

# LET'S GROW **TOGETHER**



**FINCA®**

Microfinance  
Bank Limited

ANNUAL REPORT  
**2020**

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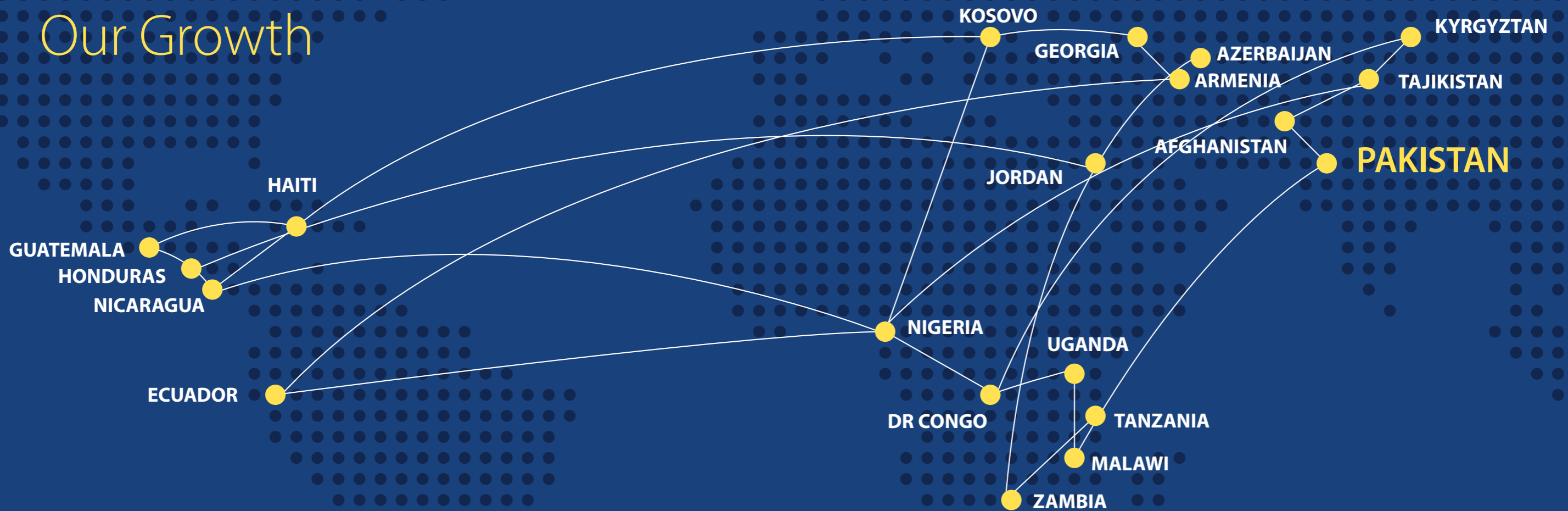
A photograph of two women in a workshop setting. The woman on the left is wearing a dark green headscarf and is looking down at a table. The woman on the right is wearing a red and white headscarf and a red patterned dress, looking towards the camera. They are working on a table with various items, including a yellow bag, a blue bag, and some small bowls. The background is slightly blurred, showing a workshop environment with a hanging light fixture.

## Let's Grow Together

Empowerment. Independence. Excellence. These help a person grow. At FINCA Pakistan, we are helping our customers grow through our financial solutions. From helping them grow their business to helping them save money, we are dedicated to protecting theirs and their family's future.

2020's Annual Report celebrates those customers who took the leap and are reaping the rewards. From increasing their profits to elevating their lives, FINCA Pakistan is invested in their growth.

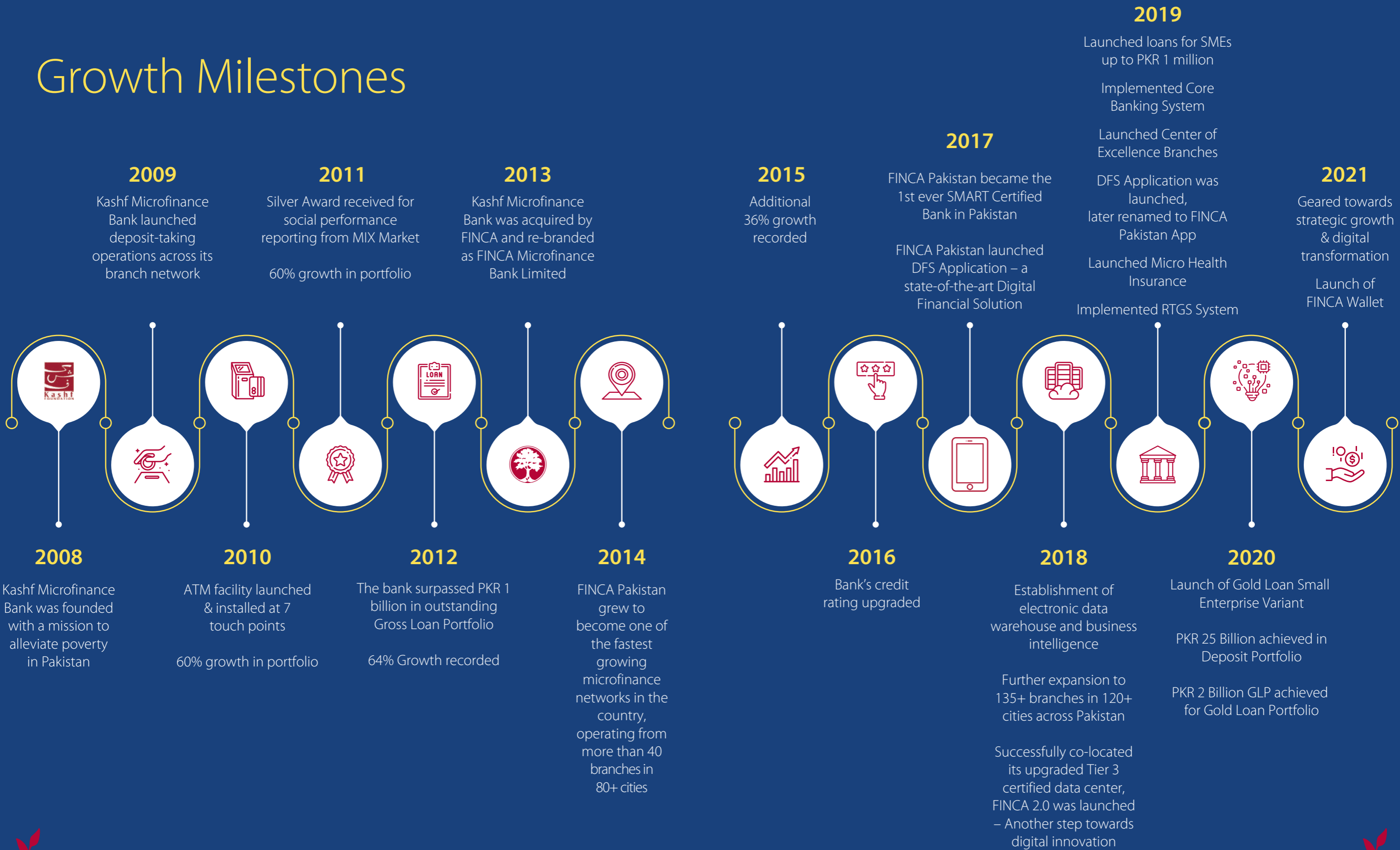
# Our Growth



FINCA International is the founder and majority shareholder of FINCA Impact Finance, a global network of community-based microfinance institutions and banks that operate across 20 countries in Africa, Eurasia, Latin America, the Middle East and South Asia.



# Growth Milestones



# About Us

One of man's greatest desires is to be financially independent and the one who is not, dreams of becoming free from financial worries, usually lacking the ability or resources. That is where FINCA Microfinance Bank Limited (FINCA Pakistan/the Bank) comes in.

FINCA Pakistan has been helping people from all walks of life, from small businessmen to women striving to be financially empowered. FINCA Pakistan has been aiding in eliminating people's financial worries and fulfilling their dreams. Thus our tagline: "Iraadon ka Pasbaan"!

FINCA Pakistan traces its roots back to 2008, when it started its journey as Kashf Microfinance Bank. The foundation of the Bank was laid on the principle that access to financial services is a fundamental right of the people and that the Bank would provide micro-loans to entrepreneurs without collateral requirements. The Bank became part of the global FINCA family in 2013, whereby it joined 20 other affiliated host-country institutions (affiliates) of FINCA International in Africa, the Caribbean, Eurasia, Latin America, The Middle East and South Asia.

FINCA Pakistan brings internationally recognized banking experience right here to Pakistan. The Bank's customer services, state of the art products and payment solutions are specially designed for low income borrowers. The Bank's dedicated staff is fully equipped to assist individuals in all their banking & financial requirements. Currently, the Bank is serving more than 1 million clients with a gross loan portfolio of PKR 21 billion while holding deposits worth over PKR 26 billion, via 130 branches in 120 cities across Pakistan. The Bank's loan portfolio has enjoyed a CAGR of 31% over the past five years, driven by the wide range of financial solutions for low-income borrowers. FINCA Pakistan is proud to provide over 225,000 active loans, allowing micro-entrepreneurs to invest in their businesses. During 2020, the Bank's loans are believed to have created an estimated 327,125 new jobs in Pakistan, thereby positively impacting the livelihood for more than 3.2 million households since its inception.

Furthermore, in order to develop digital solutions for deeper financial inclusion, FINCA Pakistan also introduced the Digital Financial Services (DFS) Application in 2017, the first truly telco agnostic digital wallet in Pakistan, thus revolutionizing conventional banking into a seamless digital banking platform. Leveraging on technology, the Bank has marked a milestone under the vision; FINCA Pakistan 2.0, digitalizing the service delivery model. This transformation allows anyone to open a bank account within a minute from their smartphones, regardless of their geographical location. Since its launch, the DFS Application has acquired over 589,000 users to its platform, conducting over 8 million transactions. FINCA Pakistan Urdu application was also piloted in 2019, a step forward in providing convenient and accessible financial solutions to its customers.

With modern technology and digitization in the Bank's ambit, FINCA Pakistan is progressively moving towards its ambition of alleviating poverty.





## Our Mission

To alleviate poverty through lasting solutions that help people build assets, create jobs and raise their standard of living.

## Our Purpose

To be an unconventional community-based bank that profitably and responsibly provides innovative and impactful financial services to enable low-income individuals and communities to invest in their futures.

## FINCA's Promise

FINCA is a global network of community-based microfinance institutions and banks that operate across 20 countries in Africa, Eurasia, Latin America, the Middle East and South Asia including Pakistan. Through its lasting solutions, FINCA is helping to alleviate poverty, promote financial inclusion and empower women, all around the world.

## Core Values

- Warmth
- Responsible Banking
- Trust



# Strategic Objectives

A financially vibrant small enterprise sector is essential for the economic development of the country and FINCA Pakistan is committed to making a solid contribution to it. The relentless focus on the Bank's customers will continue, as they are at the heart of what the Bank does. Owing to this, the Bank will intensify its efforts to deliver an improved service experience and products that are centered on the financial needs of the customers.

With the receding economic impact of COVID-19, the Bank is well poised to drive itself in a growth mode in 2021. Its focus will be on MSME/Small Enterprise segment which has a strategic fit to its delivery model and digital transformation agenda. FINCA Pakistan will graduate pilot products into commercial launches this year. Moreover, the Bank will establish alliances to gain access to a large pool of potential clients for the existing products and leverage cross-sell opportunities. While achieving the aforementioned strategic objectives, the Bank's focus on collection and recoveries will still remain paramount.

## Growth in Revenue

- a) Drive Disbursement
- b) Grow Deposits
- c) Focus on Collections & Recoveries
- d) Improve Portfolio Quality

## Increase in Efficiency

- a) Raise Productivity
- b) Leverage Digital Channels
- c) Lean Processes

## Build on existing FINCA Pakistan 2.0 Projects

- a) Digital Client Acquisition
- b) Quicker Loan Processing, Approval and Disbursement Mechanism
- c) Enhance Customer Experience and Lifecycle Management
- d) Future-ready Branch Model

# Helping Customers Grow





# Corporate Information

## Board Of Directors

Ms. Zarlasht Wardak  
Mr. Jeffrey Peter Smith  
Mr. Volker Renner  
Ms. Roshaneh Zafar  
Mr. Makhmudjon Saidakhmatov  
Ms. Fatma Safiye Ozuygun Sahin  
Mr. Shabbir Hussain Hashmi  
Mr. Syed Arif Ahmed

## Audit Committee

Mr. Shabbir Hussain Hashmi  
Mr. Jeffrey Peter Smith  
Ms. Fatma Safiye Ozuygun Sahin

## Acting CEO/COO

Mr. S. H. Kazi

## CFO

Mr. Ghulam Qadir

## Company Secretary

Manzoor Ahmed Janjua

## Auditors

KPMG Taseer Hadi and Co.

## Legal Advisors

Progressive Law Company

## Registered Office details

Building 36-B, Sector-XX Commercial Zone, Phase III, Khayaban-e-Iqbal,  
DHA, Lahore, Pakistan

## 24/7 Helpline

042-111-111-562

# Profiles of the Board of Directors



## Ms. Zarlisht Wardak

Chairperson of BOD FINCA Microfinance Bank limited

A highly experienced and recognized leader in banking, operations and microfinance. She has a proven 15-year track record of leading diverse teams of professionals to higher levels of success in a variety of industries, markets and environments. She is currently the Regional Director of FINCA International (the Middle East & South Asia), one of the leading microfinance organizations in the world. She is also the Chairperson for the Afghanistan Microfinance Association and Chairperson of Board for the MESA subsidiaries.

She is the former CEO of FINCA Afghanistan, where she transformed the subsidiary to sustainability within 3 years. She has a passion for making positive transformations within organizations that enhance competitiveness, increase revenues and improve sales and service culture.

Ms. Wardak holds a Bachelor of Arts in International Business from Southwestern College in Kansas and a Master of Science in Peace Operations from George Mason University in Fairfax, Virginia. Being fluent in English, Dari, Pashtu and Urdu, Ms. Wardak has a unique cultural understanding and perspective, allowing her to achieve exceptional outcomes for the organizations she works for.

Despite working in extremely complex and challenging environments, Ms. Wardak has an impressive track record of transforming financial organizations into well-governed, high-performing and sustainable entities.



## Mr. Jeffrey Peter Smith

Director

Mr. Smith has nearly 40 years of experience in auditing, finance, accounting, risk management, internal control and regulatory compliance. Dynamic and self-driven, Mr. Smith has led many restructuring efforts of global audit, risk management, and compliance departments, as well as many global efforts implementing effective risk controls and compliance monitoring systems.

Mr. Smith has worked in both the public and private sectors. He has been an independent consultant and held global positions at Citibank and Ford Motor Company. Most recently, he was the Chief Auditor at Rotary International.

Mr. Smith is a Certified Risk Professional and earned a Master of Business Administration from Wayne State University (Detroit, Michigan, USA). He also holds a Bachelor of Business Administration from Eastern Michigan University (Ypsilanti, Michigan, USA).

## Roshaneh Zafar

Director

Ms. Zafar is the Founder and Managing Director of Kashf Foundation – the first specialized microfinance organization in Pakistan established in 1996. Kashf Foundation was awarded the Microfinance Excellence Award by the Grameen Foundation-USA for its groundbreaking innovations in the field of microfinance in Pakistan. While, in 2005 it won the AGFUND International Prize for Microcredit 2005 out of 98 countries.

Prior to establishing Kashf Foundation, Ms. Zafar worked with the World Bank in Islamabad for several years in the Water and Sanitation department. Ms. Zafar was one of the first Ashoka Fellows in Pakistan and has been a Schwab Foundation Social Entrepreneur since 2004. Ms. Zafar has also been awarded the Tamgha-e-Imtiaz, one of Pakistan's highest civilian awards, by the President of Pakistan for her work in the field of development and women empowerment. Ms. Zafar is a graduate of the Wharton Business School, University of Pennsylvania, USA and also holds a Master's degree in Development Economics from Yale University, USA.



## Volker Renner

Director

Mr. Renner has over 20 years of senior management and governance experience in microfinance on four continents. From 2004 to 2016 he served FINCA International as Vice President for Credit and Savings, Global COO, and Regional Director for FINCA Eurasia. Prior to joining FINCA, Mr. Renner held positions as CEO of ProCredit Bank (Ukraine), and advisor to banks in Russia and Ukraine. He has served as board chairman, board member, audit committee member and member of other board committees in numerous microfinance institutions and banks.

He holds an M.B.A. with a focus on banking from the Mannheim Professional Academy and is fluent in German, English and Russian.





## Makhmud Saidakhmatov

Director

Mr. Saidakhmatov joined FINCA Pakistan in December 2006 as the COO for FINCA Kyrgyzstan. After successfully implementing the strategic goals assigned to this role, in 2009 he was appointed as the CEO of FINCA Azerbaijan, and later in 2010 as the CEO of FINCA Kyrgyzstan. He was assigned as an advisor to the management team of FINCA Bank Kyrgyzstan and went on to take the position of the CEO of FINCA Jordan from July 2015 till December 2018.

Prior to FINCA Pakistan, Mr. Saidakhmatov worked for over 4 years for "LFS Financial systems GmbH", a German consulting and management company that specialized in banking and SME finance projects in developing and transitional countries. As a banking advisor, he managed projects in Uzbekistan and Tajikistan, focused on the establishment of micro and SME lending operations at various commercial banks. In 2003, Mr. Saidakhmatov was working in Azerbaijan to develop micro and SME lending practices at Access Bank Azerbaijan. He commenced his professional banking career in 1998, at the National Bank of Uzbekistan, where he worked for three years as a Senior Investment Officer.



## Fatma Safiye Ozuygun Sahin

Director

Ms. Sahin is a seasoned senior banker with a vast experience across many banking functions, geographies and client segments. Over the last 20 years at Citi, she worked as a Senior Investment Banker both in Turkey and in London, covering several FTSE 100 multinational corporates and underwriting complex financing transactions. She was the Regional Head for Citi's Internal Audit and Risk Management Group and responsible for Europe, Middle East and Africa, consisting of 52 countries. She has recently been awarded 'Champion for Women Award' in 2014 by Women in Banking and Finance UK Network (WIBF) in recognition for her efforts for supporting women in the workplace.

In order to pursue her life-long ambition and commitment for women's economic empowerment, Ms. Sahin joined Citi Microfinance in 2009 as a Business Director. She has since worked to address issues of access to finance for women entrepreneurs while focusing on building scalable solutions. Ms. Safiye was part of a team in Citi Microfinance that has developed a Citi-Overseas Private Investment Corporation (OPIC) microfinance partnership providing funding to 40 microfinance institutions with outreach to almost 1 million micro-entrepreneurs in 22 countries, approximately 91% of whom are women. Ms. Sahin also served as the co-chair of the Citi Women UK Network for two years and now sits on the steering committee.

She was a recipient of the Citi Diversity Employee Network Star Award in 2009 and 2010. In addition, in 2011, Ms. Safiye co-founded Women Advancing Microfinance (WAM) to connect women interested in financial inclusion and social businesses in the UK and internationally.

## Syed Arif Ahmed

Director

Dr. Ahmed has 15+ years of global experience in digitization & innovation in financial services. Currently, he is working at the U.S. Bank, where he holds executive roles in Data Analytics & Innovation. Prior to U.S. Bank, he worked at Rev Worldwide, where he held various executive product and technology roles in support of launching one of the first mobile-first Digital Banks in 10+ countries. Earlier, he was the Group Head of Strategic Initiatives & Business Development at United Bank in Pakistan, where he initiated & led the highly successful digital transformation of the bank, starting in 2003.

In these roles, Dr. Ahmed has been responsible for a number of key 'first-ever' initiatives in mobile/Internet banking, mobile payments, payment cards, branchless banking, digital cross-border remittances, conversational interaction, AI and machine learning-based fraud and risk management.

Prior to these roles in financial services, Dr. Ahmed held various technical, strategy & business development roles at Motorola and 3Com.

Dr. Ahmed has an MBA from Kellogg Graduate School of Management at Northwestern University and obtained his B.S. and PhD. in Electrical Engineering from the University of Oklahoma.



## Shabbir Hussain Hashmi

Director

Mr. Hashmi is serving as an independent director on the boards of Dawood Lawrencepur Limited, Engro Powergen Qadirpur Limited, Dawood Hercules Corporation, OJ Engineering and HBL Asset Management Ltd. He is also on the board of governors of The Help Care Society which is operating K-12 schools in Lahore for underprivileged children. He has more than 35 years of project finance and private equity experience. In corporate governance, Mr. Hashmi has held more than 24 board directorships as a nominee of CDC/Actis and 12 directorships as an independent.

In executive roles, Mr. Hashmi has led the Pakistan operations at Actis Capital, one of the largest private equity investors in the emerging markets. Prior to Actis, he was responsible for a large regional portfolio of CDC Group Plc. for Pakistan and Bangladesh. He had a long stint with USAID and later briefly with the World Bank in Pakistan, specializing in planning and development of the energy sector.

He is an engineer from Dawood College of Engineering & Technology, Pakistan and holds an MBA degree from J.F. Kennedy University, USA. He joined the Board of FINCA Pakistan in August, 2020 and is also the Chairman of its Audit Committee.



# Management Team Profile



## **S. H. Kazi**

Chief Executive Officer (Acting)/ Chief Operating Officer

Mr. Kazi is a banking industry veteran. He has 22 years of banking experience in different institutions, departments, territories & jurisdictions and in various capacities, including leadership roles. Mr. Kazi experience covers key banking functions such as Corporate & Retail Banking, Strategic Planning, Risk Management & International Business. Mr. Kazi started his banking career with Emirates Bank in 1994. Over the years, he held senior positions at Bank Alfalah and Habib Metropolitan Bank (subsidiary of Habib AG Zurich). Most recently, he served for 4 years as "Group Head – Corporate & Transaction Banking" at Habib Metropolitan Bank.



## **Mr. Ghulam Qadir**

Chief Financial Officer

Mr. Qadir brings 28 years of work experience to the table including 19 years of banking experience of working in Pakistan and Canada. He has served with Tangerine Bank in Canada which is a pioneer in Branchless Banking in North America. He has served at Bank Alfalah Limited Pakistan in various capacities for over 11 years and has also worked with Deloitte Pakistan. His last assignment was as Chief Financial Officer of U Microfinance Bank Limited.

Mr. Qadir is a fellow member of Institute of Chartered Accountants of Pakistan and Institute of Cost and Management Accountants of Pakistan. He is also a member of Chartered Professional Accountants of Ontario, Canada and holds bachelor degree from University of Karachi.



## **Manzoor Ahmed Janjua**

Chief Legal & Corporate Officer

Mr. Janjua has more than 18 years of diversified experience as a legal and corporate professional; managing corporate commercial, conventional/ arbitration & banking, regulatory & compliance, civil/criminal litigation, mediation & microfinance banking, real estate, investments, regulatory and corporate affairs at law firms and organization level. He joined the Bank in 2009 and is presently serving as Chief Legal & Corporate Officer and Company Secretary. He is a Law Graduate and Masters in Political Science from University of the Punjab.

# Message from the Chairperson of the Board

## **Ms. Zarlisht Wardak** Chairperson

Vice President & Regional  
Director for the Middle  
East & South Asia, FINCA  
Impact Finance



FINCA Impact Finance (FIF), a global network of 20 microfinance banks and institutions, delivers the tools needed for low-income entrepreneurs and small businesses to achieve financial health. Our 9,000+ staff, 2,000 proprietary agents, and 55,000 third-party agents live and work in the communities we serve. For more than 30 years, our microfinance banks and institutions have delivered a double bottom line of social impact and financial sustainability. FINCA Microfinance Bank Limited, Pakistan (FINCA Pakistan/Bank) is one of the most dynamic and fastest-growing markets in the network, serving over 238,000 active borrowers through a network of 132 branches and sales centers.

The COVID-19 pandemic has spared no country or segment of society; it has gravely impacted the lives of millions, small and large businesses across the world, and the modern global economy as we know it. Microfinance customers, already vulnerable, were most susceptible to take the brunt of these events. Pakistan remained under lockdown to curb the spread of COVID-19 and this disproportionately impacted small business owners that are usually dependent on a steady income and face-to-face customer interaction. Supporting the customers to get through the tough times, the Bank offered a moratorium on the lending portfolio. FINCA Pakistan took swift and comprehensive actions to ensure the well-being of its employees as well. Maintaining its focus on Diversity and Inclusion, the Bank also re-engineered channels and efforts in order to remain connected with female staff during this time. Awareness and confidence-building sessions were also conducted using online and social communication platforms such as video calls and real-time messengers. I express my heartfelt thanks to the staff, who have worked tirelessly to mobilize resources in fighting these unprecedented social and economic crises.

Despite the challenges, the Bank remained resilient and weathered the storm. FINCA Pakistan posted positive financial results and earned a pre-tax profit of PKR 1,416 Million. Due to subdued lending activity through the pandemic situation, GLP and the number of active clients had a YOY reduction of 4% and 5.5%, respectively. On the deposit front, the Bank achieved a YOY increase of around 9.2%, showing strength in liquidity and the trust our clients have in the brand. Digital Financial Services also continued the renewed focus on the payroll segment. During the year, the Bank remained compliant with all regulatory requirements. JCR-VIS Credit Rating Company Limited, based on the Bank's financial position, assigned the entity rating to 'A' (Single A) for the long-term and 'A-1' (A One) for the short-term, with outlook assigned as 'Stable'.

Furthermore, 2020 allowed us to continue pushing our digital transformation agenda by strengthening, and putting to test, the back-end operations. These measures, in the long run, are pre-requisites for the complete implementation of our digital transformation roadmap. FINCA Pakistan continued to deploy its Digital Financial App wallets for Corporates & SMEs across the country and on-boarded 525 companies having a collective outreach of 77,424 payroll employees. In 2021, subject to regulatory approval, the Bank is geared up to commercially launch Small Enterprise products. Efforts will also be made to establish alliances, as well as, cross-sell existing products to payroll clients in order to gain access to a large pool of prospects while continuing to invest in digital and social media platforms to reach the next generation of customers who are increasingly engaging with the Bank outside its branches.

Guided by our double bottom-line of delivering positive social impact and maintaining financial sustainability, coupled with the COVID-19 response strategy, FINCA Pakistan will continue to cooperate with the private and public sector partners, and advance its mission to provide accessible and flexible credit, savings, and other financial products to low-income customers, enabling them to achieve improved financial health.

# Message from the CEO

**S. H. Kazi**

Chief Executive Officer (Acting)

FINCA Microfinance Bank

It is my pleasure to present this report to our stakeholders highlighting FINCA Pakistan's journey in 2020.

The COVID-19 pandemic became a human, health and economic crisis that claimed many lives and caused enormous global economic loss. I would like to express my deepest sympathy at the loss of life from COVID-19 and my sincere condolences with the family members, friends and colleagues who have lost a loved one. I also would like to show my appreciation to all of FINCA Pakistan employees for the hard work and sacrifices they have made to keep our organization operating smoothly during this difficult time.

In the wake of such extraordinary challenges, for FINCA Pakistan, the year was about staying resilient, standing by our customers and securing the market position. Despite facing an unprecedented situation, the Bank proved its mettle. FINCA Pakistan posted positive financial results and earned a pre-tax profit of PKR 1,416 Million. Due to restrained lending growth through the pandemic situation, GLP and the number of active clients had a YOY reduction of 4% and 5.5%, respectively. On the deposit front, the Bank achieved a YOY increase of around 9.2%, showing strength in liquidity and the trust our clients have in our brand. Digital Financial Services also continued the renewed focus on the payroll segment. During the year, the Bank remained compliant with all regulatory requirements. JCR-VIS Credit Rating Company Limited, based on the Bank's financial position, assigned the entity rating to 'A' (Single A) for the long-term and 'A-1' (A One) for the short-term, with outlook assigned as 'Stable'.

In line with the regulatory guidelines, deferment and rescheduling of loans was done to ensure the financial wellbeing of customers. The Bank accelerated growth in the secured gold-backed lending category to mitigate credit risk and provide instant access to finance,

as liquidity crunch for the low-income market was one of the major challenges arising from lockdown. As lending was re-commenced, after it remained halted in Q2, in a phased manner for crisis-resilient customer segments, the Bank restarted the credit operations to support micro-entrepreneurs that were eager to resume the business activities as the situation eased off.

The Bank also took a range of measures to protect the safety of our employees, as well as, customers. In line with our mandate, we ensured continuation of financial services during the pandemic. Preventive measures included availability of hand-sanitizers at all branches, awareness campaigns for social distancing and communication for customers to limit their visits to branches and use alternative delivery channels for routine banking transactions.

The Bank believes in continuous improvement in its operations based on the principles of lean six sigma that enables it to keep up with the fast pace changes in the banking and financial industry today. The Bank launched its project Digital Field Automation (DFA) back in 2017/2018 to digitize its entire loan lifecycle. Now, the Bank is disbursing loans on Mobile Wallets and this digital transformation has empowered customers to transact through digital channels. They can process a range of financial transactions without visiting branches. The Bank has also enabled its potential customers to apply for our services via digital media. These digital leads are being qualified robustly through the call center and are then processed at the branches. Existing borrowers are also provided speedy loans through a centralized underwriting process led by the call center.

To continue with its transformation journey, the Bank is redesigning its entire operating model in order to further reduce the processing time and in effect, enhance the Customer Experience

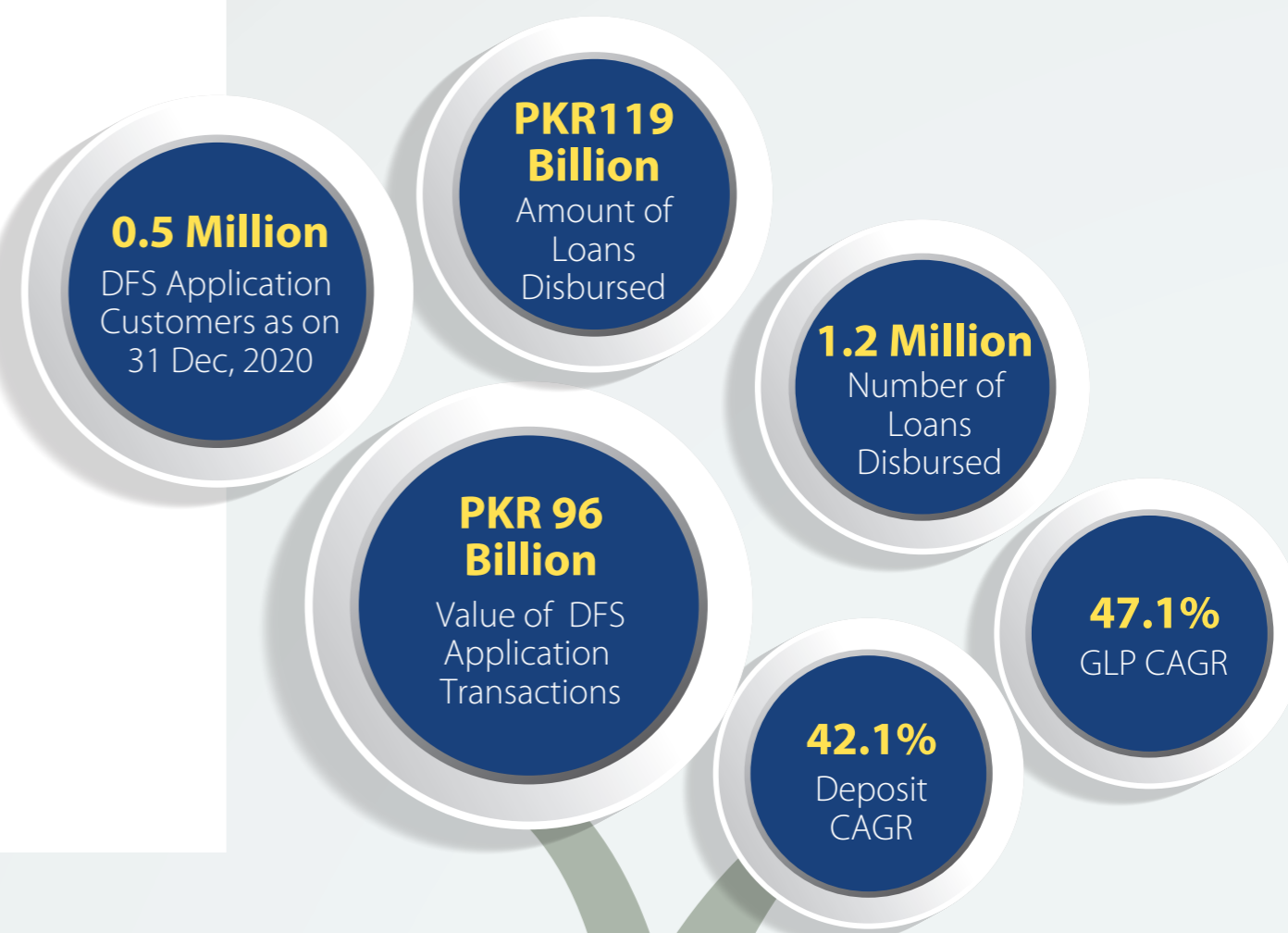
# FINCA Pakistan - Serving the Microfinance Sector

(CX). One of the distinct features include Customer Relationship Management (CRM), which will digitally capture all customer interactions to offer solutions best suited to customers' needs and wants. In an independent service level study conducted by Startex Marketing services amongst the top Microfinance Banks, FINCA Pakistan was rated at the top in terms of customer service. Throughout the year, multiple CX workshops were conducted to train the staff. Moreover, virtual feedback loops were also deployed to gauge CX without physical visits. Overall service standard compliance jumped up to 80% (vs. 73% 2019). Full deployment of Internal Help Desk and SLA tracker helped to handle and analyze more than 70,000 tickets, with compliance logged at 96% in Dec 2020, an increase of 4% vs. last year.

Over the years, the Bank's objective has been to continuously improve and augment FINCA Pakistan as a brand. In 2020, branding efforts fell no short, despite the adversaries inflicted by the pandemic. All efforts were streamlined to achieve consistency in communication, both in terms of tonality and imagery.

A financially vibrant small enterprise sector is essential for economic development of the country and FINCA is committed to continue making a solid contribution to it. Relentless focus on our customers will continue, as they are at the heart of what we do – we will intensify efforts to deliver an improved service experience and products that are centered around the financial needs of our clients.

With the receding economic impact of COVID, the bank is well poised to drive itself in a growth mode in 2021. Our focus will be to focus on MSME/Small Enterprise segment which has a strategic fit with our delivery model and FINCA 2.0 transformation. FINCA will graduate pilot products into commercial launches this year. Moreover, the Bank will establish strategic alliances to gain access to large pool of potential clients for the existing products and leverage cross-sell opportunities.



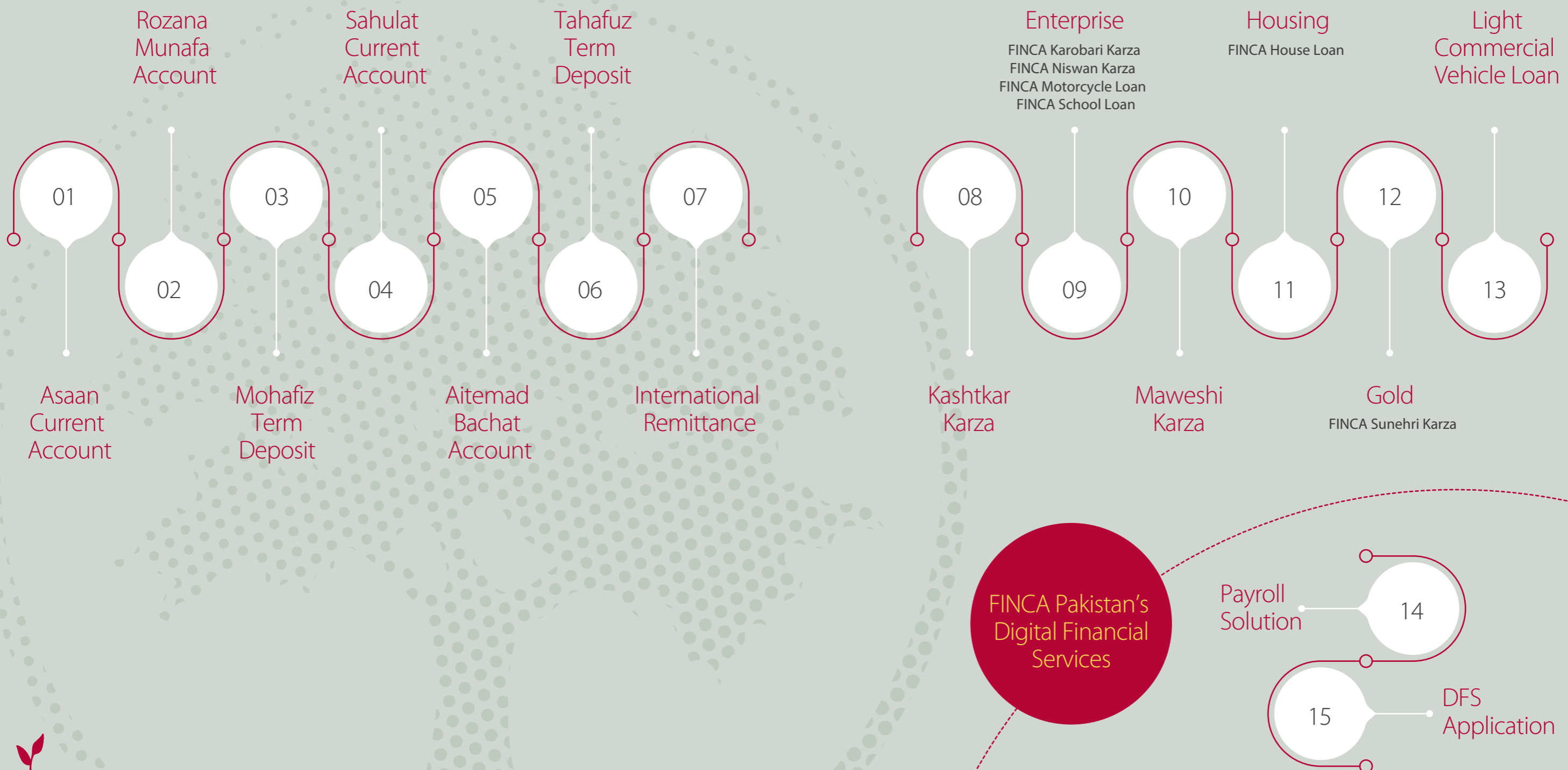
\*The data belongs from 2011-2020



## Our Solutions

## FINCA Pakistan's Deposit Product Suite

## FINCA Pakistan's Lending Product Suite



The Bank's product suite comprises of a wide range of loans for a variety of small businesses. From agri to livestock to local stores, the Bank has a diversified portfolio for its diverse customer base.

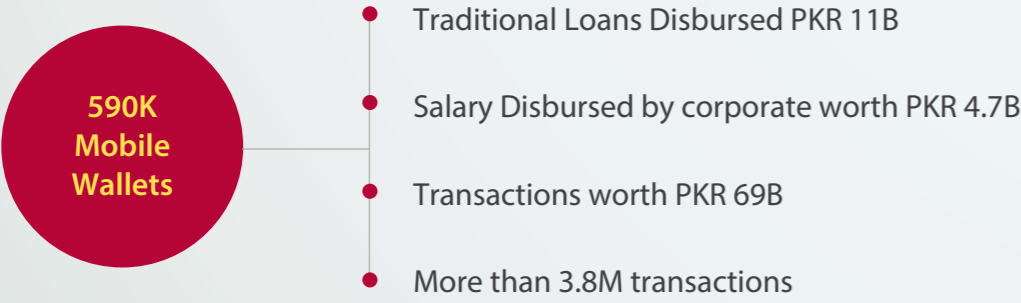
The Bank widened its credit segmentation and diversified its product suite by launching Sunehri Karza SE for small entrepreneurs, a secured product launched as a pilot in 54 branches.

**Pilot Project, FINCA House Loan (Secured and Unsecured Variants) was scaled up to 38 branches in 2020**

To continue with its transformation journey, the Bank is redesigning its entire operating model in order to further reduce the processing time and in effect, enhance the Customer Experience (CX). One of the distinct features is Customer Relationship Management (CRM), which will digitally capture all customer interactions to offer solutions best suited to customers' needs and wants. The Bank believes in continuous improvement in its operations that enables it to keep up with the fast pace changes in the banking and financial industry today. The Bank launched its project Digital Field Automation (DFA) back in 2017/2018 to digitize its entire loan lifecycle. Now, the Bank is

disbursing loans on mobile wallets allowing this digital transformation to empower customers to transact through digital channels. They can conduct a wide range of financial transactions without visiting the branches. The Bank also continued to deploy its digital Payroll solution for Corporates & SMEs across the country, onboarding 525 companies with a collective outreach of 77,424 employees. PKR 4.7B worth of salaries were processed in 2020 through the Payroll solution into individual mobile wallets. Even amidst COVID-19, the Bank was able to grow the corporate client base to more than 50% as compared to the last year. Moreover, the Bank's mobile application & financial

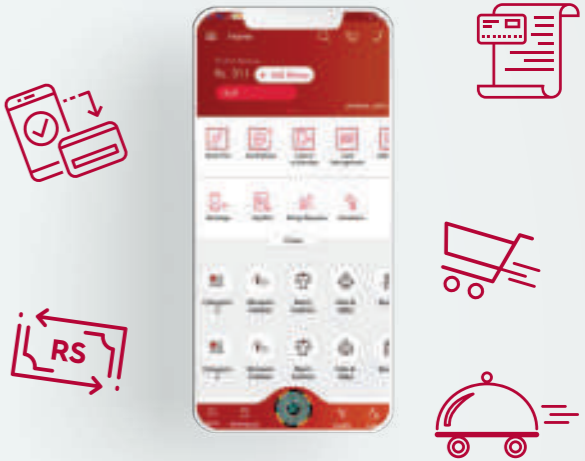
solution, Digital Financial Services Application (DFS), continued its progress, reaching around 589,000 users. Through constant efforts to educate the customers to use Alternate Delivery Channels (ADC) during COVID-19, the Bank's branchless banking channel routed 3.8M transactions, showing tremendous Y-o-Y growth of 86%, amounting to worth more than PKR 69B.



# DFS Application

The Bank's DFS Application was commercially launched in July 2017, as Pakistan's only mobile wallet offering a plethora of digital financial services under one umbrella, enabling customers to make free, frictionless and real-time transactions on the go. From inter-bank fund transfers to paying utility bills, making QR payments or recharging mobile balance, purchasing bus or movie tickets to enjoying online shopping - this All-in-One lifestyle platform allows you to do all this and much more!

- Free Inter Bank Funds Transfers & Utility bill payments
- Mobile Top-ups for all telecom operators
- Online shopping
- Insurance plan purchases
- Tickets for movies, buses & events
- School fee payments
- Donations to all major charities
- Debit Cards available
- Scan QR & Pay at merchants



Since its inception, the application has been continuously making progress in digitally transforming various segments by providing ease and comfort to corporates and consumers, through innovative and impactful digital financial solutions. In 2020, the customer portfolio crossed 589,000 mobile wallets with 78,227 monthly active users & 118,677 quarterly active users, while the daily deposit also showed substantial growth; approximately PKR 650 million. This digital platform has also successfully carried out business transactions worth more than PKR 113.1 billion since launch till date. In December 2020, another significant milestone was achieved with corporate payments worth more than PKR 1 billion being disbursed.

This application has also played a pivotal role in the digital transformation of FINCA Pakistan. It has not only enabled the Bank's core business to bring operational efficiency in the products and services being offered to existing and new customer segments, but has also created new horizons for business growth and development by introducing innovative digital solutions. In 2020, FINCA successfully rolled out digital loan disbursements and repayment through its DFS application for the entire branch network nationwide. Approximately more than 113,000 loans have been disbursed to the Bank's borrowers worth more than PKR 14.3 billion since launch till date. This has added tremendous strategic value to FINCA. The ambitions of bringing digital transformation to

the core business could not have been possible without the availability of such a robust and efficient Digital Financial Services Platform. The existence of such an application has not only enabled the Bank to explore new revenue streams but has also provided the digital capability to gather and capitalize on customer insights to develop a more futuristic product portfolio. This would also give a competitive edge to the Bank, especially in the microfinance realm, to create business synergies with other organizations, including other MFBs or MFIs, by extending this digital platform and winning more corporate alliances going forward.

## DFS Application's Journey in the Digital Transformation of FINCA Pakistan

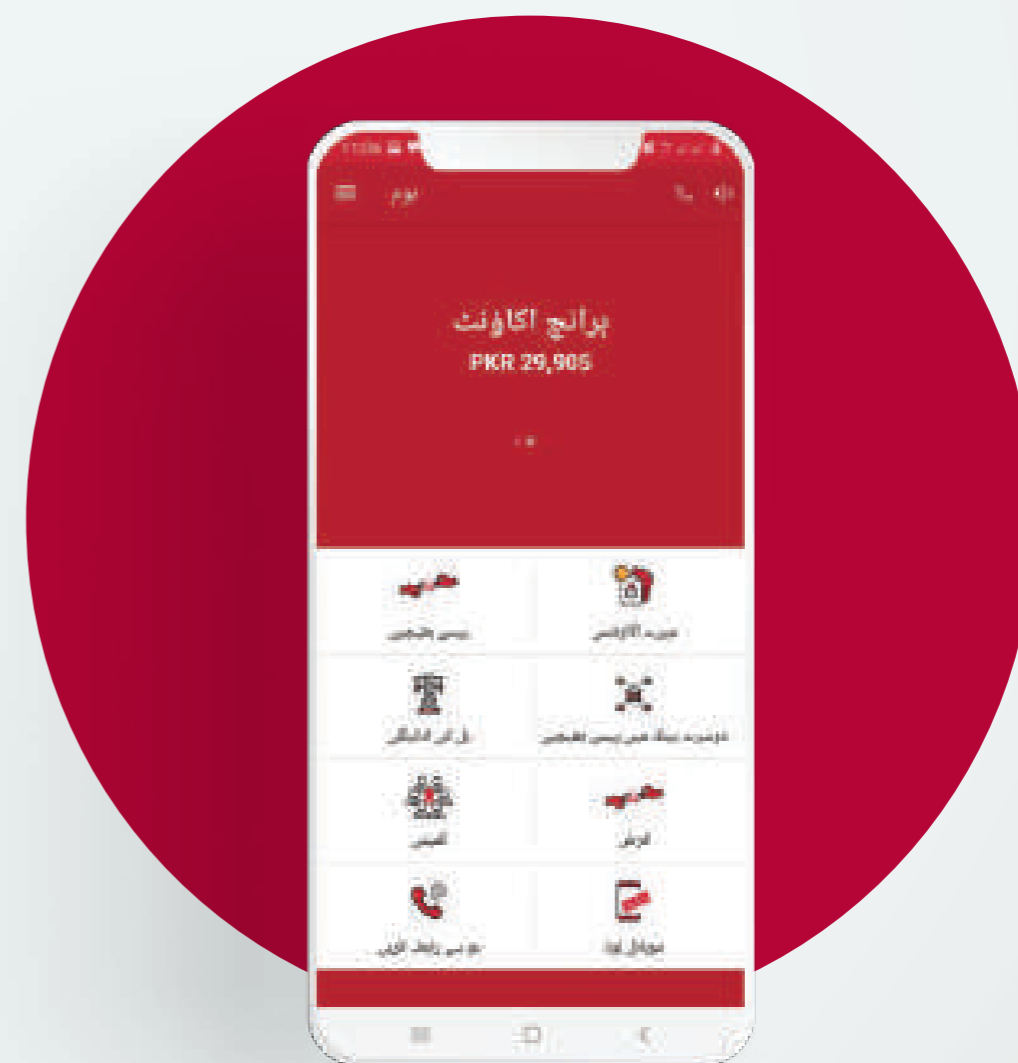
DFS Application has played a pivotal role in the digital transformation of FINCA Pakistan. It has not only enabled the Bank's core business to bring operational efficiency in the products and services being offered to existing and new customer segments. But it has also created new horizons for business growth and development by introducing innovative digital solutions.

In 2020, the Bank also successfully rolled out digital loan disbursements and repayment through DFS Application for the entire branch network nationwide. Approximately more than 113,000 loans have been disbursed to the Bank's borrowers worth more than PKR 14.3 billion since launch till date. The provisioning of DFS Application has added tremendous strategic value to the Bank. The ambitions of bringing digital transformation to the core business could not have been possible without the availability of such a robust and efficient Digital Financial Services Platform.

DFS Application's existence has not only enabled the Bank to explore new revenue streams but has also provided digital capability to gather and capitalize on customer insights to develop a more futuristic product portfolio. This would also give a competitive edge to the Bank, especially in the microfinance realm, to create business synergies with other organizations, including other MFBs or MFIs, by extending this digital platform and winning more corporate alliances going forward.

## FINCA Pakistan – An Urdu App for borrowers

In continuation to FINCA's digital initiative, FINCA Pakistan Urdu App was designed, keeping in view the socio-economic class of FINCA's borrowers, via which they could get their loans directly dispersed into their digital wallets. It is a dedicated Urdu app with a built-in audio functionality. This allows for minimal paperwork & a significant reduction in disbursement TATs. In 2020, loans worth more than PKR 11 Billion were disbursed in borrower wallets through this digitization measure, more than 3 times compared to that of the previous year



# Payroll Solutions

In addition to the digital products & services being offered to consumers, the Bank has also been providing a wide range of business solutions for various corporate segments.

## Bulk Disbursement

This solution allows corporate organizations to send bulk payments to their beneficiaries. The corporate account is linked with the disbursement portal, thereby allowing real time transactions into any bank account within Pakistan. The solution also offers delegation of authority at different levels for smooth payment processing. It's real time, convenient & secure!



## Salary Disbursement & Vendor Payment

This solution provides corporates the convenience to make bulk salary transfers & vendor payments from any part of the world, by just having access to the internet. It provides convenient payroll disbursement to employees with complete reconciliation records, instant digital vendor payments with bulk uploading functionality, integrated attendance module with customized features, HRMS for employee management which further enables organizations to maintain their employee credentials and also provides in-depth analytics and reconciliation tools for employee insights and compensation dynamics.



## School Fee Collection

An easy and automatic way to collect fee for various educational institutions, making life easier and hassle free for both students and the institution's management. It allows real time settlement through the corporate portal which is integrated through an easy and secure API.



## Incoming Payments

A convenient solution for businesses and e-commerce players to receive customer payments without any hassle.



## Donations Collection

The DFS Application also offers free of cost donation solutions to NGO's, SMEs and welfare organizations, providing convenience to both donors and philanthropist organizations.



DFS Application has now been proudly serving a huge base of corporates clients providing them multiple business solutions in various markets & segments across Pakistan!

In the recent worldwide situation due to COVID-19, the solutions already being offered by DFS Application, reassured the ease and comfort to Corporates in terms of disbursement and collection of payments without any physical human interaction. Corporate clients managed to payout their employees via the payroll solution and take care of other numerous business payments through the portal. A number of clients also endorsed DFS Application for being a trustworthy digital payment solution.



# Payroll Solutions – Stories of Customer Appreciation



Wasif Waseem Ashraf  
CEO at 360 Degree Consulting

"At 360 Degree our business thrives on innovation and timeliness. FINCA Pakistan has been a great partner in this regard to deliver superior quality customer services. Digital Banking by FINCA has helped us to timely deliver Payroll and other vendor payments in a very smooth manner during COVID-19. Thanks Team FINCA Pakistan for your par excellence services."



Farooq Ahmed  
CFO at Suraj Cotton Mills

"FINCA Pakistan has supported our company Suraj Cotton Mills Ltd throughout the lockdown period, by timely processing all banking payments and funds transfers. We are thankful to the management of FINCA Pakistan for providing world-class banking facilities round the clock to keep our business up and running."



Arshad Khan  
CFO at Shehzada Security  
Services Private Limited

"In this current global pandemic situation, FINCA Pakistan is providing us with the best Digital Portal Solution, which helps in disbursement of our staff salaries and helps in Vendor Payments, while sitting at home."



# Directors' Report to the Shareholders



On behalf of the Board of Directors of FINCA Microfinance Bank Limited, hereinafter referred as the "Bank/FINCA Pakistan", the Bank is pleased to present the Audited Financial Statements for the year ended on December 31, 2020.

## Overview:

In the wake of the extraordinary challenges posed by COVID-19 for FINCA Pakistan, the year was about staying resilient and securing the market position. Despite facing an unprecedented situation, the Bank weathered the storm. FINCA Pakistan posted positive financial results and earned a pre-tax profit of PKR 1,416 million. Due to prudent lending strategy, GLP and the number of active clients had a YOY reduction of 4% and 5.5%, respectively. On the deposit front, the Bank achieved a YOY increase

of around 9.2%, showing strength in liquidity. Digital Financial Services unit also continued the renewed focus on the payroll segment. During the year, the Bank remained compliant with all regulatory requirements. On March 11, 2020, WHO declared COVID-19 a pandemic. In its message, WHO balanced the certainty that the coronavirus would inevitably spread to all parts of the world, with the observation that governments, businesses and individuals still had substantial ability to change the disease's trajectory. The pandemic's economic impact; however, unfolded in an unprecedented way. Countries all over the world imposed strict measures to control the spread of the virus and Pakistan

was no exception.

Pakistan remained under lockdown to curb the spread of COVID-19 and microfinance customers, already vulnerable, were most susceptible to take the brunt of such events. The lockdown disproportionately impacted small business owners that are usually dependent on a steady income. FINCA Pakistan took immediate actions to mitigate the economic damage of the situation on the customers. Loans were rescheduled and deferred in line with the regulatory guidelines, new safety procedures were introduced at the branches as well as the head office while an extensive communication campaign was carried out, encouraging customers to use alternative delivery channels for

their banking needs. In addition to that, fresh lending activity remained halted through Q2. It was subsequently resumed in a phased manner for crisis-resilient customer segments. Restarting credit operations was critical to support small businesses that were eager to resume business activities as the situation eased off.

The slow business activity provided an opportunity to re-analyze customer segments that have a better strategic fit. The State Bank of Pakistan (SBP) also introduced loan limit enhancement for Microfinance Banks that, subject to SBP approval, would catalyze our aim to shift the focus and scale up our product offerings in the category of installment-based business loans. Given the focus on limited in-person interaction, it also allowed us to continue pushing our digital transformation agenda by strengthening, and putting to test the back-end operations. These measures, in the long run, are pre-requisites for the complete implementation of our digital transformation roadmap.

## Economic Update

Since the world entered a stage of the pandemic in 2020 due to COVID-19, Pakistan's economy struggled to get a grip on any sort of progress throughout the year. With the increasing unemployment rates and inflation rate, it was a struggle for both the government and the economy, attempting to sustain the rather difficult conditions.

## Key Positive Developments

- Although at the start of 2020, USD was equal to PKR 154.6, due to COVID-19, by August 2020, the USD had reached PKR 168.9. However, following the devaluation of USD, the currency strengthened as the end of the year approached and was reported at PKR 159.8 by the end of December 2020. One of the major contributing factors for improvement in PKR was the 6.4% growth in worker's remittance.

- The Policy Rate reached a stable level at 7% by the end of 2020 and the domestic recovery gained some further traction. Most economic activity data and indicators of consumer and business sentiment have shown continued improvement. As a result, there are upside risks to the current growth projection in FY21.

- The Government of Pakistan has already allocated initial funding of \$150 million to purchase a COVID-19 vaccine. SBP projects economic growth of up to 2.5 % for the fiscal year 2020-21 following the news that an effective coronavirus vaccine has been developed. SBP forecasts that the growth would be between 1.5 % and 2.5 %, as compared to the negative 0.4 % growth recorded during the previous fiscal year.

## Major Challenges

Despite the Government's attempts to minimize the damages, the economy faced some severe challenges in 2020, some of which are;

- GDP growth rate showed a contraction of 0.4% in FY20.
- Inflation remained a major macro

challenge throughout the year as the inflation rate rose by 9.5% during CY2020. The SBP Policy rate was adjusted from its peak of 13.25% to 7.00% in Q2 CY 2020 mainly to stimulate economic growth in lockdown restrictions imposed during pandemic COVID-19. Inflation is expected to fall within the announced range of 7 to 9 % for FY21 and the trend towards the 5-7 % target will range over the medium-term.

- Energy sector arrears continued to grow despite tariff adjustments and measures to control losses. Stronger efforts are needed to improve the viability of the power sector and tackle the circular debt issue.

## Microfinance Sector Overview

Given the extraordinary economic impact of the pandemic, the year 2020 was a challenging one for the Microfinance Industry. In comparison with the previous year, the credit side of the sector grew at a slower rate. Active borrowers decreased by 3%, while the outstanding lending portfolio grew by 5.9%. For the Microfinance Banks' peer group, however, there was an increase of 11.2% in the GLP volume. On the deposit side, the number of depositors increased by 33% and the volume of deposits grew by 39%. Portfolio at risk >30 days for the Microfinance Banks witnessed a decrease from 6.1% to 3.3% in 2020, largely owing to the rescheduling of the portfolio.



# Bank's Performance

## Financial Performance

Indicator	31 Dec 2020 (PKR in Million)	31 Dec 2019 (PKR in Million)
Gross loan portfolio	<b>21,550.5</b>	22,480.0
Number of active borrowers	<b>225,288</b>	238,337
Deposits	<b>26,082.8</b>	23,911.3
Number of deposit customers*	<b>1,527,000</b>	1,283,677
Profit before tax	<b>1,416.0</b>	1,011.6
Profit after tax	<b>904.7</b>	653.4
PAR>30days	<b>3.4%</b>	4.7%
Cost-to-income ratio	<b>85.1%</b>	89.1%
Return on assets	<b>2.4%</b>	1.9%
Return on equity	<b>19.2%</b>	14.7%
Opex / GLP	<b>17.6%</b>	18.5%

\*These figures may reflect some double-counting, i.e., some customers who are borrowers are also savers.

### Movement In Reserves

As per the requirement of Microfinance Institution Ordinance 2001 and the Prudential Regulations for Microfinance Banks issued by SBP, the Bank transferred an amount equivalent to 20% of profit after tax to the statutory reserve; PKR 180.9 million and 5% of profit after tax to the Depositors' Protection Fund; PKR 45.2 million, during 2020.

### Capital Adequacy Ratio

As of the balance sheet date, the Bank's equity for capital adequacy purpose and Capital Adequacy Ratio stood at PKR 5,907.8 million and 20.9% respectively as against the minimum requirement of PKR 1,000 million and, 15%, as prescribed by SBP.

## Business Developments

2020 remained a challenging year for FINCA Pakistan, it provided the Bank with an opportunity to pivot for short-term sustainability along with long-term resilience and growth. In line with the regulatory guidelines, deferment and rescheduling of loans was done to ensure the financial wellbeing of customers. The Bank accelerated growth in the secured gold-backed lending category to mitigate credit risk and provide instant access to finance, as liquidity

crunch for the low-income market was one of the major challenges arising from lockdown. As lending was re-commenced, in line with our strategy, an outreach of the following installment-based products was also extended.

- FINCA Motorcycle Loan – scaled up to 23 branches.
- FINCA House Loan (Secured and Unsecured Variants) – scaled up to 38 branches.

Furthermore, the Bank continued to deploy its digital app's payroll solution for Corporates & SMEs across the country and on-boarded 525 companies having a collective outreach of 77,424 payroll employees. In 2021, subject to regulatory approval, the Bank is geared up to commercially launch Small Enterprise products. Efforts will also be made to establish alliances, as well as cross-sell existing products to payroll clients in order to gain access to a large pool of prospects.

The Bank believes in continuous improvement in its operations based on the principles of lean six sigma that enable it to keep up with the fast pace changes in the banking and financial industry today. The Bank launched its project Digital Field Automation (DFA) back in 2017/2018 to digitize its entire loan lifecycle. Now, the Bank is disbursing loans on Mobile Wallets and this digital transformation has

empowered customers to transact through digital channels. They can process a range of financial transactions without visiting branches. The Bank has also enabled its potential customers to apply for our services via digital media. These digital leads are being qualified robustly through the call center and are then processed at the branches. Existing borrowers are also provided speedy loans through a centralized underwriting process led by the call center.

To continue with its transformation journey, the Bank is redesigning its entire operating model in order to further reduce the processing time and in effect, enhance the Customer Experience (CX). One of the distinct features include Customer Relationship Management (CRM), which will digitally capture all customer interactions to offer solutions best suited to customers' needs and wants. In an independent service level study conducted by Startex Marketing services amongst the top Microfinance Banks, FINCA Pakistan was rated at the top

in terms of customer service. Throughout the year, multiple CX workshops were conducted to train the staff. Moreover, virtual feedback loops were also deployed to gauge CX without physical visits. Overall service standard compliance jumped up to 80% (vs. 73% 2019). Full deployment of Internal Help Desk and SLA tracker helped to handle and analyze more than 70,000 tickets, with compliance logged at 96% in Dec 2020, an increase of 4% versus last year.

Over the years, the Bank's objective has been to continuously improve and augment FINCA Pakistan as a brand. In 2020, branding efforts fell no short, despite the adversities inflicted by the pandemic. All efforts were streamlined to achieve consistency in communication, both in terms of tonality and imagery. Relatable visual language was used to create a mass appeal. This was achieved by localizing the corporate brand identity guidelines, portraying images more relevant to our customers.

**130 branches**

The Bank concluded the year 2020 with a network of 130 branches and 2 Sales & Services Centers (SSCs).

# Risk Management Framework

Despite the economic slowdown, FINCA Pakistan's objective continues to remain focused on enhancing the quality of business while Risk Management kept strategic priorities intact, to build a better control structure which inter-alia includes bringing efficiencies in the loan approval process through data-driven decision making without compromising on the portfolio quality, strengthening of Cyber/ Information Security and internal controls. In order to meet any unforeseen challenges, FINCA Pakistan maintains adequate liquidity and Capital Adequacy Ratio well above regulatory thresholds.

# Human Resources

In order to yield successful results from various efficiency-building interventions that were initiated in 2019, the Bank's main focus areas in 2020 were re-directed towards staff wellbeing, skill development, and strategic realignment of resources. The global pandemic resulted in the Bank adopting various alternative methods such as remote working from different locations and also implementing work from home with a particular focus on female staff and staff over a specific age bracket.

HR Department reinforced the Bank's efforts to realign and restructure the workforce and successfully completed the efficiency initiatives during the period fostering nimbleness and agility in all functions. Female staff representation grew and women made up 18% of the Bank's workforce (excluding the support staff category). The Bank's efforts towards employee wellbeing and safety along with the approach towards staff target and deliverable restructuring, enabled the Bank to reduce staff attrition from 24% in 2019 to 18% at the end of 2020.

As the social distancing protocols and lockdowns were implemented across the globe, the Bank maintained its focus on learning and development while converting job-specific training programs for e-learning based delivery. The Bank delivered virtual sessions using a blend of video and voice conferencing tools along with the internal digital learning platform to deliver training across job roles.

Maintaining a focus on Diversity and Inclusion, the Bank re-engineered channels and efforts in order to remain connected with female staff during this time. Awareness and confidence-building sessions were conducted using online and social communication platforms such as video calls and real-time messengers.





## Corporate Social Responsibility (CSR)

FINCA Pakistan is part of Pakistan's socio-economic fabric and it continues to play its role as a responsible corporate citizen. Giving back to the community, that the Bank serves, is a part of FINCA's strategic double bottom-line agenda.

To promote sustained economic and social uplift of the country, FINCA Pakistan engages its surrounding communities to instill financial awareness amongst the less financially literate market. Despite COVID-19's adverse impact on a global scale, FINCA Pakistan managed to organize 179 interventions during the year 2020 which included 53 sessions of 'Samajh Boojh' Program &

126 sessions of the National Financial Literacy Program of State Bank of Pakistan, with all SOPs of COVID-19 followed stringently. Approximately 4,000 people benefited from these interventions with discussion around consumer financial rights and responsibilities while understanding utilization of the complete array of financial services. A large part of such engagements were carried out under the umbrella program of SBP. All sessions were conducted directly by FINCA Pakistan. Continuing its efforts to bring about a positive change in the country, the Bank also collaborated with The Citizen Foundation

(TCF) in February 2020. Through participating in TCF Ilmathon, FINCA Pakistan sponsored 1-year education of 18 deserving students.

Employee volunteering is a key part of our CSR strategy as well. Playing its role in supporting the nation in times of crisis, FINCA Pakistan with the help of its employees, donated funds to the Prime Minister's COVID-19 Relief Fund, refer to note 26.2 of Audited Financial Statements, 2020. Not only this, but in the spirit of helping the nation to combat COVID-19, a donation also made to the Institute of Public Health, Punjab for arranging diagnostic COVID-19 kits.

## Credit Rating

The Credit Rating Company PACRA, based on the Bank's financial position, has assigned the entity rating to 'A' (Single-A) for the long-term and 'A 1' for the short-term, with an outlook assigned as 'Stable'.



# Corporate Governance

The Board of Directors is responsible to the shareholders for the overall governance of the Bank. The Board of Directors concedes the responsibility for the systems of sound internal controls and risk mitigation are in place and is committed to upholding the highest standards of Corporate Governance in accordance with the rules and regulations applicable from time to time.

## Statement Of Corporate Governance

The Directors are pleased to state that:

a. The financial statements,

prepared by the management of the Bank present fairly its state of affairs, the result of its operations, cash flows, and changes in equity;

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

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

d. International Financial Reporting Standards, as applicable in Pakistan and adopted by the State Bank of Pakistan, have been followed

in the preparation of the Bank's financial statements, and departures, if any, have been adequately disclosed;

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

f. There are no significant doubts upon the Bank's ability to continue as a going concern;

## The Board Of Directors

The Board of Directors of Bank consists nine (09) members, excluding President & CEO. By the end of the year 2020, eight (08) directors are in place with one (01) casual vacancy, out of which six (06) are Non-executive directors and two (02) of them are Independent directors. There are three (03) female directors in the board.

Following are the changes that took place in the Board of Directors composition during the year ended December 31, 2020:

- **Mr. Farid Ahmed Khan**

attended only 01(one) Board of Directors Meeting in 2020 and his resignation was approved in the 70th Board of Directors Meeting held on 14-01-2020.

- **Mr. Allan Christopher Michael Low**

attended 0 (zero) Board of Directors Meeting in 2020 and his resignation was approved in the 70th Board of Directors Meeting held on 14-01-2020.

- **Mr. Amer Hussain Haider**

attended 03 (three) Board of Directors Meeting in 2020 and his resignation was approved in the 78th Board of Directors Meeting held on 21-09-2020.

- **Mr. Shabbir Hussain Hashmi**

was appointed as Independent Director of the Board of Directors on 24-08-2020.

- **Dr. Syed Arif Ahmed**

was appointed as Independent Director of the Board of Directors on 24-08-2020.

Casual vacancies during 2020, due to resignations of directors, were replaced as follows:

S.No	Outgoing Director	Incoming Director
1.	Mr. Farid Ahmed Khan	Mr. Shabbir Hussain Hashmi
2.	Mr. Allan Christopher Michael Low	Mr. Syed Arif Ahmed
3.	Mr. Amer Hussain Haider	Vacant

The Board of Directors hold only the qualification shares and no director has acquired a share in the Bank during 2020.



# Meetings Of The Board

- a) During the year 2020, total 11 board meetings were held. These meetings were attended by the directors as under:

Board Member	Designation	Total No of meetings	Meetings Attended
Ms. Zarlisht Wardak	Chairperson/ Board member	11	11
Mr. Jeffrey Peter Smith	Board member	11	11
Ms. Roshaneh Zafar	Board member	11	08
Mr. Volker Renner	Board member	11	11
Mr. Makhmudjon Saidakhmatov	Board member	11	10
Ms. Fatma Safiye Ozuygun Sahin	Board member	11	10
Mr. Farid Ahmed Khan	Board member	01	01
Mr. Allan Christopher Michael Low	Board member	01	0
Mr. Amer Hussain Haider	Board member	09	03
Mr. Shabbir Hussain Hashmi	Board member	03	03
Dr. Syed Arif Ahmed	Board member	03	03

## Audit Committee Of The Board

The Bank has an independent Internal Audit Department with experienced professionals with industry exposure. The Head of Internal Audit reports directly to the Audit Committee of the Board. However, the Head of Internal Audit administratively reports to the President/CEO.

The Audit Committee of the Board consists of **02 (two)** Non-Executive Directors (Mr. Jeffrey Peter Smith & Mr. Fatma Safiye Ozuygun Sahin) and **01 (one)** Independent Director (**Mr. Shabbir Hussain Hashmi**). **Mr. Shabbir Hussain Hashmi** being the Independent Director is the Chairman of the Audit Committee of Board.

# Payment Of Debt

The Bank remains solvent with regards to its debt obligation and there has not been a single instance of delay in discharging its legal obligations.

# Related Party Transactions

Related parties of the Bank comprise of the directors, key management personnel, shareholders, and entities over which the directors are able to exercise significant influence. The details of Bank's shareholders are given in note 18 of the Bank's Annual Audited Financial Statements, 2020. Detail of transactions during the period and balances outstanding as of the period ended 31 Dec 2020 are disclosed in note 33 of the Bank's Annual Audited Financial Statements, 2020.

# Statutory Auditors

The present auditors, Messrs. KPMG Taseer Hadi & Co. Chartered Accountants (KPMG), will be retiring in the upcoming Annual General Meeting and being eligible, have offered themselves for re-appointment. The Audit Committee of the board has recommended the reappointment of KPMG for next year. Accordingly, the Board of Directors endorses the recommendation of the Audit Committee for the appointment of KPMG, as the statutory auditors of the Bank for the next year at the fee agreed. The external auditor's re-appointment shall be subject to approval in the upcoming Annual General Meeting.

# Pattern Of Shareholding

The pattern of Shareholding as at December 31, 2020.

S.No.	No shares	Held by
1	548,498,650	FINCA Microfinance Cooperatief U.A
2	33,119,747	Kashf Holdings (Pvt.) Ltd.
3	30,771,739	International Finance Corporation
4	17,368,319	Triodos Fair Share Fund
5	5,130,253	Acumen Pakistan
6	3	Directors

# Earnings Per Share

Earnings per share of the Bank for the year ended 2020 is PKR. 1.42 compared to PKR1.03 as at end of year 2019.

# Holding Company

The holding company of the Bank is FINCA Microfinance Cooperatief U.A., (a cooperative with the exclusion of liability incorporated in the Netherlands). The ultimate holding company of the Bank is FINCA International, INC., a not-for-profit corporation incorporated in Washington DC, USA.

# Subsequent Events

There have not been any material events that occurred subsequent to the date of the Balance Sheet that requires adjustments to the enclosed financial statements, except those which have already been made or disclosed.

# Future Outlook

A financially vibrant small enterprise sector is essential for economic development of the country and FINCA Pakistan is ready to make a solid contribution to it. Relentless focus on our customers will continue, as they are at the heart of what the Bank does. Owing to this, the Bank will intensify its efforts to deliver an improved service experience and products that are centered on the financial needs of our clients.

With the receding economic impact of COVID-19, the Bank is well poised to drive itself in a growth mode in 2021. Its focus will be on MSME/Small Enterprise segment which has a strategic fit to its delivery model and digital transformation agenda. FINCA Pakistan will graduate pilot products into commercial launches this year. Moreover, the Bank will establish alliances to gain access to large pool of potential clients for the existing products and leverage cross-sell opportunities.

# Acknowledgement

On behalf of the Board and management, FINCA Pakistan would like to place on record its appreciation for the efforts for the State Bank of Pakistan (SBP), Securities Exchange Commission of Pakistan, and Central Depository Company (CDC) for their guidance and cooperation extended to the Bank, and for strengthening the financial industry through continuous improvements in the regulatory and governance framework. The Bank would also like to express gratitude to its shareholders, its customers and business partners for their continued patronage. At the same time, the Board of Directors regret loss of life in Pakistan due to COVID-19 and have immense respect for employees who continued to fulfill their duties and responsibilities while also taking necessary steps to preserve their health and safety. The Board and the management remains committed to maintaining the highest standards of governance.

Ms. Zarlisht Wardak

Chairperson Board of Directors  
FINCA Microfinance Bank Limited



## ڈائریکٹرز رپورٹ برائے حصص داران

فینکا مائیکرو فنانس بینک لمیٹڈ کے بورڈ آف ڈائریکٹرز کے توسط سے بینک ہذا بخوشی سال ختم 31 دسمبر 2020 کی آڈٹ شدہ مالی رپورٹ پیش کرتا ہے۔  
جائزہ:

کوویڈ 19 وباء کے باعث پیدا ہونے والی غیر معمولی مشکلات کی بناء پر اس مالی سال کے دوران فینکا پاکستان کے لئے مارکیٹ پوزیشن برقرار رکھنا قدرے مشکل ثابت ہوا۔ ایسی مشکل اور غیر متوقع صورتحال کا سامنا کرنے کے باوجود بھی بینک نے اپنے تمام امور کو بخوبی سرانجام دیا۔ فینکا پاکستان نے مثبت مالی نتائج حاصل کرتے ہوئے 1416 ملین روپے کا پری ٹیکس منافع کمایا۔ قرضہ جات فراہم کرنے کے حوالے سے ایک محتاط حکمت عملی اپنانے سے GLP اور فعال صارفین کی تعداد میں اس سال بالترتیب 4 فیصد اور 5.5 فیصد کمی واقع ہوئی جبکہ اس سال بینک کے ڈیپازٹ فرنٹ میں 9.2 فیصد کا اضافہ ہوا۔ ڈیجیٹل فنانشل سروسز یونٹ نے بھی اپنے پے رول سیگمنٹ پر غیر معمولی توجہ مرکوز رکھی اور یوں اس مالی سال کے دوران بینک نے اپنے تمام ریکیولیٹری امور کو بخوبی سرانجام دیا۔

11 مارچ 2020 کو WHO نے کوویڈ 19 کو ایک وباء قرار دیا تھا اور WHO کے اس پیغام میں یقین کے ساتھ نشاندہی کی گئی تھی کہ دنیا کے ہر خطے میں کورونا وائرس کا پھیلاؤ یقینی طور پر ناگزیر ہے لیکن تمام حکومتیں، کاروباری ادارے اور عوام الناس اس وباء کی شدت کو کم کرنے کی یقینی صلاحیت رکھتے ہیں۔ تاہم اس وباء کے معاشی اثرات خطرناک حد تک غیر معمولی اور غیر مثالی ثابت ہوں گے۔ دنیا بھر کے تمام ممالک کی طرح پاکستان نے بھی کورونا وائرس کے پھیلاؤ سے نمٹنے کے لئے سخت ترین اقدامات اٹھائے۔

پاکستان نے کورونا وائرس سے مکمل بچاؤ کے لئے لاک ڈاؤن کی حکمت عملی اپنائی جس نے مائیکرو فنانس سیکٹر (جو پہلے ہی معاشی طور پر کمزور تھے) کو سب سے زیادہ متاثر کیا۔ لاک ڈاؤن نے خاص طور پر ان چھوٹے کاروباری حضرات کو غیر معمولی حد تک متاثر کیا جن کا انحصار ایک مستقل آمدن پر ہوتا ہے۔ ایسی صورتحال کو دیکھتے ہوئے فینکا پاکستان نے صارفین کے معاشی نقصان کے ازالے کے لئے فوری اقدامات اٹھائے۔ تمام تر انتظامی و کاروباری امور کو مد نظر رکھتے ہوئے قرضہ جات کے شیڈولز کو از سر نو مرتب کیا گیا، تمام تر برانچز اور ہیڈ آفس میں نئے حفاظتی امور متعارف کروائے گئے جبکہ وسیع پیمانے پر ایک ایسی کمیونیکیشن کمپین بھی پیش کی گئی جس کے ذریعے صارفین کو بینکنگ ضروریات پوری کرنے کے لئے متبادل ڈیلیوری چینلز اپنانے کی ترغیب دی گئی۔ حکومتی سطح پر لاک ڈاؤن کے باعث دوسری سہ ماہی کے دوران نئے قرضہ جات کی فراہمی توقف کا شکار رہی لیکن صارفین کی مشکلات اور معاشی ضروریات کو مد نظر رکھتے ہوئے مختلف مراحل میں قرضہ جات کی فراہمی کا آغاز کر دیا گیا۔

کریڈٹ آپریشنز کا دوبارہ آغاز کرنا ان چھوٹے کاروباری حضرات کے لئے مشکلات پیدا کر سکتا تھا جو کوویڈ 19 ختم ہو جانے کے بعد اپنی کاروباری سرگرمیاں دوبارہ شروع کرنے کے خواہشمند تھے۔

کاروباری سرگرمیوں کی رفتار میں کمی نے ہمیں سیکٹر سیکمنٹس کا از سر نو جائزہ لینے کا موقع فراہم کیا جس سے ہماری حکمت عملی مزید بہتر ہوئی۔ سٹیٹ بینک آف پاکستان نے بھی مائیکرو فنانس بینکس کے لئے لون کی حد میں اضافہ کی تجویز پیش کی۔ اس حوالے سے سٹیٹ بینک آف پاکستان کی منظوری کے بعد ہم

installment-based برنس لوز کی کیٹگری میں اپنی پراڈکٹس کو مزید موثر اور فعال بنانے کے قابل ہو جائیں گے۔

اسکے ساتھ ساتھ لمیٹڈ in-person تعلقات پر مزید توجہ دینے سے ہم اپنے back-end آپریشنز میں مزید بہتری لاسکیں گے اور یوں ہمارے ڈیجیٹل ٹرانسفارمیشن ایجنڈا کو بھی فروغ حاصل ہوگا۔ جبکہ یہ اقدامات ہمارے ڈیجیٹل ٹرانسفارمیشن کے سفر میں ایک سنگ میل ثابت ہوں گے۔

### معاشی صورتحال:

چونکہ سال 2020 میں کووڈ 19 کی صورت میں دنیا کو ایک خطرناک وباء کا سامنا کرنا پڑا۔ اس لئے پاکستان اس عرصہ کے دوران کسی بھی قسم کی معاشی ترقی کرنے میں ناکام رہا۔ روز بروز بڑھتی ہوئی بے روزگاری اور افراطِ زر میں اضافہ کے باعث معیشت کو مستحکم رکھنا حکومت کے لئے کسی چیلنج سے کم نہیں تھا۔

### بنیادی مثبت رجحانات:

- اگرچہ 2020 کے آغاز میں امریکی ڈالر کی قدر 154.6 روپے کے مساوی تھی جو کووڈ 19 کی وجہ سے اگست 2020 میں 168.9 روپے تک جا پہنچی لیکن امریکی ڈالر کی قدر میں کمی کے باعث دسمبر 2020 کے اواخر تک ایک امریکی ڈالر کی قیمت 159.8 روپے کے برابر ہوگئی۔ جس کی ایک بڑی وجہ ورکرز کے ترسیلاتِ زر میں 6.4 فیصد بڑھوتری کے باعث روپے کی قدر میں ہونے والا اضافہ تھا۔
- 2020 کے آخر تک پالیسی ریٹ %7 کی مستحکم سطح تک پہنچ گیا اور ڈومیسٹک ریکوری میں بھی کچھ مزید بہتری دیکھنے میں آئی۔ اسکے ساتھ ساتھ زیادہ تر معاشی سرگرمیوں کے ڈیٹا اور کنزیومر اور کاروباری رجحانات میں بھی مسلسل بہتری نظر آرہی ہے۔ جس کے نتیجے میں FY21 میں موجودہ بڑھوتری کے حوالے سے کم خطرات پیدا ہونے کی اُمید ہے۔
- حکومت پاکستان نے کووڈ ویکسین کی خریداری کے لئے پہلے سے ہی 150 ملین ڈالر ز کے فنڈ مختص کر دیئے ہیں۔ اسکے علاوہ موثر کورونا وائرس ویکسین کی تیاری کی خبر کے بعد سٹیٹ بینک آف پاکستان نے یہ امید ظاہر کی ہے کہ سالانہ مالی سال 2020-2021 کے لئے 2.5 فیصد معاشی ترقی کا امکان ہے۔ سٹیٹ بینک آف پاکستان کے اندازے کے مطابق گزشتہ مالی سال کی 0.4 فیصد منفی گروتھ کے مقابلے میں اس مالی سال 1.5 فیصد سے 2.5 فیصد گروتھ متوقع ہے۔

### بڑے خطرات:

- کم سے کم نقصانات کا سامنا کرنے کے لئے حکومت کی موثر کاوشوں کے باوجود بھی سال 2020 میں ہماری معیشت کو شدید خطرات کا سامنا رہا جو مندرجہ ذیل ہیں۔
- مالی سال 2020 میں جی ڈی پی گروتھ ریٹ 0.4 فیصد کی کمی واقع ہوئی۔
- مالی سال 2020 کے دوران افراطِ زر میں 9.5 فیصد کا اضافہ ہوا۔
- کووڈ 19 کی وباء کے باعث لگنے والے لاک ڈاؤن میں بھی معاشی گروتھ برقرار رکھنے کے لئے سٹیٹ بینک آف پاکستان کو سال 2020 میں اپنا پالیسی ریٹ 13.25 فیصد سے کم کر کے 7.00 فیصد کرنا پڑا۔

### Reserves میں شراکت:

مائیکرو فنانس انسٹی ٹیوشن آرڈیننس 2001 اور سٹیٹ بینک آف پاکستان کی جانب سے جاری کردہ حفاظتی قوانین کے مطابق فنکا مائیکرو فنانس بینک نے سال 2020 کے دوران ٹیکس کی ادائیگی کے بعد حاصل ہونے والے منافع کی 20 فیصد رقم (180.9 ملین روپے) قانونی ریزرو جبکہ منافع کی 5 فیصد رقم (45.2 ملین روپے) ڈیپازٹرز کے پروفیکشن فنڈ میں جمع کروائی ہے۔

### سرمایہ کا تناسب:

بیلنس شیٹ ڈیٹا کے مطابق capital adequacy purpose اور capital adequacy ratio کے لئے بینک کی ایکویٹی بالترتیب 5,907.8 ملین روپے اور 20.9 فیصد رہی جبکہ سٹیٹ بینک آف پاکستان کے قوانین کے مطابق کم سے کم درکار ایکویٹی بالترتیب 1,000 ملین روپے اور 15 فیصد ہے۔

### کاروباری ترقی:

سال 2020 فنکا پاکستان کے لئے ایک مشکل سال ثابت ہوا لیکن اس سال نے بینک کو قلیل المدت استحکام کے ساتھ ساتھ طویل المدت ترقی کے مواقع بھی فراہم کئے۔ تمام تر قوانین و ضوابط کی پاسداری کرتے ہوئے کسٹمرز کی معاشی بہتری کے لئے قرضہ جات کو ری شیڈول یا ملتوی کیا گیا۔ بینک نے Gold-backed لینڈنگ کیٹگری میں مسلسل ترقی کی تاکہ کریڈٹ رسک سے بچا جاسکے اور liquidity crunch کی صورت میں فنانس تک فوری رسائی فراہم کی جاسکے۔ کیونکہ لاک ڈاؤن میں سب سے زیادہ خطرہ اُن افراد کے لئے تھا جو کم آمدنی والی مارکیٹ سے منسلک ہیں۔ مزید برآں جب لینڈنگ کو ہماری حکمت عملی کے مطابق پھر سے شروع کیا گیا تو قساطر پر ملنے والی مندرجہ ذیل پراڈکٹس کی دستیابی کو بھی بڑھا دیا گیا۔

فنکا موٹر سائیکل لون۔ 23 برانچوں میں فراہم کر دیا گیا۔

فنکا ہاؤس لون (محفوظ اور غیر محفوظ)۔ 38 برانچوں میں فراہم کر دیا گیا۔

مزید برآں، بینک ملک بھر کے تمام کارپوریٹس اور ایس ایم ایز کے لئے اپنی ڈیجیٹل ایپ کا پے رول سلوشن متعارف کروا رہا ہے جبکہ ابھی تک مجموعی طور پر 525 کمپنیوں کے 77,424 افراد پے رول ملازمین بن چکے ہیں۔

سال 2021 میں ریگولیٹری منظوری کے بعد بینک کمرشل بنیادوں پر اپنی سالانہ پرائز پراڈکٹس بھی متعارف کروانے جارہا ہے۔ اس کاوش کا مقصد مختلف کاروباری مواقع تک رسائی حاصل کرنے کے لئے موجود پراڈکٹس کو پے رول کلائنٹس تک پہنچانا اور دونوں کے مابین اتحاد قائم کرنا ہے۔

بینک اپنے اُن تمام آپریشنز میں مسلسل بہتری لانے پر یقین رکھتا ہے جو lean six sigma کے اصولوں پر قائم کئے گئے ہیں اور یہی وہ اصول ہیں جو آج کی بینکنگ اور فنانشل انڈسٹری میں مثبت اور تیز ترین تبدیلیاں لا رہے ہیں۔ بینک نے اپنے تمام "لون لائف سائیکل" کو ڈیجیٹائز کرنے کے لئے سال 2017/2018 میں اپنے پراجیکٹ Digital Field Automation (DFA) کا نفاذ کیا۔ اب بینک اپنے موبائل والٹس پر لون فراہم کر رہا ہے اور اس ڈیجیٹل تبدیلی نے کسٹمرز کو ڈیجیٹل چینلز کے ذریعے مستحکم ہونے کا موقع فراہم کیا ہے چونکہ اب وہ کسی بھی برانچ میں گئے بغیر بھی مختلف قسم کی فنانشل ٹرانزیکشنز کر سکتے ہیں۔

- مالی سال 2021 کے لئے افراط زر میں 7 سے 9 فیصد تک کمی متوقع ہے جبکہ میڈیم ٹرم تک 5 سے 7 فیصد تک کمی کی توقع کی جارہی ہے۔
- خسارے کو قابو میں رکھنے کے لئے اٹھائے جانے والے اقدامات اور ٹیرف ایڈجسٹمنٹ کے باوجود بھی انرجی سیکٹر ایریز میں بھی مسلسل بہتری رہی۔

### مائیکرو فنانس سیکٹر کا جائزہ:

کورونا وائرس وباء کے معاشی اثرات کی وجہ سے سال 2020 مائیکرو فنانس انڈسٹری کے لئے بھی ایک بڑا خطرہ ثابت ہوا۔ گزشتہ سال کے مقابلے میں سیکٹر کے کریڈٹ کے شعبہ میں انتہائی کم درجے کی بڑھوتری رونما ہوئی۔ فعال قرض خواہوں میں 3 فیصد کمی دیکھنے میں آئی جبکہ آؤٹ سٹینڈنگ لینڈنگ پورٹ فولیو میں 5.9 فیصد اضافہ ہوا۔ تاہم مائیکرو فنانس بینک کے peer گروپ کے لئے GLP والیم میں 11.2 فیصد اضافہ ہوا۔ دوسری جانب ڈیپازٹ کے شعبہ میں ڈیپازٹرز کے تعداد میں 33 فیصد اضافہ ہوا اور ڈیپازٹس کے حجم میں 39 فیصد اضافہ دیکھا گیا۔ یوں مائیکرو فنانس بینکس پورٹ فولیو میں سال 2020 کے لئے 6.1 فیصد سے 3.3 فیصد تک کمی دیکھی گئی جو زیادہ تر پورٹ فولیو کی ری شیڈولنگ کا باعث بنی۔

### بینک کا منافع مالی کارکردگی

شعبہ جات	31 دسمبر 2020 (ملین میں روپے)	31 دسمبر 2019 (ملین میں روپے)
گراس لون پورٹ فولیو	21,550.5	22,480.0
فعال قرض خواہوں کی تعداد	225,288	238,337
ڈیپازٹس	26,082.8	23,911.3
ڈیپازٹ کروانے والے کسٹمرز کی تعداد	1,527,000	1,283,677
ٹیکس سے پہلے منافع	1,416.0	1,011.6
ٹیکس کے بعد منافع	904.7	653.4
PAR > 30 days	3.4%	4.7%
لاگت تا منافع کی شرح	85.1%	89.1%
اثاثہ جات پر ریٹرن	2.4%	1.9%
ایکویٹی پر ریٹرن	19.2%	14.7%
Opex/GLP	17.6%	18.5%

اس تعداد میں دوہری گنتی بھی شامل ہو سکتی ہے جیسا کہ کچھ کسٹمرز borrowers بھی ہیں اور Savers بھی۔

سال 2020 کی اس مالی کارکردگی میں بینک کے نیٹ ورک کی 130 برانچوں اور 2 سیلز اینڈ سروس سینٹرز کو شامل کیا گیا۔

بینک نے اپنے باصلاحیت کسٹمرز کو اس قابل بنایا ہے کہ وہ ڈیجیٹل میڈیا کے ذریعے ہماری سروسز کے لئے اپلائی کریں۔ ان ڈیجیٹل کسٹمرز کی کال سنٹرز کے ذریعے تصدیق کی جاتی ہے اور بعد ازاں متعلقہ مراحل کو برانچز میں سرانجام دیا جاتا ہے۔

مزید برآں موجودہ قرض داران کو کال سنٹر کی راہنمائی میں امور انجام دینے والے "سنٹر لائزڈ انڈرائٹنگ پراسیس" کے ذریعے تیز ترین قرضہ جات کی فراہمی کی جاتی ہے۔

تبدیلی کے اس سفر کو جاری رکھتے ہوئے بینک نے اپنے مکمل آپریٹنگ ماڈل کو از سر نو ڈیزائن کیا ہے تاکہ پراسیسنگ کو کم سے کم وقت میں زیادہ سے زیادہ موثر بنا کر کسٹمر کے تجربے (CX) کو بہتر بنایا جاسکے۔

بینک کا ایک مثالی اقدام کسٹمر ریلیشنشپ مینجمنٹ (CRM) ہے جو ڈیجیٹل طریقہ کار سے کسٹمرز سے رابطہ قائم کرے گا اور کسٹمر کی خواہش اور ضرورت کے حساب سے بہترین سہولت فراہم کرے گا۔

Startex مارکیٹنگ سروسز کی جانب سے بڑے مائیکرو فنانس بینکس کے مابین آزاد سطح پر ایک سٹڈی کا اہتمام کیا گیا جس میں کسٹمر سروس کے اعتبار سے فنکا پاکستان کو سب سے بڑا مائیکرو فنانس بینک قرار دیا گیا۔ سٹاف کو تربیت فراہم کرنے کیلئے سال بھر کے دوران مختلف C X ورکشاپس کا انعقاد کیا گیا۔ مزید برآں CX کو فزیکل حاضری کے بغیر ہی راہنمائی فراہم کرنے کے لئے virtual feedback loops کا اہتمام کیا گیا۔ جس کی وجہ سے مجموعی سروس سٹینڈرڈ کمپلائنس 80 فیصد تک پہنچ گیا جو 2019 میں 73 فیصد تھا۔ اسکے ساتھ ساتھ انٹرئل ہیلپ ڈیسک اور ایس ایل اے ٹریکر (SLA) کے مکمل نفاذ سے 70,000 سے ٹکٹس کی جانچ پڑتال اور ہینڈلنگ میں مدد ملی ہے جس کے نتیجے میں دسمبر 2020 میں 96 فیصد کمپلائنس کا اندراج ہوا جو گزشتہ سال کے مقابلے میں 4 فیصد زیادہ ہے۔

گزشتہ کچھ برسوں میں بینک کے عزائم و مقاصد بڑھتے رہے ہیں اور اب فنکا پاکستان ایک برینڈ بن چکا ہے۔ سال 2020 میں کورونا وباء سے پیدا ہونے والے مسائل کے باوجود بھی بینک نے برینڈنگ سے متعلقہ کوششوں کو جاری رکھا۔ بینک نے مسلسل ابلاغ کے ذریعے اپنی ساکھ کو کامیابی سے قائم کئے رکھا۔ لوگوں کی توجہ قائم کرنے کے لئے ایسی تصاویر اور زبان کا استعمال کیا گیا جو لوگوں سے مطابقت رکھتی ہو۔ اس مقصد کے لئے کارپوریٹ برینڈ کی شناختی علامات کو صارفین کے طرز زندگی کے عین مطابق ڈھالا گیا۔

### خطرات سے نمٹنے کا لائحہ عمل:

معاشی ترقی میں سست رفتاری کے باوجود بھی فنکا نے کاروبار کے معیار کو برہانے کے عزم کو ہمیشہ اپنائے رکھا۔ جبکہ خطرات سے نمٹنے کے لائحہ عمل کو ترجیحی بنیادوں پر نافذ العمل بنایا گیا تاکہ ایک ایسا کنٹرول سٹرکچر قائم کیا جاسکے جس کے تحت پورٹ فولیو پر سمجھوتہ کئے بغیر ڈیٹا کی بنیاد پر فیصلہ کیا جاسکے اور ساہرہ انفارمیشن سکیورٹی اور انٹرئل کنٹرولز کو مضبوط بنایا جاسکے۔ کسی ان دیکھے خطرے سے نمٹنے کے لئے فنکا پاکستان adequate liquidity اور Capital Adequacy Ratio کو ہمیشہ برقرار رکھتا ہے۔



## ہیومن ریسورسز:

کارکردگی میں اضافہ اور کامیاب نتائج کے حصول کے لئے 2019 میں مختلف تعمیری سرگرمیوں کا آغاز کیا گیا۔ سال 2020 میں بینک کا بنیادی عزم سٹاف کی خوشحالی کے لئے کام کرنا، مہارت کو فروغ دینا اور ریسورسز کا درست استعمال کرنا تھا۔ عالمی وباء کے نتیجے میں بینک کو مختلف اور متبادل طرز کار بھی اپنانا پڑا جس کے تحت ملازمین کو مختلف اور دور دراز مقامات سے کام کرنے کی اجازت دی گئی۔ اسکے ساتھ ساتھ خاص طور پر خواتین ملازمین اور ایک خاص حد سے زیادہ عمر رکھنے والے ملازمین کو گھر سے کام کرنے کی سہولت فراہم کی گئی۔

ایچ آر ڈیپارٹمنٹ کی جانب سے بینک کی ورک فورس کو ری سٹرکچر کرنے کی کوششیں کی گئیں اور اس مشکل وقت کے باوجود بھی ان کوششوں کو کامیابی سے پایہ تکمیل تک پہنچایا گیا۔ خواتین سٹاف کی نمائندگی میں اضافہ ہوا اور بینک کے ورک فورس میں 18% سے زائد جگہ خواتین نے لے لی (سپورٹ سٹاف کیلنگری کے علاوہ)۔ بینک نے نہ صرف ملازمین کے تحفظ اور فلاح کے لئے کئی نمایاں اقدامات اٹھائے بلکہ سٹاف ٹارگٹ اور مونٹری سٹرکچرنگ کے ذریعے 2020 کے آخر میں سٹاف کی بے یقینی 18 فیصد تک آگئی جو سال 2019 میں 24 فیصد تھی۔

جیسا کہ دنیا بھر میں سماجی فاصلے کے رویے کو اپنایا گیا اور لاک ڈاؤن نافذ کیا گیا۔ اس دوران بھی بینک نے اپنا رجحان تربیت اور ترقی پر قائم رکھا اور ای لرننگ کی بنیاد پر ملازمت سے مخصوص تربیتی پروگراموں کا اہتمام کیا گیا۔ مختلف ویڈیو اور وائس کانفرننگ ٹولز کا استعمال کرتے ہوئے بینک نے virtual سیشنز کا اہتمام کیا اور اسکے ساتھ ساتھ ملازمت کے کردار سے متعلق تربیت فراہم کرنے کے لئے انٹرل ڈیجیٹل لرننگ پلیٹ فارم کا اہتمام بھی کیا گیا۔

مختلف طرز زندگی سے ہم آہنگی برقرار رکھنے اور اس عرصہ کے دوران خواتین سٹاف سے رابطہ قائم رکھنے کیلئے بینک نے منفرد طریقہ عمل اپنایا۔ اور اس سلسلے میں اعتماد اور آگاہی پیدا کرنے کے لئے آن لائن اور سوشل کمیونیکیشن پلیٹ فارمز جیسا کہ ویڈیو کانز اور ریل ٹائم مسیجرز کا استعمال کرتے ہوئے مختلف سیشنز کا اہتمام کیا گیا۔

## کارپوریٹ سماجی ذمہ داری (CSR)

FINCA پاکستان، پاکستان کے سماجی و معاشی منظر نامے کا فعال حصہ ہے اور یہ بطور ایک ذمہ دار سماجی حصے کے اپنا کردار نبھا رہا ہے۔ معاشرے کو فائدہ واپس پہنچانا FINCA کی ڈبل باٹم لائن حکمت عملی کا حصہ ہے۔ ملک کی معاشی اور سماجی بڑھوتری کو فروغ دینے کیلئے FINCA پاکستان مالی طور نسبتاً کم جاننے والے معاشروں میں اپنے ارد گرد کی کمیونیز میں معلومات کی فراہمی کیلئے کوشاں رہتا ہے۔ بین الاقوامی سطح پر کووڈ 19 کے برے اثرات کے باوجود FINCA پاکستان نے سال 2020 کے دوران 179 اقدامات کئے جس میں سمجھ بوجھ پروگرام کے 53 سیشنز اور فائنل فنانشل لٹریسی پروگرام کے 126 سرگرمیاں شامل ہیں جن میں کووڈ کے SOPs پر سختی سے عمل کیا گیا۔ ان اقدامات سے 4000 افراد نے فائدہ اٹھایا جس میں فائنل سروسز کو استعمال کرتے ہوئے صارفین کے حقوق و ذمہ داری کا موضوع شامل تھا۔ سٹیٹ بینک آف پاکستان کی نگرانی میں اس طرح کے اقدامات اٹھائے گئے اور تمام سیشن FINCA پاکستان کی جانب سے براہ راست کئے گئے۔

ملک میں مثبت تبدیلی لانے کیلئے بینک نے دی سٹیزن فاؤنڈیشن (TCF) کے ساتھ فروری 2020 میں اشتراک کیا۔ TCF Ilmathon میں شرکت کرتے ہوئے FINCA پاکستان نے 18 حق دار سٹوڈنٹس کی ایک سالہ تعلیم کو سپانسر کیا۔

ملازمین کے رضا کارانہ اقدامات بھی ہماری کارپوریٹ سماجی ذمہ داری کی حکمت عملی کا اہم حصہ ہیں۔ مشکل کے وقت میں قوم کی مدد کیلئے FINCA پاکستان نے اپنے ملازمین کی مدد سے وزیراعظم کے کووڈ 19 فنڈ میں حصہ ڈالا، بحالہ آڈیٹڈ فنانشل سٹیٹمنٹس 2020 کا نوٹ 26.2۔ یہی نہیں بلکہ کووڈ 19 کے خلاف قوم کی اس جنگ میں مدد کرنے کیلئے انسٹیٹیوٹ آف پبلک ہیلتھ پنجاب کو کووڈ 19 کی تشخیصی کٹس کیلئے چندہ بھی دیا گیا۔

## کریڈٹ ریٹنگ

کریڈٹ ریٹنگ کمپنی PACRA نے بینک کی مالی پوزیشن کو دیکھتے ہوئے اسے لانگ ٹرم میں 'A' (سنگل A) جبکہ شارٹ ٹرم کیلئے 'A1' entity ریٹنگ دی ہے جبکہ آؤٹ لک 'stable' بتائی گئی ہے۔

## کارپوریٹ گورننس

بورڈ آف ڈائریکٹرز اپنے شیئر ہولڈرز کے سامنے بینک کی گورننس کا ذمہ دار ہے۔ بورڈ آف ڈائریکٹرز اندرونی کنٹرول کے نظام کی مضبوطی اور خطرات سے نمٹنے کی ذمہ داری کا اعتراف کرتا ہے اور وقتاً فوقتاً جاری کردہ قواعد و ضوابط کے مطابق کارپوریٹ گورننس کے اعلیٰ معیار کو قائم کرنے کیلئے کوشاں ہے۔

## کارپوریٹ گورننس کی سٹیٹمنٹ

### ڈائریکٹرز بڑی خوشی سے مندرجہ ذیل اعلانات کرتے ہیں:

ا۔ مالی سٹیٹمنٹس، بینک کی مینجمنٹ کی جانب سے انتہائی شفاف طریقے سے تیار کر کے پیش کی جاتی ہے بشمول آپریشنز کے رزلٹ، کیش فلو اور ایکویٹی میں تبدیلی کے؛

ب۔ بینک کے اکاؤنٹس کی کتابوں کو محفوظ رکھا جاتا ہے۔

ج۔ فنانشل سٹیٹمنٹ کی تیاری کے دوران مناسب اکاؤنٹنگ پالیسیوں کو مد نظر رکھا جاتا ہے اور اکاؤنٹنگ تخمینہ مناسب اور محتاط اندازے کے مطابق ترتیب دیا جاتا ہے۔

د۔ انٹرنیشنل فنانشل رپورٹنگ سٹینڈرڈز، پاکستان میں اپنی حدود اور سٹیٹ بینک آف پاکستان کی ہدایات کے مطابق بینک کی جانب سے پوری طرح ان پر عمل کیا جاتا ہے۔

ر۔ انٹرل کنٹرول کا سسٹم اپنے ڈیزائن کے اعتبار سے مضبوط ہے اور اسے بھرپور انداز میں نافذ اور مانیٹر کیا جاتا ہے۔

ز۔ بینک کی اپنے نظام کو چلانے کی اہلیت پر کسی طرح کا کوئی شک نہیں کیا گیا ہے۔

## بورڈ آف ڈائریکٹرز:

بینک پریزیڈنٹ اور چیف ایگزیکٹو آفیسر کے علاوہ 9 ممبرز پر مشتمل ایک بورڈ آف ڈائریکٹرز رکھتا ہے۔ سال 2020 کے اختتام تک کل 8 ڈائریکٹرز کام کر رہے ہیں جبکہ ایک وکیلٹی معمول کے مطابق خالی ہے، جس میں سے 6 نان ایگزیکٹو ڈائریکٹرز اور 2 انڈیپنڈنٹ ڈائریکٹرز ہیں۔ بورڈ میں 3 خاتون ڈائریکٹرز ہیں۔

## سال ختم 31 دسمبر 2020 تک بورڈ آف ڈائریکٹرز مندرجہ ذیل تبدیلیاں رونما ہوئیں:

جناب فرید احمد خان نے سال 2020 کے دوران صرف ایک بورڈ میٹنگ میں شرکت کی اور ان کا استعفیٰ بورڈ آف ڈائریکٹرز کے 70 ویں اجلاس بتاریخ 14-01-2020 میں منظور کیا گیا۔



03	03	بورڈ ممبر	جناب شبیر حسین ہاشمی
03	03	بورڈ ممبر	ڈاکٹر سید عارف احمد

#### بورڈ کی آڈیٹ کمیٹی:

بینک کے پاس اپنا اندرونی آڈیٹ ڈیپارٹمنٹ ہے جس میں انڈسٹری کا تجربہ رکھنے والے پروفیشنلز شامل ہیں۔ ہیڈ آف انٹرنل آڈیٹ بورڈ کی آڈیٹ کمیٹی کو براہ راست رپورٹ کرتا ہے تاہم انتظامی طور پر ہیڈ آف انٹرنل آڈیٹ پریزیڈنٹ / CEO کو رپورٹ کرتا ہے۔

بورڈ کی آڈیٹ کمیٹی میں 2 نان ایگزیکٹو ڈائریکٹرز (Mr. Jeffrey Peter Smith & Mr. Fatma Safiye Ozuygun Sahin) اور ایک انڈیپنڈنٹ ڈائریکٹر (جناب شبیر حسین ہاشمی) شامل ہیں۔ جناب شبیر حسین ہاشمی انڈیپنڈنٹ ڈائریکٹر ہونے کے ناطے بورڈ کی آڈیٹ کمیٹی کے چیئرمین ہیں۔

#### قرض کی ادائیگی:

بینک اپنے قرض کی ادائیگی میں ہمیشہ جلدی کرتا ہے اور ایسا ایک بھی موقع نہیں جب اس قانونی ذمہ داری میں دیر کی گئی ہو۔

#### ریلیٹڈ پارٹی ٹرانزیکشنز:

بینک کی ریلیٹڈ پارٹیز ڈائریکٹرز، اہم مینجمنٹ نمائندگان، شیئرز ہولڈرز اور ایسے اداروں پر مشتمل ہے جن پر ڈائریکٹرز موثر ہیں۔ بینک کے شیئرز ہولڈرز کی تفصیل بینک کی سالانہ آڈیٹڈ فنانشل سٹیٹمنٹس 2020 کے نوٹ 21 میں دی گئی ہے۔ 31 دسمبر 2020 پہ ختم ہونے والے عرصہ کے دوران ہونے والی ٹرانزیکشنز کی تفصیل بینک کی سالانہ آڈیٹڈ فنانشل سٹیٹمنٹس 2020 کے نوٹ 33 میں دی گئی ہے۔

#### قانونی آڈیٹرز:

موجودہ آڈیٹرز، میسرز KPMG تاثیر ہادی اینڈ کو چارٹرڈ اکاؤنٹنٹس (KPMG) آنے والی سالانہ جنرل میٹنگ میں ریٹائر ہو جائیں گے اور چونکہ وہ اہل ہیں اس لئے انہوں نے خود کو دوبارہ تقرری کیلئے پیش کیا ہے۔ بورڈ کی آڈٹ کمیٹی نے اگلے سال کیلئے KPMG کی دوبارہ تقرری کی سفارش کی ہے۔ اس کے ساتھ ساتھ بورڈ آف ڈائریکٹرز نے KPMG کی بطور قانونی آڈیٹر طے شدہ فیس کے مطابق دوبارہ تقرری کی تصدیق بھی کی ہے۔ بیرونی آڈیٹر کی تقرری کا فیصلہ آنے والی سالانہ جنرل میٹنگ میں ہوگا۔

سیریل نمبر	شیئرز کی تعداد	ملکیت
1	548,498,650	FINCA مائیکرو فنانس کوآپریٹوٹ U.A
2	33,119,747	کشف ہولڈنگز (پرائیویٹ) لمیٹڈ

جناب ایلن کرسٹوفر مائیکل لو نے 2020 کے دوران کسی بورڈ میٹنگ میں شرکت نہیں کی اور ان کا استعفیٰ بورڈ آف ڈائریکٹرز کے 70 ویں اجلاس بتاریخ 14-01-2020 میں منظور کیا گیا۔

جناب امر حسین حیدر نے 2020 کے دوران 3 بورڈ میٹنگ میں شرکت کی اور ان کا استعفیٰ بورڈ آف ڈائریکٹرز کے 78 ویں اجلاس بتاریخ 21-09-2020 میں منظور کیا گیا۔

جناب شبیر حسین ہاشمی کو بتاریخ 24-08-2020 بورڈ آف ڈائریکٹرز میں بطور انڈیپنڈنٹ ڈائریکٹر تعینات کیا گیا۔

جناب سید عارف احمد کو بتاریخ 24-08-2020 بورڈ آف ڈائریکٹرز میں بطور انڈیپنڈنٹ ڈائریکٹر تعینات کیا گیا۔

سال 2020 میں ڈائریکٹر کے استعفیٰ کے باعث معمول کی ویکلنسیوں میں درج ذیل ردوبدل کی گئی:

سیریل نمبر	جانے والے ڈائریکٹر	آنے والے ڈائریکٹر
1	جناب فرید احمد خان	جناب شبیر حسین ہاشمی
2	جناب ایلن کرسٹوفر مائیکل لو	جناب سید عارف احمد
3	جناب عامر حسین	خالی

بورڈ کے ڈائریکٹرز صرف کوآپریٹوٹیشن شیئرز کے حامل ہیں اور سال 2020 کے دوران انہوں نے بینک کا کوئی شیئر نہیں خریدا۔

#### بورڈ میٹنگز:

سال 2020 کے دوران بورڈ کی کل 11 میٹنگز منعقد کی گئیں ڈائریکٹرز کی جانب سے میٹنگز میں شرکت کی تفصیل درج ذیل ہے:

بورڈ ممبر	عہدہ	میٹنگز کی کل تعداد	شرکت کردہ میٹنگز
Ms. Zarlasht Wardak	چیئرمین / بورڈ ممبر	11	11
Mr. Jeffrey Peter Smith	بورڈ ممبر	11	11
مس روشانہ ظفر	بورڈ ممبر	11	08
Mr. Volker Renner	بورڈ ممبر	11	11
Mr. Makhmudjon Saidakhmatov	بورڈ ممبر	11	10
مس فاطمہ صفیہ اوزون گن ساہین	بورڈ ممبر	11	10
جناب فرید احمد خان	بورڈ ممبر	01	01
Mr. Allan Christopher Michael Low	بورڈ ممبر	01	0
جناب عامر حسین	بورڈ ممبر	09	03



3	30,771,739	انٹرنیشنل فنانس کارپوریشن
4	17,368,319	Triodos فینئر شیئر فنڈ
5	5,130,253	ایکیو مین پاکستان
6	3	ڈائریکٹرز

### فی شیئر منافع:

سال ختم 2020 کافی شیئر منافع 1.42 روپے ہے جبکہ اس کے مقابلے میں سال ختم 2019 میں یہ منافع 1.03 روپے تھا۔

### ہولڈنگ کمپنی:

بینک کی ہولڈنگ کمپنی FINCA مائیکرو فنانس کوآپریٹو U.A ہے۔ بینک کی حتمی ہولڈنگ کمپنی FINCA انٹرنیشنل INC ہے جو کہ واشنگٹن DC متحدہ امریکہ سے تعلق رکھنے والی ایک غیر منافع بخش کارپوریشن ہے۔

### بعد میں پیش آنے والے واقعات:

بیلنس شیٹ کی تاریخ کے بعد کوئی قابل ذکر واقعہ پیش نہیں آیا جس کی ایڈجسٹمنٹ منسلک کی گئی فنانشل سٹیٹمنٹس میں ضروری ہوسوائے اس کے جو پہلے ہی اعلان کی جا چکی ہیں۔

### مستقبل کا منظر نامہ:

مالی طور پر متحرک اور چھوٹا انٹرپرائز سیکٹر ملکی ترقی کیلئے بہت ضروری ہے اور FINCA پاکستان اس سلسلے میں اپنا کردار ادا کرنے کیلئے ہر دم تیار رہتا ہے۔ کسٹمرز پر ہماری مسلسل توجہ جاری رہے گی کیونکہ بینک کی ہر خدمت کا مرکز وہی ہیں اسی لئے بینک بہتر سروس کی فراہمی کیلئے اپنی کوششوں میں مزید تیزی لائے گا اور ایسی پراڈکٹس متعارف کروائے گا جو ہمارے کسٹمر کی مالی ضروریات کو پورا کریں۔

کووڈ 19 کی وجہ سے معیشت پر پڑنے والے برے اثرات کے باوجود بینک 2021 میں بڑھوتری کی طرف جائے گا۔ ہماری توجہ کا مرکز MSME / چھوٹے کاروبار کا شعبہ ہوگا کیونکہ حکمت عملی کے اعتبار سے یہی بہتری لائے گا اور ڈیجیٹل ٹرانسفارمیشن کی جانب لے جائے گا۔ FINCA پاکستان اپنی کچھ پائلٹ پراڈکٹس اس سال لانچ کرے گا اس کے علاوہ بینک اشتراک کے ذریعے بڑے کلائنٹس تک رسائی اور موجودہ پراڈکٹس کی فروخت کیلئے کوششوں کو مزید بڑھائے گا۔

### اعتراف:

بورڈ اور منجمنٹ کی جانب سے FINCA پاکستان سٹیٹ بینک آف پاکستان، سکیورٹی اینڈ اینچینج کمیشن آف پاکستان اور سنٹرل ڈیپازٹری کمپنی کی تمام کوششوں

کی تعریف کرنا چاہتا ہے اور ان کے تعاون، رہنمائی اور گورننس میں مسلسل بہتری لانے پر ان کا شکریہ ادا کرتا ہے۔ بینک اپنے شیئر ہولڈرز، کسٹمرز اور پارٹنرز کا بھی شکر گزار ہے۔ اس کے ساتھ ساتھ بورڈ آف ڈائریکٹرز کو کووڈ 19 کی وجہ سے ہونے والے جانی نقصان پر بھی بے حد افسوس ہے اور ان ملازمین کیلئے بے حد احترام ہے جنہوں نے صحت اور حفاظت کے اصولوں کو مد نظر رکھتے ہوئے ان مشکل حالات میں بھی کام جاری رکھا۔ بورڈ اور منجمنٹ گورننس کے اعلیٰ معیار کو قائم کرنے کیلئے ہمیشہ کاربند ہیں۔

### Ms. Zarlasht Wardak

چیئر پرسن بورڈ آف ڈائریکٹرز

FINCA مائیکرو فنانس بینک لمیٹڈ



# Defined by our Customer Service

FINCA Pakistan has always been a customer centric entity. The Bank has always believed in keeping the customer at the heart of all its operations. At FINCA Pakistan, Customer Experience (CX) is defined as how internal and external customers perceive and feel about their interactions with the Bank. The ultimate goal is to deliver such a customer experience that delights and leaves the customers convinced that their needs are prioritized, understood and that the Bank believes in their aspirations and shall be the enabler of these aspirations. With respect to CX, the biggest achievement in 2020, were the results of an independent service level study among the top micro-finance banks, rating the Bank's customer services as the very best. Key achievements for 2020 include the following:

- CX Management Workshops in collaboration with the Training team, on the internal FDA training portal, were also successfully completed by more than 1000 employees of the bank.
- Virtual CX feedback loops were deployed to gauge CX without physical visits, amidst COVID-19. More than 2500 clients were reached out telephonically to record the Voice of Customers.
- Net Promoter Score in December 2020 was recorded as 48% a slight improvement as compared to the previous year.
- On-ground CX monitoring continued with more than 180 Mystery Shopping visits to selected branches. Based on the submitted reports, the overall service standard compliance showed a spike of ~80%, as compared to 73% in 2019
- As per usual yearly practice, the Pulse Survey was conducted in 2020 as well with 1200 respondents to measure the 'moment of truth' experience where 62% of the clients were rated as 'promoters' of the bank.
- Complete deployment of Internal Help Desk and SLA tracker within the organization, resulted in ticket handling and analysis of more than 70,000 tickets, recording a compliance percentage of 96% in Dec 2020; an uptake of 4% as compared to 2019.
- A total of 13,590 customer complaints were logged in 2020 where 99.91% were closed within 3 days and 94.13% were resolved within the regulatory turnaround time.

# Our Employees and Customers Tell Their Stories

The Star Award recognizes employees who exemplify the FINCA brand and inspire customers with exceptional warmth, trust and responsible banking. The Star Award is a global award, with one winner selected from each Subsidiary and one winner from Global HQ/SCC.

As part of the yearly practice of recognizing and rewarding an exemplary employee from the FINCA Impact Finance network as a FINCA Star, Ms Tasmia Mahmood, Operations Manager from the Talaganag branch, was selected and appreciated for her exceptional efforts.



**Operations Manager**  
Talaganag Road, Chakwal Branch



Real empowerment –  
how this woman  
from Sargodha beat  
the odds to create  
her own success story




At 34 years old, Sultana Aslam is now a financially independent, empowered woman. After undergoing immense hardship in her personal and professional life, she is a successful entrepreneur. Her struggles and subsequent success has taught her that “better days come, but you have to fight the bad ones first”.

Sultana has borrowed a total of PKR 500,000 from FINCA Pakistan through Niswan Karza. Through this loan, she expanded her photography studio and her stationary business. She looks to borrow more as she dreams of expanding to a large-scale photo

studio. “Bigger machines need bigger investment and I’m confident I’ll get the support from FINCA Pakistan again.”

The growth in business enabled Sultana to feed, educate, and wed her siblings. Sultana’s small businesses employ at least 5 people, for whom the job is their sole source of sustenance. “People who didn’t trust me with a mere 1,000 rupees now trust me with hundreds of thousands as I also run major saving committees in the community. I have earned this trust and success with hard work and FINCA Pakistan’s support.”



A woman, Irshad Bibi, is the central figure. She is wearing a white headscarf with a grey patterned border and a white shawl with a wide, grey patterned border. She is smiling slightly and looking towards the camera. To her left, the head and back of a dark-colored buffalo are visible. The background is a blurred brick wall. A large yellow circle is in the top left corner, and a large red circle is in the bottom right corner, both containing text.

## Living your dreams in the real world – the story of Irshad Bibi!

Due to hard work, perseverance, and a loan from FINCA Pakistan, Irshad Bibi has been able to grow her business to new heights. Residing in Manga Mandi, Irshad didn't let her humble background hold her back. She started her own small dairy business; however, 2 buffaloes and a handful of goats were hardly enough to run a successful business.

Coming into contact with FINCA Pakistan changed her world. With the help of Maweshi Karza, she has been able to expand her livestock to 5 buffaloes and several goats. But best of all, she was able to improve her family's life by providing them with a new home and sending her children to school.

Irshad Bibi knew the risks when starting her business. She also endured skepticism from her family and neighbors, but she refused to back down. That is why she can now say "when one perseveres, things do get better".

# Never Stop Growing

Sheharyar Sheikh is a loyal customer of FINCA Barakho Branch. With the help of a FINCA loan, he was able to grow his business from one small mobile shop to three big diversified shops. Currently employing eight people, Sheharyar says: "I have seen where ambition and hard work can take a person and his family, and I am determined never to stop growing."



# Hard Work Pays Off

Muhammad Siraj, one of FINCA Barakho Branch's oldest customer, took his third loan tranche from FINCA Pakistan. Through that, he has managed to grow his dairy business from only 5 buffaloes to 30 buffaloes and cows in his dairy farm. Simultaneously, he is also providing employment to 3 more employees. He has improved his and his family's personal life and has been able to provide better schooling for children. He says: "If you have an ambition to grow and you have sincere partners like FINCA Pakistan, then your efforts can never go wasted"





## Iraadon Ka Pasbaan

Often, small businesses struggle to get financial assistance from major institutions. This prevents them from growing their business. FINCA Pakistan is providing the capital and assistance they need to help these small businesses grow.  
When you succeed, we succeed -  
Let's Grow Together.



# Enabling A Better Tomorrow

FINCA Pakistan’s role over the years has been to provide low income entrepreneurs and small businesses with financial products that help them manage their ongoing obligations, cope with setbacks and build resources for the future. This therefore implies that as an institution, our most important outcomes are defined by our customers themselves, and our performance metrics reflect their aspirations and concerns. Our social performance is measured in the same way as the financial targets - with rigor and honesty, to make sure our products and services are positively changing the lives of the people we serve. The below mentioned components represent different aspects of FINCA Impact Finance’s (FIF) mission, as covered in Mission Monitor Survey during 2019.

## Outreach:

FIF’s mission and business model focuses on reaching people whose lives and livelihoods are hindered by financial exclusion. Key indicators include:

- Country-level rate of financial inclusion
- Outreach to the following demographics
- Poor and economically vulnerable
- Women
- Rural
- Primary household earner

## Usage:

The impact of FIF’s services is determined by clients’ actual usage (or use-cases) and the perceived benefits that drive customer engagement. Indicators include:

- % of people for whom FINCA Pakistan is the main source of credit and/or savings
- Perceived contribution to family finances
- Satisfaction with loan size
- Usage of savings

## Financial health:

FIF’s social and commercial performance depends on our ability to improve our clients’ financial health, which contributes directly to the growth and sustainability of our organization. Indicators include:

- Ability to meet routine expenses on time
- Ability to save money regularly
- Assets able to cover 1 month of living expenses

## FINCA Pakistan Borrowers

FINCA Pakistan reaches out mostly to an urban clientele, except for borrowers; about a third of whom live in rural areas. We have been reaching out to a younger segment in Pakistan than most countries, especially through our digital mobile wallet products. Digital mobile wallet customers are divided into two categories. Retail customers have signed-up as DFS Application users individually while payroll customers are enrolled through employer-sponsored programs. While clients are generally satisfied with their loan amounts, just over half have renewed a loan they took previously. Women are more likely to take a follow-up loan than men.

- 86% borrowers who say FINCA Pakistan’s recent loan was the right amount for them
- 56% borrowers who renewed their last loan
- 65% female clients renewed their last loan

## FINCA Pakistan Savers

Though they do not register a high incidence of poverty, FINCA Pakistan’s clients exhibit a wide range of financial vulnerabilities. About a third of customers’ report that they are using informal savings mechanisms, but formal banking, outside of FINCA Pakistan, is very rare. We have been instrumental in improving the financial health of our clientele by promoting a savings-first mindset. It brings us immense satisfaction that about 78% of our deposit clients also save with us out of which 56% report improvement in their household’s financial situation because of their investments with us. Similarly, about 10% of lending clients save with FINCA Pakistan out of which 78% report improvement in their household’s financial situation.

The aforementioned components assist in gauging FIF’s impact on improving financial health of FINCA Pakistan clients as tabled below:

## Mission Monitor 2019

SPI	Borrowers	Savers	Mobile Wallet Retail	Mobile Wallet Payroll
Financial Health Index	61%	47%	61%	42%

## Other CSR Activities

Employee volunteering is a key part of our CSR strategy as well. Playing its role in supporting the nation in times of crisis, FINCA Pakistan with the help of its employees, donated funds to the Prime Minister’s COVID-19 Relief Fund, refer to note 26.2 of Audited Financial Statements, 2020. Not only this but in the spirit of helping the nation to combat COVID-19, donation was also made to the Institute of Public Health, Punjab’ for arranging diagnostic COVID-19 kits. Continuing its efforts to bring about a positive change in the country, the Bank collaborated with The Citizen Foundation (TCF) in February 2020. Through participating in TCF Ilmathon, FINCA Pakistan sponsored 1-year education of 18 deserving students.



## 1. Employment Generation due to Loans

Indicators	Total number of loans disbursed this CY
Total Outreach	128,789
Rural Borrowers	63,038
Urban Borrowers	65,751
Female Borrowers	14,436
Households supported & average size*	327,125
Households supported & average size (since inception)*	3,215,315

\*An average FINCA Pakistan client business supports the employment of 2.54 people (including the client himself). Household supported is based on this multiplier.

### Centralized Repeat Loans Processing Unit:

The Centralized Repeat Loans Processing Unit was developed with a vision to simplify the process of repeat loans, providing instant gratification for the customers in the shape of instant disbursements. The initiative was one of its kind in the Microfinance Industry and has been a successful venture so far; creating an example for competitors to improve their customer experience journeys.

In the first phase, the process was limited to specific products to validate the concept with minimum risk in 109 branches focused on EMI loans. The process has also brought in efficiency in terms of the field staff resourcefulness for fresh portfolio marketing and PAR for these repeat loans was garnered to be less than 0.5%, much lower than the general loan portfolio.

In 2020, the scale up was planned but not executed due to the country wide pandemic situation and was kept limited to target customers only. In 2021, the Management has decided to scale up CRLPU by adding bigger ticket size loans for EMI, agri & fattening portfolio from Q1 2021. The unit is targeting to acquire approximately 50% repeat loans in 2021.

### Dormant Account Activation through Call Centre:

FINCA Pakistan, being the pioneer among other MFBs in terms of innovations and technology, introduced the ease of Dormant Account Activation process thorough the helpline, 042-111-111-562. During COVID-19 where customers were not being able to physically visit a branch for dormant account activation, a simple and secure process of account activation via the helpline was introduced. The process is first of its kind in the Banking industry and other banks are also beginning to adopt this practice.

# Risk Management & Controls

The Bank's risk management framework is based on the fundamental principles about clear definitions of various risks, their identification, measurement and mitigation procedures together with continuous monitoring thereof. The risk appetite statement of the Bank defines the overall boundaries for exposure against various types of the risk family.

## Credit Risk

Credit Risk is the area of highest exposure amongst the entire risk family. In order to mitigate and minimize the impact of credit risk, the Bank has put in place adequate risk governance structure including relevant policies and procedures, off and on field reviews to assess the health of the portfolio and regular training for skill development of the relevant staff.

## Information Security

Information Security is becoming more of a sensitive area with the continuously growing use of technology and Alternate Delivery Channels within the financial sector. Given the competitive nature of the banking business and the sensitivity of the data it manages, Risk Management in conjunction with business and technology, has introduced a detailed Information Security Risk Assessment / Management program that includes following key defensive measures:

1. Information Security Governance - To ensure governance, management, awareness, audit and compliance.
2. Offensive Security - To ensure up-to-date security posture of the Banks' digital assets.
3. Security Operation Center - To monitor the digital footprints of security events across the Bank's digital infrastructure and respond in case of any incident.
4. Technology Risk Management - To better assess the risk arising from internal & external environments and plan its mitigation.

## Market Risk

Market Risk, especially the liquidity risk, remained under high vigilance throughout the year 2020 due to COVID-19 uncertainties. Since a significant number of borrowers opted to avail deferment/rescheduling facility, under State Bank of Pakistan initiative of providing relief to the borrowers so as to dampen the impact of COVID-19 therefore, the Bank decided to maintain higher than the normal level of liquidity to ensure meeting any contingent challenges.



## Leading the Change

From dairy businesses to industrial factories to women-owned businesses, FINCA Pakistan is leading the wave at helping small businesses grow and become profitable.

When you succeed, we succeed -  
Let's Grow Together



## Operational Risk management

Operational Risk management is designed to ensure that an adequate control environment exists across its network and functions. Risk Control Self-Assessment activity was accomplished for all the major processes and departments of the Bank.

COVID-19 turned out to be a major challenge throughout the year 2020. In order to protect its customers and staff while ensuring continuity of its services, the Bank undertook all the necessary measures including communications with its customers on how they can avail the services from its digital/online channels.

## Digital Transformation

During recent years, the banking system has developed various digital solutions adjusted to every bank's operations and has introduced new business models in order to provide effective and efficient services to customers. This transformation has resulted in significant positive changes in the customer's relation with his/her bank.

FINCA has also believed in continuous improvement in its operations, based on lean six sigma principles, which has enabled the bank to keep up with the volatile pace of the banking and financial industry today. FINCA launched one of its mega project titled "Digital Field Automation (DFA)" back in 2017/2018 to digitize its entire customer loan lifecycle. In a span of two years, FINCA is disbursing loans on mobile wallets, thereby empowering its customers to transact digitally. They are connected to FINCA's digital financial ecosystem and are able to avail a range of financial services without even visiting the physical branches.

FINCA has also enabled its potential borrowers to reach out to the bank and request for loan using the official website, another successful digital channel. These digital leads are processed robustly by the call center. Existing borrowers are also provided with speedy loans through a centralized underwriting process led by call center.

To continue with its transformation journey, FINCA is in the process of redesigning its entire operating model in order to further reduce processing times and further enhance customer experience. One of its distinct features include Customer Relationship Management Module (CRM); a system which will digitally capture all customer interactions and insights to offer solutions best suited to customers' needs and wants.



## Employees: our Best Investment

In 2020, the primary focus of the Bank remained towards staff wellbeing, capacity building, and strategic realignment of resources and staff retention. In order to successfully achieve results in these areas, a series of interventions were launched in 2019 and their implementation was successful completed in

2020. COVID-19 resulted in the Bank adopting various alternative methods such as remote working from different locations and also implementing work from home with particular focus on female staff and staff over a specific age bracket. Staff safety and protection took precedence in these trying times, the Bank

ensured that all branch staff were provided gloves, masks and sanitizers. Targets were further relaxed to ensure that staff did not have to expose themselves too much by excessive field visits. We further maintained constant communication and refresher circulations /enforcement of COVID-19 related SOPs as introduced



by the government as well as the regulator so our staff was well informed. Overall we had 49 staff members who contracted the virus and 46 have recovered fully as well. The Bank also conducted a CSR initiative that helped raise funds for contribution to the government's COVID-19 relief fund. Staff of the bank donated 1 or more days' salary to the cause and the collected amount was submitted by the Chief Operating Officer.

The Bank's realignment efforts resulted in us ending the year with a lower overall staff strength of 2,392 Vs 2,860 in 2019. The proportion of women employees stood at 18 percent during this period (excluding Support Staff). The staff voluntary attrition rate at the bank reduced to 18.24% in 2020 as compared to 24% in 2019.

In addition to this working towards the human resource development side, focus was on dedicated training courses for staff across various job roles which included: Branch Managers, Operation Managers, Relationship Managers Assets, Credit Officers, Customer Service Officers and Saving Officers. Our classroom interventions were further supplemented by the incorporation of e-learning courses. After the 1st quarter, the Bank transformed its learning and development initiatives to be conducted 100% online, bringing the training modality split to 80% online trainings and 20% classroom based in 2020- thus surpassing our target split of 70/30. Based on this modality switch the Bank trained 11, 835 persons and closed the year at 17,719 total learning hours.

The Bank also conducted awareness sessions covering most of its female staff members through its D&I Unit (Diversity & Inclusion). In addition to this, it was also ensured that all our staff participated/completed a gender sensitivity training interventions. Remaining committed to promoting diversity & inclusion, the Bank ensured that 29% of positions within the bank were filled by qualified female candidates. Mobility allowances were also revised for female sales staff to further empower them and provide equal opportunity to perform and grow.

In light of COVID-19 precautions, we further adopted virtual and creative measures to ensure that engagement activities were still conducted to keep staff motivated. We celebrated religious festivals, townhall meetings, seasonal activities such as "Mango Tango" and International Women's Day in remote set-ups.



# Financial Statements

for the year ended 31 December, 2020

**FINCA Microfinance Bank Ltd**



# Balance Sheet

As at 31 December 2020

	Note	2020 Rupees	2019 Rupees
<b>Assets</b>			
Cash and balances with SBP and NBP	7	1,572,075,030	1,595,527,281
Balances with other banks/NBFIs/MFBs	8	2,849,103,430	1,642,664,760
Investments - net of provisions	9	6,448,871,800	6,244,458,500
Advances - net of provisions	10	21,246,108,856	22,038,804,318
Operating fixed assets	11	2,444,958,300	3,131,121,056
Other assets	12	5,171,405,664	2,613,415,832
Deferred tax asset	13	118,358,104	45,897,267
<b>Total assets</b>		<b>39,850,881,184</b>	37,311,889,014
<b>Liabilities</b>			
Deposits and other accounts	14	26,082,761,045	23,911,341,828
Borrowings	15	4,710,503,886	4,752,852,994
Subordinated debt	16	800,000,000	800,000,000
Other liabilities	17	3,014,141,411	3,129,387,288
<b>Total liabilities</b>		<b>34,607,406,342</b>	32,593,582,110
<b>Net assets</b>		<b>5,243,474,842</b>	4,718,306,904
<b>Represented by:</b>			
Share capital	18	6,348,887,110	6,348,887,110
Discount on issue of shares		(4,089,040,293)	(4,089,040,293)
Statutory reserve		868,881,433	687,948,818
Depositors' protection fund		266,156,280	203,099,973
Unappropriated profit		1,848,106,312	1,563,709,236
		<b>5,242,990,842</b>	4,714,604,844
Surplus on revaluation of assets	19	184,000	1,547,100
Deferred grants	20	300,000	2,154,960
<b>Total capital</b>		<b>5,243,474,842</b>	4,718,306,904

Memorandum / off-balance sheet items 21

The annexed notes from 1 to 47 form an integral part of these financial statements.

Chief Executive Officer

Chairman

Director

Director

# Profit and Loss Account

For the year ended 31 December 2020

	Note	2020 Rupees	2019 Rupees
Mark-up / return / interest earned	22	8,628,539,039	8,312,159,411
Mark-up / return / interest expensed	23	(3,038,759,103)	(2,997,774,339)
<b>Net mark-up / interest income</b>		<b>5,589,779,936</b>	5,314,385,072
Provision against non-performing loans and advances	10.4	(1,226,144,968)	(1,086,754,079)
Provision for diminution in the value of investments		-	-
Bad debts written off directly	10.4.1	(2,227,563)	(2,839,918)
		<b>(1,228,372,531)</b>	<b>(1,089,593,997)</b>
<b>Net mark-up / interest income after provisions</b>		<b>4,361,407,405</b>	4,224,791,075
<b>Non mark-up / non interest income</b>			
Fee, commission and brokerage income	24	533,089,979	798,515,302
Dividend income		-	-
Other income	25	312,349,970	155,968,627
<b>Total non mark-up / non interest income</b>		<b>845,439,949</b>	954,483,929
		<b>5,206,847,354</b>	5,179,275,004
Non mark-up / non interest expenses			
Administrative expenses	26	(3,761,042,556)	(4,102,036,922)
Other charges	27	(29,836,581)	(65,669,905)
<b>Total non mark-up / non interest expenses</b>		<b>(3,790,879,137)</b>	<b>(4,167,706,827)</b>
<b>Profit before taxation</b>		<b>1,415,968,217</b>	1,011,568,177
Workers before taxation (WWF)		(33,320,951)	-
		<b>1,382,647,266</b>	1,011,568,177
Taxation - Current year		(563,847,527)	(331,642,626)
Prior years		4,841,086	(54,704,446)
Deferred		81,022,251	28,131,352
	28	<b>(477,984,190)</b>	<b>(358,215,720)</b>
<b>Profit after taxation</b>		<b>904,663,076</b>	653,352,457
Unappropriated profit brought forward		1,563,709,236	1,061,863,072
Add: Other comprehensive income / (loss)		15,899,769	11,831,821
<b>Profit available for appropriation</b>		<b>2,484,272,081</b>	1,727,047,350
<b>Appropriations:</b>			
Transfer to:			
Statutory reserve		(180,932,615)	(130,670,491)
Capital reserve		-	-
Dividend		(410,000,000)	-
Contribution to depositors' protection fund		(45,233,154)	(32,667,623)
Revenue reserve		-	-
		<b>(636,165,769)</b>	<b>(163,338,114)</b>
<b>Unappropriated profit carried forward</b>		<b>1,848,106,312</b>	1,563,709,236
<b>Earnings per share</b>	32	<b>1.42</b>	1.03

The annexed notes from 1 to 47 form an integral part of these financial statements.

Chief Executive Officer

Chairman

Director

Director

# Statement of Comprehensive Income

For the year ended 31 December 2020

	2020 Rupees	2019 Rupees
<b>Profit after tax</b>	<b>904,663,076</b>	653,352,457
<b>Other comprehensive income for the year</b>		
<b>Comprehensive income for the year transferred to equity</b>		
Items that will not be reclassified subsequently to profit and loss account		
Remeasurement of post retirement defined benefit obligation	<b>24,461,183</b>	18,202,801
Related tax impact	<b>(8,561,414)</b>	(6,370,980)
	<b>15,899,769</b>	11,831,821
	<b>920,562,845</b>	665,184,278
<b>Components of comprehensive income for the year not transferred to equity:</b>		
Items that may be reclassified subsequently to profit and loss account		
Net change in fair value of 'available-for-sale' securities	<b>184,000</b>	1,547,100
<b>Total comprehensive income for the year</b>	<b>920,746,845</b>	666,731,378

The annexed notes from 1 to 47 form an integral part of these financial statements.

# Cash Flow Statement

For the year ended 31 December 2020

	Note	2020 Rupees	2019 Rupees
<b>Cash flows from operating activities</b>			
Profit before taxation		<b>1,415,968,217</b>	1,011,568,177
Adjustments for non-cash charges:			
Depreciation on operating fixed asset	11.4	<b>246,260,023</b>	230,562,591
Depreciation on right of use assets	11.3	<b>240,583,922</b>	239,209,984
Amortization on intangible assets	11.2	<b>71,143,277</b>	65,720,915
Notional interest on lease liability	23	<b>158,107,383</b>	175,974,209
Provision against non-performing advances	10.4	<b>1,226,144,968</b>	1,086,754,079
Operating fixed assets written off	27	<b>1,441,201</b>	29,326,854
Markup earned on investments in government securities	22	<b>(526,818,247)</b>	(654,090,270)
Net gain on disposal of operating fixed assets	25	<b>(115,588,764)</b>	(559,935)
Gain on disposal of government securities	25	<b>(55,903,100)</b>	(11,953,197)
Deferred grant recognized as income	25	<b>(1,854,960)</b>	(2,364,698)
Provision for gratuity	17.3.2	<b>88,504,018</b>	87,388,358
		<b>1,332,019,721</b>	1,245,968,890
		<b>2,747,987,938</b>	2,257,537,067
<b>Decrease / (increase) in operating assets:</b>			
Net investments in held for trading securities		<b>6,273,146,791</b>	(3,120,914,336)
Advances		<b>(433,449,506)</b>	(2,545,029,254)
Others assets		<b>(2,708,692,465)</b>	(510,430,870)
		<b>3,131,004,820</b>	(6,176,374,460)
<b>Increase in operating liabilities:</b>			
Bills payable		<b>6,996,711</b>	(3,168,690)
Borrowings from financial institutions		<b>(42,349,108)</b>	1,434,352,450
Deposits		<b>2,171,419,217</b>	169,529,963
Other liabilities (excluding current taxation, and provision for gratuity)		<b>(232,909,408)</b>	280,783,953
		<b>1,903,157,412</b>	1,881,497,676
		<b>7,782,150,170</b>	(2,037,339,717)
Gratuity paid	17.3.4	<b>(31,615,541)</b>	(43,144,681)
Income tax paid		<b>(249,297,461)</b>	(505,611,926)
<b>Net cash generated from / (used in) operating activities</b>		<b>7,501,237,168</b>	(2,586,096,324)
<b>Cash flows from investing activities</b>			
Net investments in held-to-maturity securities		<b>-</b>	1,583,398,368
Net investments in available for sale securities		<b>(5,896,201,844)</b>	(223,827,864)
Interest income on depositors protection fund		<b>17,823,153</b>	19,443,943
Investments in operating fixed assets		<b>(74,967,155)</b>	(246,652,041)
Sale proceeds of property and equipment disposed-off	11.4.2	<b>289,531,874</b>	29,540,477
<b>Net cash (used in) / generated from investing activities</b>		<b>(5,663,813,972)</b>	1,161,902,883
<b>Cash flows from financing activities</b>			
Payment of lease liabilities		<b>(244,436,777)</b>	(268,432,971)
Receipt of sub-ordinated debt		<b>-</b>	800,000,000
Grant received		<b>-</b>	2,107,430
Payment of dividends		<b>(410,000,000)</b>	-
<b>Net cash (used in) / generated from financing activities</b>		<b>(654,436,777)</b>	533,674,459
Increase in cash and cash equivalents		<b>1,182,986,419</b>	(890,518,982)
Cash and cash equivalents at beginning of the year		<b>3,238,192,041</b>	4,128,711,023
Cash and cash equivalents at end of the year	34	<b>4,421,178,460</b>	3,238,192,041

The annexed notes from 1 to 47 form an integral part of these financial statements.



Chief Executive Officer



Chairman



Director



Director



Chief Executive Officer



Chairman



Director



Director

# Statement of Changes in Equity

For the year ended 31 December 2020

	Share capital	Capital reserves			Revenue reserves		Total
		Discount on issue of shares	Statutory reserve	Depositors' protection fund	Unappropriated profit		
<b>Balance as at 31 December 2018</b>	6,348,887,110	(4,089,040,293)	557,278,327	150,988,407	1,061,863,072	4,029,976,623	
Profit for the year	-	-	-	-	653,352,457	653,352,457	
<b>Other comprehensive income</b>	-	-	-	-	11,831,821	11,831,821	
Remeasurement of post defined benefit obligation - net of tax	-	-	-	-	665,184,278	665,184,278	
Total comprehensive income for the year	-	-	-	-	-	-	
Transfer to statutory reserve	-	-	130,670,491	-	(130,670,491)	-	
Transfer to depositors' protection fund	-	-	-	32,667,623	(32,667,623)	-	
Return on depositors' protection fund's investments - net of tax	-	-	-	19,443,943	-	19,443,943	
<b>Transactions with owners:</b>	-	-	-	-	-	-	
- Dividend paid	-	-	-	-	-	-	
<b>Balance as at 31 December 2019</b>	6,348,887,110	(4,089,040,293)	687,948,818	203,099,973	1,563,709,236	4,714,604,844	
Profit for the year	-	-	-	-	904,663,076	904,663,076	
<b>Other comprehensive income</b>	-	-	-	-	15,899,769	15,899,769	
Remeasurement of post defined benefit obligation - net of tax	-	-	-	-	920,562,845	920,562,845	
Total comprehensive income for the year	-	-	180,932,615	-	(180,932,615)	-	
Transfer to statutory reserve	-	-	-	45,233,154	(45,233,154)	-	
Transfer to depositors' protection fund	-	-	-	17,823,153	-	17,823,153	
Return on depositors' protection fund's investments - net of tax	-	-	-	-	-	-	
<b>Transactions with owners:</b>	-	-	-	-	-	-	
- Dividend paid	-	-	-	-	(410,000,000)	(410,000,000)	
<b>Balance as at 31 December 2020</b>	6,348,887,110	(4,089,040,293)	868,881,433	266,156,280	1,848,106,312	5,242,990,842	

The annexed notes from 1 to 47 form an integral part of these financial statements.

The annexed notes from 1 to 47 form an integral part of these financial statements.



Chief Executive Officer



Chairman



Director



Director

# Notes to the Financial Statements

For the year ended 31 December 2020

## 1 Status and nature of business

**1.1** FINCA Microfinance Bank Limited, (the Bank) was incorporated on 26 June 2008 as a public limited company. The Bank obtained the Microfinance banking license from the State Bank of Pakistan (SBP) on 12 August 2008 under the provisions of Microfinance Institutions Ordinance, 2001 and certificate of commencement of business on 04 September 2008 from Securities and Exchange Commission of Pakistan. On 27 October 2008 the Bank received the certificate of commencement of business from SBP.

The Bank's principal business is to provide microfinance services to the poor and under-served segments of the society as envisaged under the Microfinance Institutions Ordinance, 2001. The registered office of the Bank is situated at Building-36 Sector-XX Commercial Zone, Phase III, Khayaban-e-Iqbal, DHA, Lahore, Pakistan. Subsequent to takeover by FINCA International the Bank has changed its name from Kashf Microfinance Bank Limited to FINCA Microfinance Bank Limited with effect from 25 November 2013.

The Bank is licensed to operate nationwide. As at 31 December 2020, the Bank has 130 branches (2019: 130 branches) operating in the provinces of Punjab, Khyber Pakhtunkhwa, Sindh and Gilgit Baltistan and also Azad Jammu & Kashmir.

SBP through its letter no. AC&MFD/MF-Policy/2020-9652 dated 02 September 2020 and SECP through its letter no. SMD/CIW/CR03/2012 dated 18 September 2020 have endorsed deferment of upcoming semi-annual credit rating review requirements for microfinance banks.

The credit rating company PACRA assigned the long term entity rating of the Bank at 'A' and short term rating at 'A1' on 28 April 2020.

The holding company of the Bank is FINCA Microfinance Cooperatief U.A., (a cooperative with exclusion of liability incorporated in the Netherlands). The ultimate holding company of the Bank is FINCA International, Inc., a not-for-profit corporation incorporated in Washington DC, USA.

## 2 Basis of presentation

These financial statements have been presented in accordance with the requirements of SBP Banking Supervision Department (BSD) Circular number 11 dated 30 December 2003 and fifth schedule to the Companies Act, 2017.

## 3 Statement of compliance

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

- International Financial Reporting Standards (IFRS Standards), issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;
- Microfinance Institution Ordinance, 2001 (the MFI Ordinance);
- the directives issued by the State Bank of Pakistan (SBP) and Securities and Exchange Commission of Pakistan (SECP);
- provisions of and directives issued under the Companies Act, 2017

Where the requirements of the Companies Act, 2017, the MFI Ordinance and the directives issued by the SBP and SECP differ with the requirements of IFRSs, the requirements of the Companies Act, 2017, the MFI Ordinance, or the requirements of the said directives shall prevail.

The State Bank of Pakistan has deferred the applicability of International Financial Reporting Standard 9, 'Financial Instruments' through BPRD Circular No. 04 of 2019 dated 23 October 2019 and International Accounting Standard (IAS)



# Notes to the Financial Statements

## For the year ended 31 December 2020

40, 'Investment Property' for Banking Companies through BSD Circular No. 10 dated 26 August 2002. Further, SECP has deferred applicability of IFRS 7 "Financial Instruments: Disclosures" through its notification S.R.O 633(1) / 2014 dated 10 July 2014. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by SBP through various circulars / regulations.

### 3.2 New accounting standards / amendments and IFRS interpretations that are not yet effective

The following International Financial Reporting Standards (IFRS Standards) as notified under the Companies Act, 2017 and the amendments and interpretations thereto will be effective for accounting periods beginning on or after 01 January 2021:

Amendment to IFRS 16 'COVID-19-Related Rent Concessions'. The International Accounting Standards Board (the Board) has issued amendments to IFRS 16 (the amendments) to provide practical relief for lessees in accounting for rent concessions. The amendments are effective for periods beginning on or after 1 June 2020, with earlier application permitted.

Under the standard's previous requirements, lessees assess whether rent concessions are lease modifications and, if so, apply the specific guidance on accounting for lease modifications. This generally involves remeasuring the lease liability using the revised lease payments and a revised discount rate. In light of the effects of the COVID-19 pandemic, and the fact that many lessees are applying the standard for the first time in their financial statements, the Board has provided an optional practical expedient for lessees. Under the practical expedient, lessees are not required to assess whether eligible rent concessions are lease modifications, and instead are permitted to account for them as if they were not lease modifications. Rent concessions are eligible for the practical expedient if they occur as a direct consequence of the COVID-19 pandemic and if all the following criteria are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to the other terms and conditions of the lease.

'Interest Rate Benchmark Reform – Phase 2 which amended IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 is applicable for annual financial periods beginning on or after 1 January 2021, with earlier application permitted.

The amendments introduce a practical expedient to account for modifications of financial assets or financial liabilities if a change results directly from IBOR reform and occurs on an 'economically equivalent' basis. In these cases, changes will be accounted for by updating the effective interest rate. A similar practical expedient will apply under IFRS 16 for lessees when accounting for lease modifications required by IBOR reform. The amendments also allow a series of exemptions from the regular, strict rules around hedge accounting for hedging relationships directly affected by the interest rate benchmark reforms. The amendments apply retrospectively with earlier application permitted. Hedging relationships previously discontinued solely because of changes resulting from the reform will be reinstated if certain conditions are met.

# Notes to the Financial Statements

## For the year ended 31 December 2020

Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37) effective for the annual period beginning on or after 1 January 2022.

This amends IAS 1 by mainly adding paragraphs which clarifies what comprise the cost of fulfilling a contract, Cost of fulfilling a contract is relevant when determining whether a contract is onerous. An entity is required to apply the amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). Restatement of comparative information is not required, instead the amendments require an entity to recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The above amendments are not likely to have an impact on the Bank's financial statements.

### 3.3 Annual Improvements to IFRS standards 2018-2020:

The following annual improvements to IFRS standards 2018-2020 are effective for annual reporting periods beginning on or after 1 January 2022.

- IFRS 16 – The amendment partially amends Illustrative Example 13 accompanying IFRS 16 by excluding the illustration of reimbursement of leasehold improvements by the lessor. The objective of the amendment is to resolve any potential confusion that might arise in lease incentives.
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16) effective for the annual period beginning on or after 1 January 2022. Clarifies that sales proceeds and cost of items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management e.g. when testing etc., are recognized in profit or loss in accordance with applicable Standards. The entity measures the cost of those items applying the measurement requirements of IAS 2. The standard also removes the requirement of deducting the net sales proceeds from cost of testing. An entity shall apply those amendments retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for annual periods beginning on or after 1 January 2020). The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. In addition, the Board has also issued guidance on how to make materiality judgments when preparing their general purpose financial statements in accordance with IFRS Standards.
- On 29 March 2018, the Board has issued a revised Conceptual Framework for Financial Reporting which is applicable immediately contains changes that will set a new direction for IFRS in the future. The Conceptual Framework primarily serves as a tool for the Board to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs and any inconsistencies with the revised Framework will be subject to the usual due process – this means that the overall impact on standard setting may take some time to crystallize. The companies may use the Framework as a reference for selecting their accounting policies in the absence of specific IFRS requirements. In these cases, companies should review those policies and apply the new guidance retrospectively as of 1 January 2020, unless the new guidance contains specific scope outs.

The above amendments are effective from annual period beginning on or after 1 January 2021 and are not likely to have a significant impact on Bank's financial statements.



# Notes to the Financial Statements

## For the year ended 31 December 2020

### 4 Basis of measurement

#### 4.1 Accounting convention

These financial statements have been prepared under the historical cost convention except for the following which are stated at fair values / present values:

- Investments in government securities;
- Right of use assets and corresponding lease liabilities; and
- Payable to defined benefit plan.

#### 4.2 Functional and presentation currency

These financial statements are presented in Pakistani Rupees ("Rs.") which is the Bank's functional currency. All amounts have been rounded to the nearest Rupee, unless otherwise indicated.

### 5 Use of accounting estimates and judgements

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Bank's accounting policies. Estimates and judgments are continually evaluated expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Bank's financial statements are as follows:

- a) Provision against non performing advances (note 6.3 and note 10)
- b) Payable to defined benefit plan (note 6.8.2 and note 17.3)
- c) Useful life, residual values and impairment of operating fixed assets and intangibles (note 6.5, note 6.6, note 11.2 and note 11.4)
- d) Provision for taxation ( note 6.9 and note 28)
- e) Deferred tax asset ( note 6.9 and note 13)
- f) Provision for impairment in value of securities ( note 6.4.3)
- g) Lease liabilities and corresponding right of use assets (note 6.1)
- h) Recognition and measurement of provisions and contingencies (note 6.13 and 21 note)

### 6 Summary of significant accounting policies

The principle accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

#### 6.1 Leases

##### 6.1.1 Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate. The Bank determines its incremental borrowing rate by analyzing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

The lease liability is subsequently measured at amortized cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its

# Notes to the Financial Statements

## For the year ended 31 December 2020

assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

#### 6.1.2 Right of use assets

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred.

The right-of-use assets are subsequently 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.

The right of use assets is presented in 'Operating Fixed Assets' and the liability is presented in 'Other liabilities'. Also in relation to those leases under IFRS 16, the Bank has recognized depreciation and interest costs.

#### 6.1.3 Short-term leases

The Bank has elected not to recognize right-of-use assets and lease liabilities for some leases having a lease term less than 12 months. The lease payments associated with these leases are recognized as an expenses on a straight-line basis over the lease term.

#### 6.2 Cash and cash equivalents

Cash and cash equivalents for the purpose of cash flow statement represent cash in hand and balances held with treasury banks and balances held with other banks in current and deposit accounts with maturities of less than three months and are carried at cost.

#### 6.3 Advances

These are stated net of provision for non-performing advances, (if any). 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 / mark-up on NPLs is suspended and credited to interest suspense account. Further the NPLs are classified into the following categories as prescribed in Prudential Regulations for Microfinance Banks issued by SBP:

- a) **Other assets especially mentioned (OAEM):** These are advances in arrears (payments / installments overdue) for 30 days or more but less than 60 days.
- b) **Substandard:** These are advances in arrears (payments / installments overdue) for 60 days or more but less than 90 days.
- c) **Doubtful:** These are advances in arrears (payments / installments overdue) for 90 days or more but less than 180 days.
- d) **Loss:** These are advances in arrears (payments / installments 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 cash collaterals and gold (ornaments and bullion) realizable without recourse to a court of law at the following rates:



# Notes to the Financial Statements

For the year ended 31 December 2020

a) <b>Other assets especially mentioned (OAEM):</b>	Nil
b) <b>Substandard:</b>	25% of outstanding principal net of cash collaterals and gold
c) <b>Doubtful:</b>	50% of outstanding principal net of cash collaterals and gold
d) <b>Loss:</b>	100% of outstanding principal net of cash collaterals and gold

In addition, a general provision is maintained equivalent to 1% (2019:1%) of the net outstanding balance (advances net of specific provisions) for potential loan losses. General provision is not required in cases where loans have been secured against gold or other cash collaterals with appropriate margin.

Specific and general provisions are recognized in profit and loss account for the year.

Non-performing advances are written off one day after the loan is classified as 'Loss' in accordance with the policy of Bank. However, the Bank continues its efforts for recovery of the written off balances.

## 6.4 Investments

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

Investments (other than 'held for trading') are initially measured at cost, being the fair value of consideration paid. 'Held for trading' investments are initially measured at fair value and transaction costs are expensed out in the profit and loss account.

All purchases 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 sale the investment.

Investments are classified as follows:

### 6.4.1 Held for trading

Securities acquired with the intention to be disposed off within 90 days trade by taking advantage of short-term market / interest rate movement are classified as 'held for trading' investments.

After initial measurement, these are measured at mark-to-market and surplus / deficit arising on revaluation of 'held for trading' investments is recognized in profit and loss account in accordance with the requirements prescribed by the SBP.

### 6.4.2 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' and are initially measured at cost.

Subsequent to initial measurement, these are carried at amortized cost, less provision for impairment in value, if any, and amortized cost is calculated taking into account effective yield 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.

# Notes to the Financial Statements

For the year ended 31 December 2020

## 6.4.3 Available for sale

Investments that are intended to be held for an undefined period of time but may be sold in response to the need for liquidity or changes in interest rates are classified as 'available for sale'.

Investments classified as 'available for sale' are initially measured at cost, being the fair value of consideration paid. Subsequent to initial recognition at cost, these investments are measured at fair value.

The surplus / (deficit) arising on revaluation of available for sale investments is shown in the balance sheet below equity. The surplus / (deficit) arising on these investments is recognized in the profit and loss account, when actually realized upon disposal.

Provision for impairment in the value of securities is made after considering objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of these investments. A significant or prolonged decline in the value of security is also considered as an objective evidence of impairment. Provision for diminution in the value of debt securities is made as per the prudential regulations. In the event of impairment of 'available for sale' securities, the cumulative loss that had been recognized directly in surplus on revaluation of securities on the balance sheet shown below equity is therefore adjusted and recognized in the profit and loss account.

## 6.5 Operating fixed assets and depreciation

### 6.5.1 Capital work-in-progress

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

### 6.5.2 Intangible assets

Expenditure incurred to acquire computer software is capitalized as intangible assets and stated at cost less accumulated amortization and any identified impairment loss. These are amortized using the straight line method over their estimated useful life.

Full month's amortization is charged in the month of addition while no amortization is charged in the month of deletion.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific assets to which it relates.

### 6.5.3 Property and equipment

These are stated at cost less accumulated depreciation and accumulated impairment losses, if any except land which is stated at cost. Cost comprises purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, and includes other costs directly attributable to the acquisition or construction, erection and installation.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. Major repairs and improvements are capitalized and the carrying amount of the replaced part is derecognized. All other repair and maintenance are charged to profit and loss account as and when incurred.

Depreciation is calculated using the straight line method so as to write off the property and equipment, over their expected useful lives. Depreciation is calculated at the rates stated in note 11.4. The assets' residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date. The effect of any



# Notes to the Financial Statements

## For the year ended 31 December 2020

revision are charged to profit and loss account for the year, when the changes arise. Depreciation on additions to property and equipment is charged from the month in which an asset is acquired or capitalized while no depreciation is charged for the month in which the asset is disposed-off.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are recognized in profit and loss account for the year.

### 6.6 Impairment

The Bank assesses at each balance sheet date whether there is any indication that assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying amounts exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in profit and loss account. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. Where an impairment loss is recognized, the depreciation / amortization charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of the amount which would have been determined had there been no impairment. Reversal of impairment loss is recognized as income.

### 6.7 Grants

Grants are initially recognized at fair value in the balance sheet when there is reasonable assurance that the grants will be received and the Bank will comply with all the attached conditions. Grants that compensate the Bank for expenses incurred are recognized as other income in the profit and loss account on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Bank for the cost of an asset are recognized in the profit and loss account as other income on a systematic basis over the useful life of the asset.

### 6.8 Staff retirement benefits

#### 6.8.1 Defined contribution plan - provident fund

The Bank operates an approved defined contribution provident fund scheme for all permanent employees. Equal monthly contributions are made by the Bank and the employees to the fund at the rate of 8.33% of basic salary per month. The contribution of the Bank is charged to profit and loss account.

#### 6.8.2 Defined benefit plan - gratuity scheme

The Bank operates an unapproved non-contributory defined benefit gratuity scheme for all permanent employees with a qualifying period of three years. Eligible employees are entitled to one month's basic salary for each completed year of service upon their departure from the Bank. The latest actuarial valuation was carried out as at 31 December 2020 using Projected Unit Credit Method. Actuarial gains and losses arising from the actuarial valuation are recognized immediately in other comprehensive income.

The Bank determines the net interest expense on the net defined liability for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then - net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit and loss account.

### 6.9 Taxation

Income tax on the profit or loss for the year comprises of current and deferred tax. Income tax is recognized in the profit and loss account, except to the extent that it relates to items recognized in other comprehensive income, in which case it is recognized in other comprehensive income.

# Notes to the Financial Statements

## For the year ended 31 December 2020

### Current tax

Provision for current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year, if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for taxation made in previous years arising from assessments framed during the year for such years.

### Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

### 6.10 Deposits

Deposits are recorded at the proceeds received. Markup accrued on these deposits, if any, is recognized separately as part of other liabilities, and is charged to profit and loss account over the period.

### 6.11 Borrowings

Loans and borrowing are initially recorded at proceeds received. In subsequent periods, borrowings are stated at amortized cost using the effective interest rate method.

Finance costs are accounted for on an accrual basis and are included in other liabilities to the extent of the amount remaining unpaid.

### 6.12 Subordinated debt

Sub-ordinated loans are initially recorded at the amount of proceeds received and subsequently measured at amortized cost. Markup accrued on these loans is charged to profit and loss account over the period at effective interest rate.

Finance costs are accounted for on an accrual basis and are included in other liabilities to the extent of the amount remaining unpaid.



# Notes to the Financial Statements

## For the year ended 31 December 2020

### 6.13 Provisions

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

### 6.14 Statutory reserve

The Bank is required under the requirements of the Microfinance Institution Ordinance, 2001 and Prudential Regulation, to maintain a statutory reserve to which an appropriation equal to 20% of the annual profit after tax is made until the reserve fund equals the paid up capital of the Bank. Thereafter, a sum not less than 5% of its annual profits after tax is required to be transferred to the said reserve.

### 6.15 Depositors' protection fund

The Bank is required under the Microfinance Institutions Ordinance, 2001 to contribute 5% of its annual after tax profit and profit earned on the investments of the Depositors' protection fund shall be credited to the Depositors' protection fund for the purpose of providing security or guarantee to persons depositing money in the Bank.

### 6.16 Cash reserve requirement

In compliance with the requirements of the Microfinance Institution Ordinance, 2001 and Prudential Regulation, the Bank maintains a cash reserve equivalent to not less than 5% of its deposits (including demand deposits and time deposits with tenure of less than 1 year) in a current account opened with the State Bank of Pakistan (SBP) or its agent.

### 6.17 Statutory liquidity requirement

In compliance with the requirements of the Prudential Regulation, the Bank maintains liquidity equivalent to at least 10% of its total demand liabilities and time liabilities with tenure of less than one year in the form of liquid assets i.e. cash, gold, unencumbered treasury bills, Pakistan Investment Bonds and Government of Pakistan sukuk bonds. Treasury bills and Pakistan Investment Bonds held under depositors' protection fund are excluded for the purposes of determining liquidity.

### 6.18 Revenue recognition

Mark-up / return on performing advances is recognized on a time proportion basis using effective interest rate method at the Bank's prevailing mark-up rates for the loan products. Mark-up / return on advances is collected with loan installments due but unpaid mark-up is accrued on overdue advances for a period up to 29 days. From the 30th day, overdue advances are classified as non-performing advances and further accrual of unpaid mark-up / return ceases. Accrued mark-up on non-performing advances are reversed and credited to suspense account. Mark-up recoverable on non-performing advances and classified advances is recognized on a receipt basis.

Mark-up / return on investments is recognized on time proportion basis using effective interest rate method. Where debt securities are purchased at premium or discount, such premium / discount is amortized through the profit and loss account over the remaining period of maturity. Gain or loss on sale of securities is accounted for in the period in which it occurs.

Return on bank deposits is recognized on an accrual basis using effective interest rate method.  
Fee, commission and brokerage income is recognized as services are rendered.

Other income is recognized on a time proportion basis.

### 6.19 Foreign currency transactions and translation

All monetary assets and liabilities in foreign currencies are translated into rupees at exchange rates prevailing at the balance sheet date. Transactions in foreign currencies are translated into rupees at the spot rate on the date of trans-

# Notes to the Financial Statements

## For the year ended 31 December 2020

action. All non-monetary items are translated into rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined (for assets carried at fair value).

Foreign currency differences arising on retranslation are charged to profit and loss account in the period in which they arise.

### 6.20 Financial instruments

Financial assets and financial liabilities are recognized when the Bank becomes a party to the contractual provisions of the instrument and derecognized when the Bank loses control of the contractual rights that comprise the financial assets and in case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired.

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 cost, as the case may be.

#### 6.20.1 Financial assets and financial liabilities

Financial instruments carried on the balance sheet include cash and balances with treasury banks, balances with other banks, lending to financial institutions, investments, advances, other assets, bills payable, borrowings, deposits and other liabilities. The particular measurement methods adopted are disclosed in the individual policy statements associated with each item.

#### 6.20.2 Off setting

Financial assets and financial liabilities are set off and the net amount is reported in the financial statements when there is a legally enforceable right to set off and the Bank intends to either settle on a net basis, or to realize the assets and to settle the liabilities simultaneously.

### 6.21 Share capital and dividend

Ordinary shares are classified as equity and recognized at their face value. Incremental costs directly attributable to the issue of new shares or options are shown in equity as deduction, net of tax, from the proceeds. Dividend distribution to the shareholders is recognized as liability in the period in which it is declared.

### 6.22 Earning 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 (if any).

### 6.23 Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Bank's accounting policies and disclosures require the measurement of fair values, for both financial and nonfinancial assets and liabilities.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.



# Notes to the Financial Statements

For the year ended 31 December 2020

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

7	Cash and balances with SBP and NBP	Note	2020 Rupees	2019 Rupees
	Cash in hand		397,273,014	409,379,752
	Balance with State Bank of Pakistan	7.1	1,006,847,600	885,765,190
	<i>Balance with National Bank of Pakistan in:</i>			
	Saving account	7.1	725,909	50,507,149
	Current account	7.1	167,228,507	249,875,190
			1,572,075,030	1,595,527,281

**7.1** This represents the balance maintained with SBP and NBP to meet the minimum balance requirement equivalent to 5% as cash reserve and 10% as liquidity reserve of the Bank's time and demand liabilities in accordance with the Prudential Regulations. This also includes Rs. 266.16 million (2019: Rs. 203.10 million) maintained with SBP under depositors' protection fund. Saving account carries markup ranging from 5.50% to 8.75% (2019: 10% to 11.25%).

8	Balances with other banks / NBFIs / MFBs	Note	2020 Rupees	2019 Rupees
	In Pakistan:			
	Saving accounts	8.1	1,787,325,942	1,195,962,571
	Deposit accounts	8.2	900,000,000	200,000,000
	Current accounts		161,777,488	246,702,189
			2,849,103,430	1,642,664,760

**8.1** These accounts carry mark-up ranging from 5.50% to 13.60% (2019: 10.75% to 13.60%) per annum.

**8.2** This term deposit carries mark-up 7.3% (2019: 14%) per annum with maturity of one month.

# Notes to the Financial Statements

For the year ended 31 December 2020

9	Investments - net of provisions	Note	2020 Rupees	2019 Rupees
	<i>Federal Govt. Securities:</i>			
	Market treasury bills (Held for trading)	9.1	-	5,968,466,000
	Market treasury bills (Available for sale)	9.1	6,448,871,800	275,992,500
			6,448,871,800	6,244,458,500

**9.1** These carry yield rate ranging between 6.39% to 13.48% (2019: 10.30% to 14.22%) per annum and have maturity upto 25 march 2021. These securities have an aggregate face value of Rs. 6,500 million (2019: Rs. 6,350 million)

10	Advances - net of provisions	Note	2020 Number	2020 Rupees	2019 Number	2019 Rupees
	Micro credit advances	10.1	223,904	21,418,849,345	236,910	22,328,927,421
	Other advances	10.2	1,384	131,660,566	1,427	151,088,745
				21,550,509,911		22,480,016,166
	Less: Provisions held:					
	Specific	10.3 & 10.4	10,363	115,534,548	13,149	233,320,572
	General	10.4 & 10.5		188,866,507		207,891,276
				304,401,055		441,211,848
				21,246,108,856		22,038,804,318

**10.1** This includes fully secured advances amounting to Rs. 2,543.42 million (2019: Rs. 1,457.57 million) whereas the remaining advances are secured by personal guarantees.

**10.2** These advances are staff loans and carry markup rate between 5% to 10% per annum (2019: 5%).

**10.3** Particulars of non-performing advances

The total advances of Rs. 739.18 million (2019: Rs. 1,055.10 million) placed under non-performing status includes Rs 9.60 million (2019: Rs 11.54 million) advances, secured against gold:

			2020		
	%	Number	Amount outstanding Rupees	Provision required Rupees	Provision held Rupees
OAEM	0	5,782	443,605,541	-	-
Sub-standard	25	1,858	124,916,396	30,633,155	30,633,155
Doubtful	50	2,698	168,217,806	82,458,188	82,458,188
Loss	100	25	2,443,205	2,443,205	2,443,205
		10,363	739,182,948	115,534,548	115,534,548

# Notes to the Financial Statements

For the year ended 31 December 2020

	%	2019			
		Number	Amount outstanding Rupees	Provision required Rupees	Provision held Rupees
OAEM	0	5,562	477,532,376	-	-
Sub-standard	25	2,632	217,831,744	53,532,431	53,532,431
Doubtful	50	4,911	355,914,178	176,086,256	176,086,256
Loss	100	44	3,811,885	3,701,885	3,701,885
Total		13,149	1,055,090,183	233,320,572	233,320,572

## 10.4 Particulars of non-performing advances

Movement of provision against non-performing advances is as under:

Note	2020			2019		
	Specific Rupees	General Rupees	Total Rupees	Specific Rupees	General Rupees	Total Rupees
Balance as at January 1	233,320,572	207,891,276	441,211,848	85,182,091	203,223,762	288,405,853
Charge / (reversal) for the year	1,245,169,737	(19,024,769)	1,226,144,968	1,082,086,565	4,667,514	1,086,754,079
Amounts written off	(1,362,955,761)	-	(1,362,955,761)	(933,948,084)	-	(933,948,084)
	(117,786,024)	(19,024,769)	(136,810,793)	148,138,481	4,667,514	152,805,995
Balance as at December 31	115,534,548	188,866,507	304,401,055	233,320,572	207,891,276	441,211,848

### 10.4.1 Particulars of write offs

	2020 Rupees	2019 Rupees
Against provisions	1,362,955,761	933,948,084
Directly charged to profit and loss account	2,227,563	2,839,918
	1,365,183,324	936,788,002

**10.5** This represents general provision equivalent to 1% (2019: 1%) of the outstanding advances net of specific provisions and those against which gold collaterals are taken.

**10.6** The coronavirus (COVID-19) has been evolving as a strain to the global economy including that of Pakistan. Therefore, to dampen the adverse effects of COVID-19 and to enable the Microfinance Banks ("MFBs") continue to fulfill their role in funding the real economy. In order to facilitate MFBs due to COVID-19, SBP issued AC&MFD Circular Letter No. 1 of 2020 dated 26 March 2020 regarding "Regulatory relief to dampen the effect of COVID-19". This circular allowed certain relaxations to MFBs. In accordance with this circular, MFBs, upon written request from borrower received before 30 June 2020, could defer repayment of principal for one year provided borrower continues to service the markup amount in accordance with agreed terms. The said circular also clarified that the above-mentioned deferment exceeding one year, may be rescheduled / restructured upon their request. If the rescheduling / restructuring is done within 90 days of the loan being overdue, such facilities could continue to be treated as regular and reported in the ECIB accordingly. MFBs could not classify as NPL, the financing facilities of such borrowers who had requested for deferment unless the payment obligations were past due by 90 days. The aforesaid treatment was available for loans which were regular on / after 15 February 2020 and became non-performing subsequently.

In continuation to the aforementioned letter, SBP vide letter AC&MFD Circular Letter No. 4 of 2020 dated 07 July 2020 further extended the date of submission of the rescheduling request to 30 September 2020, provided borrower continues to service the mark-up amount as per agreed terms and conditions. In order to enable MFBs in extending further relief measures to the effected borrowers, on 10 August 2020, SBP vide its letter AC&MFD Circular Letter No. 7 of 2020 wherein the treatment prescribed vide aforesaid circular letters was now available for loans which were regular on 31 December 2019 (previously this was 15 February 2020). Each NPL category was extended by 2 months for borrowers who could not avail relief under the scheme. Accordingly, pursuant to the regulatory relief given by SBP to dampen the effects of COVID-19, the Bank has restructured / deferred 133,964 loans amounting to Rs. 12,237 million (2019: nil).

# Notes to the Financial Statements

For the year ended 31 December 2020

**10.7** The Bank regularly monitored the conduct of the borrowers who were provided relief under SBP's COVID-19 related relief measures and ever since there were visible signs of improvement in our borrowers financial health and conduct of their relationship with the Bank. Accordingly, the management believes on its best estimates that no additional general provision is required against the outstanding exposures at restructured / deferred loans.

11 Operating fixed assets	Note	2020 Rupees	2019 Rupees
Capital work-in-progress	11.1	43,562,052	59,905,707
Intangible assets	11.2	205,902,382	246,566,510
Right of use assets	11.3	1,222,372,194	1,490,714,494
Property and equipment	11.4	973,121,672	1,333,934,345
		2,444,958,300	3,131,121,056

### 11.1 Capital work-in-progress

Civil works	-	14,817,596
Equipment	42,817,046	42,149,963
Advances to suppliers and contractors	745,006	2,938,148
	43,562,052	59,905,707

### 11.2 Intangible assets

#### Computer Software

##### Cost:

Balance as at January 1	569,809,339	522,329,418
Additions during the year	30,479,149	47,479,921
Balance as at December 31	600,288,488	569,809,339

##### Amortization:

Balance as at January 1	323,242,829	257,521,914
Charge during the year	71,143,277	65,720,915
Balance as at December 31	394,386,106	323,242,829

##### Carrying value

	205,902,382	246,566,510
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##### Amortization rate

	10% - 20%	10% - 20%
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11.3 Movement in right of use assets during the year:	Note	2020 Rupees	2019 Rupees
Opening net book value		1,490,714,494	1,669,161,057
Addition during the year		11,268,371	60,763,421
Right of use asset derecognized during the year		(39,026,749)	-
Depreciation charge	26	(240,583,922)	(239,209,984)
Closing net book value		1,222,372,194	1,490,714,494

# Notes to the Financial Statements

## For the year ended 31 December 2020

### 11.4 Property and equipment

	2020									
	Cost as at January 1	Additions/(deletions)	Adjustments/(write offs)	Cost as at December 31	Accumulated depreciation as at January 1	Depreciation charge/(deletions) for the year	Adjustments/(write offs)	Accumulated depreciation as at December 31	Book value as at December 31	Annual depreciation rate
----- Rupees -----										
<b>Owned assets</b>										
Freehold land	144,450,113	-	-	-	-	-	-	-	-	-
	(144,450,113)	-	-			-	-			
Leasehold improvements	667,301,448	40,726,008	-	703,550,467	166,974,214	68,164,687	-	231,977,029	471,573,438	10%
		-	(4,476,989)			-	(3,161,872)			
Furniture and fixtures	219,235,159	2,903,439	-	221,721,241	68,390,534	21,267,031	-	89,299,651	132,421,590	10%
		(339,001)	(78,356)			(305,772)	(52,142)			
Computer equipment	544,977,067	9,203,799	-	553,700,249	298,422,924	102,750,198	-	400,747,908	152,952,341	20%-33%
		(99,500)	(381,117)			(66,333)	(358,881)			
Office equipment	286,903,698	7,998,415	-	294,542,268	76,317,060	29,089,408	-	105,173,883	189,368,385	10%
		(209,795)	(150,050)			(160,169)	(72,416)			
Vehicles	140,308,173	-	-	75,356,880	59,136,581	24,988,699	-	48,550,962	26,805,918	25%
		(64,951,293)	-			(35,574,318)	-			
<b>2020</b>	<b>2,003,175,658</b>	<b>60,831,661</b>	<b>-</b>	<b>1,848,871,105</b>	<b>669,241,313</b>	<b>246,260,023</b>	<b>-</b>	<b>875,749,433</b>	<b>973,121,672</b>	
		<b>(210,049,702)</b>	<b>(5,086,512)</b>			<b>(36,106,592)</b>	<b>(3,645,311)</b>			

**11.4.1** Cost of operating fixed assets include cost of fully depreciated assets amounting to Rs. 234.99 million (2019: Rs. 166.19 million).

	2019									
	Cost as at January 1	Additions/(deletions)	Adjustments/(write offs)	Cost as at December 31	Accumulated depreciation as at January 1	Depreciation charge/(deletions) for the year	Adjustments/(write offs)	Accumulated depreciation as at December 31	Book value as at December 31	Annual depreciation rate
----- Rupees -----										
<b>Owned assets</b>										
Freehold land	144,450,113	-	-	144,450,113	-	-	-	-	144,450,113	-
Leasehold improvements	485,897,134	229,470,850	-	667,301,448	136,267,233	55,085,049	-	166,974,214	500,327,234	10%
		-	(48,066,536)			-	(24,378,068)			
Furniture and fixtures	168,022,015	52,086,051	-	219,235,159	48,916,227	20,104,637	-	68,390,534	150,844,625	10%
		(455,276)	(417,631)			(436,417)	(193,913)			
Computer equipment	409,400,415	142,338,515	-	544,977,067	209,511,580	94,294,249	-	298,422,924	246,554,143	20% - 33%
		(114,805)	(6,647,058)			(128,932)	(5,253,973)			
Office equipment	254,402,631	45,935,643	-	286,903,698	57,902,396	27,828,361	-	76,317,060	210,586,638	10%
		(118,195)	(13,316,381)			(118,899)	(9,294,798)			
Vehicles	128,313,221	62,218,500	-	140,308,173	47,133,320	33,250,295	-	59,136,581	81,171,592	25%
		(50,223,548)	-			(21,247,034)	-			
<b>2019</b>	<b>1,590,485,529</b>	<b>532,049,559</b>	<b>-</b>	<b>2,003,175,658</b>	<b>499,730,756</b>	<b>230,562,591</b>	<b>-</b>	<b>669,241,313</b>	<b>1,333,934,345</b>	
		<b>(50,911,824)</b>	<b>(68,447,606)</b>			<b>(21,931,282)</b>	<b>(39,120,752)</b>			

# Notes to the Financial Statements

## For the year ended 31 December 2020

### 11.4.2 Details of tangible assets sold and written off:

Deletion of fixed assets with cost exceeding Rs. 1 million or book value exceeding Rs. 0.25 million are as follows:

Particulars of assets	Party	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain / (loss)	Relationship with the Bank	Mode of disposal
----- Rupees -----								
<b>Owned assets</b>								
<b>Freehold land</b>								
28-C, Gulberg Lahore	Zafar Sultan Paracha	144,450,113	-	144,450,113	260,000,000	115,549,887	Third party	As Per Policy
<b>Vehicles</b>								
Honda City (A/T)	Rana Bilal Hamid	880,000	146,667	733,333	733,333	-	Employee	As Per Policy
Honda Civic	Nuvin Jatala	2,043,000	1,957,875	85,125	85,125	-	Employee	As Per Policy
Honda Civic	Khurruam Gul Khan	1,703,000	638,626	1,064,374	1,064,374	-	Employee	As Per Policy
Suzuki Cultus Vxr	Rao Adnan Mohyudin	1,410,000	323,125	1,086,875	1,086,875	-	Employee	As Per Policy
Suzuki Mehran Vxr	Mazhar Rafiq	880,000	183,333	696,667	696,667	-	Employee	As Per Policy
Suzuki Mehran Vxr	Binnat-E Rasool	860,000	197,083	662,917	662,917	-	Employee	As Per Policy
Honda City (A/T)	khalid Mehmood	860,000	53,750	806,250	806,250	-	Employee	As Per Policy
Honda City Aspire	Shoaib Zulfqar Cheema	1,094,000	1,093,999	1	1	-	Employee	As Per Policy
Honda City Manual	Irshad Ahmed	1,859,000	580,938	1,278,062	1,278,062	-	Employee	As Per Policy
Suzuki Swift Dx	Muhammad Tayyab	1,440,000	300,000	1,140,000	1,140,000	-	Employee	As Per Policy
Honda City (A/T)	Waleed Khawar Ahmed	1,440,000	450,000	990,000	990,000	-	Employee	As Per Policy
Honda City Aspire	Muhammad Mubashir Bashir	1,677,000	1,502,312	174,688	174,688	-	Employee	As Per Policy
Honda City Aspire	Ehtisham Aslam	1,733,000	1,191,438	541,562	541,562	-	Employee	As Per Policy
Honda Civic	Tariq Mir	2,502,500	2,293,959	208,541	208,541	-	Employee	As Per Policy
Honda Civic	Shahid Hussain Kazi	2,503,793	2,138,657	365,136	365,136	-	Employee	As Per Policy
Honda Civic	Hussam Khalid Qasmi	1,733,000	794,292	938,708	938,708	-	Employee	As Per Policy
Honda Civic	Shahzad Sadiq	2,603,000	1,138,813	1,464,187	1,464,187	-	Employee	As Per Policy
Suzuki Mehran Vxr	Luttuf Ali Shah	795,000	397,500	397,500	397,500	-	Employee	As Per Policy
Suzuki Wagon-R	Ahmed Wisal	762,000	428,625	333,375	333,375	-	Employee	As Per Policy
Faw-V2	Ibrar hussain	742,000	448,292	293,708	293,708	-	Employee	As Per Policy
Honda City (A/T)	Sohail Mahmood	1,735,500	795,437	940,063	940,063	-	Employee	As Per Policy
Honda Civic	Noshina Bukhari	2,353,000	1,764,750	588,250	588,250	-	Employee	As Per Policy
Suzuki Cultus Vxr	Syed Haris Ali	1,270,000	687,917	582,083	582,083	-	Employee	As Per Policy
Faw-V2	Kashif Hussain	860,000	340,417	519,583	519,583	-	Employee	As Per Policy
Suzuki Cultus Vxl	Qasim Rafique	1,440,000	510,000	930,000	930,000	-	Employee	As Per Policy
Honda Civic	A.Jamal Khan	2,403,000	1,501,860	901,140	901,140	-	Employee	As Per Policy
Honda City (A/T)	Yasir Iqbal	887,500	351,291	536,209	536,209	-	Employee	As Per Policy
Toyota Corolla Altis	Sajid Mehmood	1,859,000	697,125	1,161,875	1,161,875	-	Employee	As Per Policy
Suzuki Cultus Vxl	Muhammad adeel	1,380,000	603,750	776,250	776,250	-	Employee	As Per Policy
Suzuki Mehran Vxr	Tafseer khan	840,000	437,500	402,500	402,500	-	Employee	As Per Policy
Suzuki Mehran Vxr	Abdul Waqar	762,000	492,125	269,875	269,875	-	Employee	As Per Policy
Honda City Manual	Irfan Ali Rehamdil	795,000	447,188	347,812	347,812	-	Employee	As Per Policy
Honda City Aspire	Farooq Aziz	2,004,000	1,002,000	1,002,000	1,002,000	-	Employee	As Per Policy
Suzuki Cultus Vxr	Shiraz Abid	1,340,000	753,751	586,249	586,249	-	Employee	As Per Policy
Toyota Corolla Altis	Naveed ur Rehman	840,000	420,000	420,000	420,000	-	Employee	As Per Policy
Suzuki Cultus Vxl	Zaheer Ali	840,000	455,000	385,000	385,000	-	Employee	As Per Policy
Suzuki Cultus Vxl	Adnan Haider	1,440,000	570,000	870,000	870,000	-	Employee	As Per Policy
Suzuki Cultus Vxl	Muhammad Jabbran	1,440,000	570,000	870,000	870,000	-	Employee	As Per Policy
Suzuki Cultus Vxl	Mubashir Hassan	1,440,000	570,000	870,000	870,000	-	Employee	As Per Policy
Suzuki Mehran Vxr	Muhammad Afzal	880,000	366,660	513,340	513,340	-	Employee	As Per Policy
Suzuki Cultus Vxr	Asjid Qureshi	1,250,000	911,470	338,530	338,530	-	Employee	As Per Policy
Honda City Aspire (A/T)	Zaigham Mahmood shams	840,000	437,500	402,500	402,500	-	Employee	As Per Policy
Honda City Aspire	Ather Hussain	1,743,000	1,379,875	363,125	363,125	-	Employee	As Per Policy
Honda City Aspire	Saad Hameed Khan	1,733,000	1,299,744	433,256	433,256	-	Employee	As Per Policy
Suzuki Mehran Vxr	Imran khaliq	860,000	394,174	465,826	465,826	-	Employee	As Per Policy
<b>Others</b>								
Vehicles	Employees	2,196,000	1,555,500	640,500	640,500	-	Various employees	As Per Policy
Computer equipment	Employee	99,500	66,333	33,167	40,000	6,833	Employee	As Per Policy
Office equipment	Third parties	209,795	160,169	49,626	57,444	7,818	Various buyers	As Per Policy
Furniture and fixtures	Third parties	339,001	305,772	33,229	57,455	24,226	Various buyers	As Per Policy
		<b>210,049,702</b>	<b>36,106,592</b>	<b>173,943,110</b>	<b>289,531,874</b>	<b>115,588,764</b>		
<b>Assets written off</b>		5,086,512	3,645,311	1,441,201	-	(1,441,201)		
2020		215,136,214	39,751,903	175,384,311	289,531,874	114,147,563		
2019		119,359,430	61,052,034	58,307,396	29,540,477	(28,766,919)		

# Notes to the Financial Statements

For the year ended 31 December 2020

## 12 Other assets

Note	2020 Rupees	2019 Rupees
Income / mark-up accrued on loans and advances	4,580,574,028	2,000,507,607
Income / mark-up accrued on balance with banks	12,410,871	10,052,135
Prepayments	56,454,546	57,130,946
Security deposits	10,578,470	10,848,470
Stationary and stamps on hand	33,539,310	18,067,967
Advance tax - net	-	149,686,853
Receivable from Finca International Inc.	-	5,614,351
Receivable from SBP against crop insurance	240,091,909	214,104,678
Others	237,756,530	147,402,825
	<b>5,171,405,664</b>	<b>2,613,415,832</b>

**12.1** This represents amount receivable from Finca International Inc. for reimbursement of integration, travelling and advertisement expenses. It is incorporated in United States of America and its registered office is situated at 1201, 15th street NW, 8th floor Washington, DC 20005.

## 13 Deferred tax asset

	2020 Rupees	2019 Rupees
Deferred tax asset on deductible temporary differences arising in respect of:		
- gratuity payable	88,748,642	77,399,089
- advances - net of provisions	54,320,875	-
	<b>143,069,517</b>	<b>77,399,089</b>
Deferred tax liability on taxable temporary differences arising in respect of:		
- property and equipment	24,711,413	31,501,822
	<b>24,711,413</b>	<b>31,501,822</b>
	<b>118,358,104</b>	<b>45,897,267</b>

### 13.1 Movement in deferred tax balances is as follows:

Note	2020 Rupees	2019 Rupees
As at 01 January	45,897,267	24,136,895
Recognized in profit and loss account:		
- gratuity payable	19,910,967	15,485,285
- advances net of provision	54,320,875	-
- property and equipment	374,969	12,646,067
	<b>81,022,251</b>	<b>28,131,352</b>
Recognized in other comprehensive income:		
- gratuity payable	(8,561,414)	(6,370,980)
As at 31 December	<b>118,358,104</b>	<b>45,897,267</b>

# Notes to the Financial Statements

For the year ended 31 December 2020

**13.2** The deferred tax asset recognized in the financial statements represents the management's best estimate of the potential benefit which is expected to be realized in future years in the form of reduced tax liability as the Bank would be able to set off the profits earned in those years against temporary differences.

## 14 Deposits and other accounts

		2020		2019	
	Note	Number of accounts	Amount Rupees	Number of accounts	Amount Rupees
Fixed deposits	14.1	12,006	14,893,607,123	13,094	16,434,411,852
Saving deposits	14.1	121,963	8,426,673,326	119,043	5,251,953,020
Current deposits		1,393,031	2,762,480,596	1,151,540	2,224,976,956
		1,527,000	26,082,761,045	1,283,677	23,911,341,828

**14.1** These represent fixed deposits having tenure of 1 to 60 months carrying profit rates ranging from 6.85% to 14.25% (2019: 8.20% to 14.25%) per annum.

**14.2** The saving deposits represent accounts carrying interest rates ranging from 6.50% to 11.50% (2019: 0% to 10.25%) per annum.

### 14.3 Particulars of deposits by ownership

	2020		2019	
	Number of accounts	Amount Rupees	Number of accounts	Amount Rupees
Individual depositors	1,526,110	20,349,643,172	1,283,085	18,636,595,845
<i>Institutional depositors:</i>				
Corporations, firms and other				
such entities	802	3,353,578,104	525	3,546,710,591
Banks and financial institutions	88	2,379,539,769	67	1,728,035,392
	1,527,000	26,082,761,045	1,283,677	23,911,341,828

**14.4** Deposits include deposits from related parties amounting to Rs. 165.00 million (2019: Rs. 130.03 million).

## 15 Borrowings

Note	2020 Rupees	2019 Rupees
Borrowings from banks / financial institutions in Pakistan	15.1	4,710,503,886
		<b>4,752,852,994</b>

# Notes to the Financial Statements

## For the year ended 31 December 2020

15.1 Details of borrowings from financial institutions		2020 Rupees	2019 Rupees
<b>Secured</b>			
Running finance - UBL Bank Limited	15.2	-	350,000,991
Running finance - Allied Bank Limited	15.3	249,000,105	240,352,003
Running finance - National Bank of Pakistan	15.4	499,003,781	-
Term finance - Pak Oman Investment Company Limited	15.5	-	50,000,000
Term finance - Allied Bank Limited	15.6 & 15.7	275,000,000	175,000,000
Term finance - National Bank of Pakistan	15.8	687,500,000	937,500,000
Loan from SBP	15.9	3,000,000,000	3,000,000,000
		<b>4,710,503,886</b>	<b>4,752,852,994</b>

**15.2** This facility has limit aggregating Rs. 400 million (2019: Rs. 400 million). Mark-up is payable quarterly at rate ranges from 3 months KIBOR plus 50 bps per annum (2019: 3 months KIBOR plus 80 bps per annum). This is secured against first pari-passu charge on all present and future current assets of the Bank to the extent of Rs. 533 million with a 25% margin. This facility has expired on 30 June 2020.

**15.3** This facility has limit aggregating Rs. 250 million (2019: Rs. 250 million). Mark-up is payable quarterly at the rate of 3 months KIBOR plus 50 bps per annum (2019: 3 months KIBOR plus 50 bps per annum). This is secured against first pari-passu hypothecation charge on present and future current assets of the Bank to the extent of Rs. 333.33 million with a 25% margin. This facility is expiring on 30 June 2021.

**15.4** This facility has limit aggregating Rs. 500 million (2019: Rs. 500 million). Mark-up is payable quarterly at the rate of 3 months KIBOR plus 50 bps per annum (2019: 3 months KIBOR plus 50 bps per annum). This is secured against first pari-passu charge on present and future current assets of the Bank to the extent of Rs. 667 million with a 25% margin. This facility has expired on 31 December 2020. The Bank is in process of negotiation for extension of the facility.

**15.5** This facility has limit aggregating Rs. 300 million (2019: Rs. 300 million). Mark-up is payable quarterly at the rate of 3 months KIBOR plus 140 bps per annum (2019: 3 months KIBOR plus 140 bps per annum). This is secured against first pari-passu charge on present and future current assets of the Bank to the extent of Rs. 400 million with a 25% margin. The principal has been paid in twelve equal quarterly installments, the first such installment was paid on 27 September 2017. This facility was fully repaid on 27 June 2020.

**15.6** This facility has limit aggregating Rs. 200 million (2019: Rs. 200 million). Mark-up is payable quarterly at the rate of 3 months KIBOR plus 75 bps per annum (2019: 3 months KIBOR plus 75 bps per annum). The principal will be paid in sixteen equal quarterly installments, the first such installment has been paid on 28 August 2019. This is secured against first pari-passu charge of Rs. 267 million on present and future current assets of the Bank with a 25% margin. This facility is expiring on 28 May 2023.

**15.7** During the year, the Bank has obtained an additional facility, of aggregating limit of Rs. 150 million (2019: nil). Mark-up is payable quarterly at the rate of 3 months KIBOR plus 75 bps per annum (2019: nil). The principal will be paid in sixteen equal quarterly installments, the first such installment will be due on 20th June 2021. This is secured against first pari-passu charge of Rs. 200 million on present and future current assets of the Bank with a 25% margin. This facility is expiring on 20 March 2025.

**15.8** This facility has limit aggregating Rs. 1,000 million (2019: Rs. 1,000 million). Mark-up is payable quarterly at the rate of 3 months KIBOR plus 100 bps per annum (2019: 3 months KIBOR plus 100 bps per annum). The principal will be paid in sixteen equal quarterly installments, the first such installment has been paid on 31 December 2019. This is secured against first pari-passu charge of Rs. 1,333 million on present and future current assets of the Bank with a 25% margin. This facility is expiring on 30 September 2023.

**15.9** This is long term borrowing received from SBP under Financial Inclusion Infrastructure Program (FIIP) to provide ac-

# Notes to the Financial Statements

## For the year ended 31 December 2020

cess to long term market based funding that will enhance lending to microfinance borrowers including micro enterprises and micro housing especially women borrowers. The markup is payable at the rate of 6 months KIBOR minus 100 bps per annum (2019: 6 months KIBOR minus 100 bps per annum). Principal amount will be repaid in last four quarters of 5 years loan period or in bullet form at the end of said tenor.

16 Subordinated debt	Note	2020 Rupees	2019 Rupees
Pakistan Microfinance Investment Company (PMIC)	16.1	<b>800,000,000</b>	800,000,000

**16.1** During the year, the Bank has raised an unsecured and subordinated loan facility, amounting to Rs. 800 million to contribute towards the Bank's Tier II capital. The fund so raised will be utilized in the Bank's business operations. Mark-up is payable half yearly at the rate of 6 months KIBOR plus 3 bps per annum. The instrument is structured to redeem in 6 semi-annual installments in arrears starting from 6th year after the end of grace period of 5 years, as follows:

- 6th Year : 1% of total issue amount payable in 2 equal installments;
- 7th Year : 1% of total issue amount payable in 2 equal installments;
- 8th Year : 98% of total issue amount payable in 2 equal installments.

The instrument is unsecured and subordinated as to payment of principal and profit to all other indebtedness of the Bank, including deposits, and it is not redeemable before maturity without prior approval of SBP.

17 Other liabilities	Note	2020 Rupees	2019 Rupees
Markup / return / interest payable	17.1	<b>499,401,721</b>	686,284,781
Bills payable		<b>65,184,368</b>	58,187,657
Accrued expenses		<b>219,131,454</b>	184,816,331
Current tax liability		<b>66,844,638</b>	-
Payable to Finca Microfinance Holding Company LLC	17.2	<b>54,203,452</b>	3,281,350
Payable to defined benefit plan	17.3	<b>253,567,549</b>	221,140,255
Withholding tax payable		<b>181,721,990</b>	88,544,501
Sundry creditors		<b>157,214,087</b>	288,477,660
Lease liability against right of use assets		<b>1,483,551,201</b>	1,598,654,753
Workers' Welfare Fund		<b>33,320,951</b>	-
		<b>3,014,141,411</b>	<b>3,129,387,288</b>

**17.1** This includes markup payable on deposits from key management personnel amounts to Rs. 312,682 (2019: Rs. 4,620).

**17.2** This represents amount payable to the Finca Microfinance Holding Company LLC for consultancy, insurance, research & shared service center fee. It is incorporated in United States of America and its registered office is situated at 1201, 15th street NW, 8th floor Washington, DC 20005.

17.3 Payable to defined benefit plan	Note	2020 Rupees	2019 Rupees
Present value of defined benefit obligation	17.3.1	<b>246,845,842</b>	214,227,057
Benefit due but not yet paid		<b>6,721,707</b>	6,913,198
Balance as at 31 December		<b>253,567,549</b>	221,140,255

# Notes to the Financial Statements

## For the year ended 31 December 2020

### 17.3.1 Changes in present value of defined benefit obligation

Note	2020 Rupees	2019 Rupees
Balance at 1 January	214,227,057	188,925,210
Current service cost	65,178,502	65,249,181
Interest cost	23,325,516	22,139,177
	88,504,018	87,388,358
Benefit due but not yet paid	(5,805,862)	(4,771,259)
Payments made during the year	(25,618,188)	(39,112,451)
	(31,424,050)	(43,883,710)
Included in other comprehensive income		
Actuarial loss arising from changes in financial assumptions	(1,375,188)	(1,205,006)
Actuarial loss arising from experience adjustment	(23,085,995)	(16,997,795)
<b>Present value of defined benefit obligation</b>	<b>246,845,842</b>	<b>214,227,057</b>

### 17.3.2 Expenses charged to profit and loss account

Note	2020 Rupees	2019 Rupees
Current service cost	65,178,502	65,249,181
Interest cost	23,325,516	22,139,177
	88,504,018	87,388,358

### 17.3.3 Total remeasurement chargeable in other comprehensive income

Note	2020 Rupees	2019 Rupees
<b>Remeasurement of plan obligation:</b>		
Actuarial loss from changes in financial assumptions	(1,375,188)	(1,205,006)
Experience adjustments	(23,085,995)	(16,997,795)
Total remeasurement chargeable in other comprehensive income	(24,461,183)	(18,202,801)

### 17.3.4 Changes in net liability

Note	2020 Rupees	2019 Rupees
Balance as at 01 January	221,140,255	195,099,379
Expense chargeable to profit and loss account	88,504,018	87,388,358
Remeasurement chargeable in other comprehensive income	(24,461,183)	(18,202,801)
Benefit paid	(31,615,541)	(43,144,681)
Balance as at 31 December	253,567,549	221,140,255

# Notes to the Financial Statements

## For the year ended 31 December 2020

### 17.3.5 Significant actuarial assumptions

	2020	2019
Discount rate used for interest cost in profit and loss account	11.75%	13.25%
Discount rate used for year end obligation	10.25%	11.75%
Mortality rates	"SLIC 2001-05 Setback 1 Year " Setback 1 Year"	"SLIC 2001-05
Withdrawal rate	Aged based	Aged based
Retirement assumption	Age 60 years	Age 60 years

### 17.3.6 Expected expense for the next year

The Bank expects to charge Rs 83.32 million to statement of profit and loss on account of defined benefit plan in 2021.

	Rupees
Current service cost	59,547,798
Interest cost on defined benefit obligation	23,774,379
Amount chargeable to profit and loss	83,322,177

### 17.3.7 Sensitivity analysis

Significant actuarial assumptions for the determination of the defined obligation are discount rate and expected rate of salary increase. The sensitivity analysis below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant:

	Change	Impact on defined benefit obligation			
		2020		2019	
		Increase	Decrease	Increase	Decrease
Discount rate	100 BPS	225,012,471	272,718,745	15,495,967	25,630,856
Salary growth rate	100 BPS	273,459,741	223,971,109	16,151,126	26,538,903

Furthermore in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the balance sheet.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

**17.3.8** The average duration of the defined benefit obligation is 10 years.

### 17.3.8.1 Risk associated with defined benefit obligations

The defined benefit obligations may expose the bank to actuarial risks such as longevity risk, salary increase risk and withdrawal rate risk as described below;

#### Longevity risks:

The risk arises when the actual lifetime of retirees is longer than expectation. This risk is measured at the plan level over the entire retiree population.

# Notes to the Financial Statements

## For the year ended 31 December 2020

### Salary increase risk:

The most common type of retirement benefit is one where the final benefit is linked with final salary. The risk arises when the actual increases are higher than expectations and impact the liability accordingly.

### Withdrawal Rate:

The risk of actual withdrawals varying with the actuarial assumptions can impose a risk to the benefit obligation. The movement of the liability can go either way.

## 18 Share Capital

	Note	2020 (Number of shares)	2019	2020 (Rupees)	2019 (Rupees)
Ordinary shares of Rs 10 each		<b>1,500,000,000</b>	1,500,000,000	<b>15,000,000,000</b>	15,000,000,000

### 18.2 Issued, subscribed and paid-up share capital

	Note	2020 (Rupees)	2019 (Rupees)
Ordinary shares of Rs 10 each fully paid in cash	18.3	<b>634,888,711</b>	634,888,711
		<b>6,348,887,110</b>	6,348,887,110

### 18.3 Share capital has been subscribed by the following:

		2020 (Rupees)	2019 (Rupees)
Kashf Holdings (Private) Limited	5.22%	<b>33,119,747</b>	33,119,747
International Finance Corporation	4.85%	<b>30,771,739</b>	30,771,739
Triodos Fair Share Fund	2.73%	<b>17,368,319</b>	17,368,319
Acumen Fund	0.81%	<b>5,130,253</b>	5,130,253
FINCA Microfinance Cooperatief U.A	86.39%	<b>548,498,653</b>	548,498,653
	100.00%	<b>634,888,711</b>	634,888,711

19 Surplus on revaluation of assets	Note	2020 (Rupees)	2019 (Rupees)
<i>Surplus on revaluation of securities:</i>			
Federal Government securities - market treasury bills (T-Bills)		<b>184,000</b>	1,547,100

20 Deferred Grants	Note	2020 (Rupees)	2019 (Rupees)
Balance as at 01 January		<b>2,154,960</b>	2,412,228
Grant received from Karandaz for women empowerment	20.1	-	2,107,430
Less: Grant amortized		<b>(1,854,960)</b>	(2,364,698)
Balance as at 31 December		<b>300,000</b>	2,154,960

**20.1** This represents grant received from Karandaz for women awareness about the use of DFS Application in rural / peri urban areas.

## 21 Memorandum / off-balance sheet items

### 21.1 Contingencies

There are no material contingencies as at 31 December 2020 (2019: nil).

# Notes to the Financial Statements

## For the year ended 31 December 2020

22 Mark-up / return / interest earned	Note	2020 (Rupees)	2019 (Rupees)
Interest / mark-up on advances		<b>7,970,367,647</b>	7,621,185,208
Markup earned on investments in government securities		<b>526,818,247</b>	654,090,270
Interest / mark-up on bank accounts		<b>131,353,145</b>	36,883,933
		<b>8,628,539,039</b>	8,312,159,411

23 Mark-up / return / interest expensed	Note	2020 (Rupees)	2019 (Rupees)
Deposits		<b>2,369,953,228</b>	2,355,918,027
Borrowings		<b>426,549,012</b>	461,916,076
Subordinated loan		<b>84,149,480</b>	3,966,027
Notional interest on lease liability		<b>158,107,383</b>	175,974,209
		<b>3,038,759,103</b>	2,997,774,339

24 Fee, commission and brokerage income	Note	2020 (Rupees)	2019 (Rupees)
Loan processing fee		<b>418,534,235</b>	608,645,455
Income on cheque book issuance		<b>6,107,671</b>	38,165,542
Over due charges		<b>67,174,824</b>	103,850,669
Early settlement charges		<b>24,784,765</b>	26,246,855
Others		<b>16,488,484</b>	21,606,781
		<b>533,089,979</b>	798,515,302

25 Other income	Note	2020 (Rupees)	2019 (Rupees)
Grant income		<b>1,854,960</b>	2,364,698
Recovery of debts previously written off		<b>130,873,466</b>	140,923,944
Net gain on disposal of operating fixed assets	11.4.2	<b>115,588,764</b>	559,935
Capital gain on disposal of government securities		<b>55,903,100</b>	11,953,197
Others		<b>8,129,680</b>	166,853
		<b>312,349,970</b>	155,968,627

26 Administrative expenses	Note	2020 (Rupees)	2019 (Rupees)
Staff salaries and other benefits	26.1	<b>1,987,165,019</b>	2,112,554,773
Contribution to employee provident fund		<b>70,067,203</b>	90,030,964
Non-executive directors' fees, allowances and other expenses		<b>2,800,000</b>	750,000
Printing, stationery and periodicals		<b>79,675,252</b>	71,147,281
Advertisement		<b>69,679,605</b>	92,232,009
Rent, rates and taxes		<b>27,815,707</b>	34,900,550
Office running expenses		<b>51,249,605</b>	54,394,990
Vehicle running expenses		<b>47,577,864</b>	62,452,197

# Notes to the Financial Statements

For the year ended 31 December 2020

Insurance		80,560,410	90,433,631
Office security / personnel services		144,545,328	144,310,087
Repairs and maintenance		149,726,814	134,208,890
Communication		118,677,664	118,240,098
Travel and transportation		132,220,542	209,162,281
Utilities		106,420,054	115,341,459
Legal and professional		113,943,763	173,999,242
Donation	26.2	589,720	-
Auditors' remuneration	26.3	5,813,973	8,300,000
Training and research		10,355,238	16,580,274
Depreciation on operating fixed assets	11.4	246,260,023	230,562,591
Depreciation on right of use assets	11.3	240,583,922	239,209,984
Amortization on intangible assets	11.2	71,143,277	65,720,915
Others		4,171,573	37,504,706
		<b>3,761,042,556</b>	<b>4,102,036,922</b>

**26.1** This includes Rs. 88.50 million (2019: 87.39 million) in respect of staff gratuity expense and Rs. nil (2019: 2.81 million) in respect of gratuity expense of Chief Executive Officer.

<b>26.2 Donations</b>	Note	2020 Rupees	2019 Rupees
Donation to Prime Minister's COVID-19 Pandemic Relief Fund-2020		213,720	-
Donation to Institute of Public Health for arranging diagnostic COVID-19 kits.		376,000	-
		<b>589,720</b>	<b>-</b>

<b>26.3 Auditors' remuneration</b>	Note	2020 Rupees	2019 Rupees
Annual audit		2,756,250	2,650,000
Interim review		840,000	800,000
Taxation services		1,387,723	1,540,000
Advisory services		-	2,450,000
Fee for certifications		250,000	430,000
Out of pocket expense		580,000	430,000
		<b>5,813,973</b>	<b>8,300,000</b>

<b>27 Other charges</b>	Note	2020 Rupees	2019 Rupees
Penalties imposed by SBP		2,000	55,500
Bank charges		23,288,380	27,900,888
Operating fixed assets written off	11.4.2	1,441,201	29,326,854
Others		5,105,000	8,386,663
		<b>29,836,581</b>	<b>65,669,905</b>

# Notes to the Financial Statements

For the year ended 31 December 2020

<b>28 Taxation</b>	Note	2020 Rupees	2019 Rupees
<b>Current:</b>			
For the year including super tax		563,847,527	331,642,626
For the prior year		(4,841,086)	54,704,446
		<b>559,006,441</b>	<b>386,347,072</b>
<b>Deferred:</b>			
For the year		(87,437,691)	(17,907,977)
For the prior year		6,415,440	(10,223,375)
		<b>(81,022,251)</b>	<b>(28,131,352)</b>
		<b>477,984,190</b>	<b>358,215,720</b>

<b>28.1 Reconciliation of tax</b>	Note	2020 Rupees	2019 Rupees
Accounting profit before taxation		1,415,968,217	1,011,568,177
Tax rate %		35%	35%
Tax on accounting rate		495,588,876	354,048,862
Tax effect of income chargeable to tax at a lower rate		(21,305,172)	(42,124,751)
Prior year tax adjustment		1,574,354	44,481,071
Tax effect of inadmissible expenses		132,300	19,425
Tax effect of income chargeable to tax at a higher rate		1,993,832	1,791,113
		<b>477,984,190</b>	<b>358,215,720</b>

<b>29 Number of employees</b>	2020		
	Credit / Sales Staff	Banking / Support staff	Total staff
Permanent	1,313	737	2,050
Contractual	93	249	342
Total	<b>1,406</b>	<b>986</b>	<b>2,392</b>
Average number of employees during the year	<b>1,556</b>	<b>1,071</b>	<b>2,627</b>
	2019		
	Credit / Sales Staff	Banking / Support staff	Total staff
Permanent	1,545	866	2,411
Contractual	160	289	449
Total	<b>1,705</b>	<b>1,155</b>	<b>2,860</b>
Average number of employees during the year	<b>1,624</b>	<b>1,246</b>	<b>2,870</b>

# Notes to the Financial Statements

For the year ended 31 December 2020

## 30 Number of branches

	2020		2019	
	Branches No.	Sales service centre No.	Branches No.	Sales service centre No.
Branches at the beginning of the year	130	2	133	-
Opened during the year	-	-	2	2
Less: closed during the year	130	2	135	2
Branches at the end of the year	-	-	(5)	-
	130	2	130	2

## 31 Remuneration of directors and executives

The aggregate amounts charged in the financial statements for the year in respect of remuneration, including benefits to the Chief Executive, Directors and Executives of the Bank are as follows:

	Chief Executive		Directors		Executives	
	2020	2019	2020	2019	2020	2019
----- Rupees -----						
Managerial remuneration	19,801,441	29,617,022	2,800,000	750,000	136,368,864	152,051,693
House rent allowance	7,920,576	2,923,071	-	-	54,547,546	60,820,659
Provident fund	1,649,463	2,961,703	-	-	10,249,761	14,014,934
Utilities allowance	-	-	-	-	9,806,416	11,835,920
Medical Allowance	1,980,147	2,961,704	-	-	3,830,465	3,369,266
Conveyance/Car Allowance	1,422,581	1,215,968	-	-	22,411,276	18,280,754
Charge for defined benefit plan	-	2,808,793	-	-	-	17,120,041
Driver Allowance	474,194	175,000	-	-	5,726,225	6,310,186
Others	-	1,224,800	-	-	-	-
Title Allowance	-	-	-	-	-	45,000
	33,248,402	43,888,061	2,800,000	750,000	242,940,553	283,848,453
Number of persons at year end	1	1	4	3	60	61

**31.1** Executive means employees, other than the chief executive and directors, whose basic salary exceed twelve hundred thousand rupees in a financial year.

**31.2** Aggregate amount charged to profit and loss account for the year in respect of travelling and hotel expenses of directors is Rs. 0.88 million (2019: Rs 4.75 million) and Rs. 1.50 million (2019: 1.94 million) respectively.

**31.3** The Bank provides car allowance of Rs. 1.42 million (2019: 1.22 million) per annum to the Chief Executive Officer as part of the remuneration.

# Notes to the Financial Statements

For the year ended 31 December 2020

## 32 Earnings per share

			2020	2019
			Rupees	
32.1	Profit for the year	Rupees	904,663,076	653,352,457
	Weighted average number of ordinary shares	Number	634,888,711	634,888,711
32.2	Basic and diluted profit per share	Rupees	1.42	1.03

**32.2** There is no dilutive effect on the basic earning per share of the Bank.

## 33 Related party transactions

The Bank's related parties comprise of directors, key management personnel, shareholders and entities over which the directors are able to exercise significant influence and employee gratuity fund. The detail of Bank's shareholders is given in note 18.3 while remuneration of key management personnel is disclosed in note 31 to the financial statements. Transactions with related parties during the year, other than those which have been disclosed elsewhere in these financial statements, are as follows:

	2020			2019		
	Key management personnel Rupees	Associated company / parent Rupees	Kashf foundation Rupees	Key management personnel Rupees	Associated company / parent Rupees	Kashf foundation Rupees
<b>Deposits</b>						
Opening balance	5,113,331	-	130,032,622	27,040,200	-	30,391,594
Received during the year	72,337,468	-	341,867,282	98,136,930	-	230,825,889
Withdrawn during the year	(65,886,727)	-	(306,899,153)	(120,063,799)	-	(131,184,861)
Closing balance	11,564,072	-	165,000,751	5,113,331	-	130,032,622
<b>Staff loans</b>						
Opening balance	12,147,284	-	-	18,140,322	-	-
Disbursement during the year	1,000,000	-	-	18,204,386	-	-
Repayments during the year	(5,839,901)	-	-	(24,197,424)	-	-
Closing balance	7,307,383	-	-	12,147,284	-	-
<b>Transactions during the year</b>						
Mark-up/return/interest earned	400,289	-	-	719,609	-	-
Mark-up/return/interest expensed	488,261	-	36,985,830	601,441	-	15,777,739
Contribution to provident fund	3,887,509	-	-	8,912,431	-	-

## 34 Cash and cash equivalents

	Note	2020 Rupees	2019 Rupees
Cash and balances with SBP and NBP	7	1,572,075,030	1,595,527,281
Balances with other banks	8	2,849,103,430	1,642,664,760
		4,421,178,460	3,238,192,041

# Notes to the Financial Statements

## For the year ended 31 December 2020

### 35 Details of business locations

The addresses of the branches of the Bank are as follows:

#### College Raad - Lahore

27-17-B1-College Road, Township, Lahore

#### Ichra - Lahore

Mozang Branch, 5-Ferozpur Road, Mozang, Lahore

#### Opposite UET - Mughalpura

SA Rehman Stop, Dhobi Ghatt, Daroghawala, Main GT Road, Lahore

#### Chandni Chowk - Kasur

Railway Road, Opposite Metro Shoe, Near Chandni Chowk, Kasur

#### Manga Road - Raiwind

Sundar Road, Near Dar-E- Arqam School, Riwind, District Lahore

#### Civil Hospital - Managa Mandi

Near Govt. High School (Boys), Multan Road, Manga Mandi

#### Faisalabad Road - Sheikhpura

Faislabad Road, Sheikhpura

#### Sharaqpur

Jaranwala Road, Sharqpur Sharif

#### Malji Road - Nankana

Malji Road, Nankana Shahib

#### Raja Chowk - Hafizabad

Khasra # 122/124, Khatoni # 169, Model Town, Gujranwala Road, Hafizabad

#### Muhala Bilal Ganj - Jaranwala

Faislabad Road, Opposite Hussian Travel, Jaranwala

#### Syed Wala

Near UBL Bank, Jaranwala Road, Syedwala

#### Abdullah Pur - Faisalabad

Usman Manzil, Near Al-Fajar Marriage Hall, Jhumrah Road, Abdullah Pur

#### Circular Road - Faisalabad

Allama Iqbal Road, Faisalabad

#### Rajjana Road - Samundri

Circular Road Samundri, Pakistan Samundri

#### Main Jhang Road - Gojra

Jhang Road, Gojra

#### Sharae Quaid E Azam - Chiniot

Near ZTBL Bank, Faisalabad Road, Chiniot

#### Hafizabad Road - Pindi Bhatian

Hafizabad Road, Pindi Bhattian

#### Shorkot Road - Toba Tak Singh

Al-Qaim Center, Shorkot Road, Toba Tek Singh

#### Session Road - Jhang

Katchery Road, Jhang

#### Pir Mahal

Khewat No. 1389, Khatooni No. 1390, Plot No. 12/12 & 13/13, Near Askari Bank Ltd. Main Rajana Road, Kousarabad, Pir Mehal

#### Shorkot

Jhang Road Shorkot

#### Ahmadpur Sial

Main Road, Muhalla Farooqabad APS

#### Satellite Town - Rawalpindi

39-B1, Sattelite Town, Opposite Rawalpindi General Hospital, Near Chandani Chowk, Rawalpindi

#### Gojar Khan

Trunk Bazar, Near Qadria Govt School, Tehsil Road, Gojar khan

#### Barakoh

Main Murree Road, Near Umainia Restaurant, Bara Kahu, Islamabad

#### Muzaffarabad

Khewat No. 36, Khasra No. 739/130, Jalal Abad, Opp. New DHQ Complex, Secretariat Road Muzaffarabad

#### GT Road - LalaMusa

Near Telenor Franchise, GT Road, Lalamusa

#### Jehlum

M.M No. 3, Jada Road, Jhelum

#### Mirpur - AJK

Plot No. 2-A, Sub-Sector, B-2 Allama Iqbal Road, Mirpur

#### Kotli - AJK

Rawal Pindi Road, Near Kechari Moza Mandi, Kotli

#### Talaganag Road - Chakwal

Near Sui Gas Office, Opposite Degree College, Main Pindi Road, Chakwal

#### Mian Walli Road - Talagang

Nawab Centre Chowk, Saddiqabad, Mianwali Road, Talagang

#### Gilgit

Near Public School Chowk, Shahrah-E-Quaid-E-Azam, Zulficarabad, Jutial, Gilgit

#### Civil Bazar - Attock

Shop No. C-99, Block C, Burq Road, Lucky Plaza, Attock City

# Notes to the Financial Statements

## For the year ended 31 December 2020

#### Adda Lariyan - Hassanabdal

Adda Lariyan Hassan Abdal Branch, Pakistan

#### Abbottabad Road - Mansehra

Abbottabad Road, Near Habib Bank Ltd., Mansehra

#### Main GT Road - Haripur

Naeem Khan Market, Opposite Total Filling Station, G.T Road Haripur, Pakistan

#### Mall Road - Abbottabad

Finca Microfinance Bank Limited, Opposite Daewoo Terminal, Mandian, Abbottabad

#### Mardan

Shop No. ( 3,4,5,6,7,8,13,14) Block A, Shaheen Shopping Mall, Main Qazi Bashir Road, PRC Chowk, Mardan.

#### Peshawar

University Road Peshawar, Near Hotel Grand, Opposite Metro Station, Peshawar

#### Central Jail Morr - Multan

Shereen Commercial Center, Jail Mor Chowk, Multan

#### GPO Road - Khanewal

Opposite GPO, Block No 8, Khanewal

#### ByPass Road - Jahanian

By Pass Road, Jahanian

#### Shaheed Road - MianChannu

Address: GT-Road, Opposite Faisal Movers / Rajpoot Travels, MianChanu

#### Ali pur

Awan Plaza, College Chowk, Main multan road, Alipur

#### DG Khan

Railway Road, Dera Ghazi khan

#### Kot Addu

GT Road, Near Tariq Jamshed Petrol Pump, Kot Addu

#### Rajan pur

Gulshan- E- Iqbal Colony, Main Indus Highway Rajanpur, Pakistan

#### Shah Jamal Road - Muzafargarh

Mohallah Ameenabad Shahjamal, Muzafargarh

#### Mankera

Mushtaq Market, Jhang-Bhakkar Road, Mankera

#### Layyah

Choubara Road, Opposite PTCL exchange, Near Layyah Minor, Layyah

#### Bhakkar

Al Qaim Plaza, Chishti Chowk, Bhakkar

#### Dera Ismail Khan

Kashmir Chowk, Dera Ismail Khan

#### College Road - Pakpattan

College Road, Pakpattan

#### Muhammadi Road - Arifwala

Muhammadi Road, Arifwala

#### Pak Pattan Road - Haveli Lakha

Pak Pattan Road, Haveli Lakha

#### Liaqat Road - Sahiwal

Liaqat Road, Sahiwal

#### Vehari Bazar Burewala

26-F Block, Near WAPDA Office, Vehari Bazar, Burewala

#### Darass Road - Chichawatni

Darass Road, Chichawatni

#### Mohalla Mathiawalla - Kamalia

Mohalla Mathiawalla, Kamalia

#### Main Club Road - Vehari

Main Club Road, Vehari

#### Deepalpur

Pakpattan Road, Deepalpur

#### Ravi Road - Okara

Link M.A Jinnah Road Branch, Okara

#### Multan Road - Pattoki

Multan Road, Pattoki

#### Hujra Shah Muqeeem

Circular Road, Hujra Shah Muqeeem

#### Illahbad

Kasur Road, Illahabad

#### North Karachi - Karachi

Plot D-6/B, North Nazimabad, Karachi, Pakistan

#### Guro Nagar - Hyderabad

G-916, Gurru Nagar, Near Cloth Market

#### Hyd. Road - Tando Allah Yar

Near WAPDA Grid Station Shell, Dadal Shah Petrol Pump

#### Main Sakrand Road - Nawabshah

Main Sakrand Road, Nawabshah

#### Umer Kot

Ward "A" Cs No: 20/1/1, Lashari Market, Near Kumar Medical Store, Umer Kot Town, Taluka & Sub-District Umerkot

#### Quetta

Shop No. 1-26/5G=1330 To 1-26/5H=1331, Manan Chowk, M.A. Jinnah Road, Opposite Meezan Bank Ltd. Quetta, Baluchistan

#### Mirpur Khas

Ward "A" Cs No: 20/1/1, Lashari Market, Near Kumar Medical Store, Umer Kot Town, Taluka and Sub-District Umerkot

# Notes to the Financial Statements

For the year ended 31 December 2020

## Minara Road - Sukkhar

Mehak Appartments, Local Board,  
Minara Road, Sukkur

## Larkana

City Survey No. 707 & 708, Ward "A",  
Opposite First Women Bank, Bank  
Square, Bander Road, Larkana

## Khairpur

Near Khaki Shah Pul, Station Road,  
Khairpur Mir's

## Pano aqil

Eid Gaah Chowk, Cinema Road, Pano  
Aqil – Pakistan

## Ghotki

Plot No. C/S 890/2, Ward No. B, S.K  
Plaza, Devri Road, Ghotki

## Liaquatpur

Plot No. 3/C-187, Bank Road, Liaquat Pur

## Khanbella

KLP Road, Khanbela, Pakistan

## Area Dev. Society - Khanpur

Area Development Society, Plot # 237,  
A Block Settltite Town, Opposite Dr.  
Aqeela Zaidi Hospital, Zahir Peer Road,  
Khanpur

## Water Supply Road - Sadiqabad

Property No.243, Water Supply Road,  
Sadiq Abad

## Jamal Din Wali

Sheller Market, (JDW) Jamal Din Wali  
Branch (0624)

## Ahmedpur East

Katchehry Road, Opposite DSP Office,  
Ahmad Pur East

## Satelite Town - Rahim Yar Khan

26-Model Town, Rahim Yar Khan

## Lodhran

Saad Plaza, Multan Road, Lodhran

## Kahroor pacca

Dunyapur Road, Near Admore Petrol  
Pump, Kahrroor Pacca

## Dunyar pur

Railway Road, Dunyapur

## Bahawalpur

Plot # 2/A, Muhammad Bin Qasim  
Road, Model Town "A", Cantt.  
Bahawalpur.

## Yazman

Chak No 56/A, Near Nehar Wala Pull,  
Bahawalpur Road, Yazman

## Jalalpur pirwala

Shujaabad Road, Near HBL, Jalal Pur Pir  
Wala

## Khar Pur Tamewale

Opposite HBL Bank Ltd. Near Askar-1  
Petrol Pump, Hasilpur Road, Tehsil  
Khairpur Tamewali, District Bahawalpur

## Mailsi

Colony Road, Near Itifaq Ice Factory,  
Mailsi

## Talkot - Shujaabad

Jalal Pur Road, Near New Khan Adda,  
Near Bilal Masjid, Shujabad

## Khan Baba Road - Bhawalnagar

8-Nishtar Road, Jinnah Colony,  
Bahawalnagar

## Allama Iqbal Road - Fort Abbas

Allama Iqbal Road, Fort Abbas

## Madina Colony - Haroonabad

Bangla Road, Haroonabad

## Iqbal Alam Road - Chishtian

Khawaja Qibla Alam Road, Chishtian

## Hasilpur

Baldia Road, Opposite Imam Bargah,  
Hasilpur

## Circular Road - Mianchanabad

High School Road, Near Nadra Office,  
Mianchanabad

## Shahab Pura Road - Sialkot

City Tower Shahab Pura Road, Sialkot

## Sialkot Road - Sambrial

Opposite Makki Masjid, Wazirabad  
Road, Sambrial

## Daska

Khasra #  
3180/3058/3027/2834/2757/338,  
Khewat # 747, Khatoni # 1070, Mouza  
Daska Kot (Urban), Main Circular Road,  
Daska

## Pasroor

Classwala Road, Near Satrah Mor,  
Pasroor

## Narowal

Circular Road, Saddique Pura, Narowal

## GT Road - Kamoki

G T Road Under Pas, Near Telenor  
Franchise, Kamoki

## Faisal Gate - Gujrat

Faisal Gate, Circular Road, Near First  
Women Bank, Gujrat

## GT Road - Wazirabad

GT Road, Opposite Fire Brigade &  
Rescue 15, Wazirabad

## Chandni Chowk - Jalalpur Jattan

Circular Road, Jalal Pur Jattan

## Dinga

Kharian Road, Fawara Chowk , Dinga

## Mandi Bahawudin

Shayan Plaza, Ward No. 5, Dewan  
Chowk, Mindi Bahawudin

# Notes to the Financial Statements

For the year ended 31 December 2020

## Phaliya

Hellan Road, Phaliya

## Malakwal

Badshahpur Road, Malawal

## Sargodha

Block No. 15, Azad Road, Sargodha

## Bhalwal

Ajanala Road, Near Nadra Office,  
Bhalwal

## Sahiwal

Sargodha-Jhang Road, Near Shell  
Pump, Sahiwal

## Joharabad

Block No. 2, Near MCB, Joharabad

## Quidabad

Mian Ada, Near UBL, Qaidabad

## Mianwali

Govt. High School, Near Chen One,  
Mianwali

## Piplan

Main Ghalla Mandi, Piplan

## Allama Iqbal Town

6- Pak Block, Main Boulevard, Iqbal  
Town, Lahore

## Liaqat Road Rawalpindi

G-518-519, Near MCB, Opposite Bank  
Alfalah, Main Liaqat Road, Rawalpindi

## Sialkot II

Sajjad Plaza, Agha Kamal Road , Sadar  
Bazaar, Sialkot Cantt.

## Abdali Road Multan

Khan Centre, Abdaali Road, Multan

## Gujranwala III

Shop No 9&10, Main Shiekhupura  
Road, Mian Sansi, Khiali, Gujranwala

## New Garden Town Lahore

28-B-Ali Block, New Garden Town,  
Lahore

## DHA - Lahore

49 /A, XX, DHA Phase III, Lahore Cantt.

## Islamabad

109 East Jinnah Avenue, Next to  
Dominoo'S, Blue Area, Islamabad

## Liaquatabad - Karachi

13BC, KDA No.05, Block 9, Clifton  
Karachi South, Pakistan

### 36 Fair value measurement of financial instruments

The following table shows the carrying amounts and fair values of financial instruments and non-financial instruments including their levels in the fair value hierarchy:

On-Balance sheet financial instruments	Note	Carrying amount					Fair value			
		Held for trading	Held to maturity	Available for sale	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3
Rupees										
Investments - net of provisions	9	-	-	6,448,871,800	-	-	6,448,871,800	-	6,448,871,800	-
Financial assets not measured at fair value										
Cash and cash equivalents	34	-	-	-	442,178,460	-	442,178,460	-	-	-
Advances - net of provisions	10	-	-	-	21,246,108,856	-	21,246,108,856	-	-	-
Other assets	12 & 36.1	-	-	-	5,081,411,808	-	5,081,411,808	-	-	-
		-	-	-	30,748,699,124	-	30,748,699,124	-	-	-
Financial liabilities measured at fair value										
Financial liabilities not measured at fair value		-	-	-	-	-	-	-	-	-
Deposits and other accounts	14	-	-	-	-	26,082,761,045	26,082,761,045	-	-	-
Borrowings	15	-	-	-	-	4,710,503,886	4,710,503,886	-	-	-
Subordinate debt	16	-	-	-	-	800,000,000	800,000,000	-	-	-
Other liabilities	17 & 36.2	-	-	-	-	2,765,574,783	2,765,574,783	-	-	-
		-	-	-	-	34,358,839,714	34,358,839,714	-	-	-

# Notes to the Financial Statements

For the year ended 31 December 2020

		Carrying amount					Fair value			
		Held for trading	Held to ma- turity	Available for sale	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3
	Note					Rupees				
On-Balance sheet financial instruments										
<b>31 December 2019</b>										
<b>Financial assets measured at fair value</b>										
Investments - net of provisions	9	5,968,466,000	-	275,992,500	-	-	6,244,458,500	-	6,244,458,500	-
Financial assets not measured at fair value										
Cash and cash equivalents	34	-	-	-	3,238,192,041	-	3,238,192,041	-	-	-
Advances - net of provisions	10	-	-	-	22,038,804,318	-	22,038,804,318	-	-	-
Other assets	12 & 36.1	-	-	-	2,388,530,066	-	2,388,530,066	-	-	-
		-	-	-	27,665,526,425	-	27,665,526,425	-	-	-
<b>Financial liabilities measured at fair value</b>										
Financial liabilities not measured at fair value										
Deposits and other accounts	14	-	-	-	-	23,911,341,828	23,911,341,828	-	-	-
Borrowings	15	-	-	-	-	4,752,852,994	4,752,852,994	-	-	-
Subordinate debt	16	-	-	-	-	800,000,000	800,000,000	-	-	-
Other liabilities	17 & 36.2	-	-	-	-	3,040,842,787	3,040,842,787	-	-	-
		-	-	-	-	32,505,037,609	32,505,037,609	-	-	-

**36.1** These exclude stationary and stamp on hand and prepayments.

**36.2** These exclude withholding and current tax liability.

**36.3** Fair value versus carrying amounts

The Bank has not disclosed the fair values of these financial assets and liabilities as these are for short term or re-priced over short term. Therefore, their carrying amounts are reasonable approximation of fair value.

## 37.1 Interest rate risk management

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rate. The Bank's interest rate exposure stems mainly from its investments, Bank deposits and advances. This risk is managed by regular review of market rates.

Financial assets	Effective yield / interest rate %	2020					
		Interest bearing / exposed to yield / interest risk			Non-interest bearing / not exposed to yield / interest risk		
		Upto one month	Over one month upto six months	Over six months upto one year	Upto one month	Over one month upto six months	Over six months upto one year
On balance sheet:							
Cash and balances with SBP and NBP	5.50 - 8.75	725,909	-	-	725,909	1,571,349,121	-
Balances with other banks/NBFI's/MFBs	5.50 - 13.60	2,687,325,942	-	-	2,687,325,942	161,777,488	-
Investments - net of provisions	6.39 - 13.48	2,290,511,600	4,158,360,200	-	-	-	-
Advances-net of provisions	5.00 - 51.44	1,957,195,046	9,627,852,108	7,836,520,929	1,824,540,773	21,246,108,856	-
Other assets	-	6,935,758,497	13,786,212,308	7,836,520,929	1,824,540,773	30,383,032,507	6,803,959,947
<b>Off balance sheet</b>							
Total		6,935,758,497	13,786,212,308	7,836,520,929	1,824,540,773	30,383,032,507	6,803,959,947
<b>Financial liabilities</b>							
On balance sheet:							
Deposit and other accounts	0.00 - 14.25	9,686,172,019	6,443,195,235	2,784,671,512	4,406,241,683	23,320,280,449	2,762,480,596
Borrowings including subordinated loan	5.95 - 14.94	748,003,886	159,375,000	168,750,000	4,434,375,000	5,510,503,886	-
Other liabilities	8.55 - 11.55	21,930,028	59,963,856	79,786,431	1,356,102,815	1,517,783,130	994,224,104
		10,456,105,933	6,662,534,091	3,033,207,943	10,196,719,498	30,348,567,465	3,756,704,700
<b>Off balance sheet</b>							
Total		10,456,105,933	6,662,534,091	3,033,207,943	10,196,719,498	30,348,567,465	3,756,704,700
<b>On balance sheet gap</b>		(3,520,347,436)	7,123,678,217	4,803,312,986	(8,372,178,725)	34,465,042	3,047,255,247
<b>Off balance sheet gap</b>		-	-	-	-	-	-

# Notes to the Financial Statements

For the year ended 31 December 2020

Financial assets	Effective yield / interest rate %	2019					
		Interest bearing / exposed to yield / interest risk			Non-interest bearing / not exposed to yield / interest risk		
		Upto one month	Over one month upto six months	Over six months upto one year	Upto one month	Over one month upto six months	Over six months upto one year
On balance sheet:							
Cash and balances with SBP and NBP	10.00 - 11.25	50,507,149	-	-	50,507,149	1,545,020,132	-
Balances with other banks/NBFI's/MFBs	10.75 - 13.60	1,395,962,571	-	-	1,395,962,571	246,702,189	-
Investments - net of provisions	10.30 - 13.22	2,620,677,000	3,350,204,600	273,576,900	6,244,458,500	-	-
Advances-net of provisions	5.00 - 50.91	1,706,990,626	6,688,901,119	11,616,602,396	22,038,804,318	-	-
Other assets	-	5,774,137,346	10,039,105,719	11,890,179,296	23,777,681,596	10,848,470	2,388,530,066
<b>Off balance sheet</b>							
Total		5,774,137,346	10,039,105,719	11,890,179,296	29,729,732,538	4,169,403,917	10,848,470
<b>Financial liabilities</b>							
On balance sheet:							
Deposits and other accounts	0.00 - 13.75	7,822,566,317	4,595,186,185	3,219,956,142	6,048,656,229	21,686,364,873	2,224,976,955
Borrowings	10.19 - 16.45	-	790,352,994	1,500,000,000	4,612,500,000	5,552,852,994	-
Other liabilities	11.55	7,454,814	372,740,72	44,728,886	1,598,654,753	1,217,766,429	3,281,350
		7,830,021,131	5,422,813,251	3,414,685,028	12,170,533,210	28,837,872,620	3,442,743,384
<b>Off balance sheet</b>							
Total		7,830,021,131	5,422,813,251	3,414,685,028	12,170,533,210	28,837,872,620	3,442,743,384
<b>On balance sheet gap</b>		(2,055,883,785)	4,616,292,468	8,475,494,268	(10,144,043,033)	891,859,918	776,660,533
<b>Off balance sheet gap</b>		-	-	-	-	-	-

# Notes to the Financial Statements

## For the year ended 31 December 2020

### 37.2 Credit risk management

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank's credit risk is primarily attributable to its advances, investments and balances at banks. However, the Bank believes that it is not exposed to major concentration of credit risk. The Bank's credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit rating. The Bank has an effective loan disbursement and recovery monitoring system which allows it to evaluate borrowers' credit worthiness and identify potential problem loans. A provision for potential loan losses is maintained as required by the Prudential Regulations. Maximum amount of financial assets which are subject to credit risk amount to Rs. 31,718.89 million (2019: Rs. 31,112.08 million).

### 37.3 Liquidity risk management

Liquidity risk is the risk of being unable to raise funds at a reasonable price to meet commitments when they fall due, or take the advantage of investment opportunities when they rise. The management ensures that funds are available at all times to meet the funding requirements of the Bank. The Bank manages risk by maintaining sufficient liquidity at Head Office and the branches.

## 38 Capital risk management

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

**38.2** The Bank's objectives with when managing its capital are:

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

### 38.3 Statutory minimum capital requirement and management of capital

As per amendments on Prudential Regulations (R-1) issued vide BPRD Circular No. 10 of 2015 dated 03 June 2015, the minimum paid up capital requirement (MCR), free of losses for Microfinance Banks operating at national level is Rs. 1,000 million as at 31 December 2020. As at 31 December 2020, the paid up share capital net of discount, of the Bank stood at Rs. 2,259.85 million (2019: Rs. 2,259.85 million)

The capital of the Bank is managed keeping in view the minimum CAR (15%) required by the Prudential Regulations for the Microfinance Banks / Institutions. The adequacy of the capital is tested with reference to the risk-weighted assets of the Bank. The calculation of capital adequacy ratio enables the Bank to assess the long-term soundness. As the Bank conducts business on a wide area network basis, it is critical that it is able to continuously monitor the exposure across the entire organization.

The Bank manages its capital structure and makes adjustments to it in light of changes in regulatory and economic conditions. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend paid to shareholders, return capital to shareholders or issue new shares.

As at 31 December 2020, the Bank's capital adequacy ratio (CAR) is appropriately 20.93% (2019: 19.78%) of its risk weighted assets, as against the minimum requirement of 15% prescribed by SBP.

# Notes to the Financial Statements

## For the year ended 31 December 2020

### 39 Maturities of assets and liabilities

	2020				
	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
	----- Rupees -----				
<b>Market rate assets</b>					
Advances	21,246,108,856	1,957,195,046	9,627,852,108	7,836,520,929	1,824,540,773
Investments	6,448,871,800	2,290,511,600	4,158,360,200	-	-
Other earning assets	2,688,051,851	2,688,051,851	-	-	-
<b>Total market rate assets</b>	<b>30,383,032,507</b>	<b>6,935,758,497</b>	<b>13,786,212,308</b>	<b>7,836,520,929</b>	<b>1,824,540,773</b>
Other non-earning assets	9,467,848,677	6,942,782,716	258,409,615	240,095,792	2,026,560,554
<b>Total assets</b>	<b>39,850,881,184</b>	<b>13,878,541,213</b>	<b>14,044,621,923</b>	<b>8,076,616,721</b>	<b>3,851,101,327</b>
<b>Market rate liabilities</b>					
Time deposits of Rs. 100,000 and above	14,745,525,426	1,223,565,185	6,404,998,546	2,756,211,870	4,360,749,825
Time deposits below Rs. 100,000	148,070,060	35,921,871	38,196,690	28,459,642	45,491,857
Borrowings	5,510,503,886	748,003,886	159,375,000	168,750,000	4,434,375,000
Other cost bearing liabilities	9,944,456,456	8,448,603,354	59,963,856	79,786,431	1,356,102,815
<b>Total market rate liabilities</b>	<b>30,348,555,828</b>	<b>10,456,094,296</b>	<b>6,662,534,092</b>	<b>3,033,207,943</b>	<b>10,196,719,497</b>
Other non-cost bearing liabilities	4,258,850,514	4,005,282,965	-	25,356,755	228,210,794
<b>Total liabilities</b>	<b>34,607,406,342</b>	<b>14,461,377,261</b>	<b>6,662,534,092</b>	<b>3,058,564,698</b>	<b>10,424,930,291</b>

	2019				
	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
	----- Rupees -----				
<b>Market rate assets</b>					
Advances	22,038,804,318	1,706,990,626	6,688,901,119	11,616,602,396	2,026,310,177
Investments	6,244,458,500	2,620,677,000	3,350,204,600	273,576,900	-
Other earning assets	1,446,469,720	1,446,469,720	-	-	-
<b>Total market rate assets</b>	<b>29,729,732,538</b>	<b>5,774,137,346</b>	<b>10,039,105,719</b>	<b>11,890,179,296</b>	<b>2,026,310,177</b>
Other non-earning assets	7,582,156,476	4,244,187,461	317,856,690	478,612,632	2,541,499,693
<b>Total assets</b>	<b>37,311,889,014</b>	<b>10,018,324,807</b>	<b>10,356,962,409</b>	<b>12,368,791,928</b>	<b>4,567,809,870</b>
<b>Market rate liabilities</b>					
Time deposits of Rs. 100,000 and above	16,302,180,155	2,543,477,355	4,569,175,720	3,198,259,823	5,991,267,257
Time deposits below Rs. 100,000	132,231,696	27,135,941	26,010,464	21,696,319	57,388,972
Borrowings	5,552,852,994	-	790,352,994	150,000,000	4,612,500,000
Other cost bearing liabilities	6,850,607,775	5,259,407,836	37,274,072	44,728,886	1,509,196,981
<b>Total market rate liabilities</b>	<b>28,837,872,620</b>	<b>7,830,021,132</b>	<b>5,422,813,250</b>	<b>3,414,685,028</b>	<b>12,170,353,210</b>
Other non-cost bearing liabilities	3,755,709,490	3,531,287,885	3,281,350	-	221,140,255
<b>Total liabilities</b>	<b>32,593,582,110</b>	<b>11,361,309,017</b>	<b>5,426,094,600</b>	<b>3,414,685,028</b>	<b>12,391,493,465</b>

# Notes to the Financial Statements

As at 31 December 2020

## 40 Reconciliation of movements of liabilities to cash flows arising from financing activities.

	2020					
	Equity			Liabilities		
	Issued, sub- scribed and paid-up capital	Discount on issue of shares	Unappropri- ated profit	Deferred grants	Subordinated loan	Lease liabilities
	----- Rupees -----					
Balance as at 01 January 2020	6,348,887,110	(4,089,040,293)	1,563,709,236	2,154,960	800,000,000	1,598,654,753
<b>Changes from financing cash flows</b>						
Debt received	-	-	-	-	-	-
Dividends paid	-	-	(410,000,000)	-	-	-
Grant received	-	-	-	-	-	-
Payment of lease liabilities	-	-	-	-	-	(244,436,777)
Loan repaid	-	-	-	-	-	-
	-	-	(410,000,000)	-	-	(244,436,777)
<b>Other changes</b>						
Notional interest on lease liabilities	-	-	-	-	-	158,107,383
Addition in lease liabilities	-	-	-	-	-	10,252,591
Impact of derecognition	-	-	-	-	-	(39,026,749)
Amortization of grant	-	-	-	(1,854,960)	-	-
Total comprehensive income for the year	-	-	920,562,845	-	-	-
Transfer to :						
Statutory reserve	-	-	(180,932,615)	-	-	-
Depositors' protection fund	-	-	(45,233,154)	-	-	-
	-	-	694,397,076	(1,854,960)	-	129,333,225
<b>Balance as at 31 December 2020</b>	6,348,887,110	(4,089,040,293)	1,848,106,312	300,000	800,000,000	1,483,551,201

# Notes to the Financial Statements

As at 31 December 2020

	2019					
	Equity			Liabilities		
	Issued, sub- scribed and paid-up capital	Discount on issue of shares	Unappropri- ated profit	Deferred grants	Subordinated loan	Lease liabilities
	----- Rupees -----					
Balance as at 01 January 2019	6,348,887,110	(4,089,040,293)	1,061,863,072	2,412,228	-	-
<b>Changes from financing cash flows</b>						
Debt received	-	-	-	-	800,000,000	-
Dividends paid	-	-	-	-	-	-
Grant received	-	-	-	2,107,430	-	-
Payment of lease liabilities	-	-	-	-	-	(268,432,971)
Loan repaid	-	-	-	-	-	-
	-	-	-	2,107,430	800,000,000	(268,432,971)
<b>Other changes</b>						
Notional interest on lease liabilities	-	-	-	-	-	175,974,209
Addition in lease liabilities	-	-	-	-	-	1,691,113,515
Impact of derecognition	-	-	-	(2,364,698)	-	-
Amortization of grant	-	-	-	-	-	-
Total comprehensive income for the year	-	-	665,184,278	-	-	-
Transfer to :						
Statutory reserve	-	-	(130,670,491)	-	-	-
Depositors' protection fund	-	-	(32,667,623)	-	-	-
	-	-	501,846,164	(2,364,698)	-	1,867,087,724
<b>Balance as at 31 December 2019</b>	6,348,887,110	(4,089,040,293)	1,563,709,236	2,154,960	800,000,000	1,598,654,753

## 41 Provident Fund

The following information is based on latest un-audited financial statements of the Fund:

	Note	2020 Rupees Un-audited	2019 Rupees Audited
Size of the fund		590,120,298	572,112,510
Total investments	41.1	427,435,382	566,039,438
% age of investments made		72.4%	98.9%

# Notes to the Financial Statements

## For the year ended 31 December 2020

### 41.1 Breakup of investments

	2020 Rupees	2019 Rupees	2020 Relative % of size of the fund	2019
Mutual fund	135,382	24,619,695	0.0%	4.3%
Term deposit receipts (TDRs)	100,000,000	119,244,625	16.9%	20.8%
Market treasury bills	-	419,751,509	0.0%	73.4%
Pakistan investment bonds	327,300,000	2,423,609	55.5%	0.4%
	<b>427,435,382</b>	<b>566,039,438</b>	<b>72.4%</b>	<b>98.9%</b>

The investments of the Provident Fund Trust are in compliance with the provision of section 218 of the Companies Act, 2017 and the rules formulated for this purpose.

### 42 Material outsourcing arrangements

In compliance to the BPRD circular no. 06 of 2017 of SBP, the material outsourcing arrangements of the Bank are listed below:

Sr. Number	Name of service provider	Estimated cost	Estimated cost
1	Haven Security Services (Pvt) Ltd.	Security guards services	24,635,435
2	Security Organizing System	Security guards services	88,010,451
3	E-Ocean Pvt Ltd	SMS alerts to clients on transactions	8,088,158
4	Red Communication Art	Digital marketing and advertisement	15,087,887
5	Lotus	Digital marketing and advertisement	5,298,457

### 43 Complaints Management Mechanism

The Bank is a customer oriented organization and gives due consideration to the valuable feedback of its customers. Complaints are treated as opportunity to align our products/services and processes to serve the customers in a best possible way. The Bank ensures that resolution of complaints is comprehensive, appropriate and is dealt with agility; keeping customers informed of their complaint status from acknowledgement till the final resolution. An escalation matrix for complaint management has also been put into place internally for effective and efficient resolution of the customer complaints logged in. During the year 13,590 (2019: 19,398) complaints were received by the Bank and were resolved with average resolution time of 3 days (2019: 3.73 days).

### 44 Non adjusting event after the balance sheet date

The Board of Directors of the Bank in their meeting held on 25 February 2021 have decided on the dividend for the year ended 31 December 2020 @Nil% (Rs. Nil per share).

### 45 Impact of COVID-19 on the financial statements

On 30 January 2020, the World Health Organization (WHO) declared the outbreak a "Public Health Emergency of International Concern" and on 11 March 2020, the WHO declared the COVID-19 outbreak to be a pandemic in recognition of its rapid spread across the globe. Many countries, including Pakistan, have taken stringent steps to help contain further spread of the virus. While these events and conditions have resulted in general economic uncertainty, however, to dampen the adverse effects of COVID-19 and to enable the Microfinance Banks continue to fulfill their role in funding the real economy, SBP issued Circular dated 26 March 2020 regarding "Regulatory relief to dampen the effects of COVID-19". This circular allowed

# Notes to the Financial Statements

## For the year ended 31 December 2020

certain relaxations to MFBs where MFBs could defer / restructure principal / markup amounts. Management has evaluated the impact of COVID-19 and concluded that there are no material implications of COVID-19 on the operations of the Bank that require specific disclosure in financial statements as disclosed in notes 10.5, 10.6 and 10.7 of these financial statements.

### 46 General

- Figures have been rounded to the nearest Rupee unless otherwise specified.
- Where there are no amounts to be disclosed in the account captions as prescribed by BSD Circular No.11 dated 30 December 2003 issued by SBP in respect of forms of financial statements for Microfinance banks, these captions have not been reproduced in these financial statements, except for caption of balance sheet, profit and loss account.

### 47 Date of authorization

These financial statement were authorized for issue by the Board of Directors of the Bank on 25 February 2021.

Chief Executive Officer





Chairman

Director

Director



# FINCA Microfinance Bank Ltd

-  042-111-111-562
-  [www.finca.pk](http://www.finca.pk)
-  [FINCAMicrofinanceBank](#)
-  36 B/XX Block, Phase III, DHA, Lahore