

**INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF LOLC MICROFINANCE BANK LIMITED
(FORMERLY PAK OMAN MICROFINANCE BANK LIMITED)****Report on the Audit of the Financial Statements****Opinion**

We have audited the annexed financial statements of **LOLC MICROFINANCE BANK LIMITED (FORMERLY PAK OMAN MICROFINANCE BANK LIMITED)**, (the Bank) , which comprise the statement of financial position as at December 31, 2023, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of material accounting policies and other explanatory information, and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by Microfinance Institutions Ordinance, 2001 and the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at December 31, 2023 and of the loss and comprehensive loss, its cash flows and the changes in equity for the year then ended.

Basis for Opinion

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

Information Other than the Financial Statements and Auditors Report Thereon

Management is responsible for the other information. The other information comprises the information included in the Director's report for the year ended December 31, 2023 but does not include the financial statements and our auditors report thereon.

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

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





Responsibilities of Management and Board of Directors for the Financial Statements

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

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

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

Auditors Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Other Legal and Regulatory Requirements

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

- a) proper books of account have been kept by the Bank as required by the Companies Act, 2017 (XIX of 2017);
- b) the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017), Microfinance Institutions Ordinance, 2001 and are in agreement with the books of account and returns;
- c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Bank's business; and
- d) no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

The engagement partner on the audit resulting in this independent auditors report is Atif Riaz.

ISLAMABAD

DATED: 30 MAY 2024

UDIN: AR202310060TY6iul27N



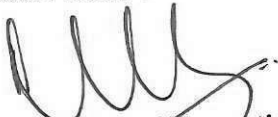
BDO EBRAHIM & CO.
CHARTERED ACCOUNTANTS


LOLC MICROFINANCE BANK LIMITED
(FORMERLY PAK OMAN MICROFINANCE BANK LIMITED)
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2023

		2023	2022
	Note	----- (Rupees) -----	
ASSETS			
Cash and balances with SBP and NBP	6	111,791,460	96,335,117
Balances with other banks / NBFIs / MFBs	7	1,215,416,065	1,119,240,396
Lending to financial institutions		-	-
Investments - net of provision	8	412,266,887	312,032,150
Advances - net of provisions	9	3,825,025,311	5,286,759,877
Operating fixed assets	10	387,732,770	339,423,768
Other assets	11	402,275,152	425,906,757
Deferred tax asset - net	12	316,556,555	100,626,934
TOTAL ASSETS		6,671,064,200	7,680,324,999
LIABILITIES			
Deposits and other accounts	13	928,919,543	2,413,803,587
Borrowings	14	1,982,284,483	1,982,284,483
Other liabilities	15	872,788,520	759,027,589
TOTAL LIABILITIES		3,783,992,546	5,155,115,659
NET ASSETS		2,887,071,654	2,525,209,340
REPRESENTED BY:			
Share capital	16	3,220,000,000	2,308,300,000
Statutory & general reserves		182,705,584	180,570,971
Accumulated (losses) / profit		(515,835,488)	36,248,928
		2,886,870,096	2,525,119,899
Surplus on revaluation of assets - net of deferred tax	17	201,558	89,441
		2,887,071,654	2,525,209,340

MEMORANDUM / OFF BALANCE SHEET ITEMS 18

The annexed notes from 1 to 37 form an integral part of these financial statements.


President / Chief Executive


Chairman

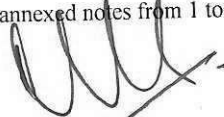

Director


Director

LOLC MICROFINANCE BANK LIMITED
(FORMERLY PAK OMAN MICROFINANCE BANK LIMITED)
STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED DECEMBER 31, 2023

	2023	2022
Note	(Rupees)	
Mark-up / return / interest earned	19 2,183,159,318	2,393,459,083
Mark-up / return / interest expensed	20 (683,446,250)	(564,793,156)
Net mark-up / return / interest income	1,499,713,068	1,828,665,927
Provision against non-performing loans and advances	9.3 (952,258,027)	(736,631,598)
Provision for unadjusted balances	(49,978,539)	-
Bad debts written off directly	(17,027,897)	-
	(1,019,264,463)	(736,631,598)
Net mark-up / return / interest income after provisions	480,448,605	1,092,034,329
NON MARK-UP / NON INTEREST INCOME		
Fee, commission and brokerage income	21 187,868,840	171,254,805
Dividend income	-	-
Other income	136,786,402	101,561,040
Total non-mark-up / non-interest income	324,655,242	272,815,845
	805,103,847	1,364,850,174
NON MARK-UP / NON INTEREST EXPENSES		
Administrative expenses	22 (1,554,919,426)	(1,239,933,131)
Other provisions/write offs	-	-
Other charges	-	-
Total non mark-up / non interest expenses	(1,554,919,426)	(1,239,933,131)
Extra ordinary / unusual items	(749,815,579)	124,917,043
LOSS BEFORE TAXATION	(749,815,579)	124,917,043
Taxation - current	23 (31,347,682)	(51,326,082)
Taxation - prior years	23 -	18,557,104
Taxation - deferred	23 219,782,931	22,510,023
	188,435,249	(10,258,955)
	(561,380,330)	114,658,088
LOSS AFTER TAXATION	(561,380,330)	114,658,088
Unappropriated profit / (loss) brought forward	36,248,928	(51,709,976)
Total comprehensive (loss) / income for the year	(552,084,416)	116,623,426
	(515,835,488)	64,913,450
APPROPRIATIONS:		
Transfer to:		
Statutory reserve	-	(22,931,618)
Capital reserve	-	-
Depositors' protection fund	-	(5,732,904)
Revenue reserve	-	-
Proposed cash dividend	-	-
	-	(28,664,522)
Unappropriated (loss) / profit carried forward	(515,835,488)	36,248,928
(Loss) / earnings per share - basic and diluted	28 (1.975)	0.497

The annexed notes from 1 to 37 form an integral part of these financial statements.


President / Chief Executive


Chairman

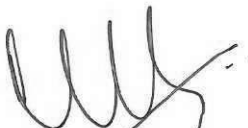

Director


Director


LOLC MICROFINANCE BANK LIMITED
(FORMERLY PAK OMAN MICROFINANCE BANK LIMITED)
STATEMENT OF COMPREHESIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2023

	2023	2022
Note	------(Rupees)-----	
(Loss)/ profit after taxation	(561,380,330)	114,658,088
Other comprehensive income		
Item not to be reclassified to statement of profit and loss in subsequent periods - net of tax		
Remeasurement of defined benefit obligation	25.5 13,092,836	2,768,081
Related tax impact	(3,796,922)	(802,743)
	9,295,914	1,965,338
Comprehensive income for the year transferred to equity	<u>(552,084,416)</u>	<u>116,623,426</u>
Comprehensive income for the year not transferred to equity		
Item to be reclassified to statement of profit and loss subsequently on sale - net of tax		
Surplus on revaluation of 'available for sale' investments	194,443	125,973
Related tax impact	(82,326)	(36,532)
Comprehensive income for the year not transferred to equity	<u>112,117</u>	<u>89,441</u>

The annexed notes from 1 to 37 form an integral part of these financial statements.


President / Chief Executive


Chairman


Director


Director

LOLC MICROFINANCE BANK LIMITED
(FORMERLY PAK OMAN MICROFINANCE BANK LIMITED)
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2023

	Capital reserves				Revenue reserves		Total
	Share capital	Share premium	Statutory reserve	Depositors' Protection Fund	Total Capital Reserve	Accumulated losses	
	(Rupees)						
Balance as at January 01, 2022	2,308,300,000	52,041,600	75,244,364	22,026,642	2,457,612,606	(51,709,976)	2,405,902,630
Total comprehensive income:							
Profit after tax for the year ended December 31, 2022	-	-	-	-	-	114,658,088	114,658,088
Other comprehensive income - net of tax	-	-	-	-	-	1,965,338	1,965,338
Total comprehensive income	-	-	-	-	-	116,623,426	116,623,426
Transfer to Statutory Reserve	-	-	22,931,618	-	22,931,618	(22,931,618)	-
Transfer to Depositors' Protection Fund	-	-	-	-	-	-	-
- 5% of the profit after tax	-	-	-	5,732,904	5,732,904	(5,732,904)	-
- return on investment - net of tax	-	-	-	2,593,843	2,593,843	-	2,593,843
	-	-	-	8,326,747	8,326,747	(5,732,904)	2,593,843
Balance as at January 01, 2023	2,308,300,000	52,041,600	98,175,982	30,353,389	2,488,870,971	36,248,928	2,525,119,899
Total comprehensive income:							
Profit after tax for the year ended December 31, 2023	-	-	-	-	-	(561,380,330)	(561,380,330)
Other comprehensive income - net of tax	-	-	-	-	-	9,295,914	9,295,914
Total comprehensive income	-	-	-	-	-	(552,084,416)	(552,084,416)
Increase in share capital	911,700,000	-	-	-	911,700,000	-	911,700,000
Transfer to statutory reserve	-	-	-	-	-	-	-
Transfer to Depositors' Protection Fund	-	-	-	-	-	-	-
- 5% of the profit after tax	-	-	-	2,134,613	2,134,613	-	2,134,613
- return on investment - net of tax	-	-	-	2,134,613	2,134,613	-	2,134,613
Balance as at December 31, 2023	3,220,000,000	52,041,600	98,175,982	32,488,002	3,402,705,584	(515,835,488)	2,886,870,096

The annexed notes from 1 to 37 form an integral part of these financial statements

President / Chief Executive

Chairman

Director

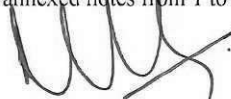
Director

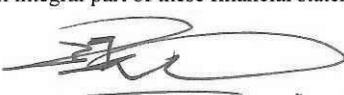
LOLC MICROFINANCE BANK LIMITED
(FORMERLY PAK OMAN MICROFINANCE BANK LIMITED)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023

	2023	2022
Note	----- (Rupees) -----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	(749,815,579)	124,917,043
Less: dividend income	-	-
	(749,815,579)	124,917,043
Adjustments for non-cash charges:		
Depreciation	96,409,914	103,600,898
Amortisation	10,474,175	10,505,082
Provision against non-performing advances	952,258,027	736,631,598
Reversal of provision for advances	(872,139,336)	(730,916,839)
Reversal of provision for diminution in the value of investments	-	(320,320)
Gain on disposal of fixed assets	(4,557,783)	(1,651,978)
Finance cost on lease obligation	41,402,799	21,011,047
Provision for gratuity	26,926,772	15,003,309
Provision / (reversal) for leave fare assistance	277,910	(2,166,105)
	251,052,478	151,696,692
	(498,763,101)	276,613,735
Decrease / (increase) in operating assets		
Advances	1,381,774,401	79,540,167
Other assets (excluding advance taxation)	35,921,338	(236,559,831)
	1,417,695,739	(157,019,664)
(Decrease) / increase in operating liabilities		
Deposits and other accounts	(1,545,063,214)	642,521,003
Other liabilities (excluding current taxation)	83,229,524	280,738,261
	(1,461,833,690)	923,259,264
	(542,901,052)	1,042,853,335
Income tax paid	(43,637,415)	(40,096,004)
Gratuity paid	-	(11,798,151)
Leave fare assistance paid	(416,458)	(12,322,166)
Net cash flows (used in) / generated from operating activities	(586,954,925)	978,637,014
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investments in available for sale securities	11,111,113	11,473,097
Net investments in held to maturity securities	(111,345,850)	(36,788,569)
Net investments in held for trading securities	-	-
Dividend received	-	-
Rentals paid against lease obligation	(55,847,964)	(52,866,355)
Net investment in operating fixed assets	(63,596,361)	(170,452,702)
Sale proceeds of property and equipment disposed-off	6,565,999	3,157,365
Net cash outflow from investing activities	(213,113,063)	(245,477,164)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings	-	(500,000,000)
Share capital increase	911,700,000	-
Net cash inflow / (outflow) from financing activities	911,700,000	(500,000,000)
Increase in cash and cash equivalents	111,632,012	233,159,850
Cash and cash equivalents at the beginning of the year	1,215,575,513	982,415,663
Cash and cash equivalents at the end of the year	1,327,207,525	1,215,575,513

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The annexed notes from 1 to 37 form an integral part of these financial statements.


President / Chief Executive


Chairman


Director


Director

LOLC MICROFINANCE BANK LIMITED
(FORMERLY PAK OMAN MICROFINANCE BANK LIMITED)
NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2023

1 STATUS AND NATURE OF BUSINESS

- 1.1 LOLC Microfinance Bank Limited formerly Pak Oman Microfinance Bank Limited, (the Bank) was incorporated on March 9, 2006 as a public limited company under Companies Ordinance, 1984 (Repealed with the enactment of the Companies Act, 2017 on May 30, 2017) and was granted license by the State Bank of Pakistan (SBP) on April 12, 2006. The Bank received certificate of commencement of business on May 6, 2006, effective from May 8, 2006. The Bank's principal business is to provide microfinance services to the poor and under served segment of the society as envisaged under the Microfinance Institutions Ordinance, 2001. The registered office of the Bank is situated at D-7 Parveen Building Shaheed-e-Millat Road, Bangalore Town, Karachi, Pakistan. As at December 31, 2023, the Bank has 62 branches (2022: 61) and 24 service centers (2022: 22) in operation in all provinces of Pakistan, and Azad Jammu & Kashmir other than Gilgit Baltistan, including the Federal Capital Islamabad and is licensed to operate nationwide.

The Head Office of the Bank is situated at Park View Plaza, Bearing No. CB-6300, near Royal Palace Hotel, Jhelum road, Rawalpindi.

In the year 2016, the Board of Directors of the Bank entered into an agreement with LOLC PLC, the Parent Company, who in lieu of the agreement acquired the majority of the stake (50.1%) in the Bank. As per the signed agreement dated February 3, 2017, the existing shareholders retained their shareholdings while new 115,648,000 shares were issued (equal to the existing issued and paid up capital) at an offer price of Rs.10.5 each (face value of Rs.10 each).

In the year 2021, the Board of Directors of the Bank again entered into an agreement with LOLC PLC, the Parent Company, who in lieu of the agreement acquired the remaining of the stake (49.9%) in the Bank. As per the signed agreement dated October 26, 2021, LOLC Asia Private Limited has acquired 33% shareholding from Ministry of Finance Sultanate of Oman and 17% from Pak Oman investment Company Limited at an agreed price of PKR 10.5 per share. The shares have been transferred on the name of the LOLC Asia Private Limited, the Parent Company on February 24, 2022.

- 1.2 Name of the bank has been changed from Pak Oman Microfinance Bank Limited to LOLC Microfinance Bank Limited with the approvals from SECP vide their document B 048901 dated October 10, 2022 and SBP vide their letter No. BPRD (LD-01) / 2022 -12317 dated December 12, 2022. Therefore, the Bank shall be known as LOLC Microfinance Bank Limited effective from January 01, 2023.
- 1.3 JCR-VIS has determined the Bank's medium to long-term rating as 'A-' and the short-term rating as 'A-2'.

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2 BASIS OF PRESENTATION

These financial statements have been presented in accordance with the requirements of Banking Surveillance Department Circular No. 11 dated December 30, 2003 issued by SBP.

The Bank believes that there is no significant doubt on the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

3 STATEMENT OF COMPLIANCE

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

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

Where provisions of and directives issued under the Companies Act, 2017, Microfinance Institutions Ordinance, 2001, the Prudential Regulations for Microfinance Banks and directives issued by the Securities and Exchange Commission of Pakistan and the SBP differ from the IFRS, the provisions of and directives issued under the Companies Act, 2017, Microfinance Institutions Ordinance, 2001, the Prudential Regulations for Microfinance Banks and directives issued by the Securities and Exchange Commission of Pakistan and the SBP have been followed.

3.2 The SBP, through its BSD Circular No. 10 dated August 26, 2002, has deferred the implementation of International Accounting Standard (IAS) 39 - "Financial Instruments: Recognition and Measurement" and IAS 40 - "Investment Property" for Banking Companies in Pakistan, till further instructions. Accordingly, the requirements of these Standards have not been considered in the preparation of these financial statements. Further, the SECP has deferred the applicability of International Financial Reporting Standard (IFRS) 7 "Financial Instruments: Disclosures" through its S.R.O. 411(I)/2008 dated April 28, 2008. Accordingly, the requirements of this standard have also not been considered in the preparation of these financial statements. However, investments and non-banking assets have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.

Moreover, recently SBP through its BPRD Circular letter No. 03 of 2022, dated July 05, 2022, extend the date of implementation of IFRS-9 till January 01, 2024. Accordingly, the requirements of this standard have also not been considered in the preparation of these financial statements. However, during the transition period, the Bank is required to carry out the parallel run reporting for submission of IFRS-9 pro-forma on quarterly, half yearly and annual financial statements for the current reporting period.

3.3 New accounting standards, amendments and IFRS interpretations that are effective for the year ended December 31, 2023

The following standards, amendments and interpretations are effective for the year ended December 31, 2023. These standards, amendments and interpretations are either not relevant to the Bank's operations or did not have significant impact on the financial statements other than certain additional disclosures.

	Effective date (annual periods beginning on or after)
Amendments to IAS 1 'Presentation of Financial Statements' and IFRS Practice Statement 2 Making Materiality Judgements- Disclosure of Accounting Policies	January 01, 2023
Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' - Definition of Accounting Estimates	January 01, 2023
Amendments to IAS 12 'Income Taxes' - Deferred Tax related to Assets and Liabilities arising from a single transaction	January 01, 2023
Amendments to IAS 12 'Income Taxes' - Temporary exception to the requirements regarding deferred tax assets and liabilities related to pillar two income taxes	January 01, 2023

3.4 New accounting standards, amendments and interpretations that are not yet effective

The following standards, amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them. These standards, amendments and interpretations are either not relevant to the Bank's operations or are not expected to have significant impact on the Bank's financial statements other than certain additional disclosures.

Amendments to IFRS 7 'Financial Instruments: Disclosures' - Supplier finance arrangements	January 01, 2024
Amendments to IFRS 16 'Leases' - Amendments to clarify how a seller-lessee subsequently measures sale and leaseback transactions	January 01, 2024
Amendments to IAS 1 'Presentation of Financial Statements' - Classification of liabilities as current or non-current	January 01, 2024
Amendments to IAS 1 'Presentation of Financial Statements' - Non-current liabilities with covenants	January 01, 2024
Amendments to IAS 7 'Statement of Cash Flows' - Supplier finance arrangements	January 01, 2024

**Effective date
(annual periods
beginning on or
after)**

Amendments to IAS 21 'The Effects of Changes in Foreign Exchange Rates' - Lack of Exchangeability

January 01, 2025

IFRS 17 Insurance Contracts

January 01, 2026

IFRS 1 standard has been issued by IASB effective from 01, July 2009. However, it has not been adopted yet locally by Securities and Exchange Commission of Pakistan (SECP)

IFRS 17 - 'Insurance contracts' has been notified by the IASB to be effective for annual periods beginning on or after January 1, 2023. However SECP has notified the timeframe for the adoption of IFRS - 17 which will be adopted by January 01, 2026.

3.5 Early adoption of standards

The Bank has not early adopted any new or amended standard in 2023.

4 BASIS OF MEASUREMENT

4.1 Accounting convention

These financial statements have been prepared under the historical cost convention except for the following items:

- Certain investments that have been marked to market and are carried at fair value;
- Staff retirement benefits which are measured at present value; and
- Right of use asset and lease liabilities have been recorded at their present values.

4.2 Functional and presentation currency

These financial statements are presented in Pakistani rupees ('Rupees' or 'Rs.'), which is also the functional currency of the Bank, and have been rounded off to the nearest rupee.



5 SUMMARY OF MATERIAL ACCOUNTING POLICIES

The material accounting policies applied in the presentation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

5.1 Cash and cash equivalents

Cash and cash equivalents for the purpose of cash flow statement represent cash in hand and balances held with State Bank of Pakistan, balances with other banks in current and deposit accounts and TDRs having a maturity upto 3 months. Cash and cash equivalents are carried at cost in the statement of financial position.

5.2 Lendings to financial institutions

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

5.3 Investments

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

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

Purchase and sale of investments that require delivery within the time frame established by regulation or market convention are recognised at the trade date, which is the date the Bank commits to purchase or sell the investment.

5.3.1 Held-for-trading

These represent securities, which are either acquired for the purpose of generating profit from short-term fluctuations in prices or dealer's margin or are securities included in the portfolio in which a pattern of short-term profit making exists. After initial measurement, such investments are carried at fair value and the surplus / (deficit) arising as a result of revaluation is taken to profit or loss account.

5.3.2 Held-to-maturity

These are securities with fixed or determinable payments and fixed maturities which the Bank has the intention and ability to hold till maturity. After initial measurement, such investments are carried at amortised cost.

5.3.3 Available-for-sale

These are investments which do not fall under the held-for-trading and held-to-maturity categories. After initial measurement, such investments are measured at fair value. The surplus / (deficit) arising on revaluation is shown in the statement of financial position below equity which is taken to the profit or loss account when actually realized upon disposal.

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

5.3.4 Impairment

Impairment in the value of equity 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 recognised directly in surplus on revaluation of securities on the statement of financial position below equity is thereof removed and recognised in the profit and loss account.

5.4 Advances

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

5.4.1 General loans

a) Other Assets Especially Mentioned (OAEM)

These are advances in arrears (payment / instalments overdue) of 30 days or more but less than 60 days.

b) Substandard

These are advances in arrears (payment / instalments overdue) for 60 days or more but less than 90 days.

c) Doubtful

These are advances in arrears (payment / instalments overdue) for 90 days or more but less than 180 days.

d) Loss

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

In addition the Bank maintains a watch list of all accounts delinquent by 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 for potential loan losses for all non-performing advances as follows:

OAEM	10% of outstanding principal of only Micro Enterprise loans net of cash collaterals and gold (ornaments and bullion) realizable without recourse to a Court of Law.
Substandard	25% of outstanding principal net of cash collaterals and gold (ornaments and bullion) realizable without recourse to a Court of Law.
Doubtful	50% of outstanding principal net of cash collaterals and gold (ornaments and bullion) realizable without recourse to a Court of Law.
Loss	100% of outstanding principal net of cash collaterals and gold (ornaments and bullion) realizable without recourse to a Court of Law.

5.4.2 Housing loan

a) Other Assets Especially Mentioned (OAEM)

These are advances in arrears (payment / instalments overdue) of 90 days or more but less than 180 days.

b) Substandard

These are advances in arrears (payment / instalments overdue) for 180 days or more but less than One year.

c) Doubtful

These are advances in arrears (payment / instalments overdue) for One year or more but less than two years.

d) Loss

These are advances in arrears (payment / instalments overdue) for two years or more.

Non-performing advances in respect of Housing loans are written off one month after 5 years from the date of classification of financing. However, the Bank continues its efforts for recovery of the written off balances.

In addition the Bank maintains a watch list of accounts delinquent for Housing loans by 5 - 90 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 for potential loan losses for all non-performing advances as follows:

OAEM	10% of outstanding principal of only Micro Enterprise loans net of cash collaterals and gold (ornaments and bullion) realizable without recourse to a Court of Law.
Substandard	25% of outstanding principal net of cash collaterals and gold (ornaments and bullion) realizable without recourse to a Court of Law.
Doubtful	50% of outstanding principal net of cash collaterals and gold (ornaments and bullion) realizable without recourse to a Court of Law.
Loss	100% of outstanding principal net of cash collaterals and gold (ornaments and bullion) realizable without recourse to a Court of Law.

5.4.3 Microenterprise loans

a) Other Assets Especially Mentioned (OAEM)

These are advances in arrears (payment / instalments overdue) of 90 days or more but less than 180 days.

b) Substandard

These are advances in arrears (payment / instalments overdue) for 180 days or more but less than One year.

c) Doubtful

These are advances in arrears (payment / instalments overdue) for One year or more but less than 18 months from the due date.

d) Loss

These are advances in arrears (payment / instalments overdue) for 18 months or more from the due date.

Non-performing advances in respect of Microenterprise loans are written off one month after 5 years from the date of classification if the NPL's are secured against mortgaged residential, commercial industrial properties (Land and Building only) and for all other one month after 3 years from the date of classification. However, the Bank continues its efforts for recovery of the written off balances.

In addition the Bank maintains a watch list of accounts delinquent for Microenterprise loans by 5 - 90 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 for potential loan losses for all non-performing advances as follows:

OAEM	10% of outstanding principal of only Micro Enterprise loans net of cash collaterals and gold (ornaments and bullion) realizable without recourse to a Court of Law.
Substandard	25% of outstanding principal net of cash collaterals and gold (ornaments and bullion) realizable without recourse to a Court of Law.
Doubtful	50% of outstanding principal net of cash collaterals and gold (ornaments and bullion) realizable without recourse to a Court of Law.
Loss	100% of outstanding principal net of cash collaterals and gold (ornaments and bullion) realizable without recourse to a Court of Law.

In addition, a general provision is made in accordance with the requirements of the Prudential Regulations for Microfinance Banks issued by SBP equivalent to 1% of the net outstanding balance (advances net of specific provisions) for potential loan losses.

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

Under exceptional circumstances management reschedules repayment terms for clients who have suffered catastrophic events and who appear willing and able to fully repay their loans. The classification made as per the Regulation is not changed due to such rescheduling.

5.5 Operating fixed assets and intangibles

5.5.1 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that are directly attributable to the acquisition of items.

Depreciation is charged to profit or loss account at the rates mentioned in note 10.1 applying the straight line method over estimated useful life of assets. The asset's residual values and useful lives are reviewed annually, and adjusted if required.

Full depreciation is charged on additions in the month of purchase and no depreciation is charged on disposals in the month of disposal.

Subsequent costs are included in the asset's carrying amounts or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Bank and the cost of the asset can be measured reliably. The carrying amount of the replaced asset is derecognised. All other repairs and maintenance are charged to the profit or loss account as and when incurred.

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

Gains / losses on disposals of property and equipment are determined by comparing proceeds with the carrying amount. These are recognised in the profit or loss account.

5.5.2 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.

5.5.3 Intangible assets

Intangible assets with a definite useful lives are stated at cost less accumulated amortisation and accumulated impairment losses, if any. These are Amortised using the straight line method at the rates mentioned in note 10.2 over their estimated useful life.

Amortisation is charged on additions from the date the asset available for use and on disposals up to the date of disposal.

The asset's residual values and useful lives are reviewed annually, and adjusted if required, at each reporting date.

5.5.4 Impairment

5.6 Non-Financial Assets (except for deferred tax assets)

The Bank assesses at the end of each reporting period whether there is any indication that non-financial assets except deferred tax 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 values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognised in profit or loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. 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 recognised as income.

5.6.1 Financial Assets

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

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

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

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at Amortised cost reversal is recognised in profit or loss.

5.6.2 Grants

Grants are initially recognised at fair value in the statement of financial position when there is a reasonable assurance that the grant will be received and that the Bank will comply with all the attached conditions.

Grants relating to operating fixed assets are recorded as deferred revenue in the statement of financial position and recognised as income on a systematic basis over the useful lives of the assets acquired from grant proceeds.

5.7 Other assets

These are recognised at cost, which is the fair value of the consideration given. An assessment is made at each balance sheet date to determine, whether there is an indication that a financial asset, or a group of financial assets, may be impaired. If such an indication exists, the estimated recoverable amount of that asset is determined and an impairment loss is recognised for the difference between the recoverable amount and the carrying value.


5.8 Staff retirement benefits

5.8.1 Defined contribution plan

The Bank also operates a recognised provident fund for its eligible employees. Equal monthly contributions are made by the Bank and its employees to the fund at the rate of 8.33% (2022: 8.33%) of basic salary per month.

5.8.2 Defined benefit plan

The Bank operates a funded-gratuity scheme for all of its permanent employees. The scheme was approved on 16 September 2014. Contributions to the fund are made every year based on actuarial valuation. The actuarial valuation is carried out using the Projected Unit Credit Method (PUCM). Under this method, the cost of providing gratuity is charged to the profit or loss account so as to spread the cost over the service lives of the employees in accordance with the actuarial valuation. All actuarial gains and losses are recognised in Other Comprehensive Income (OCI) in the periods in which they occur.



5.8.3 Compensated absences

Compensated absences (leaves) of employees are accounted for in the period in which these absences are earned. Provisions to cover the obligations are made using the current salary level of employees.

5.9 Taxation

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

5.9.1 Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account applicable tax credits, rebates and exemptions available, if any or minimum tax applicable in accordance with the Income Tax Ordinance, 2001. The charge for the current tax also includes adjustments where necessary, relating to prior years which arise from assessments framed / finalized during the year.

5.9.2 Deferred

Deferred tax is recognised using the balance sheet liability method on all temporary differences arising at the date of reporting between the amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax asset is recognised on all deductible temporary differences and carry forward of unused tax losses, minimum tax and alternate corporate tax (ACT), if any, to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The carrying amount of the deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to the periods when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to gain / (loss) recognised in surplus / (deficit) on revaluation of assets is charged / credited to such account.

5.10 Deposits

Deposits are recorded at the proceeds received. Deposit costs are recognised as an expense in the period in which these are incurred using effective mark-up / interest rate method.

5.11 Statutory reserve

The Bank is required under the Microfinance Institutions Ordinance, 2001 to maintain a statutory reserve to which an appropriation equivalent to 20% of the annual after tax profit is made till such time the reserves are equal to paid-up capital and thereafter 5% of profit after taxes.

5.12 Other liabilities

Liabilities for other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for the goods and services received, whether or not billed to the Bank.

5.13 Provisions and contingent liabilities

The management exercises judgment in measuring and recognising provisions and exposures to contingent liabilities related to pending litigations or other outstanding claims. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the financial settlement. Because of inherent uncertainty in this evaluation process, actual losses may be different from the originally estimated provision.

5.14 Depositors' protection fund

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

5.15 Revenue recognition

- Return on investment / lending to financial institutions is recognised using effective interest rate method.
- Mark-up / interest / return on performing advances is recognised using effective interest rate method except that income suspended in accordance with the requirements of the Prudential Regulations for Microfinance Banks, is taken to income when actually received.
- Interest or mark-up recoverable on non-performing advances and classified investments is recognised on a receipt basis.
- Dividend income is recognised when the right to receive dividend is established.
- Processing fees is recognised when services are performed.
- Capital gains / (losses) on sale of investments are recognised in the profit or loss account at the time of sale.
- Moratorium income is a fee charged to a borrower for provision of loan relaxation. It is accrued on the basis of expectation of recoverability of the income.
- Other income are recognised on accrual basis.

5.16 Financial instruments

5.16.1 Financial assets and financial liabilities

All financial assets and financial liabilities are recognised at the time when the Bank becomes a party to the contractual provisions of the instrument. At the time of initial recognition, all the financial assets and financial liabilities are measured at cost, which is the fair value of the consideration given or received for it. Subsequently, these are stated at their nominal values as reduced by appropriate allowances for estimated irrecoverable amounts, if any. All the financial assets are derecognised at the time when the Bank loses control of the contractual rights that comprise the financial assets. All financial liabilities are derecognised at the time when they are extinguished i.e. when the obligation specified in the contract is discharged, cancelled, or expired. Any gain or loss on derecognition of financial assets and financial liabilities is taken to profit or loss account.

5.16.2 Off setting

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

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

5.17 Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made.

5.18 Related party transactions

Transactions involving related parties arising in the normal course of business are conducted at agreed terms.

5.19 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates. The financial statements are presented in Pak Rupee, which is the Bank's functional and presentation currency.

5.20 Foreign currency translations

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

5.21 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS, if any, is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

5.22 Dividend and other appropriations

Dividend and appropriation to reserves, except appropriations which are required by the law, are recognised as liability in the Banks' financial statements in the year in which these are approved by the appropriate authorities.

5.23 Significant accounting estimates and judgments

The significant accounting estimates, judgements as classified as under:

2020

Estimates and assumptions

The assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustments to the carrying amounts of assets and liabilities within the next financial year are described below:

The Bank based its assumptions and estimates on the parameters under which these financial statements were prepared.

Existing circumstances and assumptions about the future development may change due to market changes or circumstances arising that are beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have significant effect on the amounts recognised in the financial statements relates to valuation and impairment of investments, advances, determination of useful lives of depreciable assets and intangible assets, provision for income taxes and other provisions which are discussed in following paragraphs:

a) Useful lives

The Bank reviews useful lives and residual values of operating fixed assets on regular basis. Any change in estimates may affect the carrying amounts of the respective items of operating fixed assets with a corresponding effect on the depreciation charge.

b) Provision for income taxes

The Bank recognises tax liabilities for pending tax assessments using estimates based on expert opinion obtained from tax / legal advisors. Differences, if any, between the income tax provision and the final tax liability is recorded when such liability is determined. Deferred income tax is calculated at the rates that are expected to apply to the period when the differences reverse.

c) Staff retirement benefits

Actuarial valuation of gratuity contributions requires use of certain assumptions related to future periods including increase in remuneration, expected long term return on plan assets and the discount rate used to convert future cash flows to current values. Actuarial gains and losses arising from changes in actuarial assumptions are taken in the other comprehensive income immediately.

d) Provision against advances

The Bank maintains a provision against advances as per the requirements of the Prudential Regulations and assesses the adequacy of provision against delinquent portfolio. Any change in the criteria/rate for provision may affect the carrying amount of the advances with a corresponding effect on the mark-up/interest earned and provision charge. *2021*

c) **Classification and impairment of investments**

The classification of investments between different categories depends upon management's intentions to hold those investments. Any change in the classification of investments may affect their carrying amounts with a corresponding effect on the return and unrealised surplus / (deficit) on these investments of the Bank.

f) **Provision and contingent liabilities**

The management exercises judgment in measuring and recognising provisions and exposures to contingent liabilities related to pending litigations or other outstanding claims. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the financial settlement. Because of inherent uncertainty in this evaluation process, actual losses may be different from the originally estimated provision.

g) **Lease term and effective interest rate for recognition of lease contracts**

The Bank determines the lease term as the non cancellable period of lease, together with periods covered by an option to extend and terminate the lease, if the Bank is reasonably certain to exercise that option at the time of entering the contract. Further, the Bank uses incremental borrowing rate to discount the lease payments to measure lease liability at the time of entering the contract.

		2023	2022
	Note	-----	(Rupees)-----
6 CASH AND BALANCES WITH STATE BANK OF PAKISTAN AND NATIONAL BANK OF PAKISTAN (NBP)			
Cash in hand			
- local currency		44,434,583	2,618,194
Balance with State Bank of Pakistan (SBP)	6.1	67,356,877	93,716,923
		<u>111,791,460</u>	<u>96,335,117</u>

- 6.1 This represents current accounts maintained with SBP to meet the minimum balance requirement equivalent to 5% as cash reserve of Bank's demand and term deposits with tenor of less than 1 year in accordance with the Prudential Regulations.

		2023	2022
	Note	-----	(Rupees)-----
7 BALANCES WITH OTHER BANKS / NBFIS / MFBS			
In Pakistan			
- on local currency current accounts		129,650,354	57,839,401
- on local currency deposit accounts	7.1	1,085,765,711	1,061,400,995
		<u>1,215,416,065</u>	<u>1,119,240,396</u>

- 7.1 These represents deposits with commercial banks carrying mark-up at rates ranging from 20.5% to 23.5% per annum (2022: 14% to 17.25% per annum).

	Note	2023	2022
		(Rupees)	
8 INVESTMENTS - NET OF PROVISIONS			
Federal Govt. Securities			
- Pakistan Investment Bonds		-	11,919,210
- Market Treasury Bills	8.2	187,072,444	263,807,384
Bonds, Participation Term Certificates & Term Finance Certificates	8.3	5,882,055	5,882,055
Sukuks	8.3	35,194,443	46,305,556
Less : 'provision for diminution in value of investments		(15,882,055)	(15,882,055)
Term Deposit Receipts (TDRs)		200,000,000	-
Investments - net of provision		<u>412,266,887</u>	<u>312,032,150</u>

8.1 Investments classification

Available for sale			
Term Finance Certificates		5,882,055	5,882,055
Sukuks		35,194,443	46,305,556
		41,076,498	52,187,611
Less: provision for diminution in value of investment		(15,882,055)	(15,882,055)
		<u>25,194,443</u>	<u>36,305,556</u>
Held to maturity			
Federal Government Securities - Pakistan Investment Bonds	8.2	-	11,919,210
Federal Government Securities - Treasury Bills	8.3	187,072,444	263,807,384
Term Deposit Receipts (TDRs)	8.5	200,000,000	-
		<u>387,072,444</u>	<u>275,726,594</u>
Investments - net of provision		<u>412,266,887</u>	<u>312,032,150</u>

8.2 Federal Government Securities - Treasury Bills

Purchase price	180,796,678	260,079,160
Amortised during the period	6,275,766	3,728,224
Value as at 31 December	<u>187,072,444</u>	<u>263,807,384</u>

[Signature]

8.3 Investments in Term Finance Certificates / Sukuk

Name of the investee company Profit / mark-up rate (per annum) Maturity date

Note

Term Finance Certificate			(Rupees)						
WorldCall Telecom Limited	6 month KIBOR + 1.6%	7-Oct-21	8.3.1	3,000	4,473,674	4,473,674	-	Non Traded	-
Agritech Limited	Zero rated	1-Jan-15		290	1,408,381	1,408,381	-	Non Traded	-
				3,290	5,882,055	5,882,055	-	-	-
Sukuk									
TPL Trakker Limited Sukuk	3 month KIBOR + 3%	30-Mar-26		25	25,000,000	-	-	25,194,443	194,443
Agritech Limited	6 month KIBOR + 2%	15-Aug-15		2,000	10,000,000	10,000,000	-	Non Traded	-
				2,025	35,000,000	10,000,000	-	25,194,443	194,443

Name of the investee company Profit / mark-up rate (per annum) Maturity date

As at December 31, 2022

company	mark-up rate (per annum)		As at December 31, 2022				
			Number of certificates	Redeemed value	Provision held	Value of investment after provision	Market value
(Rupees)							
Term Finance Certificate WorldCall Telecom Limited	6 month KIBOR + 1.6%	7-Oct-21	3,000	4,473,674	4,473,674	-	-
			290	1,408,381	1,408,381	-	-
			3,290	5,882,055	5,882,055	-	-
Agritech Limited	Zero rated	1-Jan-15					
Sukuk TPL Trakker Limited Sukuk	3 month KIBOR + 3%	30-Mar-26	50	36,305,556	-	-	-
			2,000	10,000,000	10,000,000	-	-
			2,050	46,305,556	10,000,000	-	36,305,556
Agritech Limited	6 month KIBOR + 2%	15-Aug-15					

8.3.1 Investments in WorldCall Telecom and Agritech Limited amounting to Rs. 4,473,674 and Rs. 11,408,381 respectively are fully provided.

2023 **2022**
-----**(Rupees)**-----

8.4 Particulars of Provision for Diminution in value of investments

Opening balance	15,882,055	16,202,375
Charge for the year	-	-
Reversals	-	(320,320)
Closing balance	<u>15,882,055</u>	<u>15,882,055</u>

8.5 This represents investment in five Term Deposit Receipts (TDRs) having face value of Rs. 40 million each issued by National Rural Support Programme (NRSP) on September 11, 2023. TDRs have maturity of one year and carry interest rate of 24.25% and interest is payable on monthly basis.

9 ADVANCES - NET OF PROVISIONS

	Note	December 31, 2023		December 31, 2022	
		Number of loans outstanding	Amount outstanding (Rupees)	Number of loans outstanding	Amount outstanding (Rupees)
Loan type					
Micro credit advances					
- Considered good		38,014	3,217,776,893	51,886	4,704,928,371
- Gold Loan		390	69,167,142		-
- Considered doubtful	9.2	9,513	794,888,980	9,544	788,972,796
			<u>4,081,833,015</u>		<u>5,493,901,167</u>
Less: Provision held					
- Specific provision	9.3	9,513	276,298,600	9,544	130,109,712
- General provision	9.4		37,363,673		103,592,396
			<u>313,662,273</u>		<u>233,702,108</u>
			3,768,170,742		5,260,199,059
Staff loan	9.6		56,854,569		26,560,818
Advances - net of provisions			<u>3,825,025,311</u>		<u>5,286,759,877</u>

9.1 All advances are secured by personal guarantees. Further, a mandatory deposit account equivalent to 10% of amount of advances was required to be kept with the Bank until September 30, 2014. The details of such deposits held with the Bank are disclosed in note 13. The interest rates on the advances is 54.9 % per annum (2022: 47.85 % per annum).

9.2 Particulars of non-performing advances

Advances includes Rs. 794,888,980 (2022: Rs. 788,972,796) which have been placed under non-performing status as detailed below:

Category of classification	December 31, 2023			December 31, 2022		
	Amount outstanding	Provision required	Provision held	Amount outstanding	Provision required	Provision held
	(Rupees)					
Other assets especially mentioned	196,810,525	4,447,509	4,447,509	262,344,394	4,953,208	4,953,208
Sub-standard	231,111,527	57,777,882	57,777,882	194,706,615	29,636,136	29,636,136
Doubtful	305,787,440	152,893,720	152,893,720	328,719,805	92,933,647	92,933,647
Loss	61,179,488	61,179,488	61,179,488	3,201,982	2,586,721	2,586,721
Total	794,888,980	276,298,599	276,298,599	788,972,796	130,109,712	130,109,712

9.3 Particulars of provision against non-performing loans and advances

The movement of provision against non-performing advances is as follows:

Note	December 31, 2023			December 31, 2022		
	Specific	General	Total	Specific	General	Total
	(Rupees)					
Opening balance	130,109,712	103,433,870	233,543,582	123,386,018	104,601,331	227,987,349
Charge / (reversal) for the year	1,018,328,224	(66,070,197)	952,258,027	737,640,533	(1,008,935)	736,631,598
Amounts written off	(872,139,336)	-	(872,139,336)	(730,916,839)	-	(730,916,839)
	146,188,888	(66,070,197)	80,118,691	6,723,694	(1,008,935)	5,714,759
Closing balance	276,298,600	37,363,673	313,662,273	130,109,712	103,592,396	233,702,108

2023 2022
----- (Rupees) -----

9.3.1 Particulars of write offs

Against provision	872,139,336	730,916,839
Directly charged to profit or loss account	17,027,897	-
	889,167,233	730,916,839

- 9.4 This represents general provision equivalent to 1% (2022: 1%) of the net outstanding advances held in accordance with the requirements of the Prudential Regulations for Microfinance Banks.

2023 2022
----- (Rupees) -----

9.5 Portfolio by type

Micro Business loan	2,670,000	-
Micro Agri loan	343,834,055	508,307,670
Micro Assets loan	-	35,012

	2023	2022
	----- (Rupees) -----	
Micro Enterprise loan	2,484,583,943	3,627,395,673
Salary loan	129,078,724	205,834,280
Bara Karobar loan	579,488,846	797,544,623
Fori Qarza	-	232,915
Bullet Zarai Karza	23,428	3,869,083
Lease	-	46,858
Gold Loan	69,167,142	4,551,860
Hunermand Khatoon Qarza	308,167,064	292,991,652
House loan	164,819,812	53,091,541
	<u>4,081,833,014</u>	<u>5,493,901,167</u>

- 9.6 This represents personal loans and house loans provided to employees as per the Bank's policy. The title documents of houses for house loans are held by the Bank as collateral and interest at 6 months KIBOR (2022: 6 months KIBOR) is charged.

	Note	2023	2022
		----- (Rupees) -----	
10 OPERATING FIXED ASSETS			
Property and equipment	10.1	150,021,898	162,272,190
Intangible assets		14,664,791	10,499,502
Right of use asset	10.3	<u>223,046,081</u>	<u>166,652,076</u>
		<u>387,732,770</u>	<u>339,423,768</u>

2023

10.1 Property and equipment

	2023				Rate of depreciation %
	COST		ACCUMULATED DEPRECIATION		
	As at January 01, 2023	As at December 31, 2023	Disposals	Charge for the year	
Owned					
Leasehold improvements (Building's fixtures)					
Office equipment	113,951,908	130,204,692	-	22,216,606	64,032,721
Furniture and fixture	40,228,801	52,635,086	-	7,751,728	29,224,854
Computers	34,932,729	150,000	150,000	6,515,478	27,696,999
Vehicles	76,902,599	86,130,203	90,000	15,755,979	69,512,435
Fixed asset clearing	58,732,984	4,639,275	-	6,959,181	28,337,736
	-	-	-	-	-
	324,749,021	368,826,643	4,879,275	59,198,972	218,804,745
					150,021,898

Owned

	COST			ACCUMULATED DEPRECIATION				Rate of depreciation %
	As at January 01, 2022	Additions	Disposals	As at December 31, 2022	Charge for the year	Disposals	As at December 31, 2022	
(Rupees)								
Owned								
Leasehold improvements (Building's fixtures)	64,513,016	49,438,892	-	113,951,908	22,539,331	19,276,784	41,816,115	72,135,793
Office equipment	33,066,419	7,162,382	-	40,228,801	14,797,157	6,675,969	21,473,126	18,755,675
Furniture and fixture	31,093,445	3,839,284	-	34,932,729	5,729,454	13,688,708	21,244,021	23,056,143
Computers	61,568,794	15,707,455	373,650	76,902,599	39,349,560	14,584,104	53,846,456	34,635,871
Vehicles	52,733,677	9,902,822	3,903,515	58,732,984	19,401,259	7,380,425	24,097,114	162,476,832
Fixed asset clearing	11,191,555	-	11,191,555	-	-	-	-	162,272,190
	254,166,906	86,050,835	15,468,720	324,749,021	111,601,874	53,646,736	2,771,778	

Owned

10.1.1 This includes property and equipment costing Rs. 117,267,498 (2022: Rs. 103,173,914) that have been fully depreciated as at December 31, 2023 but are still in use.

10.1.2 Details of disposals of assets whose original cost or the book value exceeds Rs. 1 million or Rs. 250,000 respectively whichever is less and property and equipment disposed off to the Chief Executive or to a director or to any other related party, irrespective of the values, are as follows:

	Cost	Accumulated depreciation	Net book Value	2023 Sale proceeds	Gain	Mode of disposal	Particulars of purchaser
Vehicles							
Suzuki Wagnor	1,057,500	846,000	211,500	1,675,000	1,463,500	HR Policy	Employee
Suzuki Alto	1,361,575	521,937	839,638	2,060,000	1,220,362	HR Policy	Employee
Suzuki Mehran	769,500	615,600	153,900	1,075,000	921,100	HR Policy	Employee
Suzuki Alto	1,450,700	735,021	715,679	1,500,000	784,321	HR Policy	Employee
Computer							
Laptop - HP Probbook	90,000	89,999	1	150,000	149,999	HR Policy	Employee
Furniture and fixtures							
Furniture and fixtures	108,000	45,000	63,000	75,000	12,000	HR Policy	Employee
Furniture and fixtures	42,000	17,500	24,500	31,000	6,500	HR Policy	Employee
	4,879,275	2,871,057	2,008,218	6,566,000	4,557,782		

10.2 Intangible assets

	COST		AMORTISATION			Rate of amortisation	
	As at January 01	Additions / Transfers	As at December 31	As at January 01	Charge for the year		As at December 31
----- (Rupees) -----							
Computer software							
2023	45,955,747	14,639,464	60,595,211	35,456,245	10,474,175	45,930,420	14,664,791
2022	32,133,353	13,822,394	45,955,747	24,951,163	10,505,082	35,456,245	10,499,502

10.2.1 This includes intangible assets costing Rs. 26,082,098 (2022 : Rs. 19,341,813) that have been fully amortized as at December 31, 2023 but are still in use.

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10.3 Right of use asset

As at December 31,2023			
	Cost	Accumulated Depreciation	Net Book Value
	(Rupees)		
At January 1,	222,728,454	(56,076,378)	166,652,076
Additions during the year	34,842,747	-	34,842,747
Reassessment during the year	58,762,201	-	58,762,201
Depreciation charge for the year	-	(37,210,943)	(37,210,943)
Derecognised during the year	-	-	-
At December 31,	316,333,402	(93,287,321)	223,046,081
Useful life	3 - 10 years		

As at December 31,2022			
	Cost	Accumulated Depreciation	Net Book Value
	(Rupees)		
At January 1,	140,957,426	(6,122,216)	134,835,210
Additions during the year	34,053,769	-	34,053,769
Reassessment during the year	47,717,259	-	47,717,259
Depreciation charge for the year	-	(49,954,162)	(49,954,162)
Derecognised during the period	-	-	-
At December 31,	222,728,454	(56,076,378)	166,652,076
Useful life	3 - 10 years		

Note	2023	2022
	(Rupees)	

11 OTHER ASSETS

Income / mark-up accrued on Advances and Investments		311,194,637	317,369,033
Advances, deposits, advance rent and other prepayments		46,562,335	57,375,695
Refundable / advance taxation (payments less provision)	11.1	39,766,535	27,476,802
Others		4,751,645	23,685,227
		402,275,152	425,906,757

11.1 Movement in advance tax - net

Balance as at January 1	27,476,802	14,627,834
Addition	43,637,415	64,175,050
Provision for taxation	(31,347,682)	(51,326,082)
Balance as at December 31	39,766,535	27,476,802

December 31, 2023					
Balance as at January 01, 2023	recognised in profit or loss account	recognised in other comprehensive income	recognised in share premium	recognised in revaluation of assets account	Balance as at December 31, 2023
(Rupees)					

Taxable temporary differences

Surplus on revaluation of investments
amortisation of premium on investments
Difference between accounting book value of fixed assets and tax base
Difference between accounting book value of lease receivable and tax base

105,004	1,718,100	56,388	-	-	1,879,492
-	-	-	-	-	-
-	-	-	-	-	-
48,329,102	16,354,262	-	-	-	64,683,364
48,434,106.00	18,072,362.00	56,388.00	-	-	66,562,856

Deductible temporary differences

Provision for other liabilities
Provision for diminution in value of investments
Difference between accounting book value of fixed assets and tax base
Difference between accounting book value of lease obligation IFRS 16
Provision against non-performing loans and advances

8,477,331	4,823,608	(3,796,922)	-	-	9,504,017
10,612,589	(6,006,793)	-	-	-	4,605,796
7,208,596	3,636,942	-	-	-	10,845,538
54,988,913	18,073,892	-	-	-	73,062,805
67,773,611	23,188,448	-	-	-	90,962,059
149,061,040	43,716,097	(3,796,922)	-	-	188,980,215

Unabsorbed depreciation and carry forward losses
Unused tax credits

-	162,791,514	-	-	-	162,791,514
-	31,347,682	-	-	-	31,347,682
100,626,934	219,782,931	(3,853,310)	-	-	316,556,555

December 31, 2022					
Balance as at January 01, 2022	recognised in profit or loss account	recognised in other comprehensive income	recognised in share premium	recognised in revaluation of assets account	Balance as at December 31, 2022
(Rupees)					

Taxable temporary differences

Surplus on revaluation of securities
amortisation of premium on investments
Difference between accounting book value of fixed assets and tax base
Difference between accounting book value of lease receivable and tax base

68,472	-	36,532	-	-	105,004
331,906	(331,906)	-	-	-	-
3,366,555	(3,366,555)	-	-	-	-
39,102,211	9,226,891	-	-	-	48,329,102
42,869,144	5,528,430	36,532	-	-	48,434,106

Deductible temporary differences

Provision for other liabilities
Provision for diminution in value of investments
Difference between accounting book value of fixed assets and tax base
Difference between accounting book value of lease obligation IFRS 16
Provision against non-performing loans and advances

10,496,956	(1,216,882)	(802,743)	-	-	8,477,331
4,698,688	5,913,901	-	-	-	10,612,589
-	7,208,596	-	-	-	7,208,596
40,513,355	14,475,558	-	-	-	54,988,913
66,116,331	1,657,280	-	-	-	67,773,611
121,825,330	28,038,453	(802,743)	-	-	149,061,040

Unabsorbed depreciation and carry forward losses

-	-	-	-	-	-
78,956,186	22,510,023	(839,275)	-	-	100,626,934

13 DEPOSITS AND OTHER ACCOUNTS

	Note	2023		2022	
		Number of Accounts	Amount (Rupees)	Number of Accounts	Amount (Rupees)
Saving deposits	13.2	144	280,343	129	63,539
Fixed deposits	13.2	230	914,661,770	133	2,407,222,296
Current deposits - mandatory		16,469	13,977,430	14,509	6,517,752
	13.1	<u>16,843</u>	<u>928,919,543</u>	<u>14,771</u>	<u>2,413,803,587</u>
13.1 Particulars of deposits by ownership					
Individual depositors		16,836	751,918,908	14,746	981,046,053
Institutional depositors - Corporation		7	177,000,635	25	1,432,757,534
		<u>16,843</u>	<u>928,919,543</u>	<u>14,771</u>	<u>2,413,803,587</u>

13.2 These carry interest rate of 12.79% to 14.75% (2022: 3.50% to 10%) per annum on saving deposits and 15% to 23% (2022: 12.13% to 19.56%) per annum for fixed deposits.

	Note	2023 ------(Rupees)-----	2022 ------(Rupees)-----
14 BORROWINGS			
Borrowing from State Bank of Pakistan	14.1	<u>1,982,284,483</u>	<u>1,982,284,483</u>

14.1 On July 19, 2019, the State Bank of Pakistan provided a Line of Credit Fund for five years to ensure liquidity constraint of the microfinance sector and to provide access to long-term market-based funding. Pricing is done at 6-month KIBOR minus 100 basis points, payable by July of 2024. However, the said amount has not been paid till date of approval of financial statements.

	Note	2023 ------(Rupees)-----	2022 ------(Rupees)-----
15 OTHER LIABILITIES			
Mark-up / interest / return payable		246,456,507	172,239,648
Bank overdraft		-	19,685,225
Accrued expenses		72,584,876	145,299,144
Accrued expenses - Payable to Supplier		-	-
Payable to LOLC Technology	15.1	244,483,136	183,012,175
Payable to defined benefit plan		26,076,164	12,242,228
Payable to defined contribution plan		4,878,925	4,879,922
Provision for compensated absences		6,126,675	16,281,767
Provision for leave fare assistance		569,633	708,181
Withholding taxes payable		4,640,431	4,792,517
Sales taxes		3,910,823	597,302
Advance from customer		11,120,643	9,618,067
Security deposit		-	54,470
Lease obligation	15.2	<u>251,940,707</u>	<u>189,616,943</u>
		<u>872,788,520</u>	<u>759,027,589</u>

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- 15.1 This includes payable to LOLC Technology Limited an associated company on account of maintenance services of fusion software. The maximum aggregated amount of payable during the year was Rs 244.5 million.

	Note	2023	2022
		------(Rupees)-----	
15.2 Lease liability against right-of-use assets			
Opening balance		189,616,943	139,701,223
Additions during the year		34,842,747	34,053,769
Impact of reassessment during the year		41,926,182	47,717,259
Finance cost		41,402,799	21,011,047
Payment of lease liability		(55,847,964)	(52,866,355)
Closing balance		<u>251,940,707</u>	<u>189,616,943</u>
15.2.1 Charged to profit or loss			
Finance cost		41,402,799	21,011,047
Short term leases	22	<u>57,095,407</u>	<u>46,227,689</u>
		<u>98,498,206</u>	<u>67,238,736</u>

16 SHARE CAPITAL

16.1 Authorised capital

2023	2022		2023	2022
(Number of shares)			------(Rupees)-----	
		Ordinary shares of Rs.		
<u>500,000,000</u>	<u>250,000,000</u>	10 each	<u>5,000,000,000</u>	<u>2,500,000,000</u>

16.2 Issued, subscribed and paid-up share capital

		Ordinary shares of Rs.		
		10		
<u>322,000,000</u>	<u>230,830,000</u>	each fully paid in cash	<u>3,220,000,000</u>	<u>2,308,300,000</u>

16.3 Movement during the year

Opening balance	2,308,300,000	2,308,300,000
Right issue to Parent	911,700,000	-
Closing balance	<u>3,220,000,000</u>	<u>2,308,300,000</u>

16.4 Share capital has been subscribed by the following:

LOLC Africa Holdings (Private) Limited	10	10
LOLC Financial Sector Holdings (Private) Limited	10	10
LOLC Asia (Private) Limited - Parent Company	<u>3,219,999,980</u>	<u>2,308,299,980</u>
	<u>3,220,000,000</u>	<u>2,308,300,000</u>

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- 16.5 The Board of Directors of the Bank entered into an agreement with LOLC Asia (Private) Limited, the Parent Company, who in lieu of the agreement acquired 100% of the stake in the Bank. As per the signed agreement dated October 26, 2021, LOLC Asia (Private) Limited has acquired 33% shareholding from Ministry of Finance Sultanate of Oman and 17% from Pak Oman Investment Company Limited at an agreed price of PKR 10.5 per share. The shares have been transferred on the name of the LOLC Asia (Private) Limited, the Parent Company on February 24, 2022. Further to comply with the requirements of minimum three members in case of Public Company as per Companies Act, 2017, the Bank requested SBP and seeking approval for transfer of two shares owned by LOLC Asia (Private) Limited in favor of LOLC Asia Holdings (Private) Limited and LOLC Financial Sector Holdings (Private) Limited, which has been granted on January 19, 2023.
- 16.6 Board of Directors of the Bank in 75th meeting held on October 27, 2023 have resolved to increase the authorised share capital from Rs 2,500 million to Rs 5,000 million to issue 91.170 million right shares at Rs 10 each amounting to Rs 911.700 million to LOLC Asia (Private) Limited. Purpose of the right issue is to finance the Bank's working capital requirements.

2023 2022
----- (Rupees) -----

**17 SURPLUS ON REVALUATION OF ASSETS -
NET OF DEFERRED TAX**

Sukuks	283,884	125,973
Related tax effect	(82,326)	(36,532)
	<u>201,558</u>	<u>89,441</u>

18 MEMORANDUM / OFF BALANCE SHEET ITEMS

Bills for collection	-	-
Acceptances, endorsements and other obligations contingent liabilities	-	-
Contingencies and Commitments for fixed capital expenditure	-	-
	<u>-</u>	<u>-</u>

19 MARK-UP / RETURN / INTEREST EARNED

Interest / mark-up on:		
- Income from advances	1,995,184,789	2,292,242,709
- Income from investment in Government securities	47,537,896	31,925,273
- Placement with financial institutions	16,210,958	-
- Income from deposit accounts	112,895,901	61,837,739
- Income from sukuk	7,546,377	6,936,741
- Income from staff loan	3,783,397	516,621
	<u>2,183,159,318</u>	<u>2,393,459,083</u>

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	Note	2023	2022
		------(Rupees)-----	
20	MARK-UP / RETURN / INTEREST EXPENSED		
Mark up on deposits		259,316,540	262,954,605
Mark up on borrowing		382,726,911	280,827,504
Mark up on lease obligations		41,402,799	21,011,047
		<u>683,446,250</u>	<u>564,793,156</u>
21	OTHER INCOME		
Recoveries against written off advances		93,087,833	75,925,575
Moratorium income		18,970,851	5,134,053
Income from early settlement		5,892,038	23,821
Gain on disposal of fixed assets		4,557,783	1,651,978
Miscellaneous income		14,277,897	16,659,508
Reversal of provision for leave fare assistance		-	2,166,105
		<u>136,786,402</u>	<u>101,561,040</u>
22	ADMINISTRATIVE EXPENSES		
Salaries, allowances etc.		847,563,391	660,567,996
Bonus to employees		4,000,000	22,000,000
Contribution to defined contribution plan		16,908,573	13,235,607
Charge for defined benefit plan		26,926,772	15,003,309
Charge for leave fare assistance		277,910	-
Non-executive directors' allowances and other expenses		400,000	69,800
Training		2,462,862	5,387,619
Rent, rates and taxes		57,095,407	46,227,689
Legal and professional charges		28,207,882	11,369,285
Utilities		28,989,792	19,036,914
Communications		60,622,735	31,963,864
Fusion expenses		79,014,040	81,836,621
Repairs and maintenance		17,985,103	10,946,973
Vehicle running		7,766,199	1,052,971
Insurance		66,734,479	33,583,162
Travel and transportation		24,212,633	32,895,222
Stationery and printing		25,000,858	24,075,336
IT supplies and software		45,462,349	33,246,271
Fees and subscription		20,053,061	9,583,502
Advertisement and business promotions		26,661,613	20,491,749
Auditors' remuneration	22.1	4,726,999	1,414,017
Depreciation		59,198,971	53,646,736
Depreciation on right-of-use assets		37,210,943	49,954,162

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	2023	2022
Note	------(Rupees)-----	
Amortisation of intangible assets	10,474,175	10,505,082
Bank charges	4,529,238	7,867,776
Security expense	30,936,693	20,670,182
Kitchen expenses	8,314,378	6,594,056
Entertainment expenses	3,112,666	3,136,017
Medical staff	67,107	211,479
Archiving	3,082,761	2,398,671
Other expenses	970,326	970,934
Fuel expense	5,949,510	9,990,129
	<u>1,554,919,426</u>	<u>1,239,933,131</u>

22.1 Auditors' remuneration

Audit fee	760,437	1,190,250
Fee for half yearly review	380,218	
Fee for special audits / certifications	3,078,131	
Sales tax	350,148	104,742
Out of pocket expenses	158,065	119,025
	<u>4,726,999</u>	<u>1,414,017</u>

23 TAXATION

For the year		31,347,682	51,326,082
- current	12	(219,782,931)	(22,510,023)
- deferred		(188,435,249)	28,816,059
For prior year			
- current		-	(18,557,104)
- deferred		-	-
		-	(18,557,104)
		<u>(188,435,249)</u>	<u>10,258,955</u>

23.1 The Finance Act 2007 had introduced amendments to the Income Tax Ordinance, 2001, through which income of Microfinance Banks has been conditionally exempted from tax for five years commencing January 01, 2008 under clause 66 (viii) of Part I of the Second Schedule. However, the Finance Act 2007 had also introduced the Seventh Schedule to the Income Tax Ordinance, 2001 which is applicable to Banking Companies. Under Rule 8 of the Seventh Schedule, no exemptions of the Second Schedule are to apply to Banking Companies. The exemption of Clause 66 (viii) therefore appears to be overruled by Rule 8 of the Seventh Schedule. However, based on the opinion of the Bank's lawyer, the Bank continues to prepare and submit its tax returns as a microfinance institution and does not follow the Seventh Schedule.

23.2 No numeric tax rate reconciliation is presented in these financial statements for the year ended December 31, 2023 as the Bank was liable to pay minimum tax under section 113 of the Income Tax Ordinance, 2001.

24 NUMBER OF EMPLOYEES

	2023			2022		
	Credit / Sales	Banking / Support	Total	Credit / Sales	Banking / Support	Total
Permanent	375	441	816	327	481	808
Contractual	218	117	335	322	140	462
Total number of employees	<u>593</u>	<u>558</u>	<u>1,151</u>	<u>649</u>	<u>621</u>	<u>1,270</u>

25 DEFINED BENEFIT PLAN

25.1 Staff Gratuity Scheme

As disclosed in note 5.8.2, the Bank operates an approved funded gratuity scheme for its employees. The accounting policy for recognizing actuarial gains and losses is also disclosed in note 5.8.2 to the financial statements. The information in notes 25.1.1 to 25.11 relating to the 2023 and 2022 financial year has been obtained from the actuarial valuation report.

25.1.1 Principal actuarial assumptions

The latest actuarial valuation for defined benefit plan scheme was carried out as at December 31, 2023 using the Projected Unit Credit Method (PUCM). The following significant assumptions were used for the actuarial valuation:

	2023	2022
	(Percent per annum)	
Discount rate	15.75	14.50
Expected rate of increase in salary levels - senior employees	13.25	11.50
Expected rate of increase in salary levels - other employees	13.25	11.50

Mortality rates assumed were based on the 70% of the EFU (61-66) table.

	Note	2023	2022
		----- (Rupees) -----	
Present value of defined benefit obligation	25.3	34,615,392	26,531,421
Fair value of plan assets	25.4	(8,539,228)	(14,289,193)
		<u>26,076,164</u>	<u>12,242,228</u>

25.2 The amounts recognised in the statement of financial position are as follows:

	Note	2023 ------(Rupees)-----	2022
25.3 Movement in the present value of defined benefit obligation			
Present value of obligation as at January 1		26,531,421	28,754,319
Current service cost		17,582,453	14,483,275
Past service cost		6,610,651	-
Interest cost		4,034,009	2,636,253
Benefits paid		(10,642,646)	(11,660,753)
Actuarial (gain) / loss on remeasurement of obligation		(9,500,496)	(7,681,673)
Present value of obligation as at December 31		<u>34,615,392</u>	<u>26,531,421</u>
25.4 Movement in the fair value of plan assets			
Fair value of assets as at January 1		14,289,193	19,717,249
Expected return		1,300,341	2,116,219
Contributions		-	9,030,070
Benefits paid		(10,642,646)	(11,660,753)
Actuarial gain / (loss)		3,592,340	(4,913,592)
Fair value of assets as at December 31		<u>8,539,228</u>	<u>14,289,193</u>
25.5 Movement in the net liability recognised in the statement of financial position are as follows:			
Opening liability		12,242,228	9,037,070
Charge for the year	25.6	26,926,772	15,003,309
Other comprehensive income		(13,092,836)	(2,768,081)
Contributions		-	(9,030,070)
Closing liability		<u>26,076,164</u>	<u>12,242,228</u>
25.6 The amount recognised in the profit or loss account is as follows:			
Current service cost		24,193,104	14,483,275
Interest cost		2,733,668	520,034
Net charge for the year		<u>26,926,772</u>	<u>15,003,309</u>
25.7 Actuarial losses / (gains)			
Net unrecognised actuarial (losses) / gains as at January 1		-	-
Actuarial gain on remeasurement of obligation		(13,092,836)	(2,768,081)
		<u>(13,092,836)</u>	<u>(2,768,081)</u>
Actuarial gain / (loss) recognised in:			
- other comprehensive income		13,092,836	2,768,081
- profit or loss account		-	-
Net unrecognised actuarial (losses) / gains as at December 31		<u>-</u>	<u>-</u>

	2023	2022
	----- (Rupees) -----	
Actuarial losses / (gains) on remeasurement of obligation comprise of:		
Demographic assumptions	(3,567,274)	-
Financial loss	384,933	-
Experience adjustment	(6,318,155)	(7,681,673)
Investment return	(3,592,340)	4,913,592
	<u>(13,092,836)</u>	<u>(2,768,081)</u>

25.8 Sensitivity analysis

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
	----- (Rupees) -----		
Discount rate	1%	(696,609)	728,894
Salary increases	1%	738,693	(717,836)

25.9 Historical information

	2023	2022	2021	2020
	----- (Rupees) -----			
Present value of defined benefit obligation	34,615,392	26,531,421	28,754,319	23,414,356
Fair value of plan assets	(8,539,228)	(14,289,193)	(19,717,249)	(19,613,569)
Deficit	<u>26,076,164</u>	<u>12,242,228</u>	<u>9,037,070</u>	<u>3,800,787</u>

25.10 The expected gratuity expense and contribution for the next year ending December 31, 2023 works out to Rs. 16,278,104 and Rs. 18,872,555 respectively.

25.11 The average duration of the plan 5.5 years on December 31, 2023 (2022: 5.5 years).

26 NUMBER OF BRANCHES

	2023	2022
	----- (Rupees) -----	
Branches at the beginning of the year	61	43
Opened during the year	1	5
Transfer from Service Centers	-	13
Closed during the year	-	-
Branches at the end of the year	<u>62</u>	<u>61</u>

26.1 The Bank also has 24 service centers (2022 : 22) in operation along with branches.

27 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

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

	2023			2022		
	President / Chief Executive Officer	Directors	Executives	President / Chief Executive Officer	Directors	Executives
	(Rupees)					
Director fees	-	-	-	-	200,000	-
Managerial remuneration	18,520,980	22,435,209	78,634,615	17,120,880	21,371,377	53,888,615
Contribution to defined contribution plan	5,332,867	-	3,393,944	-	-	2,949,828
Medical allowance	979,020	-	5,646,589	879,120	-	2,434,608
Conveyance	-	-	5,780,043	-	-	2,820,000
Bonus	1,375,000	-	5,477,034	-	-	-
Charge for defined Benefit plan	-	-	4,710,339	-	-	5,935,612
	<u>26,207,867</u>	<u>22,435,209</u>	<u>103,642,564</u>	<u>18,000,000</u>	<u>21,571,377</u>	<u>68,028,663</u>
Number of persons at period end	<u>1</u>	<u>9</u>	<u>29</u>	<u>1</u>	<u>9</u>	<u>23</u>

27.1 The Bank has provided free use of Bank's maintained car to the Chief Executive Officer.

27.2 Executive means an employee, other than the Chief Executive and Directors, whose basic salary exceeds twelve hundred thousand rupees in a financial year.

28 EARNINGS PER SHARE

28.1 Basic		2023	2022
(Loss) / profit after taxation	Rupees	<u>(515,835,488)</u>	<u>114,658,088</u>
Weighted average number of ordinary shares	Number	<u>261,220,000</u>	<u>230,830,000</u>
(Loss) / earnings per share	Rupee	<u>(1.975)</u>	<u>0.497</u>

28.1.1 Weighted average number of ordinary shares

	Actual shares	Weighted average no. of shares	
		2023	2022
Opening shares	230,830,000	230,830,000	230,830,000
Right issue for value	91,170,000	30,390,000	-
	<u>322,000,000</u>	<u>261,220,000</u>	<u>230,830,000</u>

28.2 Diluted

No figure for diluted earnings per share has been presented as the Bank has not issued any instrument which would have an impact on basic earnings per share when exercised.

29 RELATED PARTY TRANSACTIONS

The Bank has related party relationship with its parent, associates, employee benefit plans, and its key management personnel (including their associates).

Contributions to the accounts in respect of staff retirement benefits are made in accordance with actuarial valuation / terms of the contribution plan. Remuneration of the key management personnel is in accordance with the terms of their employment. Other transactions are carried out as per agreed terms.

The details of transactions with related parties, other than those which have been specifically disclosed elsewhere in the financial statements are as follows:

29.1 The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

Nature of related party transaction	2023				2022			
	As at January 01, 2023	Given / made during the year	Repaid / sale during the year	As at December 31, 2023	As at January 01, 2022	Given / made during the year	Repaid / sale during the year	As at December 31, 2023
(Rupees)								
Advances - staff loans								
Key management personnel	26,560,818	80,044,005	49,750,254	56,854,569	3,627,280	10,024,000	3,696,246	9,955,034

Description	Nature of relationship	2023	2022
		-----Rupees-----	
Other payable			
Gratuity fund	Employee retirement fund	26,076,164	12,242,228
Provident fund	Employee retirement fund	4,878,925	4,879,922
LOLC holding limited	Ultimate Parent	-	2,344,388
LOLC Technology Services Limited			
-System cost	Sister Concern	209,137,436	145,317,965
-Staff Deployed		35,345,700	35,345,700
Other receivable			
LOLC Asia (Private) Limited	Parent Company	-	2,802,066
Mark-up income			
Key management personnel		201,752	111,762

		2023	2022
		-----Rupees-----	
Description	Nature of relationship		
Expenses for the year			
Remuneration to key management personnel	KMP	126,077,773	89,400,040
Non-executive director's fee / remuneration	Directors	-	200,000
Charge for defined contribution plan	Employee retirement fund	16,908,573	13,235,607
Charge for defined benefit obligation	Employee retirement fund	26,926,772	15,003,309
Repairs and maintenance	KMP	-	1,995,000
System Maintenance (Fusion charges)	Sister Concern	79,014,040	81,836,621

30 CASH AND CASH EQUIVALENT

Cash and balances with SBP and NBP	111,791,460	96,335,117
Balances with other banks / NBFIs / MFBs	1,215,416,065	1,119,240,396
	<u>1,327,207,525</u>	<u>1,215,575,513</u>

31 CAPITAL MANAGEMENT

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

31.2 Goals of managing capital

The goals of managing capital of the Bank are as follows:

- To be an appropriately capitalized institution, as defined by the regulatory authorities and
- Maintain strong ratings and to protect the Bank against unexpected events;
- Availability of adequate capital (including the quantum) at a reasonable cost so as to enable the Bank to expand; and
- Achieve low overall cost of capital with appropriate mix of capital elements.

The Bank has 56.60% gearing ratio as at December 31, 2023, due to borrowing from State Bank of Pakistan

31.3 Statutory minimum capital requirement and management of capital

30.3.1 As per amendments on Prudential Regulations (R-1) issued vide BPRD Circular No. 10 of 2015 dated June 03, 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 December 31, 2018. As of December 31, 2023, the share capital of the Bank stood at Rs. 5,000 million (2022: Rs. 2,308.300 million) and paid up capital of the Bank free of losses is Rs. 3,220 million (2022: Rs. 2,308 million).

2023/1

30.3.2 At present, the Bank defines capital as shareholders' equity i.e. share capital and reserves. The capital of the Bank is managed keeping in view the minimum "Capital Adequacy Ratio" (15%) required by the Prudential Regulations for 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 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 organisation.

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 December 31, 2023 the Bank's CAR was approximately 48% (2022: 37.87%) of its weighted exposure.

32 FINANCIAL ASSETS AND LIABILITIES

Interest rate risk

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 lendings to financial institutions, investments, Bank deposits and advances. This risk is managed by regular review of market rates.

32.1 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 its lendings to financial institutions. However, the Bank believes that it is not exposed to major concentration of credit risk. The Bank's credit risk in lendings to financial institutions is limited because the counter party is an associated undertaking having 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 for Microfinance Banks / Institutions. Maximum amount of financial assets which are subject to credit risk amount to Rs. 4,550 million (2022: Rs. 6,814 million).

2021

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

Bank	Rating category	As on December 31, 2023	As on December 31, 2022
----- (Percentage) -----			
Bank balances			
Local Currency			
United Bank Limited-Current account	AAA	2.1%	0.9%
United Bank Limited-PLS account	AAA	8.0%	0.1%
Habib Bank Limited-Current account	AAA	0.2%	2.0%
Habib Bank Limited-PLS account	AAA	0.1%	0.1%
Allied Bank Limited-Current account	AAA	6.9%	2.4%
Allied Bank Limited-PLS account	AAA	1.6%	-1.8%
Askari Bank -PLS account	AA+	4.5%	0.3%
JS Bank-PLS account	AA-	1.6%	4.3%
Khushhali Bank - Saving account	A-	0.0%	91.7%
U Microfinance Bank Limited - Saving account	A+	0.0%	0.0%
Telenor Microfinance Bank-Saving account	A	0.0%	0.0%
NRSP Microfinance Bank Limited - Saving account	A-	0.9%	0.0%
Mobilink Bank-Saving account	A	74.0%	0.0%
MCB-Saving account	AAA	0.0%	
FINCA Microfinance Bank Limited-Saving account	A-	0.0%	
Askari Bank -Current account	AA+	0.0%	

32.2 Liquidity risk

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

33 SCHEDULE OF MATURITY DISTRIBUTION OF MARKET RATE ASSETS & LIABILITIES

	2023			
	Total	Up to one month	Over one month up to six months	Over six months up to one year
			(Rupees)	Over one year
Advances - net of provisions	4,081,833,015	-	81,636,660	3,714,468,044
Investments	412,266,887	-	187,072,444	225,194,443
Other earning assets	-	-	-	-
Total market rate assets	4,494,099,902	-	268,709,104	3,939,662,487
Total assets	4,494,099,902	-	268,709,104	3,939,662,487

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Market rate liabilities

Large time deposits above rupees 100,000	9,962,000	4,612,000	3,550,000	1,800,000	-
All other time deposits - (including fixed rate deposits)	918,957,543	-	358,393,442	523,805,800	36,758,301
Borrowings	1,982,284,483	-	-	1,982,284,483	-
Other liabilities	77,032,002	-	-	-	77,032,002
Total market rate liabilities	2,988,236,028	4,612,000	361,943,442	2,507,890,283	113,790,303
Other non-cost bearing liabilities	33,738,536	33,738,536	-	-	-
Total liabilities	3,021,974,564	38,350,536	361,943,442	2,507,890,283	113,790,303

	2022				
	Total	Up to one month	Over one month up to six months	Over six months up to one year	Over one year
	(Rupees)				
Advances - net of provisions	5,286,759,877	-	120,241,026	345,346,777	4,821,172,074
Investments	312,073,768	-	230,174,539	28,093,812	53,805,417
Other earning assets	-	-	-	-	-
Total market rate assets	5,598,833,645	-	350,415,565	373,440,589	4,874,977,491
Total assets	5,598,833,645	-	350,415,565	373,440,589	4,874,977,491

Market rate liabilities

Large time deposits above rupees 100,000	-	-	-	-	-
All other time deposits - (including fixed rate deposits)	2,407,222,296	-	938,379,008	1,372,420,000	96,423,288
Borrowings	1,982,284,483	-	-	-	1,982,284,483
Other liabilities	145,664,083	-	-	-	145,664,083
Total market rate liabilities	4,535,170,862	-	938,379,008	1,372,420,000	2,224,371,854
Other non-cost bearing liabilities	6,581,291	6,581,291	-	-	-
Total liabilities	4,541,752,153	6,581,291	938,379,008	1,372,420,000	2,224,371,854

34 Fair value of financial instruments

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

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

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

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

35. CORRESPONDING FIGURES

The corresponding figures reclassified as per the details given below to reflect more appropriate presentation in financial statements.

		2022
From	To	
Administrative expenses	Administrative expenses	
Stationery and printing	IT supplies and software	<u>33,246,271</u>
Issued, subscribed and paid-up share capital	Issued, subscribed and paid-up share capital	
LOLC Asia (Private) Limited - Parent Company	LOLC Africa Holdings (Private) Limited	10
LOLC Asia (Private) Limited - Parent Company	LOLC Financial Sector Holdings (Private) Limited	<u>10</u>
		<u>20</u>
Other Liabilities	Other Liabilities	
Accrued Liabilities	Payable to defined contribution plan	<u>4,879,922</u>
Other Income	Other Income	
Miscellaneous Income	Income from early settlement	<u>23,821</u>

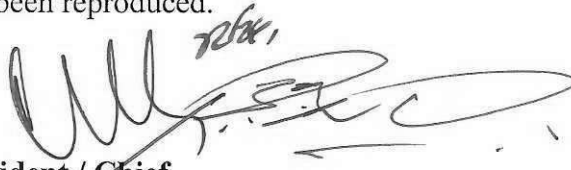
36. DATE OF AUTHORISATION

These financial statements were authorized for issue on 30 MAY 2024 by the Board of Directors of the Bank.

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37. GENERAL

- Figures have been rounded off 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 December 30, 2003 issued by the State Bank of Pakistan (SBP) in respect of forms of financial statements for Microfinance Institutions / Banks, these captions have not been reproduced.



President / Chief
Executive

Chairman



Director



Director