

Telenor Microfinance Bank Limited
Financial Statements
For the nine months ended 30 September 2019 (Un-audited)

Telenor Microfinance Bank Limited
Condensed Interim Balance Sheet (Un-audited)
As at 30 September 2019

	Note	30 September 2019 (Un-audited) (Rupees in '000)	31 December 2018 (Audited)
ASSETS			
Cash and balances with State Bank of Pakistan and National Bank of Pakistan	8	4,229,927	4,210,306
Balances with other banks	9	5,018,855	3,864,399
Lendings to financial institutions	10	1,000,000	5,473,364
Investments	11	4,625,525	9,008,445
Advances - net of provisions	12	30,950,642	32,944,819
Operating fixed assets	13	4,717,274	3,001,351
Other assets		5,659,499	3,953,685
Deferred tax asset - net	16	-	-
Total assets		56,201,722	62,456,369
LIABILITIES			
Deposits and other accounts	14	37,550,465	42,274,909
Borrowings	15	542,204	-
Subordinated debt		-	-
Other liabilities		9,671,392	6,359,965
Deferred tax liability - net	16	92,859	153,066
Total liabilities		47,856,920	48,787,940
NET ASSETS		8,344,802	13,668,429
REPRESENTED BY:			
Share capital		3,547,269	3,547,269
Reserves		10,436,883	10,412,954
Accumulated loss		(5,694,850)	(345,239)
		8,289,301	13,614,984
Deficit on revaluation of assets - net of deferred tax		(303)	(2,359)
Deferred grants		55,804	55,804
		8,344,802	13,668,429
MEMORANDUM / OFF BALANCE SHEET ITEMS	17		

The annexed notes 1 to 23 form an integral part of these condensed interim financial statements.

President & Chief Executive
Officer

Chairman

Director

Director

Telenor Microfinance Bank Limited
Condensed Interim Profit and Loss Account (Un-audited)
For the nine months ended 30 September 2019

	Note	Nine months ended		Quarter ended	
		30 September 2019 (Rupees in '000)	30 September 2018	30 September 2019 (Rupees in '000)	30 September 2018
Mark-up / return / interest earned	18	7,848,538	6,241,173	2,501,329	2,277,470
Mark-up / return / interest expensed	19	(2,653,866)	(1,842,220)	(872,327)	(665,689)
Net mark-up / return / interest income		5,194,672	4,398,953	1,629,002	1,611,781
Provision against non-performing loans and advances	12.3	(2,020,978)	(414,047)	(348,384)	(190,421)
Provision for diminution in the value of investments		-	-	-	-
Bad debts written off directly		(33,877)	(18,752)	(11,638)	(6,383)
Net mark-up / return / interest income after provisions		3,139,817	3,966,154	1,268,980	1,414,977
NON MARK-UP / NON INTEREST INCOME					
Fee, commission and brokerage income	20	6,179,389	6,171,981	2,128,620	1,973,872
Dividend income		-	-	-	-
Other income		181,531	134,823	62,842	55,129
Total non-mark-up / non-interest income		6,360,920	6,306,804	2,191,462	2,029,001
		9,500,737	10,272,958	3,460,442	3,443,978
NON MARK-UP / NON INTEREST EXPENSES					
Administrative expenses		(14,491,995)	(10,542,314)	(4,699,117)	(3,590,932)
Other provisions / write-offs		29,660	(163,046)	96,101	-
Exchange Loss		(66,070)	-	(66,070)	-
Other charges		(10)	(8,095)	(5)	(245)
Total non-mark-up / non-interest expenses		(14,528,415)	(10,713,455)	(4,669,091)	(3,591,177)
		(5,027,678)	(440,497)	(1,208,649)	(147,199)
Extraordinary / unusual items		-	-	-	-
LOSS BEFORE TAXATION		(5,027,678)	(440,497)	(1,208,649)	(147,199)
Taxation - current		(283,336)	(170,945)	(137,360)	(57,703)
- prior		(75,669)	(24,838)	(75,669)	(638)
- deferred		61,000	85,795	13,377	(15,632)
LOSS AFTER TAXATION		(5,325,683)	(550,485)	(1,408,301)	(221,172)
Basic and diluted loss per share - Rupees		(15.01)	(2.41)	(3.97)	(0.97)

The annexed notes 1 to 23 form an integral part of these condensed interim financial statements.

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Telenor Microfinance Bank Limited
Condensed Interim Statement of Comprehensive Income (Un-audited)
For the nine months ended 30 September 2019

	Nine months ended		Quarter ended	
	30 September 2019	30 September 2018	30 September 2019	30 September 2018
	(Rupees in '000)		(Rupees in '000)	
Loss after taxation for the period	(5,325,683)	(550,485)	(1,408,301)	(221,172)
Other comprehensive income	-	-	-	-
Components of comprehensive income for the period not transferred to equity				
<i>Item that may be reclassified to profit and loss account subsequently on sale</i>				
Surplus / (Deficit) on revaluation of 'available for sale' investments	2,850	(3,458)	1,425	(1,729)
Deferred tax	(794)	942	(413)	430
	2,056	(2,516)	1,012	(1,299)
Total comprehensive loss for the period - net of tax	(5,323,627)	(553,001)	(1,407,289)	(222,471)

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Telenor Microfinance Bank Limited
Condensed Interim Cash Flow Statement (Un-audited)
For the nine months ended 30 September 2019

	Nine months ended	
	30 September 2019	30 September 2018
	(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES		
Loss before taxation	(5,027,678)	(440,497)
Adjustments for non cash and other items:		
Depreciation and amortisation	1,130,167	519,200
Mark-up / Return / Interest expense on Lease liability against right-of-use assets	130,332	-
Provision against non-performing advances - net	2,020,978	432,799
Provision for gratuity	120,415	125,248
Other provisions / write-offs	(29,660)	163,046
Exchange Loss	66,070	-
Amortisation of discount on available-for-sale securities	(697,354)	(306,097)
(Gain) / Loss on sale of operating fixed assets	(4,024)	65
	2,736,924	934,261
Increase in operating assets		
Lending to financial institutions	4,473,364	2,495,520
Advances	(60,678)	(7,855,885)
Other assets (excluding advance taxation and receivable from defined benefit plan)	(1,711,699)	(1,553,998)
	2,700,987	(6,914,363)
(Decrease) / Increase in operating liabilities		
Deposits and other accounts	(4,724,444)	2,308,150
Borrowing from financial institutions	542,204	-
Other liabilities	2,021,012	806,525
	(2,161,228)	3,114,675
Income tax paid	(316,721)	(182,419)
Payment against defined benefit plan	(143,065)	(118,065)
Net cash used in operating activities	(2,210,781)	(3,606,409)
CASH FLOW FROM INVESTING ACTIVITIES		
Investments in available for sale securities	(27,794,407)	(26,619,088)
Investments in operating fixed assets	(1,131,208)	(882,158)
Proceeds from redemption of available for sale securities	32,874,204	28,261,095
Proceeds from disposal of operating fixed assets	13,656	30,873
Net cash generated from investing activities	3,962,245	790,722
CASH FLOW FROM FINANCING ACTIVITIES		
Increase of share capital	-	938,400
Advance against future issue of right shares	-	531,610
Payment of lease liability against right-of-use assets	(577,387)	-
Grant received	-	20,419
Net cash (used in) / generated from financing activities	(577,387)	1,490,429
Net increase / (decrease) in cash and cash equivalents	1,174,077	(1,325,258)
Cash and cash equivalents at beginning of the period	8,074,705	7,652,397
Cash and cash equivalents at end of the period	9,248,782	6,327,139

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Telenor Microfinance Bank Limited
Condensed Interim Statement of Changes in Equity (Un-audited)
For the nine months ended 30 September 2019

	Share capital	Advance against future issue of right shares	Capital reserves			Accumulated profit/ (loss)	Total
			Share premium	Statutory reserve	Depositors' protection fund		
----- (Rupees in '000) -----							
Balance as at 01 January 2018 (Audited)	1,346,939	-	343,469	802,481	259,621	2,229,020	4,981,530
Total comprehensive income for the period							
Loss after tax for the period	-	-	-	-	-	(550,485)	(550,485)
Other comprehensive income - net of tax	-	-	-	-	-	-	-
	-	-	-	-	-	(550,485)	(550,485)
Transfer to statutory reserve *	-	-	-	-	-	-	-
Issue of share capital	938,400	531,610					1,470,010
Transfer to Depositors' Protection Fund - return on investments	-	-	-	-	13,652	(13,652)	-
Balance as at 30 September 2018 (Un-audited)	2,285,339	531,610	343,469	802,481	273,273	1,664,883	5,901,055
Total comprehensive income for the period							
Loss after tax for the period	-	-	-	-	-	(1,965,253)	(1,965,253)
Other comprehensive income - net of tax	-	-	-	-	-	(40,318)	(40,318)
	-	-	-	-	-	(2,005,571)	(2,005,571)
Transfer to statutory reserve *	-	-	-	-	-	-	-
Issue of share capital	1,261,930	(531,610)	8,989,180				9,719,500
Transfer to Depositors' Protection Fund - return on investments	22.3	-	-	-	4,551	(4,551)	-
Balance as at 31 December 2018 (Audited)	3,547,269	-	9,332,649	802,481	277,824	(345,239)	13,614,984
Total comprehensive loss for the period							
Loss after tax for the period	-	-	-	-	-	(5,325,683)	(5,325,683)
Other comprehensive income - net of tax	-	-	-	-	-	-	-
	-	-	-	-	-	(5,325,683)	(5,325,683)
Transfer to statutory reserve *	-	-	-	-	-	-	-
Issue of share capital	-	-	-	-	-	-	-
Transfer to Depositors' Protection Fund - return on investments	22.3	-	-	-	23,929	(23,929)	-
Balance as at 30 September 2019 (Un-audited)	3,547,269	-	9,332,649	802,481	301,753	(5,694,850)	8,289,301

* In accordance with the requirements of the Microfinance Institutions Ordinance, 2001 and the Prudential Regulations for Microfinance Banks issued by the SBP (Prudential Regulations), the Bank is required to transfer an amount equivalent to 20% of profit after tax to the statutory reserve. No amount has been allocated to this reserve in the current period as there is a loss after tax for the period.

The annexed notes 1 to 23 form an integral part of these condensed interim financial statements.

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Telenor Microfinance Bank Limited
Notes to the Condensed Interim Financial Statements (Un-audited)
For the nine months ended 30 September 2019

1. STATUS AND NATURE OF BUSINESS

1.1 Telenor Microfinance Bank Limited (the Bank) was incorporated in Pakistan on 01 August 2005 as a public limited company under the Companies Ordinance, 1984 (Repealed with the enactment of the Companies Act, 2017 on May 30, 2017). The Bank obtained microfinance banking license from the State Bank of Pakistan (SBP) on 05 August 2005 to operate on a nationwide basis and received the certificate of commencement of business from the Securities and Exchange Commission of Pakistan (SECP) on 05 September 2005.

1.2 The Bank's principal business is to provide Microfinance banking and related services to the poor and under-served segment of the society with a view to alleviate poverty under the Microfinance Institutions Ordinance, 2001. In 2009, the Bank also started Branchless Banking services with Telenor Pakistan (Private) Limited (former holding company) under the Branchless Banking license from the SBP.

The Bank's registered office is situated at 15-A, Block 7 & 8, KCHS Union, Karachi.

1.3 The Bank is a subsidiary of Telenor Pakistan B.V, a joint stock company based in Amsterdam (the Holding Company) with 66.32% shareholding in the Bank (2018: 66.32%). The ultimate holding company is Telenor ASA, Norway. During 2018, Alipay (Hong Kong) Holding Limited acquired 33.68% of the shareholding in the Bank by way of further issue of capital under section 83 of the Companies Act, 2017.

2. BASIS OF PRESENTATION

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

3. STATEMENT OF COMPLIANCE

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

- International Accounting Standards (IAS) 34, Interim Financial Reporting issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;
- Provisions of and directives issued under the Microfinance Institution Ordinance, 2001 and the Companies Act, 2017; and
- Directives issued by SBP and SECP

Where the requirements of the Microfinance Institutions Ordinance, 2001, the Companies Act, 2017 or the directives issued by the SBP and the SECP for Microfinance Banks and directives issued by the SBP and SECP differ with the requirements of the IFRS, the requirements of the Microfinance Institutions Ordinance, 2001, Companies Act, 2017 and the said directives prevail.

3.2 The State Bank of Pakistan has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property'. Further, the Securities and Exchange Commission of Pakistan (SECP) has deferred the applicability of International Financial Reporting Standard (IFRS) 7, 'Financial Instruments : Disclosures' through its notification S.R.O. 411(I)/2008 dated 28 April 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these condensed interim financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by SBP through various circulars / regulations.

3.3 SBP vide correspondence dated July 23, 2019 directed the banks that IFRS 9 shall not be applied for the period ended June 30, 2019. However, SBP is expected to announce the implementation plan for IFRS-9 during the year ending December 31, 2019. Based on the above, the Bank has not accounted for the impact of IFRS-9 in these condensed financial statements.

3.4 The disclosures made in these condensed interim financial statements have been limited based on IAS 34. These condensed interim financial statements do not include all the information and disclosures required for annual financial statements and should be read in conjunction with the financial statements for the year ended 31 December 2018.

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and method of computation adopted in the preparation of these condensed interim financial statements are consistent with those applied in the preparation of the audited financial statements of the Bank for the year ended 31 December 2018 except for the changes explained in note 4.1 to these financial statements.

4.1 Amendments to approved accounting standards that are effective in the current period

4.1.1 IFRS 16 became effective for annual reporting period commencing on or after 1 January 2019. The impact of the adoption of IFRS 16 is given in note 4.2 to these condensed interim financial statements.

4.1.2 There are certain other new and amended standards, interpretations and amendments that are mandatory for the Bank's accounting periods beginning on or after 1 January 2019 but are considered not to be relevant or do not have any significant effect on the Bank's operations and therefore are not detailed in these condensed interim financial statements.

4.2 Adoption of International Financial Reporting Standards (IFRS) 16 - Leases

4.2.1 On 1 January 2019, the Bank adopted IFRS 16 Leases. This IFRS has introduced a single lease accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 - Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for these two types of leases differently.

The significant judgments in the implementation were determining if a contract contained a lease, and the determination of whether the Bank is reasonably certain that it will exercise extension options present in lease contracts. The significant estimates were the determination of incremental borrowing rates. The weighted average discount rate applied to lease liabilities on the transition date 1 January 2019 was 13.75 percent.

The impact of IFRS 16 on the Bank is primarily where the Bank is a lessee in property lease contracts. The Bank has elected to adopt simplified approach on transition and has not restated comparative information. On 1 January 2019, the Bank recognized a lease liability, being the remaining lease payments, including extension options where renewal is reasonably certain, discounted using the Bank's incremental borrowing rate at the date of initial application. The corresponding right-of-use asset recognized is the amount of the lease liability adjusted by prepaid or accrued lease payments related to those leases. The balance sheet increase as a result of the recognition of lease liability and right-to-use assets as of 1 January 2019 was Rs. 952,826 thousand with no adjustment to retained earnings. The asset is presented in 'Operating Fixed Assets' and the liability is presented in 'Other liabilities'. Also in relation to those leases under IFRS 16, the Bank has recognized depreciation and interest costs, instead of operating lease expenses.

As allowed under the standard, the Bank has not recognized right-of-use assets and lease liabilities for some leases having a lease term less than 12 months. The lease payments associated with these leases are recognized as an expenses on a straight-line basis over the lease term. The right-of-use assets are presented in the same line items as it presents underlying assets of the same nature that it owns. The lease payments associated with these leases are recognized as an expenses on a straight-line basis over the lease term. The right-of-use assets are presented in the same line items as it presents underlying assets of the same nature that it owns.

Upto 31 December 2018, assets held under property leases, not equivalent to ownership rights, were classified as operating leases and were not recognized as asset in the balance sheet. Payments or accruals under operating leases were recognised in profit and loss on a straight line basis over term of the lease.

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

	30 September 2019 (Rupees in '000)
Impact on Statement of Financial Position	
Increase in operating fixed assets - right-of-use assets	1,488,804
Decrease in other assets - prepayments - rent	<u>(297,203)</u>
	1,191,601
Increase in other liabilities - lease liabilities against right-of-use assets	<u>(1,277,459)</u>
Decrease in net assets	<u><u>(85,858)</u></u>
Impact on condensed interim profit and loss account	
	Nine months ended 30 September 2019 (Rupees in '000)
Increase in mark-up expense - lease liabilities against right-of-use assets	(130,332)
(Increase) / decrease in administrative expenses:	
- Depreciation on right-of-use assets	(235,711)
- Rent expense	<u>280,185</u>
Increase in loss before tax	<u>(85,858)</u>
Decrease in tax	-
Increase in loss after tax	<u><u>(85,858)</u></u>

5. BASIS OF MEASUREMENT AND FUNCTIONAL AND PRESENTATION CURRENCY

- 5.1 These condensed interim financial statements have been prepared under the historical cost convention except for available for sale investments which are measured at fair value.
- 5.2 These condensed interim financial statements have been presented in Pakistani Rupees, which is the Bank's functional and presentation currency.

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The basis for accounting estimates adopted in the preparation of these condensed interim financial statements are the same as that applied in the preparation of the audited financial statements for the year ended 31 December 2018.

The significant judgements made by management in applying its accounting policies and the key sources of estimation uncertainty were the same as those applied to the annual financial statements for the year ended 31 December 2018.

7. FINANCIAL RISK MANAGEMENT

The financial risk management objectives and policies adopted by the Bank are consistent with those disclosed in the annual financial statements of the Bank for the year ended 31 December 2018.

	<i>Note</i>	30 September 2019 (Un-audited)	31 December 2018 (Audited)
(Rupees in '000)			
8. CASH AND BALANCES WITH STATE BANK OF PAKISTAN AND NATIONAL BANK OF PAKISTAN			
Cash in hand - local currency		1,776,381	1,094,817
Balance with State Bank of Pakistan - current account		2,354,129	3,013,734
Balance with National Bank of Pakistan - current account		99,417	101,755
	8.1	2,453,546	3,115,489
		4,229,927	4,210,306

8.1 This represents current accounts maintained with State Bank of Pakistan (SBP) and National Bank of Pakistan (NBP) to meet the minimum balance requirement equivalent to 5% as cash reserve and 10% as liquidity reserve of the Bank's time and demand liabilities in accordance with the Prudential Regulations.

	<i>Note</i>	30 September 2019 (Un-audited)	31 December 2018 (Audited)
(Rupees in '000)			
9. BALANCES WITH OTHER BANKS			
In Pakistan			
- Current accounts		405,306	51,891
- PLS deposit accounts	9.1 & 9.2	3,363,549	3,212,508
- Fixed term deposits	9.3	1,250,000	600,000
		5,018,855	3,864,399

9.1 This represents demand deposits with various financial institutions carrying markup at rates ranging between 11.25% to 14.25% per annum (31 December 2018: 8.00% to 11.45% per annum).

9.2 Certain guarantees of Rs.110 million (2018: Rs. 119.367 million) have been given on behalf of the Bank by other financial institution for the Bank's clients. These guarantees are secured against the profit and loss sharing deposits maintained with the same financial institution.

9.3 This represents fixed term deposits with various commercial banks carrying mark-up at rates ranging from 14.2% to 14.25% per annum (31 December 2018: 11.5% per annum).

	<i>Note</i>	30 September 2019 (Un-audited)	31 December 2018 (Audited)
(Rupees in '000)			
10. LENDINGS TO FINANCIAL INSTITUTIONS			
Call money lendings - unsecured	10.1	1,000,000	1,500,000
Repurchase agreement lendings (reverse repo)		-	3,973,364
		1,000,000	5,473,364

10.1 This represent call money lending to a financial institution carrying mark-up rate of 14.20% (31 December 2018: 10.25%) per annum and having maturity in October 2019 (31 December 2018: January 2019). Subsequent to the period end, these had matured.

	Note	30 September 2019 (Un-audited) (Rupees in '000)	31 December 2018 (Audited)
11. INVESTMENTS			
Federal Government Securities - available for sale			
Market Treasury Bills	11.1	4,625,952	9,011,722
Deficit on revaluation of investment		(427)	(3,277)
		<u>4,625,525</u>	<u>9,008,445</u>

11.1 These carry mark-up at rates ranging between 13.68% to 13.75% (31 December 2018: 8.75% to 10.35%) per annum, having maturities up to November 2019 (31 December 2018: March 2018). These securities have an aggregate face value of Rs. 4,678 million (31 December 2018: Rs. 9,098 million).

	Note	30 September 2019 (Un-audited)		31 December 2018 (Audited)	
		Number of loans outstanding	(Rupees in '000)	Number of loans outstanding	(Rupees in '000)
12. ADVANCES - net of provisions					
Advances - gross					
- Secured		97,260	7,167,276	99,736	6,965,111
- Unsecured	12.1	779,361	25,257,787	594,705	27,222,439
		<u>876,621</u>	<u>32,425,063</u>	<u>694,441</u>	<u>34,187,550</u>
Less: Provision held					
- Specific	12.1	122,507	(863,740)	31,608	(572,968)
- General	12.2		(610,681)		(669,763)
	12.3		(1,474,421)		(1,242,731)
Advances - net of provisions			<u>30,950,642</u>		<u>32,944,819</u>

12.1 Advances include Rs. 2,845.059 million (31 December 2018: Rs. 1,401.873 million) which have been placed under non-performing status as detailed below:

	30 September 2019 (Un-audited)			31 December 2018 (Audited)		
	Amount	Provision	Provision held	Amount	Provision	Provision held
	----- (Rupees in '000) -----					
Other Assets Especially Mentioned (OAEM)	1,089,090	-	-	410,339	-	-
Substandard	483,135	112,669	112,669	278,602	65,665	65,665
Doubtful	998,536	488,422	488,422	345,254	170,581	170,581
Loss	274,297	262,649	262,649	367,678	336,722	336,722
	<u>2,845,058</u>	<u>863,740</u>	<u>863,740</u>	<u>1,401,873</u>	<u>572,968</u>	<u>572,968</u>

12.2 This includes general provision of Rs. 250.681 million equivalent to 1% of the net outstanding unsecured advances (advances net of specific provision) held in accordance with the requirements of the Prudential Regulations for Microfinance Banks. The Bank has also recognised a general provisions in addition to the above general provisions when the circumstances indicate delinquency in the portfolio and not specific to a borrower.

12.3 Particulars of provision against non-performing advances

	30 September 2019 (Un-audited)			31 December 2018 (Audited)		
	Specific	General	Total	Specific	General	Total
	----- (Rupees in '000) -----					
Opening balance	572,968	669,763	1,242,731	61,759	179,101	240,860
Charge for the period / year	2,617,364	-	2,617,364	984,657	490,662	1,475,319
Reversals	(537,304)	(59,082)	(596,386)	(109,934)	-	(109,934)
	<u>2,080,060</u>	<u>(59,082)</u>	<u>2,020,978</u>	<u>874,723</u>	<u>490,662</u>	<u>1,365,385</u>
Amount written off	(1,789,288)	-	(1,789,288)	(363,514)	-	(363,514)
Closing balance	<u>863,740</u>	<u>610,681</u>	<u>1,474,421</u>	<u>572,968</u>	<u>669,763</u>	<u>1,242,731</u>

12.4 Particulars of write offs	30 September 2019 (Un-audited) (Rupees in '000)	31 December 2018 (Audited)
Against provisions	1,789,288	363,514
Directly charged to the profit and loss account	33,877	21,124
	<u>1,823,165</u>	<u>384,638</u>

12.5 Pursuant to the prevailing drought conditions in the Sindh region, the Government of Sindh identified and declared 513 Dehs as 'Calamity Affected Areas' and requested the State Bank of Pakistan (SBP) to provide relief to the borrowers in these areas.

In response to the request of the Government of Sindh, the SBP vide its letter AC&MFD/MFPD/74073/2018-24664 dated November 8, 2018, advised all scheduled and microfinance banks to take possible measures to provide relief to the adversely affected borrowers in line with the Prudential Regulation - 9 : 'Rescheduling / restructuring of loans'.

In continuation to the aforementioned letter, the SBP vide its letter AC&MFD/MFPD/MFB/8865 & 11606/2019-6723 dated March 21, 2019, specifically advised all microfinance banks to defer provisioning for a period upto one year, against loans and advances restructured / rescheduled in calamity affected areas after November 8, 2018. Furthermore, the loan will again be classified in the same category it was in at the time of rescheduling / restructuring and the unrealised markup on such loans taken to profit and loss account shall also be reversed where a borrower subsequently defaults (either in principal or markup) after the rescheduled / restructured loan (eligible as above) has been declassified by the microfinance bank.

Accordingly starting from November 2018, the Bank has restructured / rescheduled loans amounting to Rs. 503.285 million as at 30 September 2019 to performing status and has deferred the provisioning on the same.

13. OPERATING FIXED ASSETS	Note	30 September 2019 (Un-audited) (Rupees in '000)	31 December 2018 (Audited)
Property and equipment	13.1	2,019,392	2,245,207
Right-of-use asset	4.2.1	1,488,804	-
Intangible assets		521,800	420,257
Capital work-in-progress		687,278	335,887
		<u>4,717,274</u>	<u>3,001,351</u>
13.2 Additions during the period - at cost (other than right of use assets)			
Improvements to leasehold buildings		45,961	16,267
Furniture and fixtures		15,353	39,408
Electrical, office and computer equipments		464,225	339,861
Vehicles - owned		177	50,440
Intangible assets		256,361	20,560
		<u>782,077</u>	<u>466,536</u>
13.3 Disposals during the period - at cost			
Electrical, office and computer equipments		6,362	625
Vehicles - owned		23,739	7,071
Vehicles - leased		-	1,560
Furniture		4,126	-
		<u>34,227</u>	<u>9,256</u>
14. DEPOSITS AND OTHER ACCOUNTS			
Current deposits		12,916,444	11,036,931
Saving deposits		4,101,935	9,606,676
Fixed deposits		20,532,086	21,631,302
		<u>37,550,465</u>	<u>42,274,909</u>
14.1 Particulars of deposits by ownership			
Individual depositors		26,082,691	22,956,738

Institutional depositors		
- Corporations / firms etc	4,335,181	8,911,254
- Banks / financial institutions	7,132,593	10,406,917
	<u>37,550,465</u>	<u>42,274,909</u>

15. BORROWINGS

This represent repurchase agreement (repo) borrowing from a commercial bank carrying mark-up rate of 13.75% (December 2018: Nil) per annum and having maturity in October 2019.

	30 September	31 December
No	2019	2018
	(Un-audited)	(Audited)
	(Rupees in '000)	

16. DEFERRED TAX LIABILITY - NET

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

Deductible temporary differences

Deficit on revaluation of assets (investments)	125	918
	<u>125</u>	<u>918</u>

Taxable temporary difference

Accelerated tax depreciation allowance	(92,984)	(153,984)
	<u>(92,859)</u>	<u>(153,066)</u>

- 16.1 The Bank has not recorded deferred tax asset of Rs. 1,637.8 million, Rs. 427.58 million, Rs. 114.06 million and Rs. 26.54 million on deductible temporary differences representing taxable business losses and unabsorbed tax depreciation of Rs 5,647.87 million, loan losses of Rs. 1,474.42 million, turnover tax of Rs. 393.33 million and provisions against other assets of Rs. 91.52 million, respectively.

	30 September	31 December
	2019	2018
	(Un-audited)	(Audited)
	(Rupees in '000)	

17. MEMORANDUM / OFF BALANCE SHEET ITEMS

Acceptances, endorsements and other obligations (including commitments)	601,734	341,259
Contingent liabilities	119,939	94,080
Bills for collection	-	-
	<u>721,673</u>	<u>435,339</u>

17.1 Commitments

Operating leases	-	98,987
Acquisition of operating fixed assets	601,734	122,905
	<u>601,734</u>	<u>221,892</u>

17.2 Contingencies

- 17.2.1 The Bank was served with an order from Sindh Revenue Board (SRB) claiming additional sales tax amounting to Rs. 73 million (including penalty) for the tax periods from July 2011 to June 2016 on certain of its income. The Bank had filed an appeal with Commissioner (Appeals) and based on the opinion of its tax advisor is confident of a favourable decision.
- 17.2.2 The Bank was served with orders from Officer Inland Revenue claiming additional withholding tax on profit on debt under section 161 / 205 for tax year 2012 and tax year 2013 amounting to Rs. 11.255 million and Rs. 11.608 million respectively including default surcharge and penalty. The Bank filed appeals with Commissioner (Appeals) for both tax years. Commissioner (Appeals) passed an adverse order for tax year 2012 and the Bank, based on the opinion of its tax adviser, filed an appeal with Appellate Tribunal Inland Revenue and is confident of a favorable decision. Whereas for tax year 2013, a favorable order has been passed by Commissioner (Appeals). Provision against the impugned balance has been made.
- 17.2.3 During 2018, a case was filed against the Bank by its ex-employee amounting to Rs. 7.6 million. However, the Bank has not recorded any provision against the above as, based on the opinion of its legal advisor, it is confident of a favorable decision.
- 17.2.4 During the period, the Bank was served with an order from Khyber Pakhtunkhwa Revenue Authority (KPRA) creating a demand aggregating to Rs. 13.586 million against input tax disallowances and sales tax withholding in relation to certain tax periods from September 2016 to January 2018. The Bank filed an appeal with the Collector (Appeals) which was disposed against the Bank on September 25, 2019. As the Tribunal has not been constituted in KPK, the Bank has now filed a writ petition before Peshawar High Court and has acquired a stay order against the demand.

17.2.5 During the period, a recovery notice of Rs. 17.092 million (including penalty and surcharge) was received by the Bank from Punjab Revenue Authority (PRA). The Order against the said notice was passed by the Authority during February 2018 in relation to withholding sales tax for the period January to December 2016, however, it was not received by the Bank till 23 May 2019. The Bank has acquired a stay order against this demand from Lahore High Court. The Bank has also filed an appeal before the Commissioner (Appeals) and expects a favorable order.

17.2.6 The Bank was served with orders from Officer Inland Revenue claiming additional withholding tax on profit on debt under section 161 / 205 for tax years 2014 and 2015 amounting to Rs. 9.333 million and Rs. 3.04 million respectively. The Company filed appeals before CIR(A) and paid 30% of the tax demand raised in the order to obtain stay against recovery of balance amount. The CIR (A) passed an adverse order and the Bank filed appeals with Appellate Tribunal Inland Revenue and also presently has stay against demand from Sindh High Court.

	Nine months ended		Quarter ended	
	30 September 2019 (Un-audited) (Rupees in '000)	30 September 2018	30 September 2019 (Un-audited) (Rupees in '000)	30 September 2018
18. MARK-UP / RETURN / INTEREST EARNED				
On:				
Advances	6,530,927	5,699,443	2,133,076	2,089,473
Available-for-sale investments in				
Government Securities	697,354	306,097	197,522	104,280
Deposits with financial institutions / Banks	311,303	81,117	117,486	31,067
Call money lendings	206,538	66,484	45,528	26,171
Repurchase agreement lendings	102,416	88,032	7,717	26,479
	7,848,538	6,241,173	2,501,329	2,277,470
19. MARK-UP / RETURN / INTEREST EXPENSED				
On:				
Deposits	2,522,786	1,842,220	809,748	665,689
Borrowings	748	-	690	-
Lease liabilities against right-of-use assets	130,332	-	61,889	-
	2,653,866	1,842,220	872,327	665,689
20. FEE, COMMISSION AND BROKERAGE INCOME				
Loan processing fee	708,131	518,936	310,579	178,910
Income from branchless banking	5,460,643	5,638,847	1,815,548	1,790,670
Others	10,615	14,198	2,493	4,292
	6,179,389	6,171,981	2,128,620	1,973,872

21. RELATED PARTY TRANSACTIONS

The Bank has related party relationships with its holding company, associates, key management personnel, directors and employees' retirement benefit plans.

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

Balances and transactions with related parties are summarised as follows:

	30 September 2019 (Un-audited)						31 December 2018 (Audited)					
	Holding Company	Associates	Key management personnel	Directors	Retirement benefit plans	Total	Holding Company	Associates	Key management personnel	Directors	Retirement benefit plans	Total
	(Rupees in '000)						(Rupees in '000)					
Loans												
At 1 January	-	-	32,564	10,029	-	42,593	-	-	37,299	-	-	37,299
Given during the period	-	-	-	-	-	-	-	-	23,875	12,667	-	36,542
Repaid during the period	-	-	(21,545)	(10,029)	-	(31,574)	-	-	(28,610)	(2,638)	-	(31,248)
21.1	-	-	11,019	-	-	11,019	-	-	32,564	10,029	-	42,593
Deposits												
At 1 January	-	22,654	746	-	1,243,059	1,266,459	-	51,316	13,047	-	795,923	860,286
Received during the period	-	28,820,723	28,711	-	4,262,386	33,111,820	-	28,426,059	23,360	-	2,720,380	31,169,799
Withdrawn during the period	-	(28,825,727)	(27,475)	-	(4,103,903)	(32,957,105)	-	(28,454,721)	(35,661)	-	(2,273,244)	(30,763,626)
	-	17,650	1,982	-	1,401,542	1,421,174	-	22,654	746	-	1,243,059	1,266,459
Other Assets												
Receivable from defined benefit plan	-	-	-	-	47,008	47,008	-	-	-	-	24,358	-
	-	-	-	-	47,008	47,008	-	-	-	-	24,358	-
Other Liabilities												
Payable against branchless banking transactions	-	626,711	-	-	-	626,711	-	344,074	-	-	-	344,074
Miscellaneous payable	-	599,204	-	-	-	599,204	-	1,105,931	-	-	-	-
Payable to defined contribution plan	-	-	-	-	80,472	80,472	-	-	-	-	63,873	63,873
	-	1,225,916	-	-	80,472	1,306,388	-	1,450,005	-	-	63,873	407,947
Capital Expenditure	-	120,283	-	-	-	120,283	-	708,484	-	-	-	-
Transactions during the period												
Mark-up expense	-	-	-	-	98,786	98,786	-	-	-	-	26,178	26,178
Rent	-	103,188	-	-	-	103,188	-	58,985	-	-	-	58,985
Professional consultancy charges	-	479,445	-	-	-	479,445	-	205,156	-	-	-	205,156
Repair and maintenance	-	33,858	-	-	-	33,858	-	83,575	-	-	-	83,575
Advertisement	-	956,542	-	-	-	956,542	-	425,813	-	-	-	425,813
Mobile and connectivity charges	-	54,646	-	-	-	-	-	-	-	-	-	-
Travelling expense	-	27,361	-	-	-	-	-	-	-	-	-	-
	-	1,655,040	-	-	98,786	1,671,819	-	773,529	-	-	26,178	799,707

21.1 This represents interest free loan to staff and executives of the Bank for a maximum period of 60 months. These are secured against the retirement benefits of employees.

22. GENERAL

22.1 Comparative information has been reclassified or rearranged in these condensed interim financial statements for the purpose of better presentation. However, the amounts are not material.

22.2 The figures have been rounded off to the nearest thousand rupees, unless otherwise stated.

22.3 In accordance with the requirements of the Microfinance Institutions Ordinance, 2001 and the Prudential Regulations, the Bank is required to transfer an amount equivalent to 5% of profit after tax for the period to the Depositors' Protection Fund, plus the return earned on such funds. Although there is a loss after tax for the period, an amount equal to the profit earned on the investments of the fund has been credited to this fund during the period.

23. DATE OF AUTHORISATION FOR ISSUE

These condensed interim financial statements were authorised for issue by the Board of Directors in their meeting held on _____ 2019.

President & Chief Executive
Officer

Chairman

Director

Director