

LEADING DIGITAL TRANSFORMATION



TELENOR MICROFINANCE BANK SOLIDIFIES MISSION FOR A CASHLESS, DIGITAL PAKISTAN

Since 2020, Telenor Microfinance Bank has received USD 86 million equity investment from shareholders Telenor Group and Ant Group Co. Ltd.

Through the power of collaboration and technology and a solid footprint of 170,000+ registered touch points across the country, Telenor Microfinance Bank continues to introduce innovative products for millions of Pakistanis, making their life convenient through best-in-class digital financial services.

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



CONT

| | |
|------------------------------------|-----------------------------------|
| 03 About Us | 15 Awards |
| 05 Our Values | 17 Board of Directors |
| 07 Our Strategy | 18 Leadership Team |
| 09 Our Journey | 20 Chairman Message |
| 11 2020 at a Glance | 21 CEO Message |
| 13 Our Response to Covid-19 | 25 Technological Expertise |

ENTS

| | |
|---|--|
| 27 Easypaisa Milestones | 45 Cultural Excellence |
| 28 Experience the all new easypaisa app | 49 Directors Report |
| 31 Our Partners | 57 Six Year Financial Summary |
| 35 Internal Complaint Handling Mechanism | 60 Independent Auditor's Report |
| 39 Our Customers | 63 Financial Statements |
| 41 Our Retailers | 104 Pattern of Shareholding |

ABOUT US

Telenor Microfinance Bank Limited has been at the forefront of Pakistan's fintech landscape through the introduction of innovative and best-in-class digital financial solutions. The Bank is owned jointly by Telenor Group, one of the world's leading telecom operators across Asia and the Nordics serving more than 180 million customers and Ant Group, which operates Alipay, the biggest open digital lifestyle platform and is part of Alibaba Group, a company which is amongst the largest tech conglomerates of the world.

Since its inception, the Bank has been a key player in the evolution of the country's financial ecosystem by bringing secure and convenient digital financial services to the masses through its digital payments platform, Easypaisa.

Through a nationwide network of more than 170,000 registered branchless banking agents, serving over 8 million customers every month, Telenor Microfinance Bank is playing a major role in transforming Pakistan into a cashless and financially inclusive society through the power of collaboration and technology.

OUR VISION

Creating a transparent economy that all Pakistanis can participate in.



OUR MISSION

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



OUR VALUES



INTEGRITY AND HONESTY

Demonstrated by transparency, commitment and truthfulness.



- We speak up without fear of retaliation.
- We always communicate with honesty and respect.
- We exhibit transparency in all processes and relationships.
- We treat others equally without favoritism or discrimination.



CUSTOMER FOCUSED

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



- We listen to our customers and make every experience a delightful one.
- All customer complaints are handled with complete ownership for satisfactory resolution.
- We obsessively focus on customer needs and design our products and services to improve their lives.
- We prioritize solving customer problems and strive to make things easier, faster, and cheaper for them.



EXTREME OWNERSHIP

Demonstrated by taking responsibility and accepting accountability for all outcomes.



- We think critically to deliver timely and thoroughly.
- We take responsibility to improve and overcome challenges.
- We focus on the smaller parts, impacting the bigger picture.
- We hold ourselves accountable for all outcomes. We do not pass the buck.



COLLABORATION AND TEAMWORK

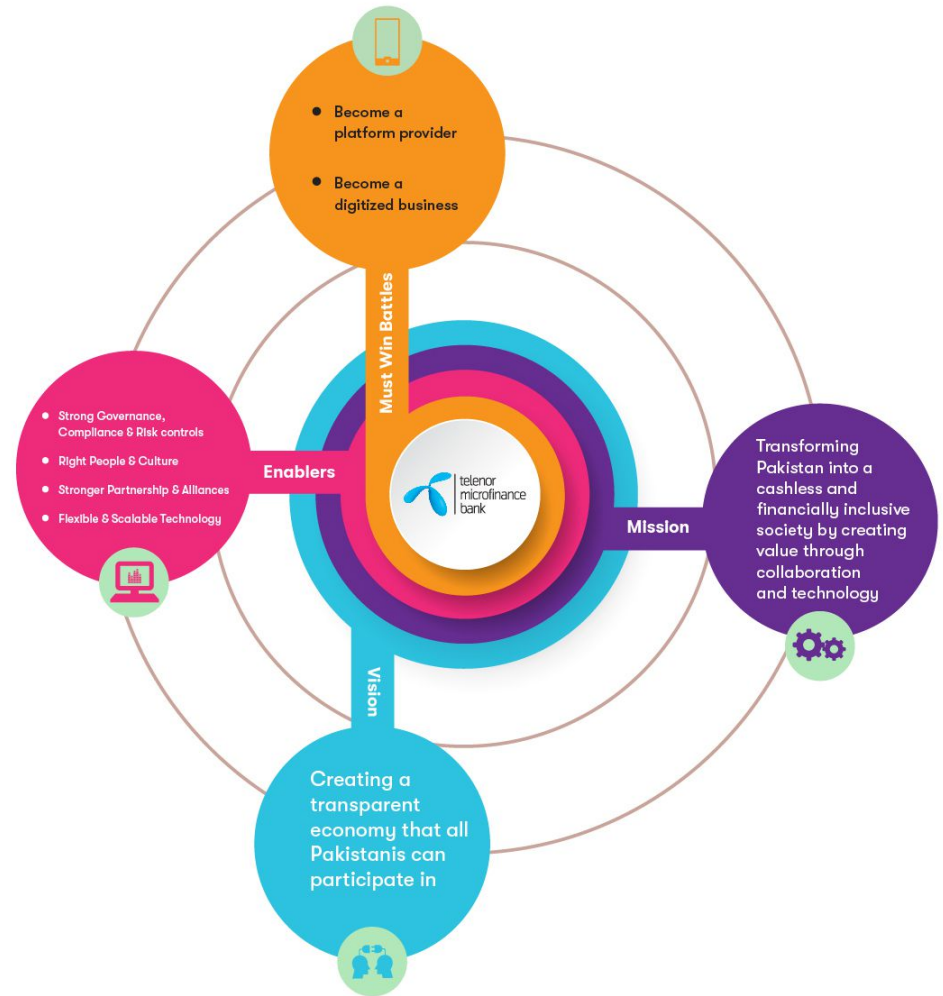
Demonstrated by working collectively and helping each other succeed.



- We seize opportunities and fix issues together.
- We effectively resolve differences through conversation.
- We lend a hand to support each other and achieve collective successes.
- We proactively work together in teams, across departments and divisions.

OUR STRATEGY

TOP
ONE TEAM ONE PURPOSE



OUR JOURNEY

2005

- Launched First ever Voice Aided Biometric ATMs in Pakistan
- Launched Micro Business Lending
- Obtained License from Central Bank

2006-7

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

2008

- Launched Micro Group Lending
- First Branchless Banking license granted by Central Bank
- 51% stake acquired by Country's Second Largest Telecom company

2009-10

- Launched country's 1st Bill Payment & Money Transfer Service
- Won the Best Mobile Money Launch of the Year
- Best New Entrant in Global Mobile Money Transfer Award

- Winner of 3 Base of Pyramid Awards from SBP in 2010-11

- Launched 24x7 Banking
- Launched Micro Health Insurance

- Launched Micro Savings Program

2011

- First Retail Microfinance Bank to be listed at the KSE

2012-13

- Launched Senior Citizen Savings Product
- Launched Dairy & Animal Financing
- Consumer Choice Award Best Microfinance Bank in Pakistan

- Launched Private School Financing

- Launched Home Based Solar Financing

- Launched Agri Group Lending

- Launched Gold Savings Program

2014

- Launched Handset Financing
- GSMA Award Winner 2014 Best Mobile Product

2015

- Launched Smart Business Shops Pilot LMFCs (Last Mile Financial Centers)
- Launched Phone Banking Doorstep Money Transfer
- Launched Easypaisa Sehat Sahara
- Won People's Choice Award for easypay

- Launched the online payment gateway for E-Commerce merchants and Black Friday at Daraz.pk

2016

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

- Telenor Group completed 100% acquisition

2017

- Transformation to Telenor Microfinance Bank
- Pakistan's largest Microfinance Bank & second largest Mobile Network partner up

- Launched Pakistan's first online donation portal, donateonline.

- Project MORR launched to digitize loan application forms

- The largest & fastest BVS deployed on retail channel

2018

- Entered into a strategic partnership with Ant Group to deliver inclusive financial services in Pakistan

- May 2018 Commercial launch of easypaisa QR payments with Mastercard QR

- August 2018 Launch of Easypaisa Loan

- Soft launch of the new and improves easypaisa app on android and iOS

- Launched blockchain enabled international remittance in collaboration with Alipay (China) and Valipay (Malaysia)

2019

- Innovation in Payments - The Innovators Awards

- Brand Revamp Uthoo Pehla Qadam

- Easypaisa Rebranding

- Most Innovative MFI Award

- New Easypaisa app launch

- Launch of Easypaisa Enable Pay and Credit

- Moved to new, custom built offices in Karachi and Islamabad

- Received Second Tranche of Investment from Ant Group

2020

- Ad Stars Award

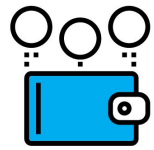
- Best Financial Inclusion Payments Program by Emerging Payments Association

- Big Golden Roll Award

- Innovation in Payments the Innovators Award

- Received US\$ 45M equity injection from shareholders

2020 AT A GLANCE



↑ **35%**
Total Depositors



↑ **12%**
% of Female Borrowers



↑ **6%**
Total Loans Disbursed (since inception)



↑ **14%**
Easypaisa Agents (Registered)



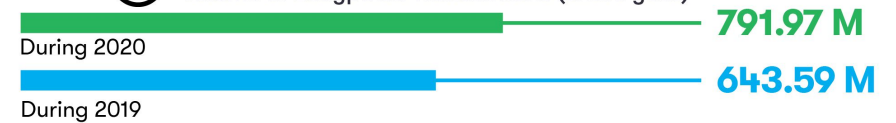
↑ **28%**
Easypaisa mWallet Accounts (active)



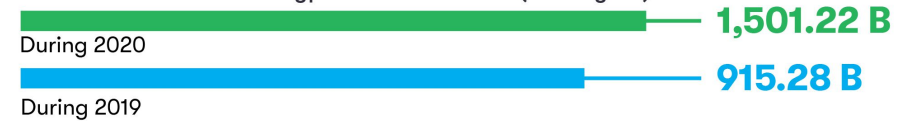
↑ **54%**
Easypaisa App Users (active)



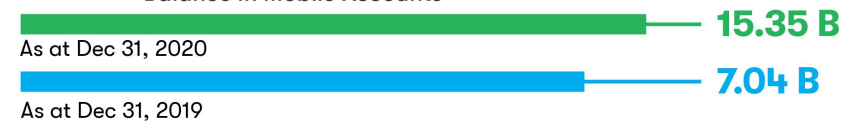
↑ **23%**
Volume of Easypaisa Transactions (entire year)



↑ **64%**
Value of Easypaisa Transactions (entire year)



↑ **118%**
Balance in Mobile Accounts



OUR RESPONSE TO COVID-19

DURING LOCKDOWNS

Easypaisa recorded a **35%** increase in new activations. Number of daily transactions from the Easypaisa App went up by **17%**. Increase of **184%** in bank transfers via Easypaisa. growth in airtime and bundle subscriptions.



FREE IBFT

All inter-bank fund transfer charges were waived at an approximate cost of **PKR 1.6 billion** between April to September 2020.



CONTRIBUTION FOR A CAUSE

Together with Telenor Pakistan, Telenor Microfinance Bank pledged **PKR 1.6 billion** towards relief efforts.



FOC G2P PAYMENTS

Free of cost disbursements of various government departments and private charities. Collaborated with Zakat and Ushr Department Punjab to digitally disburse Zakat funds of **PKR 1.5 billion** to **170,000** most vulnerable beneficiaries.



CORONAVIRUS UPDATE CENTER

Dedicated section on Easypaisa App showed prevention methods, symptoms, test centers and hospitals and FAQs to users.



CORONA HEALTH SERVICES

An affordable health package launched on Easypaisa to provide exclusive access to round-the-clock Corona Tele-Doctor Helpline and comprehensive coverage including up to PKR 50,000 in Coronavirus hospitalization charges.



DOORSTEP CASH DEPOSIT

Facility launched in collaboration with Bykea.



POWERING DONATIONS

Dedicated donation tab created on Easypaisa App to facilitate donations. Donations amounting to **PKR 4 million** were made to Prime Minister's Covid Relief Fund.



EIDI PAISA

An Eidi feature added on Easypaisa App to allow users to send Eidi to their loved ones digitally throughout the country in a safe manner.



EASY BUSINESS

An online portal to facilitate SMEs embrace digital payments without visiting any office was launched during Covid lockdowns.



PROVIDING RELIEF

Facilitated over **120,000** customers by providing them relief in payments under SBP's Covid Relief Program.



MERCHANTS ON-BOARDED

Over **12,000** QR retailers joined Easypaisa platform to facilitate contactless payments.

AWARDS



Best Mobile Money Launch of the year

First Retail Microfinance TFC Listed in Karachi Stock Exchange



Best Mobile Money Transfer Entrant of the Year at the world's first Mobile Money Transfer Awards

Three Base of Pyramid Awards by SBP



Best New Entrant in Global Mobile Money Transfer Awards



Mobile Money Sprinter by GSMA MMU



Best Mobile Money Service at the GSMA Awards

Best Mobile Service for Women in Emerging Markets at the GSMA awards



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



Best in Digital by Pakistan Advertising Society.

Best Microfinance Bank Award at the Pakistan Banking Award



Best Microfinance Bank Award at the Pakistan Banking Award

Bank the Unbanked Award at the Pakistan Banking Awards



GSMA Mobile Money Certification



Innovation in Payments Award under "The Innovators 2019" banner of Global Finance Magazine

Most Innovative MFI in the 13th Citi Micro-entrepreneurship Awards

Bank the Unbanked Award at the Pakistan Banking Awards

Financial Innovation Award in the category of Most Innovative Application of Technology at the Financial Innovation Awards

Innovation in Payments Award under "The Innovators 2020" banner of Global Finance Magazine

Ad Stars Award

Big Golden Roll Award

Best Financial Inclusion Payments Program by the Emerging Payments Association



Throughout our evolution, our efforts of **innovation and impacting lives** have been appreciated both **locally and internationally**.

BOARD OF DIRECTORS



Irfan Ul Wahab Khan
Chairman & Director



Lars Erik Tellmann
Director



Henning Thronsen
Director



Zhixian Li
Director



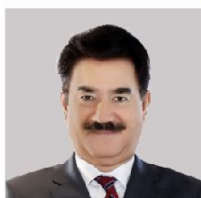
Zheng Liu
Director



Ji Xu
Director



Uzma Munaf Khan
Independent Director



Dr. Amjad Waheed
Independent Director



M. Mudassar Aqil
President & CEO

People Committee

Irfan Ul Wahab Khan
Zhixian Li
Uzma Khan

IT Committee

Zhixian Li
Irfan Wahab Khan
Lars Erik Tellmann

Audit Committee

Uzma Munaf Khan
Henning Thronsen
Zheng Liu

Risk Management Committee

Uzma Munaf Khan
Henning Thronsen
Lars Erik Tellmann
Zhixian Li

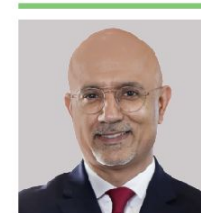
External Auditors

M/s. EY Ford Rhodes

Legal Advisors

M/s. Haidermota & Co.

LEADERSHIP TEAM



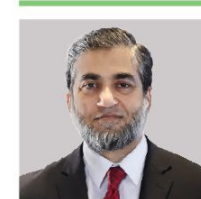
M. Mudassar Aqil
President & CEO



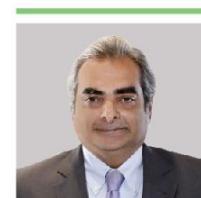
M. Farhanullah Khan
Chief Financial Officer



Pouruchisty Sidhwa
Chief Human Resource Officer



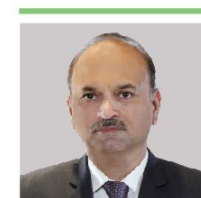
Rizwan Ikram
Chief Risk Officer



Khurram Gul Agha
Chief Information Officer & Operations Support

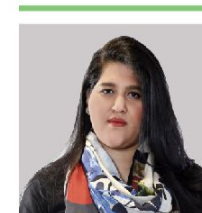


Syed Ahmar Nizam
Head of Branch Banking



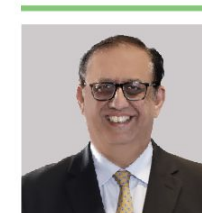
Aamir Ali
Chief Compliance Officer

Company Secretary



Amna Abbas
Chief Legal Officer & Company Secretary

Internal Auditor



Dhunjishaw Jagus
Chief Audit Executive

MESSAGE FROM THE CHAIRMAN

The year 2020 saw the world battling one of the toughest economic and humanitarian challenges faced in modern history. The ensuing lockdowns due to COVID-19 have had drastic impacts on the global economy. By August 2020, the world's top economies were officially facing a recession. This crisis was unprecedented, global leaders/policy makers struggled with development of effective counter strategies to combat the virus.

Pakistan's economy faced similar challenges. Initially, the impact of the pandemic slowed down the economic stability process which had just begun before COVID-19. Strong lockdown measures increased unemployment which resulted in a loss of national output. Consumption and production capacities too witnessed a steep decline along with negative GDP growth of -0.4% in FY20. The Government and State Bank of Pakistan were quick to respond to the crisis by slashing interest rates to 7% while introducing several relief packages for salary disbursement, loan re-scheduling and essential support of businesses to keep the economy afloat.

Telenor Microfinance Bank with its objective of providing convenient digital financial services to the masses was aware of the responsibility it had to shoulder in order to ensure that every Pakistani citizen had access to financial services. It was clear that the key to building a sustainable financial infrastructure is digitization. With support on the policy front, including initiatives such as free Inter-Bank Fund Transfers (IBFT), branchless banking and digital payment solutions offered by us became the new normal across the country.

For the last decade, Telenor Microfinance Bank has been a frontrunner in introducing state-of-the-art digital financial solutions to the Pakistani market. Despite challenges and the ensuing Covid-19 outbreak, the Bank, through the introduction of revamped compliance policies and robust risk management framework continued on an upward trajectory and leveraged its leading mobile banking platform Easypaisa to post an impressive annual throughput, witnessing an increase of 60 percent as compared to the previous year to reach PKR 1.5 trillion in 2020.

These achievements inspired trust among shareholders and the Board to strengthen the Bank even further. The Bank received substantial capital injections from its two key strategic partners, Telenor Group and Ant Group. In this regard, a sum of \$45 million was received in August 2020 and \$41 million injection was received in January 2021 to facilitate the Bank and its efforts to develop a sustainable digital financial ecosystem in Pakistan. The aforesaid is amongst the largest FDI received in the country by a bank and signifies the potential that stakeholders gauge in Telenor Microfinance Bank.

We are now looking towards new horizons in 2021. With a robust financial standing, sturdy technical support from one of the world's largest fintech organizations and a battle-hardened management, Telenor Microfinance Bank plans to bolster Pakistan's efforts towards creation of a cashless, digital economy that every Pakistani can participate in.

In the end, I would like to thank our customers for putting their trust in Telenor Microfinance Bank and choosing us as the custodian of their digital financial needs. I would also like to extend my heartfelt gratitude to my fellow board members, the management as well as employees of Telenor Microfinance Bank, who worked through challenging times and rapidly evolving circumstances to make sure that the Bank not only fulfills the objectives it set out to achieve but also surpass them. Our shareholders remained steadfast and put their trust in us and I would like to thank them too.

Last but not the least; we are also highly appreciative of the role of State Bank of Pakistan in leading the shift towards a digital financial ecosystem.

Irfan Wahab Khan
Chairman,
Telenor Microfinance Bank



MESSAGE FROM THE CEO

The year 2020 came with an extraordinary challenge while presenting opportunities for those willing to look beyond the obvious. The COVID-19 pandemic exerted pressure on not just global economies but also on the way people across the world interact with each other and the societies around them. With COVID-19 mandating social interactions to become virtual for most part of the year, the world and Pakistan in particular recognized the importance of creating and implementing a robust digital financial infrastructure at the earliest to facilitate financial activities in these difficult times.

We saw life coming to a standstill, from heavy restrictions on movement to the necessity of staying indoors, it was almost impossible for normal economic activity to be carried out. As a result, Pakistan's GDP saw a steep drop while other economic factors faltered as well. However, the State Bank of Pakistan (SBP) with its prompt remedial actions of lowering the interest rate as well as initiating various relief schemes played a vital role in stabilizing the overall financial infrastructure of the country.

Thankfully, in the absence of physical business activity, the country was able to rely on branchless as well as digital banking solutions to keep the economy afloat. The lockdowns that were put in place as the only effective measure to curb the spread of COVID-19, albeit a burden, were also clear indicators that digitization is the way forward.

For us at Telenor Microfinance Bank, the events of 2020 reinforced our belief that the digital infrastructure we had been developing for the last decade is the key to a sustainable economy. During COVID lockdowns, our flagship mobile banking platform Easypaisa recorded a 35 percent increase in new activations while the number of daily transactions from the Easypaisa App went up by 17 percent. We also partnered with various government-run and private organizations to assist them with their relief disbursements, thus reaffirming our commitment to a digital ecosystem that benefits all Pakistanis especially when it is needed the most. Over the course of the year, Easypaisa achieved a throughput of PKR 1.5 trillion, showing an increase of over 60 percent compared to the previous year. Similarly, our registered agent network expanded to over 170,000 branchless banking agents nationwide and our App user base grew by 54 percent to 3.4 million monthly active users.

The advancement in technology and willingness to adopt digital channels by our users has provided us the opportunity to serve our customers beyond the traditional brick and mortar branch model. By leveraging technology, the Bank is fast on its way to digitize its lending operations by converting selected branches into cashless service centers in 2021. These centers will provide top of the line digital financial services to existing and prospective customers by disbursing loans directly to their Easypaisa mobile wallets.

In 2020, the Bank also implemented a robust risk management framework and streamlined compliance policies

in order to further strengthen internal controls. Furthermore, a new culture program was also introduced across the organization with emphasis on new values and behaviors that are paving the way for a positive change in the Bank's overall culture.

As a testament to the achievements of Telenor Microfinance Bank during 2020 and the trust the Board has in our mission, our shareholders Telenor Group and Ant Group injected substantial capital into the Bank. An investment of \$45 million was received in August 2020 while another \$41 million injection came through in January 2021, which placed the Bank on an upward trajectory to further grow and develop the mobile payment space of Pakistan.

Telenor Microfinance Bank was honored for its efforts not just locally but internationally as well with prestigious awards such as 'The Innovators 2020 Award' for the Easypaisa App and the 'Emerging Payments Award 2020' for Best Financial Inclusion Payment Initiative to name a few. Being recognized on these forums alongside fintech players from across the globe is a testament to the customer focused approach employed by the Bank and proves that we are on the right path in our mission of digitizing the country's economy.

The year 2020 redefined global dynamics and adjusted the calibration for economies in terms of what they need to do in order to remain resilient in times of crises. With TMB's decade long commitment to the cause of developing a digital financial infrastructure within Pakistan and bringing financial inclusion to the masses in a convenient manner, we have completed another year packed with milestones. Our future outlook remains strong with a vision to create a transparent economy that all Pakistanis can participate in.

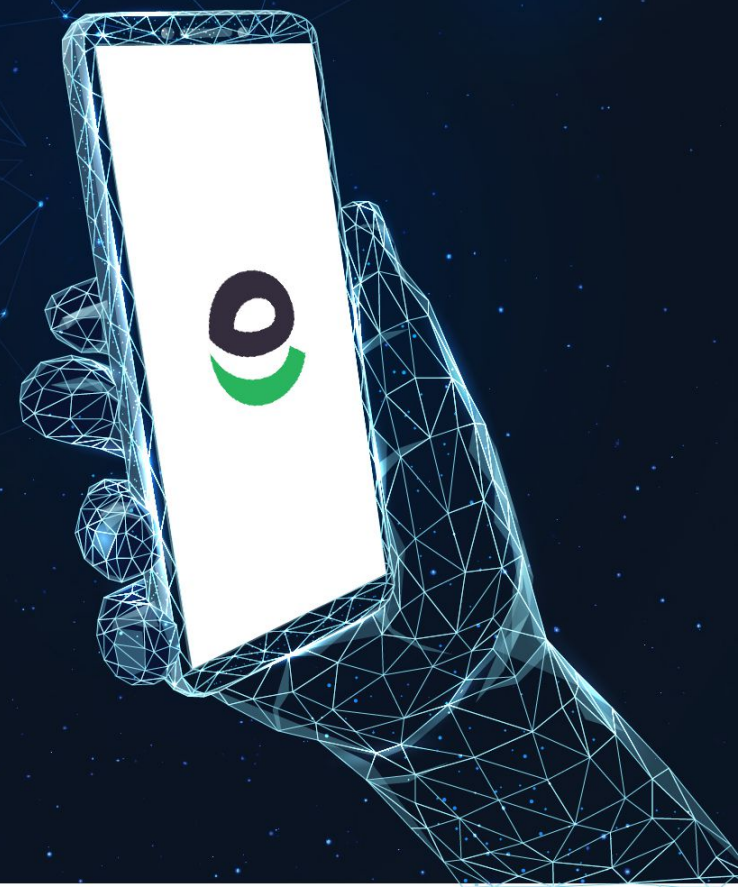
Telenor Microfinance Bank with its focus on providing customer-centric solutions plans to continue its commitment of introducing innovative solutions based on incorporation of the latest technology and through extensive partnerships with leading service providers across diverse domains.

At the end, I would like to extend my gratitude to our Board of Directors for their unwavering support throughout the Bank's journey and especially during 2020. As an organization, we remained focused on our mission of transforming Pakistan into a cashless society through the power of collaboration and technology.

M. Mudassar Aqil
President & CEO,
Telenor Microfinance Bank



LEADING DIGITAL TRANSFORMATION THROUGH
TECHNOLOGY



Ant Group's A+ Technology Infrastructure



- o Private Cloud – Implementing private cloud for hosting A+ components.
- o AML – Real time customer screening for customer onboarding on Easypaisa mobile account.
- o Risk Engine - Identifying and authenticating customers' originality through different verification checks.
- o DAAS – Reporting tool to support Business Intelligence analysis.

T24 Core Banking Application



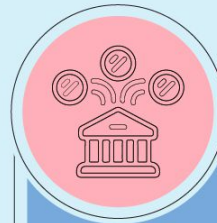
Implementation of new Core Banking Application powered by Temenos T24, with a Digital First Transformation Plan for Branch Banking operations.

Digitization of Collateral Management System



Digitized collateral management system launched for efficient resource utilization.

Cashless Service Centers



Enablement of Cashless Service Centers – equipped to provide lending services without the need for cash.

20+ Utility Bill Payment Options



20+ and growing utility bill payment options added to Easypaisa platform.

180+ Solutions



180+ solutions developed, including modification of existing services and new projects for Easypaisa mobile account and other platforms.

Distributed Denial-of-Service (DDoS) Functionality



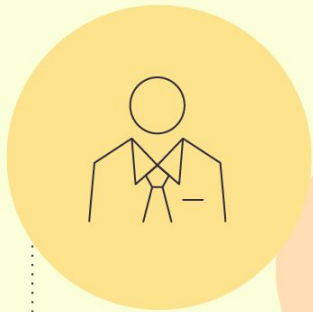
Enabled Distributed Denial-of-Service (DDoS) functionality for added protection from Cyber Attacks.

EASYPAlSA MILESTONES

4.4
app store rating

#1

finance app of 2019



3x

growth in active app users in 2019



2x

more app downloads

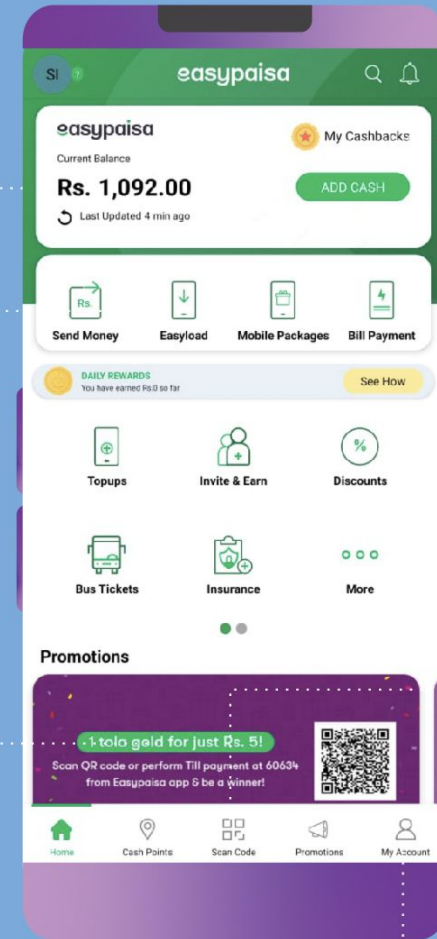
EXPERIENCE THE ALL NEW EASYPAlSA APP

Transaction history

Money transfer

For all the latest promotions

Order new debit card



Cashbacks

Instant bill payments

Scan QR code



**LEADING DIGITAL TRANSFORMATION THROUGH
PARTNERSHIPS**

OUR PARTNERS

500+ partners on-boarded during 2020



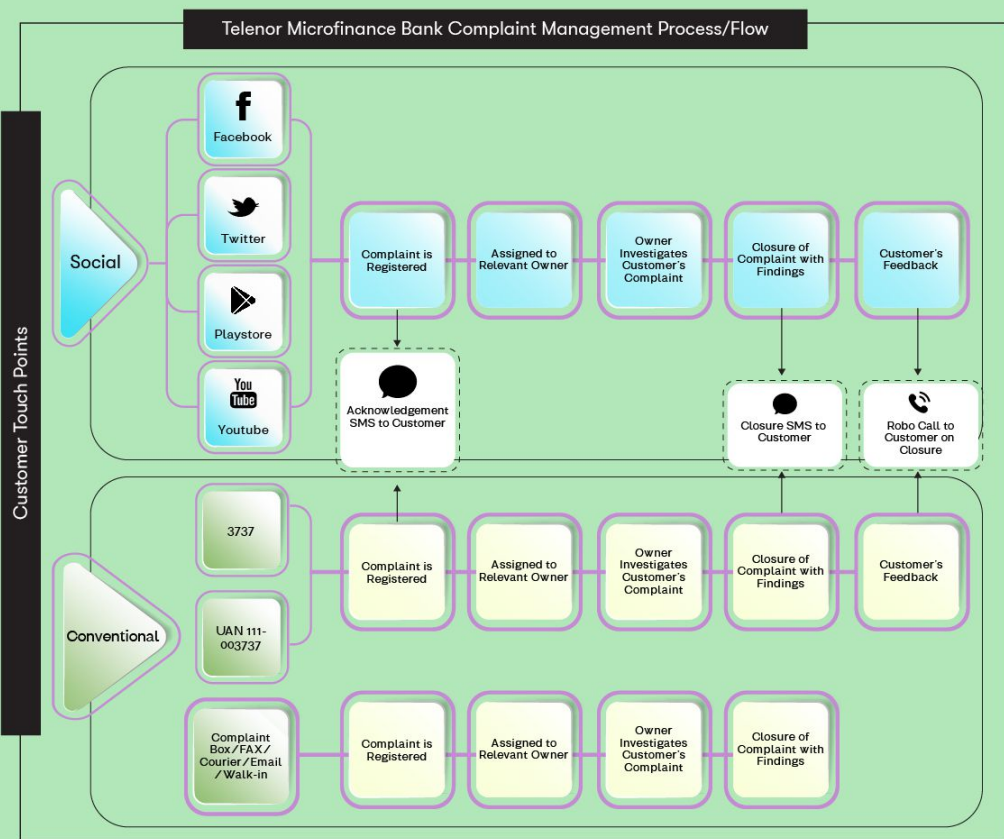
**LEADING DIGITAL TRANSFORMATION THROUGH
CUSTOMER FOCUS**



INTERNAL COMPLAINT HANDLING MECHANISM

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

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



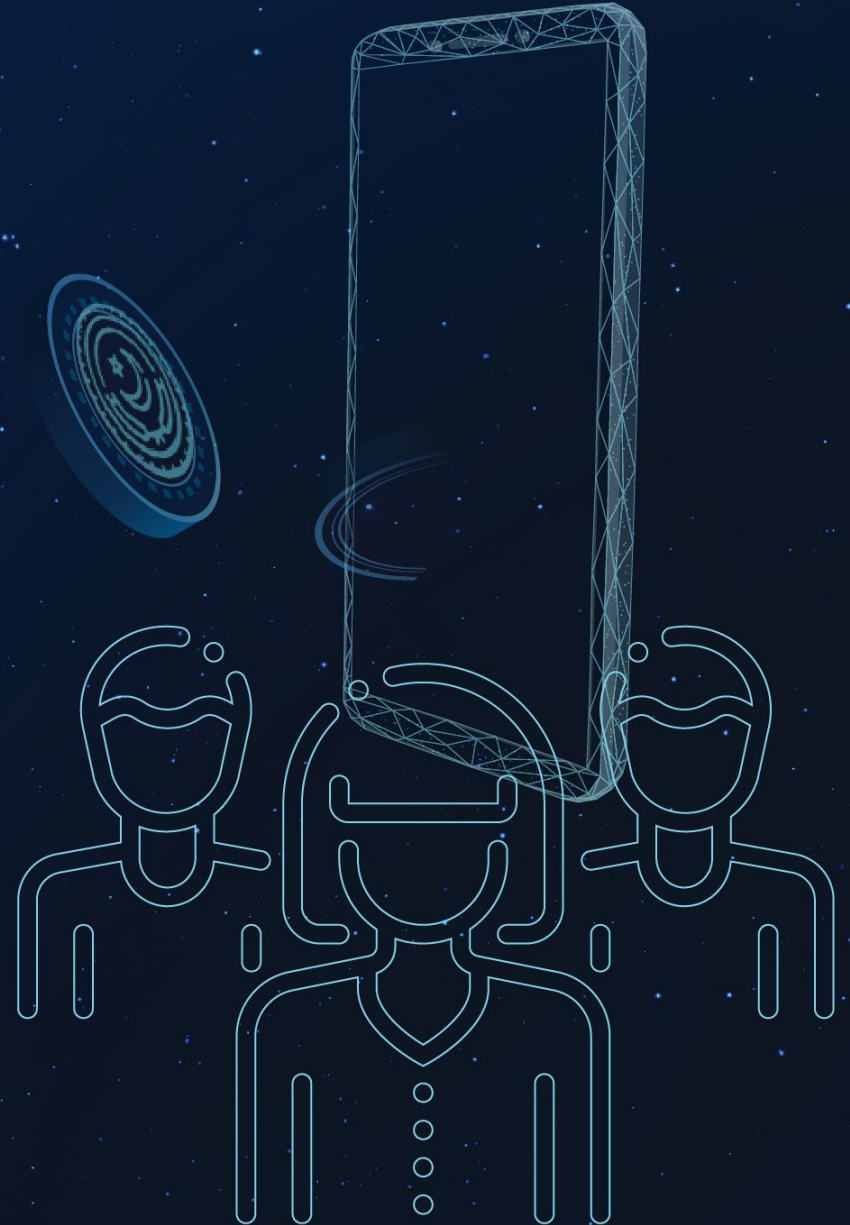
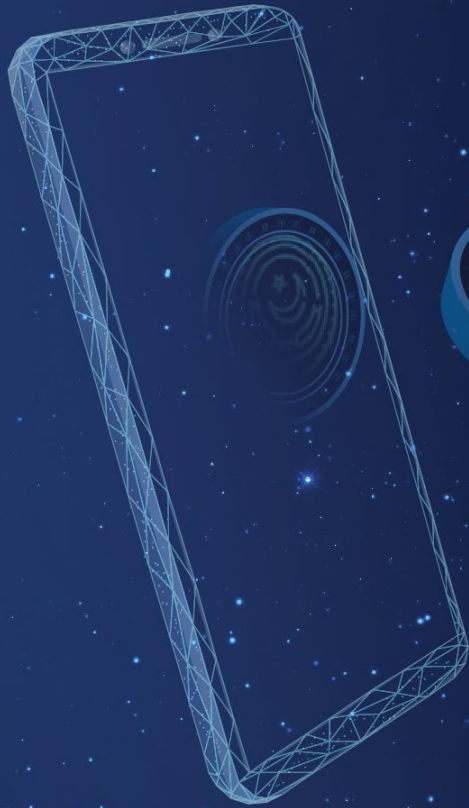
NEW INITIATIVES

- i. Awareness SMSs sent to customers regarding complaint registration process and channels.
- ii. Quality assurance surveys launched to evaluate quality of complaint closures.
- iii. Easypaisa complaint management system launch.
- iv. Introduction of complaints acknowledgement, interim and closure intimations via SMS.
- v. ATM hotline deployment.
- vi. Launch of dedicated QR and online merchants support helpline.
- vii. Spontaneous on call victim's funds loss prevention.

ACHIEVEMENTS

| | | |
|---|--|---|
| Served 650,000 customers per month on average | Maintained over 90% helpline service level within 60 seconds | Improved customer satisfaction on helpline to 90% |
| Maintained abandonment at less than 4% | 99% response rate over social media channels | Total Number of Complaints Received: 204732 |
| Number of Resolved Complaints: 204727 | Average Time of Complaint Closure: 04 Days | |

**LEADING DIGITAL TRANSFORMATION THROUGH
ENABLEMENT AND
EMPOWERMENT**



OUR CUSTOMERS

Karobar Loan

2020 was a difficult year for everyone especially small business owners like me. With shops closed completely during 4 months of lockdown, it was not long before I exhausted all my savings trying to feed my family. After the first month, I was hit by a severe dilemma. There was no income and with a wife as well as 4 kids to support, I didn't know what to do. It wasn't even possible to ask friends for some money because they were all in the same position as me. I had been hearing news about the State Bank offering incentives for small businesses but wasn't sure if a bank would lend money to someone like me. Thankfully, this is when I learnt about Telenor Microfinance Bank and their Karobar Loan. I filled out the application form and within a few days, the loan amount was approved and disbursed. With the money that I received, not only was I able to take care of my family but was also able to acquire some inventory and sell it over the phone. I am deeply grateful to Telenor Microfinance Bank for being my savior in such a tough time.



UMAIR JAWED

Sarmaya Qarza

As a woman entrepreneur, I have faced significant challenges ever since I started operating my own handicrafts shop. Once my husband passed away in an accident, the responsibility of our 3 children fell on me. I tried looking for jobs but couldn't find a sustainable option. I had some gold jewelry and things had come to a point where I was thinking about selling them to feed my children. Then one day an acquaintance told me about Telenor Microfinance Bank's Sarmaya Qarza. They were offering a chance to keep my jewelry as collateral and give a loan. It was a much more feasible option than letting go of an asset. The process was extremely smooth and the money that I got was enough for me to set up a small shop. I am now near the end of my loan tenure and I can't help but thank Telenor Microfinance Bank for offering me the opportunity to build a stable income source for myself as well as work towards securing my children's future.



PARVEEN BIBI

Easypaisa Money Transfer

When COVID cases first began rising in Pakistan, a strict lockdown was implemented. I used to work as a maid in 3 houses but with safety precautions in place, I was asked to stay home. However, my employers were kind enough to keep paying my salary every month. Although this was a kind gesture on their part, there was then another problem of how they would send me the money. This is where Easypaisa saved the day for me. One of the ladies for whom I used to work told me about it. It was simple to open an account and I could easily receive cash each month. Moreover, even during the lockdowns, withdrawal was extremely simple. Easypaisa is an amazing service and even though things have returned to somewhat normal extent, I still take my salary via Easypaisa and keep it safe.



ROOPA

Easypaisa Insurance

The past year was all about the Coronavirus pandemic. It became a huge humanitarian crisis and in Pakistan for people like me, who belong to the lower part of the income pyramid, treatment was a huge problem. This became evident to me when my father was infected with it during the initial days of spread. The tests, medicines and other treatment overall cost me a lot. With business already closed, this added a lot of strain on me. Around the same time, Easypaisa announced its Corona Health Services and I decided to opt for it since the monthly payment was minimal and the cover was extensive. My investment proved worthwhile when I got infected myself and so did my wife. I was asymptomatic but my wife fell severely ill but thanks to the insurance, we were able to cover her medical expenses without much hassle.



REHMAN

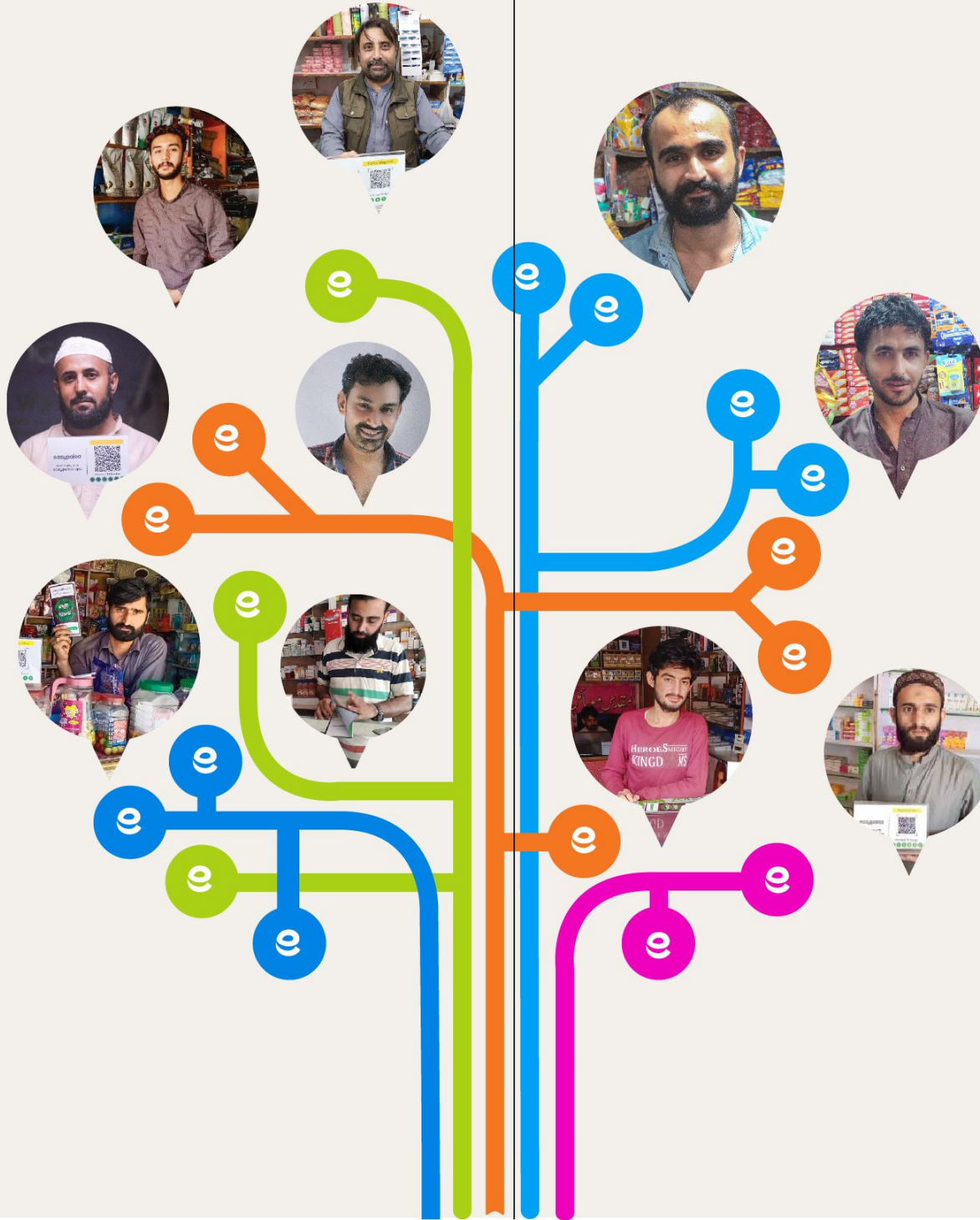
OUR RETAILERS

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 easyload 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

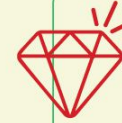
LEADING DIGITAL TRANSFORMATION THROUGH CULTURAL EXCELLENCE



CULTURAL EXCELLENCE



AT TELENOR MICROFINANCE BANK, WE ARE ONE TEAM DRIVEN TOWARDS ONE PURPOSE, AND TOGETHER WE TOP IT WITH CULTURE TO EXCEL TOWARDS OUR MISSION OF A DIGITAL PAKISTAN. WITH OUR NEW VALUES AND BEHAVIOURS, WE ARE BUILDING A CULTURE THAT IS INCLUSIVE, PROGRESSIVE AND EMPOWERS COLLEAGUES TO INNOVATE.



INTEGRITY AND HONESTY

WE TREAT EVERYONE WITH RESPECT AND VALUE RELATIONSHIPS BY ENCOURAGING HONEST AND RESPECTFUL COMMUNICATION.



EXTREME OWNERSHIP



WE THINK CRITICALLY TO DELIVER CUSTOMER-CENTRIC SOLUTIONS AND TAKE FULL RESPONSIBILITY OF OUR ACTIONS.



COLLABORATION AND TEAMWORK

WE RESOLVE DIFFERENCES TOGETHER AND LEND A HAND TO SUPPORT EACH OTHER WHILE FOCUSING ON COLLECTIVE WINS.



CUSTOMER FOCUSED



WE STRIVE TO MAKE OUR CUSTOMERS' EXPERIENCE DELIGHTFUL BY LISTENING TO THEM AND TRANSFORMING THEIR LIVES THROUGH BEST-IN-CLASS DIGITAL FINANCIAL SOLUTIONS.

FINANCIAL STATEMENTS



DIRECTORS' REPORT TO THE SHAREHOLDERS

On behalf of the Board of Directors, we are pleased to present the Directors' Report and audited financial statements of Telenor Microfinance Bank Limited (the Bank), for the year ended December 31, 2020.

Macroeconomic Review:

Global overview

Year 2020 was dominated by COVID-19 which created havoc globally infecting over 100 Million people along with ~1.8 Million deaths so far. Unfamiliar concepts such as "lockdowns", "mask mandates", "work from home" and "social distancing" are the new normal, as the COVID-19 pandemic continues to impact our lives.

Global economy remains affected owing to multifaceted economic challenges emerging from the pandemic amidst numerous preventive measures taken by governments and international bodies respectively. Although initial estimations projected that the global economy would go into severe recession, timely and concerted efforts by the financial regulators across the globe have circumvented the possible extreme impacts.

It was expected that the second wave of the coronavirus would impact global economies severely. Initial growth estimates were of negative 3.5% in world's real GDP for 2020, however successful vaccines trials and support from policy makers project a strong come back in 2021 with real GDP expected to increase by 5.5%, as per the latest statistics released by IMF.

Pakistan

Pakistan's already fragile economy had just started to move towards stability in pre-covid i.e. early 2020, when the health crisis struck. The pandemic's economic fallout severely impacted the country's recovery process. GDP growth dropped to -0.4% in FY20 as compared to ~1% in FY19 as per the World Bank.

GDP growth is projected to be between 1.5%-2.5% in FY21 as year-on-year improvement is expected to

come from a steady performance of agriculture and a recovery in the services sector, especially finance, insurance, transport and communication sectors respectively.

State Bank of Pakistan (SBP) was quick to act and assist in supporting Pakistan's afore-mentioned economic revival by reducing the interest rates by a cumulative 625 bps during Year 2020. SBP also provided relief packages to support the economy, such as the Temporary Economic Refinance Facility (TERF), Rozgar Scheme and Ehsaas package. To support the financial sector and its borrowers, SBP introduced "Debt Relief Scheme" to provide relief to the borrowers by providing restructuring / deferment options for loans becoming due during the COVID period. The objective was to enable businesses/individual borrowers to combat the temporary economic disruptions.

Pakistan witnessed a Current Account surplus of USD 0.2 Billion in the CY20 as compared to a deficit of USD 7.1 Billion in CY19. The external current account position improved mainly on the back of stronger-than-expected remittances (17% increase YoY), import curtailment (9.4%), and a slight recovery in exports. The aforesaid is also due to deferment of debt repayment to G20, and inflows following the launch of Roshan Digital Account (RDA). This is an innovative banking solution for non-resident Pakistanis seeking to undertake banking, payment and investment activities in Pakistan.

Accordingly, minor devaluation in the parity was witnessed with PKR depreciating by just ~3.2% (2019:~11.0%) to close at 159.83. Simultaneously, there has been a marginal decrease in Foreign Direct Investment i.e., by 3% to USD 2.15 Billion in comparison to USD 2.21B last year. FX reserves increased from USD 17.9 Billion to USD 20.5 Billion at the end of year, owing to increase in remittances and inflows from afore-mentioned RDA.

Consumer Price Index (CPI) closed at nearly 8% in

Dec'20 after reaching a staggering high of 14.6% in the start of the year. For FY21 average CPI is projected around 9.3%.

Banking Sector Review

The Commercial Banks in Pakistan entered the current crisis posed by the COVID-19 pandemic with strong balance sheets and profitability of commercial banks was supported by lagged asset re-pricing coupled with decline in interest expense and significant capital gains linked primarily with prior investments in long term fixed priced sovereign bonds. The main challenge remains the impact of pandemic on the eventual recoveries against NPLs which will be witnessed once the aforementioned SBP restructuring/deferment facility for borrowers becomes due in 2021.

Microfinance Banks (MFBs) overview:

COVID-19 crisis created greater challenges for MFBs which entailed difficulties in disbursing loans. Collections/recoveries also became difficult due to health hazards in face-to-face meetings with borrowers especially at their premises. Accordingly, MFBs had to reorganize credit underwriting processes and recovery systems while ensuring maximum health safety measures for both staff and customers.

Sector borrowers remained extremely vulnerable as they faced major setbacks as many micro and small businesses have been forced to shut down which impaired their livelihood and repayment capacities. The disrupted supply chains and often inconsistent/insufficient public sector support during the pandemic compounded the challenges especially in the urban non-agri borrowers' segment.

Accordingly, MFBs have been affected in terms of profitability and asset quality as they cater to the aforesaid vulnerable customer base of the economy in these pandemic driven low economic activity levels. This can be evaluated from a sluggish growth in advances of ~6% YoY to PKR 324 Billion.

A key impediment, the industry continues to face is the credit risk impairment coverage and compliance with the prudential capital adequacy requirements (CAR). However, the situation is likely to improve as business activity grows and the vaccination programs are held across the country to meet the challenges faced by the COVID-19 scenario.

Although, SBP introduced various relief measures through debt restructuring options, bottom-line of majority of MFBs is expected to be adversely

impacted, as borrowers' repayment capacity remains significantly affected due to COVID-19 situation. NPLs may continue to rise in Year 2021 as SBP driven Covid relief restructured loans mature.

TMB's forte is its robust branchless banking platform i.e., Easypaisa which continues to be a major digital payment medium in the country. Several initiatives have been launched under the Easypaisa umbrella to foster our aim in developing a digital ecosystem in Pakistan.

TMB will continue with its focus on expanding its robust digital banking platform with emphasis on customer onboarding and offering customer centric innovative products and services, higher level of service quality, stringent risk management and compliance framework for a more sustainable organizational growth.

Business Review

Pakistan has immense potential to leverage the digital revolution as witnessed by the surge in data usage along with augmented digital payments boosting economic revival and impacting society at large during 2020. The pandemic has forced all businesses including financial services to invest in transforming business platforms, disrupting current business models and innovating towards new operating models to close the digital divide among masses, thereby, enabling a digitally and financially inclusive society.

TMB realizing this great potential of digital financial revolution towards a sustainable economic development in the country is aligning its long-term business strategies accordingly. Despite the onset of COVID-19 early in the year 2020, rapidly evolving economic conditions and changing market environment (microfinance industry and digital payments), TMB remains steadfast in its mission to transform 'Pakistan into a cashless and financially inclusive society by creating value through the power of collaboration and technology'.

With Telenor Group as the major 55% shareholder and Ant Financial Services Group (ANT) holding 45% of TMB's shares, Telenor Microfinance Bank is committed towards creating long-term sustainable shareholders' value. Being one of the largest branchless banking service platforms in the country, continuous equity injections from shareholders between the year 2018-2021 aggregating in total to USD 235 million including USD 45 million and USD 41 million injected in August 2020 and January 2021 respectively, have not only contributed towards the FDI in the country but have also augmented the

Bank's platform which is geared towards provision of the best user experience via a vast suite of innovative products for payments, deposits and lending requirements of its valued customers.

TMB continued to develop the digital financial ecosystem in the country, ensuring reliable and convenient availability of financial services at customers' doorstep despite country wide lockdown in the first half of the year, and location specific lockdown in the latter half of 2020 owing to the aforementioned pandemic.

2020 saw a dynamic shift in the overall mobile wallet market whereby the consumer shifted from over-the-counter money transfers to mobile wallets which led to a reduction in OTC money transfer business. On the digital wallet front, TMB successfully increased its monthly active Mobile Accounts (MAU) to 8.1 million at the end of 2020 registering a 28% growth vs preceding year.

In addition to the consistent increase in Easypaisa MAUs, TMB also significantly optimized easypaisa business model where- it revamped its customer incentives, channel spend and digital/non digital marketing spend. This is evident from the fact that the MAU growth was achieved despite a 26% decrease in marketing cost in 2020 as compared to 2019.

With the resolve to accelerate digital finance in Pakistan, TMB garnered efforts to remain as the number 1 Payments App in the country. Easypaisa app users saw a phenomenal 54% increase to reach 3.5+ million MAUs in 2020. TMB also realized its ambition of becoming a telco agnostic platform via successful integration with all 4 Telecom operators in the country and processing 11% of the total industry mobile recharge.

2020 saw a major increase in the value of digital transactions; the Easypaisa platform successfully processed over 790 million transactions aggregating in value to Rs 1.5 trillion in 2020, witnessing a substantial growth of 23% and 64% respectively compared to 2019.

To facilitate citizens during the COVID-19 pandemic, SBP waived off transactional charges on various modes of online payments for customers in March'20. This was a phenomenal step in boosting digital money transfer in Pakistan. TMB processed over 59 million IBFT transactions worth more than Rs. 315 billion in 2020- (both indicators showing massive 816% and 1023% growth respectively as compared to 2019). These numbers clearly indicate that this initiative was instrumental in promotion of digital finance in the country. However, free IBFT has led to

significant cost implication for TMB in the form of cash deposit commission paid to retailers, when the customers deposited money in their wallet accounts at agent locations to eventually perform free IBFT withdrawal transactions.

During the period under review, TMB took significant steps to digitally transform its traditional lending business which included primarily focusing on strengthening TMB's risk and control environment to restructure the entire lending process and circumvent all the risks surrounding the shortcomings identified in 2019. During the period under review, TMB concluded thorough internal portfolio reviews and instigated strong disciplinary/litigation process against staff and external parties suspected to be engaged in these credit irregularities

As a measure towards gradually digitizing the Branch operations as well, TMB optimized its brick and mortar branch network, through a structured approach reducing branch footprint to 87 branches in 2020. This measure is aligned to Bank's strategy to simultaneously initiate its journey towards a cashless service delivery module that significantly reduces human touchpoints, number of customer visit to branches and the turnaround time for loan disbursements.

On top of a transformational year for the Bank, the microfinance industry was also negatively impacted by the onset on the COVID-19 pandemic as elaborated above. The major consequence of the pandemic was the borrower's inability to repay loans. To provide relief to borrowers, SBP implemented a relief program under which the customer loans were restructured to allow them a grace period and start repayment after certain agreed fixed period.

In view of these significant challenges, TMB advances stood at Rs.12.1 billion at the close of 2020. The Bank is hopeful to leverage the initiation of fresh new to bank (NTB) lending in 2021 and augment its advances portfolio going forward, without compromising on the portfolio's underlying quality.

TMB enjoys healthy liquidity position owing to stable core deposits primarily in the form of rising Branchless mobile wallet deposits, which grew by 94% to reach Rs. 19.3 billion in Dec'20, along with continuous support from its shareholders (Telenor Group and All pay).

During the year under review, the branchless business required continued investment for customer acquisition and engagement, easypaisa channel management and expansion of technology platforms. These long term investments along with

legacy portfolio impairment impacted the bottom-line of the Bank.

The aforementioned initiatives, however, resulted in the reduction in loss before Tax by 34% to close the year at Rs. 10.4 billion. The Bank's valuation remains robust in line with aforementioned increase in MAU along with the largest payment App in Pakistan. Despite the bottom-line challenges, the ongoing robust equity support from sponsor shareholders ensured that the Capital adequacy ratio at the close of the year remains well in line within the regulatory requirements at 18.7%.

Going forward, TMB is well poised for growth and sustainability and the management is extremely confident in the long-term strategic plan that is set to redefine digital payments and revolutionize traditional financial services in Pakistan.

Financial Review

Despite the aforementioned challenging circumstances emerging under the pandemic, the Bank's main focus for the year 2020 was towards branchless banking customer acquisition, retention and engagement to increase numbers of customers and their corresponding activity levels.

The Bank remained cautious in its Branch lending operations in view of identification legacy challenges of 2019 and focused on circumventing all issues and built robust lending operational capacities to restart fresh NTB lending in Q4 2020.

Accordingly, the advances volumes were adversely impacted and aforementioned decline in the benchmark interest rates impacted the net interest income which aggregated to PKR. 3.2 Billion for the year ended December 31, 2020.

The Bank has recorded a credit impairment charge of Rs 2.0 Billion for the year ended December 31, 2020 which is 77% lower from corresponding year. The charge for the year also included the balancing impact upon the conclusion of the portfolio review exercise in 2020 and ongoing pandemic related challenges which were persistent throughout the year.

The Bank's management remains confident that the total provision coverage on the unsecured gross loan portfolio is adequate to cover the credit impairment losses incurred during the year ended December 31, 2020. The augmented risk platform, enhanced credit monitoring controls along with robust health checks monitoring deployed are expected to improve quality of the Bank's asset portfolio going forward.

The COVID crisis and regulatory relief measures including free IBFT had a paradigm shift in customer behavior as customers became averse to OTC transactions and shifted to mobile accounts. These had adverse implications on the non-markup fee based income for the Bank which aggregated to PKR 7.2 Billion during the year under review.

The Bank remained extremely prudent on the administrative expenses which were curtailed to PKR 18.8 billion reflecting a YoY savings of 10%. While this is also linked to the optimization of brick and mortar branch network which was optimized to 89 locations along with staff rationalization and disciplinary measures taken by the management during the year under review.

The primary savings originated in the optimization strategy adopted for the customer incentive and the marketing costs incurred towards acquisition/retention of branchless MAU based customers which were curtailed by 24% and 37% respectively, with aggregated net savings of PKR 1.5 Billion despite the abovementioned increase in MAUs and Easypaisa app users.

Resultantly, the Bank's reported loss after tax reduced by 34% to close at PKR 10,704 Million.

The total asset base of the Bank amounted to PKR 52.2 Billion. Cash and Cash equivalents of the Bank closed at PKR 9.2 Billion. On the liabilities side, the CASA and CA ratios of the Bank improved significantly to close at 68% and 58% compared to 47% and 32% respectively at the end of 2019. The Bank's net advances to deposit (ADR) ratio of 30% as at year end, which is reflective of the cautious strategy on advances along with stability of diversified deposit base significantly comprising of the granular branchless deposits.

The Bank's Equity base stood at PKR 5.1 Billion which enabled a robust Capital Adequacy Ratio (CAR) of 18.89% as at December 31, 2020 and is within 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 2020 due to net loss. However, an amount of PKR 32 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 2020 which were created by the resignations of the directors. These casual vacancies were filled as follows:

| Incoming Directors | | Outgoing directors | |
|-------------------------|----------------------|--------------------|----------------------|
| Mr. Lars Erik Tellmann* | Director | Mr. Khalid Qurashi | Independent Director |
| Mr. Amjad Waheed ** | Independent Director | | |

*The Board approved the nomination of Mr. Lars Erik Tellmann as a Director in place of Mr. Klas Berthelsson on 31st October 2019. However, State Bank of Pakistan approved the appointment of Mr. Lars Erik Tellmann on 04th May 2020.

** Appointment approved by SBP on 11th December, 2020

We sincerely thank the out-going director on behalf of the Board for his valuable contribution and guidance during his tenure.

Existing Shareholding

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

During the year Telenor Pakistan B.V and Alipay (Hong Kong) Holding Limited further invested US Dollar 45 Million in the Bank in proportion of existing shareholding.

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

Corporate Governance

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

Statement of Corporate Governance:

The Directors are pleased to state that:

a. The financial statements, prepared by the management of the Bank present fairly its state of

affairs, the result of its operations, cash flows and changes in equity.

b. Proper books of account of the Bank have been maintained.

c. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

However, as explained in note 13.4 to the financial statements, the Bank had not recognized deferred tax asset during the prior years to the extent of available taxable temporary differences (i.e deferred tax liability on account of accelerated tax depreciation) as per the requirements of IAS 12 "Income Taxes" which has now been adjusted in the financial statements with retrospective effect by restatement of prior period's equity. Accordingly, three columnar balance sheet has been presented as required by IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

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 10,704 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 while remaining fully abreast with the evolving challenges under the dynamic economic and operating environment including the challenges resulting from global pandemic.

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 |
|--|------------------------|-----------------|-------------------|
| Existing Members | | | |
| Mr. Irfan Ul Wahab Khan | Chairman | 12 | 12 |
| Mr. M Mudassar Aqil | President & CEO | 12 | 12 |
| Mr. Zhixian Li | Director | 12 | 12 |
| Mr. Zheng Liu | Director | 12 | - |
| Mr. Ji Xu | Director | 12 | - |
| Mr. Henning Thronsen | Director | 12 | 12 |
| Mr. Lars Erik Tellman | Director* | 12 | 12 |
| Ms. Uzma Munaf Khan | Independent Director | 12 | 12 |
| Mr. Amjad Waheed | Independent Director** | - | - |
| Outgoing Members | | | |
| Mr. Khalid Qurashi | Independent Director | 2 | 1 |
| * Attended 4 meetings as observer | | | |
| ** Appointment approved by State Bank of Pakistan on 11th December, 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+" and "A-1" respectively.

External Audit Report

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

i. As the Bank incurred a net loss of Rs. 10,704 Mn during the year and resultantly accumulated loss aggregated to Rs. 27,205 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 and discharge its liabilities in the normal course of business. Following key factors have been considered for appropriateness of going concern assumption:

a. Board of Directors of the Bank has approved the business plan of the Bank which envisages injections in the Bank's equity over the period of three years aggregating to USD 95 million. As per this plan the sponsors of the Bank have made an equity injection of Rs. 7,443 million (USD 45 million) on 31 August 2020 and of Rs. 6,559 million (USD 41 million) on 29 January 2021 subsequent to year end.

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

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

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

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

External Auditors

The retiring Auditors Messrs. EY Ford Rhodes, Chartered Accountants, being eligible have offered themselves for reappointment in the forthcoming Annual General Meeting. The Audit Committee of the Board has recommended the reappointment of EY Ford Rhodes for the next term.

Pattern of Shareholding

The pattern of shareholding of the bank as at December 31, 2020 is as follows:

| No. of share holders | Shareholders | No. of shares | % shareholding |
|----------------------|------------------------------------|---------------|------------------|
| 1 | Telenor Pakistan B.V | 235,267,392 | 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 | | 427,758,929 | 100% |

Financial Highlights

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

Earnings per Share

Loss per share of the Bank for the year ended 2020 is PKR 25.02 compared to PKR 44.92 (restated) as at end of year 2019.

Employee Benefits Schemes

Value of investments including accrued income of provident and gratuity funds as at December 31, 2020 on the basis of respective un-audited financial statements are:

| | |
|-----------------|---------------|
| Provident fund: | PKR 814.72 Mn |
| Gratuity fund: | PKR 890.32 Mn |

Remuneration of Chief Executive Officer and Directors

The details of Directors' fees and remuneration of Chief Executive Officer are given in Note 35 and Note 36 to the Financial Statements.

Future Outlook

The year 2020 has been phenomenal for steering digitalization and boosting the need for formal credit access and digital payments in Pakistan. The fourth quarter of 2020 witnessed the highest growth in internet usage (89%) in the country, with government institutions, especially the SBP actively encouraging and facilitating people to use digital communications and payment channels.

The rising digital financial ecosystem has created synergy with the growing e-commerce industry in the country. This has helped the Bank in forming strategic alliances and partnerships across the industry resulting in numerous solutions for the consumers.

The SBP has also introduced Raast, Pakistan's first instant payment system that will enable end-to-end digital payments among individuals, businesses and government entities instantaneously. The state-of-the-art Pakistan's Faster Payment System will be used to settle small-value retail payments in real time. Raast also features full sector wide interoperability with enhanced security features, hence providing cheap and universal access to all players in the financial industry including banks and fintechs. The Bank's long term strategy is geared towards leveraging these evolving paradigm shifts in the digitization of the economy.

Moving into 2021, credit risk is going to be one of the biggest challenges engulfing the entire microfinance industry including TMB. The COVID-19 Pandemic in 2020 not only impeded lending activities of MFBs but deferment and rescheduling of the portfolio has further escalated credit risk. COVID-19 has also brought about major financial constraints and liquidity challenges for the borrowers which could affect their ability to timely repay their loans in the short term. The Bank intends to formalize strategies to facilitate the challenging recovery process, by linking the future repayments with the emerging cash-flows of the respective borrowers.

The Money transfer via Over the Counter (OTC) business is continuously on the receding trend mainly due to lower limits introduced by SBP in 2020, IBFT fee waiver and cannibalization to Mobile Account. As Mobile Account adoption is increasing and the ecosystem is building up, OTC business has been substituted by mobile wallet usage. As per SBP guidelines, the OTC business will shift to account-based transfer from 1st July 2021 following which the OTC based money transfer business is expected to be further impacted. The Bank is actively pursuing alternate strategies to circumvent the risks emanating from this evolving consumer behavior and regulatory framework.

TMB will continue to scale up its lending business via setting up its cashless centers which also complements our financial inclusion ambition. In addition to this, to address consumers' urgent need for access to formal credit and the vacuum that currently exists in the market, TMB is working diligently towards creating a robust digital lending

capability with state-of-the-art credit scoring capabilities to fill that gap.

TMB's ambition to transform Pakistan into a cashless and financially inclusive society which becomes even more important in COVID-19 pandemic providing easy low-cost digital access to the consumer with limited access to physical touchpoints. TMB is committed to remain the largest branchless service provider backed by a #1 payments app and robust retail footprint in the country.

While TMB continues to grow monthly active users, it is consistently optimizing branchless business model to manage cost ensuring self-sustainability for wallet business going forward. It is imperative to build an eco-system that brings in economies of scales and optimize customer acquisition and retention cost. One of the key current challenge in this journey towards self-sustainability is the free IBFT. SBP provided relief to banking customers and implemented IBFT fee waiver from Q2' 20 that led to massive increase in cash deposits that increased the cost for doing business. TMB is engaged with SBP to seek their guidance in reducing the impact of this delta that is critical for the long-term sustainability of the Bank.

The International Accounting Standards Board (IASB) issued International Financial Reporting Standard on Financial Instruments i.e. IFRS 9 effective from January 1, 2018. Expected credit loss approach covered under the standard brings significant changes in the way the financial institutions assess the impairments of financial instruments. Owing to underlying challenges in its implementation difficulties faced by FIs, SBP delayed its implementation till December 31, 2020. Accordingly, for banks/DFIs/MFBs, the effective implementation date of IFRS 9 is 1st Jan 2021. This implementation while prudently creating buffers against future credit losses will have an impact on the short term profitability of the Bank.

Despite a challenging 2020, we foresee numerous opportunities in 2021 in the financial system to further improve TMB's foothold in the industry. We are excited to build on our past milestones and further integrate our branch channel with our branchless channel to create value added products and services for our valued customers. We are confident that our goals of financial inclusion and digitization of financial system shall help in uplifting the country's economy.

Appreciation and Acknowledgment

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

On behalf of the Board of Directors

Mr. Mohammad Mudassar Aqil
President / Chief Executive Officer

Mr. Irfan Ul Wahab Khan
Chairman

Place: Karachi
Dated: March 4, 2021

SIX-YEAR FINANCIAL SUMMARY BALANCE SHEET

Rs.'000

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | | (Restated) | (Restated) | | | |
| Assets | | | | | | |
| Cash and balances with SBP & NBP | 2,881,781 | 3,463,741 | 4,210,306 | 3,497,633 | 3,116,926 | 1,588,338 |
| Balances with other banks | 6,352,885 | 7,408,549 | 3,864,399 | 4,310,776 | 2,558,937 | 1,118,190 |
| Lending to financial institutions | 6,971,827 | 4,950,000 | 5,473,364 | 3,368,059 | 323,215 | 346,702 |
| Investments | 11,855,007 | 13,773,400 | 9,008,445 | 6,767,309 | 11,568,227 | 3,784,189 |
| Advances - net of provisions | 11,090,960 | 19,998,939 | 32,944,819 | 24,761,653 | 15,835,248 | 12,125,628 |
| Operating fixed assets | 8,650,391 | 7,667,057 | 3,001,351 | 1,729,560 | 1,041,611 | 645,474 |
| Other assets | 4,462,097 | 3,598,248 | 3,963,292 | 3,052,877 | 1,844,687 | 1,433,577 |
| Deferred tax asset - net | - | - | - | - | 14,795 | 16,025 |
| Total Assets | 52,264,948 | 60,859,934 | 62,465,976 | 47,487,867 | 36,303,646 | 21,058,123 |
| | | | | | | |
| | | | | | | |
| Liabilities | | | | | | |
| Deposits and other accounts | 36,963,810 | 41,170,537 | 42,274,909 | 36,664,927 | 27,829,780 | 15,678,541 |
| Borrowings | - | - | - | - | - | 85,474 |
| Other liabilities | 10,136,501 | 11,369,058 | 6,369,572 | 5,805,111 | 3,887,957 | 1,604,825 |
| Deferred tax liabilities | - | - | - | 12,034 | - | - |
| Total Liabilities | 47,100,311 | 52,539,595 | 48,644,481 | 42,482,072 | 31,717,737 | 17,368,840 |
| | | | | | | |
| Net Assets | 5,164,637 | 8,320,339 | 13,821,495 | 5,005,795 | 4,585,909 | 3,689,283 |
| | | | | | | |
| REPRESENTED BY: | | | | | | |
| | | | | | | |
| Share capital | 4,277,589 | 4,277,589 | 3,547,269 | 1,346,939 | 1,346,939 | 1,346,939 |
| Advance against future issue of right shares | 7,442,699 | - | - | - | - | - |
| Reserves | 20,616,746 | 20,585,009 | 10,412,953 | 1,405,571 | 1,286,756 | 1,050,952 |
| Accumulated (Loss) / Profit | (27,205,476) | (16,556,869) | (192,172) | 2,229,020 | 1,943,880 | 1,260,896 |
| | 5,131,558 | 8,305,729 | 13,768,050 | 4,981,530 | 4,577,575 | 3,658,787 |
| | | | | | | |
| Deficit on revaluation of assets - net of tax | 15,809 | (4,130) | (2,359) | (911) | (1,527) | (836) |
| Deferred grants | 17,270 | 18,740 | 55,804 | 25,176 | 9,861 | 31,332 |
| | 5,164,637 | 8,320,339 | 13,821,495 | 5,005,795 | 4,585,909 | 3,689,283 |

SIX-YEAR FINANCIAL SUMMARY PROFIT AND LOSS STATEMENT

Rs.'000

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|---------------------|---------------------|---------------------|---------------------|--------------------|--------------------|
| | | (Restated) | | | | |
| Mark-up / return / interest earned | 5,981,102 | 9,288,624 | 8,721,206 | 6,063,887 | 4,486,604 | 3,503,342 |
| Mark-up / return / interest expensed | (2,771,116) | (3,671,426) | (2,595,036) | (1,767,054) | (1,113,495) | (662,922) |
| Net mark-up / interest income | 3,209,986 | 5,617,198 | 6,126,170 | 4,296,833 | 3,373,109 | 2,840,420 |
| | | | | | | |
| Reversal / (provision) against non-performing loans and advances | (1,929,693) | (8,819,976) | (1,365,385) | (217,003) | (66,384) | (43,262) |
| Bad debts written off directly | (85,021) | (49,502) | (21,124) | (24,746) | (37,171) | (36,514) |
| | (2,014,714) | (8,869,478) | (1,386,509) | (241,749) | (103,555) | (79,776) |
| Net mark-up / interest income after provisions | 1,195,272 | (3,252,280) | 4,739,661 | 4,055,084 | 3,269,554 | 2,760,644 |
| | | | | | | |
| Non mark-up / interest income | | | | | | |
| Fee, commission and brokerage income | 6,302,800 | 8,241,218 | 8,172,650 | 8,352,400 | 1,530,390 | 1,427,207 |
| Other income | 893,850 | 296,886 | 214,128 | 135,108 | 122,830 | 166,851 |
| Total non mark-up / interest income | 7,196,650 | 8,538,104 | 8,386,778 | 8,487,508 | 1,653,220 | 1,594,058 |
| | 8,391,922 | 5,285,824 | 13,126,439 | 12,542,592 | 4,922,774 | 4,354,702 |
| | | | | | | |
| Non mark-up / interest expenses | | | | | | |
| Administrative expenses | (18,774,865) | (20,818,968) | (14,948,448) | (11,811,976) | (3,485,207) | (3,045,569) |
| Other provisions / write offs | (38,429) | (250,891) | (272,601) | (29,549) | (37,396) | - |
| Other charges | - | (116) | (19,358) | (13,623) | (30,886) | (26,839) |
| Total non mark-up / interest expenses | (18,813,294) | (21,069,975) | (15,240,407) | (11,855,148) | (3,553,489) | (3,072,408) |
| | (10,421,372) | (15,784,151) | (2,113,968) | 687,444 | 1,369,285 | 1,282,294 |
| | | | | | | |
| (Loss) / Profit before taxation | (10,421,372) | (15,784,151) | (2,113,968) | 687,444 | 1,369,285 | 1,282,294 |
| | | | | | | |
| Taxation | (282,369) | (447,382) | (401,770) | (270,688) | (473,931) | (430,554) |
| | | | | | | |
| (Loss) / Profit after taxation | (10,703,741) | (16,231,533) | (2,515,738) | 416,756 | 895,354 | 851,740 |

SIX-YEAR FINANCIAL SUMMARY CASHFLOW STATEMENT - SUMMARY

Rs.'000

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|------------------|-------------------|------------------|------------------|------------------|------------------|
| Cashflow statement - Summary | | (Restated) | | | | |
| Cash flow from operating activities | (8,981,482) | (615,487) | (7,095,671) | (1,954,717) | 11,129,496 | 682,078 |
| Cash flow from investing activities | 323,779 | (6,688,057) | (3,858,171) | 4,071,948 | (8,073,713) | 56,200 |
| Cash flow from financing activities | 7,020,079 | 10,101,129 | 11,220,138 | 15,315 | (86,448) | (120,553) |
| Net increase in cash and cash equivalents | (1,637,624) | 2,797,585 | 266,296 | 2,132,546 | 2,969,335 | 617,725 |
| Cash and cash equivalents at beginning of the year | 10,872,290 | 8,074,705 | 7,808,409 | 5,675,863 | 2,706,528 | 2,088,803 |
| Cash and cash equivalents at end of the year | 9,234,666 | 10,872,290 | 8,074,705 | 7,808,409 | 5,675,863 | 2,706,528 |

Rs.'000

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|-----------------------------------|---------|------------|------------|-------|-------|-------|
| Financial Ratios: | | (Restated) | (Restated) | | | |
| Return on Equity (RoE) | (207%) | (195%) | (18%) | 8% | 20% | 23% |
| Return on Assets (RoA) | (20%) | (27%) | (4%) | 1% | 2% | 4% |
| Deposits to Liabilities | 78% | 78% | 87% | 86% | 88% | 90% |
| Net Advance to Deposit | 30% | 49% | 78% | 68% | 57% | 77% |
| Investment to Deposit | 32% | 33% | 21% | 18% | 42% | 24% |
| Total Asset to Shareholders' Fund | 10.1 | 7.3 | 4.5 | 9.5 | 7.9 | 5.7 |
| Capital Adequacy ratio (CAR) | 18.9% | 24.6% | 35.2% | 19.5% | 30.6% | 37.0% |
| (Loss) / Earning Per Share - PKR | (25.02) | (44.92) | (7.09) | 1.87 | 6.65 | 6.32 |

Rs.'000

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---------------------------|------------|------------|-----------|-----------|-----------|-----------|
| Other Information: | | | | | | |
| Number of Branches | 89 | 120 | 103 | 85 | 74 | 66 |
| Number of Employees | 2,592 | 3,694 | 3,559 | 3,420 | 3,473 | 2,520 |
| Number of Borrowers | 305,619 | 896,694 | 694,441 | 535,413 | 385,417 | 287,285 |
| Number of Depositors | 23,247,513 | 17,182,377 | 9,198,446 | 8,122,495 | 8,573,293 | 4,958,736 |

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 2020, the profit and loss account, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, the statement of comprehensive income, statement of changes in equity and cash flow statement together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan, and give the information required by the Microfinance Institution Ordinance, 2001 and Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at 31 December 2020 and of the loss, other comprehensive loss, the changes in equity and its cash flows for the year then ended.

Basis for Opinion

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

we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to note 1.5 to the financial statements, which indicates that the Bank has incurred a net loss after tax of Rs.10,704 million and due to continuing losses particularly from the last financial year, its accumulated losses amount to Rs. 27,205 million as of 31 December 2020. The said note also describe the management's future plans and key risks and uncertainties in relation thereto. These conditions indicate the existence of material uncertainty which may cast significant doubt about the Bank's ability to continue as a going concern. In order to support the operations of the bank, the sponsor shareholders have made equity injection of Rs. 7,443 million (USD 45 million) in August 2020 and of Rs. 6,559 million (USD 41 million) subsequent to the year end in January 2021. Our opinion is not qualified in respect of this matter.

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these internal control.
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
 - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
 - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- We also provide to the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Other Matter

The financial statements of the Bank for the year ended 31 December 2019, were audited by another firm of chartered accountants who have expressed unmodified opinion vide audit report issued on 03 July 2020.

Report on Other Legal and Regulatory Requirements

1. Based on our audit, we further report that in our opinion:
 - a) proper books of account have been kept by the Bank as required by the Companies Act, 2017 (XIX of 2017);
 - b) the balance sheet, the profit and loss account, the statement of comprehensive income, statement of changes in equity and cash flow statement (together with the notes thereon have been drawn up in conformity with the Companies Act, 2017(XIX of 2017) and are in agreement with the books of account and returns;
 - c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Bank's business; and
 - d) zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

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

Date: 22 March 2021

EY Ford Rhodes
Chartered Accountants

Karachi

BALANCE SHEET AS AT 31 DECEMBER 2020

| 2020 | 2019 | 2018 | | 2020 | 2019 | 2018 |
|--|-----------|---------|------|----------------------|--------------|------------|
| Restated (note 13.4) | | | | Restated (note 13.4) | | |
| (USD in '000) | | | Note | (Rupees in '000) | | |
| ASSETS | | | | | | |
| Cash and balances with State Bank of Pakistan | | | | | | |
| 18,030 | 21,671 | 26,342 | 6 | 2,881,781 | 3,463,741 | 4,210,306 |
| 39,747 | 46,351 | 24,178 | 7 | 6,352,885 | 7,408,549 | 3,864,399 |
| 43,619 | 30,970 | 34,244 | 8 | 6,971,827 | 4,950,000 | 5,473,364 |
| 74,171 | 86,173 | 56,361 | 9 | 11,855,007 | 13,773,400 | 9,008,445 |
| 69,390 | 125,123 | 206,118 | 10 | 11,090,960 | 19,998,939 | 32,944,819 |
| 54,121 | 47,969 | 18,778 | 11 | 8,650,391 | 7,667,057 | 3,001,351 |
| 27,917 | 22,512 | 24,796 | 12 | 4,462,097 | 3,598,248 | 3,963,292 |
| - | - | - | 13 | - | - | - |
| 326,995 | 380,769 | 390,817 | | 52,264,948 | 60,859,934 | 62,465,976 |
| LIABILITIES | | | | | | |
| 231,263 | 257,583 | 264,493 | 14 | 36,963,810 | 41,170,537 | 42,274,909 |
| - | - | - | | - | - | - |
| - | - | - | | - | - | - |
| 63,419 | 71,130 | 39,851 | 15 | 10,136,501 | 11,369,058 | 6,369,572 |
| - | - | - | 13 | - | - | - |
| 294,682 | 328,713 | 304,344 | | 47,100,311 | 52,539,595 | 48,644,481 |
| 32,313 | 52,056 | 86,473 | | 5,164,637 | 8,320,339 | 13,821,495 |
| REPRESENTED BY: | | | | | | |
| 26,763 | 26,763 | 22,193 | 16 | 4,277,589 | 4,277,589 | 3,547,269 |
| 46,565 | - | - | 17 | 7,442,699 | - | - |
| 128,988 | 128,790 | 65,148 | | 20,616,746 | 20,585,009 | 10,412,953 |
| (170,210) | (103,588) | (1,202) | | (27,205,476) | (16,556,869) | (192,172) |
| 32,106 | 51,965 | 86,139 | | 5,131,558 | 8,305,729 | 13,768,050 |
| 99 | (26) | (15) | 18 | 15,809 | (4,130) | (2,359) |
| 108 | 117 | 349 | 19 | 17,270 | 18,740 | 55,804 |
| 32,313 | 52,056 | 86,473 | | 5,164,637 | 8,320,339 | 13,821,495 |
| MEMORANDUM / OFF BALANCE SHEET ITEMS 20 | | | | | | |

The annexed notes 1 to 41 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 2020

| 2020 | 2019 | | 2020 | 2019 |
|--|-----------|------|----------------------|--------------|
| Restated (note 13.4) | | | Restated (note 13.4) | |
| (USD in '000) | | Note | (Rupees in '000) | |
| 37,421 | 58,114 | 21 | 5,981,102 | 9,288,624 |
| (17,337) | (22,970) | 22 | (2,771,116) | (3,671,426) |
| 20,084 | 35,144 | | 3,209,986 | 5,617,198 |
| (12,073) | (55,182) | 10.4 | (1,929,693) | (8,819,976) |
| - | - | | - | - |
| (532) | (310) | 10.5 | (85,021) | (49,502) |
| (12,605) | (55,492) | | (2,014,714) | (8,869,478) |
| 7,479 | (20,348) | | 1,195,272 | (3,252,280) |
| NON MARK-UP / NON INTEREST INCOME | | | | |
| 39,433 | 51,561 | 23 | 6,302,800 | 8,241,218 |
| - | - | | - | - |
| 5,592 | 1,857 | 24 | 893,850 | 296,886 |
| 45,025 | 53,418 | | 7,196,650 | 8,538,104 |
| 52,504 | 33,070 | | 8,391,922 | 5,285,824 |
| NON MARK-UP / NON INTEREST EXPENSES | | | | |
| (117,464) | (130,253) | 25 | (18,774,865) | (20,818,968) |
| (240) | (1,570) | 26 | (38,429) | (250,891) |
| (1) | (1) | 27 | (210) | (116) |
| (117,705) | (131,824) | | (18,813,504) | (21,069,975) |
| (65,201) | (98,754) | | (10,421,582) | (15,784,151) |
| - | - | | - | - |
| (65,201) | (98,754) | | (10,421,582) | (15,784,151) |
| (1,800) | (2,264) | 28 | (287,753) | (361,944) |
| (240) | (530) | 28 | (38,328) | (84,669) |
| 273 | (5) | 28 | 43,712 | (769) |
| (1,767) | (2,799) | | (282,369) | (447,382) |
| (66,968) | (101,553) | | (10,703,951) | (16,231,533) |
| (103,588) | (1,202) | | (16,556,869) | (192,172) |
| (66,424) | (102,177) | | (10,616,870) | (16,331,221) |
| (170,012) | (103,379) | | (27,173,739) | (16,523,393) |
| Appropriations: | | | | |
| Transfer to: | | | | |
| - | - | | - | - |
| - | - | | - | - |
| (198) | (209) | | (31,737) | (33,476) |
| - | - | | - | - |
| (198) | (209) | | (31,737) | (33,476) |
| (170,210) | (103,588) | | (27,205,476) | (16,556,869) |
| (0.16) | (0.28) | 29.1 | (25.02) | (44.92) |

The annexed notes 1 to 41 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 2020

| 2020 | 2019 Restated (note 13.4) | | 2020 | 2019 Restated (note 13.4) |
|--|---------------------------------|------|------------------|---------------------------------|
| (USD in '000) | | Note | (Rupees in '000) | |
| (66,968) | (101,553) | | (10,703,951) | (16,231,533) |
| Loss after taxation | | | | |
| Other Comprehensive income / (loss) | | | | |
| Item not to be reclassified to statement of profit and loss in subsequent periods - net of tax | | | | |
| 767 | (624) | | 122,649 | (99,688) |
| (223) | - | | (35,568) | - |
| 544 | (624) | | 87,081 | (99,688) |
| Remeasurement gain / (loss) on defined benefit obligation 33.3.4 | | | | |
| Related tax impact 13.2 | | | | |
| (66,424) | (102,177) | | (10,616,870) | (16,331,221) |
| Comprehensive loss for the year transferred to equity | | | | |
| Component of comprehensive income / (loss) for the year not transferred to equity | | | | |
| Item to be reclassified to statement of profit and loss subsequently on sale - net of tax | | | | |
| 176 | (16) | | 28,083 | (2,540) |
| (51) | 5 | | (8,144) | 769 |
| 125 | (11) | | 19,939 | (1,771) |
| Comprehensive loss for the year not transferred to equity | | | | |

The annexed notes 1 to 41 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 2020

| | Share capital | Advance against future issue of right shares | Capital reserves | | | | Accumulated profit / (loss) | Total |
|---|---------------|--|------------------|-------------------|-----------------------------|------------------------|-----------------------------|--------------|
| | | | Share premium | Statutory reserve | Depositors' protection fund | Total capital reserves | | |
| Rupees in '000 | | | | | | | | |
| Balance as at 01 January 2019 | | | | | | | | |
| as previously reported | 3,547,269 | - | 9,332,649 | 802,481 | 277,823 | 10,412,953 | (345,238) | 13,614,984 |
| Effect of recognition of deferred tax asset | 13.4 | - | - | - | - | - | 153,066 | 153,066 |
| Balance as at 01 January 2019 - restated | 3,547,269 | - | 9,332,649 | 802,481 | 277,823 | 10,412,953 | (192,172) | 13,768,050 |
| Comprehensive loss for the year | | | | | | | | |
| Loss after tax for the year | - | - | - | - | - | - | (16,231,533) | (16,231,533) |
| Other comprehensive loss - net of tax | - | - | - | - | - | - | (99,688) | (99,688) |
| Total comprehensive loss for the year | - | - | - | - | - | - | (16,331,221) | (16,331,221) |
| 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 - restated | 4,277,589 | - | 19,471,229 | 802,481 | 311,299 | 20,585,009 | (16,556,869) | 8,305,729 |
| Balance as at 01 January 2020 | | | | | | | | |
| as previously reported | 4,277,589 | - | 19,471,229 | 802,481 | 311,299 | 20,585,009 | (16,830,229) | 8,032,369 |
| Effect of recognition of deferred tax asset | 13.4 | - | - | - | - | - | 273,360 | 273,360 |
| Balance as at 01 January 2020 - restated | 4,277,589 | - | 19,471,229 | 802,481 | 311,299 | 20,585,009 | (16,556,869) | 8,305,729 |
| Comprehensive loss for the year | | | | | | | | |
| Loss after tax for the year | - | - | - | - | - | - | (10,703,951) | (10,703,951) |
| Other comprehensive income - net of tax | - | - | - | - | - | - | 87,081 | 87,081 |
| Total comprehensive loss for the year | - | - | - | - | - | - | (10,616,870) | (10,616,870) |
| Transfer to statutory reserve * | - | - | - | - | - | - | - | - |
| Advance against future issue | | | | | | | | |
| of right shares | 17 | - | 7,442,699 | - | - | - | - | 7,442,699 |
| Transfer to Depositors' Protection Fund | | | | | | | | |
| - return on investments | - | - | - | - | 31,737 | 31,737 | (31,737) | - |
| Balance as at 31 December 2020 | 4,277,589 | 7,442,699 | 19,471,229 | 802,481 | 343,036 | 20,616,746 | (27,205,476) | 5,131,558 |

* 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 41 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 2020

| 2020 | 2019 Restated (note 13.4) | | 2020 | 2019 Restated (note 13.4) |
|--|---------------------------------|------|----------------------------|---------------------------------|
| ———— (USD in '000) ———— | | Note | ———— (Rupees in '000) ———— | |
| CASH FLOW FROM OPERATING ACTIVITIES | | | | |
| (65,201) | (98,754) | | (10,421,582) | (15,784,151) |
| Loss before taxation | | | | |
| Adjustments for non cash and other items: | | | | |
| 6,165 | 5,281 | | 985,443 | 844,112 |
| 2,289 | 2,581 | | 365,897 | 412,512 |
| 1,605 | 1,282 | | 256,604 | 204,921 |
| - | - | | - | - |
| 2,109 | 1,416 | | 337,060 | 226,324 |
| 12,073 | 55,182 | | 1,929,693 | 8,819,976 |
| 532 | 310 | | 85,021 | 49,502 |
| 1,192 | 1,052 | | 190,561 | 168,078 |
| (1,028) | 587 | | (164,253) | 93,789 |
| 674 | - | | 107,715 | - |
| (8,636) | (6,121) | | (1,380,254) | (978,383) |
| (9) | (232) | | (1,470) | (37,064) |
| 134 | (25) | | 21,342 | (4,024) |
| 17,100 | 61,313 | | 2,733,359 | 9,799,743 |
| (Increase) / decrease in operating assets | | | | |
| (12,650) | 3,274 | | (2,021,827) | 523,364 |
| 43,128 | 25,504 | | 6,893,265 | 4,076,402 |
| (3,703) | 1,414 | | (591,819) | 225,933 |
| 26,775 | 30,192 | | 4,279,619 | 4,825,699 |
| (Decrease) / increase in operating liabilities | | | | |
| (26,319) | (6,909) | | (4,206,727) | (1,104,372) |
| (4,967) | 14,053 | | (793,866) | 2,246,136 |
| (31,286) | 7,144 | | (5,000,593) | 1,141,764 |
| (2,088) | (2,663) | | (333,740) | (425,649) |
| (1,492) | (1,082) | | (238,545) | (172,893) |
| (56,192) | (3,850) | | (8,981,482) | (615,487) |
| CASH FLOW FROM INVESTING ACTIVITIES | | | | |
| 20,814 | (23,706) | | 3,326,730 | (3,789,112) |
| (18,900) | (18,239) | | (3,020,845) | (2,915,219) |
| 112 | 102 | | 17,894 | 16,274 |
| 2,026 | (41,843) | | 323,779 | (6,688,057) |
| CASH FLOW FROM FINANCING ACTIVITIES | | | | |
| - | 68,001 | | - | 10,868,900 |
| 46,565 | - | | 7,442,699 | - |
| (2,644) | (4,804) | | (422,620) | (767,771) |
| 43,921 | 63,197 | | 7,020,079 | 10,101,129 |
| (10,245) | 17,504 | | (1,637,624) | 2,797,585 |
| 68,022 | 50,519 | | 10,872,290 | 8,074,705 |
| 57,777 | 68,023 | | 9,234,666 | 10,872,290 |

The annexed notes 1 to 41 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 2020

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 (31 December 2019: 55%) and Alipay (Hong Kong) Holding Limited with 45% shareholding (31 December 2019: 45%).

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

1.4 The credit rating companies PACRA and JCR-VIS have maintained the long-term entity rating of the bank at "A+" and short term rating at "A1" as at 31 December 2020 based on the report issued on 30 April 2020.

1.5 Going concern basis of accounting

1.5.1 During the year ended 31 December 2020, the Bank has incurred a net loss after tax of Rs. 10,704 million and due to continuing losses particularly from the last financial year, its accumulated losses amount to Rs. 27,205 million as at 31 December 2020.

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

- Board of Directors of the Bank has approved the business plan of the Bank which envisages injections in the Bank's equity over the period of three years aggregating to USD 95 million. As per this plan the sponsors of the Bank have made an equity injection of Rs. 7,443 million (USD 45 million) on 31 August 2020 and of Rs. 6,559 million (USD 41 million) on 29 January 2021 subsequent to year end.

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

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

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

The key risks and uncertainties associated with the above referred matters includes the ability of the Bank to achieve the results set out in financial projections for the years 2020 – 2023. In this respect particular challenges include, (but not limited to) Bank's ability to maintain and improve the level of asset quality, ensure capital inflows as per the approved business plan and execution of cost optimization initiatives envisaged under the aforementioned plan.

The assessment of the appropriateness of using the going concern basis of accounting has been subject to a due governance process involving the Audit Committee and Board of Directors of the Bank. In making such assessments, the Board has taken into account all facts and circumstances as referred to in above paragraphs and have concluded that the current situation along with the risk and uncertainties set out above and their consequential effects, represents a material uncertainty which may cast significant doubt upon the Bank's ability to continue as a going concern. In case, the Bank is unable to continue as a going concern, the Bank may not be able to realize its assets and discharge its liabilities in the normal course of business. Nevertheless, after considering the financial projections, in particular, those for the period up to 31 December 2021, the Directors have reasonable expectations that the Bank will have adequate resources to continue its business over this period. For these reasons, the Board of Directors and the management of the Bank continued to adopt the going concern basis in preparing these financial statements.

2. BASIS OF PRESENTATION

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

3. STATEMENT OF COMPLIANCE

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

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

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

3.2 The SBP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and IAS 40, 'Investment Property' for Banking Companies in Pakistan through BSD Circular Letter 10 dated 26 August 2002 till further instructions. Further, SBP vide its BPRD Circular No. 04 of 2019 dated 23 October 2019 directed the banks in Pakistan to implement IFRS 9 'Financial Instruments' with effect from 01 January 2021. SECP has deferred the applicability of IFRS 7 'Financial Instruments: Disclosures' through its notification S.R.O 411 (I) / 2008 dated 28 April 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements of Prudential Regulation for Microfinance Banks or directives issued by SBP.

4. BASIS OF MEASUREMENT

4.1 Accounting convention

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

4.2 Functional and presentation currency

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

As an additional information, the US Dollar amounts reported in the balance sheet, profit and loss account, statement of comprehensive income and cash flow statement are stated solely for the convenience of the users of financial statements. For the purpose of translation to US Dollar, spot rate of Rs. 159.8344 per US Dollar has been used for 2020, 2019 and 2018 as it was the prevalent rate on the reporting date.

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

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

- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The amendments were intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. In addition, the IASB has also issued guidance on how to make materiality judgements when preparing their general purpose financial statements in accordance with IFRS Standards.
- Amendment to IFRS 3 'Business Combinations' – Definition of a Business. 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.
- IFRS 14 'Regulatory Deferral Accounts' permits an entity to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous reporting framework, both on initial adoption of standard and in subsequent financial statements. Regulatory deferral account balances, and movements in them, are presented separately in the statement of financial position and profit and loss account and statement of other comprehensive income, and specific disclosures are required.
- IASB has also issued the revised Conceptual Framework for Financial Reporting (the Conceptual Framework) in March 2018 which became effective during the year for preparers of financial statements who develop accounting policies based on the Conceptual Framework. The revised Conceptual Framework is not a standard, and none of the concepts override those in any standard or any requirements in a standard. The purpose of the Conceptual Framework is to assist IASB in developing standards, to help preparers develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The above mentioned accounting standards and amendments of IFRSs did not have any material impact on these financial statements.

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

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:

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' - SBP vide its BPRD Circular No. 04 of 2019 dated 23 October 2019 directed the banks in Pakistan to implement IFRS 9 with effect from 01 January 2021. IFRS 9 replaced 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.

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

The IASB has issued amendments to IFRS 16 (the amendments) to provide optional practical relief for lessees in accounting for rent concessions. Under the practical expedient, lessees are not required to assess whether eligible rent concessions are lease modifications, and instead are permitted to account for them as if they were not lease modifications. The amendments are effective for periods beginning on or after 1 June 2020, with earlier application permitted.

- Further, the following IFRS as notified under the Companies Act, 2017 and the amendments thereto will be effective for accounting periods beginning on or after January 01, 2021:

| | Effective date (accounting periods beginning on or after) |
|---|---|
| Standard and Amendments | |
| - IAS 37 - Onerous Contracts – Cost of Fulfilling a Contract, (Amendments) | January 01, 2022 |
| - Interest Rate Benchmark Reform – Phase 2 | January 01, 2021 |
| - Annual Improvement to IFRS standards 2018 - 2020 | January 01, 2022 |
| - IAS 16 - Property, Plant and Equipment: Proceeds before Intended Use (Amendments) | January 01, 2022 |
| - IFRS 3 - Reference to the Conceptual Framework (Amendments) | January 01, 2022 |
| - IAS 1 - Classification of liabilities as current or non-current (Amendments) | January 01, 2022 |
| - IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments) | Not yet announced |

The above standards, amendments and improvements are not expected to have any material impact on the financial statements of the Bank for the future periods except for IFRS 9.

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

| | Effective date (accounting periods beginning on or after) |
|---|---|
| Standards | |
| - IFRS 1 - First time adoption of IFRSs | January 01, 2004 |
| - IFRS 17 - Insurance Contracts | January 01, 2023 |

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

5.1 Cash and cash equivalents

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

5.2 Lendings to financial institutions

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

5.3 Investments

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

Initial measurement

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

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

Subsequent measurement

Held-for-trading

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

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

Held-to-maturity

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

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

Available-for-sale

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

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

5.4 Advances

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

- Other Assets Especially Mentioned (OAEM)
These are advances in arrears (payment / instalments overdue) of 30 days or more but less than 60 days.
- Substandard
These are advances in arrears (payment / instalments overdue) for 60 days or more but less than 90 days.
- Doubtful
These are advances in arrears (payment / instalments overdue) for 90 days or more but less than 180 days.

d) Loss

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

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

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

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

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

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

5.5 Operating fixed assets

5.5.1 Property and equipment and depreciation

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

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

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

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

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

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

5.5.2 Capital work-in-progress

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

5.5.3 Intangible assets and amortisation

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

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

Right of-use assets

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

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

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

Lease liability against right-of-use assets

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

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

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

5.6 Impairment

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

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

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

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

5.6.2 Financial assets

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

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

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

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

5.7 Financial instruments

5.7.1 Financial assets and financial liabilities

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

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

5.7.2 Off setting

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

5.8 Provisions

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

5.9 Deferred grant

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

5.10 Staff retirement benefits

5.10.1 Defined benefit plan

The Bank operates a funded gratuity scheme for its eligible permanent employees. Provision is made in these financial statements based on the actuarial valuation carried out on the balance sheet date (31 December 2020) using the projected unit credit method. When the calculation results in a potential asset for the Bank, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reduction in future contribution to the plan (if material). The above benefits are payable to staff at the time of separation / retirement from the Bank's services subject to the completion of qualifying period of service. Remeasurement component which is the net of actuarial gains and losses is recognized immediately in other comprehensive income where as service cost and net interest income / expense are charged to the profit and loss account.

5.10.2 Defined contribution plan

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

5.11 Revenue recognition

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

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

5.12 Taxation

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

Current

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

Deferred

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

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

5.13 Foreign currency transactions

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

5.14 Earnings per share

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

Diluted EPS, if any, is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. There were no dilutive potential ordinary shares in issue as at 31 December 2020.

5.15 Dividend distribution

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

5.16 Statutory reserve

The Bank is required under the Microfinance Institutions Ordinance, 2001 to maintain a statutory reserve to which an

appropriation equivalent to 20% of the annual after tax profit is made till such time the reserves are equal to paid-up capital and thereafter 5% of profit after taxes.

5.17 Depositors' protection fund

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

5.18 Key accounting estimates and judgments

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

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

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

Held-to-maturity

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

Held-for-trading

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

Available-for-sale

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

ii) Provision against advances (notes 5.4 and 10)

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

iii) Current and deferred taxation (notes 5.12)

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

iv) Payable against staff retirement benefits (notes 5.10)

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

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

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

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

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

| | 2020 | 2019 |
|---|------------------------------|------------------|
| Note | ----- (Rupees in '000) ----- | |
| 6. CASH AND BALANCES WITH STATE BANK OF PAKISTAN AND NATIONAL BANK OF PAKISTAN | | |
| Cash in hand - local currency | 716,452 | 936,918 |
| Balance with State Bank of Pakistan - current account | 2,099,426 | 2,391,443 |
| Balance with National Bank of Pakistan - current account | 65,903 | 135,380 |
| 6.1 | 2,165,329 | 2,526,823 |
| | 2,881,781 | 3,463,741 |

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.

| | 2020 | 2019 |
|-------------------------------------|------------------------------|------------------|
| Note | ----- (Rupees in '000) ----- | |
| 7. BALANCES WITH OTHER BANKS | | |
| In Pakistan | | |
| - Current accounts | 250,799 | 209,104 |
| - PLS deposit accounts | 7.1 & 7.2 4,102,086 | 4,199,445 |
| - Fixed term deposits | 7.3 2,000,000 | 3,000,000 |
| | 6,352,885 | 7,408,549 |

7.1 This represents demand deposits with various financial institutions carrying markup at rates ranging between 5.5% to 8.0% per annum (31 December 2019: 11.25% to 14.25% per annum).

7.2 Certain guarantees of Rs. 7.5 million (31 December 2019: Rs. 119.36 million) which have been given on behalf of the Bank by other financial institution for the Bank's branchless banking customers/ service providers. These guarantees are secured against the profit and loss sharing deposits maintained with the same financial institution.

7.3 This represents fixed term deposits with various commercial banks carrying mark-up at rates ranging between 7.45% to 7.5% per annum (31 December 2019: 14.25% to 14.30% per annum) and having maturity in January 2021 (31 December 2019: January 2020).

| | 2020 | 2019 |
|--|------------------------------|------------------|
| Note | ----- (Rupees in '000) ----- | |
| 8. LENDINGS TO FINANCIAL INSTITUTIONS | | |
| Call money lendings - unsecured | 8.1 4,300,000 | 4,950,000 |
| Repurchase agreement lendings (reverse repo) | 8.2 2,671,827 | - |
| | 6,971,827 | 4,950,000 |

8.1 This represent call money lendings to various financial institutions carrying mark-up rate ranging from 6.05% to 7.50% (31 December 2019: 13.05% to 13.36%) per annum and having maturity in January 2021 (31 December 2019: January 2020).

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

| | 2020 | | | 2019 | | |
|------------------------------------|------------------------------|-----------------------------|------------------|--------------|-----------------------------|----------|
| | Held by Bank | Further given as collateral | Total | Held by Bank | Further given as collateral | Total |
| | ----- (Rupees in '000) ----- | | | | | |
| Market treasury bills (face value) | 2,700,000 | - | 2,700,000 | - | - | - |
| | 2,700,000 | - | 2,700,000 | - | - | - |

| | | 2020 | 2019 |
|--|------|-------------------|-------------------|
| | Note | (Rupees in '000) | |
| 9. INVESTMENTS | | | |
| Federal Government Securities - available for sale | | | |
| Market Treasury Bills | 9.1 | 11,832,741 | 13,779,217 |
| Surplus / (deficit) on revaluation of investment | 18 | 22,266 | (5,817) |
| | | <u>11,855,007</u> | <u>13,773,400</u> |

9.1 These carry mark-up at rates ranging between 6.86% to 9.4% (31 December 2019: 13.10% to 13.47%) per annum and having maturities up to May 2021 (31 December 2019: May 2020). These securities have an aggregate face value of Rs. 12,000 million (31 December 2019: Rs. 14,300 million).

10. ADVANCES - net of provisions

| Loan Type | Note | 2020 | | 2019 | |
|-------------------------------------|------|-----------------------------|--------------------------|-----------------------------|-------------------|
| | | Number of loans outstanding | (Rupees in '000) | Number of loans outstanding | (Rupees in '000) |
| Micro credit | | | | | |
| Advances - gross | | | | | |
| - Secured | 10.1 | 57,254 | 4,862,413 | 93,525 | 7,143,892 |
| - Unsecured | 10.1 | 248,365 | 7,864,081 | 803,169 | 20,316,673 |
| | | <u>305,619</u> | <u>12,726,494</u> | <u>896,694</u> | <u>27,460,565</u> |
| Less: Provision held | | | | | |
| - Specific | 10.1 | 56,537 | (1,572,518) | 448,556 | (3,993,209) |
| - General | 10.2 | | (63,016) | | (3,468,417) |
| | 10.4 | | (1,635,534) | | (7,461,626) |
| Advances - net of provisions | | <u><u>11,090,960</u></u> | <u><u>19,998,939</u></u> | | |

10.1 Particulars of non-performing advances

Advances include Rs. 2,103.905 million (31 December 2019: Rs. 5,781.65 million) which have been placed under non-performing status as detailed below:

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

| | 2019 | | | | |
|-------------------------|--------------------|------------------|------------------|--------------------|------------------|
| | Amount outstanding | | | 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> |

10.2 This includes general provision of Rs. 63.016 million (31 December 2019: Rs. 163.234 million) equivalent to 1% of the net outstanding unsecured advances (advances net of specific provision) held in accordance with the requirements of the Prudential Regulations for Microfinance Banks.

10.3 As referred to note 10.5 to the annual financial statements for the year ended 31 December 2019, the Bank initiated its internal portfolio review exercise at the borrower level due to identification of significant irregularities including improprieties involving certain employees, breakdown and lapses in the internal controls, in relation to its credit portfolio spread across the branch network. Further, the Bank also suspended its fresh lending activities for the period from September 2019 to June 2020 against unsecured facilities handled through its branch banking network except for specific renewal of credit facilities. However, the Bank resumed the fresh lending activities completely till December 2020 in a phased manner.

Based on the results of the above exercise which was completed in July 2020, the Bank has identified unconfirmed loan balances and non-contactable borrowers with an aggregate outstanding loan balance of Rs. 1.041 million as of 31 December 2020 (excluding written-off loans amounted to Rs. 4,192 million). While many of such loans do not reflect "past due or overdue status" as of 31 December 2020, due to the terms of the underlying contract which requires bullet payments following due subsequent to the period end, the management as a matter of prudence and based on the portfolio review results have made full provision against the above referred loans.

Considering the nature and timing of the portfolio review exercise, it was not practicable for the Bank to determine the specific effects, if any, in relation to the credit loss recognised in the year ended 31 December 2019.

Such loans and the related provisions are categorised in the loss category of the advances. The Bank has simultaneously suspended the related un-realized interest income as at 31 December 2020. The Bank has also initiated legal proceedings against certain staff and borrowers in accordance with the findings in these portfolio review exercises. The Bank holds fidelity insurance cover in respect of such incidents and has lodged claims after fixing of responsibilities to the concerned employees. The Bank has received insurance claims aggregating to Rs. 50 million during the year.

10.4 Particulars of provision against non-performing advances

| Note | 2020 | | | 2019 | | |
|------------------------|-------------------------|----------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | Specific | General | Total | Specific | General | Total |
| (Rupees in '000) | | | | | | |
| Opening balance | 3,993,209 | 3,468,417 | 7,461,626 | 572,968 | 669,763 | 1,242,731 |
| Charge for the year | 5,555,338 | 12,076 | 5,567,414 | 6,605,948 | 2,798,654 | 9,404,602 |
| Reversals | (220,244) | (3,417,477) | (3,637,721) | (584,626) | - | (584,626) |
| | <u>5,335,094</u> | <u>(3,405,401)</u> | <u>1,929,693</u> | <u>6,021,322</u> | <u>2,798,654</u> | <u>8,819,976</u> |
| Amount written off | 10.5 (7,755,785) | - | (7,755,785) | (2,601,081) | - | (2,601,081) |
| Closing balance | <u><u>1,572,518</u></u> | <u><u>63,016</u></u> | <u><u>1,635,534</u></u> | <u><u>3,993,209</u></u> | <u><u>3,468,417</u></u> | <u><u>7,461,626</u></u> |

10.5 Particulars of write offs

| | 2020 | 2019 |
|---|------------------|------------------|
| (Rupees in '000) | | |
| Against provisions | 7,755,785 | 2,601,081 |
| Directly charged to the profit and loss account | 85,021 | 49,502 |
| | <u>7,840,806</u> | <u>2,650,583</u> |

| | | 2020 | 2019 |
|-----------------------------------|------|------------------------------|------------------|
| | Note | ----- (Rupees in '000) ----- | |
| 11. OPERATING FIXED ASSETS | | | |
| Property and equipment | 11.1 | 3,107,338 | 3,508,629 |
| Intangible assets | 11.2 | 593,011 | 791,046 |
| Capital work-in-progress | 11.3 | 2,784,232 | 555,612 |
| Right-of-use assets | 11.4 | 2,165,810 | 2,811,770 |
| | | <u>8,650,391</u> | <u>7,667,057</u> |

11.1 Property and equipment

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

| | 2019 | | | | | | | |
|-------------------------------|------------------------------|-------------------------|------------------------|----------------------|----------------------|------------------------|------------------------|------------------------------------|
| | Cost | | Depreciation | | | Book value | | Rate of depreciation per annum (%) |
| | 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 | |
| | ----- (Rupees in '000) ----- | | | | | | | |
| Leasehold improvement | 327,086 | 446,666 | 773,752 | 121,658 | 93,179 | 214,837 | 558,915 | 10 - 300 |
| | | (4,126) | | | (2,907) | | | |
| Office furniture and fixtures | 298,151 | 85,004 | 379,029 | 143,906 | 27,658 | 168,657 | 210,372 | 10 |
| | | (3,784) | | | (3,784) | | | |
| Office equipments | 667,231 | 282,339 | 945,786 | 353,747 | 107,722 | 457,685 | 488,101 | 20 |
| | | (3,784) | | | (3,784) | | | |
| Computer equipments | 2,493,679 | 1,305,775 | 3,796,876 | 1,018,869 | 575,734 | 1,592,025 | 2,204,851 | 12.5 - 33 |
| | | (2,578) | | | (2,578) | | | |
| Vehicles | 230,741 | - | 199,858 | 133,501 | 39,819 | 153,468 | 46,390 | 20 - 25 |
| | | (30,883) | | | (19,852) | | | |
| | | <u>2,119,784</u> | <u>6,095,301</u> | <u>1,771,681</u> | <u>844,112</u> | <u>2,586,672</u> | <u>3,508,629</u> | |
| | | <u>(41,371)</u> | | | <u>(29,121)</u> | | | |

11.1.1 Property and equipment include assets costing Rs. 1,747.17 million (31 December 2019: Rs. 717.59 million) which are fully depreciated and still in use.

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

| | Cost | Accumulated depreciation | Written down value | Sale proceeds | Gain / (loss) | Mode of disposal | Particulars of buyers |
|--------------------------|------------------------------|--------------------------|--------------------|---------------|----------------|------------------|-----------------------|
| | ----- (Rupees in '000) ----- | | | | | | |
| Vehicles | | | | | | | |
| Vehicle - Toyota Corolla | 1,891 | 945 | 946 | 946 | - | Bank's Policy | Employee |
| Vehicle - Toyota Corolla | 1,923 | 1,154 | 769 | 769 | - | Bank's Policy | Employee |
| Vehicle - Toyota Corolla | 1,890 | 1,291 | 599 | 599 | - | Bank's Policy | Employee |
| Vehicle - Toyota Corolla | 1,307 | 1,307 | - | - | - | Bank's Policy | Employee |
| Vehicle - Toyota Corolla | 1,340 | 1,331 | 9 | 9 | - | Bank's Policy | Employee |
| Vehicle - Toyota Corolla | 1,922 | 1,345 | 577 | 577 | - | Bank's Policy | Employee |
| Vehicle - Toyota Corolla | 1,279 | 1,279 | - | - | - | Bank's Policy | Employee |
| Vehicle - Suzuki Cultus | 1,154 | 846 | 308 | 308 | - | Bank's Policy | Employee |
| Vehicle - Suzuki Cultus | 1,154 | 904 | 250 | 250 | - | Bank's Policy | Employee |
| Vehicle - Toyota Corolla | 1,890 | 1,480 | 410 | 410 | - | Bank's Policy | Employee |
| Vehicle - Honda Civic | 1,809 | 1,387 | 422 | 422 | - | Bank's Policy | Employee |
| Equipment - Generator | 1,382 | 854 | 528 | 140 | (388) | Auction | Individual |
| Equipment - Generator | 1,374 | 893 | 481 | 139 | (342) | Auction | Individual |
| Equipment - Generator | 1,040 | 762 | 278 | 105 | (173) | Auction | Individual |
| Equipment - Generator | 1,067 | 693 | 374 | 108 | (266) | Auction | Individual |
| Equipment - Solar System | 1,577 | 1,577 | - | 159 | 159 | Auction | Individual |
| Equipment - Transformer | 613 | 267 | 346 | 62 | (284) | Auction | Individual |
| 2020 | 24,612 | 18,315 | 6,297 | 5,003 | (1,294) | | |
| 2019 | 26,757 | 16,239 | 10,518 | 12,533 | 2,015 | | |

11.2 Intangible assets

| | Note | 2020 | | | | | | | |
|-------------------|--------|------------------------------|-----------|------------------------|----------------------|---------------------|------------------------|------------------------------------|------------------------|
| | | Cost | | Amortisation | | Book value | | Rate of amortisation per annum (%) | |
| | | As at 1 January 2020 | Additions | As at 31 December 2020 | As at 1 January 2020 | Charge for the year | As at 31 December 2020 | | As at 31 December 2020 |
| | | ----- (Rupees in '000) ----- | | | | | | | |
| Computer software | 11.2.1 | 1,196,622 | 58,569 | 1,255,191 | 405,576 | 256,604 | 662,180 | 593,011 | 12.5 - 33 |

| | Note | 2019 | | | | | | | |
|-------------------|------|------------------------------|-----------|------------------------|----------------------|---------------------|------------------------|------------------------------------|------------------------|
| | | Cost | | Amortisation | | Book value | | Rate of amortisation 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 | | 620,912 | 575,710 | 1,196,622 | 200,655 | 204,921 | 405,576 | 791,046 | 12.5 - 33 |

11.2.1 Intangible assets include software costing Rs. 206.96 million (31 December 2019: Rs. 141.383 million) which are fully amortised and still in use.

11.3 Capital work-in-progress

| | Note | 2020 | 2019 |
|-----------------------|--------|------------------------------|----------------|
| | | ----- (Rupees in '000) ----- | |
| Civil works | | - | 9,920 |
| Computer Equipment | 11.3.1 | 2,784,232 | 437,160 |
| Office Equipment | | - | 69,984 |
| Furniture and Fixture | | - | 38,548 |
| | 11.3.2 | <u>2,784,232</u> | <u>555,612</u> |

11.3.1 This represents expenditure on core banking platforms.

11.3.2 During the year, Rs. 118.45 million and Nil (31 December 2019: Rs. 199 million and 136.8 million) is capitalized in property and equipment and intangibles respectively.

11.4 Right-of-use assets - buildings

| | 2020 | 2019 |
|---|------------------------------|-----------|
| | ----- (Rupees in '000) ----- | |
| Opening | 2,811,770 | - |
| Effect of initial recognition | - | 878,301 |
| Additions during the year | 57,467 | 2,345,981 |
| Deletions during the year | (138,545) | - |
| Impact of remeasurement during the year | (198,985) | - |
| Depreciation charge | (365,897) | (412,512) |
| Closing | 2,165,810 | 2,811,770 |

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

12. OTHER ASSETS

| | 2020 | 2019 | |
|---|------------------------------|-----------|-----------|
| | ----- (Rupees in '000) ----- | | |
| | Note | | |
| Mark-up / return / interest accrued | | 2,351,893 | 1,876,934 |
| Service fee receivable on digital loans | | 32,307 | 30,610 |
| Receivable from branchless banking agents | 12.1 | 537,202 | 473,200 |
| Loans to employees | 12.2 | 266,210 | 288,446 |
| Security deposits | | 118,215 | 118,430 |
| Prepayments - others | | 93,874 | 109,983 |
| Receivable from defined benefit plan | 32.4 | 100,118 | - |
| Branchless banking transaction fee receivable | 12.3 | 733,281 | 658,019 |
| Advance tax - net | 12.4 | 15,230 | 7,571 |
| Receivable from SBP against livestock insurance | | - | 24,248 |
| Receivable from SBP against international remittances | | 6,376 | 21,380 |
| Advance sales tax | | 196,107 | 176,640 |
| Others | | 155,538 | 121,294 |
| | | 4,606,351 | 3,906,755 |
| Less: Provision held against other assets | 26 | (144,254) | (308,507) |
| | | 4,462,097 | 3,598,248 |

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

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

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

| | 2020 | 2019 | |
|---|------------------------------|---------|---------|
| | ----- (Rupees in '000) ----- | | |
| | Note | | |
| Commission receivable from Benazir Income Support Program (BISP) | | 362,462 | 362,462 |
| Commission receivable from utility companies | | 161,103 | 141,670 |
| Commission receivable from insurance companies | | 108,321 | 39,594 |
| Commission on disbursement services from financial institutions | | 9,657 | 59,370 |
| Commission receivable from the Federal and Provincial Governments | | 90,661 | 50,081 |
| Others | | 1,077 | 4,842 |
| | 12.3.1 | 733,281 | 658,019 |

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

12.4 Movement in advance tax - net

| | | | |
|-------------------------------------|----|-----------|-----------|
| Balance as at 1 January | | 7,571 | 28,535 |
| Taxes paid during the year | | 333,740 | 425,649 |
| Provision for taxation for the year | 28 | (326,081) | (446,613) |
| Balance as at 31 December | | 15,230 | 7,571 |

Refer note 20.1 also for tax related matters.

13. DEFERRED TAX ASSET / (LIABILITY) - net

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

| | 2020 | 2019 | |
|---|------------------------------|-----------|-----------|
| | ----- (Rupees in '000) ----- | | |
| | Note | | |
| Deductible temporary differences | | | |
| - Deficit on revaluation of assets (Investments) | | - | 1,687 |
| - Un-absorbed tax depreciation | | 294,180 | 273,360 |
| | | 294,180 | 275,047 |
| Taxable temporary differences | | | |
| - Accelerated tax depreciation allowance | | (252,155) | (275,047) |
| - Remeasurement gain/(loss) on defined benefit obligation | | (35,568) | - |
| - Surplus on revaluation of assets (Investments) | | (6,457) | - |
| | 13.2 | (294,180) | (275,047) |

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

| | Balance as at 1 January 2019 (restated note 13.4) | Recognised in statement of profit or loss | Recognised in other comprehensive income | Deficit on revaluation of assets | Balance as at 31 December 2019 (restated note 13.4) | Recognised in statement of profit or loss | Recognised in other comprehensive income | Deficit on revaluation of assets | Balance as at 31 December 2020 |
|---|---|---|--|----------------------------------|---|---|--|----------------------------------|--------------------------------|
| | ----- (Rupees in '000) ----- | | | | | | | | |
| Deductible temporary differences arising in respect of: | | | | | | | | | |
| - Un-absorbed tax depreciation | 153,066 | 120,294 | - | - | 273,360 | 20,820 | - | - | 294,180 |
| Taxable temporary differences arising in respect of: | | | | | | | | | |
| - Accelerated tax depreciation allowance | (153,984) | (121,063) | - | - | (275,047) | 22,892 | - | - | (252,155) |
| - Remeasurement of defined benefit liability | - | - | - | - | - | - | (35,568) | - | (35,568) |
| - Deficit / (surplus) on revaluation of assets | 918 | - | 769 | - | 1,687 | - | (8,144) | - | (6,457) |
| | (153,066) | (121,063) | 769 | - | (273,360) | 22,892 | (43,712) | - | (294,180) |
| | - | (769) | 769 | - | - | 43,712 | (43,712) | - | - |

13.3 As of 31 December 2020, the carry forward tax loss and other deductible temporary difference amount to Rs. 25,529 million (2019: Rs. 10,085 million) and Rs. 1,780 million (2019: Rs. 7,770 million) respectively. Unrecognized deferred tax asset due to carry forward tax losses and other deductible timing differences calculated at the current rate of taxation amounts to Rs. 7,920 million (2019: Rs. 5,178 million). Such deferred tax asset has not been recognized in these financial statements due to uncertainty of realizability of the amount.

13.4 In accordance with the requirements of International Accounting Standard 12 'Income Taxes' the deferred tax asset should be recognised to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity. During the prior years, the Bank had not recognized deferred tax asset to the extent of availability of taxable temporary differences (deferred tax liability on account of accelerated tax depreciation) under the requirements of IAS 12 which has now been adjusted in the financial statements with retrospective effect by restatement of prior periods presented as required by IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

13.4.1 Financial impact of restatement on each item of financial statements are as follows:

| | As previously reported | Adjustment (Rupees in '000) | As restated |
|--|------------------------|-----------------------------|--------------|
| Equity as at 01 January 2019 | 13,614,984 | 153,066 | 13,768,050 |
| Equity as at 31 December 2019 | 8,032,369 | 273,360 | 8,305,729 |
| Deferred tax liability as at 1 January 2019 | 153,066 | (153,066) | - |
| Deferred tax liability as at 31 December 2019 | 273,360 | (273,360) | - |
| Loss for the year ended 31 December 2019 | (16,351,827) | 120,294 | (16,231,533) |
| Loss per share for year ended 31 December 2019 | (45.25) | 0.33 | (44.92) |

14. DEPOSITS AND OTHER ACCOUNTS

| | 2020 | | 2019 | |
|------------------|--------------------|------------------|--------------------|------------------|
| | Number of accounts | (Rupees in '000) | Number of accounts | (Rupees in '000) |
| Current deposits | 23,102,887 | 21,539,432 | 16,989,718 | 13,247,452 |
| Saving deposits | 133,937 | 3,570,771 | 179,901 | 6,020,702 |
| Fixed deposits | 10,689 | 11,853,607 | 12,758 | 21,902,383 |
| | 23,247,513 | 36,963,810 | 17,182,377 | 41,170,537 |

14.1 Particulars of deposits by ownership

| | 2020 | | 2019 | |
|----------------------------------|--------------------|------------------|--------------------|------------------|
| | Number of accounts | (Rupees in '000) | Number of accounts | (Rupees in '000) |
| Individual depositors | 23,246,293 | 35,430,364 | 17,181,210 | 27,178,714 |
| Institutional depositors | | | | |
| - Corporations / firms etc | 1,176 | 1,432,642 | 1,117 | 3,927,331 |
| - Banks / financial institutions | 44 | 100,804 | 50 | 10,064,492 |
| | 23,247,513 | 36,963,810 | 17,182,377 | 41,170,537 |

15. OTHER LIABILITIES

| Note | 2020 | 2019 |
|---|------------------------------|------------|
| | ----- (Rupees in '000) ----- | |
| Mark-up / return / interest payable | 82,095 | 464,820 |
| Accrued expenses | 2,159,426 | 3,160,352 |
| Payable to related parties | 15.1 | 2,125,255 |
| Commission payable - branchless banking | | 137,878 |
| Provision for staff bonus | | 250,000 |
| Withholding tax payable | | 155,101 |
| Payable to defined contribution plan | | 3,987 |
| Payable to defined benefit plan | 33.4 | - |
| Payable to Worker's Welfare Fund | 15.2 | 102,453 |
| Lease liability against right-of-use assets | 15.4 | 2,314,659 |
| Bills payable | | 176,366 |
| Switch settlement liability - net | | 501,979 |
| Payable against branchless banking transactions | 15.3 | 1,906,427 |
| Others | | 220,875 |
| | | 10,136,501 |
| | | 11,369,058 |

15.1 Details of amounts

| | | |
|------------------------------------|-----------|-----------|
| Alipay Singapore Pte. Ltd | 1,318,634 | - |
| Telenor Pakistan (Private) Limited | 516,439 | 1,233,587 |
| Telenor Procurement Company | 167,806 | 239,891 |
| Telenor Financial Services | 70,593 | 70,593 |
| Telenor Global Shared Services | 50,823 | 47,920 |
| Telenor ASA | 960 | 1,585 |
| | 2,125,255 | 1,593,576 |

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

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

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

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

| | Note | 2020 ----- (Rupees in '000) ----- | 2019 |
|---------------------------|--------|--------------------------------------|------------------|
| Over counter transactions | 15.3.1 | 1,322,014 | 1,093,000 |
| Utility bills collections | | 519,364 | 485,540 |
| Others | | 65,049 | 44,275 |
| | | <u>1,906,427</u> | <u>1,622,815</u> |

15.3.1 This includes Rs. 820,289 million (31 December 2019: Rs. 634,869 million) outstanding for more than one year in respect of 'over the counter' transactions.

15.4 Lease liability against right-of-use assets

| | Note | 2020 ----- (Rupees in '000) ----- | 2019 |
|---|------|--------------------------------------|------------------|
| Lease liability against right-of-use assets | | | |
| Opening | | 2,682,835 | - |
| Effect of initial recognition | | - | 878,301 |
| Additions during the year | | 57,467 | 2,345,981 |
| Deletions during the year | | (141,514) | - |
| Impact of remeasurement during the year | | (198,569) | - |
| Finance Cost | | 337,060 | 226,324 |
| Payment of lease liability | | (422,620) | (767,771) |
| Closing | | <u>2,314,659</u> | <u>2,682,835</u> |

16. SHARE CAPITAL

16.1 Authorised capital

| 2020 (Number of shares in '000) | 2019 | Note | 2020 (Rupees in '000) | 2019 |
|------------------------------------|----------------|-------------------------------|--------------------------|------------------|
| <u>450,000</u> | <u>450,000</u> | Ordinary shares of Rs.10 each | <u>4,500,000</u> | <u>4,500,000</u> |
| | | 17.2 | | |

16.2 Issued, subscribed and paid-up capital

| 2020 (Number of shares in '000) | 2019 | | 2020 (Rupees in '000) | 2019 |
|------------------------------------|----------------|-------------------------------|--------------------------|------------------|
| | | Ordinary shares of Rs.10 each | | |
| <u>427,759</u> | <u>427,759</u> | fully paid in cash | <u>4,277,589</u> | <u>4,277,589</u> |

| | Note | 2020 ----- (Rupees in '000) ----- | 2019 |
|--|------|--------------------------------------|------|
|--|------|--------------------------------------|------|

16.3 Reconciliation of number of shares outstanding

| | | | |
|---|--------|----------------|----------------|
| Number of shares outstanding at the beginning of the year | | 427,759 | 354,727 |
| Issuance of right shares | 16.3.1 | - | 73,032 |
| Number of shares outstanding at the ending of the year | | <u>427,759</u> | <u>427,759</u> |

16.3.1 These shares were subscribed by Alipay (Hong Kong) Holding Limited at a premium of Rs. 139 above par.

16.4 As at 31 December 2020, the shareholding of Telenor Pakistan B.V. and Alipay (Hong Kong) Holding Limited was 55% and 45% respectively.

17. ADVANCE AGAINST FUTURE ISSUE OF RIGHT SHARES

17.1 As per approved business plan, the sponsors of the Bank made an equity injection of Rs. 7,443 million (USD 45 million) on 31 August 2020.

Subsequent to year-end, the sponsor shareholders have further injected Rs. 6,559.4 million (USD 41 million) in the Bank on 29 January 2021 in proportion to their respective shareholding.

17.2 Subsequent to year-end, the share allotment process for August tranche has been initiated after receiving approval from SECP for increase in authorised share capital to Rs. 22,000 million on 8 January 2021.

18. SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS - net of deferred tax

| | Note | 2020 ----- (Rupees in '000) ----- | 2019 |
|---|------|--------------------------------------|----------------|
| Surplus / (deficit) on Available-for-sale investments | | | |
| Federal Government Securities | 9 | 22,266 | (5,817) |
| Related tax effect | 13 | (6,457) | 1,687 |
| | | <u>15,809</u> | <u>(4,130)</u> |

19. DEFERRED GRANTS

| Grant received from | | 2020 | 2019 |
|--|------|---------------|---------------|
| State Bank of Pakistan | 19.1 | 1,426 | 1,426 |
| Consultative Group to Assist the Poor | 19.2 | 3,347 | 3,347 |
| Soros Economic Development Fund | 19.3 | 149 | 149 |
| The Aga Khan Agency for Microfinance | 19.4 | 64 | 64 |
| Financial Sector Strengthening Programme | 19.5 | 219 | 219 |
| Frankfurt School of Management | 19.6 | 2,451 | 2,451 |
| GSMA Mobile for Development Foundation Inc | | | |
| (GSMA Foundation) | 19.7 | 2,205 | 2,205 |
| Karandaaz Pakistan | 19.8 | 7,409 | 8,879 |
| | 19.9 | <u>17,270</u> | <u>18,740</u> |

19.1 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.

19.2 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.

19.3 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.

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

19.5 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.

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

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

19.8 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.

| | 2020 | 2019 |
|--|------------------------------|------|
| | ----- (Rupees in '000) ----- | |

19.8.1 Details of the income recognized during the year is as follows:

| | | |
|---|--------------|--------------|
| Balance as at 01 January | 8,879 | 45,943 |
| Amount recognized as income during the year | (1,470) | (37,064) |
| Balance as at 31 December | 7,409 | 8,879 |

19.9 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.

20. MEMORANDUM / OFF BALANCE SHEET ITEMS

| | Note | 2020 | 2019 |
|---|------|------------------------------|----------------|
| | | ----- (Rupees in '000) ----- | |
| Contingent liabilities | 20.1 | 285,830 | 128,120 |
| Acceptances, endorsements and other obligations (including commitments) | 20.2 | 505,400 | 398,777 |
| | | 791,230 | 526,897 |

20.1 Contingencies

20.1.1 The Bank was served with an order from Sindh Revenue Board (SRB) creating demand on account of alleged non/short payment of output sales tax and alleged inadmissible input tax adjustment amounting to Rs. 73 million (including penalty) for the tax periods from July 2011 to June 2016. The Bank had filed an appeal with Commissioner (Appeals) after paying 25% of the tax demand and the proceedings are still in process. No provision has been recorded as the Bank's tax advisor is confident of a favorable decision.

Further, during the year, SRB has also initiated proceedings of Sindh Sales Tax paid during the tax periods from July 2016 till June 2020 and has required Bank to furnish records/documents which the Bank is in process of compliance.

20.1.2 The Bank was served with an order from Khyber Pakhtunkhwa Revenue Authority (KPRA) creating a demand aggregating to Rs. 13.59 million against input tax disallowances and sales tax withholding in relation to certain tax periods from September 2016 to January 2018. The Bank filed an appeal with the Collector (Appeals) which was disposed against the Bank on September 25, 2019. The matter has been decided by KPRA-Tribunal in Feb 2021 whereby case has been remanded back to KPRA for fresh adjudication. Accordingly, no provision has been made in the books.

20.1.3 During last 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 May 23, 2019. The Bank acquired a stay order against this demand from Lahore High Court. The Bank also filed an appeal before the Commissioner (Appeals) where the matter is still sub-judice As the demand is considered unlawful and has been raised without proper verification of facts, no provision has been made in the books and a favorable outcome is expected in appeals.

20.1.4 The Bank received amended assessment Orders with respect Tax Year 2015 raising a demand of Rs. 74.5 million against which the Bank is in the process of filing appeal before Commissioner (Appeals).

The Bank was served with amended assessment Order with respect to Tax Years 2016 raising demand of Rs. 51.7 million against which, the Bank has filed an appeal before Commissioner (Appeals).

The Bank received amended assessment Order with respect to Tax Year 2018 raising a tax demand of Rs. 92.7 million against which the Bank has filed an appeal before Commissioner (Appeals).

The Bank based on the merits of the aforementioned matters expects a favorable outcome on these matters and accordingly, no provision has been made in this respect in these financial statements.

20.1.5 The Bank has received notices from FBR regarding selection for audit u/s. 177 of the Income Tax Ordinance, 2001 for tax years 2016 and 2017. The tax authority has requested the Bank to furnish records / documents for audit purposes and the audit proceedings are underway.

20.2 Acceptances, endorsements and other obligations

| | 2020 | 2019 |
|---------------------------------------|----------------|----------------|
| Commitments | | |
| Commitments in respect of: | | |
| Acquisition of operating fixed assets | 505,400 | 398,777 |
| | 505,400 | 398,777 |

21. MARK-UP / RETURN / INTEREST EARNED

| On: | | |
|---|------------------|------------------|
| Advances | 3,711,302 | 7,390,614 |
| Available-for-sale investments in Government Securities | 1,380,254 | 978,383 |
| Deposits with financial institutions / banks | 347,398 | 468,632 |
| Call money lendings | 415,602 | 295,836 |
| Repurchase agreement lendings | 126,546 | 155,159 |
| | 5,981,102 | 9,288,624 |

22. MARK-UP / RETURN / INTEREST EXPENSED

| | Note | 2020 | 2019 |
|---|------|------------------------------|------------------|
| | | ----- (Rupees in '000) ----- | |
| On: | | | |
| Deposits | | 2,433,186 | 3,443,894 |
| Borrowings | | 870 | 1,208 |
| Lease liabilities against right-of-use assets | 22.1 | 337,060 | 226,324 |
| | | 2,771,116 | 3,671,426 |

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

23. FEE, COMMISSION AND BROKERAGE INCOME

| | Note | 2020 | 2019 |
|--------------------------------|------|------------------------------|------------------|
| | | ----- (Rupees in '000) ----- | |
| Loan processing fee | 23.1 | 560,904 | 902,035 |
| Income from branchless banking | 23.2 | 5,741,896 | 7,325,651 |
| Others | | - | 13,532 |
| | | 6,302,800 | 8,241,218 |

23.1 This includes fee of Rs. 446.886 million (31 December 2019: Rs. 336.239 million) in respect of nano-loans advanced during the year.

| | 2020 | 2019 |
|------|------------------------------|------|
| Note | ----- (Rupees in '000) ----- | |

23.2 Income from branchless banking

| | | |
|---|------------------|------------------|
| Service fee on money transfer services | 4,453,994 | 5,904,087 |
| Commission on funds collection services on behalf of corporate clients | 1,099,153 | 756,581 |
| Commission from BISP (Benzir Income Support Programme) | - | 468,515 |
| Commission from insurance companies | 142,841 | 78,499 |
| Commission on disbursement services on behalf of financial institutions | 35,916 | 92,177 |
| Others | 9,992 | 25,792 |
| | <u>5,741,896</u> | <u>7,325,651</u> |

24. OTHER INCOME

| | | |
|--|----------------|----------------|
| Cheque book fees, ATM fees and other service charges | 86,102 | 131,487 |
| Recoveries against advances written off | 821,114 | 119,204 |
| Grant income | 19.8 | 42,171 |
| (Loss) / gain on sale of operating fixed assets | (21,342) | 4,024 |
| Others | 6,506 | - |
| | <u>893,850</u> | <u>296,866</u> |

25. ADMINISTRATIVE EXPENSES

| | | |
|--|-------------------|-------------------|
| Salaries and other allowances | 3,922,852 | 3,943,588 |
| Charge for defined benefit plan | 33.3.3 | 190,561 |
| Contribution to defined contribution plan | 156,278 | 154,111 |
| Staff welfare | 51,870 | 125,859 |
| Training and capacity building | 57,491 | 25,287 |
| Non-executive directors' fees, allowances and other expenses | 9,368 | 5,675 |
| Commission - Branchless Banking | 25.2 | 4,684,239 |
| Customer Incentives | 2,563,895 | 3,434,503 |
| Advertisement | 1,174,130 | 1,874,065 |
| Professional consultancy charges | 517,760 | 618,844 |
| Customer verification charges | 363,741 | 557,837 |
| Legal and professional charges | 163,783 | 103,123 |
| Depreciation | 11.1 | 985,443 |
| Depreciation on right-of-use assets | 11.4 | 365,897 |
| Amortisation | 11.2 | 256,604 |
| Repairs and maintenance - IT | 1,159,724 | 709,628 |
| Insurance | 423,479 | 407,501 |
| Repairs and maintenance - General | 316,611 | 343,215 |
| Security services | 306,622 | 307,597 |
| Travelling and conveyance | 108,081 | 294,940 |
| Communication | 385,608 | 236,944 |
| Bank charges | 273,886 | 186,100 |
| Utilities | 118,010 | 123,693 |
| Printing and stationery | 155,227 | 88,085 |
| Rent and taxes | - | 76,842 |
| Auditors' remuneration | 25.3 | 5,584 |
| Donations | 3,531 | - |
| Other expenses | 25.1 | 54,590 |
| | <u>18,774,865</u> | <u>20,818,968</u> |

25.1 This includes input tax disallowed amounting to Rs. 30.3 million (31 December 2019: Rs. 381.8 million).

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

| | 2020 | 2019 |
|--|------------------------------|---------------|
| Note | ----- (Rupees in '000) ----- | |
| 25.3 Auditors' remuneration | | |
| Audit fee | 3,250 | 4,500 |
| Half year review fee | 1,250 | 1,800 |
| Fee for other services as statutory auditors | 800 | 937 |
| Taxation services | - | 5,949 |
| Advisory services | - | 3,298 |
| Out-of-pocket expenses | 284 | 928 |
| | <u>5,584</u> | <u>17,412</u> |

26. OTHER PROVISIONS / WRITE OFFS

| | | |
|---|---------------|----------------|
| Write off against Operating Fixed Assets | 107,715 | 56,060 |
| Write off against Other Assets | 8,542 | - |
| (Reversal) / Provision against other Assets | (164,253) | 124,975 |
| Other provisions | 86,425 | 69,856 |
| | <u>38,429</u> | <u>250,891</u> |

27. OTHER CHARGES

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

28. TAXATION

| | 2020 | 2019 |
|--------------|------------------------------|----------------|
| Note | ----- (Rupees in '000) ----- | |
| Current tax | 287,753 | 361,944 |
| Prior tax | 38,328 | 84,669 |
| Deferred tax | 13.2 | (43,712) |
| | <u>282,369</u> | <u>447,382</u> |

28.1 The Bank has filed returns upto tax year 2020 which are deemed to be assessed orders under section 120 of the Income Tax Ordinance, 2001 unless any amendments have been made by the Tax Authorities. Certain tax related appeals are pending, details of which are mentioned in note 20.1 to these financial statements.

29. LOSS PER SHARE

| | 2020 | 2019 |
|------------------------------------|------------------------------|----------------------|
| Note | ----- (Rupees in '000) ----- | Restated (note 13.4) |
| 29.1 Basic | | |
| Loss after taxation for the year | (10,703,951) | (16,231,533) |
| | | (Number in '000) |
| Weighted average ordinary shares | 427,759 | 361,330 |
| | | (Rupees) |
| Loss per share - Basic and diluted | <u>(25.02)</u> | <u>(44.92)</u> |

29.2 Diluted

Whilst the Bank will issue ordinary shares against advance for future issue of right shares (note 17), the impact of the same is considered as anti-dilutive as of 31 December 2020.

30. CASH AND CASH EQUIVALENTS

| | 2020 | 2019 |
|------------------------------------|------------------------------|-------------------|
| Note | ----- (Rupees in '000) ----- | |
| Cash and balances with SBP and NBP | 6 | 2,881,781 |
| Balances with other banks | 7 | 6,352,885 |
| | <u>9,234,666</u> | <u>10,872,290</u> |

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

| | Liabilities | | 2020 | | | Deferred grant | Total |
|---|-----------------------------|-------------------|---------------|------------|------------------|----------------|-------------|
| | Deposits and other accounts | Other liabilities | Equity | | | | |
| | | | Share capital | Reserves | Accumulated loss | | |
| (Rupees in '000) | | | | | | | |
| Balance as at 1 January 2020 | 41,170,537 | 11,369,058 | 4,277,589 | 20,585,009 | (16,556,869) | 18,740 | 60,864,064 |
| Changes from financing cash flows | | | | | | | |
| Issuance of share capital (including share premium) | - | - | - | - | - | - | - |
| Other changes - liability related | | | | | | | |
| Changes in deposits and other accounts | (4,206,727) | - | - | - | - | - | (4,206,727) |
| Changes in other liabilities | - | (1,232,557) | - | - | - | - | (1,232,557) |
| Changes in deferred grants | - | - | - | - | - | (1,470) | (1,470) |
| Total liability related to other changes | (4,206,727) | (1,232,557) | - | - | - | (1,470) | (5,440,754) |
| Total equity related other changes | | | | | | | |
| | - | - | 7,442,699 | 31,737 | (10,648,607) | - | (3,174,171) |
| Balance as at 31 December 2020 | 36,963,810 | 10,136,501 | 11,720,288 | 20,616,746 | (27,205,476) | 17,270 | 52,249,139 |

| | Liabilities | | 2019 | | | Deferred grant | Total |
|---|-----------------------------|-------------------|---------------|------------|------------------|----------------|--------------|
| | Deposits and other accounts | Other liabilities | Equity | | | | |
| | | | Share capital | Reserves | Accumulated loss | | |
| (Rupees in '000) | | | | | | | |
| Balance as at 1 January 2019 | 42,274,909 | 6,369,572 | 3,547,269 | 10,412,953 | (345,238) | 55,804 | 62,315,269 |
| Changes from financing cash flows | | | | | | | |
| Issuance of share capital (including share premium) | - | - | 730,320 | 10,138,580 | - | - | 10,868,900 |
| Other changes - liability related | | | | | | | |
| Changes in deposits and other accounts | (1,104,372) | - | - | - | - | - | (1,104,372) |
| Changes in other liabilities | - | 4,999,486 | - | - | - | - | 4,999,486 |
| Changes in deferred grants | - | - | - | - | - | (37,064) | (37,064) |
| Total liability related changes | (1,104,372) | 4,999,486 | - | - | - | (37,064) | 3,858,050 |
| Total equity related other changes | | | | | | | |
| | - | - | - | 33,476 | (16,211,631) | - | (16,178,155) |
| Balance as at 31 December 2019 | 41,170,537 | 11,369,058 | 4,277,589 | 20,585,009 | (16,556,869) | 18,740 | 60,864,064 |

31. NUMBER OF EMPLOYEES

| | 2020 | | | 2019 | | |
|-------------|----------------------|-------------------------|-------|----------------------|-------------------------|-------|
| | Credit / sales staff | Banking / support staff | Total | Credit / sales staff | Banking / support staff | Total |
| | (Numbers) | | | | | |
| Permanent | 568 | 1,725 | 2,293 | 1,325 | 2,059 | 3,384 |
| Contractual | 113 | 186 | 299 | 157 | 153 | 310 |
| | 681 | 1,911 | 2,592 | 1,482 | 2,212 | 3,694 |

32. NUMBER OF BRANCHES

| | 2020 | 2019 |
|------------------------|-----------|------|
| | (Numbers) | |
| As at 01 January | 120 | 103 |
| Opened during the year | - | 17 |
| Closed during the year | (31) | - |
| As at 31 December | 89 | 120 |

33. DEFINED BENEFIT PLAN

33.1 General description

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

The gratuity is payable under the following basis:

The gratuity is payable under the following basis:

Old policy rules before 1 January 2017

Length of service less than 6 months
Length of service greater than or equal to 6 months
but less than 5 years
Length of service greater than or equal to 5 years

Nil

One month's basic salary for each year of service
One month's gross salary for each year of service

New policy rules after 1 January 2017

Length of service less than 5 years
Length of service greater than or equal to 5 years
Principal actuarial assumptions

Nil

One month's gross salary for each year of service

33.2 Principal actuarial assumptions

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

| | 2020 | 2019 |
|--|---------------|--------------|
| | (% per annum) | |
| - Discount rate | 9.75 | 11.25 |
| - Salary increase rate | 8.75 | 10.25 |
| - Expected rate of return on plan assets | 9.75 | 11.25 |
| - Mortality rates assumed | SLIC 2001-05 | SLIC 2001-05 |

33.3 Amount recognised in balance sheet

| | Note | 2020 | 2019 |
|--|--------|------------------------------|-----------|
| | | ----- (Rupees in '000) ----- | |
| Present value of defined benefit obligations | 33.3.1 | 788,446 | 810,788 |
| Fair value of plan assets | 33.3.2 | (888,564) | (740,273) |
| | | (100,118) | 70,515 |

33.3.1 Movement in present value of defined benefit obligations

| | 2020 | 2019 |
|---|-----------|-----------|
| Balance as at 1 January | 810,788 | 645,542 |
| Current service cost | 194,668 | 182,760 |
| Interest cost | 80,320 | 75,500 |
| Employees transferred from Telenor Pakistan (Private) Limited | 3,887 | - |
| Benefits paid by the plan | (149,066) | (154,675) |
| Remeasurement loss / (gain) on obligations | (152,151) | 61,661 |
| Balance as at 31 December | 788,446 | 810,788 |

33.3.2 Movement in fair value of plan assets

| | Note | 2020 | 2019 |
|-------------------------------------|-------------|------------------------------|----------------|
| | | ----- (Rupees in '000) ----- | |
| Balance as at 1 January | | 740,273 | 669,900 |
| Contributions to the fund | | 238,545 | 134,850 |
| Benefits paid by the plan | | (149,066) | (154,675) |
| Benefits paid on behalf of the fund | | - | 38,043 |
| Expected return on plan assets | | 88,314 | 90,182 |
| Remeasurement loss on plan assets | | (29,502) | (38,027) |
| Balance as at 31 December | 33.5 | 888,564 | 740,273 |

33.3.3 Amount recognised in the profit or loss account

| | | | |
|----------------------|--|----------------|----------------|
| Current service cost | | 194,668 | 182,760 |
| Net interest | | (7,994) | (14,682) |
| Employee transferred | | 3,887 | - |
| | | <u>190,561</u> | <u>168,078</u> |

| | | | |
|--|--|------------------|---------------|
| Remeasurement loss / (gain) on obligation - due to experience adjustment | | (152,151) | 61,661 |
| Remeasurement loss on fair value of plan assets | | 29,502 | 38,027 |
| Remeasurement loss for the year - net | | (122,649) | 99,688 |

33.4 Movement in defined benefit plan

| | | | |
|--|--------|------------------|---------------|
| Balance as at 1 January | | 70,515 | (24,358) |
| Expense charged in the current year | 33.3.3 | 190,561 | 168,078 |
| Remeasurements recognised in OCI during the year | 33.3.4 | (122,649) | 99,688 |
| Contributions to gratuity fund | 33.3.2 | (238,545) | (134,850) |
| Benefits paid on behalf of fund | 33.3.2 | - | (38,043) |
| Balance as at 31 December | | (100,118) | 70,515 |

33.5 Plan assets consist of the following:

| | | | |
|------------------------------------|--|----------------|----------------|
| Bank balances | | 489,728 | 739,787 |
| Term Deposit Receipt (TDRs) | | 398,836 | - |
| Receivable from the Provident Fund | | - | 486 |
| | | <u>888,564</u> | <u>740,273</u> |

33.6 Maturity profile of defined benefit obligation

| | Years | |
|--|-------------|-------------|
| | 2020 | 2019 |
| Weighted average duration of the present value of defined benefit obligation | <u>9.45</u> | <u>9.11</u> |

| | Benefit Payments | |
|--|------------------------------|------|
| | 2020 | 2019 |
| | ----- (Rupees in '000) ----- | |

Distribution of timing of benefit payments

| Years | 2020 | 2019 |
|--------|-----------|-----------|
| 1 | 76,273 | 89,839 |
| 2 | 67,740 | 84,811 |
| 3 | 66,318 | 75,785 |
| 4 | 64,546 | 75,676 |
| 5 | 67,985 | 66,874 |
| 6 - 10 | 251,642 | 310,529 |
| 11+ | 2,054,095 | 2,834,899 |

33.7 Sensitivity analysis on significant actuarial assumptions: Defined benefit liability

| | Benefit Payments | |
|-----------------------------|------------------------------|---------|
| | 2020 | 2019 |
| | ----- (Rupees in '000) ----- | |
| Base | 757,758 | 810,788 |
| Discount rate +1% | 691,841 | 730,092 |
| Discount rate -1% | 835,019 | 875,229 |
| Future salary increases +1% | 838,849 | 879,189 |
| Future salary increases -1% | 687,529 | 725,650 |

33.8 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 2020 would be Rs. 141.636 million.

34. 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.

35. REMUNERATION OF DIRECTORS AND EXECUTIVES

| | 2020 | | 2019 | |
|---|-------------------------------------|--------------|-------------------------------------|------------------|
| | President / Chief Executive Officer | Directors | President / Chief Executive Officer | Directors |
| | ----- (Rupees in '000) ----- | | ----- (Rupees in '000) ----- | |
| Fees | - | 9,368 | - | 5,675 |
| Managerial remuneration | 28,587 | - | 973,451 | 69,320 |
| Charge for defined benefit plan | 2,859 | - | 94,108 | 3,080 |
| Contribution to defined contribution plan | 3,573 | - | 121,275 | 3,915 |
| Rent and house maintenance | 8,576 | - | 292,036 | 20,796 |
| Utilities | 2,859 | - | 97,345 | 6,932 |
| Medical | 4,646 | - | 151,094 | 8,889 |
| Conveyance | - | - | 170,294 | 2,612 |
| Special allowance | 10,170 | - | 50,784 | 25,000 |
| | <u>61,270</u> | <u>9,368</u> | <u>1,950,387</u> | <u>140,544</u> |
| | | | <u>5,675</u> | <u>1,608,355</u> |
| Number of persons | <u>1</u> | <u>2</u> | <u>622</u> | <u>3</u> |
| | | | <u>2</u> | <u>556</u> |

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

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

36. 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 | 2020 | | | | | 2019 | | | | |
|--|------------------|--------------------------------------|---------------|--------------------------|------------------|------------------|--------------------------|----------------|--------------------------|------------------|
| | Associates | Key management personnel (note 36.2) | Directors | Retirement benefit plans | Total | Associates | Key management personnel | Directors | Retirement benefit plans | Total |
| | (Rupees in '000) | | | | | (Rupees in '000) | | | | |
| Loans | | | | | | | | | | |
| At 1 January | - | 21,233 | - | - | 21,233 | - | 32,564 | 10,029 | - | 42,593 |
| Given during the year | - | 15,949 | - | - | 15,949 | - | 12,645 | - | - | 12,645 |
| Repaid during the year | - | (17,358) | - | - | (17,358) | - | (23,976) | (10,029) | - | (34,005) |
| At 31 December | 36.1 | 19,824 | - | - | 19,824 | - | 21,233 | - | - | 21,233 |
| Deposits | | | | | | | | | | |
| At 1 January | 15,575 | 980 | 16,036 | 1,458,447 | 1,491,038 | 22,654 | 746 | - | 1,243,059 | 1,266,459 |
| Received during the year | 3,488 | 39,587 | 525 | 759,259 | 802,859 | 1,787,851 | 42,078 | 16,036 | 4,400,209 | 6,246,174 |
| Withdrawn during the year | (9,163) | (39,209) | (16,001) | (1,514,249) | (1,578,642) | (1,794,930) | (41,844) | - | (4,184,821) | (6,021,595) |
| At 31 December | 9,900 | 1,358 | 560 | 703,437 | 715,255 | 15,575 | 980 | 16,036 | 1,458,447 | 1,491,038 |
| Other Assets | | | | | | | | | | |
| Receivable from defined benefit plan | - | - | - | 100,118 | 100,118 | - | - | - | - | - |
| At 31 December | - | - | - | 100,118 | 100,118 | - | - | - | - | - |
| Other Liabilities | | | | | | | | | | |
| Payable against goods and services | 2,125,255 | - | - | - | 2,125,255 | 1,593,576 | - | - | - | 1,593,576 |
| Payable to defined contribution plan | - | - | - | 3,987 | 3,987 | - | - | - | 58,819 | 58,819 |
| Payable to defined benefit plan | - | - | - | - | - | - | - | - | 70,516 | 70,516 |
| At 31 December | 2,125,255 | - | - | 3,987 | 2,129,242 | 1,593,576 | - | - | 129,335 | 1,722,911 |
| Capital Expenditure | 1,318,634 | - | - | - | 1,318,634 | 61,179 | - | - | - | 61,179 |
| Transactions during the period | | | | | | | | | | |
| Directors' meeting fees | - | - | 9,368 | - | 9,368 | - | - | 5,675 | - | 5,675 |
| Remuneration of Key Management Personnel | - | 250,042 | 61,270 | - | 311,312 | - | 104,597 | 140,544 | - | 245,141 |
| Mark-up expense | - | - | - | 128,456 | 128,456 | - | - | - | 148,674 | 148,674 |
| Communication expense | 78,478 | - | - | - | 78,478 | 58,088 | - | - | - | 58,088 |
| Rent | 25,356 | - | - | - | 25,356 | 138,474 | - | - | - | 138,474 |
| Professional consultancy charges | 433,880 | - | - | - | 433,880 | 564,778 | - | - | - | 564,778 |
| Other charges | 2,903 | - | - | - | 2,903 | 69,070 | - | - | - | 69,070 |
| Repair and maintenance | 136,636 | - | - | - | 136,636 | 141,907 | - | - | - | 141,907 |
| Advertisement | 957,981 | - | - | - | 957,981 | 1,186,848 | - | - | - | 1,186,848 |
| At 31 December | 1,635,234 | 250,042 | 70,638 | 128,456 | 2,084,370 | 2,159,165 | 104,597 | 146,219 | 148,674 | 2,558,655 |

36.1 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.

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

37. SCHEDULE OF MATURITY DISTRIBUTION OF ASSETS AND LIABILITIES

| | 2020 | | | | |
|---|-------------------|-------------------|--------------------------------|-------------------------------|-------------------|
| | Total | Upto one Month | Over one month upto six months | Over six months upto one year | Over one year |
| | (Rupees in '000) | | | | |
| Interest bearing assets | | | | | |
| Advances | 11,090,960 | 1,498,061 | 3,237,756 | 5,390,538 | 964,605 |
| Investments | 11,855,007 | 2,989,845 | 8,865,162 | - | - |
| Lending to financial institutions | 6,971,827 | 6,971,827 | - | - | - |
| Balances with other banks - deposit accounts | 6,102,086 | 6,102,086 | - | - | - |
| Total | 36,019,880 | 17,561,819 | 12,102,918 | 5,390,538 | 964,605 |
| Other non-earning assets | | | | | |
| Cash and balances with SBP and NBP | 2,881,781 | 2,881,781 | - | - | - |
| Balances with other banks - current accounts | 250,799 | 250,799 | - | - | - |
| Operating fixed assets | 8,650,391 | 114,035 | 3,310,361 | 615,996 | 4,609,999 |
| Other assets | 4,462,097 | 1,034,668 | 2,044,393 | 931,410 | 451,626 |
| Total | 16,245,068 | 4,281,283 | 5,354,754 | 1,547,406 | 5,061,625 |
| Total assets | 52,264,948 | 21,843,102 | 17,457,672 | 6,937,944 | 6,026,230 |
| Interest bearing liabilities | | | | | |
| Large time deposits above Rs. 100,000 | 11,659,102 | 409,022 | 8,777,901 | 1,032,048 | 1,440,130 |
| All other time deposits (including fixed rate deposits) | 194,505 | 7435 | 129,779 | 23,007 | 34,284 |
| Other cost bearing deposits | 3,570,771 | 3,570,771 | - | - | - |
| Total | 15,424,378 | 3,987,228 | 8,907,680 | 1,055,055 | 1,474,414 |
| Other non-cost bearing liabilities | | | | | |
| Current deposits | 21,539,432 | 21,539,432 | - | - | - |
| Other liabilities | 10,136,501 | 4,748,831 | 3,063,795 | (64,693) | 2,388,568 |
| Deferred grant | 17,270 | - | - | - | 17,270 |
| Total | 31,693,203 | 26,288,263 | 3,063,795 | (64,693) | 2,405,838 |
| Total liabilities | 47,117,581 | 30,275,491 | 11,971,475 | 990,362 | 3,880,252 |
| | 2019 | | | | |
| | Total | Upto one Month | Over one month upto six months | Over six months upto one year | Over one year |
| | (Rupees in '000) | | | | |
| Market rate assets | | | | | |
| Advances | 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 | - | - | - |
| Total | 45,921,784 | 16,071,921 | 19,364,186 | 8,183,356 | 2,302,321 |
| Other non-earning assets | | | | | |
| 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 |
| Total | 14,938,150 | 4,980,787 | 2,492,259 | 1,114,369 | 6,350,735 |
| Total assets | 60,859,934 | 21,052,708 | 21,856,445 | 9,297,725 | 8,653,056 |
| Market liabilities | | | | | |
| 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 | - | - | - |
| Total | 27,923,085 | 9,749,714 | 6,050,831 | 2,626,061 | 9,496,477 |
| Other non-cost bearing liabilities | | | | | |
| 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 grant | 18,740 | 101 | 504 | 605 | 17,530 |
| Total | 24,635,250 | 16,176,049 | 4,764,492 | 139,572 | 3,555,137 |
| Total liabilities | 52,558,335 | 25,925,763 | 10,815,323 | 2,765,633 | 13,051,614 |

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.

38. FINANCIAL RISK MANAGEMENT

38.1 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 % | 2020 | | | | | |
|--|----------------------------------|-------------------|------------------------|----------------------------|-----------------------------|--------------------|
| | Exposed to yield / interest risk | | | | | |
| | Total | Upto one month | One month to six month | Over six month to one year | Over one year to five years | |
| | (Rupees in '000) | | | | | |
| Assets | | | | | | |
| Balances with other banks - deposit accounts | 5.5% to 8% | 6,102,086 | 6,102,086 | - | - | - |
| Lending to financial institutions | 6.05% to 7.5% | 6,971,827 | 6,971,827 | - | - | - |
| Investment | 6.86% to 9.4% | 11,855,007 | 2,989,845 | 8,865,162 | - | - |
| Advances | 14% to 36% | 11,090,960 | 1,498,061 | 3,237,756 | 5,390,538 | 964,605 |
| | | 36,019,880 | 17,561,819 | 12,102,918 | 5,390,538 | 964,605 |
| Liabilities | | | | | | |
| Deposits | 4.5% to 16% | 15,424,378 | 3,987,228 | 8,907,681 | 1,055,055 | 1,474,414 |
| Lease liability against right-of-use assets | 13% to 15% | 2,314,659 | 2,525 | 67,715 | (74,084) | 2,318,503 |
| On balance sheet gap | | 18,280,843 | 13,572,066 | 3,127,522 | 4,409,567 | (2,828,312) |

| Effective yield / interest rate % | 2019 | | | | | |
|--|----------------------------------|-------------------|------------------------|----------------------------|-----------------------------|--------------------|
| | Exposed to yield / interest risk | | | | | |
| | Total | Upto one month | One month to six month | Over six month to one year | Over one year to five years | |
| | (Rupees in '000) | | | | | |
| Assets | | | | | | |
| Balances with other banks - deposit accounts | 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 |
| Liabilities | | | | | | |
| 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 |
| On balance sheet gap | | 15,315,864 | 6,264,178 | 13,194,383 | 5,383,047 | (9,525,743) |

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

38.2 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.

38.2.1 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 | 2020 | | 2019 | | |
|------------------------------------|------------------|-------------------|-------------------|-------------------|-------------------|
| | Financial assets | Maximum exposure | Financial assets | Maximum exposure | |
| | (Rupees in '000) | | | | |
| Bank balances | 6 & 7 | 8,518,214 | 6,418,788 | 9,935,372 | 7,543,929 |
| Lendings to financial institutions | 8 | 6,971,827 | 6,971,827 | 4,950,000 | 4,950,000 |
| Advances | 10 | 11,090,960 | 11,090,960 | 19,998,939 | 19,998,939 |
| Other receivables | 12 | 4,104,111 | 4,104,111 | 3,266,456 | 3,266,456 |
| | | 30,685,112 | 28,585,686 | 38,150,767 | 35,759,324 |

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.

38.2.2 Concentration of credit risk

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

| | 2020 | 2019 |
|----------------------------|-------------------|-------------------|
| | (Rupees in '000) | |
| Distributors and retailers | 528,202 | 473,200 |
| Financial institutions | 15,507,058 | 14,936,028 |
| Employees | 266,210 | 288,446 |
| Individuals | 13,458,144 | 21,662,286 |
| Corporates | 703,281 | 588,803 |
| Others | 222,218 | 202,004 |
| | 30,685,113 | 38,150,767 |

38.2.3 Bank balances

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

| Bank | 2020 | | Amount (Rupees in '000) |
|--------------------------------------|-----------|------------|----------------------------|
| | Long term | Short term | |
| Allied Bank Limited | AAA | A1+ | 105,217 |
| Bank Alfalah Limited | AA+ | A1+ | 2,319,229 |
| Bank Of Punjab | AA | A1+ | 495 |
| Citi Bank | Aa3 | P-1 | 433 |
| FINCA Microfinance Bank Limited | A | A1 | 27 |
| Habib Bank Limited | AAA | A1+ | 332 |
| JS Bank Limited | AA- | A1+ | 124,200 |
| MCB Bank Limited | AAA | A1+ | 245,061 |
| National Bank of Pakistan | AAA | A1+ | 65,903 |
| Samba Bank Limited | AA | A1 | 2,990 |
| Soneri Bank Limited | AA- | A1+ | 1,500,000 |
| Standard Chartered Bank Limited | AAA | A1+ | 17,055 |
| The First Micro Finance Bank Limited | A+ | A1 | 978,303 |
| United Bank Limited | AAA | A1+ | 1,046,775 |
| Zarai Taraqati Bank Limited | AAA | A1+ | 12,768 |
| | | | 6,418,788 |

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

38.3 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.

38.4 Fair value of financial Instruments

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

- Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Fair value measurements using input other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Fair value measurements using input for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

| On balance sheet financial instruments | 2020 | | | | | | | | |
|---|-----------------------|------------------------------|--------------------------|--------------------------------|--------------|------------|------------|---------|------------|
| | Carrying amount | | | | | Fair value | | | |
| | Available for sale | Cash and cash equivalents | Loans and receivables | Other financial liabilities | Total | Level 1 | Level 2 | Level 3 | Total |
| | (Rupees in '000) | | | | | | | | |
| Financial assets measured at fair value | | | | | | | | | |
| - Investments - market treasury bills | 11,832,741 | - | - | - | 11,832,741 | - | 11,855,007 | - | 11,855,007 |
| Financial assets not measured at fair value | | | | | | | | | |
| - Cash and bank balances with SBP and NBP | - | 2,881,781 | - | - | 2,881,781 | - | - | - | - |
| - Balances with other banks | - | 6,352,885 | - | - | 6,352,885 | - | - | - | - |
| - Lending to financial instruments | - | - | 6,971,827 | - | 6,971,827 | - | - | - | - |
| - Advances | - | - | 11,090,960 | - | 11,090,960 | - | - | - | - |
| - Other assets | - | - | 4,462,097 | - | 4,462,097 | - | - | - | - |
| | 11,832,741 | 9,234,666 | 22,524,884 | - | 43,592,291 | - | 11,855,007 | - | 11,855,007 |
| Financial liabilities not measured at fair value | | | | | | | | | |
| - Deposits and other accounts | - | - | - | (36,963,810) | (36,963,810) | - | - | - | - |
| - Other liabilities | - | - | - | (10,136,501) | (10,136,501) | - | - | - | - |
| | - | - | - | (47,100,311) | (47,100,311) | - | - | - | - |
| | 11,832,741 | 9,234,666 | 22,524,884 | (47,100,311) | (3,508,020) | - | 11,855,007 | - | 11,855,007 |

| On balance sheet financial instruments | 2019 | | | | | | | | |
|---|-----------------------|------------------------------|--------------------------|--------------------------------|--------------|------------|------------|---------|------------|
| | Carrying amount | | | | | Fair value | | | |
| | Available for sale | Cash and cash equivalents | Loans and receivables | Other financial liabilities | Total | Level 1 | Level 2 | Level 3 | Total |
| | (Rupees in '000) | | | | | | | | |
| Financial assets measured at fair value | | | | | | | | | |
| - Investments - market treasury bills | 13,779,217 | - | - | - | 13,779,217 | - | 13,773,400 | - | 13,773,400 |
| Financial assets not measured at fair value | | | | | | | | | |
| - 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 | - | - | - | - |
| | 13,779,217 | 10,872,290 | 28,547,187 | - | 53,198,694 | - | 13,773,400 | - | 13,773,400 |
| Financial liabilities not measured at fair value | | | | | | | | | |
| - Deposits and other accounts | - | - | - | (41,170,537) | (41,170,537) | - | - | - | - |
| - Other liabilities | - | - | - | (11,369,058) | (11,369,058) | - | - | - | - |
| | - | - | - | (52,539,595) | (52,539,595) | - | - | - | - |
| | 13,779,217 | 10,872,290 | 28,547,187 | (52,539,595) | 659,099 | - | 13,773,400 | - | 13,773,400 |

39. CAPITAL RISK MANAGEMENT

39.1 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.

39.2 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.

39.3 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 2020, the Bank's eligible capital for MCR was as follows:

| | 2020 | 2019 |
|---|------------------|--------------|
| | (Rupees in '000) | |
| Fully paid-up ordinary shares | 4,277,589 | 4,277,589 |
| Advance against future issue of right shares | 7,442,699 | - |
| Balance in share premium account | 19,471,229 | 19,471,229 |
| Accumulated losses | (27,205,476) | (16,556,869) |
| Eligible capital for MCR | 3,986,041 | 7,191,949 |
| Statutory reserve | 802,481 | 802,481 |
| Depositors protection fund | 343,036 | 311,299 |
| Net assets (before revaluation surplus / deficit and deferred grants) | 5,131,558 | 8,305,729 |

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 2020, the Bank's Capital adequacy ratio (CAR) was 18.89% (31 December 2019: 24.60%) of its weighted exposure, as against the minimum requirement of 15% prescribed by SBP.

39.4 COVID - 19 Implications

During the year ended 31 December 2020, the global economic environment including Pakistan has been severely affected by the COVID -19 outbreak. To reduce the impact on businesses and economy in general, the SBP has undertaken various relief measures including in particular reduction in SBP Policy Rate by 625 basis points and allowed the Banks to reschedule / restructure eligible financing facilities on case to case basis.

Despite the aforementioned relief measures, COVID-19 has adversely impacted the overall economic activity and disrupted business operations in Pakistan. Resultantly, it has impacted banks by increasing the overall credit risk. The Bank's management and Board is fully cognizant of these challenges posed by the COVID-19 outbreak and lock down, if any, imposed by the Government of Pakistan. The Bank continues its operations to serve customers through its branch network across Pakistan and the digital channels by observing the Government instructions and adopting precautionary measures. Further a significant number of the Bank's staff was working from home through using technology infrastructure during the year ended 31 December 2020 which potentially exposes the Bank to greater challenge of managing cyber security risks.

40. GENERAL

40.1 The comparative information have been re-arranged and reclassified for comparison purposes. However, no material reclassifications have been made except as disclosed in note 13.4.

40.2 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.

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

41. 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 04 March 2021.

President and
Chief Executive Officer

Chairman

Director

Director

PATTERN OF SHAREHOLDING

| Telenor Microfinance Bank Limited | | %age Holding (2020) | %age Holding (2019) | |
|--|------------------------------------|---------------------|---------------------|--|
| Shareholders | Name | %age Holding | %age Holding | |
| | Corporates | | | |
| | Telenor Pakistan B.V | 55.00% | 55.00% | |
| | Alipay (Hong Kong) Holding Limited | 45.00% | 45.00% | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | Sub Total | 100% | 100% | |
| | Individuals | | | |
| | • Mr. Irfan UI Wahab Khan | Less than 0.001% | Less than 0.001% | |
| | • Ms. Uzma Munaf Khan | Less than 0.001% | Less than 0.001% | |
| | | | | |
| | | | | |
| | Sub Total | | | |
| Shareholders Total | 100% | 100% | | |
| | | | | |
| Individuals (Local & Foreign) | | | | |
| | | | | |
| | | | | |
| Grand Total | 100% | 100% | | |



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Credits

Design & Concept

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