

# ANNUAL | 20 REPORT | 20



**NRSP**  
Microfinance  
Bank





**NRSP**  
**Microfinance**  
**Bank**

آپ کی ترقی کا ہمسفر



**NRSP**  
**Microfinance**  
**Bank**

ترقی کا سفر، شریعت کے ساتھ



اب بینکنگ ہوئی آسان

**NRSP Microfinance Bank Limited**

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## OUR VISION

To become the leading Microfinance Bank in Pakistan.

## OUR MISSION

We believe in harnessing the potential of the people through inclusive finance, for poverty reduction and a brighter future.

## OUR CORE VALUES

### INTEGRITY

We endeavor to make integrity and honesty an integral part of our operations.

### TRANSPARENCY

We provide the highest level of disclosure and transparency to our stakeholders.

### INNOVATION

We consistently strive to offer innovative products bringing value to our customers.

### ACCOUNTABILITY

We take complete responsibility for our decisions and actions.



# Message from the Chairman

It has been ten years since we built NRSP Microfinance Bank to serve the financial needs of the rural poor of Pakistan. Since 2011, the Bank has extended demand-driven saving and credit services to low income markets, that would have otherwise remained un or under-served. We completed this year, and the decade, as one of the leading microfinance banks in the country.

Throughout the past ten years the Bank's performance has remained satisfactory as it has striven to serve financially excluded populations at relatively lower interest rates on loans. Today, the Bank is also providing complementary health insurance to all its borrowers, covering both themselves and their spouses, in addition to the routine life insurance scheme offered by other industry players.

The Bank has 343,619 active borrowers as of December 31, 2020 mostly in rural areas and has posted a profit before tax of PKR 1,144 million despite the global economic downturn. In this year, operational activity remained promising with gross advances at PKR 29 billion at year-end for the fiscal year. Simultaneously, the Bank focused on scaling up its deposit base to PKR 39 billion thus, generating funds for business growth and expansion. This strategy was successful with a favorable growth of 47% year on year in savings. In the same period, total assets increased by 33% from PKR 40 billion in 2019 to PKR 53 billion in 2020. With the close of the year, the Bank realized an average annual return on equity (based on the compound annual growth rate) of 14% which remained one of the highest in microfinance industry.

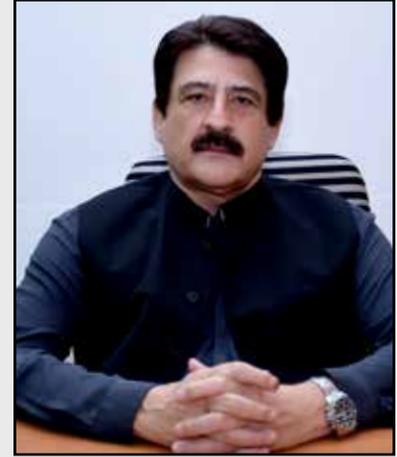
As we all witnessed, the year 2020 was a challenging one for the entire world due to the pandemic and its associated economic fallout, a circumstance that affected the microfinance industry of Pakistan adversely. The economic indicators for the entire country remained daunting as, for the first time in Pakistan's history, we recorded stagnant real GDP growth at 0.4%.

The Bank continued to extend its services to new clients with the help of branchless banking options instead of opening additional brick and mortar branches. With the change in the risk assessments due to the economic recession and agricultural uncertainty, the balance between collateralized and non-collateralized loans shifted in 2020.

As always, we have relied on the guidance of the State Bank of Pakistan and the expertise and support of our shareholders to ensure the Bank remains true to its ethos and continues to serve the rural and financially excluded population of Pakistan. I am grateful to them and to all the Bank employees who have worked hard under difficult conditions during the COVID-19 pandemic, demonstrating a high level of professionalism. I expect the same level of commitment will allow us to achieve new heights in 2021.

Dr. Rashid Bajwa  
Chairman

# Message from the CEO



In operationally grueling times, with the grace of Allah Almighty, we closed 2020 on a positive note. Against the backdrop of the pandemic, there were multiple ramifications that affected both the activities of the Bank and the economic lives of the people we work with. The nationwide lockdowns, restriction of mobility and social distancing affected the businesses of the small entrepreneurs, who are

our primary clientele. The blue collar workers, that is those performing manual labor, and pink collar workers, those working in the service industry such as restaurant workers, saw a downturn in their incomes as they were able to get fewer gigs or lost their jobs. This was coupled with lower agricultural productivity and poorer crop yields, poor weather conditions and pest attacks that impacted the small farmers adversely and increased the unpredictability in our business.

Nevertheless, the Bank portfolio stood at PKR 29.3 billion with positive growth of 5.5%, where deposits recorded 47.4% growth from PKR 26.7 billion in 2019 to PKR 39 billion in 2020. We took the precautionary measure of maintaining additional general provisioning of PKR 683 million to cope with the uncertainty of the recovery of the deferred and restructured loans under the Government's moratorium and the possible impact of IFRS 9. Despite this additional provision, profit before and after tax was PKR 1,144 million and 793 million respectively.

Throughout the year, NRSP MFB took all precautionary measures issued by the National Command and Operation Center (NCOC) and the State Bank of Pakistan at the branch, field and head office levels. With strict observance of COVID-19 Standard Operating Procedures, we were able to protect our staff such that there was no loss of life and the small number of individuals who were infected recovered without complications. The Bank, as a policy, supported the employees who fell ill through financial, medical and other support.

The Bank staff continued working at the HO and in the field without any disruption. Distance learning methods were used for training of existing and new staff. Laptops were provided to staff to work from home. The Bank's call center remained open 24/7 and all complaints were closed within the prescribed period. The Bank's Alternate Delivery Channels (ADC) were monitored closely and client services remained satisfactory.

I would like to convey my sincere gratitude to our shareholders, Board of Directors and members of Board Committees for their guidance and continuous support to us throughout the pandemic. I also take this opportunity to thank all NRSP MFB staff for their commitment and hard work during these difficult times.

A handwritten signature in black ink, appearing to read 'Zahoor Hussain Khan'.

Zahoor Hussain Khan  
President/CEO

A close-up photograph of a wooden gavel and a brass scale of justice resting on a light-colored wooden surface. The gavel is dark wood with a brass head, and the scale is made of polished brass. A semi-transparent green rectangular box is overlaid in the center of the image, containing the text "Corporate Governance" in white, sans-serif font.

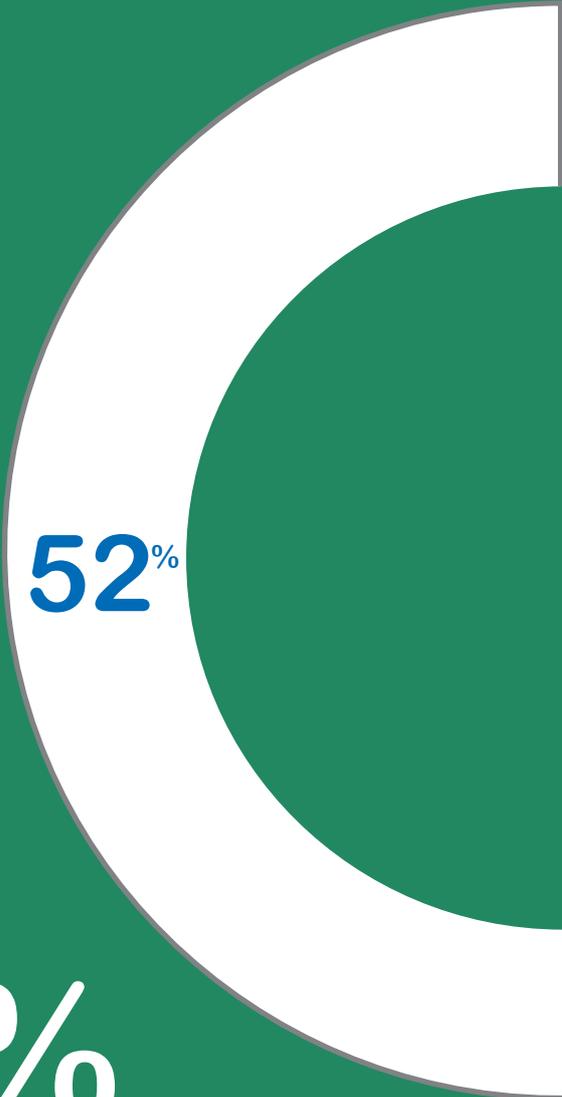
# Corporate Governance

Established in 1991 by Mr. Shoaib Sultan Khan, National Rural Support Program (“NRSP”) builds upon the earlier work of Aga Khan Rural Support Program (“AKRSP”) done in northern mountainous region of Pakistan. NRSP, the largest Rural Support Program in the country in terms of outreach, staff and development activities, is a not-for-profit organization registered under Section 42 of Companies Ordinance 1984. NRSP’s mandate is to alleviate poverty by harnessing people’s potential to undertake development initiatives in rural areas of Pakistan. The organization has a presence in all the four Provinces including Azad Jammu and Kashmir through its Regional and Field Offices. NRSP is currently working with more than 2.5 million poor households organized into a network of 165,328 Community Organizations.



**NRSP**

52%



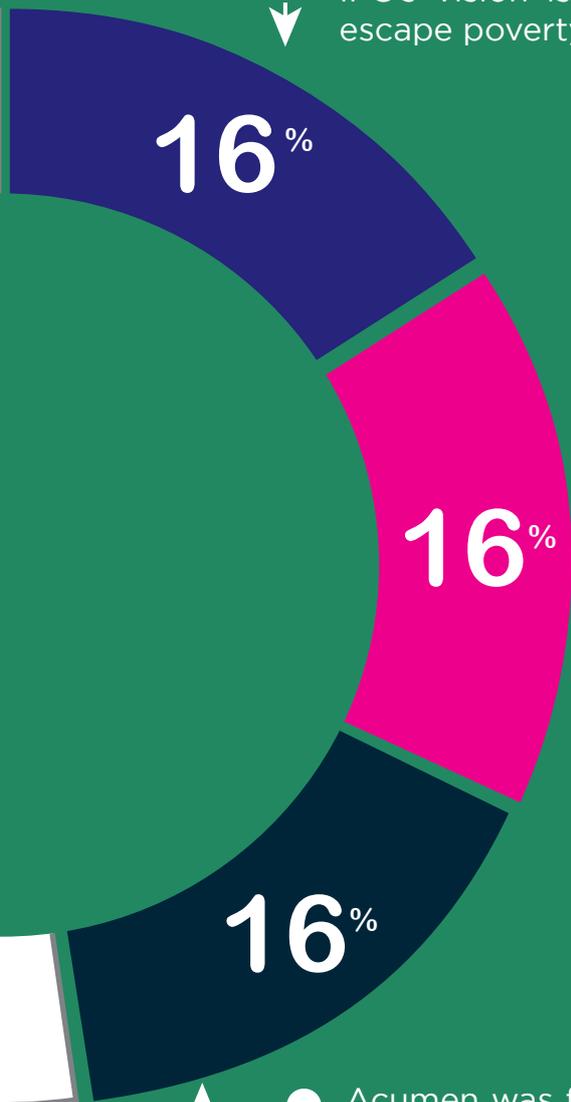
52%



16%

KfW is a government-owned development bank, based in Frankfurt, Germany. Formed in 1948, KfW operates as a promotional bank for the domestic economy and a development bank for the developing countries. According to its statutory mission, KfW has been supporting change and encouraging forward-looking ideas in Germany and other parts of the world.

IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector in developing countries. Established in 1956, IFC is owned by 184 member countries, a group that collectively determines its policies. IFC's work in more than 100 developing countries allows companies and financial institutions in emerging markets to create jobs, generate tax revenues, improve corporate governance and environmental performance and to contribute to their local communities. IFC's vision is that people should have the opportunity to escape poverty and improve their lives.



16%



16%

- Acumen was founded in 2001 by Ms. Jacqueline Novogratz. It is a non-profit global venture fund that uses entrepreneurial approaches to solve the problems of poverty. Acumen's mission is to Change the way the world tackles poverty by investing in companies, leaders, and ideas. Acumen fund has investments in developing countries including Pakistan in sectors ranging from agriculture, education, energy, health, housing to water.

# Corporate Information

## Board of Directors

Dr. Rashid Bajwa	Chairman
Mr. Shoaib Sultan Khan	Director
Mr. Fazlullah Qureshi	Director
Ms. Ayesha Muzaffar	Director
Mr. Wolfgang Moellers	Director
Dr. Ayesha Khan	Director
Mr. Naved A. Khan	Director
Mr. Zahoor Hussain Khan	President & CEO

## Board Committees

### Compensation and Remuneration Committee

Mr. Naved A. Khan	Chairman
Mr. Shoaib Sultan Khan	Member
Dr. Rashid Bajwa	Member
Dr. Ayesha Khan	Member

### Audit Committee

Mr. Fazlullah Qureshi	Chairman
Dr. Rashid Bajwa	Member

### Operations and Risk Policy Committee

Mr. Naved A. Khan	Chairman
Dr. Rashid Bajwa	Member
Ms. Ayesha Muzaffar	Member
Mr. Wolfgang Moellers	Member

### IT Committee

Dr. Ayesha Khan	Chairperson
Dr. Rashid Bajwa	Member
Mr. Naved A. Khan	Member

## Auditors

A.F. Fergusons & Co.  
Chartered Accountants

## Tax Advisors

KPMG Taseer Hadi & Co.  
Chartered Accountants

## Company Secretary/Head Finance and Treasury

Mr. Asif Mahmood

## Management Team

Mr. Zahoor Hussain Khan  
 Mr. Amjad Iqbal Khan  
 Mr. Farooq Rashid  
 Mr. Muhammad Waqas Ashraf  
 Mr. Asif Mehmood  
 Mr. Tanveer Hussain  
 Mr. Asad Mushtaq  
 Mr. Riaz Khan Bangash  
 Mr. Muhammad Khalid Masood  
 Mr. Muhammad Hassan Warraich

President & CEO  
 Head Business  
 Head Branchless Banking  
 Head Risk & Compliance  
 Head Finance & Treasury /Company Secretary  
 Head Operations  
 Head Information Technology  
 Head Human Resource & Admin  
 Head Internal Audit  
 Head Islamic Microfinance Division

## Management Committees

### Operations and Risk Management Committee (ORMC)

Chaired by: President/CEO  
 Head Business  
 Head Branchless Banking  
 Head Finance & Treasury  
 Head Operations  
 Head Information Technology  
 Head Human Resource & Admin  
 Head Risk & Compliance  
 Head Islamic Microfinance Division

### Compliance Committee of the Management (CCM)

Chaired by: President/CEO  
 Head Business  
 Head Branchless Banking  
 Head Finance & Treasury  
 Head Operations  
 Head Information Technology  
 Head Human Resource & Admin  
 Head Risk & Compliance  
 Head Islamic Microfinance Division

### IT Steering Committee (ITSC)

Chaired by: President/CEO  
 Head Business  
 Head Information Technology  
 Head Branchless Banking  
 Head Finance & Treasury  
 Head Operations  
 Head Islamic Microfinance Division  
 Head Risk & Compliance

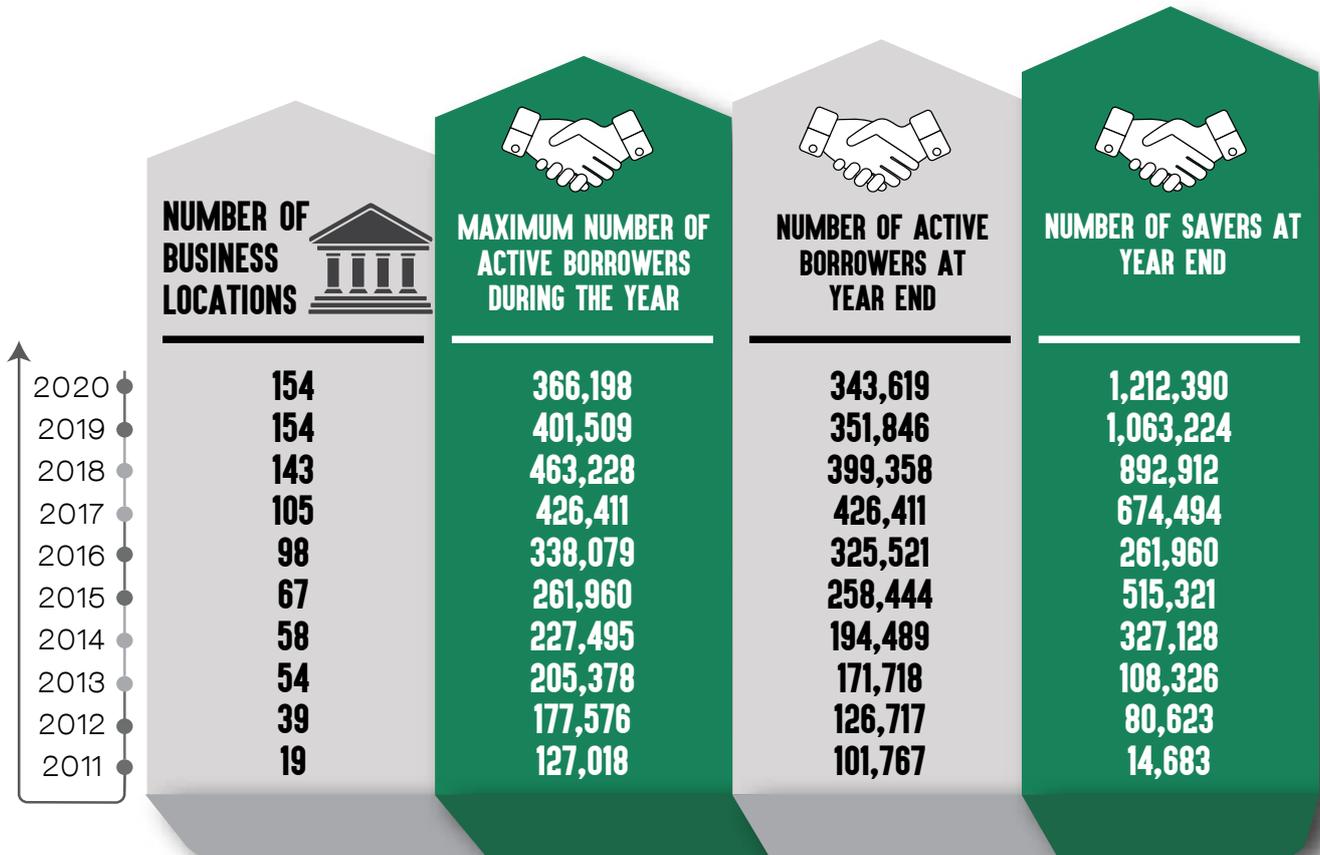
### Asset and Liability Committee (ALCO)

Chaired by: President/CEO  
 Head Business  
 Head Finance & Treasury  
 Head Operations  
 Head Risk & Compliance  
 Head Islamic Microfinance Division



Highlights  
By Year  
2020

# Performance at a Glance 2011-20



# Social Performance

The Bank is headquartered in Bahawalpur to better understand the needs of rural environment and financially excluded rural communities. Many of the clients of NRSP Bank are small farmers with less than 5 acres of agriculture landholding. The profile of our Agriculture credit clients is summarized below:

## PROFILE OF OUR AGRI BORROWERS

Cultivating on Leased land	14.22 %
Landholding Up to 5 acres	78.44 %
Landholding 6-10 acre	5.32% .
Landholding more than 10 acres	2.02%
Total Borrowers with collateral free loans	84.3%
Policy holders	330,740
Borrower their spouses/ children covered under health insurance scheme	595,332

In addition to microfinance services the Bank provides an entire spectrum of general banking facilities in the areas of deposits, salary distribution, fund transfers and fee collection with 154 locations across Pakistan. The Bank also provides complementary health insurance cover of Rs. 20,000 to all credit clients, their spouses and children.

As a socially responsible corporate entity, NRSP Microfinance Bank strongly believes in contributing towards the welfare of the general public. Rural poverty and agrarian livelihoods are distinct from urban ones. The circumstances and risks our clientele are faced with are intense and pervasive from the vagaries of climate to the lack of basic infrastructure and facilities.

# Technology Upgrade

During 2020, the Bank substantially enhanced its digital channel offerings with the help of several new additions that increased convenience and security of the financial services.

The USSD channel enabled NRSP MFB customers to perform financial and non-financial transactions with uncomplicated phones. The QR code payment, debit card PIN change facility, mobile phone access to loan details features have been added in the Bank's mobile banking application. With help of the SMS banking application our customers now can place a balance and loan inquiry through a SMS.

In order to secure our banking services, we have added more robust security solutions to safeguard our data. We have also put in place a cyber-security operational center.

The Bank's IT Department also introduced the IBAN feature for customer convenience. We integrated with the FATCA reporting portal and rolled out the Punjab Land Revenue Authority (PLRA) system rollout. We opened the Banking Portal for services to be used by legal entities such as mills, factories and schools.

The NRSP Bank System Integration with different agent networks, including Jazz Cash, HBL Connect, Bank of Punjab, and others was undertaken to facilitate loan payments for customers. The move to a paperless environment is further along with the onboarding of a digital loan process.

The Interactive Voice Response (IVR) system was upgraded and an e-learning system for staff with online training and testing has been rolled out.

# Consumer Grievances Handling Mechanism (CGHM)

NRSP Microfinance Bank takes customer complaints as an integral part of the feedback process that allows us to improve our services. Complaints are handled by the Service Quality Department of the Bank that reports directly to CEO. The complaints are analyzed and process improvements are suggested for better customer service. There are currently eight (8) different channels available to customers to interact with the Bank, including:

- Drop Box
- Printed Complaint Forms at each customer touch point
- 24/7 toll-free line: 08000-NRSP [6777]
- UAN: 111-011-011, 051 2650004
- E-Form submissions at [www.nrspbank.com](http://www.nrspbank.com)
- E-mail at [complaints@nrspbank.com](mailto:complaints@nrspbank.com)
- Facsimile: 062 2280051
- Social Media Channels.

To ensure the customer is aware of all these channels, the Bank has placed placards in branches, put updates available on the webpage and social media and put messages on ATM screens (in English and Urdu).

## CGHM DATA RECORD 2020

### NUMBER OF COMPLAINTS RECEIVED

NUMBER OF COMPLAINTS DIRECTLY RECEIVED AT HO

NUMBER OF COMPLAINTS FORWARDED BY SBP

212

184

28

### Number of Complaints Resolved

Pending Complaint

Average Resolution Time

211

1

3  
(Working Days)

# Building Capacities

Residing in Sambrial, a small town in Sialkot, Muhammad Shahbaz, had wanted to run a tire trading business for years but did not have the capital to get started. When the NRSP MFB branch opened in his vicinity, a two-member team visited Shahbaz and briefed him about the available loans and showed him the way to realizing his dream.



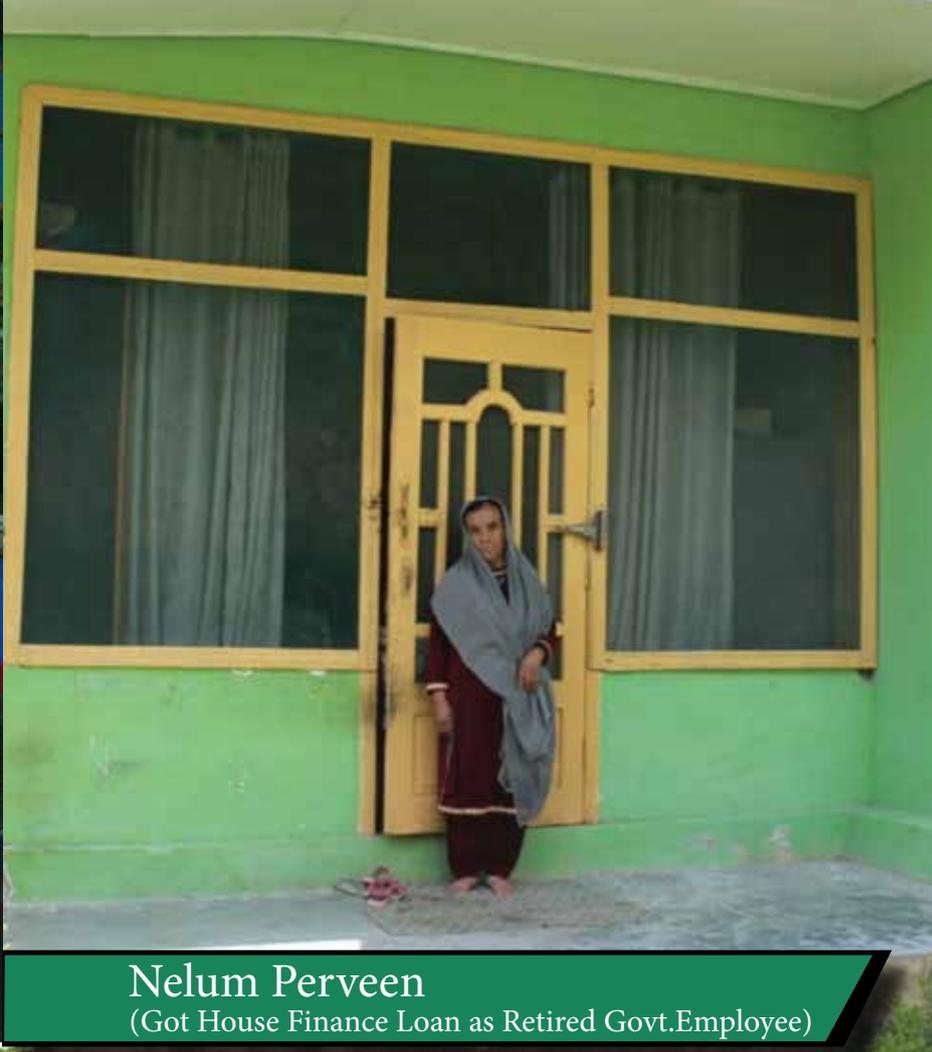
**MUHAMMAD SHAHBAZ**

(Auto Workshop Owner Sambrial City)

Shahbaz followed up their visit with one of his own to the Bank's branch and began the process of getting enough capital to start his own business. On the 10th of October 2018, Shahbaz availed the loan facility of PKR 200,000.

With those funds, Shahbaz was able to purchase an air compressor and a hydraulic tire changing machine. The next year, after successfully repaying the first loan within nine months, Shahbaz took another loan of PKR 500,000 to expand his business and purchase some electronic jacks. Now, he also sells used tires in the shop.

## Giving Wheels to Dreams



**Nelum Perveen**  
(Got House Finance Loan as Retired Govt.Employee)

In Nomal Valley, in Gilgit, Nelum Perveen, retired from her government job and decided to use her pension benefits to build a home. Part way through the construction, the costs overshot her budget and she was forced to stop the work. Meanwhile she was still living in a rented house and incurring those expenses monthly.

Desperate for the funds to complete her home, Perveen was at a loss on how she could move forward. Then, she met an NRSP MFB representative who told her about the Mera Makan scheme, a house construction loan.

Perveen applied for the loan and received PKR 190,000 which allowed her to complete her home. After moving in, she was able to rent out a portion of the house to supplement her income.

**Building a Future**

M u h a m m a d Jahangir struggled to eke out a living from six acres of land in arid Khanewal. The shortage of water meant that he was not able to realize the full potential of the land he had inherited.

He heard about NRSP MFB from an acquaintance and visited the bank to explore his financing options. With gold ornaments as collateral, he was able to get PKR 499,999 within



**MUHAMMAD JAHANGIR**

(Assan Sarmaya Gold Loan Khanewal)

half an hour. He used the capital to install a water pump. Today, he is able to cultivate his entire land and sells surplus water to other farmers for their crops.

## Cultivating a Surplus



**NOKAR ABBAS**  
(Solar System Layyah)

In Karor Lalesan, in Layyah, Nokar Abbas supported his entire family of 9 by cultivating 5 acres of his own and 22 acres of rented land. He extracted the water for the crops using a diesel water pump which had become prohibitively expensive and he was considering reducing the cultivated land as a consequence.

Abbas met with sales staff from the NRSP Islamic Microfinance Division and they briefed

him about Shariah compliant products that could help him. Abbas liked the idea of installing a solar powered water supply system on his land and he visited the Layyah branch in June 2019 to apply for Murabaha financing. He received PKR 709,000 within a week and was able to successfully complete his financing cycle with a good harvest.

He then, applied for another financing round of PKR 703,400 for 24 months to increase his solar panels to extend his cultivation on an additional 20 acres of rented land. His income is now enough to send his elder child for higher education and his living standard has improved dramatically.

**Facilitating an Expansive Vision**

In the small city of Alipur, Bushra Saeed has run a school for the past five years. The school premises were rented but with the rising costs she decided to move the school to the first floor of her house. Unfortunately, she did not have the total funds to renovate the space.

She visited NRSP MFB Islamic Branch to explore her financing options and applied for Murabaha financing on



**BUSHRA SAEED**  
(Murabah Solar System Alipur)

the 10th of January, 2020. She received PKR 387,236 for the material and paid the labor costs from her own resources.

Shifting the school to her own property has meant a saving of PKR 50,000 each month which is more than enough for her to pay her monthly installment. Bushra Saeed now plans to access more funds under diminishing Musharaka to extend her school building to increase the classes for her students.

## Leveraging Assets to Grow



**TARIQ MEHMOOD**  
(Solar System Murabah Gujranwala)

In Noor pur, Tariq Mehmood has worked as a fish farmer for over a decade. He started his business with fish ponds on 3 acres of land and had expanded his operations to 5 acres in 10 years when he ran into an obstacle. The high cost of operating his diesel powered pumping system, which ran to PKR 200,000 to 300,000 annually, was a barrier to further growth at a time when he had the opportunity

to supply fish to different hotels in the nearby city.

Mehmood visited the NRSP MFB Islamic Branch to avail a financing facility to convert his diesel driven pumping system to solar power. With a financing facility of PKR 280,000, Mehmood increased his pond area to another 5 acres and increased his supply network to other restaurants and sale points.

Others in his neighborhood have been inspired by Mehmood's initiative and approached NRSP Bank for similar solutions to enhance their business.

## Profiting from Green Solutions

A person in a dark suit and light blue shirt is shown from the chest down. They are holding a magnifying glass over a calculator and a spreadsheet. The calculator is a black and silver Casio scientific calculator. The spreadsheet is a complex table with various columns and rows, some highlighted in yellow and pink. The person's right hand is on the calculator, and their left hand is holding the magnifying glass. A semi-transparent green rectangle is overlaid on the center of the image, containing the text "Financial Performance".

# Financial Performance

# Directors' Report – Year 2020

On behalf of the Board of Directors, I am pleased to present the 12th Annual report of the Bank with the audited Financial Statements and Auditors' Report thereon, for the year ended December 31, 2020.

## Corporate Reporting Framework

The Bank has continued to comply with the best corporate governance practices and the Directors are pleased to inform that:

- The financial statements prepared by the management of the Bank presents a true and fair view of the state of its affairs, operational results, cash flows and changes in equity.
- Proper books of accounts of the Bank have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements.
- The Bank has followed international accounting standards (as applicable in Pakistan) in preparation of accounts. Also there has been no departure from the said standards.
- As a continuous process, efforts have been made to effectively implement the internal control system.
- There are no doubts about the Bank's ability to continue as a going concern.
- The Board has functional Audit Committee comprising of non - executive members which has defined terms of reference. The Board has met four times during the financial year 2020.

## Performance Review

The Bank has 343,619 active borrowers as at December 31, 2020 mostly in rural areas and has posted a profit before tax of PKR 1,144 million. Operational activity showed encouraging results, where gross advances stood as high as PKR. 29 billion at financial year-end. In pursuance of the Bank's strategy of generating low cost funding for business growth and expansion, the Bank has focused on scaling up its deposit base to PKR 39 billion at the year end with a favorable growth of 47%.

The Board of Directors has recommended for non-payment of dividend during the year despite after-tax profit of PKR 793 million and retained earnings of PKR 2,930 million. The decision has been made to re-invest funds for future growth of the Bank.

The operational results for the year are presented below;

	2020 Rupees	2019 Rupees
Profit before taxation	1,144,252,860	87,382,268
Less: Taxation-Current	(555,483,687)	(141,295,045)
-Prior	0	0
-Deferred	204,665,961	138,223,157
Profit after taxation	793,435,134	84,310,380
Earnings per share	5.30	0.56

## Capital Adequacy

As of December 31, 2020, the Bank's Capital Adequacy Ratio (CAR) measures at 16.4% against the mandatory requirements of 15% under the Prudential Regulations (PR) for Microfinance Banks.

## Auditors

Statutory Auditors of the Bank, M/S A. F. Ferguson & Co., Chartered Accountants (PWC), Islamabad, have completed their audit for the year ended December 31, 2020 and shall retire at the conclusion of the eleventh Annual General Meeting. Being eligible, they have offered themselves for reappointment. The Board also recommended their reappointment as auditors for the year ending December 31, 2021.

## Transfer to reserves:

As per the requirements of Microfinance Institutions Ordinance, 2001 and Prudential Regulations for Microfinance Banks issued by the State Bank of Pakistan, the Bank has transferred an amount equivalent to 20% of profit after tax to the Statutory Reserve and 5% of profit after tax to Depositors' Protection Fund along with profits on investments for such fund.

## Pattern of Shareholding

The Pattern of shareholding of the Bank as at December 31, 2020 as required under section 227 of the Companies Act, 2017 is as follows:

No of Shareholder(s)	From	To	Total Shares Held
0	1	100	0
3	101	150	450
5	8,000,000	77,999,475	149,836,751
			149,837,201

## Categories of Shareholder

Particular	Number	Shares held	Percentage
Individual (by directors)	3	450	0.00030%
Corporate entities	5	149,836,751	99.99970%

## Shareholder holding above 5% of voting shares

Shareholders	Shares	%age held
National Rural Support Program (NRSP) - Holding company	77,999,550	52.06%
KfW Germany	23,837,201	15.91%
International Finance Corporation - IFC	24,000,000	16.02%
Acumen Fund USA	16,000,000	10.68%
Acumen Capital Markets I LP	8,000,000	05.34%
Total Shares	149,836,751	

## Appreciation and Acknowledgement

On behalf of the Board of the Bank, I would like to express my sincere gratitude to the State Bank of Pakistan for its guidance; to the shareholders and clients for their support; and to the employees for their commitment.



Chairman

Date: March 9, 2021

# Report of Shariah Advisor

## For the year 2020



The worldwide success of Islamic Banking is now an open fact. The main attraction for the establishment of an Islamic Banks in Pakistan is to safeguard the Muslims from indulging into non Shariah transactions especially in their financial affairs. Therefore, strict adherence to Shariah compliance is the backbone of Islamic banking and financing and gives legitimacy to the practices of Islamic banks. Considering this statues of Shariah compliance in Islamic banking, Shariah Governance Framework of State Bank of Pakistan consider the Board of Directors (BOD) and Executive Management (EM) of the bank solely responsible to ensure that the operations of Islamic banking are conducted in manner that comply with Shariah principles at all time. However, I (Shariah advisor) is required to submit a report on the overall Shariah compliance of the Islamic banking of NRSP Microfinance Bank.

The year under review was the 6<sup>th</sup> year of Islamic Banking being operated in The NRSP Microfinance Bank. NRSP Microfinance Bank has 40 standalone Islamic Banking Branches (IBBs) and 3 Islamic Banking operational windows.

The financial sector in the Pakistan observed with great distress in response of business closures due to COVID-19. The pandemic condition resulted in millions of losses of jobs globally i.e. estimated 114 million job losses in 2020 in more than 200 countries. Furthermore, 88 million people globally trapped under poverty along with estimated revenue losses to the global banking industry of \$1.5 trillion to \$3.7 trillion in between 2020 to 2024 (Business Today, 2020). Pakistan is among those 200 countries effected with COVID-19 and supplemented with regulatory policies, from regulator i.e. SBP, to provide with necessary relaxation to the banking sector in term of restructuring/ rescheduling and deferment policy options. Islamic banks in the country also suffered with COVID-19 impact and adopted with relevant policy measures to manage with the impact on the portfolio. In this context, NRSP IMD adopted with effective strategy to ensure maximum recovery form the market along with the adaptation of the policy of deferment/ restructuring to provide with required consideration to effected business with proper market intelligence. Both Shariah compliance and internal Shariah Audit unit participated with their supervisory role to ensure compliance of the activity.

In addition, to maintain with the public confidence, there is a proper check and balance mechanism in the Bank to ensure that all activities of the bank are in line with the Islamic principles. In this regard, BOD has appointed me as Shariah Advisor (SA) to consider, decide and supervise all Shariah related matters of the bank. During the year 2020, I have reviewed various products, policies, standard operating procedures, financing transactions and Shariah procedures of the transactions and met with the BOD to discuss issues relevant to Shariah. I have also attended all internal Shariah audit/review reports, Shariah compliance inspection report and designate one of our staff member as Head Shariah Compliance department (SCD) who remains full time available, to oversee the procedures to be adopted for implementation of the resolutions, pronouncements and fatwas of the SA and provide guidance thereon and to ensure that the Bank's business units, branches, I and other Head Office departments had complied to approved policies and Shariah guidelines issued by me (SA) & SBP.

During the year under review, SCD has also conducted Shariah compliance /control review of Islamic banking businesses and their alignment with the Shariah guidelines on test check basis and major findings of the review have been presented to me (SA) regularly. In my supervision, they have also reviewed Profit and Loss Distribution and Pool Management before declaration and disbursement of profit to investment accountholders. Apart from Shariah Review, Internal Shariah Audit Department has conducted Shariah Audit of almost all IBBs to have an independent assessment of the Shariah governance and compliance environment. The reports of internal audit are submitted to me (SA) for Shariah Comments and determination of corrective actions. The SCD has ensured, on ongoing basis, the compliance and implementation of the SA decisions on internal Shariah review/audit.

Islamic Banking Trainings were held on-site as well off-site for the staff with consideration of online training opportunities to optimize training practices even in the period of COVID-19. The Training Division of HRD arranged with trainings session of SA with staff during the visit in the year also. As Executive

Management (EM) are solely responsible to ensure that the operations of the Bank, Islamic Banking are conducted in a manner that comply with the Shariah principles at all times, therefore special session has been arranged for those EM members who are not directly working in Islamic banking Division of the bank.

To establish my opinion as expressed in this report, based on my personal involvements in the Islamic banking of the Bank, the activities of Shariah Compliance Division in my supervision, my review of the work carried out by Internal Shariah Audit / Shariah Review units and verification of the different compliance reports, to the best of my knowledge I am of the view that:

- The above-mentioned mechanism is of high level in Shariah Compliance and bank level of Shariah compliance is to the highest standards. Therefore, in my opinion the affair of Islamic Banking has been carried out in accordance with the rules and principles of Shariah
- The Islamic Banking Division of the Bank has complied with Shariah rules and principles in the light of Fatawa (decisions), rulings and guidelines issued by me (SA).
- The Islamic Banking Division has complied with directives, regulations, instructions and guidelines related to Shariah compliance issued by SBP in accordance with the rulings of SBP's Shariah committee.
- Bank has a comprehensive mechanism in place to ensure Shariah compliance in its overall operations. The mechanism comprising of Internal Shariah Audit Unit, a Shariah Compliance Department, Shariah Advisor in the bank and regular / frequent in-house and external trainings for Islamic Banking staff in line with Shariah Governance Framework of SBP is in place.
- The Bank has also a well-defined system in the shape of Shariah Compliance Review and Internal Shariah Audit in place which is sound enough to ensure that any earnings realized from sources or by means prohibited by the Shariah have been credited to charity account and are being properly utilized. During the year 2020, an amount of Rs. 6.30 Million has been transfer to Charity account in which a very minor portion has been created from sources or by means prohibited by Shariah Rules & Principles and major portion recovered as default obligation amount due to late payments.
- Islamic Banking deposits are accepted on Mudarabah basis and the Bank has acquired proper software for Profit Distribution and Pool Management. SCD has monthly reviewed Profits distribution before its disbursement and post disbursement Shariah Audit has been conducted quarterly.
- The level of awareness, capacity and sensitization of the staff, management and BOD for Shariah Compliance remained excellent an acceptable.

### **Recommendations:**

To continue the high level of Shariah compliance in all aspects, I recommend the keep continue the ensures of Shariah compliance in all cases to achieve Islam's socio-economic objectives and values.

May Almighty Allah grant us success in this world and the hereafter, and on the Day of Judgment, and forgive our mistakes that we may have committed willingly or unwillingly.



**Shariah Advisor of the Bank**

### بِسْمِ اللّٰهِ الرَّحْمٰنِ الرَّحِیْمِ

دنیا بھر میں اسلامی بینکاری کی کامیابی ایک مسلم حقیقت ہے۔ پاکستان میں اس کے انعقاد کا بڑا مقصد لوگوں کے معاملات (خصوصاً مالی) کو غیر شرعی امور سے بچانا ہے۔ چونکہ شریعت کے تحت ہی اسلامی بینکاری جائز ہے، اس لیے اسلامی بینکاری اور مالیات کے لیے شریعہ کی پابندی ریڈھ کی ہڈی کی حیثیت رکھتی ہے۔ اس امر کو یقینی بنانے کیلئے اسٹیٹ بینک آف پاکستان نے شریعہ گورننس فریم ورک میں بورڈ آف ڈائریکٹرز اور بینک کے اعلیٰ انتظامیہ کو اس کا ذمہ دار ٹھہرایا ہے کہ بینک کے تمام معاملات میں شرعی اصولوں پر عمل کو یقینی بنائیں، تاہم بینک کا شریعہ ایڈوائزر سالانہ کارکردگی رپورٹ میں بینک کے مجموعی نظام میں شریعہ کی پاسداری کے حوالے سے اپنی رائے کا اظہار بھی کرے۔

زیر بحث سال این آر ایس پی مائیکروفنانس بینک لمیٹڈ (اسلامک ڈویژن) کے اسلامی بینکاری کا چھٹا سال تھا۔ اس وقت این آر ایس پی مائیکروفنانس بینک لمیٹڈ (اسلامک ڈویژن) پورے ملک میں 40 مخصوص اسلامی بینکاری شاخوں اور 3 روایتی بینکاری کی شاخوں میں ”اسلامک ونڈوز“ کے ذریعے سے خدمات سرانجام دے رہا ہے۔

پاکستان میں مالیاتی شعبے نے کوویڈ 19 کے باعث ہونے والے کاروباری بندش کے رد عمل میں شدید پریشانی کا سامنا کیا۔ اس وبائی صورتحال کی وجہ سے عالمی سطح پر لاکھوں ملازمتوں کا نقصان ہوا۔ ایک تخمینے کے مطابق سن 2020 میں عالمی سطح پر تقریباً 114 ملین لوگ دو سو سے زائد ممالک میں بے روزگار ہوئے۔ مزید یہ کہ، 88 ملین افراد اس وبائی مرض کے باعث ہونے والے مالی نقصانات کی وجہ سے غربت کا شکار ہوئے۔ مزید یہ کہ، بینکاری کے شعبے کو سن 2020 سے 2024 تک ہونے والے نقصان کا تخمینہ 1.5 سے 3.7 کھرب ڈالر لگایا گیا ہے (بزنس ٹوڈے، 2020)۔

پاکستان کا شمار بھی ان دو سو ممالک میں سے ہے جو کہ کوویڈ 19 سے متاثر ہوئے۔ اس مد میں ریگولیٹر کی جانب سے لی جانے والی فوری تدابیر جو کہ تجدید دورانے/تنظیم نو/موخر پالیسی کی صورت میں تھیں، نہایت قابل قدر رہیں اور بینکنگ سیکٹر کے لئے معاون ثابت ہوئیں۔ اس وبا کے اثر سے اسلامی بینک بھی محفوظ نہ رہے اور ریگولیٹر کی جانب سے جاری کردہ پالیسیوں کو بروکار لاتے ہوئے اسلامی بینکوں نے اپنے آپریشنز کو تقویت بخشی۔ اس تناظر میں، این آر ایس پی اسلامک ڈویژن نے نہایت موثر حکمت عملی اپنائی جس کے تحت حد درجہ تک واجب الادا رقوم کی وصولی کو یقینی بناتے ہوئے حقیقی متاثرین کو تجدید دورانے/تنظیم نو/موخر پالیسی کے تحت ادائیگیوں کے دورانیے میں آسانی فراہم کی گی۔ اس ضمن میں انٹرنل آڈٹ اور شریعہ کمپلائنس نے معاملات میں تعمیل کے عمل کو یقینی بنانے کے لیے بھرپور حصہ لیا۔

عوامی اعتماد بحال رکھنے کیلئے این آر ایس پی مائیکروفنانس بینک لمیٹڈ (اسلامک ڈویژن) کے پاس ایک ایسا موثر اور فعال نظام موجود ہے جو اس امر کو یقینی بناتا ہے کہ بینک کے جملہ افعال اسلامی اصولوں کے عین مطابق ہیں۔ اس سلسلے میں بینک کے بورڈ آف ڈائریکٹرز نے تمام افعال کو احسن طریقے سے نبھانے کیلئے مجھے بطور ”شریعی ایڈوائزر“ مقرر کیا ہے تاکہ اسلامی بینکاری سے متعلق تمام امور کا شرعی جائزہ، تحقیق اور نگرانی کرتا رہوں۔ سال 2020 میں، میں نے بینک کے مختلف اسلامی پراڈکٹس، پالیسیز، مالی عقود اور ان کے متعلقہ شرعی عملی طریقہ کار کا جائزہ لیا اس سلسلے میں بورڈ آف ڈائریکٹرز کے ساتھ ملاقاتیں بھی ہوئیں تاکہ شریعہ سے متعلق مسائل پر ان سے گفتگو ہو سکے۔ اس کے علاوہ میں نے تمام داخلی و خارجی آڈٹ رپورٹس، ریویو رپورٹس، شریعہ کمپلائنس کے انسپکشن رپورٹس کا بھی جائزہ لیا۔ تاکہ اس بات کو یقینی بنایا جاسکے کہ بینک کے تمام افعال، شرعی نقطہ نظر سے صادر کئے گئے جملہ قراردادوں، اعلانات، فتاویٰ اور فیصلوں کے عین مطابق ہوں۔

اس کے ساتھ ساتھ میں نے بینک میں دستیاب عملے میں سے ایک قابل اعتماد اور تجربہ کار ممبر کو شریعہ کمپلائنس ڈیپارٹمنٹ کا سربراہ مقرر کیا جو میری نگرانی میں اس بات کو یقینی بنانے کیلئے سرگرم عمل رہا کہ بینک کے تمام معاملات، میری طرف سے بحیثیت شریعی ایڈوائزر کے جاری کردہ احکامات، ہدایات اور اسٹیٹ بینک آف پاکستان کے ”اسلامک بینکنگ ڈویژن“ کے جاری کردہ احکامات کے مطابق صادر ہوں۔ ہم (شریعی ایڈوائزر اور ہیڈ آفس کے دیگر شعبے جات) نے شرعی ایڈوائزر اور اسٹیٹ بینک آف پاکستان کے اسلامک بینکنگ ڈویژن کے جاری کردہ احکامات و ہدایات کی تعمیل کی ہے۔ اس سلسلہ میں شریعہ کمپلائنس ڈیپارٹمنٹ نے اسلامی بینکاری کی عملیات کا جائزہ لیا اور اپنی مشاہدات اور چیدہ چیدہ نکات نظر ثانی اور حل کیلئے میرے پاس پیش کیں جس پر میں نے اپنی رائے کا اظہار کیا۔ مزید برآں اس ڈیپارٹمنٹ نے میری نگرانی میں کھاتہ داروں کو منافع، عقدہ مشارکہ میں طے شدہ شرح منافع کے مطابق بردقت ادائیگی کو یقینی بنایا۔

شرعی نظر ثانی کے علاوہ بینک کے اپنے شریعہ آڈٹ ڈیپارٹمنٹ اور خارجی شرعی آڈٹ ادارے نے تمام اسلامی شاخوں اور دیگر ڈیپارٹمنٹس/ڈویژنز کا شرعی آڈٹ کیا تاکہ بینک کے شریعہ کمپلائنس ماحول اور تمام معاملات میں شرعی اصولوں پر پابندی کے بارے میں آزادانہ جائزہ لیا جاسکے۔ اس سلسلے کی تمام رپورٹس نظر ثانی اور اصلاحات کیلئے میرے سامنے پیش کی گئیں، جس پر میں نے اپنی رائے کا اظہار کیا۔ مزید یہ کہ شریعہ کمپلائنس ڈیپارٹمنٹ نے اس کے جواب/حل کیلئے موصول ہونے والے شریعی ایڈوائزر کے احکامات اور تجاویز پر عمل درآمد کو یقینی بنایا۔

اسلامی بینکاری کی ٹریننگ مختلف مقامات پر جاری رہیں یہاں تک کہ کوویڈ ۱۹ کے دوران آن لائن ٹریننگ کا سلسلہ بھی جاری رہا۔ ہیومن ریسورس ڈپارٹمنٹ کے ٹریننگ ڈویژن نے شریعہ ایڈوائزر کے ساتھ بھی عملے کے لئے مختلف ٹریننگ سیشن رکھے چونکہ بینک کی اعلیٰ انتظامیہ ہی بینک کے معاملات کو شرعی اصولوں کے مطابق سرانجام دینے کی ذمہ دار ہے، اس لئے اعلیٰ انتظامیہ کے وہ اراکین جو براہ راست اسلامی بینکاری میں خدمات سرانجام نہیں دے رہے، ان کے لئے خصوصی ٹریننگ کا اہتمام کیا گیا۔

این آر ایس پی مائیکروفنانس بینک کے اسلامی بینکاری ڈویژن سے میری ذاتی وابستگی، شریعہ کمپلائنس ڈویژن کی میری نگرانی میں سرگرمیاں، انٹرنل شریعہ آڈٹ شریعہ کمپلائنس ریویو رپورٹس پر نظر ثانی کے بعد میں نے اپنی یہ رائے قائم کی ہے جس کی رو سے:

- بینک کا مذکورہ بالا عملی طریقہ کار (میکینزم) شریعہ کی تعمیل میں بہترین درجہ کا حامل ہے۔ اسی لئے میری رائے میں اسلامی بینکاری کے معاملات شریعت کے اصولوں کے مطابق ہیں۔
- این آر ایس پی مائیکروفنانس بینک کے اسلامک ڈویژن نے شریعہ کے احکامات اور اصولوں کی میرے جاری کردہ فتویٰ (فیصلے)، احکامات اور تجاویز کی روشنی میں تعمیل کی ہے۔
- این آر ایس پی اسلامک ڈویژن نے اسٹیٹ بینک آف پاکستان کی جانب سے جاری کردہ جملہ فرامین/توانین/احکامات اور ہدایات کی اسٹیٹ بینک آف پاکستان کی شریعہ کمیٹی احکامات کے مطابق تعمیل کی ہے۔
- شریعہ کی تعمیل کو یقینی بنانے کے لئے بینک کے پاس کئی طور پر ایک جامع اور عملی طریقہ کار موجود ہے۔ یہ عملی طریقہ کار انٹرنل شریعہ آڈٹ یونٹ، شریعہ کمپلائنس ڈپارٹمنٹ، بینک کے شریعہ ایڈوائزر اور اندرونی و بیرونی اسلامی بینکاری سے متعلق ٹریننگز پر مشتمل ہے۔ جو کہ اسٹیٹ بینک آف پاکستان کے شریعہ گورننس فریم ورک (ایس جی ایف) کے مطابق ہے۔
- بینک کے پاس شریعہ کمپلائنس ڈپارٹمنٹ اور انٹرنل آڈٹ کی صورت میں ایک قابل ذکر نظام موجود ہے۔ جو کہ اس قابل ہے کہ غیر شرعی طریقہ کار اور اس ذرائع سے حاصل ہونے والی آمدنی کی بروقت شناخت کر کے نہ صرف چیرٹی اکاؤنٹ میں منتقل کرتے ہیں بلکہ منظور شدہ پالیسی کی رو سے، اس کے درست استعمال کو بھی یقینی بناتے ہیں۔ سال 2020 میں کل 6.30 ملین روپے چیرٹی کی مد میں موصول ہوئے۔ جن میں سے غیر شرعی عقود کی مد میں حاصل ہونے والی چیرٹی کا حصہ انتہائی قلیل ہے۔ جب کہ زیادہ تر حصہ تاخیر سے ہونے والی ادائیگیوں کا تھا۔
- اسلامک بینکنگ ڈویژن میں رقوم، مضاربہ کی بنیاد پر بھی حاصل کی جاتی ہیں۔ بینک کے پاس پول ٹینجمنٹ اور نفع و نقصان کی تقسیم کار کے لئے ایک بہترین و منظم نظام موجود ہے جو کہ شریعہ ایڈوائزر کے مصدقہ سفارشات کے عین مطابق ہے۔ مزید یہ کہ ہر ماہ شریعہ کمپلائنس ڈپارٹمنٹ نے شریعہ ایڈوائزر کی رہنمائی میں قبل از تقسیم اسکی نظر ثانی کی ہے اور بعد از تقسیم شریعہ آڈٹ نے سہ ماہی بنیاد پر اس کا جائزہ لے کر مجھے آگاہ بھی کیا۔
- بینک کا عملہ، انتظامیہ اور بورڈ آف ڈائریکٹرز کی اسلامی بینکاری کی اہمیت اور عملی نفاذ کے حوالے سے آگاہی، صلاحیت اور قابلیت حوصلہ افزاء ہیں۔

تجاویز

تمام معاملات میں اعلیٰ درجہ کی شریعت کی پاسداری و تعمیل کو برقرار رکھنے کے لئے میری تجویز ہے کہ تمام معاملات میں شریعہ کی پاسداری و تعمیل کو یقینی بنائیں تاکہ اسلامی اقتصادی نظام کے فوائد اور مقاصد حاصل ہو سکیں۔

اللہ تعالیٰ ہمیں دنیا و آخرت کی کامیابیوں سے نوازے اور ہماری جملہ تقصیرات کو معاف فرمائے جو ہم سے جانے انجانے میں سرزد ہوئی ہیں۔

آمین

  
شریعہ ایڈوائزر



## INDEPENDENT AUDITOR'S REPORT

### To the members of NRSP Microfinance Bank Limited Report on the Audit of Financial Statements

#### Opinion

We have audited the annexed financial statements of NRSP Microfinance Bank Limited, (the Bank), which comprise of the balance sheet as at December 31, 2020, and the profit and loss account, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the balance sheet, the profit and loss account, the statement of comprehensive income, the statement of changes in equity and the 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 Companies Act, 2017 (XIX of 2017), Microfinance Institutions Ordinance, 2001 and the directives issued by the State Bank of Pakistan in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at December 31, 2020 and of the profit, other comprehensive income, the changes in equity and its cash flows for the year then ended.

#### Basis for Opinion

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

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

Management is responsible for the other information. The other information comprises the information included in director's report, but does not include the financial statements of the Bank and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other

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

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

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

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

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

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

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

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

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



accounting estimates and related disclosures made by management.

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

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

#### Report on Other Legal and Regulatory Requirements

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

- a) proper books of account have been kept by the Bank as required by the Companies Act, 2017 (XIX of 2017);
- b) the balance sheet, the profit and loss account, the statement of comprehensive income, the statement of changes in equity and the cash flow statement together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017), Microfinance Institutions Ordinance, 2001 and the directives issued by the State Bank of Pakistan 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 Mr. JehanZeb Amin.



Chartered Accountants  
Islamabad  
Date: March 10, 2021

# BALANCE SHEET

As at December 31, 2020

	Note	2020 Rupees	2019 Rupees
<b>ASSETS</b>			
Cash and balances with SBP and NBP	8	2,867,959,229	1,483,412,144
Balances with other Banks/NBFIs/MFBs	9	4,933,304,012	3,967,373,841
Lending to financial institutions	10	1,494,680,500	-
Investments - net of provisions	11	8,637,899,021	1,590,417,993
Advances - net of provision	12	27,932,421,536	27,370,611,456
Operating fixed assets	13	1,673,856,241	2,023,314,033
Other assets	14	5,184,703,430	3,338,470,431
Deferred tax asset - net	15	436,336,658	231,670,697
<b>Total Assets</b>		<b>53,161,160,627</b>	<b>40,005,270,596</b>
<b>LIABILITIES</b>			
Deposits and other accounts	16	39,284,549,013	26,650,662,052
Borrowings	17	3,395,943,704	3,764,296,762
Subordinated debt	18	672,360,000	672,360,000
Other liabilities	19	4,297,853,297	4,230,319,090
Deferred tax liability - net		-	-
<b>Total Liabilities</b>		<b>47,650,706,014</b>	<b>35,317,637,904</b>
<b>Net Assets</b>		<b>5,510,454,613</b>	<b>4,687,632,692</b>
<b>REPRESENTED BY:</b>			
Share capital	20	1,498,372,010	1,498,372,010
Statutory reserve		815,766,515	657,079,488
Depositors' protection fund		253,792,881	198,412,206
Unappropriated profit		2,929,766,103	2,330,318,665
		<b>5,497,697,509</b>	<b>4,684,182,369</b>
Surplus / (Deficit) on revaluation of assets		372,600	(7,000)
Deferred grants	21	12,384,504	3,457,323
<b>Total capital</b>		<b>5,510,454,613</b>	<b>4,687,632,692</b>
<b>MEMORANDUM / OFF BALANCE SHEET ITEMS</b>	22		

The annexed notes from 1 to 41 form an integral part of these financial statements.



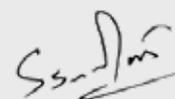
President / Chief Executive



Chairman



Director



Director

# PROFIT AND LOSS ACCOUNT

## FOR THE YEAR ENDED DECEMBER 31, 2020

	Note	2020 Rupees	2019 Rupees
Mark-up / return / interest earned	23	8,852,244,581	7,523,998,213
Mark-up / return / interest expensed	24	(3,928,774,596)	(3,401,596,773)
<b>Net mark-up / interest income</b>		<b>4,923,469,985</b>	<b>4,122,401,440</b>
Provision against non-performing loans and advances	12.3	(1,726,112,750)	(1,820,469,444)
Provision for diminution in the value of investments		-	-
Bad debts written off directly - net of insurance recoveries	12.4	(15,255,294)	(24,571,874)
		<b>(1,741,368,044)</b>	<b>(1,845,041,317)</b>
<b>Net mark-up / interest income after provisions</b>		<b>3,182,101,941</b>	<b>2,277,360,122</b>
<b>NON MARK-UP / NON INTEREST INCOME</b>			
Fee, commission and brokerage income	25	598,244,288	723,578,443
Dividend income		-	79,500,684
Other income - net	26	478,626,516	362,012,026
<b>Total non mark-up / non interest income</b>		<b>1,076,870,804</b>	<b>1,165,091,153</b>
<b>NON MARK-UP / NON INTEREST EXPENSES</b>			
Administrative expenses	27	(3,096,752,563)	(3,353,705,406)
Other charges	28	(17,967,322)	(1,363,601)
<b>Total non mark-up / non interest expenses</b>		<b>(3,114,719,885)</b>	<b>(3,355,069,007)</b>
		<b>1,144,252,860</b>	<b>87,382,268</b>
Extra ordinary / unusual items		-	-
<b>PROFIT BEFORE TAXATION</b>		<b>1,144,252,860</b>	<b>87,382,268</b>
Taxation - Current	29	(555,483,687)	(141,295,045)
Prior year		-	-
Deferred		204,665,961	138,223,157
		<b>(350,817,726)</b>	<b>(3,071,888)</b>
<b>PROFIT AFTER TAXATION</b>		<b>793,435,134</b>	<b>84,310,380</b>
Unappropriated profit brought forward		2,330,318,665	2,278,585,992
Less: Other comprehensive income		4,371,088	(11,500,112)
Profit available for appropriation		<b>3,128,124,887</b>	<b>2,351,396,260</b>
<b>APPROPRIATIONS:</b>			
Transfer to:			
Statutory reserve		(158,687,027)	(16,862,076)
Depositors' protection fund		(39,671,757)	(4,215,520)
		<b>(198,358,784)</b>	<b>(21,077,596)</b>
<b>Unappropriated profit carried forward</b>		<b>2,929,766,103</b>	<b>2,330,318,664</b>
<b>Earnings per share</b>	30	<b>5.30</b>	<b>0.56</b>

The annexed notes from 1 to 41 form an integral part of these financial statements.

  
President / Chief Executive

  
Chairman

  
Director

  
Director

# STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED DECEMBER 31, 2020

	Note	2020 Rupees	2019 Rupees
<b>Profit after taxation</b>		793,435,134	84,310,381
<b>Other comprehensive income/ (loss)</b>			
Items that will not be subsequently reclassified through profit and loss account:			
Loss on re-measurement of employees' retirement benefits - net of tax		4,371,088	(11,500,112)
<b>Total comprehensive income for the year</b>		<b>797,806,222</b>	<b>72,810,269</b>

The annexed notes from 1 to 41 form an integral part of these financial statements.



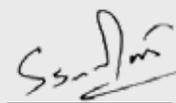
President / Chief Executive



Chairman



Director



Director

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2020

	Share capital	Capital reserves		Revenue reserve	Total
		Statutory reserve	Depositors' protection fund	Unappropriated profit	
	Rupees				
Balance as at January 1, 2019	1,498,372,010	640,217,412	180,937,261	2,278,585,992	4,598,112,675
Profit for the year	-	-	-	84,310,380	84,310,380
Other comprehensive loss for the year	-	-	-	(11,500,112)	(11,500,112)
Total comprehensive income for the year	-	-	-	72,810,268	72,810,268
Transfer to statutory reserve	-	16,862,076	-	(16,862,076)	-
Transfer to depositors' protection fund:	-	-	4,215,519	(4,215,519)	-
5% of the profit after tax for the year	-	-	13,259,426	-	13,259,426
Return on investments - net of tax	-	-	17,474,945	(4,215,519)	13,259,426
<b>Balance as at December 31, 2019</b>	<b>1,498,372,010</b>	<b>657,079,488</b>	<b>198,412,206</b>	<b>2,330,318,665</b>	<b>4,684,182,369</b>
Profit for the year	-	-	-	793,435,134	793,435,134
Other comprehensive loss for the year	-	-	-	4,371,088	4,371,088
Total comprehensive income for the year	-	-	-	797,806,222	797,806,222
Transfer to statutory reserve	-	158,687,027	-	(158,687,027)	-
Transfer to depositors' protection fund:	-	-	39,671,757	(39,671,757)	-
5% of the profit after tax for the year	-	-	15,708,918	-	15,708,918
Return on investments - net of tax	-	-	55,380,675	(39,671,757)	15,708,918
<b>Balance as at December 31, 2020</b>	<b>1,498,372,010</b>	<b>815,766,515</b>	<b>253,792,881</b>	<b>2,929,766,103</b>	<b>5,497,697,509</b>

The annexed notes from 1 to 41 form an integral part of these financial statements.



President / Chief Executive



Chairman



Director



Director

# CASH FLOW STATEMENT

## FOR THE YEAR ENDED DECEMBER 31, 2020

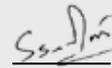
	Note	2020 Rupees	2019 Rupees
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit before taxation		1,144,252,860	87,382,269
Less: Dividend income		-	(79,500,684)
		<b>1,144,252,860</b>	<b>7,881,585</b>
<b>Adjustments for non-cash changes:</b>			
Depreciation		195,271,270	211,163,590
Amortization - RoU Asset		139,970,297	151,729,753
Amortization		53,944,151	33,288,799
Provision against non-performing advances		1,726,112,750	1,820,469,443
Provision against advances to employees		-	(494,976)
Advances directly written-off - net of insurance recoveries		15,255,294	24,571,874
Unrealized gain on revaluation of investments classified as held for trading		-	(68,322)
Gain on sale / redemption of securities		(240,178,073)	(126,375,818)
Unrealized exchange (gain) / loss		(156,943,167)	(32,944,500)
Unrealized loss/ (gain) on derivative financial asset		191,473,139	85,020,763
Gain on sale of fixed assets		6,469,592	(1,470,341)
Finance charges on leased assets		139,880,873	141,118,750
Loss on termination of lease arrangements		10,502,786	-
Amortization of deferred grant		(43,416,310)	(23,236,675)
Provision for gratuity and leave encashment		171,597,656	180,280,736
		<b>2,209,940,258</b>	<b>2,463,053,077</b>
<b>(Increase)/ decrease in operating assets</b>			
Lendings to financial institutions		(1,494,680,500)	497,202,000
Advances		(2,303,178,124)	(5,904,530,946)
Other assets (excluding advance taxation)		(2,066,681,782)	(258,010,896)
		<b>(5,864,540,406)</b>	<b>(5,665,339,842)</b>
<b>Increase / (decrease) in operating liabilities</b>			
Bills payable		(47,602,441)	10,956,051
Borrowings from financial institutions		(211,409,892)	(734,558,619)
Deposits		12,633,886,961	387,486,924
Other liabilities (excluding bills payable, current taxation, gratuity and leave encashment, finance lease)		516,729,006	821,957,765
		<b>12,891,603,634</b>	<b>485,842,121</b>
Payments against provisions held against off-balance sheet obligations		(576,010,073)	(119,360,612)
Income tax paid		(426,243,944)	(118,446,622)
Gratuity and Leave encashment paid (including contributions)			
		<b>9,379,002,329</b>	<b>(196,262,119)</b>
<b>Net cash flow from operating activities</b>			
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Net investment in available-for-sale securities		(5,192,997,120)	(234,583,850)
Net investment in held-to-maturity securities		(1,619,142,348)	(488,807,633)
Net investment in held for trading securities		5,352,857	2,750,108,174
Investment in operating fixed assets		(71,948,517)	(320,169,488)
Interest income on depositor's protection fund		-	13,259,426
Dividend received from mutual funds		-	79,500,684
Sale proceeds from property and equipment disposed-off		1,525,013	2,456,617
<b>Net cash flow (used in)/ from investing activities</b>		<b>(6,877,210,115)</b>	<b>1,801,763,929</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Grant received		52,343,491	-
Net payments of lease obligations		(203,658,450)	(249,559,500)
<b>Net cash used in financing activities</b>		<b>(151,314,959)</b>	<b>(249,559,500)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>2,350,477,255</b>	<b>(1,394,165,863)</b>
Cash and cash equivalents at beginning of the year		5,450,785,986	6,844,951,849
<b>Cash and cash equivalents at end of the year</b>	31	<b>7,801,263,241</b>	<b>5,450,785,986</b>

The annexed notes from 1 to 41 form an integral part of these financial statements.

  
President / Chief Executive

  
Chairman

  
Director

  
Director

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

## 1 STATUS AND NATURE OF BUSINESS

NRSP Microfinance Bank Limited (the Bank) was incorporated in Pakistan on October 22, 2008 as a public limited company under the Companies Ordinance, 1984. The Bank obtained license from the State Bank of Pakistan (SBP) on February 18, 2009 to operate, on nationwide basis, as a microfinance bank under Microfinance Institutions Ordinance, 2001. Certificate of commencement of business was issued by the Securities and Exchange Commission of Pakistan (SECP) on February 8, 2011 and certificate of commencement of business from SBP was received on February 28, 2011.

The Bank was established to mobilize funds for providing microfinance banking and related services to low income and underserved segment of society for mitigating poverty through providing access to financial markets at micro level.

The Bank's registered office is situated at 7th Floor, UBL Tower, Jinnah Avenue, Blue Area, Islamabad and principal place of business is situated at University Road, Bahawalpur. The Bank is operating 154 (2019: 154) as at the year end including 40 (2019: 40) Islamic branches.

National Rural Support Programme (NRSP) is holding company of the Bank which holds 52.06% (2019: 52.06%) shares of the Bank.

## 2 BASIS OF PRESENTATION

2.1 These financial statements have been presented in accordance with the requirements of Banking Supervision Department (BSD) Circular No. 11 dated December 30, 2003 issued by the State Bank of Pakistan (SBP).

2.2 The financial results of the Islamic Microfinance Division (IMD) of the Bank have been consolidated in these financial statements for reporting purpose, after eliminating inter-branch transactions/balances. Key figures of the IMD, derived from the related accounting records of the Bank, are disclosed as Annexure-II to these financial statements for disclosure purpose only to comply with the requirements of the license issued by the SBP to the Bank to commence Islamic microfinance operations. Further, the IMD results are to be separately reported upon for Shariah Compliance by the Shariah Advisor of the Bank as required by the SBP in conditions prescribed for the Bank to commence Islamic Microfinance operations.

## 3 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for Banks/DFIs/MFIs. The accounting and reporting standards applicable in Pakistan comprise of:

- International Financial Reporting Standards (IFRS Standards) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Act, 2017;
- Provisions of and directives issued under the Microfinance Institutions Ordinance, 2001 and the Companies Act, 2017; and
- Directives issued by the SBP and the SECP.

Wherever the requirements of the Microfinance Institutions Ordinance, 2001, the Companies Act, 2017, or the directives issued by the SBP and the SECP differ with the requirements of the IFRSs or IFASs, the requirements of the Microfinance Institutions Ordinance, 2001, the Companies Act, 2017, and said directives shall prevail.

The SBP, vide its BSD Circular Letter no. 10 dated August 26, 2002 has deferred the applicability of International Accounting Standard 40, Investment Property, for banking companies till further instructions. Further, the SECP, through S.R.O 411(1)/2008 dated April 28, 2008, has deferred the applicability of IFRS 7, Financial Instruments: Disclosures, to banks. Additionally, the SBP has deferred the applicability of IFRS 9 to banks to accounting periods beginning on or after January 1, 2021. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements.

## 4 NEW AND REVISED STANDARDS AND INTERPETATIONS

4.1 There are certain other new and amended standards, interpretations and amendments that are mandatory for the Bank's accounting periods beginning on or after January 1, 2020 but are considered not to be relevant or do not have any significant effect on the Bank's operations and are therefore not detailed in these financial statements.

4.2 Following standards has been issued by the International Accounting Standards Board (IASB), which is yet to be notified by the Securities and Exchange Commission of Pakistan (SECP) for the purpose of its applicability in Pakistan:

		<b>Effective date (annual periods beginning on or after)</b>
IFRS 1	First-Time Adoption of International Financial Reporting Standards (Amendments)	July 1, 2009
IFRS 17	Insurance Contracts	January 1, 2021

4.3 Following standards and amendments to published accounting standards will be effective in future periods and have not been early adopted by the Bank.

		<b>Effective date (annual periods beginning on or after)</b>
IAS 1	Presentation of Financial Statements (Amendments)	January 1, 2022
IAS 16	Property, plant and equipment (Amendments)	January 1, 2022
IAS 37	Provisions, Contingent Liabilities and Contingent Assets (Amendments)	January 1, 2022
IFRS 3	Business Combinations (Amendments)	January 1, 2022
IFRS 9	Financial Instruments	January 1, 2021*
IFRS 16	'Leases' - COVID-19 related rent concessions	January 1, 2021

The management does not anticipate early adoption of above standards and amendments and is currently evaluating the impact of adopting these standards.

The SBP vide its BPRD Circular No. 04 dated October 23, 2019 has notified the effective date of IFRS 9, 'Financial instruments' as January 1, 2021. IFRS 9, 'Financial instruments' has replaced IAS 39, 'Financial instruments: recognition and measurement'. The standard addresses recognition, classification, measurement and derecognition of financial assets and financial liabilities. The standard has also introduced a new impairment model for financial assets which requires recognition of impairment charge based on 'Expected Credit Losses' (ECL) approach rather than 'incurred credit losses' approach. The ECL has impact on all the assets of the Bank which are exposed to credit risk and the related implementation guidelines on IFRS 9 are awaited.

## 5 BASIS OF MEASUREMENT

5.1 These financial statements have been prepared under the historical cost convention except for certain investments carried at fair value and recognition of certain staff retirement benefits, liabilities against assets subject to finance lease which are stated at present value.

5.2 These financial statements are presented in Pakistan Rupees (Rupees), which is the Bank's functional currency. All financial information presented in PKR has been rounded to the nearest of Rupees, unless otherwise stated.

## 6 SIGNIFICANT ACCOUNTING ESTIMATES

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have significant effect on the amounts recognized in the financial statements are discussed in following paragraphs:

### a) Impairment of investments

Impairment in the value of investments is made after considering objective evidence of impairment. Provision for diminution in the value of investments is made as per the Regulations issued by SBP.

### b) Advances

The Bank reviews its micro credit loan portfolio to assess amount of non-performing advances and provision required there against on regular basis. While assessing this requirement, the Regulations of SBP are also taken into consideration.

### c) Operating fixed assets/ intangible assets

Estimates of residual values and useful lives of operating fixed assets and intangible assets are reassessed annually and any change in estimate is taken into account in the determination of depreciation/ amortization charge and impairment loss. Changes in estimates are accounted for over the estimated remaining useful life of the assets.

### d) Fair value of derivative financial instruments

The Company reviews the fair values of derivative financial instruments on a regular basis. Fair values are sensitive to changes in interest and foreign currency exchange rates, and if there is any change in interest and foreign currency exchange rates, the fair values are adjusted accordingly.

### e) Employees' benefits

Employees' benefits include gratuity and compensated absences which are provided for on basis of actuarial valuation. Estimate is made on the basis of expected period of service of employees, expected increase in salary, discount rate and other demographic assumptions.

### f) Lease liability against right-of-use asset under IFRS 16 'Leases'

Lease liability is initially measured as the present value of the lease payments, discounted using the Bank's incremental weighted average borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest rate method.

### g) Provisions and contingencies

Estimates of the amount of provisions recognized are based on current legal and constructive requirements. As actual outflows can differ from estimates due to changes

in laws, regulations, public expectations, prices and conditions, and can take many years in the future, the carrying amounts of provisions are regularly reviewed and adjusted to take account of such changes. Further, the Bank also reviews the status of all the legal cases on a regular basis. Based on the expected outcome and consideration of opinion of its legal advisor, appropriate provision / disclosure is made.

#### **h) Impairment of financial assets**

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

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

#### **i) Taxation**

The Bank takes into account the current income tax law and decisions taken by the taxation authorities. Those amounts are shown as contingent liabilities wherein, the Bank's views differ from the views taken by the taxation authorities at the assessment stage and where the Bank considers that its views on items of material nature are in accordance with law.

## **7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **7.1 Cash and cash equivalents**

Cash and cash equivalents represent cash in hand, balances held with State Bank of Pakistan (SBP) and National Bank of Pakistan (NBP), balances held with other banks/ Non-Banking Financial Institutions (NBFIs) / Microfinance Banks (MFBs) and call money lendings carried at cost.

### **7.2 Financial instruments**

Financial assets and liabilities are recognized when the Bank becomes a party to the contractual provisions of the instrument. These are derecognized when the Bank ceases to be the party to the contractual provisions of the instrument.

All financial assets and liabilities are initially measured at cost which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, amortized cost or historical cost, as the case may be.

Other particular recognition methods adopted by the Bank are disclosed in the individual policy statements associated with each item of financial instruments.

#### **a) Financial Assets**

Financial assets are cash and balances with SBP and NBP, balances with other banks, lending to financial institutions, investments, advances and other receivables. Advances are stated at their nominal value as reduced by appropriate provisions against non-performing advances, while other financial assets excluding investments are stated at cost. Investments are recognized as per note 7.4.

#### **b) Financial liabilities**

Financial liabilities are classified according to the substance of the contractual arrangement entered into. Financial liabilities include borrowings and other liabilities which are stated at their nominal value. Financial charges are accounted for on accrual basis.

Any gain or loss on the recognition and de-recognition of the financial assets and liabilities is included in the net profit and loss for the year in which it arises.

### c) **Derivative financial instruments**

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

## 7.3 **Sale and repurchase agreements**

Securities sold under repurchase agreement (repo) are retained in the financial statements as investments and a liability for consideration received is included in borrowings. Conversely, consideration for securities purchased under resale agreement (reverse repo) are included in lendings to financial institutions. The difference between sale and repurchase / purchase and resale price is recognized as mark-up / return expensed and earned respectively on a time proportion basis as the case may be. Repo and reverse repo balances are reflected under borrowings from and lendings to financial institutions respectively.

## 7.4 **Investments**

All purchase and sale of investments that require delivery within the time frame established by regulation or market convention are recognized at the trade date, which is the date the Bank commits to purchase or sell the investment. All investments are derecognized when the right to receive economic benefits from the investments has expired or has been transferred or the Bank has transferred substantially all the risks and rewards of ownership.

Investments are classified into following categories:

### a) **Held for trading**

These represent securities acquired with the intention to trade by taking advantage of short-term market / interest rate movements. These securities are required to be disposed off within 90 days from the date of their acquisition. After initial measurement, these are marked to market and surplus / deficit arising on revaluation of 'held for trading' investments is taken to profit and loss account in accordance with the requirements prescribed by SBP.

### b) **Held to maturity**

Investments with fixed maturity, where management has both the intent and the ability to hold till maturity, are classified as held to maturity. Subsequent to initial recognition at cost, these investments are measured at amortized cost, less provision for impairment in value, if any, and amortized cost is calculated taking into account effective interest rate method. Profit on held to maturity investments is recognized on a time proportion basis taking into account the effective yield on the investments.

Premium or discount on acquisition of held to maturity investments is amortized through profit and loss account over the remaining period till maturity.

### c) **Available for sale**

Investments which may be sold in response to need for liquidity or changes in interest rates, exchange rates or equity prices are classified as available for sale. Available for sale investments are initially recognized at cost and subsequently measured at fair value. Profit on available-for-sale investments is recognized on a time proportion basis taking into account the effective yield on the investments.

The surplus / (deficit) arising on revaluation of available for sale investments is kept in "surplus/(deficit) on revaluation of assets" through statement of comprehensive income. The surplus/(deficit) arising on these investments is taken to profit and loss account, when actually realized upon disposal of the investment.

## 7.5 Advances

Advances are stated net of provision for non-performing advances. The outstanding principal and mark-up of the loans and advances, payments against which are overdue for 30 days or more are classified as non-performing loans (NPLs). The unrealized interest / profit / mark-up / service charges on NPLs is suspended and credited to interest suspense account. Further the NPLs are classified into following categories as prescribed in the Regulations:

**a) Other assets especially mentioned**

These are advances, payments against which are overdue for 30 days or more but less than 60 days.

**b) Substandard**

These are advances, payments against which are overdue for 60 days or more but less than 90 days.

**c) Doubtful**

These are advances, payments against which are overdue for 90 days or more but less than 180 days.

**d) Loss**

These are advances, payments against which are overdue for 180 days or more.

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

In accordance with the Regulations, the Bank maintains specific provision of outstanding principal net of cash collaterals and Gold (ornaments and bullion) realizable without recourse to a Court of Law at the following rates:

<b>Other assets especially mentioned</b>	Nil
<b>Substandard</b>	25% of outstanding principal net of cash collaterals
<b>Doubtful</b>	50% of outstanding principal net of cash collaterals
<b>Loss</b>	100% of outstanding principal net of cash collaterals

In addition to above, a general provision is made equivalent to 1% (2019: 1%) of the net outstanding balance (advances net of specific provisions) in accordance with the requirement of the Regulations.

General and specific provisions are charged to the profit and loss account in the period in which they occur.

Bank continues its efforts for recovery of the written off balances.

### 7.5.1 Islamic financing and related assets

**a) Murabaha**

Receivable under Murabaha financing represent cost price plus an agreed markup on sale arrangement. Markup income is recognized on straight line basis over the tenure of financing period.

**b) Ijarah**

Ijarah financing represent arrangements whereby the Bank (being the owner of assets) transfers its usufruct to its customers for an agreed period at an agreed consideration. Assets leased out under Ijarah are stated at cost less accumulated depreciation and accumulated impairment losses, if any. These assets are depreciated over the term of the Ijarah financing. Ijarah income is recognized on an accrual basis.

## 7.6 Operating fixed assets

### a) Capital work-in-progress

Capital work-in-progress is stated at cost less accumulated impairment losses, if any, and is transferred to the respective item of operating fixed assets when available for intended use.

### b) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset and the costs of dismantling and removing the items and restoring the site on which they are located, if any. Property and equipments are recognized 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. Subsequent expenditure is capitalized only when it increases the future economic benefit embodied in the specific asset to which it relates. Carrying amount of the replaced component is derecognized. All other repair and maintenance are charged to profit and loss account.

Depreciation is charged on the straight line at rates specified in note 13.2 to the financial statements, so as to write off the cost of assets over their estimated useful lives. Full month's depreciation is charged in the month of acquisition while no depreciation is charged in the month of disposal.

Gains and losses arising on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amounts of fixed asset. Net gain is recognized within other income while net loss is recognized in administrative expenses in the profit and loss account.

### c)

### Intangible assets

An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the Bank and that the cost of such asset can also be measured reliably. These are stated at cost less accumulated amortization and impairment losses, if any.

Intangible assets comprise of computer software and related applications. Intangible assets are amortized over their estimated useful lives at rate specified in note 13.4 to the financial statements. Subsequent expenditure is capitalized only when it increases the future economic benefit embodied in the specific asset to which it relates. All other expenditure is recognized in profit and loss account as incurred.

### d)

### 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 / 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 the Bank's incremental weighted average 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 Finance cost over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

## 7.7 Impairment

### a) Non - financial assets

The carrying amounts of the Bank's non-financial 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 determined.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in profit and loss account. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

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 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.

An impairment loss recognized in prior years is 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. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### b) Financial assets

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

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

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

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

## 7.8 Taxation

Income tax expense comprises of current and deferred tax. Income tax expense is recognized in the profit and loss account except to the extent that it relates to items recognized directly in equity or below equity/ other comprehensive income in which case it is recognized in equity or below equity/ other comprehensive income.

Management periodically evaluates positions taken in tax returns, with respect to situations in which applicable tax regulation is subject to legal interpretation and decisions of superior appellate fora, and accordingly establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities. Instances where the Bank's view differs from the view taken by the income tax department at the assessment stage, the amounts are shown as contingent liabilities.

### Current

Current tax is the tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, taking into account tax credits, rebates and tax losses, if any, and any adjustment to tax payable in respect of previous years.

As these special purpose financial statements cover a different period than the Bank's normal financial year i.e. calendar year, thus the financial results are split on the basis of the respective tax periods and the tax provisions applicable thereto have been considered for calculating current tax.

### Deferred

Deferred tax is accounted for on all major taxable temporary differences between the carrying amounts of assets for financial reporting purposes and their tax base. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. At each balance sheet date, the bank reassesses the carrying amount and the unrecognized amount of deferred tax assets.

Deferred tax assets and liabilities are calculated at the rate that are expected to apply for the period when the asset is realized or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantially enacted till the balance sheet date. Deferred tax, on revaluation of investments, if any, is recognized as an adjustment to surplus/ (deficit) arising on such revaluation.

## 7.9 Employee benefits

The main features of the schemes operated by the Bank for its employees are as follows:

### a) Defined benefit plan

#### i) Employees' gratuity fund

The Bank operates an approved funded gratuity fund for all its regular employees. The cost of providing benefits under the plan is determined using the projected unit credit actuarial valuation method. Estimate is made on the basis of expected period of service of employees, expected increase in salary, discount rate and other demographic assumptions. Six or more months of service is counted as one full year. Qualifying service period is two years. Gratuity is paid to employee upon leaving the bank's service and is calculated on basis of last drawn gross salary multiplied with numbers of years of service with the bank.

The most recent valuation for defined benefit plan was carried out as at December 31, 2020 by an independent actuary using the projected unit credit method. Actuarial gains and losses arising due to changes in defined benefit obligations are recognized immediately in other comprehensive income in order for the net asset or liability recognized in the balance sheet to reflect the full value of plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets is calculated by applying the discount rate to the net defined benefit liability or asset.

#### ii)

#### Accumulated compensated absences

The Bank provides compensated absences to all its regular employees who are entitled to accumulate the unutilized privilege leaves up to 90 days (2019: 90 days). Provision for expected cost of accumulated compensated absences is charged to profit and loss account on the basis of actuarial valuations. The most recent valuation for defined benefit plan was carried out as at December 31, 2020 by an independent actuary using the projected unit credit method.

### b) Defined contribution plan

The Bank operates an approved defined contribution provident fund for all permanent employees. Equal monthly contributions at the rate of 10% of basic salary are made by the employees and by the Bank to the fund.

## 7.10 Reserves

### a) Statutory reserve

In compliance with the Regulations, the Bank is required to maintain a statutory reserve to which an appropriation equivalent to 20% of the profit after tax is to be made till such time the reserve fund equals the paid up capital of the Bank. Thereafter, the contribution is to be reduced to 5% of the annual profit after tax.

### b) Depositors' protection fund (DPF)

The Bank is required under the Microfinance Institutions Ordinance, 2001 to contribute 5% of annual after tax profit to DPF. Further, profits earned on investments of the fund are credited to DPF for the purpose of providing security or guarantee to specified persons for depositing money in the bank.

### c) Cash reserve

In compliance with the related regulatory requirements, the Bank is required to maintain a cash reserve equivalent to not less than 5% of its deposits (including demand deposits and time deposits with tenor of less than 1 year) in a current account opened with the State Bank or its agent.

### Statutory liquidity requirement

### d)

In compliance with the related regulatory requirements, the Bank is required to maintain liquidity equivalent to at least 10% of its total demand and time liabilities with tenor of less than one year in form of liquid assets i.e. cash, gold, unencumbered treasury bills, Pakistan Investment Bonds and Government of Pakistan sukuk bonds. Treasury bills and Pakistan Investment Bonds held under depositor protection fund are excluded for the purpose of determining liquidity.

## 7.11 Grants

Grants that compensate the Bank for the cost of an asset are initially recognized in the balance sheet as deferred income when grant is received or there is reasonable assurance that it will be received and that the Bank will comply with the conditions attached to it and are charged to the profit and loss account as other operating income on a systematic basis over the useful life of the asset. Grants that compensate the Bank for expenses are initially recognized as deferred income or receivable, depending upon the nature of grant arrangement and are recognized as income in the profit and loss account on a systematic basis in the same period in which the related expenses are incurred.

## 7.12 Earnings per share

The Bank presents earnings per share (EPS) for its ordinary shares which is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effect of all dilutive potential ordinary shares. There were no dilutive potential ordinary shares in issue as at December 31, 2020.

## 7.13 Revenue recognition

### a) Markup / return / interest earned on advances

Markup / income / return / service charges on advances is recognized on accrual / time proportion basis using effective interest rate method at the Bank's prevailing interest rates for the respective loan products. Markup/ income on advances is collected with loan instalments. Due but unpaid service charges / income are accrued on overdue advances for period up to 30 days. After 30 days, overdue advances are classified as non-performing and recognition of unpaid service charges / income ceases. Further, accrued markup on non-performing advances are reversed and credited to suspense account. Subsequently, markup recoverable on non-performing advances is recognized on a receipt basis in accordance with the requirements of the Regulations. Application processing fee is recognized as income when service is performed.

### b) Income from investments

Mark-up / return on investments is recognized on time proportion basis using effective interest method. Where debt securities are purchased at premium or discount, the related premiums or discounts are amortized through the profit and loss account over the remaining period of maturity of said investment.

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

### c) Fee, commission and brokerage income

Fee, commission and brokerage income is recognized in the profit and loss to the extent of services rendered. Any advance payments received from customers for which services are yet to be rendered by the Bank, are recognized as contract liability in the financial statements.

### d) Income on inter bank deposits

Income from interbank deposits in saving accounts are recognized in the profit and loss account using the effective interest method.

## 7.14 Borrowing costs

Borrowing costs are recognized as an expense in the period in which they are incurred except where such costs relate to the acquisition, construction or production of a qualifying asset in which case such costs are capitalized as part of the cost of that asset. Borrowing cost includes exchange differences arising from foreign currency borrowings to the extent these are regarded as an adjustment to borrowing costs.

### 7.15 Off-setting

Financial assets and financial liabilities and tax assets and tax liabilities are only off-set and the net amount is reported in the financial statements when there is a legally enforceable right to set off the recognized amount and the Bank intends either to settle on net basis or to realize the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also off-set and the net amount is reported in the financial statements.

### 7.16 Foreign currencies translation

Transactions in foreign currencies are translated into Pak Rupee at exchange rate on the date of transaction. All monetary assets and liabilities in foreign currencies are translated into Pak Rupee at the rate of exchange approximating those ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit and loss account.

### 7.17 Provisions

A provision is recognized when, and only when, the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

	Note	2020 Rupees	2019 Rupees
<b>8 CASH AND BALANCES WITH SBP AND NBP</b>			
Cash in hand		663,685,096	560,336,948
Balances with State Bank of Pakistan	8.1	1,201,939,362	880,708,958
Balances with National Bank of Pakistan in			
Current account		5,224,770	28,836
Deposit accounts		997,110,001	42,337,402
		<u>2,867,959,229</u>	<u>1,483,412,144</u>

**8.1** This represents balance maintained with SBP to comply with requirements of Prudential Regulations for Microfinance Banks to maintain minimum cash reserve equivalent to not less than 5% (2018: 5%) of the Bank's demand deposits and time deposits with tenor of less than one year.

	Note	2020 Rupees	2019 Rupees
<b>9 BALANCES WITH OTHER BANKS / NBFIs / MFBS</b>			
In Pakistan			
Local currency current accounts	9.1	105,515,784	63,348,593
Local currency deposit accounts	9.2	4,327,788,228	3,286,294,366
Local currency term deposits	9.3	500,000,000	617,730,882
		<u>4,933,304,012</u>	<u>3,967,373,841</u>

**9.1** These represent deposits with commercial banks and Islamic banks payable on demand maintained in current account.

**9.2** These represent deposits with commercial banks and Islamic banks payable on demand carrying mark-up/profit ranging from 5% to 7.25% (2019: 5% to 13.80%) per annum.

**9.3** Local currency term deposits represent an amount of Rs 500 Million (2019: Rs 617.7 million) that carries mark-up/profit at the rate of 9.5% (2019: 13.5% to 14.25%) and is due to mature in January 2021.

	Note	2020 Rupees	2019 Rupees
<b>10 LENDING TO FINANCIAL INSTITUTIONS</b>			
Call money lendings		-	-
Repurchase agreement lendings (Reverse repo)	10.1 & 10.2	1,494,680,500	-
		<u>1,494,680,500</u>	<u>-</u>

**10.1** These are secured against underlying Market Treasury Bills. The differential between the contracted rate and resale price is amortised over the period of related contracts and recorded under mark-up / return / interest earned. These carried mark-up at the rate of 7% (2019: Nil) and are due to mature in January 2021.

**10.2 Securities held as collateral against lending to financial institutions**

	Held by Bank	Further given as collateral	Total
As at December 31, 2020			
Market treasury bills (MTBs)	1,500,000,000	-	1,500,000,000
As at December 31, 2019			
Market treasury bills (MTBs)	-	-	-

	Note	2020 Rupees	2019 Rupees
<b>11 INVESTMENTS - NET OF PROVISIONS</b>			
<b>Held to maturity</b>			
<b>Federal Government securities</b>			
Market Treasury Bills (MTBs)	11.1	1,824,767,302	1,191,609,401
Ijarah Sukuks	11.2	252,774,020	149,957,479
		<u>2,077,541,322</u>	<u>1,341,566,880</u>
<b>Term Deposit Receipts (TDRs)</b>	11.3	<u>1,000,000,000</u>	-
		<u>3,077,541,322</u>	<u>1,341,566,880</u>
<b>Available for sale</b>			
<b>Federal Government securities</b>			
Market treasury bills (MTBs)	11.4	5,559,985,099	243,649,000
Deficit on revaluation of available for sale investments		372,600	(7,000)
		<u>5,560,357,699</u>	<u>243,642,000</u>
<b>Held for trading</b>			
Mutual funds	11.5	-	5,209,113
		<u>8,637,899,021</u>	<u>1,590,417,993</u>

**11.1** The T-Bills carry mark up at the rate of 7.07% to 7.11% (2019: 13.05% to 13.13%) per annum and are due to mature in February and March 2021. These also include investment held for the purposes of Depositors' Protection Fund with a carrying amount of Rs 199.858 million (2019: Rs 179.039 million) that carries markup at the rate of 7.11% (2019: 13.05%) per annum and is due to mature in February 2021.

**11.2** Ijarah Sukuk carries mark up at the rate of 6.3% to 6.6% (2019: 5.24%) per annum and is due to mature in April and July 2025.

**11.3** The TDRs carry mark-up at the rate of 10.15% (2019: Nil) per annum and are due to mature in July 2021.

**11.4** The T-Bills carry mark up at the rate of 7.09% to 7.15% (2019: 13.40%) per annum and are due to mature in February and March 2021.

**11.5** This represents units held in funds as tabulated below:

	2020		2019	
	No. of Units	Rupees	No. of Units	Rupees
Alfalah GHP Money Market Fund	-	-	16,653	1,634,253
Alfalah GHP Sovereign Fund	-	-	107	12,141
Askari Sovereign Cash Fund	-	-	4,971	533,860
Atlas Money Market Fund	-	-	-	-
Faysal Money Market Fund	-	-	6,592	713,483
Faysal Financial Sector Opportunity Fund	-	-	192	20,865
Faysal Savings Growth Fund	-	-	-	-
First Habib Cash Fund	-	-	813	81,560
Lakson Money Market Fund	-	-	-	-
MCB Cash Management Optimizer	-	-	3,188	321,815
NAFA Money Market Fund	-	-	109,570	1,083,397
HBL Money Market Fund	-	-	6,732	731,226
HBL Cash Fund	-	-	-	-
Primus / AWT - Islamic Income Fund	-	-	8	865
UBL Liquidity Plus Fund	-	-	749	75,649
		<u>-</u>	<u>-</u>	<u>5,209,113</u>

## 12 ADVANCES - NET OF PROVISION

Loan type	Note	2020		2019	
		Number	Rupees	Number	Rupees
Micro credit		321,520	22,897,996,050	330,461	21,915,522,516
Islamic financing		22,099	6,391,843,703	21,385	5,853,238,237
		<u>343,619</u>	<u>29,289,839,753</u>	<u>351,846</u>	<u>27,768,760,753</u>
Less: Provision held					
Specific	12.1	11,944	(422,149,084)	6,743	(141,715,892)
General			-		
Mandatory	12.2		(251,988,904)		(256,433,405)
Additional	12.3		(683,280,229)		-
			(1,357,418,217)		(398,149,297)
			<u><u>27,932,421,536</u></u>		<u><u>27,370,611,456</u></u>

### Advances - net of provisions

#### 12.1 Particulars of non performing loans

Advances include Rs 1,242.29 million (2019: Rs 450.40 million) which as detailed below, have been placed under non performing status.

Category of classification	2020			2019		
	Amount outstanding	Rupees Provisions required	Provisions held	Amount outstanding	Rupees Provisions required	Provisions held
OAEM	360,870,373	-	-	195,885,182	-	-
Sub-Standard	112,396,535	27,373,697	27,373,697	85,232,812	20,403,360	20,403,360
Doubtful	739,430,189	365,545,398	365,545,398	90,811,814	43,791,191	43,791,191
Loss	29,594,988	29,229,989	29,229,989	78,471,559	77,521,341	77,521,341
	<u>1,242,292,085</u>	<u>422,149,084</u>	<u>422,149,084</u>	<u>450,401,367</u>	<u>141,715,892</u>	<u>141,715,892</u>

**12.2** This represents general provision maintained against unsecured microcredit advances net of specific provision at the rate of 1 % (2019: 1%) in accordance with the requirement of Prudential Regulations issued by the State Bank of Pakistan.

**12.3** In the view of the business challenges posed by the COVID-19 outbreak, the management assessed various factors impacting the borrowers and businesses and based on that, recorded General provision of Rs 683.28 million in addition to the statutory requirement of provision at 1% of the gross outstanding advances net of specific provisions and loans secured against gold or other collateral with appropriate margin. Further, the management believes that the policies and guidelines, including those referred to in note 37, adopted by the Bank are adequate in circumstances and are being cautiously monitored for any further action required.

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

	2020			2019		
	Specific	General	Total	Specific	General	Total
Opening balance	141,715,892	256,433,405	398,149,297	238,020,546	228,490,379	466,510,925
Charge for the year	1,047,277,022	678,835,728	1,726,112,750	1,792,526,418	27,943,026	1,820,469,443
Amounts written off	(766,843,830)	-	(766,843,830)	(1,888,831,072)	-	(1,888,831,072)
Reversals	-	-	-	-	-	-
<b>Closing balance</b>	<u>422,149,084</u>	<u>256,433,405</u>	<u>1,357,418,217</u>	<u>141,715,892</u>	<u>256,433,405</u>	<u>398,149,296</u>

**12.4.1** Specific provision for the year has been arrived at after considering the relaxation granted by SBP to financial sector as referred to in note 37 to the financial statements.

Particulars of advances written off	Note	2020 Rupees	2019 Rupees
Against provisions		766,843,830	1,888,831,072
Directly charged to profit & loss account		15,255,294	24,571,874
		<u><u>782,099,124</u></u>	<u><u>1,913,402,946</u></u>

	Note	2020 Rupees	2019 Rupees
Capital work-in-progress	13.1	38,586,143	38,484,276
Property and equipment	13.2	772,607,071	930,042,808
Right of use assets	13.3	774,557,327	938,753,610
Intangible assets	13.4	88,105,700	116,033,339
		<u>1,673,856,241</u>	<u>2,023,314,033</u>

### 13.1 Capital work-in-progress

Civil works	8,608,045	13,903,268
ATM machines installation	-	-
Implementation of Oracle Financials	29,978,098	24,581,008
	<u>38,586,143</u>	<u>38,484,276</u>

### 13.2 Property and Equipment

Particulars	COST				ACCUMULATED DEPRECIATION				Net Book value as at December 31, 2020	"Rate of depreciation (%) "
	As at January 01, 2020	Additions	Disposal	As at December 31, 2020	As at January 01, 2020	Charge for the year	Disposal	As at December 31, 2020		
<b>Owned assets</b>										
Freehold land	253,419,808	-	-	253,419,808	-	-	-	-	253,419,808	-
Furniture and fixtures	467,571,096	26,844,444	(10,782,280)	483,633,260	129,158,997	47,595,433	(3,647,126)	173,107,304	310,525,956	10
Office equipment	286,321,313	4,740,867	(3,997,157)	287,065,023	156,693,638	45,370,070	(3,701,118)	198,362,590	88,702,433	20
Computer equipment	397,670,508	12,573,735	(4,233,817)	406,010,426	290,506,001	68,765,212	(3,670,405)	355,600,808	50,409,618	33.33
Vehicles	94,630,860	1,327,610	-	95,958,470	36,610,146	14,922,311	-	51,532,457	44,426,013	20
<b>Leased assets</b>										
Vehicles	1,499,613,585	45,486,656	(19,013,254)	1,526,086,987	612,968,782	176,653,026	(11,018,649)	778,603,159	747,483,828	
	116,909,563	343,483	-	117,253,046	73,511,558	18,618,245	-	92,129,803	25,123,243	20
	<b>1,616,523,148</b>	<b>45,830,139</b>	<b>(19,013,254)</b>	<b>1,643,340,033</b>	<b>686,480,340</b>	<b>195,271,271</b>	<b>(11,018,649)</b>	<b>870,732,962</b>	<b>772,607,071</b>	

Particulars	COST				ACCUMULATED DEPRECIATION				Net Book value as at December 31, 2019	"Rate of depreciation (%) "
	As at January 01, 2019	Additions	Disposal	As at December 31, 2019	As at January 01, 2019	Charge for the year	Disposal	As at December 31, 2019		
<b>Owned assets</b>										
Freehold land	253,090,088	329,720	-	253,419,808	-	-	-	-	253,419,808	-
Furniture and fixtures	353,675,666	113,918,310	(22,880)	467,571,096	86,155,672	43,021,055	(17,730)	129,158,997	338,412,099	10
Office equipment	259,042,754	31,045,369	(3,766,810)	286,321,313	114,926,021	45,465,171	(3,697,554)	156,693,638	129,627,675	20
Computer equipment	338,651,089	64,610,664	(5,591,245)	397,670,508	208,360,722	87,217,939	(5,072,660)	290,506,001	107,164,507	33.33
Vehicles	56,322,678	40,523,119	(2,214,937)	94,630,860	24,310,058	14,121,740	(1,821,652)	36,610,146	58,020,714	20
<b>Leased assets</b>										
Vehicles	1,260,782,275	250,427,182	(11,595,872)	1,499,613,585	433,752,473	189,825,905	(10,609,596)	612,968,782	886,644,803	
	115,687,331	1,222,232	-	116,909,563	52,173,872	21,337,686	-	73,511,558	43,398,005	20
	<b>1,376,469,606</b>	<b>251,649,414</b>	<b>(11,595,872)</b>	<b>1,616,523,148</b>	<b>485,926,345</b>	<b>211,163,591</b>	<b>(10,609,596)</b>	<b>686,480,340</b>	<b>930,042,808</b>	

**13.2.1** Cost of fully depreciated property and equipment that are still in use is Rs 345.19 million (2019: Rs Rs 316.30 million).

**13.2.2** As required by BSD Circular No 11 of 2003, details of property and equipment disposed off during the year is disclosed in Annexure-I and forms integral part of these financial statements.

	Note	2020 Rupees	2019 Rupees
<b>13.3 Right of use assets</b>			
Opening Balance		938,753,610	-
Right of use assets - Initial Recognition under IFRS-16		-	896,343,375
Additions during the period		127,415,732	194,139,987
Deletions during the year		(151,641,718)	-
Depreciation charged during the period		(139,970,297)	(151,729,753)
<b>Net book value at the end</b>		<b>774,557,327</b>	<b>938,753,610</b>

### 13.3 Intangible assets

Computer softwares	13.4.1	88,105,700	116,033,339
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#### 13.4.1 Computer softwares

##### Cost

Opening balance		365,069,167	264,909,230
Additions during the year		26,016,512	100,159,937
<b>Closing balance</b>		<b>391,085,679</b>	<b>365,069,167</b>

##### Amortization

Opening balance		(249,035,828)	(215,747,028)
Charge for the year		(53,944,151)	(33,288,800)
<b>Closing balance</b>		<b>(302,979,979)</b>	<b>(249,035,828)</b>

##### Net book value

		<b>88,105,700</b>	<b>116,033,339</b>
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**13.4.2** Amortization is charged on straight line basis at the rate of 33.33% per annum, starting from the month the asset is available for use and no amortization is charged in month of disposal.

**13.4.3** Cost of fully amortized intangible assets that are still in use is Rs 275.58 million (2019: Rs 210 million).

## 14 OTHER ASSETS

	Note	2020 Rupees	2019 Rupees
Income / mark-up accrued on			
Loans and Advances		4,266,118,482	2,307,559,543
Bank deposits		85,211,777	17,019,687
Lending to financial institutions		1,528,650	-
Advances to employees			
Personal advances - net of provision	14.1	148,724,994	141,278,790
Operational		2,564,551	16,225,253
Advances to suppliers		24,138,444	14,959,314
Prepayments		43,330,592	60,311,106
Income tax refundable (payments less provisions)		-	78,938,495
FED/Sales tax refundable		46,423,284	864,819
Fair value of derivative financial instrument		91,667,278	250,634,032
Insurance claims receivables		73,122,975	82,621,905
Crop and livestock insurance claims	14.2	317,365,745	268,977,801
Receivable from Employees' Provident Fund		-	-
Receivable from parent company		236,574	171,532
Others		84,270,084	98,908,154
		<b>5,184,703,430</b>	<b>3,338,470,431</b>
Less : Provisions held against classified other assets		-	-
<b>Other assets - net of provisions</b>		<b>5,184,703,430</b>	<b>3,338,470,431</b>

**14.1** The Bank provides advances & loans to its employees as per Bank's HR policies. Specific and general provision is charged against personal advances to employees in accordance with provisions of the Regulations as explained in note 7.5. Breakup of employee advances and provision held there against is as follow:

	Markup Rate in (%)		Amount in Rupees		
	Note	2020	2019	2020	2019
Advances against Salary		13.73%	14.40%	51,160,676	33,192,375
Advances for house		KIBOR + 1%	KIBOR + 1%	55,977,450	60,946,405
Advances for cars	14.1.1	5%	5%	35,342,347	42,939,388
Advances for motorcycles	14.1.1	5%	5%	964,603	1,018,068
Other personal advances				5,279,918	3,182,554
				<u>148,724,994</u>	<u>141,278,790</u>
Less provision held					
Specific				-	-
General				-	-
				<u>148,724,994</u>	<u>141,278,790</u>

**14.1.1** The loan for acquisition of personal vehicles represent present value of minimum lease payments in respect of vehicles leased by the Bank for its employees as per the Bank's policy. The interest rate inherent in the leases range from Kibor plus 1.5% (2019: 7.56% to 13.11%) per annum however interest rate charged to the employee is fixed at 5% (2019: 5%) per annum.

**14.2** This represents claims for the amount of insurance premiums lodged with SBP under crop loan insurance scheme and livestock insurance scheme for borrowers of the Bank.

## 15 DEFERRED TAX ASSET - NET

	Note	2020 Rupees	2019 Rupees
<b>Deferred tax asset arising on account of deductible temporary differences on:</b>			
Amortization on intangible assets		1,594,532	-
Lease liability		281,836,305	306,514,673
Grants		3,591,506	1,002,624
Un-realized exchange loss on borrowings		26,765,502	72,279,020
Provision for non-performing loans		393,651,283	115,463,296
Minimum tax		-	112,029,283
		<u>707,439,128</u>	<u>607,288,896</u>
<b>Deferred tax liability arising on account of taxable temporary differences on:</b>			
Accelerated depreciation allowance - owned assets		-	(12,822,569)
Accelerated depreciation allowance - leased assets		(231,907,365)	(284,823,968)
Amortization on intangible assets		(8,861,594)	(1,069,625)
Un-realized gain on derivative financial instrument		(26,583,511)	(72,683,869)
Un-realised mark-up on Government Securities		(3,750,000)	(4,218,168)
Un-realised mark-up on capital gains on Mutual Funds		-	-
		<u>(271,102,470)</u>	<u>(375,618,199)</u>
		<u>436,336,658</u>	<u>231,670,697</u>

## 16 DEPOSITS AND OTHER ACCOUNTS

	2020		2019	
	No of accounts	Rupees	No of accounts	Rupees
<b>Conventional</b>				
Current deposits	336,881	1,986,977,864	302,646	1,621,850,588
Saving deposits	794,398	9,445,938,775	796,327	5,135,405,820
Fixed deposits	6,429	21,042,751,342	5,939	16,592,973,673
	<u>1,137,708</u>	<u>32,475,667,981</u>	<u>1,104,912</u>	<u>23,350,230,081</u>
<b>Islamic</b>				
Current deposits	50,970	936,264,992	42,890	651,289,200
Saving deposits	21,204	2,577,613,007	20,685	1,174,911,369
Fixed deposits	2,508	3,295,003,033	1,370	1,474,231,402
	<u>74,682</u>	<u>6,808,881,032</u>	<u>64,945</u>	<u>3,300,431,971</u>
	<u>1,212,390</u>	<u>39,284,549,013</u>	<u>1,169,857</u>	<u>26,650,662,052</u>

### 16.1 Particulars of Deposits by ownership

Individual depositors	1,209,534	15,232,223,488	1,167,707	12,600,966,848
Institutional depositors				
Corporation / firms etc.	2,699	18,636,030,920	2,015	11,621,668,069
Banks & financial institutions	157	5,416,294,605	135	2,428,027,135
	<u>2,856</u>	<u>24,052,325,525</u>	<u>2,150</u>	<u>14,049,695,204</u>
<b>Total</b>	<u>1,212,390</u>	<u>39,284,549,013</u>	<u>1,169,857</u>	<u>26,650,662,052</u>

**16.2** Deposits include related parties balances amounting to Rs 4,604.88 million (2019: Rs 3,989.67 million) as disclosed in note 35.

## 17 BORROWINGS

	Note	2020 Rupees	2019 Rupees
Borrowings from Banks / Financial Institutions			
In Pakistan	17.1	3,128,648,870	2,990,058,762
Outside Pakistan	17.2	267,294,834	774,238,000
		<u>3,395,943,704</u>	<u>3,764,296,762</u>

### 17.1 Borrowings from Banks / Financial Institutions in Pakistan

#### Secured

Pak Oman Investment Company Limited	17.1.1	55,555,552	166,666,664
Allied Bank Limited (Term Finance)	17.1.2	75,000,000	175,000,000
United Bank Limited (Running Finance)	17.1.3	-	700,651,757
Askari Bank Limited (Running Finance)	17.1.4	349,397,720	300,000,330
Allied Bank Limited (Running Finance)	17.1.5	199,585,723	199,842,393
Faysal Bank Limited (Running Finance)	17.1.6	449,952,085	450,000,405
National Bank of Pakistan (Running Finance)	17.1.7	999,160,165	997,897,213
Bank Alfalah Ltd (Running Finance)	17.1.8	499,997,625	-
The Bank of Punjab (Running Finance)	17.1.9	500,000,000	-
		<u>3,128,648,870</u>	<u>2,990,058,762</u>

**17.1.1** The Bank entered into a loan agreement amounting to Rs 500 million with Pak Oman Investment Company Limited to finance its operations. The principal amount is repayable in nine equal semi-annual installments of Rs 55.55 million each commencing from June 30, 2017 and culminating in June 2021. Markup is chargeable at the rate of six months KIBOR+2.25% per annum payable on semi-annual basis.

This loan is secured against a demand promissory note and a First Pari Passu charge on the present and future current assets of the Bank with 25% margin.

**17.1.2** The Bank entered into a loan agreement amounting to Rs 200 million with Allied Bank Limited to finance its operations. The loan has grace period of one year and principal amount is repayable in eight equal quarterly installments of Rs 25 million each commencing from December 2019 and culminating in September 2021. Markup is chargeable at the rate of three months KIBOR + 1.5% per annum payable on quarterly basis.

The loan is secured through a First Pari Passu charge with all prior charges on the present and future current assets of the Bank with 25% margin.

**17.1.3** The Bank had entered into a running finance facility agreement initially for an amount of Rs 300 million with United Bank Limited to finance its operations. In February 2018 the available limit was enhanced to Rs. 750 million on the same terms and conditions as applicable to the earlier facility. The principal amount is repayable at the end of term and carries markup at the rate of three month KIBOR+1% per annum. As at year end no amount is outstanding against this facility (2019: 700.65 million).

The facility is secured through a First Pari Passu charge with all prior charges on the present and future current assets of the Bank with 25% margin.

**17.1.4** The Bank entered into running finance facility agreement amounting to Rs 350 million with Askari Bank Limited to finance its operations. The principal amount is repayable at the end of the term and carries mark-up at the rate of three months KIBOR + 1% per annum payable on quarterly basis. The term of the loan is 1 year commencing from September 26, 2018. As at the year end, the facility has been availed upto Rs. 349.40 million (2019: Rs 300 million).

This facility is secured against a demand promissory note and a First Pari Passu charge on the present and future current assets of the Bank with 25% margin.

**17.1.5** The Bank entered into running finance facility agreement amounting to Rs 200 million with Allied Bank Limited to finance its operations. The principal amount is repayable at the end of the term and carries mark-up at the rate of three months KIBOR + 1 per annum payable on quarterly basis. The term of the loan is 1 year commencing from September 24, 2018. As at year end the facility has been availed upto Rs. 199.59 million (2019: Rs 199.84 million).

This facility is secured against a demand promissory note and a First Pari Passu charge on the present and future current assets of the Bank with 25% margin.

**17.1.6** The Bank entered into running finance facility agreement amounting to Rs 500 million with Faysal Bank Limited to finance its operations. The principal amount is repayable at the end of the term and carries mark-up at the rate of three months KIBOR + 1% per annum payable on quarterly basis. The term of the loan is 1 year commencing from September 27, 2018. As at the year end, the facility has been availed upto Rs 449.95 million ( 2019: Rs 450 million).

This facility is secured against a demand promissory note and a First Pari Passu charge on the present and future current assets of the Bank with 25% margin.

**17.1.7** The Bank entered into running finance facility agreement amounting to Rs 1,000 million with National Bank of Pakistan to finance its operations. The principal amount is repayable at the end of the term and carries mark-up at the rate of three months KIBOR + 0.75% per annum payable on quarterly basis. The term of the loan is 1 year commencing from December 26, 2018. As at the year end, the facility has been availed by the Bank upto Rs. 999.16 million (2019: Rs 997.90 million).

This facility is secured against a demand promissory note and a First Pari Passu charge on the present and future current assets of the Bank with 25% margin.

**17.1.8** The Bank entered into running finance facility agreement amounting to Rs 500 million with Bank Alfalah Limited to finance its operations. The principal amount is repayable at the end of the term and carries mark-up at the rate of one month KIBOR + 1% per annum payable on quarterly basis. The term of the loan is 1 year commencing from June 25, 2018. As at the year end, the facility was availed upto Rs. 499.99 million (2019 : Rs Nil).

This facility is secured against a demand promissory note and a hypothecated ranking pari passu charge on the present and future current assets of the Bank with 25% margin.

**17.1.9** The Bank entered into running finance facility agreement amounting to Rs 500 million with The Bank of Punjab to finance its operations. The principal amount is repayable at the end of the term and carries mark-up at the rate of Three month KIBOR + 1.25% per annum payable on quarterly basis. The term of the loan is 1 year commencing from January 22, 2020. As at year end, the facility has been fully availed by the Bank.

This facility is secured against a demand promissory note and a hypothecated first pari passu charge on the present and future current assets of the Bank with 25% margin.

## 17.2 Borrowings from Banks / Financial Institutions outside Pakistan

	Note	2020 Rupees	2019 Rupees
ECO Trade & Development Bank	17.2.1	175,000,000	525,000,000
Exchange Currency Swap - ECO Borrowing		92,294,834	249,238,000
		<u>267,294,834</u>	<u>774,238,000</u>

**17.2.1** The Bank entered into a loan agreement amounting to USD 10 million with ECO Trade and Development Bank on January 30, 2017 and the loan amount was received on April 18, 2017. The loan has a grace period of one year and principal amount is repayable in six equal semi-annual installments of USD 1.7 million each commencing from October, 2018 and culminating on April 2021. The loan carries markup at the rate of six month USD LIBOR plus a spread of 2.7% per annum.

The Bank entered into a cross currency swap and interest rate swap agreement with JS Bank Limited on April 5, 2017 to mitigate any foreign currency risk and interest rate risk.

## 18 SUBORDINATED DEBT

	Note	2020 Rupees	2019 Rupees
KfW - Germany	18.1	672,360,000	672,360,000

**18.1** The Bank entered into a loan agreement with KfW - Germany, shareholder of the Bank, on December 29, 2014 for an amount of EURO 6 million. The loan is intended to be availed as TIER-II subordinated debt for inclusion in the Bank's Supplementary Capital. The amount was translated into local currency at the exchange rate of Rs.112.06 and subordinated debt of Rs 672,360,000 was recorded in the financial statements. Loan carries interest at rate of KIBOR + 3.5% per annum. Principal amount and interest is repayable in a bullet payment at the end of loan term by converting the principal and accrued markup into EUROS at the exchange rate prevalent as at June 30, 2023. All foreign currency risks in connection with the transaction rest with the KfW.

## 19 OTHER LIABILITIES

	Note	2020 Rupees	2019 Rupees
Mark-up / return / interest payable on			
Deposits and other accounts		911,892,686	795,855,275
Borrowings	19.1	457,549,283	372,743,112
Payable for employees' benefit plans			
Employees' gratuity fund	19.2	25,284,618	304,390,486
Accumulated compensated absences	19.3	184,654,329	166,351,211
Provident Fund	19.4	10,688,941	401,403
Payable to employees' - final settlement		3,543,730	-
Obligation under finance lease			
Company's vehicles	19.5	16,538,282	27,381,593
Vehicles sub-leased to employees'	19.5	8,728,547	19,516,928
Right-of-use asset	19.6	946,582,501	1,010,048,627
		971,849,330	1,056,947,148
Payable to suppliers		25,744,825	17,843,194
Withholding tax payable		28,769,985	84,461,775
Income tax payable		262,847,335	-
Workers' Welfare Fund		22,697,706	4,741,385
Accrued expenses		43,169,117	44,754,751
Security deposits against Islamic financing		558,954,858	586,288,969
Payable to the parent company		140,799,867	34,859,640
Insurance payable		33,250,371	38,238,402
Unearned / deferred income on Islamic financing		474,684,180	521,509,841
Unearned / deferred income on ATM and SMS services		45,003,675	55,692,298
Bills payable		95,967,403	143,569,844
Others		501,058	1,670,356
		<u>4,297,853,297</u>	<u>4,230,319,090</u>

**19.1** This includes markup payable amounting to Rs 399.10 million (2019: Rs 304.58 million) in respect of subordinated loan from a shareholder.

### 19.2 Employees' gratuity fund

The latest actuarial valuation was carried out at December 31, 2020 on the basis of which, amounts recognised in financial statements in respect of employees' gratuity fund as at December 31, 2020 are as follow:

	2020 Rupees	2019 Rupees
<b>i) Amounts recognized in the balance sheet</b>		
Present value of defined benefit obligation	419,223,177	364,433,735
Fair value of plan assets	(426,003,872)	(88,808,949)
Benefits due but not paid	32,065,313	28,765,700
Net liability	<u>25,284,618</u>	<u>304,390,486</u>
<b>ii) Amounts recognized in the profit and loss account</b>		
Current service cost	95,599,579	97,523,813
Interest cost	38,590,714	38,802,660
Expected return on plan assets	(10,435,052)	(7,446,082)
	<u>123,755,241</u>	<u>128,880,391</u>
<b>iii) Remeasurements chargeable to other comprehensive income</b>		
Actuarial (gains)/ losses from changes in demographic assumptions	11,001,426	-
Actuarial gains from changes in financial assumptions	(2,900,778)	2,601,992
Experience adjustments	(15,497,239)	12,218,852
Return on plan assets, excluding interest income	1,240,129	1,376,497
	<u>(6,156,462)</u>	<u>16,197,341</u>
<b>iv) Changes in present value of defined benefit obligation</b>		
Opening defined benefit obligation	321,474,221	321,474,221
Current service cost for the year	97,523,813	97,523,813
Interest cost for the year	38,802,660	38,802,660
Adjustment for opening payables	(513,709)	(513,709)
Benefits due but not paid	(26,366,307)	(26,366,307)
Benefits paid during the year	(51,666,099)	(51,666,099)
<b>Remeasurements:</b>		
Actuarial losses from changes in demographic assumptions	11,001,426	-
Actuarial gains from changes in financial assumptions	(2,900,778)	(2,601,992)
Experience adjustments	(15,497,239)	(12,218,852)
	<u>419,223,177</u>	<u>364,433,735</u>
<b>v) Changes in fair value of plan assets</b>		
Opening fair value of plan assets	88,808,949	79,986,370
Contributions	328,000,000	-
Interest income on plan assets	10,435,052	7,446,082
Return on plan assets, excluding interest income	(1,240,129)	1,376,497
Closing fair value of plan assets	<u>426,003,872</u>	<u>88,808,949</u>
<b>vi) Changes in net liability as follows:</b>		
Opening defined benefit obligation	304,390,486	250,264,277
Amounts recognized in the profit and loss account	123,755,241	128,880,391
Remeasurements chargeable in other comprehensive Income	(6,156,462)	(16,197,341)
Contributions	(328,000,000)	-
Benefits paid	(68,704,647)	(58,556,841)
	<u>25,284,618</u>	<u>304,390,486</u>

vii) Plan assets of the staff gratuity fund comprise of only term deposits with the Bank. The bank ensures that the investment positions are managed to match the assets with retirement benefit obligations by investing in long term fixed interest securities having maturities that match the benefit payments as they fall due. The Bank actively monitors that duration and expected yield of the investments are matching the expected cash outflows arising from retirement benefit plan obligations. The bank has not changed the processes used to manage its risks from the previous periods.

viii) Significant actuarial assumptions were as follows

The Projected Unit Credit Method using the following significant assumptions was used for the valuation:

	2020	2019
Discount rate - per annum	11.75%	11.75%
Expected rate of increase in salaries - per annum	8.75%	10.75%
Mortality rate	SLIC 2001 - 2005	SLIC 2001 - 2005
Average expected remaining working life of employees	9 years	10 years

#### ix) Sensitivity Analysis

The calculation of the defined benefit obligation is sensitive to assumptions set out above. The following table summarizes how the defined benefit obligation at the end of reporting period would have increased/ (decreased) as a result of change in respective assumptions by one percent.

	Defined benefit obligation	
	Effect of 1% in Rupees	
	Increase	(Decrease)
Expected impact of change in discount rate	(33,553,891)	39,913,626
Expected impact of change in rate of increment in salaries	41,241,770	(35,334,348)

x) Based on actuarial advice, expense to be charged in profit and loss account during financial year 2021 in respect of employees' gratuity scheme is estimated to be Rs 95.49 million.

### 19.3 Accumulated compensated absences

All employees of the bank are entitled to earned leaves of thirty days every year. Earned leaves can be accumulated upto fifteen days each year upto a maximum of ninety days. Unutilized leaves are encashed on basis of gross salary upon leaving the service with the Bank. Amount recognised in the financial statements in respect of accumulated compensated absences on basis of actuarial valuation as at December, 2019 are as follows:

	2020 Rupees	2019 Rupees
i) Amounts recognized in the balance sheet		
Present value of accumulated compensated absences	168,869,242	151,481,402
Benefits due but not paid	15,785,087	14,869,809
Net liability	166,351,211	166,351,211
ii) Amounts recognized in the profit and loss account		
Current service cost	25,712,622	29,121,920
Past service cost due to change in rule	-	-
Adjustment for opening payables	18,317	11,874
Interest cost	6,102,694	5,961,786
Remeasurement adjustment	16,008,782	16,304,765
	47,842,415	51,400,345

	2020 Rupees	2019 Rupees
iii) Changes in present value of defined benefit obligation		
Opening defined benefit obligation	151,481,402	137,091,032
Current service cost for the year	25,712,622	29,121,920
Adjustment for opening payables	18,317	11,874
Interest cost for the year	16,008,782	16,304,765
Benefits due but not paid	(11,233,130)	(13,733,943)
Benefits paid during the year	(19,221,445)	(23,276,031)
Actuarial loss due to change in demographic assumptions	4,493,224	-
Actuarial loss recognised	(1,210,664)	(1,118,228)
Experience adjustment	2,820,134	7,080,013
<b>Closing defined benefit obligation</b>	<b>168,869,242</b>	<b>151,481,402</b>
	<b>2020</b>	<b>2019</b>
iv) Significant actuarial assumptions were as follows:		
Discount rate - per annum	11.75%	11.75%
Expected rate of increase in salaries - per annum	8.75%	10.75%
Mortality rate	SLIC 2001- 2005	SLIC 2001- 2005
Average expected remaining working life of employees	6 years	10 years
Average number of leaves accumulated - per annum	15 days	15 days

#### v) Sensitivity Analysis

The calculation of the accumulated compensated absences is sensitive to assumptions set out above. The following table summarizes how the accumulated compensated absences at the end of reporting period would have increased/ (decreased) as a result of change in respective assumptions by one percent.

	Defined benefit obligation	
	Effect of 1% in Rupees	
	Increase	(Decrease)
Expected impact of change in discount rate	(13,092,795)	15,573,313
Expected impact of change in rate of increment in salaries	15,018,748	(12,804,497)

### 19.4 Defined contribution plan

The bank operates a recognised provident fund for all its regular employees for which equal monthly contributions are made both by the Bank and the employees to the fund at the rate of 10% of basic salary of the employee. Payments are made to the employees as specified in the rules of the fund.

Details of the provident fund based on its audited financial statements for the year ended December 31, 2020 are as follows:

	2020 (Un-Audited) Rupees	2019 (Audited) Rupees
Size of the fund	581,623,550	477,159,342
Cost of investments made	547,322,137	462,067,026
Fair value of investments made	547,322,137	462,067,026
%age of investments made	94.10%	96.84%

Breakup of investment - at cost	2020		2019	
	Rupees	Percentage	Rupees	Percentage
Term deposits with banks	440,000,000	80.39%	440,000,000	95.22%
Saving deposits with banks	107,322,137	19.61%	22,067,026	4.78%
	<b>547,322,137</b>	<b>100%</b>	<b>462,067,026</b>	<b>100%</b>

Investments out of provident funds include placement with the bank as disclosed in note 35.

## 19.5 Obligation under finance leases

The Bank has acquired certain vehicles under finance leases. The average lease term is 3 to 5 years. The Bank has option to purchase the vehicles for a nominal amount at the end of the lease term. The Bank's obligations under finance leases are secured by the lessor's title to the leased assets.

Interest rates underlying obligation under finance leases are fixed at Kibor plus 1.5% (2019: 7.56% to 13.38%) p.a.

	2020 Rupees	2019 Rupees
<b>Finance lease liabilities against vehicles</b>		
<i>Minimum lease payments:</i>		
Not later than one year	18,024,234	27,153,843
Later than one year but not later than five years	10,725,453	30,938,817
	<u>28,749,687</u>	<u>58,092,660</u>
Less: Finance cost allocated to future period	(3,482,858)	(11,194,139)
	<u>25,266,829</u>	<u>46,898,521</u>
<i>Present value of minimum lease payments</i>		
Not later than one year	15,390,009	20,569,739
Later than one year but not later than five years	9,876,820	26,328,782
	<u>25,266,829</u>	<u>46,898,521</u>
<b>19.6 Lease liability on right of use asset:</b>		
Opening lease liability	1,010,048,627	-
Lease liability on right of use asset - Initial Recognition under IFRS-16	-	863,153,050
Additions during the period	188,205,550	188,205,550
Deletions during the period	(141,138,932)	-
Finance cost on lease liability on right of use asset	133,150,378	131,791,957
Payment of lease liability on right of use asset	(182,893,304)	(173,101,930)
<b>Net book value at the end</b>	<u>946,582,501</u>	<u>1,010,048,627</u>

## 20 SHARE CAPITAL

### 20.1 Authorized capital

2020 Number	2019 Numbers		2020 Rupees	2019 Rupees
<u>300,000,000</u>	<u>300,000,000</u>	Ordinary shares of Rs. 10 each	<u>3,000,000,000</u>	<u>3,000,000,000</u>

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

2020 Number	2019 Numbers		2020 Rupees	2019 Rupees
<u>149,837,201</u>	<u>149,837,201</u>	Ordinary shares of Rs. 10 each fully paid in cash	<u>1,498,372,010</u>	<u>1,498,372,010</u>

### 20.3 The shareholders of the Bank are as follows:

2020 Number	2019 Numbers		2020 Rupees	2019 Rupees
77,999,550	77,999,550	NRSP	779,995,500	779,995,500
24,000,000	24,000,000	International Finance Corporation (IFC)	240,000,000	240,000,000
23,837,201	23,837,201	KfW Germany	238,372,010	238,372,010
16,000,000	16,000,000	Acumen Fund USA	160,000,000	160,000,000
8,000,000	8,000,000	Acumen Capital Markets I LP	80,000,000	80,000,000
150	150	Mr. Shoaib Sultan	1,500	1,500
150	150	Mr. Fazalullah Qureshi	1,500	1,500
150	150	Dr. Rashid Bajwa	1,500	1,500
<b>149,837,201</b>	<b>149,837,201</b>		<b>1,498,372,010</b>	<b>1,498,372,010</b>

20.4 KfW Germany and Acumen Capital Markets I. LLP are evaluating the process for transferring of their respective shares to PROPARCO(a subsidiary of the French Development Agency) and NRSP respectively.

## 21 DEFERRED GRANTS

	Note	2020 Rupees	2019 Rupees
Opening balance		3,457,323	9,645,271
Grants received from			
SBP	21.1	2,094,910	2,239,565
KfW	21.2	42,669,711	14,809,162
Karandaz	21.3	7,578,870	-
		<b>52,343,491</b>	<b>17,048,727</b>
Amortization of grants during the year		(43,416,310)	(23,236,675)
		<b>12,384,504</b>	<b>3,457,323</b>

21.1 This represents grant received from State Bank of Pakistan (SBP) under the Financial Innovation Challenge Fund (FICF) for activities related to establishment of Islamic Banking.

21.2 This represents grant received under an agreement with KfW-Germany (a shareholder of the Bank) through Economic Affairs Division of Government of Pakistan for the purpose of institutional strengthening , to develop and strengthen its overall strategy and planning process, internal procedures, banking functions, product offerings and staff capacities of the Bank.

21.3 This represents grant received from Karandaz Pakistan for financial inclusion of women at village level by introducing female agents. The main purpose is to provide a new window of earning opportunity for women, while also fostering financial inclusion and ecosystem development in accordance with relevant provisions of agreement.

## 22 MEMORANDUM / OFF BALANCE SHEET ITEMS

### 22.1 Contingencies

- i) For the tax year 2012, 2013, 2014 and 2015, the Assistant/Deputy Commissioner Inland Revenue raised tax demands amounting to Rs 17.67 million for alleged default in withholding / collecting of tax. The Bank filed appeals before the Commissioner Inland Revenue (Appeals) [CIR (A)] on which, the CIR (A) has remanded back the case pertaining to tax years 2012, 2013, 2014 and 2015 with certain directions to process under the relevant provision of the law. Further, the appeal effect order for tax year 2015 was issued by tax authorities that resulted in net tax refund of Rs 3.17 million against Rs 5.20 million recovered under section 161(1B) of the Income Tax Ordinance, 2001 (the Ordinance).
- ii) The income tax assessment for the tax years 2013 and 2014 were amended by the Additional Commissioner Inland Revenue (ADCIR) by making certain disallowances and add backs including, apportionment of income and expenses between exempt and taxable

- iii) The income tax assessment for the tax year 2014 was amended by the ACIR and tax demand of Rs 22.96 million was raised by making certain disallowances and add backs including, mark-up paid to AJK Rural Support Programme, mark-up paid to PPAF, provision against non-performing loans and advances and net actuarial loss on re-measurement of employees' retirement benefits. The bank filed appeal with the CIR (A) who decided the issues with respect to mark-up paid to PPAF and net actuarial loss on re-measurement in favour of the Bank. However on the issue of provision against non-performing loan, the CIR (A) has remanded the case back.
- iv) For the tax year 2015 and 2016, the ADCIR issued notices to the Bank for levy of super tax for an amount of Rs 34 million for each of the above tax years. In this respect, the Bank preferred a writ petition before the Honourable Lahore High Court (LHC) on legal grounds and was granted stay by the LHC against the proceedings till disposal of the case by the LHC, subject to deposit of 10% of the tax demand raised and which was duly deposited by the Bank. The petition is pending for adjudication.
- v) The Inland Revenue authorities issued show cause notice under section 161/205 of the Ordinance for the Tax Year 2016 in order to verify the withholding compliance. Requisite information was provided. The ACIR has raised demand of Rs. 45.62 million on account of short deduction of tax. Major heads on which short deduction of tax was detected are vehicle running and maintenance; rent charges; fixed assets and mark-up on deposit. The Bank filed appeal before CIR (A) which is pending jurisdiction till-date. Further the Bank also filed rectification application to allow tax credit on mark up on deposit which was not allowed by the ACIR while concluding the assessment. The rectification application has now been accepted and demand against rent charges has been reduced from Rs. 5.55 million to Rs. 2.21 million and that against mark-up on deposits has been reduced from Rs. 32.30 million to Rs. 4.12 million while keeping demand against other heads intact thus resulting in aggregate demand being reduced to Rs. 14.09 million.
- vi) The income tax assessment for the tax year 2018 was amended by the Assessing Officer Inland Revenue, whereby tax demand of Rs 52.30 million was raised. Major issues on which assessment was amended include disallowing the difference between provision against non-performing loans and actual write-offs against the aforesaid provision, partial disallowance of accounting gain on sale of assets, disallowance of charge for employees' leave encashment scheme and disallowance for foreign tax credit. The Bank has filed appeal with the Commissioner Inland Revenue (Appeals) [CIR(A)] which is pending adjudication.
- vii) The income tax assessment for the tax year 2016 was amended by the ADCIR by recomputing tax liability by making certain disallowances and add backs including disallowance of provision against non performing loans, disallowance of minimum tax brought forward, disallowance of prior years' tax refunds etc. and created an aggregate tax demand of Rs 103.86 million. The Bank has filed appeal before CIR (A) who decided the issues with respect to disallowance of bad debts written off and reconciliation of differences between bad debts written off and provision against non-performing loans in favour of NRSP Bank. However, the issue of apportionment of expenses between NTR and FTR and disallowances of provision against non-performing loans and advances, the CIR(A) has remanded the case back.
- viii) The income tax assessment for the tax year 2017 was amended by the ADCIR and tax demand of Rs 21.67 million was raised which was mainly on account of disallowance of provision for non-performing loan/ advances. The Bank has filed appeal with the CIR (A) where demand has been deleted by CIR(A) in favor of the Bank. We are not aware of any departmental appeal before ATIR against the order of the CIR(A).
- ix) Tax authorities of the Punjab Revenue Authority (PRA) have passed the Order in Original NO NRSP/2020 dated February 03, 2020 whereby demand for Punjab Sales Tax amounting to Rs 86.40 million and penalty of Rs 86.40 million have been raised for alleged inadmissible claim of input tax credit without apportionment between taxable services i.e. fee, commission and brokerage income and non-taxable services i.e. mark-up receipts during the financial years 2012, 2013, 2014, 2015 and 2018. The Bank has preferred appeal against the order along with stay application before the Commissioner (Appeals) PRA which is pending disposal.

- x) For the tax period 2016 and 2017 PRA issued notices in relation to unlawful adjustment of input tax amounting to Rs. 69.16 million. Bank challenged the notice before the Lahore High Court (LHC) on the constitutional jurisdiction of PRA whereby the LHC has granted interim stay against the operation of the notice.
- xi) The Bank is defending its stance in various tax proceedings before federal and provincial regulators for which proceedings are not yet culminated.

The management, based on the opinion of its legal counsels, believes that the above mentioned matters are most likely to be decided in favour of the Bank at superioir appellate forums and further charge is not required to be recognised and carried in these matters in the financial statements.

## 22.2 Commitments:

'There are no known material capital and other commitments as at December 31, 2020 (2019: Nil).

	Note	2020 Rupees	2019 Rupees
<b>23 MARK-UP / RETURN / INTEREST EARNED</b>			
Interest / mark-up on			
Advances		6,920,935,062	6,015,788,575
Lending to financial institutions		104,534,498	60,608,989
Investments in government securities		240,178,073	126,375,818
Deposits accounts, placements with other bank / financial institutions		306,120,465	378,883,318
Employees' loan		8,941,819	9,484,995
Profit on Islamic financing		1,271,534,664	932,856,518
		<u>8,852,244,581</u>	<u>7,523,998,213</u>

## 24 MARK-UP / RETURN / INTEREST EXPENSED

Deposits	24.1	2,985,894,908	2,695,981,433
Profit Sharing Islamic Deposits		383,392,082	225,500,020
Borrowings	24.2	414,890,932	328,892,550
Ammortization of loan processing fee on borrowings		4,628,743	6,888,695
Finance lease charges of leased vehicles		6,730,495	9,326,793
Finance lease charges of Right-of-use assets	19.6	133,150,378	131,791,957
Other costs of deposits		87,058	3,215,325
		<u>3,928,774,596</u>	<u>3,401,596,773</u>

24.1 Mark-up expense on deposits includes amount of Rs 403.68 million (2019: 500.70 million) in respect of deposit account balances of related parties as disclosed in note 35.

24.2 It includes an amount of Rs 94.51 million (2019: Rs 105.53 million) in respect of markup expense on subordinated loan from a shareholder.

## 25 FEE, COMMISSION AND BROKERAGE INCOME

Loan processing fee on advances		475,137,891	635,888,147
Other banking services fee		116,599,296	82,835,052
Commission Income		6,507,101	4,855,244
		<u>598,244,288</u>	<u>723,578,443</u>

	Note	2020 Rupees	2019 Rupees
<b>26 OTHER INCOME - NET</b>			
Investment income		143,744	32,053,882
Amortization of deferred grant	21	43,416,310	23,236,675
Gain on disposal of fixed assets - Annexure I		(6,469,592)	1,470,341
Unrealized gain on derivative financial instrument		(191,473,139)	(85,020,763)
Unrealized exchange loss on borrowings		156,943,167	32,944,500
Write off recovered		467,691,187	351,657,638
Loss on termination of lease arrangements		(10,502,786)	-
Other services income		18,877,625	5,669,753
		<u>478,626,516</u>	<u>362,012,026</u>

## 27 ADMINISTRATIVE EXPENSES

Staff salaries and benefits		1,658,367,744	1,780,995,805
Charge for defined benefit plans		171,597,656	180,280,736
Contribution for defined contribution plan		67,001,200	70,700,906
Non-Executive directors' fee		3,865,428	4,531,950
Trainings		32,224,224	34,280,494
Legal and professional charges		48,524,096	37,736,947
Communication	27.1	66,724,474	85,322,957
Postage, courier etc.		9,763,020	17,437,551
Verification fee	27.2	22,496,299	36,732,144
Repair and maintenance		26,683,044	24,399,598
Stationary and printing		42,983,344	83,430,798
Advertisement and publicity		4,397,300	20,948,828
Depreciation	13.2	195,271,270	362,893,343
Amortization	13.3	139,970,297	33,288,799
Staff travel		53,944,151	27,180,906
Fuel and power		11,026,586	83,886,468
Vehicle running and maintenance		74,947,809	28,076,039
Office supplies		25,347,197	9,758,622
Meetings and conferences		7,244,255	25,033,178
Utilities		17,512,105	71,669,832
Rent expenses		64,860,174	71,669,832
Flex Cube Maintenance Fee		62,616,389	63,818,436
Insurance expenses		149,085,614	139,931,369
Security and administration		106,473,134	100,336,600
Donations	27.3	77,987	381,087
Auditor's remuneration	27.4	8,760,260	5,259,260
Corporate social responsibility		278,597	496,394
Miscellaneous expenses		24,708,909	24,896,359
		<u>3,096,752,563</u>	<u>3,353,705,406</u>

27.1 This includes incentives paid to employees amounting to Rs. 128.39 million (2019: 147.49 million) in respect of deposits, client retention, recoveries and disbursement targets.

27.2 This includes verification charges of National Database and Registration Authority (NADRA) for verisys and eCIB charges of SBP.

27.3 This represents donations to Abdul Sattar Edhi Foundation . The directors / executives of the Bank, or their spouses have no interest in the donee.

	Note	2020 Rupees	2019 Rupees
<b>27.4 Auditor's remuneration</b>			
Annual audit		1,089,000	990,000
Interim review		550,000	500,000
Special purpose financial statements and group reporting		2,478,500	1,765,000
Special certifications etc.		4,152,950	1,812,500
Out of pocket expenses		489,810	191,760
		<u>8,760,260</u>	<u>5,259,260</u>

## 28 OTHER CHARGES

Penalties imposed by the State Bank of Pakistan		11,000	27,000
Provision for Sindh Workers' Welfare Fund		17,956,322	1,336,601
		<u>17,967,322</u>	<u>1,363,601</u>

## 29 TAXATION

<b>Current tax</b>			
Current year		555,483,687	141,295,045
Prior year		-	-
		<u>555,483,687</u>	<u>141,295,045</u>
<b>Deferred tax</b>			
		<u>(204,665,961)</u>	<u>(138,223,157)</u>
		<u>350,817,726</u>	<u>3,071,889</u>

	2020 %	2019 %
<b>29.1 Reconciliation of average tax rate and applicable tax rate</b>		
Applicable tax rate	29.00	29.00
Effect of change in rate	-	-
Income charged at different tax rate	(2.81)	(28.17)
Penalties	-	0.01
Remeasurement	0.16	(5.38)
Others	4.34	8.06
<b>Average effective tax rate</b>	<u>30.68</u>	<u>3.52</u>

## 30 EARNINGS PER SHARE

		2020	2019
Profit after taxation	Rupees	793,435,134	84,310,381
Weighted average ordinary shares	Number	<u>149,837,201</u>	<u>149,837,201</u>
Basic and diluted earning per share	Rupees	<u>5.30</u>	<u>0.56</u>

	Note	2020 Rupees	2019 Rupees
<b>31 CASH AND CASH EQUIVALENTS</b>			
Cash and balances with SBP and NBP	8	2,867,959,229	1,483,412,144
Balances with other banks / NBFIs / MFBS	9	4,933,304,012	3,967,373,841
		<u>7,801,263,241</u>	<u>5,450,785,985</u>

	Credit/ sales staff	Banking /support staff Numbers	Total
<b>32 NUMBER OF EMPLOYEES</b>			
<b>For the year ended December 31, 2020</b>			
Permanent	1,510	853	2,363
Temporary / contractual	261	112	373
	<u>1,771</u>	<u>965</u>	<u>2,736</u>
Daily wagers	96	329	425
	<u>1,867</u>	<u>1,294</u>	<u>3,161</u>
<b>For the year ended December 31, 2019</b>			
Permanent	1,786	794	2,580
Temporary / contractual	212	44	256
	<u>1,998</u>	<u>838</u>	<u>2,836</u>
Daily wagers	36	290	326
	<u>2,034</u>	<u>1,128</u>	<u>3,162</u>

### 33 NUMBER OF BRANCHES/SERVICE CENTRES

	2020		2019	
	Branches	Service centers	Branches	Service centers
	Numbers		Numbers	
Branches at beginning of the year	154	-	143	-
Add: Opened during the year	-	-	15	-
Less: Closed / merged during the year	-	-	(4)	-
As at end of the year	<u>154</u>	<u>-</u>	<u>154</u>	<u>-</u>

### 34 REMUNERATION OF DIRECTORS AND EXECUTIVES

	President / CEO		Executives	
	2020 Rupees	2019 Rupees	2020 Rupees	2019 Rupees
<b>Short-term employee benefits</b>				
Fees / Managerial remuneration	10,263,276	10,141,092	182,942,372	181,634,970
Rent and house maintenance	4,618,476	4,563,492	82,324,331	81,735,336
Utilities	1,026,324	1,014,108	18,294,449	18,163,526
Conveyance	1,026,324	1,014,108	18,294,449	18,163,526
Medical	73,813	38,750	4,659,192	3,903,340
Other allowances	-	-	15,119,373	11,174,586
Leave encashment	705,600	697,200	12,204,218	12,080,898
Bonus	-	-	37,769,699	42,295,337
<b>Termination benefits</b>				
Charge for defined benefit plan	1,411,200	1,400,900	25,681,300	25,374,053
Contribution to defined contribution plan	1,026,324	1,026,326	17,117,478	16,955,856
	<u>20,151,337</u>	<u>19,895,976</u>	<u>414,406,861</u>	<u>411,481,428</u>
Number of persons	1	1	168	164

In addition to the above, President / CEO and certain other executives are provided with the Bank maintained car in accordance with their terms of employment.

Non-executive directors of the Bank were not paid any remunerations except the fee for attending meetings for an aggregate amount of Rs 3.87 million (2019: Rs 4.53 million). Boarding / lodging expenses incurred for such meetings were borne by the Bank.

Executives mean employees, other than President / CEO and directors, whose basic salary exceeds five hundred thousand rupees in a year.

### 35 BALANCES AND TRANSACTIONS WITH RELATED PARTIES

The Bank is a subsidiary of National Rural Support Program (NRSP) which holds 52% share capital of the Bank. Therefore, all subsidiaries and associated undertakings of NRSP are related parties of the Bank. Shareholders including IFC, KfW Germany, Acumen Fund USA and Acumen Capital Markets I. LLP, the staff retirement benefits, directors, key management personnel which include CEO and Head of Departments (HOD's) and entities under common directorship are related parties of the Bank. Remuneration to directors and executives is disclosed in note 34 to these financial statements. All transactions involving related parties are subject to the approval of the Board of Directors. Significant transactions with the related parties other than those referred to in the foregoing entered into during the year are as follows:

Transactions during the year:	Relationship with related party	2020 Rupees	2019 Rupees
National Rural Support Program (NRSP) Payment including lease rentals/ advance rent	Parent Company	4,147,257	3,263,142
KfW Germany Subordinated loan received	Shareholder	-	-
Markup accrued on sub-ordinated loan		94,513,272	105,531,198
Grant received		1,153,526	5,519,722
Institute of Rural Management (IRM) Funds deposited	Parent Company's Subsidiary	431,116,310	408,799,513
Funds withdrawn		642,450,654	425,510,968
Payment of profit on deposits		11,007,121	18,081,234
Employees' Gratuity Fund Funds deposited	Employees' Trust	328,000,050	-
Funds withdrawn		-	-
Payment of profit on deposits		8,691,948	9,325,503
Expense charged in respect of gratuity fund		123,755,241	128,880,391
Employees' Provident Fund Trust Funds deposited including terms deposit roll overs	Employees' Trust	1,033,975,458	901,442,272
Funds withdrawn including term deposits maturity		996,009,176	837,889,527
Payment of profit on deposits		53,932,252	35,338,026
Bank's contribution paid to the fund		67,001,200	70,700,906
Expense charged in respect of employer's contribution		67,001,200	70,700,906
Employees' Welfare Trust Funds deposited	Employees' Trust	8,977,662	23,508,117
Funds withdrawn		2,661,776	16,101,102
Payment of profit on deposits		2,689,686	2,269,868
Employee Housing Colony Funds deposited	Employees' Trust	1,377,000	4,238,533
Funds withdrawn		1,715,538	4,365,558
Payment of profit on deposits		127,695	150,379
NRSP Contributory Provident Fund Funds deposited	Parent Company's Employees' Trust	1,148,570,426	879,654,057
Funds withdrawn		1,083,270,426	752,135,584
Payment of profit on deposits		43,769,887	59,440,120
NRSP Employees Gratuity Fund Trust Funds deposited	Parent Company's Employees' Trust	1,523,260,263	1,180,148,247
Funds withdrawn		1,442,260,263	1,235,925,851
Payment of profit on deposits		44,475,203	89,123,187

		2020 Rupees	2019 Rupees
<b>Transactions during the year:</b>	<b>Relationship with related party</b>		
NRSP Natural Resource Management	Parent Company's Project		
Funds deposited		423,770	228,914
Funds withdrawn		186,157	160,820
Payment of profit on deposits		3,361	5,634
Rural Support Programmes Network (RSPN)	Common Directorship		
Funds deposited		-	1,443,246,576
Funds withdrawn		-	1,981,740,616
Payment of profit on deposits		607	63,502,811
Sindh Rural Support Organization (SRSO)	Common Directorship		
Funds deposited		2,346,028,221	1,978,598,927
Funds withdrawn		2,517,107,715	2,088,268,509
Payment of profit on deposits		163,025,174	115,907,015
SRSO UC BPRP Enterprise	Common Directorship		
Funds deposited		-	3,325,692
Funds withdrawn		-	5,000,600
Payment of profit on deposits		29,638	150,003
Ghazi Barotha Tarqiati Idara	Common Directorship		
Funds deposited		1,080,748,500	619,827,918
Funds withdrawn		1,422,967,672	628,594,409
Payment of profit on deposits		40,902,458	80,871,166
BRSP Endowment Funds	Common Directorship		
Funds deposited		878,489,516	843,239,795
Funds withdrawn		764,744,473	880,293,785
Payment of profit on deposits		35,028,795	24,504,788
Pakistan Microfinance Network	Common Directorship		
Funds deposited		-	32,033,261
Funds withdrawn		-	64,066,622
Profit on deposits		-	2,033,261
Dubai Islamic Bank Limited (DIBL)	Common Directorship		
Funds deposited with DIBL		4,979,034,932	1,790,864,117
Funds withdrawn from DIBL		3,795,841,175	2,030,064,703
Profit on deposits received from DIBL		27,294,221	19,937,450
Silk Bank Limited (SBL)	Common Share holder		
Funds deposited with SBL		50,000,116	8,690,273,074
Funds withdrawn from SBL		543,002,295	8,823,161,394
Profit on deposits received from SBL		3,500,787	77,441,896
Bank Alfalah (BAFL)	Common Share holder		
Funds deposited with BAFL		502,322,945	800,000,000
Funds withdrawn from BAFL		502,326,334	800,005,295
Call money lending to BAFL		29,647,626,775	3,631,016,050
Repayments received from BAFL		28,650,917,775	4,128,218,050
Profit on call money lending received from BAFL		26,795,445	5,688,987
<b>Balances outstanding as at December 31, 2020</b>			
Payable to NRSP	Parent Organisation	140,799,867	34,859,640
Sub-ordinated Debt from KfW	Shareholder	672,360,000	672,360,000
Markup accrued on Sub-ordinated Debt from KfW	Shareholder	399,095,983	304,582,712
Bank balance with Dubai Islamic Bank Limited	Common Directorship	1,232,856,846	28,669,997
Markup receivable from Dubai Islamic Bank Limited	Common Directorship	6,127,501	275,639
Payable to employees' gratuity fund	Employees' Trust	25,284,618	-
Receivable from employees' provident fund	Employees' Trust	10,688,941	-
Balance Maintained with Silk Bank Limited	Common Share holder	711,316	490,212,707
Balance Maintained with Bank Alfalah Limited	Common Share holder	-	3,389
Call Money Lending to Bank Alfalah Limited	Common Share holder	996,709,000	-

Transactions during the year:	Relationship with related party	2020 Rupees	2019 Rupees
<b>Deposits accounts contain amounts relating to following related parties:</b>			
Institute of Rural Management (IRM)	Parent Company's Subsidiary	201,379,301	201,379,301
Employees' Gratuity Fund	Employees' Trust	89,311,873	89,311,873
Employees' Provident Fund Trust	Employees' Trust	457,690,160	457,690,160
Employees' Welfare Trust	Employees' Trust	28,703,595	28,703,595
Employee Housing Colony	Employees' Trust	1,484,824	1,484,824
NRSP Contributory Provident Fund	Parent Company's Employees' Trust	544,129,128	544,129,128
NRSP Employees Gratuity Fund Trust	Parent Company's Employees' Trust	624,969,339	624,969,339
NRSP Rohi Handlooms	Parent Company's Project	3,043	3,043
NRSP Natural Resource Management	Parent Company's Project	479,204	479,204
Rural Support Programmes Network (RSPN)	Common Directorship	8,771	8,771
Sindh Rural Support Organization (SRSO)	Common Directorship	1,045,940,539	1,045,940,539
SRSO UC BPRP Enterprise	Common Directorship	412,554	412,554
Ghazi Barotha Tarqiati Idara	Common Directorship	707,401,030	707,401,030
BRSP Endowment Funds	Common Directorship	250,853,963	250,853,963
Pakistan Microfinance Network	Common Directorship	-	-
National Rural Support Programme	Parent Organisation	50,766	-
NRSP Green Forest (Pvt) Limited	Parent Company's Subsidiary	89,600	-
NRSP Agriculture Processing Company Limited	Parent Company's Subsidiary	314,396,430	-
Key management personnel		26,296,735	36,903,904

### 36 FAIR VALUE MEASUREMENT

The fair value of traded investments is based on quoted market prices, except for securities classified by the Bank as 'held to maturity'. Securities classified as held to maturity are carried at amortized cost. Fair value of unquoted equity investments is determined on the basis of break up value of these investments as per the latest available audited financial statements.

Fair value of fixed term loans, other assets, other liabilities, fixed term deposits and borrowings cannot be calculated with sufficient reliability due to the absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the Bank's accounting policy as stated in note 7.5 to these financial statements.

Fair value of remaining financial assets and liabilities except fixed term loans, staff loans, non-performing advances and fixed term deposits is not significantly different from the carrying amounts since assets and liabilities are either short term in nature or are frequently repriced in the case of customer loans and deposits.

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used 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 inputs other than quoted prices included within Level 1 that are observable for the assets 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).

**a) Financial instruments in level 1**

Currently, no financial instruments are classified in level 1.

**b) Financial instruments in level 2**

Financial instruments included in level 2 comprise of investment in units of mutual funds.

**c) Financial instruments in level 3**

Financial instruments included in level 3 comprise of derivative financial assets.

The Bank's policy is to recognise transfers into and out of the different fair value hierarchy levels at the date the event or change in circumstances that caused such transfer takes place. There were no transfers between levels 1 and 2 during the year.

The table below analyses the financial and non-financial assets carried at fair values, by valuation methods. Valuation of investments is carried out as per guidelines specified by the SBP.

The table below analyses the financial and non-financial assets carried at fair values, by valuation methods. Valuation of investments is carried out as per guidelines specified by the SBP.

	<u>Level 1</u> in Rupees	<u>Level 2</u> in Rupees	<u>Level 3</u> in Rupees
<b>December 31, 2020</b>			
<b>Financial assets measured at fair value</b>			
Held for trading mutual funds	-	-	-
Fair value of derivative financial instruments	-	-	91,667,278
	<u>-</u>	<u>-</u>	<u>91,667,278</u>
<b>December 31, 2019</b>			
<b>Financial assets measured at fair value</b>			
Held for trading mutual funds	-	5,209,113	-
Fair value of derivative financial instruments	-	-	250,634,032
	<u>-</u>	<u>5,209,113</u>	<u>250,634,032</u>

#### Valuation techniques and inputs used in determination of fair values

Item	Valuation techniques and inputs used
Fair value of derivative financial instrument	Fair value of derivative financial instruments is calculated is determined by discounting estimated future cash flows that are based on the respective currency's yield curve.

## 37 COVID-19 RISK MANAGEMENT

The COVID-19 pandemic has taken a toll on all economies and emerged as a contagion risk around the globe, including Pakistan. To reduce the impact on businesses and economies in general, regulators / governments across the globe have introduced a number of measures on both the fiscal and economic fronts. The risk management policies continue to remain robust and the management is reviewing its portfolio regularly and conducts portfolio reviews in line with emerging risks.

The State Bank of Pakistan (SBP) has also responded to the crisis by cutting the Policy Rate by 625 basis points since the beginning of the year, to 7% till December 31, 2020. Other regulatory measures to provide an impetus to economic activity include the following:

- Upon written request of obligor, Microfinance Banks will defer repayment of principal loan amount by one year, provided that the obligor will continue to service the markup amount as per agreed terms and conditions;
- The financing facilities of obligors who are unable to service the markup amount or need deferment exceeding one year, may be rescheduled / restructured;
- The financing facilities of obligors which have requested for deferment or rescheduling / restructuring are not required to be classified unless the payment obligations are past due by 90 days; and
- Each Non performing loans (NPL) category has been extended by 2 months for borrowers who could not avail relief under the scheme till March 31, 2021.

COVID-19 will impact banks in Pakistan on a number of fronts including increase in credit risk pertaining to the loans and advances portfolio, reduced fee income due to overall slowdown in economic activity, continuity of business operations and managing cybersecurity threat as certain Bank's staff members are working from home and an ever increasing number of customers are being encouraged to use digital channels. Major aspects of COVID 19 on the Bank's risk management policies are given below:

## Credit risk management

The risk management function is regularly conducting assessments of the credit portfolio to identify borrowers most likely to get affected due to changes in the business and economic environment. The Bank has further strengthened its credit review procedures in light of the COVID-19. Management is continuously reviewing the portfolio, to identify accounts susceptible to higher risk, resulting from the COVID-19 outbreak.

In the view of the business challenges posed by the COVID-19 outbreak, the management has considered various factors and recorded General provision of Rs.683.36 million during the year ended December 31, 2020, in addition to the statutory requirement of 1% on net of specific provisions and loans secured against gold or other collateral with appropriate margin.

## Liquidity risk management

In view of the relaxation granted by the SBP for deferral of principal and markup and rescheduling of loans there will be an impact on the maturity profile of the Bank's loan portfolio. The asset and liability committee (ALCO) of the Bank is continuously monitoring the liquidity position and management is confident that the liquidity buffer currently maintained is sufficient to cater any adverse movement in the cash flow maturity profile.

## Operational risk management

The Bank is closely monitoring the situation and has invoked required actions to ensure the safety and security of its staff and uninterrupted service to customers. The senior management is continuously monitoring the situation and is taking timely decisions to resolve any concerns.

Business Continuity Plans (BCP) for respective areas are in place and tested. The Bank has significantly enhanced monitoring of cybersecurity risk during these times. Remote work capabilities were enabled for staff, where required, and related risk and control measures were assessed to ensure that the information assets are protected from emerging cyber threats and comply with the regulatory protocols required under the circumstances. Management has taken all measures to ensure that service levels are maintained, customer complaints are resolved and turnaround times are monitored and the Bank continues to meet the expectations of its employees and customers.

### 38 SCHEDULE OF MATURITY OF MARKET RATE ASSETS AND LIABILITIES

	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
	Rupees				
<b>As at December 31, 2020</b>					
<b>Market rate assets</b>					
Advances - net of provision	27,932,421,536	3,982,678,297	16,365,522,850	4,195,109,707	3,389,110,682
Lending to financial institutions	1,494,680,500	1,494,680,500	-	-	-
Investments	8,637,899,021	-	7,385,125,001	1,000,000,000	252,774,020
Balances with NBP on saving deposits	997,110,001	997,110,001	-	-	-
Balances with other banks on saving deposits	4,827,788,228	4,827,788,228	-	-	-
<b>Total market rate assets</b>	<b>43,889,899,286</b>	<b>11,302,257,026</b>	<b>23,750,647,851</b>	<b>5,195,109,707</b>	<b>3,641,884,702</b>
<b>Other non-earning assets</b>					
Cash and balances with SBP and NBP	1,870,849,228	1,870,849,228	-	-	-
Balances with other banks on current accounts	105,515,784	105,515,784	-	-	-
Operating fixed assets	1,673,856,241	-	-	-	1,673,856,241
Other assets	5,184,703,430	833,913,132	3,251,128,481	424,864,657	674,797,160
Deferred tax asset	436,336,658	-	-	-	436,336,658
<b>Total non-earning assets</b>	<b>9,271,261,341</b>	<b>2,810,278,144</b>	<b>3,251,128,481</b>	<b>424,864,657</b>	<b>2,784,990,059</b>
<b>Total assets</b>	<b>53,161,160,627</b>	<b>14,112,535,170</b>	<b>27,001,776,332</b>	<b>5,619,974,364</b>	<b>6,426,874,761</b>
<b>Market rate liabilities</b>					
Deposits and other accounts	36,361,306,157	13,079,160,941	10,955,397,390	5,774,281,897	6,552,465,929
Finance lease obligation	971,849,330	1,424,496	7,271,889	6,693,624	956,459,321
Subordinated loan	672,360,000	-	-	-	672,360,000
Borrowings	3,395,943,704	-	372,850,385	3,023,093,319	-
<b>Total market rate liabilities</b>	<b>41,401,459,191</b>	<b>13,080,585,437</b>	<b>11,335,519,664</b>	<b>8,804,068,840</b>	<b>8,181,285,250</b>
<b>Other non-cost bearing liabilities</b>					
Current deposits	2,923,242,856	2,923,242,856	-	-	-
Other liabilities	3,326,003,967	730,557,919	655,063,756	230,434,974	1,709,947,318
<b>Total non-cost bearing liabilities</b>	<b>6,249,246,823</b>	<b>3,653,800,775</b>	<b>655,063,756</b>	<b>230,434,974</b>	<b>1,709,947,318</b>
<b>Total liabilities</b>	<b>47,650,706,014</b>	<b>16,734,386,212</b>	<b>11,990,583,420</b>	<b>9,034,503,814</b>	<b>9,891,232,568</b>
<b>Net Assets</b>	<b>5,510,454,613</b>				
<b>Represented by</b>					
Share capital	1,498,372,010				
Statutory reserve	815,766,515				
Depositors' protection fund	253,792,881				
Unappropriated profit	2,929,766,103				
Surplus / (Deficit) on revaluation of assets	372,600				
Deferred grants	12,384,504				
<b>Total capital</b>	<b>5,510,454,613</b>				

### 38.1 SCHEDULE OF MATURITY OF MARKET RATE ASSETS AND LIABILITIES

	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
	Rupees				
<b>As at December 31, 2019</b>					
<b>Market rate assets</b>					
Advances - net of provision	27,370,611,457	2,072,559,140	13,993,747,466	4,900,893,297	6,403,411,554
Lending to financial institutions	-	-	-	-	-
Investments	1,590,417,993	1,196,811,514	243,649,000	149,957,479	-
Balances with NBP on saving deposits	42,337,403	42,337,403	-	-	-
Balances with other banks on saving deposits	3,904,025,248	3,904,025,248	-	-	-
<b>Total market rate assets</b>	<b>32,907,392,101</b>	<b>7,215,733,305</b>	<b>10,879,240,618</b>	<b>5,050,850,776</b>	<b>6,403,411,554</b>
<b>Other non-earning assets</b>					
Cash and balances with SBP and NBP	1,441,074,742	1,441,074,742	-	-	-
Balances with other banks on current accounts	63,348,593	63,348,593	-	-	-
Operating fixed assets	2,023,314,033	-	-	-	2,023,314,033
Other assets	3,338,470,431	294,799,753	1,738,104,922	351,772,800	953,792,956
Deferred tax asset	231,670,697	-	93,447,540	-	231,670,697
<b>Total non-earning assets</b>	<b>7,097,878,496</b>	<b>1,799,223,088</b>	<b>1,738,104,922</b>	<b>351,772,800</b>	<b>3,208,777,686</b>
<b>Total assets</b>	<b>40,005,270,597</b>	<b>9,014,956,393</b>	<b>15,975,501,388</b>	<b>5,402,623,576</b>	<b>9,612,189,240</b>
<b>Market rate liabilities</b>					
Deposits and other accounts	24,377,522,264	7,840,112,653	5,589,629,855	4,516,701,313	6,431,078,443
Finance lease obligation	1,056,947,148	1,796,070	8,956,883	9,829,635	1,036,364,560
Subordinated loan	672,360,000	-	-	-	672,360,000
Borrowings	3,764,296,762	2,648,392,098	363,634,888	363,634,888	388,634,888
<b>Total market rate liabilities</b>	<b>29,871,126,174</b>	<b>10,490,300,821</b>	<b>5,962,221,626</b>	<b>4,890,165,836</b>	<b>8,528,437,891</b>
<b>Other non-cost bearing liabilities</b>					
Current deposits	2,273,139,789	2,273,139,789	-	-	-
Other liabilities	3,173,371,942	760,904,061	810,561,764	421,041,970	1,180,864,147
<b>Total non-cost bearing liabilities</b>	<b>5,446,511,731</b>	<b>3,034,043,850</b>	<b>810,561,764</b>	<b>421,041,970</b>	<b>1,180,864,147</b>
<b>Total liabilities</b>	<b>35,317,637,905</b>	<b>13,524,344,670</b>	<b>6,772,783,390</b>	<b>5,311,207,806</b>	<b>9,709,302,038</b>
<b>Net Assets</b>	<b>4,687,632,692</b>				
<b>Represented by</b>					
Share capital	1,498,372,010				
Statutory reserve	657,079,488				
Depositors' protection fund	198,412,206				
Unappropriated profit	2,330,318,665				
Surplus / (Deficit) on revaluation of assets	(7000)				
Deferred grants	3,457,323				
<b>Total capital</b>	<b>4,687,632,692</b>				

### 39 CAPITAL MANAGEMENT

The Bank's objectives when managing its capital are:

- a) To comply with the capital requirements set by the SBP;
- b) 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; and
- c) To maintain a strong capital base to support the development of its business.

The Bank intends to maintain the required regulatory capital either through its risk management strategies or by increasing the capital in line with the business and capital needs.

### 40 GENERAL

**40.1** Account captions, as prescribed by BSD Circular No. 11, dated December 30, 2003, in the context 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.

**40.2** Corresponding figures have been re-arranged and reclassified for more appropriate presentation where necessary

### 41 DATE OF APPROVAL

These financial statements were approved and authorised by the Board of Directors of the Bank in their meeting held on March 09, 2021.



President / Chief Executive



Chairman



Director



Director

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

Details of property and equipment disposed off during the year as referred to in Note 13.2.2 of financial statements:

Particulars of assets	Cost	Depreciation	Book value	Sale Proceed	Gain/Loss	Mode of disposal	Particulars of buyers
<b>Office Equipment</b>							
Air Condition Mitsubishi 1.5 ton	22,280	22,280	-	10,000	10,000	Assets Auction	Usman Ramzan
Split Hier 1.5 Ton	37,257	37,257	-	10,000	10,000	Assets Auction	Usman Ramzan
Split Hier 1.5 Ton	19,333	19,333	-	10,000	10,000	Assets Auction	Usman Ramzan
1.5 ton LEA Haier	41,842	41,842	-	10,000	10,000	Assets Auction	Usman Ramzan
1.5 ton LEA Haier	68,842	68,842	-	10,000	10,000	Assets Auction	Usman Ramzan
1.5 ton LEA Haier	41,843	41,843	-	10,000	10,000	Assets Auction	Usman Ramzan
AC standing 2 Ton	113,927	113,927	-	10,000	10,000	Assets Auction	Usman Ramzan
AC standing 2 Ton	92,122	92,122	-	10,000	10,000	Assets Auction	Usman Ramzan
Split AC (Haier 2 Ton)	54,707	54,707	-	10,000	10,000	Assets Auction	Usman Ramzan
Split AC 2 Ton Orient	54,800	54,800	-	10,000	10,000	Assets Auction	Usman Ramzan
Split AC 2 Ton Orient	54,800	54,800	-	10,000	10,000	Assets Auction	Usman Ramzan
Floor Standing (Orient 2 Ton)	177,585	177,585	-	10,000	10,000	Assets Auction	Usman Ramzan
Split AC 1 Ton Orient	35,900	35,900	-	10,000	10,000	Assets Auction	Usman Ramzan
Split AC 2 Ton Orient	57,700	57,700	-	10,000	10,000	Assets Auction	Usman Ramzan
Split AC 2 Ton Orient	57,700	57,700	-	10,000	10,000	Assets Auction	Usman Ramzan
Split AC 2 Ton Orient	54,700	54,700	-	10,000	10,000	Assets Auction	Usman Ramzan
Floor Standing 2 Ton Orient	107,100	107,100	-	10,000	10,000	Assets Auction	Usman Ramzan
Split AC 2 Ton Orient	67,895	67,895	-	10,000	10,000	Assets Auction	Usman Ramzan
Split AC 2 Ton Orient	67,895	67,895	-	10,000	10,000	Assets Auction	Usman Ramzan
Air Cooler	5,000	5,000	-	2,000	2,000	Assets Auction	Usman Ramzan
Generator Honda	37,946	37,946	-	11,943	11,943	Assets Auction	Usman Ramzan
Yamaha Generator 5 KVA	171,556	171,556	-	11,943	11,943	Assets Auction	Usman Ramzan
Yamaha Generator 5 KVA	160,996	160,996	-	11,943	11,943	Assets Auction	Usman Ramzan
Yamaha Generator 5 KVA	160,996	160,996	-	11,943	11,943	Assets Auction	Usman Ramzan
Yamaha Generator 5 KVA	178,021	178,021	-	11,943	11,943	Assets Auction	Usman Ramzan
Yamaha Generator 5 KVA	160,996	160,996	-	11,943	11,943	Assets Auction	Usman Ramzan
Floor Standing (Orient 2 Ton)	90,286	90,286	-	10,000	10,000	Assets Auction	Usman Ramzan
Floor Standing 4 Ton Acson	197,143	197,143	-	10,000	10,000	Assets Auction	Usman Ramzan
Floor Standing Acson 4 Ton	220,000	190,667	29,333	10,000	(19,333)	Assets Auction	Usman Ramzan
Room Cooler	3,624	3,624	-	4,900	4,900	Assets Auction	Usman Ramzan
Air Cooler	7,800	6,370	1,430	2,000	570	Assets Auction	Usman Ramzan
Stabilizer 5 KVA	20,500	20,500	-	1,800	1,800	Assets Auction	Usman Ramzan
Stabilizer 5000 Watt	11,440	11,440	-	1,800	1,800	Assets Auction	Usman Ramzan
Stabilizer RIMCO	3,200	2,880	320	1,800	1,480	Assets Auction	Usman Ramzan
Binding Machine	4,707	4,707	-	307	307	Assets Auction	Adnan Hussain
Packet Note Binding Machine	24,734	24,734	-	307	307	Assets Auction	Adnan Hussain
Packet Note Binding Machine	20,700	20,700	-	307	307	Assets Auction	Adnan Hussain
Packet Note Binding Machine TU-10J	16,700	16,700	-	307	307	Assets Auction	Adnan Hussain
Packet Note Binding Machine	16,700	16,700	-	307	307	Assets Auction	Adnan Hussain
Packet Note Binding Machine	16,700	16,700	-	307	307	Assets Auction	Adnan Hussain
Packet Note Binding Machine	22,400	22,400	-	307	307	Assets Auction	Adnan Hussain
Packet Note Binding Machine (Bajija TU-10 J)	16,700	16,700	-	307	307	Assets Auction	Adnan Hussain
Packet Note Binding Machine	20,500	20,500	-	306	306	Assets Auction	Adnan Hussain
Packet Note Binding Machine	16,700	16,700	-	306	306	Assets Auction	Adnan Hussain
Packet Note Binding Machine	16,700	16,700	-	306	306	Assets Auction	Adnan Hussain
Packet Note Binding Machine	24,900	24,900	-	306	306	Assets Auction	Adnan Hussain
Packet Note Binding Machine	16,700	16,700	-	306	306	Assets Auction	Adnan Hussain
Packet Note Binding Machine (TC-310)	18,000	18,000	-	306	306	Assets Auction	Adnan Hussain
Packet Note Binding Machine (TC-310)	16,000	16,000	-	306	306	Assets Auction	Adnan Hussain
Packet Note Binding Machine (TC-310)	19,500	19,500	-	306	306	Assets Auction	Adnan Hussain
Packet Note Binding Machine (TC-310)	20,500	20,500	-	306	306	Assets Auction	Adnan Hussain
Packet Note Binding Machine (TC-310)	16,000	16,000	-	306	306	Assets Auction	Adnan Hussain
Packet Note Binding Machine (TC-310)	19,000	19,000	-	306	306	Assets Auction	Adnan Hussain
Packet Note Binding Machine (TC-310)	16,000	16,000	-	306	306	Assets Auction	Adnan Hussain
Packet Note Binding Machine (TC-310)	12,991	12,991	-	306	306	Assets Auction	Adnan Hussain
Packet Note Binding Machine (TC-310)	19,200	16,640	2,560	306	(2,254)	Assets Auction	Adnan Hussain
Packet Note Binding Machine (KX-ZB6)	14,530	11,382	3,148	306	(2,842)	Assets Auction	Adnan Hussain
Packet Note Binding Machine (BJ-26A)	14,530	9,202	5,328	306	(5,022)	Assets Auction	Adnan Hussain
Packet Note Binding Machine (BJ-26A)	14,530	9,202	5,328	306	(5,022)	Assets Auction	Adnan Hussain
Packet Note Binding Machine (BJ-26A)	15,044	9,528	5,516	306	(5,210)	Assets Auction	Adnan Hussain
Packet Note Binding Machine (BJ-26A)	17,000	10,483	6,517	306	(6,211)	Assets Auction	Adnan Hussain
Packet Note Binding Machine (BJ-26A)	14,530	8,718	5,812	306	(5,506)	Assets Auction	Adnan Hussain
Packet Note Binding Machine (BJ-26A)	14,530	8,718	5,812	306	(5,506)	Assets Auction	Adnan Hussain
Packet Note Binding Machine (BJ-26A)	14,530	8,234	6,296	306	(5,990)	Assets Auction	Adnan Hussain
Packet Note Binding Machine (BJ-26A)	14,530	8,234	6,296	306	(5,990)	Assets Auction	Adnan Hussain
Stabilizer ITC 160 Watt	32,822	32,822	-	1,800	1,800	Assets Auction	Adnan Hussain
Loose Note Counting Machine (Bajija 2100 UV)	24,570	24,570	-	446	446	Assets Auction	Adnan Hussain
Loose Note Counting Machine (KZ-5100)	18,376	15,312	3,064	446	(2,618)	Assets Auction	Adnan Hussain
Loose Note Counting Machine (KZ-5100)	18,376	15,312	3,064	446	(2,618)	Assets Auction	Adnan Hussain
Loose Note Counting Machine (KZ-5100)	18,376	11,637	6,739	446	(6,293)	Assets Auction	Adnan Hussain
Loose Note Counting Machine (KZ-5100)	18,376	11,026	7,350	446	(6,904)	Assets Auction	Adnan Hussain
Loose Note Counting Machine (KZ-5100)	18,376	11,026	7,350	446	(6,904)	Assets Auction	Adnan Hussain
Loose Note Counting Machine (KZ-5100)	18,376	10,413	7,963	446	(7,517)	Assets Auction	Adnan Hussain
Loose Note Counting Machine (KZ-5100)	18,376	10,413	7,963	446	(7,517)	Assets Auction	Adnan Hussain
Loose Note Counting Machine (KZ-5100)	18,376	10,413	7,963	446	(7,517)	Assets Auction	Adnan Hussain
Loose Note Counting Machine (KZ-5100)	18,376	10,413	7,963	446	(7,517)	Assets Auction	Adnan Hussain
Loose Note Counting Machine (KZ-5100)	18,376	10,413	7,963	445	(7,518)	Assets Auction	Adnan Hussain
Loose Note Counting Machine (KZ-5100)	21,500	11,825	9,675	445	(9,230)	Assets Auction	Adnan Hussain
Loose Note Counting Machine (KZ-5100)	21,500	11,825	9,675	445	(9,230)	Assets Auction	Adnan Hussain
Loose Note Counting Machine (KZ-5100)	21,500	11,825	9,675	445	(9,230)	Assets Auction	Adnan Hussain
Loose Note Counting Machine (KZ-5100)	21,500	11,825	9,675	445	(9,230)	Assets Auction	Adnan Hussain
Loose Note Counting Machine (KZ-5100)	21,500	10,750	10,750	445	(10,305)	Assets Auction	Adnan Hussain
Loose Note Counting Machine (KZ-5100)	22,450	11,225	11,225	445	(10,780)	Assets Auction	Adnan Hussain







## Annexure II

### FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2020

Financial results of the Islamic Microfinance Division, as referred to in note 2.2 of the financial statements

Balance sheet as at December 31, 2020

	2020 Rupees	2019 Rupees
<b>ASSETS</b>		
Cash and Balances with SBP and NBP	1,293,446,129	259,880,122
Balances with Other Banks/NBFIs/MFBs	1,611,072,234	412,072,182
Investment- net of provisions	248,468,024	149,780,001
Islamic Financing and related assets - net of provisions	6,208,535,741	5,798,511,788
Operating fixed assets	533,305,366	594,143,706
Other assets	261,451,130	245,452,790
<b>Total Assets</b>	<b>10,156,278,624</b>	<b>7,459,840,589</b>
<b>LIABILITIES</b>		
Deposits and other accounts		
- Current accounts	936,264,992	671,788,444
- Saving accounts	2,577,613,007	1,174,911,369
- Term accounts	3,295,003,033	1,474,231,402
Other Liabilities	6,808,881,032	3,320,931,215
<b>Total Liabilities</b>	<b>8,963,081,572</b>	<b>6,571,153,382</b>
<b>NET ASSETS</b>	<b>1,193,197,052</b>	<b>888,687,207</b>
<b>REPRESENTED BY:</b>		
Islamic Banking Fund	440,000,000	440,000,000
Unappropriated profit	753,197,052	448,687,207
	<b>1,193,197,052</b>	<b>888,687,207</b>
Remuneration of the Shariah Advisor	<b>1,200,000</b>	<b>1,200,000</b>



Remuneration of the Shariah Advisor

  
 \_\_\_\_\_  
 President / Chief Executive

  
 \_\_\_\_\_  
 Chairman

  
 \_\_\_\_\_  
 Director

  
 \_\_\_\_\_  
 Director

# Annexure II

## FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2020

Financial results of the Islamic Microfinance Division, as referred to in note 2.2 of the financial statements

Profit and loss account for the year ended December 31, 2020

	2020 Rupees	2019 Rupees
Profit / return earned	1,361,985,131	976,575,301
Profit / return expensed	(390,090,840)	(226,028,145)
Net profit / return / income	971,894,291	750,547,156
Provisions against non-performing financing	(179,390,942)	(45,684,026)
Bad debts written off directly	(1,992,190)	(3,195,580)
	(181,383,132)	(48,879,606)
Net return earned after provisions	790,511,159	701,667,550
<b>OTHER INCOME</b>		
Fee, Commission and brokerage income	64,440,085	67,739,342
Total other income	854,951,244	769,406,892
<b>OTHER EXPENSES</b>		
Administrative expenses	(550,441,399)	(479,707,669)
	304,509,845	289,699,223
Extraordinary/unusual items	-	-
<b>PROFIT BEFORE TAXATION</b>	<b>304,509,845</b>	<b>289,699,223</b>



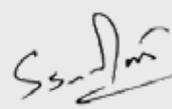
President / Chief Executive



Chairman



Director



Director

## Annexure II

### FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED DECEMBER 31, 2020

Financial results of the Islamic Microfinance Division, as referred to in note 2.2 of the financial statements

Statement of Sources and Uses of Charity Fund for the year ended December 31, 2020

	2020 Rupees	2019 Rupees
Opening balance	-	-
Additions during the period		
- Received from customers on delayed payments	6,075,271	1,305,530
- Non-Shariah compliant income	77,987	266,869
- Profit on charity account	147,870	106,320
- Others	-	-
	6,301,128	1,678,719
Payments / utilization during the period		
- Community welfare (Bait-ul-mal)	6,301,128	-
- Health	-	1,671,649
- Orphanage	-	7,070
	6,301,128	1,678,719
Closing Balance	-	-

## Annexure II

### FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2020

Financial results of the Islamic Microfinance Division, as referred to in note 2.2 of the financial statements.

Notes to the Annexure for the year ended December 31, 2020

A-1 As at the year end, the Bank is operating 40 (2019: 40) Islamic branches. Islamic Microfinance Division (IMD) is operating a General pool from amongst the total assets of IMD to manage profit and loss distribution.

#### FEATURES OF GENERAL POOL

In this pool, savings and terms deposits are accepted on Mudarbah basis. The Bank invests the funds given by account holders in Islamic assets like Murabaha, Ijarah, Diminishing Musharakah, Sukuks and any other Shariah Compliant Investment which are duly approved by the Shariah Advisor. The profit earned is shared on the basis of profit & loss sharing ratio. In case of loss, the same is borne by the depositors in proportionate to their investment and the bank bear the loss of its efforts / services in managing Mudarabah.

The profit of the pool is calculated from the income earned on all the remunerative assets booked by utilizing the funds from pool and is distributed between bank and depositors based on declared sharing ratio. The ratio for Bank (mudarib) and depositors is 50:50 for general pool.

As per policy of the Bank, weightages are declared three days before start of each month. Gift (Hiba) given during the current period Rs.8,880,492 (2019 Rs. 8,377,655).

IMD's total revenue during the year amounted to Rs 1,361.99 million (2019: Rs 976.58 million) out of which, income attributed to general pool amounted to Rs 1,355.47 million (2019: Rs 976.17) million.

Brief highlights of profit earned and distributed to depositors and retained by IMD are as under:

	2020 Rupees	2019 Rupees
Gross income / profit	1,355,470,659	976,171,529
Administrative expenses of pool	(168,268,651)	(106,244,927)
Net distributable share	<u>1,187,202,008</u>	<u>869,926,602</u>
Profit paid to PLS accounts / Certificates	383,742,339	229,721,007
Bank equity share	437,478,313	423,879,042
Bank Mudarib Share	365,981,356	216,326,553
	<u>1,187,202,008</u>	<u>869,926,602</u>
Return on average earning assets	21.16%	23.28%
Return on average PLS / Deposits	9.46%	10.50%

All types of direct administrative expenses of General pool are shared with the depositors. However, equity holders have the option to absorb all or part of administrative expenses. All general and specific provisions created against non-performing financing and diminution in the value of investment as under Prudential Regulations and other SBP directives have not been passed on to the PLS depositors. However, income reversals due to classification of assets and losses due to actual write-offs have been considered as expenses of the pool.

#### A-2 ISLAMIC FINANCING AND RELATED ASSETS-NET

	2020 Rupees	2019 Rupees
Murabah financing	4,805,562,804	4,274,625,380
Ijarah under IFAS 2	1,389,698,183	1,532,886,904
Diminishing Musharka (FPMI)	196,582,716	45,725,954
	<u>6,391,843,703</u>	<u>5,853,238,238</u>
Less: Provisions held against non-performing facilities	(183,307,962)	(54,726,450)
	<u>6,208,535,741</u>	<u>5,798,511,788</u>

## Annexure II FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

Financial results of the Islamic Microfinance Division, as referred to in note 2.2 of the financial statements  
Notes to the Annexure for the year ended December 31, 2020

### A-2.1 Murabaha

	2020			Total
	Not later than one year	later than one year but not later than three years	later than three year but not later than five year	
	Rupees			
Murabaha financing - net	3,160,508,859	900,753,065	-	4,061,261,924
Deferred income	513,124,436	231,176,444	-	744,300,880
Gross investment in murabaha financing	3,673,633,295	1,131,929,509	-	4,805,562,804
	2019			
	Rupees			
Murabaha financing - net	2,806,086,264	764,505,784	-	3,570,592,048
Deferred income	484,982,700	219,050,632	-	704,033,332
Gross investment in murabaha financing	3,291,068,964	983,556,416	18,408,605	4,274,625,380

### A-2.2 Net book value of Ijarah assets / investment under IFAS 2

	2020			Total
	Not later than one year	later than one year but not later than three years	later than three year but not later than five year	
	Rupees			
Asset acquired under Ijarah	677,094,918	1,095,575,360	14,883,486	1,787,553,764
Accumulated depreciation on Ijarah	(254,329,676)	(142,791,612)	(734,293)	(397,855,581)
Net Assets / investment in Ijarah	422,765,242	952,783,748	14,149,193	1,389,698,183
	2019			
	Rupees			
Asset acquired under Ijarah	479,784,242	1,326,198,109	19,040,963	1,825,023,314
Accumulated depreciation on Ijarah	(145,118,034)	(146,386,019)	(632,358)	(292,136,411)
Net Assets / investment in Ijarah	334,666,208	1,179,812,090	18,408,605	1,532,886,903

#### A-2.2.1 Net Investment under Ijarah

	2020			Total
	Not later than one year	later than one year but not later than three years	later than three year but not later than five year	
	Rupees			
Ijarah rentals receivable	677,094,918	854,470,263	14,956,989	1,103,894,924
Residual value	(254,329,676)	332,113,585	3,280,252	558,954,858
Minimum Ijarah payments	458,028,693	1,186,583,848	18,237,241	1,662,849,782
Profit for future periods	(35,263,451)	(233,800,100)	(4,088,048)	(273,151,599)
Net Assets / investment in Ijarah	422,765,242	952,783,748	14,149,193	1,389,698,183
	2019			
	Rupees			
Ijarah rentals receivable	192,163,912	1,068,798,665	19,751,178	1,280,713,755
Residual value	171,207,413	409,378,898	5,792,485	586,378,796
Minimum Ijarah payments	363,371,325	1,478,177,563	25,543,663	1,867,092,551
Profit for future periods	(28,705,117)	(298,365,473)	(7,135,058)	(334,205,648)
Net Assets / investment in Ijarah	334,666,208	1,179,812,090	18,408,605	1,532,886,903

### A-2.3 Diminishing Musharaka

	2020			
	Not later than one year	later than one year but not later than three years	later than three year but not later than five year	Total
Diminishing Musharaka investment	16,627,376	121,976,058	57,979,282	196,582,716
Net Assets / investment in Ijarah	16,627,376	121,976,058	57,979,282	196,582,716
	Rupees			
	-----			
	2019			
	Upto 1 month	Over 1 month upto 3 months	Over 3 month upto 6 months	Total

### A-3 MATURITY PROFILES OF FUNDS

	2020						
	Upto 1 month	Over 1 month upto 3 months	Over 3 month upto 6 months	Over 6 month upto 1 year	Over 1 year upto 2 year	Over 2 year upto 3 year	Total
Term accounts	16,895,000	136,900,000	63,488,500	1,237,395,000	826,910,204	1,013,414,329	3,295,003,033
Saving accounts	2,577,613,007	-	-	-	-	-	2,577,613,007
	2,594,508,007	136,900,000	63,488,500	1,237,395,000	826,910,204	1,013,414,329	5,872,616,040
	Rupees						
	-----						
	2019						
	Upto 1 month	Over 1 month upto 3 months	Over 3 month upto 6 months	Over 6 month upto 1 year	Over 1 year upto 2 year	Over 2 year upto 3 year	Total

### A-4 Sectors of economy/business where Mudarbah based deposits have been deployed:

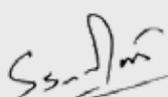
All earning assets of Islamic banking group are jointly financed by Unrestricted Investments/PLS deposits account holders and the Bank. Detail of jointly financed gross earning assets are:

	2020 Rupees	2019 Rupees
Agri business	3,649,459,088	1,840,697,511
Livestock and Dairy farming	671,404,424	155,820,702
Micro enterprises	2,070,980,191	3,856,720,024
	<u>6,391,843,703</u>	<u>5,853,238,237</u>
GOP Ijarah Sukuk	248,468,024	149,780,001
	<u>6,640,311,727</u>	<u>6,003,018,238</u>

  
\_\_\_\_\_  
President / Chief Executive

  
\_\_\_\_\_  
Chairman

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director





**NRSP**  
**Microfinance**  
**Bank**

**NRSP Microfinance Bank Limited**

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