>1,593,576</u>	<u>-</u>	<u>-</u>	<u>129,335</u>	<u>1,722,911</u>	<u>1,450,005</u>	<u>-</u>	<u>-</u>	<u>63,873</u>	<u>1,513,878</u>
<b>Capital Expenditure</b>										
	61,179	-	-	-	61,179	708,484	-	-	-	708,484
<b>Transactions during the period</b>										
Directors' meeting fees	-	-	5,675	-	5,675	-	-	650	-	650
Remuneration of Key Management Personnel	-	104,597	140,544	-	245,141	-	147,373	57,282	-	204,655
Mark-up expense	-	-	-	148,674	148,674	-	-	-	65,790	65,790
Communication expense	58,088	-	-	-	58,088	-	-	-	-	-
Sale of vehicle	-	-	-	-	-	-	3,128	-	-	3,128
Rent	138,474	-	-	-	138,474	119,394	-	-	-	119,394
Professional consultancy charges	564,778	-	-	-	564,778	419,671	-	-	-	419,671
Other charges	69,070	-	-	-	69,070	-	-	-	-	-
Repair and maintenance	141,907	-	-	-	141,907	34,579	-	-	-	34,579
Advertisement	1,186,848	-	-	-	1,186,848	756,152	-	-	-	756,152
	<u>2,159,165</u>	<u>104,597</u>	<u>146,219</u>	<u>148,674</u>	<u>2,558,655</u>	<u>1,329,796</u>	<u>150,501</u>	<u>57,932</u>	<u>65,790</u>	<u>1,604,019</u>

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

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

## 36. SCHEDULE OF MATURITY DISTRIBUTION OF ASSETS AND LIABILITIES

	2019				
	Total	Upto one Month	Over one month upto six months	Over six months upto one year	Over one year
	(Rupees in '000)				
<b>Interest bearing assets</b>					
Advances	19,998,939	1,943,544	7,569,718	8,183,356	2,302,321
Investments	13,773,400	1,978,932	11,794,468	-	-
Lending to financial institutions	4,950,000	4,950,000	-	-	-
Balances with other banks - deposit accounts	7,199,445	7,199,445	-	-	-
	45,921,784	16,071,921	19,364,186	8,183,356	2,302,321
<b>Other non-earning assets</b>					
Cash and balances with SBP and NBP	3,463,741	3,463,741	-	-	-
Balances with other banks - current accounts	209,104	209,104	-	-	-
Operating fixed assets	7,667,057	163,239	781,506	659,173	6,063,139
Other assets	3,598,248	1,144,703	1,710,753	455,196	287,596
	14,938,150	4,980,787	2,492,259	1,114,369	6,350,735
<b>Total assets</b>	<b>60,859,934</b>	<b>21,052,708</b>	<b>21,856,445</b>	<b>9,297,725</b>	<b>8,653,056</b>
<b>Interest bearing liabilities</b>					
Large time deposits above Rs. 100,000	21,652,005	3,721,867	6,017,478	2,595,359	9,317,300
All other time deposits (including fixed rate deposits)	250,378	7,145	33,353	30,702	179,177
Other cost bearing deposits	6,020,702	6,020,702	-	-	-
	27,923,085	9,749,714	6,050,831	2,626,061	9,496,477
<b>Other non-cost bearing liabilities</b>					
Current deposits	13,247,452	13,247,452	-	-	-
Other liabilities	11,369,058	2,928,496	4,763,988	138,967	3,537,607
Deferred tax liability - net	273,360	-	-	-	273,360
Deferred grant	18,740	101	504	605	17,530
	24,908,610	16,176,049	4,764,492	139,572	3,828,497
<b>Total liabilities</b>	<b>52,831,695</b>	<b>25,925,763</b>	<b>10,815,323</b>	<b>2,765,633</b>	<b>13,324,974</b>
	2018				
	Total	Upto one Month	Over one month upto six months	Over six months upto one year	Over one year
	(Rupees in '000)				
<b>Market rate assets</b>					
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
<b>Other non-earning assets</b>					
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	2,592,166	295,022	72,669	1,003,435
	11,226,840	6,959,070	818,409	700,380	2,748,981
<b>Total assets</b>	<b>62,465,976</b>	<b>21,853,566</b>	<b>13,825,229</b>	<b>15,312,074</b>	<b>11,475,107</b>
<b>Market liabilities</b>					
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
<b>Other non-cost bearing liabilities</b>					
Current deposits	11,036,931	11,036,931	-	-	-
Other liabilities	6,369,572	3,409,956	2,238,253	702,184	19,179
Deferred tax liability - net	153,066	-	-	153,066	-
Deferred grant	55,804	-	-	55,804	-
	17,615,373	14,446,887	2,238,253	911,054	19,179
<b>Total liabilities</b>	<b>48,853,351</b>	<b>26,789,839</b>	<b>11,803,483</b>	<b>6,516,213</b>	<b>3,743,816</b>

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 2019

## 37. FINANCIAL RISK MANAGEMENT

## 37.1 Interest / mark-up rate risk

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

	Effective yield / interest rate %	2019				
		Total	Upto one Month	One month to six months	Over six months to one year	Over one year to five years
		(Rupees in '000)				
<b>Assets</b>						
Balances with other banks - deposit accounts	11.25% to 14.25%	7,199,445	7,199,445	-	-	-
Lending to financial institutions	13.05% to 13.36%	4,950,000	4,950,000	-	-	-
Investment	13.1% to 13.47%	13,773,400	1,978,932	11,794,468	-	-
Advances	14% to 34%	19,998,939	1,943,544	7,569,718	8,183,356	2,302,321
		45,921,784	16,071,921	19,364,186	8,183,356	2,302,321
<b>Liabilities</b>						
Deposits	8.75% to 15%	27,923,085	9,749,714	6,050,831	2,626,061	9,496,477
Lease liability against right-of-use assets	12.86%	2,682,835	58,028	118,972	174,248	2,331,587
<b>On balance sheet gap</b>		<b>15,315,864</b>	<b>6,264,178</b>	<b>13,194,383</b>	<b>5,383,047</b>	<b>(9,525,743)</b>
		2018				
		Total	Upto one Month	One month to six months	Over six months to one year	Over one year to five years
		(Rupees in '000)				
<b>Assets</b>						
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	8,726,126
		51,239,136	14,894,496	13,006,820	14,611,694	8,726,126
<b>Liabilities</b>						
Deposits	7.75% to 13%	31,237,978	12,342,952	9,565,230	5,605,159	3,724,637
<b>On balance sheet gap</b>		<b>20,001,158</b>	<b>2,551,544</b>	<b>3,441,590</b>	<b>9,006,535</b>	<b>5,001,489</b>

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

## 37.2 Credit risk

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

## 37.2.1 Exposure to credit risk

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

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

	Note	2019		2018	
		Financial assets	Maximum exposure	Financial assets	Maximum exposure
		(Rupees in '000)			
Bank balances	6 & 7	9,935,372	7,543,929	3,966,154	3,966,154
Lendings to financial institutions	8	4,950,000	4,950,000	5,473,364	5,473,364
Advances	10	19,998,939	19,998,939	32,944,819	32,944,819
Other receivables	12	3,266,456	3,266,456	3,485,296	3,485,296
		<b>38,150,767</b>	<b>35,759,324</b>	<b>45,869,633</b>	<b>45,869,633</b>

Cash in hand has not been included above as it is not exposed to credit risk. On a similar basis investments have also not been included above as these are in Government Securities and as such not considered to be exposed to interest rate risk.

### 37.2.2 Concentration of credit risk

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

	2019 -----Rupees in '000-----	2018 -----Rupees in '000-----
Distributors and retailers	473,200	468,575
Financial institutions	14,936,028	9,439,518
Employees	288,446	307,193
Individuals	21,662,286	34,805,006
Corporates	588,803	681,988
Others	202,004	167,353
	<u>38,150,767</u>	<u>45,869,633</u>

### 37.2.3 Bank balances

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

Bank	2019		
	Long term	Short term	Amount (Rupees in '000)
Allied Bank Limited	AAA	A1+	100,141
Bank Alfalah Limited	AA+	A1+	2,266,976
Bank Of Punjab	AA	A1+	2,175
Citi Bank	A+	A1	2,687
FINCA Microfinance Bank Limited	A	A1	27
Habib Bank Limited	AAA	A1+	311
JS Bank Limited	AA-	A1+	1,560,023
MCB Bank Limited	AAA	A1+	144,675
National Bank of Pakistan	AAA	A1+	135,380
Samba Bank Limited	AA	A1	3,281
Soneri Bank Limited	AA-	A1+	1,450,001
Standard Chartered Bank Limited	AAA	A1+	171,318
The First Micro Finance Bank Limited	A+	A1	971,553
United Bank Limited	AAA	A1+	723,498
Zarai Taraqati Bank Limited	AAA	A1+	11,882
			<u>7,543,928</u>

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

### 37.3 Liquidity risk

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

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

### 37.4 Fair value of financial Instruments

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

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

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

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

## Notes to the Financial Statements

### For the year ended 31 December 2019

On balance sheet financial instruments	2019				Fair value				
	Available for sale	Cash and cash equivalents	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Note	-----Rupees in '000-----								
<b>Financial assets measured at fair value</b>									
- Investments - market treasury bills	13,779,217	-	-	-	13,779,217	-	13,773,400	-	13,773,400
<b>Financial assets not measured at fair value</b>	374.1								
- Cash and bank balances with SBP and NBP	-	3,463,741	-	-	3,463,741	-	-	-	-
- Balances with other banks	-	7,408,549	-	-	7,408,549	-	-	-	-
- Lending to financial instruments	-	-	4,950,000	-	4,950,000	-	-	-	-
- Advances	-	-	19,998,939	-	19,998,939	-	-	-	-
- Other assets	-	-	3,598,248	-	3,598,248	-	-	-	-
	<u>13,779,217</u>	<u>10,872,290</u>	<u>28,547,187</u>	-	<u>53,198,694</u>	-	<u>13,773,400</u>	-	<u>13,773,400</u>
<b>Financial liabilities not measured at fair value</b>	374.1								
- Deposits and other accounts	-	-	-	(41,170,537)	(41,170,537)	-	-	-	-
- Other liabilities	-	-	-	(11,369,058)	(11,369,058)	-	-	-	-
	<u>13,779,217</u>	<u>10,872,290</u>	<u>28,547,187</u>	<u>(52,539,595)</u>	<u>659,099</u>	-	<u>13,773,400</u>	-	<u>13,773,400</u>

On balance sheet financial instruments	2018				Fair value				
	Available for sale	Cash and cash equivalents	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Note	-----Rupees in '000-----								
<b>Financial assets measured at fair value</b>									
- Investments - market treasury bills	9,011,722	-	-	-	9,011,722	-	9,008,445	-	9,008,445
<b>Financial assets not measured at fair value</b>	374.1								
- 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 instruments	-	-	5,473,364	-	5,473,364	-	-	-	-
- Advances	-	-	32,944,819	-	32,944,819	-	-	-	-
- Other assets	-	-	3,483,750	-	3,483,750	-	-	-	-
	<u>9,011,722</u>	<u>8,074,705</u>	<u>41,901,933</u>	-	<u>58,988,360</u>	-	<u>9,008,445</u>	-	<u>9,008,445</u>
<b>Financial liabilities not measured at fair value</b>	374.1								
- Deposits and other accounts	-	-	-	(42,274,909)	(42,274,909)	-	-	-	-
- Other liabilities	-	-	-	(6,369,572)	(6,369,572)	-	-	-	-
	<u>9,011,722</u>	<u>8,074,705</u>	<u>41,901,933</u>	<u>(48,644,481)</u>	<u>10,343,879</u>	-	<u>9,008,445</u>	-	<u>9,008,445</u>

374.1 The fair value of financial assets and liabilities not carried at fair value (except advances and deposits) are not significantly different from their carrying values since these assets and liabilities are short term in nature. The carrying value of term deposits of Rs. 21,902.4 million carried at fixed interest rate is not equal to their fair value. In addition, the advances (including of long term deposits) are also not repriced. However, the fair value of these cannot be reliably determined in view of the non-availability of appropriate data.

### 38. CAPITAL RISK MANAGEMENT

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

#### 38.2 Goals of managing capital

The Bank's objectives when managing its capital are:

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

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

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

As of 31 December 2019, the Bank's eligible capital for MCR was as follows:

	2019	2018
	-----Rupees in '000-----	
Fully paid-up ordinary shares	4,277,589	3,547,269
Balance in share premium account	19,471,229	9,332,649
Accumulated losses	(16,830,229)	(345,238)
Eligible capital for MCR	6,918,589	12,534,680
Statutory reserve	802,481	802,481
Depositors protection fund	311,299	277,823
Net assets (before revaluation surplus / deficit and deferred grants)	8,032,369	13,614,984

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

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

As at 31 December 2019, the Bank's Capital adequacy ratio (CAR) was 24.60% (2018: 37%) of its weighted exposure, as against the minimum requirement of 15% prescribed by SBP.

### 39. GENERAL

**39.1** The comparative information have been re-arranged and reclassified for comparison purposes. However, no material reclassifications have been made.

**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.

## Notes to the Financial Statements

### For the year ended 31 December 2019

#### 40. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Bank in their meeting held on 02 July 2020.

\_\_\_\_\_  
President and  
Chief Executive Officer

\_\_\_\_\_  
Chairman

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director



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