



ANNUAL
REPORT | 2019



NRSP
Microfinance
Bank



NRSP Microfinance Bank

آپ کی ترقی کا ہمسفر



NRSP Microfinance Bank

ترقی کا سفر شریعت کے ساتھ

NRSP Micro Finance 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

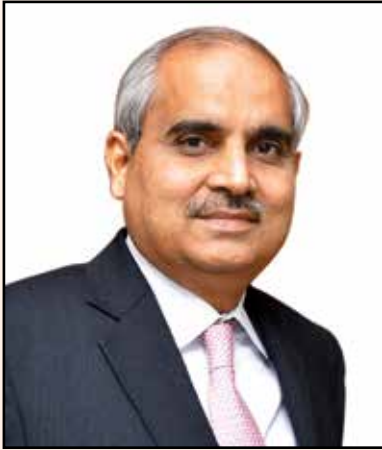
We provide the highest level of disclosure and transparency to our stakeholders.

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

The NRSP Microfinance Bank has successfully completed its ninth year of operation as one of the leading microfinance banks of the country. 2019 was a challenging year for the entire microfinance industry, and for Pakistan. During this year, the GDP growth rate decreased from 5.8% to 3.3%, while private and public investment as a percentage of GDP for the year also fell to 9.8% and 4% respectively compared to the previous year when it stood at 10.3% and 4.8%. Foreign exchange reserves also faced pressure as debt repayments increased and the rupee devalued in terms of the US dollar. At the same time, Pakistan also witnessed changes in environmental conditions which adversely affected agriculture and the crop income of small farmers.

Despite these challenges, NRSP Bank continued to meet the financial needs of vulnerable people, especially the small farmers, with great responsibility and devotion using its network of branches and Digital Financial Services. The Bank also continued to work on strategies to adopt branchless banking options thereby decreasing dependence on traditional brick and mortar branches.

The Board committees' oversight on Risk, Audit, HR and IT matters remained active throughout the year. Efforts on promotion of compliance culture and ethical banking services matched industry standards and continue to remain a priority.

In 2020, the Bank will remain focused on branchless banking, automation, and reduction of costs. We hope that despite the economic challenges foreseen in 2020, the Bank will continue to grow given its experience in microfinance, culture of hard work and robust technology platform.

I would like to take this opportunity to thank our Board of Directors for contributing their valuable time and energy for the uplift of the NRSP Bank. Finally, I would also like to extend my appreciation to our senior management team and staff for demonstrating real discipline, commitment and loyalty at the NRSP Microfinance Bank and wish them all the best for a successful 2020.

Dr. Rashid Bajwa
Chairman

Message from the CEO



As of December 31, 2019, the Bank's loan and deposit portfolio stands at Rs. 27.8 and 26.7 billion respectively, serving 351,725 borrowers and 1,169,857 depositors across Pakistan. The branch network had been extended to 154 locations (114 conventional and 40 Islamic) operational in all four provinces of Pakistan, Azad Jammu and Kashmir (AJK) and Gilgit Baltistan (GB).

The most promising achievement of 2019 was the performance of our Islamic Microfinance Division (IMD). The newly established IMD not only extended its branch network into Khyber Pakhtunkhwa (KPK) with a diversified product package but also started generating profits.

During 2019, the Bank continued to prioritize investing in client service improvement, transparency and security. To this end, a state of the art Security Operation Center (SOC) system has been procured and implemented for secure transactions and customer data protection. We also launched our electronic loan application and with this our entire client enrolment and loan management process has started transitioning from the paper-based mode to mobile phone and tablet mode. This initiative has helped us reduce client enrolment time and the costs related to stationery and other logistics. During this year, the core banking system was also upgraded to move towards an even more secure and user friendly one. The bank also completed the conversion of the existing debit cards to EMV compliant debit cards which has enabled us to carry out QR payments and becoming Payment Application Data Security Standard (PA-DSS) compliant.

Throughout 2019, our clients were deeply impacted by the sluggish economy and the difficulties in marketing agricultural produce. The agro-environmental condition in Pakistan for farmers also remained difficult and our borrowers involved in farming were hit hard by the effects of climate change which manifested in heavy rains, gusty winds and unfavorable temperature changes. These conditions adversely affected our overall operations specially in Punjab. We closed 2019 with a PAR-30 of 1.6% whereas the Bank had been maintaining its PAR-30 below 1% for the preceding 8 years.

We trust that in 2020 our previous investment in technology and human resource will start benefiting us in terms of market penetration and customer's satisfaction. However, our focus would be on branchless banking and expansion of services in Islamic microfinance and small enterprise.

I would like to acknowledge the business acumen and guidance available to us from our laudable Board of Directors throughout the year and thank them for their valuable time and effort. I also take this opportunity to appreciate the hard work and commitment of every member of our staff and wish everyone a successful year ahead.

Zahoor Hussain Khan
President/CEO

A brass balance scale is centered in the foreground, resting on a dark wooden base. The scale's pans are empty and hang from a central vertical post. The background is a blurred office setting with a computer monitor and a desk. An orange semi-transparent rectangle is overlaid on the center of the image, containing the text "Corporate Governance" in white.

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.



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

The image features a hand holding a stack of coins in the lower-left corner. A thin, green plant stem with small leaves extends vertically from the coins towards the top of the frame. The background is a soft, out-of-focus orange and yellow gradient. A semi-transparent orange rectangle is centered in the middle of the image, containing the text 'Highlights by Year' in white, sans-serif font.

Highlights by Year

Performance at a Glance 2011-19

Number of Business Locations

2011	19
2012	39
2013	54
2014	58
2015	67
2016	98
2017	105
2018	143
2019	154

Maximum Number of Active Borrowers during the Year

2011	127,018
2012	177,576
2013	205,378
2014	227,495
2015	261,960
2016	338,079
2017	426,411
2018	463,228
2019	401,509

Number of Active Borrowers at Year End

2011	101,767
2012	126,717
2013	171,718
2014	194,489
2015	258,444
2016	325,521
2017	426,411
2018	399,358
2019	351,846

Number of Savers at Year End

2011	14,683
2012	80,623
2013	108,326
2014	327,128
2015	515,321
2016	674,494
2017	892,912
2018	1,063,224
2019	1,169,857

Gross Advances (PKR in Billion)

2011	2.09
2012	3.06
2013	4.85
2014	5.19
2015	9.09
2016	13.27
2017	20.93
2018	23.78
2019	27.37

Deposits (PKR in Billion)

2011	0.63
2012	1.83
2013	3.62
2014	5.16
2015	7.26
2016	16.92
2017	23.67
2018	26.26
2019	26.65

Equity (PKR in Billion)

2011	0.90
2012	1.27
2013	1.45
2014	2.13
2015	2.54
2016	3.20
2017	4.01
2018	4.61
2019	4.69

Profit Before Taxation (PKR in Million)

2011	37
2012	148
2013	338
2014	286
2015	650
2016	960
2017	1,106
2018	898.55
2019	87.38

Social Performance

NRSP MFB believes in harnessing the potential of the people through inclusive finance for poverty reduction and a brighter future. 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 credit clients is summarized below:

PROFILE OF OUR BORROWERS

Cultivating on Leased land	14.4 %
Landholding Up to 5 acres	7.2 %
Landholding 6-10 acre	6.1 %
Landholding more than 10 acres	2.3%
Borrowers with collateral free loans	86.4%
Policy holders	351,510
Borrower their spouses/ children covered under health insurance scheme	632,718

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.

One of Bank's achievements in the year has been the launch of Islamic Microfinance Operations. As the first regulated provider of Islamic micro-lending products, NRSP Bank intends to cater to the great demand for Shariah-compliant solutions and services in the microfinance market.

As a socially responsible corporate entity, NRSP Microfinance Bank strongly believes in contributing towards the welfare of the general public. To this end, the Bank organized a medical camp in Bahawalpur in collaboration with the National Rural Support Programme where free artificial limbs were provided to over 295 disabled persons of southern Punjab. We plan to undertake this activity in the coming years as well.

Technology upgrade

In year 2019, NRSP Microfinance Bank implemented a range of new technology options to facilitate customers by creating ease, comfort and secure banking experiences for them. The Bank also upgraded its Core Banking System to one built by the in-house team.

The Bank successfully launched a Mobile Banking Application for Android and IOS users which became a popular option for our clients to manage their finances using facilities like electronic transfer of funds, bill payment, account balance checking, review of transaction trends and ATM card blocking.

With the enhancement of technology, we have been able to launch Biometric transaction enablement on our ATMs which can now recognize our customers through their registered thumb impression allowing less literate customers to withdraw cash without using pin codes.

Additionally, the Bank has also introduced a biometric registration system for clients for verification of their consent while using various services. This system verifies customers biometrically for delivery of ATM Cards, Pay Orders, Demand Drafts, Cheque Books, Call Deposit Receipts and other Internet Banking / Mobile Banking services.

This year the Bank also developed an Electronic Loan Application (ELA) system in-house which has enabled the Bank to process all types of conventional banking products from a single platform. It has also significantly reduced the customers' onboarding time and the cost of account opening.

The Bank integrated its systems with the Pakistan Land Revenue Authority (PLRA) for "Fard" verification. This functionality provides customer with confirmation of their land record and allows them to obtain their Mutation/Fard document for a nominal fee from any NRSP Bank Branch across Pakistan.

The Bank has in place an EMV enabled debit card system that has reduced the risk of card-present fraud issues and enabled us to incorporate more value-added applications in future. Now our customers can avail the facility of multi-branded cards and enjoy uninterrupted services across Pakistan.

To comply with the regulatory requirements, the Bank has enabled the Payment Application Data Security Standard (PA-DSS) and also implemented it across the Alternate Delivery Channels. This is one of the best global security standards for securing the data of cardholders.

The Bank has also deployed the Fraud Risk Management Solution (FRM) for detecting and preventing frauds with supported transaction on card data. In addition to that Security Incident and Event Management System (SIEM) has also been implemented to proactively protect Bank data from any cyber-attack.

Given the current market trends, NRSP Bank has launched phase-II of its Branchless Banking System, which include Cash-In & Cash-Out functionality at the agent level. With this functionality, NRSP Bank’s agents sitting in markets and villages would be able to make cash transactions to facilitate the customers. In addition to that the Bank has also enabled Branchless Banking agents to accept loan recovery and cash deposit across Pakistan.

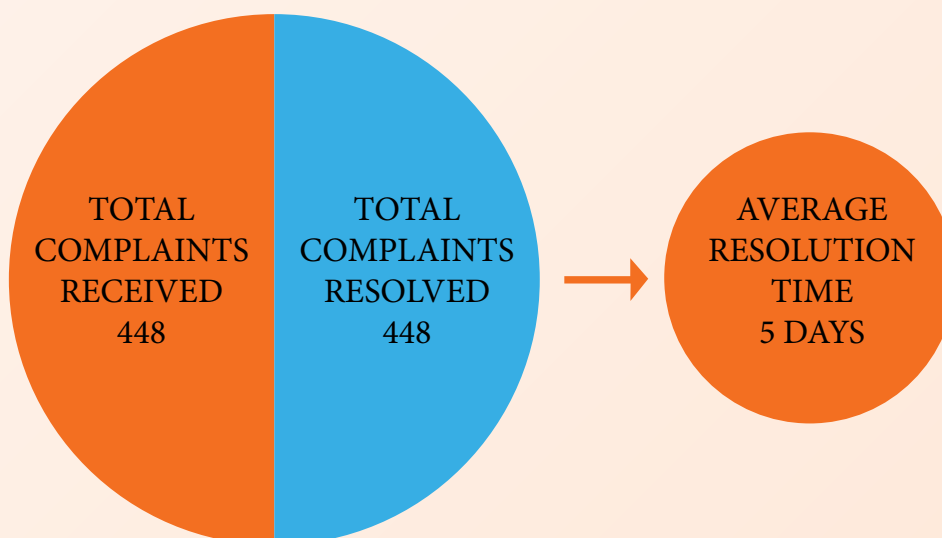
This year the Bank’s Call Center and DR site have been upgraded to market best practices for more convenience and uninterrupted service. This initiative has enabled the Bank to offer customer services with 24X7 availability.

Consumer Grievances Handling Mechanism

The NRSP Microfinance Bank strives its level best to address customer’s complaints for improvement of service quality on a regular basis.

The customer’s complaints are received through eight (08) different channels includes; 24/7 UAN and toll free lines, e-form available at website, email, facsimile, social media, drop box facility and via printed complaint forms available at customer’s touch points. The complaints are analyzed by Service Quality department directly reporting to CEO.

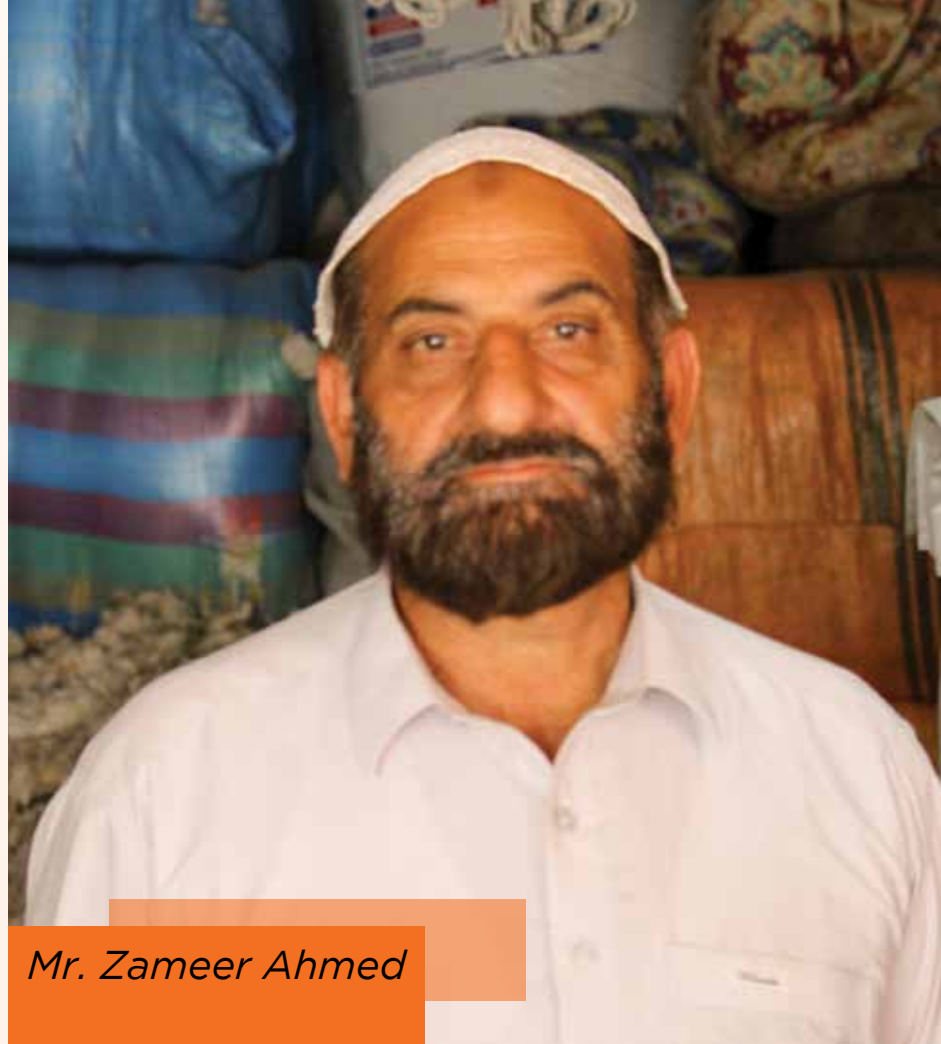
To ensure customer awareness, the bank has taken various initiatives; such as placing placards in branches, updates through webpage and displaying messages on ATM screens (in English and Urdu languages).





Building Capacities

Zameer Ahmed is a resident of Mohallah Bartiyan in the Haripur district. He started his business career with a small shop, but soon diversified into the dairy sector as he realized the potential for selling milk in Haripur city. He bought a single dairy buffalo to begin his milk business but due to limited resources was not able to purchase other animals. One day he was visited by the NRSP Islamic Microfinance sales staff who briefed him on products offered by the bank.



Mr. Zameer Ahmed

He discussed the option with his family and friends and decided to pursue his dream.

He met the branch manager of NRSP Islamic Microfinance in Haripur regarding his livestock financing need and filed his application with the Bank. After assessment, his proposal for purchasing livestock was approved for Rs. 998,000 and he agreed to pay the amount in 2 years in monthly installments with the proceeds from the sale of milk.

He purchased some animals and started selling milk from his shop. With the success of his business he has hired two people to help him and procures milk from others in the neighborhood.

Zameer Ahmed says, **“The Financing facility from NRSP has not only helped me to improve my standard of living but also contributed to improve my market credibility.”**

Milking Dreams for Success



Mr. Israr Munir

Israr Munir lives in Daska, in Sialkot District, in a joint family with 11 people.

He saw a need for a school for the children of his community but lacked the resources to bring this dream to fruition. Then, he met with NRSP Microfinance Bank staff and applied for a loan fulfill his dream. He successfully got approved a loan of Rs. 500,000 in May 2018 which was sufficient for him to start his school. With 5 teachers and 150 students, he used part of

the money to purchase a plot adjacent to his school on instalments. In 2019 after repaying his first loan, he took another loan of Rs. 500,000 and then a third loan of Rs. 800,000. With each loan, Israr Munir has expanded his business, and now he has constructed a new building which had 10 classrooms, 2 computer labs and 2 laboratory rooms.

*He says, **“Now in my institution 450 students are building their future and 20 teachers are earning their daily bread.”***

Laying the Foundations for the Future

Hajran Bibi lives in Chak 251 in Tehsil Dunyapur. A widow, she is the provider for her 2 daughters and 1 son. After her husband's demise she continued cultivation on the 24 acres of land her husband had worked. She owned 4 acres while 20 acres were rented. She realized that her biggest expenses were tractor rentals and labor, so she decided to purchase her own tractor.

She visited the NRSP MFB Islamic Division Branch in Dunyapur to get more information. The Islamic mode of

ljarah financing gave her the greatest flexibility with rental option for the tractor, free registration and a takaful (insurance) facility. She applied and was approved for a financing facility of Rs. 1,000,000 with a tenure of 24 months. The Bank procured the tractor, cleared its registration and takaful facility formalities in 7 working days.

*Now when she is not using the tractor on her own fields, she rents it out for additional income. She says, **“Due to NRSP Islamic Microfinance Banking I have much more confidence. I am an example of how a woman can support her family even living in a conservative rural society.”***



Ms. Hajran Bibi

Taking the Wheel



Mr. Khizar Abbas

Khizar Abbas is a resident of Raniwala, in Tehsil Shujabad of Multan District. He is the only bread earner for his family of 7. He lives near the riverbed and was cultivating 15 acres of his ancestral land with the help of a diesel driven irrigation system. Due to the expensive irrigation system and poor quality of land, his income was limited and the standard of living for the family very low.

During a visit to the local market, Khizar Abbas came across the NRSP Islamic Microfinance Bank branch. He was warmly welcomed by the staff and briefed about the various products offered by the Bank. He decided to get the finances to improve his irrigation system. The sale staff visited his place the very next day and suggested

he shift to using solar panels instead of a diesel generator for irrigation. His application was processed for financing of PKR 250,000 under the Murabaha Shariah financing mode for 2 years on an installment plan suited to his cash flow.

After installation of the solar panels, he says that this facility helped him substantially reduce his fuel cost and also provided him with solar lighting facility. He has increased his cultivated area from 15 to 20 acres and his standard of living is increased. Based on his current experience, he is planning to avail another Shariah compliant financing facility to purchase a tractor.

*He says, **“This financing facility has appeared as a sign of hope to me to expand my business and improve the conditions for my family as I can provide them with a better standard of living.”***

Adopting Green Solutions

Fahad Javed is a resident of Jehanian where zie works as a house servant. Zie has no children and lives alone, but wanted to explore options to save some money for old age. When zie visited 5 different banks of the area to open a savings account zie experienced discriminatory behavior, until one day zie visited NRSP Microfinance bank. There, the staff dealt with Fahad with respect and opened the account the same day, and in a week zie received the debit card.

*Fahad says, **“All I wanted was to keep my savings for rainy days but none of the banks talked to me nicely because of my gender. Now with the***

grace of God I am enjoying the facilities of NRSP’s banking services. I withdraw the required amount without visiting the branch. I receive SMSs about my transactions and I also get my balance detail with help of one SMS from my ordinary phone”.



Fahad Javed

Including the Excluded



Muhammad Parvez

Muhammad Parvez has been taking loans from NRSP Bank for the past 8 years. The first loan he got from the Bank was of Rs. 20,000 to purchase seed and fertilizer for his tract of 7.5 acres. After repaying his first loan he got a second group loan of Rs. 25,000 and so on until he got Rs. 80,000 under the group loan scheme to meet his agricultural land expenses.

One day, an NRSP Bank representative visited him and introduced him to banks' Kissan Zarai Tarqiati Loan (KZTL). The first loan he availed independently was of Rs. 350,000/- to purchase some agri equipment. After repaying this loan

he applied for a second loan of Rs. 480,000 under the same KZTL Loan scheme with which he bought a secondhand tractor and 2 additional acres of agri land. He uses the tractor on how own lands but also rents it out to other farmers.

Today he is happy and recognizes the service of Islamic banking facility of the Bank

Slow & Steady Wins the Race

Chaudhary Abdul Sattar Asim is a resident of Chak 46 DB, Tehsil Yazman. He has been a farmer by profession for the last 20 years and cultivates crops on some 350 acres, out of which he owns 10 acres and 340 acres are rented. He is a very successful farmer and wanted to increase his cultivated land but his reliance on expensive diesel driven irrigation systems made that a very expensive proposition.

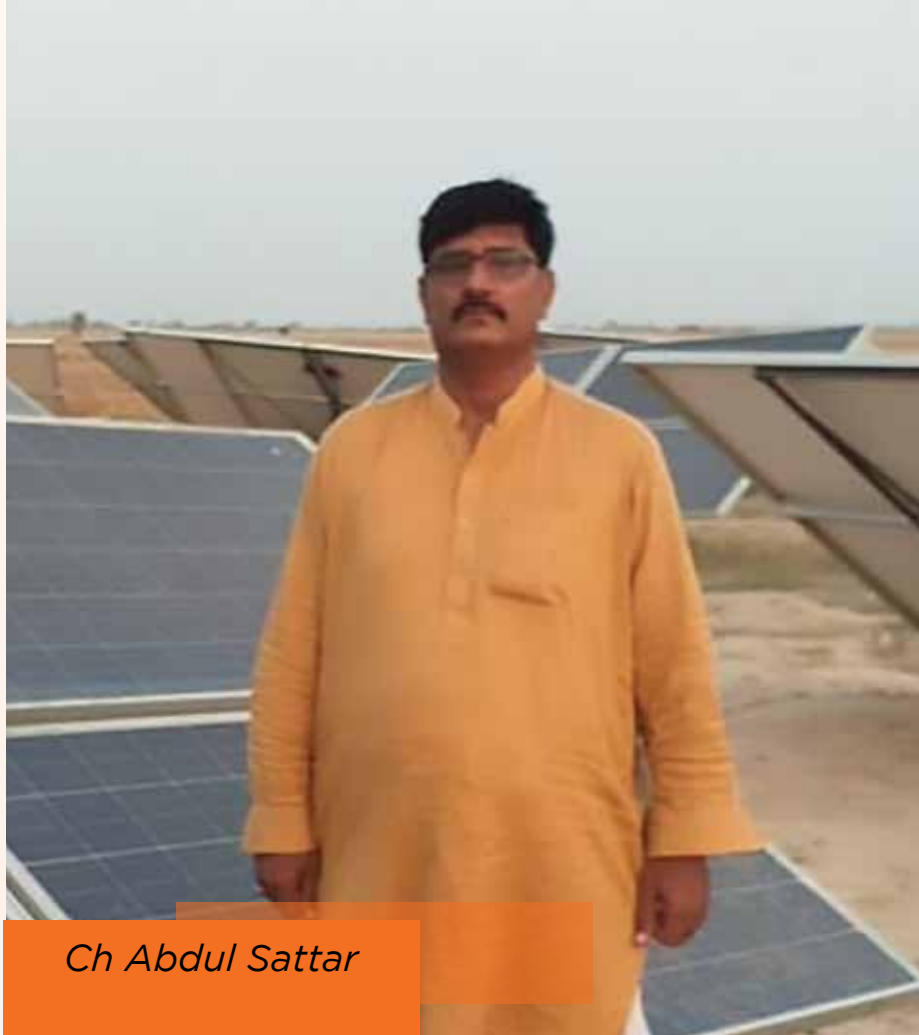
Last year he met with a sales representative of NRSP Islamic Microfinance Bank and learnt about the

use of solar power for irrigation purposes. He applied for financing of a solar power irrigation system under Murabahah Shariah financing mode for Rs. 980,000 with a tenure of one year.

Within two weeks he was able to install his solar irrigation system which proved to be a cheaper, more efficient and less time consuming option as compared to his old diesel generator model.

His water supply is now perennial due to less repair and maintenance and free of transportation of diesel to his place. His per acre yield also increased and production cost has decreased. Other villagers take drinking water from his solar irrigation water system free of cost.

*He says, **“My new irrigation system not only enabled me to earn more but also helped me becoming a good human being for supplying free clean drinking water to village people.”***



Ch Abdul Sattar

Reducing Costs & Helping Others



Muhammad Naeem Ahmed

Muhammad Naeem Akhtar is a farmer who owns 17 acres of agri land in Kot Sawan in Tehsil Dunyapur. He has lived there his entire life and followed traditional agricultural practices until he realized that traditional methods are labor intensive and decided to test some modern agriculture techniques. As a first step he sold part of his land and purchased a tractor, but this resulted in decline of his income due to the small size of cultivated area. Then

he thought to get finances from a bank to purchase other agri equipment and applied for a loan to purchase a chopper machine to chop the wheat straw collected from harvesters as there was a shortage of such machines in his area and he could rent it to other farmers to get some extra income.

*The Bank procured a chopper machine for him under the secured Murabahah mode of Islamic financing in 5 working days. Naeem Akhtar is able to pay his installments comfortably from his increased income from the tractor and wheat straw chopper and has observed a significant improvement in his standard of living. He says, **“NRSP Islamic Bank has helped me to make my farming practice modern and also increase my income”**.*

Expanding Horizons with Technology



Financial Performance

Directors' Report – Year 2019

On behalf of the Board of Directors, I am pleased to present the 11th Annual report of the Bank with the audited Financial Statements and Auditors' Report thereon, for the year ended December 31, 2019.

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 2019.

Performance Review

The Bank has 351,846 active borrowers as at December 31, 2019 mostly in rural areas and has posted a profit before tax of PKR 87.4 million. Operational activity showed encouraging results, where gross advances stood as high as PKR. 27.8 billion at financial year-end. Through loan disbursement, the Bank has processed 385,271 requests from poor masses with a volume of PKR 32.0 billion. 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 26.7 billion at the year end with a favorable growth of 1.5%.

The Board of Directors has recommended for non-payment of dividend during the year despite after-tax profit of PKR 84.3 million and retained earnings of PKR 2,330 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;

	2019 Rupees	2018 Rupees
Profit before taxation	87,382,269	898,550,711
Less: Taxation-Current	(141,295,045)	(337,865,084)
-Prior	0	(77,833,621)
-Deferred	138,223,157	108,064,519
Profit after taxation	84,310,381	590,916,525
Earnings per share	0.56	3.94

Capital Adequacy

As of December 31, 2019, the Bank's Capital Adequacy Ratio (CAR) measures at 15.40% 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, 2019 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, 2020.

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, 2019 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 3, 2020

Report of Shariah Advisor

For the year 2019



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 status 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 5th year of Islamic banking being operated in the NRSP Microfinance Bank. The bank has 40 standalone Islamic banking branches (IBBs) and 3 Islamic banking operational windows.

To maintain 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 2019, 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, the 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. The training division of Human Resource department has arranged various trainings in the training center and other premises of the bank where we (SA & SCD) conducted sessions, group discussions and case studies. 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. Public awareness programs for bank's client and general public in various part of the country during the year were also organized.

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 2019, an amount of Rs. 1.678 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





دُنیا میں درپیش معاشی مسائل کے باوجود اسلامی بینکاری کی ترویج و ترقی ایک مسلم حقیقت ہے اور اس کی مسلسل کامیابی اس کا منہ بولتا ثبوت ہے۔ پاکستان میں اس کے انعقاد کا مقصد لوگوں کے سرمائے کی حفاظت اور ان کی بینکاری سے متعلقہ ضروریات کو شرعی اصولوں کے عین مطابق پوری کرنا ہے۔ اس لئے اسلامی بینکاری کیلئے شریعہ کی پابندی ریڑھ 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 کہ بینک کے تمام معاملات میں شرعی اصولوں پر عمل کو یقینی بنائیں اور بینک کا شریعہ ایڈوائزر سالانہ کارکردگی رپورٹ میں بینک کے مجموعی نظام میں شریعہ کی پاسداری کے حوالے سے اپنی رائے کا اظہار کرے۔

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

عوامی اعتماد بحال رکھنے کیلئے این آر ایس پی مائیکروفنانس بینک لمیٹڈ (اسلامک ڈویژن) کے پاس ایک ایسا مؤثر 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۔ اس سال 2019 میں، میں نے بینک کے مختلف اسلامی پراڈکٹس، پالیسیز، مالی عقود اور ان کے متعلقہ شرعی عملی طریقہ کار کا جائزہ لینے کیلئے مختلف میٹنگز منعقد کیں اور اس سلسلے میں بورڈ آف ڈائریکٹرز کے ساتھ ملاقاتیں بھی ہوئیں۔ 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 بنا یا جاسکے کہ بینک کے تمام افعال، شرعی نقطہ نظر سے صادر کئے گئے۔ مزید یہ کہ 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 شعبہ جات) نے شریعی ایڈوائزر اور اسٹیٹ بینک آف پاکستان کے اسلامک بینکنگ ڈویژن کی 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، عقد مشارکہ میں طے شدہ شرح منافع کے مطابق بروقت ادائیگی کو یقینی بنایا۔

شرعی نظر ثانی کے علاوہ بینک کے اپنی شریعی 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 میں 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 رد عمل میں موصول ہونے والے شریعی ایڈوائزر کے احکامات اور تجاویز پر عمل درآمد کو یقینی بنایا اور میں نے بینک کے شریعہ کمپلائنس ماحول کی کیفیت بورڈ آف ڈائریکٹرز کے علم میں لانے کیلئے سہ ماہی بنیادوں پر رپورٹس ارسال کیں۔

اسلامک بینکنگ کے عملے کے علم میں اضافے اور کارکردگی میں پختگی کیلئے بیومن ریسورس ڈیپارٹمنٹ نے مختلف ٹریننگز کا انعقاد کیا۔ اسی طرح بینک کے وہ ملازمین جس کا اسلامک بینک کے ساتھ با واسطہ تعلق رہا۔ ان کو اسلامی بینکاری کے اصولوں سے روشناس کرنے کیلئے مخصوص نشستوں کا انعقاد کیا گیا تاکہ وہ اپنی ان ذمہ داریوں کو احسن طریقے سے نبھا سکیں جن کیلئے وہ ذمہ دار ہیں۔

شریعی کمپلائنس ڈیپارٹمنٹ کے مختلف رپورٹس اور این آر ایس پی مائیکروفنانس بینک لمیٹڈ (اسلامک ڈویژن) کے جملہ عقود اور دستاویز کا بطور نمونہ جائزہ لینے کے بعد میری رائے یہ ہے کہ

- این آر ایس پی مائیکروفنانس بینک لمیٹڈ (اسلامک ڈویژن) نے جملہ معاملات میں شریعی ایڈوائزر کے جملہ اصول و ضوابط اور وقتاً فوقتاً جاری ہونے والے فتاویٰ کی تعمیل کی ہے۔

- این آر ایس پی مائیکروفنانس بینک لمیٹڈ (اسلامک ڈویژن) کی اسلامی بینکاری اسٹیٹ بینک آف پاکستان کے اسلامی بینکاری کے متعلق جملہ فرامین، قوانین اور ہدایات کے عین مطابق ہیں۔
- این آر ایس پی مائیکروفنانس بینک لمیٹڈ (اسلامک ڈویژن) نے اسلامی بینکاری کے پول مینجمنٹ، فنڈز کی منتقلی، ہر پول میں نفع ونقصان کی تناسب اور کھاتہ داروں میں نفع ونقصان کی تقسیم شرعی اصول و ضوابط اور شریعہ ایڈوائزر کے مصدقہ سفارشات کے عین مطابق کی ہیں۔
- دوران سال بینک کو حاصل ہونی والی آمدنی شرعاً حلال اور جائز تھی۔ تاہم اگر کوئی آمدنی شرعی نقطہ نظر سے حرام یا مشتبہ تھی، اس کو فوری طور پر خیراتی اکاؤنٹ میں منتقل کر دیا گیا۔ تا کہ خیرات کے مستحقین کو سپرد کی جاسکے۔ تاہم یہ امر قابل وضاحت ہے کہ شریعہ آڈٹ ٹیم نے بعض مالی دستاویز میں غلطیوں کی نشاندہی کی تھی جس سے معاملہ باطل یا فاسد نہیں ہو رہا تھا اس لئے اس کے تصحیح کیلئے میں نے اپنی سفارشات نوٹ کروائیں جو متعلقہ ڈویژن یا ڈیپارٹمنٹ کو جاری کئے گئے۔ تاکہ آئندہ کیلئے ایسی غلطیوں کو روکا جاسکے۔
- بینک کے پاس شریعہ کمپلائنس ڈیپارٹمنٹ اور انٹرنل آڈٹ کی صورت میں ایک منظم نظام موجود ہے جو اس قابل ہے کہ غیر شرعی طریقہ کار اور ذرائع سے ہونے والی آمدنی کی بروقت شناخت کر کے نہ صرف چیرٹی اکاؤنٹ منتقل کرتے ہیں بلکہ منظور شدہ پالیسی کی رو سے اس کے درست استعمال کو بھی یقینی بناتے ہیں۔ سال 2019 میں کل 1.678 ملین روپے چیرٹی میں موصول ہوئے جن میں سے غیر شرعی عقود کی صورت میں حاصل ہونے والی چیرٹی کا انتہائی قلیل حصہ جب کہ زیادہ تر حصہ تاخیر سے ادا ہونے والے ادائیگیوں کا تھا۔
- این آر ایس پی مائیکروفنانس بینک لمیٹڈ (اسلامک ڈویژن) اسٹاف، انتظامیہ اور بورڈ آف ڈائریکٹر کی اسلامی بینکاری کے اہمیت اور عملی نفاذ کے حوالے سے صلاحیتیں، قابلیت اور اسلامی بینکاری کے بارے میں شعور حوصلہ افزاء ہے تاہم رفتہ رفتہ اس کی بہتری میں مزید پیش رفت بھی لائی جائے گی۔
- ہمارے لئے یہ امر قابل اطمینان ہے کہ اس سال این آر ایس پی مائیکروفنانس بینک لمیٹڈ (اسلامک ڈویژن) نے اپنے عملہ کی عملی تربیت کے لئے کافی ٹریننگ، سیمینارز، ریفرشر کورسز، ورکشاپس اور سرٹیفیکیٹ کورسز کا انعقاد کیا جس میں ملک بھر سے خاطر خواہ اسٹاف نے ٹریننگ لی۔ داخلی تربیت دینے کے علاوہ بینک نے ملک میں اسلامی بینکاری کی ترویج و استحکام کے لئے سرگرم دیگر اداروں مثلاً اسٹیٹ بینک آف پاکستان کے تربیتی ادارے (NIBAF) وغیرہ کے تحت بھی اپنے ملازمین کو ٹریننگ کی سہولت فراہم کی۔
- اندرونی طور پر اپنے اسٹاف کی عملی اور علمی استعداد کو بڑھانے کے ساتھ ساتھ این آر ایس پی مائیکروفنانس بینک لمیٹڈ (اسلامک ڈویژن) نے عوام الناس اور دینی طبقے میں اسلامی بینکاری کی اہمیت اور شعور اجاگر کرنے کے لئے ملک بھر میں مختلف شہروں میں سیمینارز کا انعقاد کیا جس میں تجارت پیشہ حضرات، علمائے کرام، مفتیان عظام، ائمہ و خطبائے مساجد، طلباء، پروفیسر حضرات اور بزرگ شہریوں سمیت مختلف افراد نے شرکت کی اور این آر ایس پی مائیکروفنانس بینک لمیٹڈ (اسلامک ڈویژن) کے اسلامی بینکاری سے متعلقہ خدمات کی حوصلہ افزائی کی۔

خلاصہ

ان تمام مثبت اقدامات کی بنیاد پر میں این آر ایس پی مائیکروفنانس بینک لمیٹڈ (اسلامک ڈویژن) کے بطور شریعہ ایڈوائزر اس بات کا اقرار کرتا ہوں کہ این آر ایس پی مائیکروفنانس بینک لمیٹڈ (اسلامک ڈویژن) کے معاملات اسلامی معاشی اصولوں کے عین مطابق ہیں۔ تاہم یہ بینک کی انتظامیہ اور مالکان کی اخلاقی، شرعی اور قانونی ذمہ داری ہے کہ وہ اسلامی بینکاری کے جملہ آپریشنز، معاملات اور قوانین میں شریعت کے زیر اصولوں کو ہمیشہ ملحوظ خاطر رکھیں۔ اور جہاں پر اسلامی اصولوں سے روگردانی محسوس ہو اس پر فوری تنبیہات اور سرزنش جاری کر دیں۔ تاکہ اسلامی بینکاری اور معاشی نظام معاشرہ میں حقیقت کا روپ دھار سکے۔

اللہ تبارک و تعالیٰ ہمیں دنیاوی و اخروی کامیابیوں سے نوازے اور ہماری جملہ تقصیرات کو قلم عفو سے مٹا دے جو ہم سے جانے ان جانے میں سر زد ہوئے ہیں۔

آمین

شریعہ ایڈوائزر



Auditor's Report



A·F·FERGUSON&Co.

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, 2019, and the profit and loss account, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the balance sheet, the profit and loss account, the statement of comprehensive income, the statement of changes in equity and 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, 2019 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 obtained at the date of this auditor's report is information included in the 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

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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, on other information obtained prior to the date of this auditor's report, 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, 2020

BALANCE SHEET

As at December 31, 2019

	Note	2019 Rupees	2018 Rupees
ASSETS			
Cash and balances with SBP and NBP	8	1,483,412,144	1,120,907,602
Balances with other Banks/NBFIs/MFBs	9	3,967,373,841	3,699,044,247
Lending to financial institutions	10	-	2,522,202,000
Investments - net of provisions	11	1,590,417,993	3,458,697,984
Advances - net of provision	12	27,370,611,456	23,311,121,828
Operating fixed assets	13	2,023,314,033	1,008,607,370
Other assets	14	3,338,470,431	3,136,557,194
Deferred tax asset - net	15	231,670,697	93,447,540
Total Assets		40,005,270,596	38,350,585,765
LIABILITIES			
Deposits and other accounts	16	26,650,662,052	26,263,175,128
Borrowings	17	3,764,296,762	4,531,799,881
Subordinated debt	18	672,360,000	672,360,000
Other liabilities	19	4,230,319,090	2,275,492,810
Deferred tax liability - net		-	-
Total Liabilities		35,317,637,904	33,742,827,819
Net Assets		4,687,632,692	4,607,757,946
REPRESENTED BY:			
Share capital	20	1,498,372,010	1,498,372,010
Statutory reserve		657,079,488	640,217,412
Depositors' protection fund		198,412,206	180,937,261
Unappropriated profit		2,330,318,665	2,278,585,992
		4,684,182,369	4,598,112,675
Surplus / (Deficit) on revaluation of assets		(7,000)	-
Deferred grants	21	3,457,323	9,645,271
Total capital		4,687,632,692	4,607,757,946
MEMORANDUM / OFF BALANCE SHEET ITEMS	22		

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



President / Chief Executive



Chairman



Director



Director

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 2019

	Note	2019 Rupees	2018 Rupees
Mark-up / return / interest earned	23	7,523,998,213	6,331,528,190
Mark-up / return / interest expensed	24	(3,401,596,773)	(2,226,359,614)
Net mark-up / interest income		4,122,401,440	4,105,168,576
Provision against non-performing loans and advances	12.3	(1,820,469,443)	(1,124,872,140)
Provision for diminution in the value of investments		-	-
Bad debts written off directly - net of insurance recoveries	12.4	(24,571,874)	(29,984,417)
		(1,845,041,317)	(1,154,856,557)
Net mark-up / interest income after provisions		2,277,360,123	2,950,312,019
NON MARK-UP / NON INTEREST INCOME			
Fee, commission and brokerage income	25	723,578,443	722,596,172
Dividend income		79,500,684	8,403,290
Other income - net	26	362,012,026	102,261,942
Total non mark-up / non interest income		1,165,091,153	833,261,404
NON MARK-UP / NON INTEREST EXPENSES			
Administrative expenses	27	(3,353,705,406)	(2,881,731,158)
Other charges	28	(1,363,601)	(3,291,554)
Total non mark-up / non interest expenses		(3,355,069,007)	(2,885,022,712)
		87,382,269	898,550,711
Extra ordinary / unusual items		-	-
PROFIT BEFORE TAXATION		87,382,269	898,550,711
Taxation - Current	29	(141,295,045)	(337,865,084)
Prior year		-	(77,833,621)
Deferred		138,223,157	108,064,519
		(3,071,888)	(307,634,186)
PROFIT AFTER TAXATION		84,310,381	590,916,525
Unappropriated profit brought forward		2,278,585,992	1,849,115,619
Less: Other comprehensive income		(11,500,112)	(13,717,021)
Profit available for appropriation		2,351,396,261	2,426,315,123
APPROPRIATIONS:			
Transfer to:			
Statutory reserve		(16,862,076)	(118,183,305)
Depositors' protection fund		(4,215,519)	(29,545,826)
		(21,077,595)	(147,729,131)
Unappropriated profit carried forward		2,330,318,666	2,278,585,992
Earnings per share	30	0.56	3.94

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


President / Chief Executive


Chairman


Director


Director

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2019

	Note	2019 Rupees	2018 Rupees
Profit after taxation		84,310,381	590,916,525
Other comprehensive income/ (loss)			
Items that will not be subsequently reclassified through profit and loss account:			
Loss on re-measurement of employees' retirement benefits - net of tax		(11,500,112)	(13,717,021)
Total comprehensive income for the year		72,810,269	577,199,504

The annexed notes from 1 to 40 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, 2019

	Share capital	Capital reserves		Revenue reserve	Total
		Statutory reserve	Depositors' protection fund	Unappropriated profit	
	Rupees				
Balance as at January 1, 2018	1,498,372,010	522,034,107	142,607,377	1,849,115,619	4,012,129,113
Profit for the year	-	-	-	590,916,525	590,916,525
Other comprehensive loss for the year	-	-	-	(13,717,021)	(13,717,021)
Total comprehensive income for the year	-	-	-	577,199,504	577,199,504
Transfer to statutory reserve	-	118,183,305	-	(118,183,305)	-
Transfer to depositors' protection fund: 5% of the profit after tax for the year	-	-	29,545,826	(29,545,826)	-
Return on investments - net of tax	-	-	8,784,058	-	8,784,058
	-	=	38,329,884	(29,545,826)	8,784,058
Balance as at December 31, 2018	1,498,372,010	640,217,412	180,937,261	2,278,585,992	4,598,112,675
Profit for the year	-	-	-	84,310,381	84,310,381
Other comprehensive loss for the year	-	-	-	(11,500,112)	(11,500,112)
Total comprehensive income for the year	-	-	-	72,810,269	72,810,269
Transfer to statutory reserve	-	16,862,076	-	(16,862,076)	-
Transfer to depositors' protection fund: 5% of the profit after tax for the year	-	-	4,215,519	(4,215,519)	-
Return on investments - net of tax	-	-	13,259,426	-	13,259,426
	-	-	17,474,945	(4,215,519)	13,259,426
Balance as at December 31, 2019	1,498,372,010	657,079,488	198,412,206	2,330,318,665	4,684,182,370

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



President / Chief Executive



Chairman



Director



Director

CASH FLOW STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2019

	Note	2019 Rupees	2018 Rupees
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		87,382,269	898,550,711
Less: Dividend income		(79,500,684)	(8,403,290)
		7,881,585	890,147,421
Adjustments for non-cash changes:			
Depreciation		362,893,343	164,946,253
Amortization		33,288,799	38,417,438
Provision against non-performing advances		1,820,469,443	1,124,512,862
Provision against advances to employees		(494,976)	-
Advances directly written-off - net of insurance recoveries		24,571,874	29,984,417
Unrealized gain on revaluation of investments classified as held for trading		(68,322)	(7,466,315)
Gain on sale / redemption of securities		(126,375,818)	(39,032,788)
Unrealized exchange (gain) / loss		(32,944,500)	227,182,500
Unrealized loss/ (gain) on derivative financial asset		85,020,763	(202,478,746)
Gain on sale of fixed assets		(1,470,341)	(3,573,264)
Finance charges on leased assets		141,118,750	8,186,023
Amortization of deferred grant		(23,236,675)	(10,477,586)
Provision for gratuity and leave encashment		180,280,736	146,802,658
		2,463,053,077	1,477,003,452
(Increase)/ decrease in operating assets			
Lendings to financial institutions		497,202,000	(497,202,000)
Net investment in held-for-trading securities		2,750,108,174	(1,610,953,769)
Advances		(5,904,530,946)	(3,760,169,200)
Other assets (excluding advance taxation)		(258,010,896)	(239,315,745)
		(2,915,231,669)	(6,107,640,714)
Increase / (decrease) in operating liabilities			
Bills payable		10,956,051	(497,889,859)
Borrowings from financial institutions		(734,558,619)	1,010,728,493
Deposits		387,486,924	2,591,355,496
Other liabilities (excluding bills payable, current taxation, gratuity and leave encashment, finance lease)		821,957,765	734,781,690
		485,842,121	3,838,975,820
Payments against provisions held against off-balance sheet obligations		(119,360,612)	(304,951,341)
Income tax paid		(118,446,622)	(35,728,933)
Gratuity and Leave encashment paid (including contributions)			
		(196,262,119)	(242,194,295)
Net cash flow from operating activities			
CASH FLOW FROM INVESTING ACTIVITIES			
Net investment in available-for-sale securities		(234,583,850)	-
Net investment in held-to-maturity securities		(488,807,633)	894,300,844
Investment in operating fixed assets		(320,169,488)	(650,693,005)
Interest income on depositor's protection fund		13,259,426	8,784,058
Dividend received from mutual funds		79,500,684	8,403,290
Sale proceeds from property and equipment disposed-off		2,456,617	4,499,195
		(948,344,244)	265,294,382
CASH FLOW FROM FINANCING ACTIVITIES			
Grant received		-	18,342,575
Net payments of lease obligations		(249,559,500)	(62,810,592)
		(249,559,500)	(44,468,017)
		(1,394,165,863)	(21,367,930)
Cash and cash equivalents at beginning of the year		6,844,951,849	6,866,319,779
		5,450,785,985	6,844,951,849

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The annexed notes from 1 to 40 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, 2019

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 (2018: 143) as at the year end including 40 (2018: 26) Islamic branches.

National Rural Support Programme (NRSP) is holding company of the Bank which holds 52.06% (2017: 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 IFRS 16: 'Leases', became effective from annual period beginning on or after January 1, 2019. The impact of the adoption of IFRS 16 on the Bank's financial statements is disclosed in note 7.18.

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, 2019 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:

		Effective date (annual periods beginning on or after)
IFRS 1	First-Time Adoption of International Financial Reporting Standards (Amendments)	July 1, 2009
IFRS 17	Insurance Contracts	January 1, 2022

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.

		Effective date (annual periods beginning on or after)
IAS 1	Presentation of Financial Statements (Amendments)	January 1, 2020
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors (Amendments)	January 1, 2020
IAS 39	Financial Instruments: Recognition and Measurement (Amendments)	January 1, 2020
IFRS 3	Business Combinations (Amendments)	January 1, 2020
IFRS 7	Financial Instruments: Disclosures (Amendments)	January 1, 2020
IFRS 9	Financial Instruments (Amendments)	January 1, 2021
IFRS 17	Insurance Contracts	January 1, 2022

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

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 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.

9) 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.

h) 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:

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

In addition to above, a general provision is made equivalent to 1% (2018: 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.

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

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.

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, 2019 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 (2018: 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, 2019 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.

d) Statutory liquidity requirement

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

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, 2019.

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.

7.18 Changes In Accounting Policies

Leases

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

The Bank has adopted IFRS 16 from January 1, 2019 and has not restated comparatives for the 2018 reporting period, as the said treatment is permitted under the specific transitional provisions, specified in IFRS 16.

b) On adoption of IFRS 16, the Bank has recognised liabilities in respect of leases which had previously been classified as operating leases under IAS 17. These liabilities were initially measured as the present value of the remaining lease payments, discounted using the Bank's incremental weighted average borrowing rate as of January 1, 2019. The lease liability is subsequently measured at amortised cost using the effective interest rate method.

	December 31, 2019 Rupees	January 01, 2019 Rupees
Lease liability recognised	1,010,048,627	896,343,375

c) On adoption of IFRS 16, the associated right of use assets were measured at the amount equal to the lease liability, adjusted by the amount of prepaid lease payments recognised in the balance sheet immediately before the date of initial application. The right of use assets recognised subsequent to the adoption are measured based on the initial amount of the lease liability plus any initial direct costs incurred.

The right of use assets are depreciated on a straight line basis over the lease term as this method most closely reflects the expected pattern of consumption of future economic benefits. The right of use assets are reduced by impairment losses, if any, and adjusted for certain remeasurements of lease liability.

	December 31, 2019 Rupees	January 01, 2019 Rupees
Right of use Assets	938,753,610	929,533,700

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

Impact on Balance sheet

Increase in fixed assets - right-of-use assets	938,753,610	929,533,700
Decrease in other assets - advances, deposits and prepayments	(39,124,762)	(33,190,324)
Increase in other assets - advance taxation	20,675,555	-
Increase in total assets	920,304,403	896,343,375
Decrease in other liabilities - rent payable	-	-
Increase in other liabilities - lease liability against right-of-use assets	(1,010,048,627)	(896,343,375)
	(1,010,048,627)	(896,343,375)
Decrease in net assets	(89,744,224)	-

For the year ended December 31, 2019 Rupees

(Increase) / decrease in administrative expenses:	
- Depreciation on right of use assets	(151,729,753)
- Finance cost - lease liability of right of use assets	(131,791,957)
- Rent expense	-
- Termination of lease contracts under IFRS - 16 Leases	-
- IT software and supplies rent	173,101,931
Decrease in profit before tax	(110,419,779)
Decrease in tax	20,675,555
Decrease in profit after tax	(89,744,224)

Earnings per share for the year ended December 31, 2019 is Rs. 0.60 lower as a result of the adoption of IFRS 16.

While implementing IFRS 16, The Bank has used a single discount rate methodology for a portfolio of leases with similar characteristics.

	Note	2019 Rupees	2018 Rupees
8 CASH AND BALANCES WITH SBP AND NBP			
Cash in hand		560,336,948	374,339,561
Balances with State Bank of Pakistan	8.1	880,708,958	743,212,216
Balances with National Bank of Pakistan in			
Current account		28,836	28,836
Deposit accounts		42,337,402	3,326,989
		1,483,412,144	1,120,907,602

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	2019 Rupees	2018 Rupees
9 BALANCES WITH OTHER BANKS / NBFIs / MFBS			
In Pakistan			
Local currency current accounts	9.1	63,348,593	93,013,283
Local currency deposit accounts	9.2	3,286,294,366	3,306,030,964
Local currency term deposits	9.3	617,730,882	300,000,000
		<u>3,967,373,841</u>	<u>3,699,044,247</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 13.80% (2018: 5% to 10.30%) per annum.

9.3 Local currency term deposits include amount of Rs 617.7 Million (2018: Rs 300 million) which carry mark-up/profit from 13.5% to 14.25% (2018: 9.60%)

	Note	2019 Rupees	2018 Rupees
10 LENDING TO FINANCIAL INSTITUTIONS			
Call money lendings		-	2,025,000,000
Repurchase agreement lendings (Reverse repo)	10.1 & 10.2	-	497,202,000
		<u>-</u>	<u>2,522,202,000</u>

10.1 These were 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 NIL in 2019 (2018: 10.15% per annum).

10.2 Securities held as collateral against lending to financial institutions

	Held by Bank	Further given as collateral	Total
As at December 31, 2019			
Market treasury bills (MTBs)	-	-	-
As at December 31, 2018			
Market treasury bills (MTBs)	500,000,000	-	500,000,000

	Note	2019 Rupees	2018 Rupees
11 INVESTMENTS - NET OF PROVISIONS			
Held to maturity			
Federal Government securities			
Market Treasury Bills	11.1	1,191,609,401	599,040,701
Ijarah Sukuks	11.2	149,957,479	136,393,878
		<u>1,341,566,880</u>	<u>735,434,579</u>
Available for sale			
Federal Government securities			
Market treasury bills (MTBs)	11.4	243,649,000	-
Deficit on revaluation of available for sale investments		(7,000)	-
		<u>243,642,000</u>	<u>-</u>
Held for trading			
Mutual funds	10.4	5,209,113	2,723,263,405
		<u>1,590,417,993</u>	<u>3,458,697,984</u>

11.1 The T-Bills carry mark up at the rate of 13.05% to 13.13% (2018: 8.72% to 8.88%) per annum and are due to mature in January 2020.

11.2 Ijarah Sukuk carries mark up at the rate of 5.24%(2018: 5.59% to 6.10%) per annum and is due to mature in June 2020.

11.3 The T-Bills carry mark up at the rate of 13.40% per annum and are due to mature in March 2020.

11.4 This represents units held in funds as tabulated below:

	2019		2018	
	No. of Units	Rupees	No. of Units	Rupees
Alfalah GHP Money Market Fund	16,653	1,634,253	3,598,125	352,200,319
Alfalah GHP Sovereign Fund	107	12,141	-	-
Askari Sovereign Cash Fund	4,971	533,860	990,503	100,077,336
Atlas Money Market Fund	-	-	770,942	401,830,226
Faysal Money Market Fund	6,592	713,483	1,447,537	152,475,283
Faysal Financial Sector Opportunity Fund	192	20,865	-	-
Faysal Savings Growth Fund	-	-	-	-
First Habib Cash Fund	813	81,560	498,568	50,301,434
Lakson Money Market Fund	-	-	1,937,785	201,584,333
MCB Cash Management Optimizer	3,188	321,815	4,481,795	451,427,953
NAFA Money Market Fund	109,570	1,083,397	35,554,069	351,373,755
HBL Money Market Fund	6,732	731,226	-	-
HBL Cash Fund	-	-	4,569,345	461,364,021
Primus / AWT - Islamic Income Fund	8	865	-	-
UBL Liquidity Plus Fund	749	75,649	1,992,670	200,628,745
		<u>5,209,114</u>	<u>2,723,263,405</u>	

12 ADVANCES - NET OF PROVISION

Loan type	Note	2019		2018	
		Number	Rupees	Number	Rupees
Micro credit		330,461	21,915,522,516	383,854	20,638,998,148
Islamic financing		21,385	5,853,238,237	15,504	3,138,634,605
		<u>351,846</u>	<u>27,768,760,753</u>	<u>399,358</u>	<u>23,777,632,753</u>
Less: Provision held					
Specific	12.1	6,743	(141,715,892)	13,536	(238,020,546)
General	12.2		(256,433,405)		(228,490,379)
			(398,149,297)		(466,510,925)
Advances - net of provisions			<u>27,370,611,456</u>		<u>23,311,121,828</u>

12.1 Particulars of non performing loans

Advances include Rs 450 million (2018: 646 million) which as detailed below, have been placed under non performing status.

Category of classification	2019			2018		
	Amount outstanding	Provisions required	Provisions held	Amount outstanding	Provisions required	Provisions held
OAEM	195,885,182	-	-	144,865,634	-	-
Sub-Standard	85,232,812	20,403,360	20,403,360	168,877,107	42,219,276	42,219,277
Doubtful	90,811,814	43,791,191	43,791,191	272,785,681	136,061,026	136,061,026
Loss	78,471,559	77,521,341	77,521,341	59,740,244	59,740,244	59,740,244
	<u>450,401,367</u>	<u>141,715,892</u>	<u>141,715,892</u>	<u>646,268,666</u>	<u>238,020,546</u>	<u>238,020,546</u>

12.2 This represents general provision maintained against unsecured microcredit advances net of specific provision at the rate of 1 % (2018: 1%) in accordance with the requirement of Prudential Regulations issued by the State Bank of Pakistan.

12.3 Particulars of provision against non-performing advances

	2019			2018		
	Specific	General	Total	Specific	General	Total
Opening balance	238,020,546	228,490,379	466,510,925	21,554,081	206,830,435	228,384,516
Charge for the year	1,792,526,418	27,943,026	1,820,469,443	1,103,212,196	21,659,944	1,124,872,140
Amounts written off	(1,888,831,072)	-	(1,888,831,072)	(886,745,731)	-	(886,745,731)
Reversals	-	-	-	-	-	-
Closing balance	<u>141,715,892</u>	<u>256,433,405</u>	<u>398,149,296</u>	<u>238,020,546</u>	<u>228,490,379</u>	<u>466,510,925</u>

	Note	2019	2018
		Rupees	Rupees
12.4 Particulars of advances written off			
Against provisions		1,888,831,072	886,745,731
Directly charged to profit & loss account		24,571,874	29,984,417
		<u>1,913,402,946</u>	<u>916,730,148</u>

	Note	2019 Rupees	2018 Rupees
Capital work-in-progress	13.1	38,484,276	68,901,907
Property and equipment	13.2	930,042,808	890,543,261
Right of use assets	13.3	938,753,610	-
Intangible assets	13.4	116,033,339	49,162,202
		<u>2,023,314,033</u>	<u>1,008,607,370</u>

13.1 Capital work-in-progress

Civil works	13,903,268	41,637,619
ATM machines installation	-	2,803,902
Implementation of Oracle Financials	24,581,008	24,460,386
	<u>38,484,276</u>	<u>68,901,907</u>

13.2 Property and Equipment

Particulars	COST			ACCUMULATED DEPRECIATION			Net Book value as at December 31, 2019	Rate of depreciation (%)		
	As at January 01, 2019	Additions	Disposal	As at January 01, 2019	Charge for the year	Disposal				
Owned assets										
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
	<u>1,260,782,275</u>	<u>250,427,182</u>	<u>(11,595,872)</u>	<u>1,499,613,585</u>	<u>433,752,473</u>	<u>189,825,905</u>	<u>(10,609,596)</u>	<u>612,968,782</u>	<u>886,644,803</u>	
Leased assets										
Vehicles	115,687,331	1,222,232	-	116,909,563	52,173,872	21,337,686	-	73,511,558	43,398,005	20
	<u>1,376,469,606</u>	<u>251,649,414</u>	<u>(11,595,872)</u>	<u>1,616,523,148</u>	<u>485,926,345</u>	<u>211,163,591</u>	<u>(10,609,596)</u>	<u>686,480,340</u>	<u>930,042,808</u>	

Particulars	COST			ACCUMULATED DEPRECIATION			Net Book value as at December 31, 2018	Rate of depreciation (%)		
	As at January 01, 2018	Additions	Disposal	As at January 01, 2018	Charge for the year	Disposal				
Owned assets										
Freehold land	-	253,090,088	-	253,090,088	-	-	-	253,090,088	-	
Furniture and fixtures	230,099,632	123,681,896	(105,862)	353,675,666	57,766,933	28,460,777	(72,038)	86,155,672	267,519,994	10
Office equipment	182,674,110	81,444,426	(5,075,782)	259,042,754	81,322,216	38,584,879	(4,981,074)	114,926,021	144,116,733	20
Computer equipment	271,249,157	72,709,572	(5,307,640)	338,651,089	143,167,167	70,179,842	(4,986,287)	208,360,722	130,290,367	33.33
Vehicles	33,048,416	27,082,549	(3,808,287)	56,322,678	19,543,564	8,098,734	(3,332,240)	24,310,058	32,012,620	20
	<u>717,071,315</u>	<u>558,008,531</u>	<u>(14,297,571)</u>	<u>1,260,782,275</u>	<u>301,799,880</u>	<u>145,324,232</u>	<u>(13,371,639)</u>	<u>433,752,473</u>	<u>827,029,802</u>	
Leased assets										
Vehicles	87,100,413	28,586,918	-	115,687,331	32,551,851	19,622,021	-	52,173,872	63,513,459	20
	<u>804,171,728</u>	<u>586,595,449</u>	<u>(14,297,571)</u>	<u>1,376,469,606</u>	<u>334,351,731</u>	<u>164,946,253</u>	<u>(13,371,639)</u>	<u>485,926,345</u>	<u>890,543,261</u>	

13.2.1 Cost of fully depreciated property and equipment that are still in use is Rs 316.3 million (2018: Rs 131 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	2019 Rupees	2018 Rupees
13.3 Right of use assets			
Right of use assets - Initial Recognition under IFRS-16		896,343,375	-
Additions during the period		194,139,987	-
Deletions during the year			-
Depreciation charged during the period		(151,729,753)	-
Net book value at the end		<u>938,753,610</u>	<u>-</u>

13.3 Intangible assets

Computer softwares	13.4.1	116,033,339	49,162,202
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13.4.1 Computer softwares

Cost

Opening balance		264,909,230	220,106,206
Additions during the year		100,159,937	44,803,024
Closing balance		<u>365,069,167</u>	<u>264,909,230</u>

Amortization

Opening balance		(215,747,028)	(177,329,590)
Charge for the year		(33,288,800)	(38,417,438)
Closing balance		<u>(249,035,828)</u>	<u>(215,747,028)</u>

Net book value

		<u>116,033,339</u>	<u>49,162,202</u>
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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 210 million (2018: Rs 155 million).

14 OTHER ASSETS

	Note	2019 Rupees	2018 Rupees
Income / mark-up accrued on			
Loans and Advances		2,307,559,543	1,743,606,173
Bank deposits		17,019,687	9,587,582
Lending to financial institutions		-	2,911,746
Advances to employees			
Personal advances - net of provision	14.1	141,278,790	163,924,139
Operational		16,225,253	3,769,051
Advances to suppliers		14,959,314	73,979,406
Prepayments		60,311,106	109,294,320
Income tax refundable (payments less provisions)		78,938,495	18,726,159
FED/Sales tax refundable		864,819	26,705,615
Fair value of derivative financial instrument		250,634,032	297,629,379
Insurance claims receivables		82,621,905	65,941,894
Crop and livestock insurance claims	14.2	268,977,801	434,578,460
Receivable from Employees' Provident Fund		-	6,174,422
Receivable from parent company		171,532	-
Others		98,908,154	179,728,848
		<u>3,338,470,431</u>	<u>3,136,557,194</u>
Less : Provisions held against classified other assets		-	-
Other assets - net of provisions		<u>3,338,470,431</u>	<u>3,136,557,194</u>

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	2019	2018	2019	2018
Advances against Salary		14.40%	10.40%	33,192,375	45,170,076
Advances for house		KIBOR + 1%	KIBOR + 1%	60,946,405	63,198,443
Advances for cars	14.1.1	5%	5%	42,939,388	52,269,839
Advances for motorcycles	14.1.1	5%	5%	1,018,068	1,036,161
Other personal advances				3,182,554	2,744,596
				<u>141,278,790</u>	<u>164,419,115</u>
Less provision held					
Specific				-	(44,650)
General				-	(450,326)
				-	(494,976)
				<u>141,278,790</u>	<u>163,924,139</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 7.56% to 13.11% (2018: 7.56% to 13.38%) per annum however interest rate charged to the employee is fixed at 5% (2018: 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	2018 Rupees	2018 Rupees
Deferred tax asset arising on account of deductible temporary differences on:			
Amortization on intangible assets		-	2,001,250
Lease liability		306,514,673	20,739,415
Grants		1,002,624	2,700,676
Un-realized exchange loss on borrowings		72,279,020	63,611,100
Provision for non-performing loans		115,463,296	130,723,658
Minimum tax		112,029,283	-
		<u>607,288,896</u>	<u>219,776,099</u>

Deferred tax liability arising on account of taxable temporary differences on:

Accelerated depreciation allowance - owned assets	(12,822,569)	(22,342,887)
Accelerated depreciation allowance - leased assets	(284,823,968)	(17,530,990)
Amortization on intangible assets	(1,069,625)	-
Un-realized gain on derivative financial instrument	(72,683,869)	(83,336,225)
Un-realised mark-up on Government Securities	(4,218,168)	(1,998,510)
Un-realised mark-up on capital gains on Mutual Funds	-	(1,119,947)
	<u>(375,618,199)</u>	<u>(126,328,559)</u>
	<u>231,670,697</u>	<u>93,447,540</u>

16 DEPOSITS AND OTHER ACCOUNTS

	2019		2018	
	No of accounts	Rupees	No of accounts	Rupees
Conventional				
Current deposits	302,646	1,621,850,588	215,372	1,266,901,893
Saving deposits	796,327	5,135,405,820	798,206	4,555,376,409
Fixed deposits	5,939	16,592,973,673	3,423	18,478,829,522
	<u>1,104,912</u>	<u>23,350,230,081</u>	<u>1,017,001</u>	<u>24,301,107,824</u>
Islamic				
Current deposits	42,890	651,289,200	26,241	363,153,549
Saving deposits	20,685	1,174,911,369	19,498	760,050,330
Fixed deposits	1,370	1,474,231,402	484	838,863,425
	<u>64,945</u>	<u>3,300,431,971</u>	<u>46,223</u>	<u>1,962,067,304</u>
	<u>1,169,857</u>	<u>26,650,662,052</u>	<u>1,063,224</u>	<u>26,263,175,128</u>

16.1 Particulars of Deposits by ownership

Individual depositors	1,167,707	12,600,966,848	1,061,842	8,222,220,838
Institutional depositors				
Corporation / firms etc.	2,015	11,621,668,069	1,167	12,250,200,835
Banks & financial institutions	135	2,428,027,135	215	5,790,753,455
	<u>2,150</u>	<u>14,049,695,204</u>	<u>1,382</u>	<u>18,040,954,290</u>
Total	<u>1,169,857</u>	<u>26,650,662,052</u>	<u>1,063,224</u>	<u>26,263,175,128</u>

16.2 Deposits include related parties balances amounting to Rs 3,990 million (2018: Rs 4,062 million) as disclosed in note 35.

17 BORROWINGS

	Note	2019 Rupees	2018 Rupees
Borrowings from Banks / Financial Institutions			
In Pakistan	17.1	2,990,058,762	3,374,617,381
Outside Pakistan	17.2	774,238,000	1,157,182,500
		<u>3,764,296,762</u>	<u>4,531,799,881</u>

17.1 Borrowings from Banks / Financial Institutions in Pakistan

Secured

Pak Oman Investment Company Limited (TF II)	17.1.1	-	80,000,000
Pak Oman Investment Company Limited	17.1.2	166,666,664	277,777,776
United Bank Limited (Term Finance)	17.1.3	-	70,000,000
Allied Bank Limited (Term Finance)	17.1.4	175,000,000	200,000,000
United Bank Limited (Running Finance)	17.1.5	700,651,757	749,253,420
Askari Bank Limited (Running Finance)	17.1.6	300,000,330	349,202,623
Allied Bank Limited (Running Finance)	17.1.7	199,842,393	150,002,596
Faysal Bank Limited (Running Finance)	17.1.8	450,000,405	498,380,966
National Bank of Pakistan (Running Finance)	17.1.9	997,897,213	1,000,000,000
Bank Alfalah Ltd (Running Finance)	17.1.10	-	-
		<u>2,990,058,762</u>	<u>3,374,617,381</u>

17.1.1 The Bank entered into a loan agreement amounting to Rs 800 million with Pak Oman Investment Company Limited to finance its operations. The principal amount was repaid in ten equal-semi annual installments of Rs 80 million each commencing from October 16, 2014 and culminated in April 2019. Markup was charged at the rate of six months KIBOR+1.85% per annum and paid on semi-annual basis.

The loan was secured through a guarantee issued by the SBP under Microfinance Credit Guarantee Facility (MCGF) in favor of the Pak Oman Investment Company Limited for 40% of the outstanding principal and a first hypothecation charge pari passu with all prior charges 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 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.

17.1.3 The Bank entered into a loan agreement amounting to Rs 300 million with United Bank Limited to finance its operations. The principal amount was repaid in six equal semi-annual installments of Rs 50 million each commencing from November 30, 2016 and culminated in November 2019. Markup was charged at the rate of six months KIBOR+2% per annum and paid on semi-annual basis.

This loan was 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.

17.1.4 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.

17.1.5 The Bank entered into a running finance facility agreement initially amounting to Rs 300 million with United Bank Limited to finance its operations. However, in February 2018 the facility was enhanced upto Rs. 750 million on the same terms and conditions as applicable to the earlier facility. The principal amount is repayable at the end of terms and carries markup at the rate of three month KIBOR+1% per annum. As at year end the facility has been availed upto Rs 700.65 million (2018: 749 million).

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.

17.1.6 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 one 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. 300 million (2018: Rs 349 million).

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.

17.1.7 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. 199.8 million (2018: Rs 150 million).

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.

17.1.8 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 450 million (2018: Rs 498 million).

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.

17.1.9 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. 998 million (2018: Rs 1,000 million).

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.

17.1.10 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 + 1.25% 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 not availed (2018 : Rs Nil).

This loan 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.

17.2 Borrowings from Banks / Financial Institutions outside Pakistan

	Note	2018 Rupees	2017 Rupees
ECO Trade & Development Bank	17.2.1	774,238,000	1,157,182,500
		<u>774,238,000</u>	<u>1,157,182,500</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	2019 Rupees	2018 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	2019 Rupees	2018 Rupees
Mark-up / return / interest payable on			
Deposits and other accounts		795,855,275	706,951,339
Borrowings	19.1	372,743,112	235,089,697
Payable for employees' benefit plans			
Employees' gratuity fund	19.2	304,390,486	250,264,276
Accumulated compensated absences	19.3	166,351,211	142,445,966
Provident Fund	19.4	401,403	-
Payable to employees' - final settlement		-	4,388,718
Obligation under finance lease			
Company's vehicles	19.5	27,381,593	43,245,213
Vehicles sub-leased to employees'	19.5	19,516,928	30,824,128
Right-of-use asset	19.6	1,010,048,627	-
		1,056,947,148	74,069,341
Payable to suppliers		17,843,194	920,013
Withholding tax payable		84,461,775	23,458,573
Sindh Workers' Welfare Fund		4,741,385	3,404,783
Accrued expenses		44,754,751	31,695,732
Security deposits against Islamic financing		586,288,969	376,890,571
Payable to the parent company		34,859,640	29,034,097
Insurance payable		38,238,402	34,344,066
Unearned / deferred income on Islamic financing		521,509,841	219,289,654
Unearned / deferred income on ATM and SMS services		55,692,298	-
Bills payable		143,569,844	132,613,793
Others		1,670,356	10,632,191
		<u>4,230,319,090</u>	<u>2,275,492,810</u>

19.1 This includes markup payable amounting to Rs 304.582 million (2018: Rs 199.1 million) in respect of subordinated loan from a shareholder.

19.2 Employees' gratuity fund

The latest actuarial valuation was carried out at December 31, 2019 on the basis of which, amounts recognised in financial statements in respect of employees' gratuity fund as at December 31, 2019 are as follow:

	2019 Rupees	2018 Rupees
i) Amounts recognized in the balance sheet		
Present value of defined benefit obligation	364,433,735	321,474,221
Fair value of plan assets	(88,808,949)	(79,986,370)
Benefits due but not paid	28,765,700	8,776,426
Net liability	<u>304,390,486</u>	<u>250,264,277</u>
ii) Amounts recognized in the profit and loss account		
Current service cost	97,523,813	80,550,131
Interest cost	38,802,660	20,575,121
Expected return on plan assets	(7,446,082)	(7,127,513)
	<u>128,880,391</u>	<u>93,997,739</u>
iii) Remeasurements chargeable to other comprehensive income		
Actuarial gains from changes in financial assumptions	2,601,992	4,881,812
Experience adjustments	12,218,852	12,270,344
Return on plan assets, excluding interest income	1,376,497	2,167,593
	<u>16,197,341</u>	<u>19,319,749</u>
iv) Changes in present value of defined benefit obligation		
Opening defined benefit obligation	321,474,221	229,963,632
Current service cost for the year	97,523,813	80,550,131
Interest cost for the year	38,802,660	20,575,121
Adjustment for opening payables	(513,709)	(66,504)
Benefits due but not paid	(26,366,307)	(7,680,419)
Benefits paid during the year	(51,666,099)	(19,019,896)
Remeasurements:		
Actuarial gains from changes in financial assumptions	(2,601,992)	4,881,812
Experience adjustments	(12,218,852)	12,270,344
	<u>364,433,735</u>	<u>321,474,221</u>
v) Changes in fair value of plan assets		
Opening fair value of plan assets	79,986,370	75,026,451
Interest income on plan assets	7,446,082	7,127,513
Return on plan assets, excluding interest income	1,376,497	(2,167,593)
Closing fair value of plan assets	<u>88,808,949</u>	<u>79,986,370</u>
vi) Changes in net liability as follows:		
Opening defined benefit obligation	250,264,277	159,611,984
Amounts recognized in the profit and loss account	128,880,391	93,997,739
Remeasurements chargeable in other comprehensive Income	(16,197,341)	19,319,749
Benefits paid	(58,556,841)	(22,665,195)
	<u>304,390,486</u>	<u>250,264,277</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:

	2019	2018
Discount rate - per annum	11.75%	13.75%
Expected rate of increase in salaries - per annum	10.75%	12.75%
Mortality rate	SLIC 2001 - 2005	SLIC 2001 - 2005
Average expected remaining working life of employees	10 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	(33,904,792)	40,892,557
Expected impact of change in rate of increment in salaries	41,920,192	(35,393,617)

x) Based on actuarial advice, expense to be charged in profit and loss account during financial year 2020 in respect of employees' gratuity scheme is estimated to be Rs 128 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:

	2019 Rupees	2018 Rupees
i) Amounts recognized in the balance sheet		
Present value of accumulated compensated absences	151,481,402	137,091,032
Benefits due but not paid	14,869,809	5,354,935
Net liability	<u>166,351,211</u>	<u>142,445,967</u>
ii) Amounts recognized in the profit and loss account		
Current service cost	29,121,920	29,590,876
Past service cost due to change in rule	-	-
Adjustment for opening payables	11,874	44,790
Interest cost	5,961,786	8,702,887
Remeasurement adjustment	16,304,765	14,466,366
	<u>51,400,345</u>	<u>52,804,919</u>

	2019 Rupees	2018 Rupees
iii) Changes in present value of defined benefit obligation		
Opening defined benefit obligation	137,091,032	98,977,361
Current service cost for the year	29,121,920	29,590,876
Adjustment for opening payables	11,874	44,790
Interest cost for the year	16,304,765	8,702,887
Benefits due but not paid	(13,733,943)	(4,803,515)
Benefits paid during the year	(23,276,031)	(9,887,733)
Actuarial loss recognised	(1,118,228)	2,126,026
Experience adjustment	7,080,013	12,340,340
Closing defined benefit obligation	151,481,402	137,091,032

	2019	2018
iv) Significant actuarial assumptions were as follows:		
Discount rate - per annum	11.75%	13.75%
Expected rate of increase in salaries - per annum	10.75%	12.75%
Mortality rate	SLIC 2001- 2005	SLIC 2001- 2005
Average expected remaining working life of employees	10 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	(13,461,244)	16,229,353
Expected impact of change in rate of increment in salaries	15,779,312	(13,273,200)

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 un-audited financial statements for the year ended December 31, 2019 are as follows:

	2019 (Un-Audited) Rupees	2018 (Audited) Rupees
Size of the fund	431,299,399	368,727,162
Cost of investments made	461,998,890	353,881,779
Fair value of investments made	461,998,890	353,881,779
%age of investments made	107.12%	95.97%

Breakup of investment - at cost	2019		2018	
	Rupees	Percentage	Rupees	Percentage
Term deposits with banks	440,000,000	95.24%	300,000,000	84.77%
Saving deposits with banks	21,998,890	4.76%	53,881,779	15.23%
	461,998,890	100%	353,881,779	100%

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 7.71% to 16.37% (2018: 7.56% to 13.38%) p.a.

	2019 Rupees	2018 Rupees
Finance lease liabilities against vehicles		
<i>Minimum lease payments:</i>		
Not later than one year	27,153,843	30,094,301
Later than one year but not later than five years	30,938,817	58,759,864
	<u>58,092,660</u>	<u>88,854,165</u>
Less: Finance cost allocated to future period	(11,194,139)	(14,784,824)
	<u>46,898,521</u>	<u>74,069,341</u>
<i>Present value of minimum lease payments</i>		
Not later than one year	20,569,739	25,083,032
Later than one year but not later than five years	26,328,782	48,986,309
	<u>46,898,521</u>	<u>74,069,341</u>

19.6 Lease liability on right of use asset:

Lease liability on right of use asset - Initial Recognition under IFRS-16	863,153,050	-
Additions during the period	188,205,550	-
Finance cost on lease liability on right of use asset	131,791,957	-
Payment of lease liability on right of use asset	(173,101,930)	-
Net book value at the end	<u>1,010,048,627</u>	<u>-</u>

20 SHARE CAPITAL

20.1 Authorized capital

2019 Number	2018 Numbers		2019 Rupees	2018 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>

20.1 Issued, subscribed and paid-up capital

2019 Number	2018 Numbers		2019 Rupees	2018 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:

2019 Number	2018 Numbers		2019 Rupees	2018 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
149,837,201	149,837,201		1,498,372,010	1,498,372,010

21 DEFERRED GRANTS

	Note	2019 Rupees	2018 Rupees
Opening balance		9,645,271	1,780,282
Grants received from			
SBP	21.1	2,239,565	1,027,180
KfW	21.2	14,809,162	17,315,395
		17,048,727	18,342,575
Amortization of grants during the year		(23,236,675)	(10,477,586)
		3,457,323	9,645,271

21.1 This represents grant received from State Bank of Pakistan (SBP) under the National Financial Literacy Program (NFLP) for activities related to financial inclusion and under the Financial Innovation Challenge Fund (FCIF) 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.

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 with certain directions to process under the relevant provisions of the law. The appeal effect order is however awaited from the Inland Revenue department till date.
- 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

period, disallowance of provision against non performing loans, bad debts written off etc. and created an aggregate tax demand of Rs 362 million. The Bank filed appeal against the order of ADCIR before CIR (A) who remanded the case back to ADCIR for reassessment. The Bank has preferred appeal against the decision of CIR (A) before the Appellate Tribunal, Inland Revenue (ATIR) which is pending for adjudication.

- iii) The income tax assessment for the tax year 2014 was amended by the ACIR and tax demand of Rs 23 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 decide 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 has 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 is pending to date.
- vi) 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 104 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.
- vi) The income tax assessment for the tax year 2017 was amended by the ADCIR and tax demand of Rs 22 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) which is pending adjudication.
- vii) For the tax period 2012, 2013, 2014, 2015 and 2018 Punjab Revenue Authority (PRA) issued notices for alleged inadmissible input tax credit claimed of Rs. 86 million without apportionment a same between taxable services and non taxable services. Bank had responded to the said notices per Bank contention.
- viii) For the tax period 2016 and 2017 PRA issued notices in relation to unlawful adjustment of input tax amounting to Rs. 69 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.

- ix) The Bank is defending its stance in various tax proceedings for alleged non/short withholding of tax of which proceedings are not yet culminated.

The management of the Bank is of the view that ultimate outcome of the proceedings in respect of cases referred to in (i) to (ix) above are expected to be favorable to the Bank. The management further believes that liability, if any, arising on the settlement of the aforementioned cases is not likely to be material.

22.2 Commitments:

There are no known material capital and other commitments as at December 31, 2019 (2018: Nil).

	Note	2019 Rupees	2018 Rupees
23 MARK-UP / RETURN / INTEREST EARNED			
Interest / mark-up on			
Advances		6,015,788,575	5,579,247,088
Lending to financial institutions		60,608,989	38,708,715
Investments in government securities		126,375,818	63,896,404
Deposits accounts, placements with other bank / financial institutions		378,883,318	201,273,086
Employees' loan		9,484,995	3,870,249
Profit on Islamic financing		932,856,518	444,532,648
		7,523,998,213	6,331,528,190
24 MARK-UP / RETURN / INTEREST EXPENSED			
Deposits	24.1	2,695,981,433	1,766,687,131
Profit Sharing Islamic Deposits		225,500,020	141,932,846
Borrowings	24.2	328,892,550	274,180,948
Ammortization of loan processing fee on borrowings		6,888,695	26,592,535
Finance lease charges		141,118,750	8,173,251
Other costs of deposits		3,215,325	8,792,903
		3,401,596,773	2,226,359,614
24.1	Mark-up expense on deposits includes amount of Rs 500.7 million (2018: 256.4 million) in respect of deposit account balances of related parties as disclosed in note 35.		
24.2	It includes an amount of Rs 105.531 million (2018: Rs 69.54 million) in respect of markup expense on subordinated loan from a shareholder.		
25 FEE, COMMISSION AND BROKERAGE INCOME			
Loan processing fee on advances		635,888,147	550,064,662
Other banking services fee		82,835,052	169,127,449
Commission Income		4,855,244	3,404,061
		723,578,443	722,596,172

	Note	2019 Rupees	2018 Rupees
26 OTHER INCOME - NET			
Investment income		32,053,882	38,095,813
Amortization of deferred grant	21	23,236,675	10,477,586
Gain on disposal of fixed assets - Annexure I		1,470,341	3,573,264
Unrealized gain on derivative financial instrument		(85,020,763)	202,478,746
Unrealized exchange loss on borrowings		32,944,500	(227,182,500)
Write off recovered		351,657,638	69,543,053
Other services income		5,669,753	5,275,980
		<u>362,012,026</u>	<u>102,261,942</u>
27 ADMINISTRATIVE EXPENSES			
Staff salaries and benefits		1,780,995,805	1,559,805,161
Charge for defined benefit plans		180,280,736	146,802,658
Contribution for defined contribution plan		70,700,906	58,166,201
Non-Executive directors' fee		4,531,950	4,436,135
Trainings		34,280,494	30,179,309
Legal and professional charges		37,736,947	17,833,591
Communication	27.1	85,322,957	88,868,657
Postage, courier etc.		17,437,551	14,823,640
Verification fee	27.1	36,732,144	49,309,466
Repair and maintenance		24,399,598	15,357,424
Stationary and printing		83,430,798	52,696,699
Advertisement and publicity		20,948,828	7,767,017
Depreciation	13.2	362,893,343	164,946,253
Amortization	13.3	33,288,799	38,417,438
Staff travel		27,180,906	29,137,232
Fuel and power		83,886,468	68,586,407
Vehicle running and maintenance		28,076,039	20,380,988
Office supplies		9,758,622	8,510,353
Meetings and conferences		25,033,178	26,251,505
Utilities		71,669,832	50,342,749
Rent expenses		-	145,500,746
Flex Cube Maintenance Fee		63,818,436	55,034,677
Insurance expenses		139,931,369	116,199,680
Security and administration		100,336,600	89,761,719
Donations	27.2	381,087	540,990
Auditor's remuneration	27.3	5,259,260	3,237,500
Corporate social responsibility		496,394	378,177
Financial charges on leased vehicles		-	12,772
Miscellaneous expenses		24,896,359	18,446,014
		<u>3,353,705,406</u>	<u>2,881,731,158</u>

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

27.2 This represents donations to Social Welfare and Bait-ul-Maal, Bahawalpur. The directors / executives of the Bank, or their spouses have no interest in the donee.

	Note	2018 Rupees	2017 Rupees
27.3 Auditor's remuneration			
Annual audit		990,000	900,000
Interim review		500,000	-
Special purpose financial statements and group reporting		1,765,000	1,100,000
Special certifications etc.		1,812,500	775,000
Out of pocket expenses		191,760	462,500
		<u>5,259,260</u>	<u>3,237,500</u>
28 OTHER CHARGES			
Penalties imposed by the State Bank of Pakistan		27,000	853,250
Provision for Sindh Workers' Welfare Fund		1,336,601	2,438,304
		<u>1,363,601</u>	<u>3,291,554</u>
29 TAXATION			
Current tax			
Current year		141,295,045	337,865,084
Prior year		-	77,833,621
		<u>141,295,045</u>	<u>415,698,705</u>
Deferred tax		<u>(138,223,157)</u>	<u>(108,064,519)</u>
		<u>3,071,889</u>	<u>307,634,186</u>
		2019 %	2018 %
29.1 Reconciliation of average tax rate and applicable tax rate			
Applicable tax rate		29.00	29.00
Effect of change in rate			1.00
Income charged at different tax rate		(28.17)	(1.56)
Penalties		0.01	0.03
Remeasurement		(5.38)	(0.62)
Super tax		-	5.12
Prior year tax due to NPLs		-	6.07
Others		8.06	(3.72)
Average effective tax rate		<u>3.52</u>	<u>35.32</u>
30 EARNINGS PER SHARE		2019	2018
Profit after taxation	Rupees	84,310,381	590,916,525
Weighted average ordinary shares	Number	149,837,201	149,837,201
Basic and diluted earning per share	Rupees	0.56	3.94

	Note	2019 Rupees	2018 Rupees
31 CASH AND CASH EQUIVALENTS			
Cash and balances with SBP and NBP	8	1,483,412,144	1,120,907,602
Balances with other banks / NBFIs / MFBS	9	3,967,373,841	3,699,044,247
Call money lendings	10	-	2,025,000,000
		<u>5,450,785,985</u>	<u>6,844,951,849</u>

	Credit/ sales staff	Banking /support staff Numbers	Total
32 NUMBER OF EMPLOYEES			
For the year ended December 31, 2019			
Permanent	1,786	794	2,580
Temporary / contractual	212	44	256
	<u>1,998</u>	<u>838</u>	<u>2,836</u>
For the year ended December 31, 2018			
Permanent	1,694	1,016	2,710
Temporary / contractual	510	177	687
	<u>2,204</u>	<u>1,193</u>	<u>3,397</u>

33 NUMBER OF BRANCHES/SERVICE CENTRES

	2019		2018	
	Branches Numbers	Service centers	Branches Numbers	Service centers
Branches at beginning of the year	143	-	104	1
Add: Opened during the year	15	-	39	-
Less: Closed / merged during the year	(4)	-	-	(1)
As at end of the year	<u>154</u>	<u>-</u>	<u>143</u>	<u>-</u>

34 REMUNERATION OF DIRECTORS AND EXECUTIVES

	President / CEO		Executives	
	2019 Rupees	2018 Rupees	2019 Rupees	2018 Rupees
Short-term employee benefits				
Fees / Managerial remuneration	10,141,092	9,774,540	181,634,970	150,178,405
Rent and house maintenance	4,563,492	4,398,540	81,735,336	67,580,538
Utilities	1,014,108	977,460	18,163,526	15,018,014
Conveyance	1,014,108	977,460	18,163,526	15,018,014
Medical	38,750	39,182	3,903,340	3,629,984
Other allowances	-	-	11,174,586	10,409,798
Leave encashment	697,200	1,284,000	12,080,898	19,739,951
Bonus	-	-	42,295,337	37,984,389
Termination benefits				
Charge for defined benefit plan	1,400,900	1,291,800	25,374,053	20,790,977
Contribution to defined contribution plan	1,026,326	933,820	16,955,856	13,829,574
	<u>19,895,976</u>	<u>19,676,802</u>	<u>411,481,428</u>	<u>354,179,644</u>
Number of persons	<u>1</u>	<u>1</u>	<u>164</u>	<u>142</u>

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 4.4 million (2018: Rs 4.72 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 financial 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. Other related parties include staff retirement benefits, directors, key management personnel which include CEO and Head of Departments (HOD's) and entities under common directorship. 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	2019 Rupees	2018 Rupees
National Rural Support Program (NRSP) Payment including lease rentals/ advance rent	Parent Company	3,263,142	2,076,980
KfW Germany Subordinated loan received	Shareholder	-	-
Markup accrued on sub-ordinated loan		105,531,198	69,536,591
Grant received		5,519,722	17,315,395
Institute of Rural Management (IRM) Funds deposited	Parent Company's Subsidiary	408,799,513	400,510,000
Funds withdrawn		425,510,968	418,548,400
Payment of profit on deposits		18,081,234	17,678,847
Employees' Gratuity Fund Funds deposited	Employees' Trust	-	-
Funds withdrawn		-	-
Payment of profit on deposits		9,325,503	4,959,920
Expense charged in respect of gratuity fund		128,880,391	93,997,739
Employees' Provident Fund Trust Funds deposited including terms deposit roll overs	Employees' Trust	901,442,272	614,307,136
Funds withdrawn including term deposits maturity		837,889,527	541,309,469
Payment of profit on deposits		35,338,026	22,450,614
Bank's contribution paid to the fund		70,700,906	58,166,201
Expense charged in respect of employer's contribution		70,700,906	58,166,201
Employees' Welfare Trust Funds deposited	Employees' Trust	23,508,117	7,169,766
Funds withdrawn		16,101,102	7,248,255
Payment of profit on deposits		2,269,868	1,154,138
Employee Housing Colony Funds deposited	Employees' Trust	4,238,533	2,267,230
Funds withdrawn		4,365,558	2,430,626
Payment of profit on deposits		150,379	92,672
NRSP Contributory Provident Fund Funds deposited	Parent Company's Employees' Trust	879,654,057	822,370,604
Funds withdrawn		752,135,584	714,945,545
Payment of profit on deposits		59,440,120	12,780,866
NRSP Employees Gratuity Fund Trust Funds deposited	Parent Company's Employees' Trust	1,180,148,247	1,140,982,460
Funds withdrawn		1,235,925,851	1,003,881,702
Payment of profit on deposits		89,123,187	21,722,682

		2019 Rupees	2018 Rupees
Transactions during the year:	Relationship with related party		
NRSP Natural Resource Management	Parent Company's Project		
Funds deposited		228,914	252,450
Funds withdrawn		160,820	106,310
Payment of profit on deposits		5,634	2,673
Rural Support Programmes Network (RSPN)	Common Directorship		
Funds deposited		1,443,246,576	950,209,658
Funds withdrawn		1,981,740,616	1,000,165,587
Payment of profit on deposits		63,502,811	49,924,686
Sindh Rural Support Organization (SRSO)	Common Directorship		
Funds deposited		1,978,598,927	2,122,068,065
Funds withdrawn		2,088,268,509	2,150,361,603
Payment of profit on deposits		115,907,015	102,879,287
SRSO UC BPRP Enterprise	Common Directorship		
Funds deposited		3,325,692	5,153,094
Funds withdrawn		5,000,600	4,212,233
Payment of profit on deposits		150,003	96,661
Ghazi Barotha Tarqiati Idara	Common Directorship		
Funds deposited		619,827,918	1,273,882,908
Funds withdrawn		628,594,409	1,092,602,014
Payment of profit on deposits		80,871,166	12,616,135
BRSP Endowment Funds	Common Directorship		
Funds deposited		843,239,795	500,000,000
Funds withdrawn		880,293,785	360,167,708
Payment of profit on deposits		24,504,788	9,534,972
Pakistan Microfinance Network	Common Directorship		
Funds deposited		32,033,261	40,463,808
Funds withdrawn		64,066,622	50,927,616
Profit on deposits		2,033,261	463,808
Dubai Islamic Bank Limited (DIBL)	Common Directorship		
Funds deposited with DIBL		1,790,864,117	1,983,937,734
Funds withdrawn from DIBL		2,030,064,703	2,485,108,300
Profit on deposits received from DIBL		19,937,450	26,404,263
Silk Bank Limited (SBL)	Common Share holder		
Funds deposited with SBL		8,690,273,074	6,036,470,082
Funds withdrawn from SBL		8,823,161,394	5,916,156,932
Profit on deposits received from SBL		77,441,896	33,690,819
Bank Alfalah (BAFL)	Common Share holder		
Funds deposited with BAFL		800,000,000	-
Funds withdrawn from BAFL		800,005,295	-
Call money lending to BAFL		3,631,016,050	2,573,771,950
Repayments received from BAFL		4,128,218,050	2,076,569,950
Profit on call money lending received from BAFL		5,688,987	5,165,943
Balances outstanding as at June 30			
Payable to NRSP	Parent Organisation	34,859,640	29,034,098
Sub-ordinated Debt from KfW	Shareholder	672,360,000	672,360,000
Markup accrued on Sub-ordinated Debt from KfW	Shareholder	304,582,712	199,051,514
Bank balance with Dubai Islamic Bank Limited	Common Directorship	28,669,997	247,933,134
Markup receivable from Dubai Islamic Bank Limited	Common Directorship	275,639	1,673,420
Payable to employees' gratuity fund	Employees' Trust	-	250,264,276
Receivable from employees' provident fund	Employees' Trust	-	6,174,422
Balance Maintained with Silk Bank Limited	Common Share holder	490,212,707	553,005,099
Markup receivable from Silk Bank Limited	Common Share holder	-	4,260,822
Balance Maintained with Bank Alfalah Limited	Common Share holder	3,389	8,683
Call Money Lending to Bank Alfalah Limited	Common Share holder	-	497,202,000
Pakistan Microfinance Network	Common Directorship	-	477,441

Transactions during the year:

Relationship with related party

Deposits accounts contain amounts relating to following related parties:

Transactions during the year:	Relationship with related party	2019 Rupees	2018 Rupees
Institute of Rural Management (IRM)	Parent Company's Subsidiary	201,379,301	200,009,522
Employees' Gratuity Fund	Employees' Trust	89,311,873	79,986,370
Employees' Provident Fund Trust	Employees' Trust	457,690,160	358,799,390
Employees' Welfare Trust	Employees' Trust	28,703,595	19,026,713
Employee Housing Colony	Employees' Trust	1,484,824	1,461,470
NRSP Contributory Provident Fund	Parent Company's Employees' Trust	544,129,128	357,170,535
NRSP Employees Gratuity Fund Trust	Parent Company's Employees' Trust	624,969,339	591,623,756
NRSP Rohi Handlooms	Parent Company's Project	3,043	2,762
NRSP Natural Resource Management	Parent Company's Project	479,204	405,476
Rural Support Programmes Network (RSPN)	Common Directorship	8,771	475,000,000
Sindh Rural Support Organization (SRSO)	Common Directorship	1,045,940,539	1,039,703,106
SRSO UC BPRP Enterprise	Common Directorship	412,554	1,937,459
Ghazi Barotha Tarqiati Idara	Common Directorship	707,401,030	635,296,355
BRSP Endowment Funds	Common Directorship	250,853,963	250,062,453
Pakistan Microfinance Network	Common Directorship	-	30,000,100
Key management personnel		36,903,904	21,566,955

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.

	Level 1 in Rupees	Level 2 in Rupees	Level 3 in Rupees
December 31, 2019			
Financial assets measured at fair value			
Held for trading investments - Units of mutual funds	-	5,209,113	
Fair value of derivative financial instruments	-		250,634,032
	-	5,209,113	250,634,032
December 31, 2018			
Financial assets measured at fair value			
Held for trading investments - Units of mutual funds	-	2,723,263,405	-
Fair value of derivative financial instruments	-		297,629,379
	-	2,723,263,405	297,629,379

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 SCHEDULE OF MATURITY OF MARKET RATE ASSETS AND LIABILITIES

	Total	Upto one month	Over one month upto six months Rupees	Over six months upto one year	Over one year
As at December 31, 2019					
Market rate assets					
Advances - net of provision	27,370,611,456	2,072,559,139	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	42,337,402	42,337,402	-	-	-
Balances with other banks on saving deposits	3,904,025,248	3,904,025,248	-	-	-
Total market rate assets	32,907,392,101	7,215,733,305	14,237,396,466	5,050,850,776	6,403,411,554
Other non-earning assets					
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	-	-	-	231,670,697
Total non-earning assets	7,097,878,496	1,799,223,088	1,738,104,922	351,772,800	3,208,777,686
Total assets	40,005,270,596	9,014,956,392	15,975,501,388	5,402,623,576	9,612,189,240
Market rate liabilities					
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
Total market rate liabilities	29,871,126,174	10,490,300,821	5,962,221,626	4,890,165,836	8,528,437,891
Other non-cost bearing liabilities					
Current deposits	2,273,139,788	2,273,139,788	-	-	-
Other liabilities	3,173,371,942	760,904,061	810,561,764	421,041,970	1,180,864,147
Total non-cost bearing liabilities	5,446,511,730	3,034,043,849	810,561,764	421,041,970	1,180,864,147
Total liabilities	35,317,637,904	13,524,344,670	6,772,783,390	5,311,207,806	9,709,302,038
Net Assets	4,687,632,692				

Represented by	
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	(7,000)
Deferred grants	3,457,323
Total capital	4,687,632,692

37.1 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		
As at December 31, 2018					
Market rate assets					
Advances - net of provision	23,311,121,828	4,458,104,660	10,442,846,740	5,715,619,878	2,694,550,550
Lending to financial institutions	2,522,202,000	2,522,202,000	-	-	-
Investments	3,458,697,984	3,322,304,106	136,393,878	-	-
Balances with NBP on saving deposits	3,326,989	3,326,989	-	-	-
Balances with other banks on saving deposits	3,606,030,964	3,306,030,964	300,000,000	-	-
Total market rate assets	32,901,379,765	13,611,968,719	10,879,240,618	5,715,619,878	2,694,550,550
Other non-earning assets					
Cash and balances with SBP and NBP	1,117,580,613	1,117,580,613	-	-	-
Balances with other banks on current accounts	93,013,283	93,013,283	-	-	-
Operating fixed assets	1,008,607,370	-	-	-	1,008,607,370
Other assets	3,136,557,194	623,823,152	1,397,459,550	388,261,396	727,013,096
Deferred tax asset	93,447,540	-	93,447,540	-	-
Total non-earning assets	5,449,206,000	1,834,417,048	1,490,907,090	388,261,396	1,735,620,466
Total assets	38,350,585,765	15,446,385,767	12,370,147,708	6,103,881,274	4,430,171,016
Market rate liabilities					
Deposits and other accounts	24,633,119,686	7,401,021,165	8,390,092,495	6,437,626,489	2,404,379,537
Finance lease obligation	74,069,341	2,151,251	10,455,418	12,476,363	48,986,309
Subordinated loan	672,360,000	-	-	-	672,360,000
Borrowings	4,531,799,881	2,463,612,105	793,637,555	308,637,555	965,912,666
Total market rate liabilities	29,911,348,908	9,866,784,521	9,194,185,468	6,758,740,407	4,091,638,512
Other non-cost bearing liabilities					
Current deposits	1,630,055,442	1,630,055,442	-	-	-
Other liabilities	2,201,423,469	458,127,686	746,182,826	243,173,959	753,938,998
Total non-cost bearing liabilities	3,831,478,911	2,088,183,128	746,182,826	243,173,959	753,938,998
Total liabilities	33,742,827,819	11,954,967,649	9,940,368,294	7,001,914,366	4,845,577,510
Net Assets	4,607,757,946				
Represented by					
Share capital	1,498,372,010				
Statutory reserve	640,217,412				
Depositors' protection fund	180,937,261				
Unappropriated profit	2,278,585,992				
Deferred grants	9,645,271				
Total capital	4,607,757,946				

38 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.

39 GENERAL

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 DATE OF APPROVAL

These financial statements were approved and authorised by the Board of Directors of the Bank in their meeting held on March 3, 2020.



President / Chief Executive



Chairman



Director



Director

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

Details of property and equipment disposed off during the year as referred to in Note 12.2.2 of financial statements:

Particulars of assets	Cost	Depre- ciation	Book value	Sale Proceed	Gain/ Loss	Mode of disposal	Particulars of buyers
Motor vehicles							
125 CC - Bike (Delux) (Reg # BRM-06-9183, Eng # 7010596, Chassis # BJ 010555)	42,164	42,164	-	15,600	15,600	Assets Auction	Muhammad Irshad
70 CC - Bike (Reg # BRK-13-8354, Eng # 5898936, Chassis # JE 421029)	71,030	71,030	-	21,765	21,765	Assets Auction	Muhamamd Qasim
70 CC - Bike (Reg # BRK-13-8346, Eng # 5898879, Chassis # JE 420943)	71,030	71,030	-	27,894	27,894	Assets Auction	MUhammad Imran
70 CC - Bike (Reg # BRM-13-3552, Eng # 6015265, Chassis # JE 595322)	71,385	71,385	-	19,565	19,565	Assets Auction	Muhammad Qasim
70 CC - Bike (Reg # BRM-13-3544, Eng # 6025359, Chassis # JE 607422)	71,385	71,385	-	24,150	24,150	Assets Auction	Usman Ramzan
70 CC - Bike (Reg # BRN-13-4031, Eng # 6116678, Chassis # JE-732732)	71,985	71,985	-	23,150	23,150	Assets Auction	Usman Ramzan
70 CC - Bike (Reg # BRK-14-8350, Eng # 6187930, Chassis # JE-851888)	72,885	72,885	-	18,000	18,000	Insurance Claim	Insurance Claim
70 CC - Bike (Reg # BRP-14-1244, Eng # 6369042, Chassis # JG-103598)	72,990	72,990	-	23,965	23,965	Assets Auction	Muhammad Qasim
70 CC - Bike (Reg # BRO-14-7303, Eng # 6361979, Chassis # JG-094497)	72,990	72,990	-	20,000	20,000	Insurance Claim	Insurance Claim
70 CC - Bike (Reg # BRP-14-2260, Eng # 6847490, Chassis # CA-158693)	72,990	72,990	-	29,465	29,465	Assets Auction	Muhamamd Qasim
70 CC - Bike (Reg # BRP-14-2254, Eng # 6369750, Chassis # JG-104322)	72,990	72,990	-	29,465	29,465	Assets Auction	Muhammad Qasim
70 CC - Bike (Reg # BRP-16-1081, Eng # 9337292, Chassis # JH-085558)	67,385	41,489	25,896	34,100	8,204	Assets Auction	Muhammad Qasim
70 CC - Bike (Reg # BRP-16-1075, Eng # 9337222, Chassis # JH-085794)	67,385	41,489	25,896	34,965	9,069	Assets Auction	Muhammad Qasim
70 CC - Bike (Reg # BRP-16-1077, Eng # 9339401, Chassis # JH-087990)	67,385	41,489	25,896	34,100	8,204	Assets Auction	Muhammad Qasim
70 CC - Bike (Reg # BRM-16-1079, Eng # 9339411, Chassis # JH-087998)	67,385	41,489	25,896	30,800	4,904	Assets Auction	Muhammad Qasim
70 CC - Bike (Reg # BRL-17-8772, Eng # 9496959, Chassis # JH-277510)	67,000	36,850	30,150	35,200	5,050	Assets Auction	Muhammad Qasim
70 CC - Bike (Reg # BRL-17-8781, Eng # 9496921, Chassis # JH-277519)	67,000	36,850	30,150	42,642	12,492	Assets Auction	Muhammad Irshad
70 CC - Bike (Reg # BRN-12-7258, Eng # 5838904, Chassis # JE 345004)	38,000	-	38,000	21,500	(16,500)	Assets Auction	Usman Ramzan
70 CC - Bike (Reg # BRL-12-397, Eng # 5616017, Chassis # JE 046097)	38,000	-	38,000	24,000	(14,000)	Assets Auction	Javed Iqbal
70 CC - Bike (Reg # BRM-12-2861, Eng # 5694302, Chassis # JG-144353)	28,000	-	28,000	29,500	1,500	Assets Auction	Muhamamd Azhar
70 CC - Bike (Reg # BRN-15-5650, Eng # 5838904, Chassis # JE 345004)	47,218	-	47,218	34,150	(13,068)	Assets Auction	Usman Ramzan
70 CC - Bike (Reg # BRK-15-6862, Eng # 6427124, Chassis # JG-183669)	69,900	67,570	2,330	31,200	28,870	Assets Auction	Usman Ramzan
70 CC - Bike (Reg # BRK-15-6873, Eng # 6427167, Chassis # JG-183725)	69,900	67,570	2,330	31,300	28,970	Assets Auction	Usman Ramzan
70 CC - Bike (Reg # BRK-15-6876, Eng # 6427169, Chassis # JG-183728)	69,900	67,570	2,330	30,100	27,770	Assets Auction	Usman Ramzan
70 CC - Bike (Reg # BRK-15-6883, Eng # 6427148, Chassis # JG-183715)	69,900	67,570	2,330	31,400	29,070	Assets Auction	Usman Ramzan
70 CC - Bike (Reg # BRK-15-6889, Eng # 6860193, Chassis # CA-187386)	69,900	67,570	2,330	31,500	29,170	Assets Auction	Usman Ramzan
70 CC - Bike (Reg # BRK-15-6896, Eng # 6423060, Chassis # JG-179612)	69,900	67,570	2,330	28,100	25,770	Assets Auction	Usman Ramzan
70 CC - Bike (Reg # BRM-15-5638, Eng # 6417353, Chassis # JG-171909)	66,900	60,210	6,690	31,005	24,315	Assets Auction	Shoab Akhtar
70 CC - Bike (Reg # BRM-15-5639, Eng # 6455693, Chassis # JG-242271)	66,900	60,210	6,690	30,250	23,560	Assets Auction	Usman Ramzan
70 CC - Bike (Reg # BRM-15-5644, Eng # 6437415, Chassis # JG-198009)	66,900	60,210	6,690	30,100	23,410	Assets Auction	Usman Ramzan
70 CC - Bike (Reg # BRM-15-5653, Eng # 8014447, Chassis # JG-315181)	66,900	60,210	6,690	33,960	27,270	Assets Auction	Muhammad Azhar
70 CC - Bike (Reg # BRN-15-7231, Eng # 6941201, Chassis # CA420396)	69,785	57,304	12,481	31,900	19,419	Assets Auction	Maqbool Ahmed
70 CC - Bike (Reg # BRN-15-7233, Eng # 6940603, Chassis # CA419756)	69,785	57,304	12,481	30,250	17,769	Assets Auction	Usman Ramzan
70 CC - Bike (Reg # BRN-15-7232, Eng # 6940595, Chassis # CA419753)	69,785	57,304	12,481	30,350	17,869	Assets Auction	Usman Ramzan
Sub-Total	2,214,937	1,821,653	393,284	975,391	582,107		
Office Equipments							
Oppo F11 Mobile Phone	25,000	694	24,306	24,306	0	As per policy	Bank employee
TV LG 21"	45,121	45,121	-	575	575	Assets Auction	Muhammad Younis
LG 14"	5,330	5,330	-	575	575	Assets Auction	Muhammad Younis
TV LG 21"	7,347	7,347	-	575	575	Assets Auction	Muhammad Younis
Television (LG 14")	4,137	4,137	-	575	575	Assets Auction	Muhammad Younis
TV (LG 14")	3,781	3,781	-	575	575	Assets Auction	Muhammad Younis
TV LG 14"	4,066	4,066	-	575	575	Assets Auction	Muhammad Younis
TV LG. 14"	4,915	4,915	-	575	575	Assets Auction	Muhammad Younis
TV LG 14"	5,668	5,668	-	575	575	Assets Auction	Muhammad Younis
Generator Honda EP-2500	30,129	30,129	-	17,522	17,522	Assets Auction	Adnan Hussain
Generator Honda EP 6500	47,521	47,521	-	17,522	17,522	Assets Auction	Adnan Hussain
Honda Generator EP 6500 CX	186,620	186,620	-	17,521	17,521	Assets Auction	Adnan Hussain
Air Condition (Dawlance)	21,021	21,021	-	5,000	5,000	Assets Auction	Muhammad Irfan
Air Condition Mitsubishi 1 ton	13,990	13,990	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split AC (Dawlance)	21,076	21,076	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split AC (1.0Ton)	16,710	16,710	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split Haier 1.5 ton	41,450	41,450	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split Haier 1.5 ton	41,450	41,450	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split A.C 1.5 ton Dawlance	32,754	32,754	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split A.C 1.5 ton Haier	32,754	32,754	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split A.C 1.5 ton Haier	58,794	52,312	6,482	8,000	1,518	Assets Auction	Muhammad Irfan
Split A.C 1.5 ton Haier	26,094	26,094	-	4,000	4,000	Assets Auction	Muhammad Irfan
Split A.C 1.5 ton Haier	58,520	58,520	-	4,000	4,000	Assets Auction	Muhammad Irfan
Split A.C 1.5 ton Mitshubishe	14,458	14,458	-	4,000	4,000	Assets Auction	Muhammad Irfan
Split A.C 1.5 ton Mitshubishe	14,458	14,458	-	5,000	5,000	Assets Auction	Muhammad Irfan
1.5 ton LEA Haier	29,573	29,573	-	5,000	5,000	Assets Auction	Muhammad Irfan
1.5 ton LEA Haier	29,573	29,573	-	5,000	5,000	Assets Auction	Muhammad Irfan
1.5 ton LEA Haier	29,573	29,573	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split AC 2 Ton (Dawlance)	38,818	38,818	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split AC (Haier)	38,818	38,818	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split AC (Haier)	38,818	38,818	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split AC Haier	34,296	34,296	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split AC Orient	33,272	33,272	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split AC Haier	35,087	35,087	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split AC Haier	35,087	35,087	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split AC Haier	35,087	35,087	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split AC Haier	35,521	35,521	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split AC Haier	35,521	35,521	-	5,000	5,000	Assets Auction	Muhammad Irfan
"AirCondition(Dawlance)	72,937	72,937	-	5,000	5,000	Assets Auction	Muhammad Irfan
Air Conditioner (Mitsubishi)	121,555	121,555	-	5,000	5,000	Assets Auction	Muhammad Irfan
Air Conditioner (Mitsubishi)	116,555	107,662	8,893	1,107	1,107	Assets Auction	Muhammad Irfan
Haier Split AC 1Ton	31,605	31,605	-	4,000	4,000	Assets Auction	Muhammad Irfan
AC standing 2 Ton	92,122	92,122	-	4,000	4,000	Assets Auction	Muhammad Irfan
Split AC (Haier 2 Ton)	83,500	83,500	-	4,000	4,000	Assets Auction	Muhammad Irfan
Split AC Haier (1 Ton)	30,500	30,500	-	4,000	4,000	Assets Auction	Muhammad Irfan

Particulars of assets	Cost	Depreciation	Book value	Sale Proceed	Gain/Loss	Mode of disposal	Particulars of buyers
Split AC (Haier 2 Ton)	66,625	66,625	-	4,000	4,000	Assets Auction	Muhammad Irfan
Split AC (Mitsubishi)	30,052	30,052	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split AC (Orient 1 Ton)	46,052	46,052	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split AC (Mitsubishi)	30,052	30,052	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split AC (Orient 2 Ton)	54,800	54,800	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split AC (Orient 2 Ton)	54,800	54,800	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split AC (Acson)	35,075	35,075	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split AC (Haier)	79,500	79,500	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split AC (Orient 2 Ton)	54,800	54,800	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split AC (Orient 1 Ton)	35,900	35,900	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split AC 2 Ton Orient	57,700	57,700	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split AC 2 Ton Orient	57,700	57,700	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split AC 2 Ton Orient	57,700	57,700	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split AC 1 Ton Orient	37,960	37,960	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split AC 1 Ton Orient	49,483	49,483	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split AC 2 Ton Orient	71,883	71,883	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split AC 2 Ton Orient	71,884	71,884	-	5,000	5,000	Assets Auction	Muhammad Irfan
Floor Standing 4 Ton	180,000	180,000	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split AC 1.5 Ton Orient	46,400	46,400	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split AC 2 Ton Orient	54,000	54,000	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split AC 1 Ton Orient	41,200	41,200	-	5,000	5,000	Assets Auction	Muhammad Irfan
DC Inverter 1.5 Ton (Orient)	106,770	106,770	-	55,000	55,000	Assets Auction	Muhammad Irfan
DC Inverter 1.5 Ton (Orient)	106,770	106,770	-	55,000	55,000	Assets Auction	Muhammad Irfan
Split AC 1.5 Ton Orient	47,800	47,800	-	5,000	5,000	Assets Auction	Muhammad Irfan
Split AC 1 Ton Orient	39,950	39,950	-	5,000	5,000	Assets Auction	Muhammad Irfan
Floor Standing 2 Ton Orient	93,000	86,800	6,200	5,000	(1,200)	Assets Auction	Muhammad Irfan
Floor Standing 2 Ton Orient	93,000	86,800	6,200	55,065	48,865	Assets Auction	Muhammad Irfan
Split AC 1 Ton Orient	39,950	37,286	2,664	5,000	2,336	Assets Auction	Muhammad Irfan
Split AC	19,719	19,719	-	5,000	5,000	Assets Auction	Muhammad Irfan
Room Cooler	3,953	3,953	-	1,087	1,087	Assets Auction	Muhammad Qasim
Room Cooler	4,399	4,399	-	1,087	1,087	Assets Auction	Muhammad Qasim
Refrigerator Dawlance	18,494	18,494	-	8,466	8,466	Assets Auction	Muhammad Qasim
Refrigerator (Dawlance)	17,271	17,271	-	8,466	8,466	Assets Auction	Muhammad Qasim
Refrigerator Haier	36,500	36,500	-	16,930	16,930	Assets Auction	Muhammad Qasim
Geezer Master	5,500	5,500	-	645	645	Assets Auction	Muhammad Qasim
Stabilizer for AC Dawlance 10000 Watt	8,100	8,100	-	2,000	2,000	Assets Auction	Adnan Hussain
Stabilizer for AC Dawlance 10000 Watt	8,100	8,100	-	2,001	2,001	Assets Auction	Adnan Hussain
Stabilizer 700 watt	7,505	7,505	-	2,001	2,001	Assets Auction	Adnan Hussain
Stabilizer 700 watt	7,506	7,506	-	2,001	2,001	Assets Auction	Adnan Hussain
Stabilizer 2000 Watt	2,500	2,500	-	2,001	2,001	Assets Auction	Adnan Hussain
Stabilizer 300 Watt	4,000	4,000	-	2,001	2,001	Assets Auction	Adnan Hussain
Stabilizer 3000 Watt	4,500	4,125	375	460	85	Assets Auction	Adnan Hussain
Stabilizer Universal 10000 Watt	18,500	11,432	7,068	7,400	332	Assets Auction	Adnan Hussain
Stabilizer Universal 10000 Watt	18,500	11,432	7,068	7,400	332	Assets Auction	Adnan Hussain
Fax Machine Panasonic	4,286	4,286	-	413	413	Assets Auction	Ghulam Rasool
Fax Machine Panasonic	9,115	9,115	-	413	413	Assets Auction	Ghulam rasool
Fax Machine Panasonic	4,658	4,658	-	412	412	Assets Auction	Ghulam Rasool
Fax Machine (Panasonic)	4,173	4,173	-	412	412	Assets Auction	Ghulam Rasool
Microwave Oven	2,943	2,943	-	3,200	3,200	Assets Auction	Usman Ramzan
Sub-Total	3,766,810	3,697,554	69,256	615,332	546,076		
Furniture and Fixtures							
Trunk Box	14,763	12,918	1,845	3,033	1,188	Assets Auction	Usman Ramzan
Trunk Box	3,117	2,728	389	3,032	2,643	Assets Auction	Usman Ramzan
Trunk Box	5,000	2,084	2,917	3,033	117	Assets Auction	Usman Ramzan
Sub-Total	22,880	17,729	5,151	9,098	3,947		
Computer Equipment							
Acer E1 Core i3 (2.1 GHz, 4 GB Ram, 500 GB Hard Disk)	43,000	42,999	1	1	-	As per policy	Bank employee
Dell 3521 Core i3 (1.8 GHz, 4 GB Ram, 500 GB Hard Disk)	46,000	46,000	-	1	1	As per policy	Bank employee
Dell Core i5 (2.3 GHz, 8 GB Ram, 1 TB HDD, 14" Screen)	68,800	61,155	7,645	9,557	1,912	As per policy	Bank employee
Laptop HP Elite book 840G4 Ci5	76,000	44,333	31,667	31,668	1	As per policy	Bank employee
HP Core i5 (2.5 GHz, 8 GB Ram, 1 TB Hard Disk)	73,500	24,500	49,000	51,042	2,042	As per policy	Bank employee
HP Core i5 (2.5 GHz, 8 GB Ram, 1 TB Hard Disk) Mohsin Jameel - Senior Audit Officer	73,500	34,708	38,792	39,900	1,108	Insurance Claim	Insurance Claim
HP Pro Book 450 Core i5 (1.6 GHz, 8 GB Ram, 1 TB Hard Disk)	78,500	30,527	47,973	47,973	0	As per policy	Bank employee
HP Pro Book 450 Core i5 (1.6 GHz, 8 GB Ram, 1 TB Hard Disk)	82,500	27,500	55,000	57,292	2,292	As per policy	Bank employee
HP Core i5 (1.6 GHz, 8 GB Ram, 1 TB Hard Disk)	89,800	17,461	72,339	74,834	2,495	As per policy	Bank employee
Huawei Mobile G510	16,000	16,000	-	-	-	As per policy	Bank employee
Huawei P8 Lite	20,000	18,333	1,667	2,223	556	As per policy	Bank employee
Samsung A310 - 2016	20,000	20,000	-	-	-	As per policy	Bank employee
Q Mobile Z12	20,000	20,000	-	-	-	As per policy	Bank employee
Xiaomi Redmi Note 4	20,000	12,778	7,222	7,778	556	As per policy	Bank employee
Huawei P10 Lite	34,000	18,889	15,111	15,112	1	As per policy	Bank employee
Nokia 6	20,000	5,556	14,444	15,001	557	As per policy	Bank employee
Huawei Mate 10 Lite	25,000	6,944	18,056	18,751	695	As per policy	Bank employee
Vivo V9	20,000	6,667	13,333	13,334	1	As per policy	Bank employee
Samsung Galaxy A6 Plus	25,000	4,167	20,833	21,528	694	As per policy	Bank employee
Samsung J4 Plus	25,000	6,944	18,056	18,751	695	As per policy	Bank employee
Computer System (P-IV, 3.19 Ghz, 1.5 GB Ram, 80 GB HDD)	13,902	13,767	135	1,501	1,366	Assets Auction	Usman Ramzan
Computer with LCD	39,222	38,841	381	2,100	1,719	Assets Auction	Usman Ramzan
Computer with LCD	14,392	14,252	140	2,100	1,960	Assets Auction	Usman Ramzan
Computer With LCD (P-IV, 2.80 GHz, 512 MB Ram, 80 GB Hard Disk)	11,785	11,671	114	1,501	1,387	Assets Auction	Usman Ramzan
Computer with LCD (P-IV, 3.0 Ghz, 512 MB Ram, 80 GB Hard Disk)	41,261	40,860	401	1,501	1,100	Assets Auction	Usman Ramzan
Computer System (P-IV, 3.2 GHz, 2 GB Ram, 80 GB Hard Disk)	47,405	46,944	461	1,501	1,040	Assets Auction	Usman Ramzan
Computer System (Pentium 4, 3.40 Ghz, 3 GB Ram, 500 GB HDD)	16,000	15,844	156	1,501	1,345	Assets Auction	Usman Ramzan
Computer System	17,000	16,835	165	1,501	1,336	Assets Auction	Usman Ramzan
Computer System with LCD(Core 2 Duo, E8500 3.16GHz, 4GB RAM, 80GB HDD)	17,800	17,627	173	1,501	1,328	Assets Auction	Usman Ramzan
Computer System with LCD	17,800	17,627	173	1,501	1,328	Assets Auction	Usman Ramzan
Computer System with LCD (Inte Core 2 Duo, 3 Ghz, 4 GB Ram, 250 GB HDD)	17,700	17,528	172	1,501	1,329	Assets Auction	Usman Ramzan
Computer System with LCD	17,700	17,528	172	1,501	1,329	Assets Auction	Usman Ramzan
Computer System with LCD	17,700	17,528	172	1,501	1,329	Assets Auction	Usman Ramzan
Computer System with LCD (Core 2 Duo, 2.2 Ghz, 2 GB Ram)	17,700	17,528	172	1,501	1,329	Assets Auction	Usman Ramzan
Computer System with LCD (Core 2 Duo, 1.80 Ghz, 2 GB Ram)	17,700	17,700	-	1,501	1,501	Assets Auction	Usman Ramzan

Annexure II

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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

Balance sheet as at December 31, 2019

	2019 Rupees	2018 Rupees
ASSETS		
Cash and Balances with SBP and NBP	259,880,122	149,651,578
Balances with Other Banks/NBFIs/MFBs	412,072,182	427,823,566
Investment- net of provisions	149,780,001	136,393,878
Islamic Financing and related assets - net of provisions	5,798,511,788	3,096,835,182
Operating fixed assets	594,143,706	107,192,134
Other assets	245,452,790	57,554,561
Total Assets	7,459,840,589	3,975,450,899
LIABILITIES		
Deposits and other accounts		
- Current accounts	671,788,444	363,153,549
- Saving accounts	1,174,911,369	758,410,675
- Term accounts	1,474,231,402	838,863,425
Other Liabilities	3,250,222,167	1,542,676,074
Total Liabilities	6,571,153,382	3,503,103,723
NET ASSETS	888,687,207	472,347,176
REPRESENTED BY:		
Islamic Banking Fund	440,000,000	314,000,000
Unappropriated profit	448,687,207	158,347,176
	888,687,207	472,347,176
 Remuneration of the Shariah Advisor	 1,200,000	 1,200,000



President / Chief Executive



Chairman



Director



Director

Annexure II

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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, 2019

	2019 Rupees	2018 Rupees
Profit / return earned	976,575,301	494,467,123
Profit / return expensed	(226,028,145)	(141,932,847)
Net profit / return / income	750,547,156	352,534,276
Provisions against non-performing financing	(45,684,026)	(52,420,042)
Bad debts written off directly	(3,195,580)	(613,732)
	(48,879,606)	(53,033,774)
Net return earned after provisions	701,667,550	299,500,502
OTHER INCOME		
Fee, Commission and brokerage income	67,739,342	38,502,013
Total other income	769,406,892	338,002,515
OTHER EXPENSES		
Administrative expenses	(479,707,669)	(288,315,506)
	289,699,223	49,687,009
Extraordinary/unusual items	-	-
PROFIT BEFORE TAXATION	289,699,223	49,687,009



President / Chief Executive



Chairman



Director



Director

Annexure II

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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, 2019

	2019 Rupees	2018 Rupees
Opening balance	-	-
Additions during the period		
- Received from customers on delayed payments	1,305,530	1,746,962
- Non-Shariah compliant income	266,869	540,706
- Profit on charity account	106,320	51,988
- Others	-	-
	1,678,719	2,339,656
Payments / utilization during the period		
- Community welfare (Bait-ul-mal)	-	2,339,656
- Health	1,671,649	-
- Orphanage	7,070	-
	1,678,719	2,339,656
Closing Balance	-	-

Annexure II

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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, 2019

A-1 As at the year end, the Bank is operating 40 (2018: 26) Islamic branches. Islamic Microfinance Division (IMD) is operating a General pool 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.8,377,655. (2018 Rs. 4,486,552).

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

	2019 Rupees	2018 Rupees
Gross income / profit	1,053,646,692	584,408,145
Administrative expenses of pool	(183,720,090)	(125,494,286)
Net distributable share	869,926,602	458,913,859
Profit paid to PLS accounts / Certificates	229,721,007	141,932,847
Bank equity share	423,879,042	184,021,281
Bank Mudarib Share	216,326,552	132,959,735
	<u>640,205,594</u>	<u>316,981,016</u>
Return on average earning assets	23.28%	20.20%
Return on average PLS / Deposits	10.50%	8.95%

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

	2018 Rupees	2017 Rupees
Murabah financing	4,274,625,380	2,152,554,139
Ijarah under IFAS 2	1,532,886,904	986,080,466
Diminishing Musharka (FPMI)	45,725,954	-
	<u>5,853,238,238</u>	<u>3,138,634,605</u>
Less: Provisions held against non-performing facilities	(54,726,450)	(41,799,423)
	<u>5,798,511,788</u>	<u>3,096,835,182</u>

Annexure II

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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, 2019

A-2.1 Net book value of assets / investment under IFAS 2

	2019			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	479,784,242	1,326,198,108	19,040,963	1,825,023,313
Accumulated depreciation on Ijarah	(145,118,034)	(146,386,019)	(632,358)	(292,136,411)
Net Assets / investment in Ijarah	334,666,208	1,179,812,089	18,408,605	1,532,886,902
	2018			Total
	Not later than one year	later than one year but not later than three years		
	Rupees			
Asset acquired under Ijarah	898,086,645	167,340,331	1,065,426,976	
Accumulated depreciation on Ijarah	(61,281,464)	(18,065,046)	(79,346,510)	
Net Assets / investment in Ijarah	836,805,181	149,275,285	986,080,466	

A-2.2 Net Investment under Ijarah

	2019			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	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
	2018			Total
	Not later than one year	later than one year but not later than three years		
	Rupees			
Ijarah rentals receivable	640,909,277	102,308,745	743,218,022	
Residual value	308,812,703	68,077,868	376,890,571	
Minimum Ijarah payments	949,721,980	170,386,613	1,120,108,593	
Profit for future periods	(112,916,799)	(21,111,328)	(134,028,127)	
Net Assets / investment in Ijarah	836,805,181	149,275,285	986,080,466	

Annexure II

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

A-3 MATURITY PROFILES OF FUNDS

	2019						Total
	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	
	Rupees						
Term accounts	32,615,000	42,975,000	23,355,698	58,114,000	202,712,000	1,114,459,704	1,474,231,402
Saving accounts	1,057,180,487	-	117,730,882	-	-	-	1,174,911,369
	<u>1,089,795,487</u>	<u>42,975,000</u>	<u>141,086,580</u>	<u>58,114,000</u>	<u>202,712,000</u>	<u>1,114,459,704</u>	<u>2,649,142,771</u>
	2018						Total
	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	
	Rupees						
Term accounts	137,184,000	195,909,000	58,590,000	212,816,000	65,015,425	169,349,000	838,863,425
Saving accounts	745,410,247	5,226,309	7,774,119	-	-	-	758,410,675
	<u>882,594,247</u>	<u>201,135,309</u>	<u>66,364,119</u>	<u>212,816,000</u>	<u>65,015,425</u>	<u>169,349,000</u>	<u>1,597,274,100</u>

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 earning assets are:

	2019 Rupees	2018 Rupees
Agri business	1,840,697,511	1,453,005,059
Livestock and Dairy farming	155,820,702	42,970,651
Micro enterprises	3,856,720,024	1,644,411,743
	<u>5,853,238,237</u>	<u>3,140,387,453</u>
GOP Ijarah Sukuk	149,780,001	136,393,878
	<u>6,003,018,238</u>	<u>3,276,781,331</u>



President / Chief Executive



Chairman



Director



Director



NRSP Microfinance Bank Limited

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