

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

	Note	30 June 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	4,897,904	4,210,306
Balances with other banks	9	5,318,891	3,864,399
Lendings to financial institutions	10	7,100,000	5,473,364
Investments	11	6,613,432	9,008,445
Advances - net of provisions	12	32,067,869	32,944,819
Operating fixed assets	13	4,427,484	3,001,351
Other assets	14	4,603,330	3,963,292
Deferred tax asset - net		-	-
Total assets		65,028,910	62,465,976
LIABILITIES			
Deposits and other accounts	15	45,204,482	42,274,909
Borrowings		-	-
Subordinated debt		-	-
Other liabilities	16	9,966,888	6,369,572
Deferred tax liability - net	17	105,443	153,066
Total liabilities		55,276,813	48,797,547
NET ASSETS		9,752,097	13,668,429
REPRESENTED BY:			
Share capital	18	3,547,269	3,547,269
Reserves		10,427,900	10,412,953
Accumulated loss		(4,277,567)	(345,238)
		9,697,602	13,614,984
Deficit on revaluation of assets - net of deferred tax		(1,309)	(2,359)
Deferred grants		55,804	55,804
		9,752,097	13,668,429
MEMORANDUM / OFF BALANCE SHEET ITEMS	19		

The annexed notes 1 to 29 form an integral part of these condensed interim financial statements.

Chairman

Director

Director

Director

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

	Note	Six months ended		Quarter ended	
		30 June	30 June	30 June	30 June
		2019	2018	2019	2018
		(Rupees in '000)		(Rupees in '000)	
Mark-up / return / interest earned	20	5,347,209	3,963,702	2,630,448	2,097,369
Mark-up / return / interest expensed	21	(1,781,539)	(1,176,531)	(887,282)	(582,993)
Net mark-up / return / interest income		3,565,670	2,787,171	1,743,166	1,514,376
Provision against non-performing loans and advances	12.3	(1,672,594)	(223,626)	(1,196,633)	(124,324)
Provision for diminution in the value of investments		-	-	-	-
Bad debts written off directly		(22,239)	(12,369)	(8,321)	(6,215)
		(1,694,833)	(235,995)	(1,204,954)	(130,539)
Net mark-up / return / interest income after provisions		1,870,837	2,551,176	538,212	1,383,837
NON MARK-UP / NON INTEREST INCOME					
Fee, commission and brokerage income	22	4,050,769	4,198,190	2,037,166	2,203,078
Dividend income		-	-	-	-
Other income		118,689	79,613	59,705	38,206
Total non-mark-up / non-interest income		4,169,458	4,277,803	2,096,871	2,241,284
		6,040,295	6,828,979	2,635,083	3,625,121
NON MARK-UP / NON INTEREST EXPENSES					
Administrative expenses	23	(9,792,878)	(6,951,382)	(4,997,732)	(3,685,484)
Other provisions / write-offs	24	(66,441)	(163,046)	(65,815)	(163,046)
Other charges		(5)	(7,851)	-	(100)
Total non-mark-up / non-interest expenses		(9,859,324)	(7,122,279)	(5,063,547)	(3,848,630)
		(3,819,029)	(293,300)	(2,428,464)	(223,509)
Extraordinary / unusual items		-	-	-	-
LOSS BEFORE TAXATION		(3,819,029)	(293,300)	(2,428,464)	(223,509)
Taxation - current		(145,976)	(113,242)	(84,288)	(64,467)
- prior		-	(24,200)	-	(24,200)
- deferred		47,623	101,427	12,129	87,714
		(98,353)	(36,015)	(72,159)	(953)
LOSS AFTER TAXATION		(3,917,382)	(329,315)	(2,500,623)	(224,461)
Basic and diluted loss per share - Rupees		(11.04)	(1.59)	(7.05)	(1.03)

The annexed notes 1 to 29 form an integral part of these condensed interim financial statements.

Chairman

Director

Director

Director

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

	Six months ended		Quarter ended	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018
	(Rupees in '000)		(Rupees in '000)	
Loss after taxation for the period	(3,917,382)	(329,315)	(2,500,623)	(224,461)
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	1,968	(3,458)	984	(1,729)
Deferred tax	(571)	942	(285)	430
	1,397	(2,516)	699	(1,299)
Total comprehensive loss for the period - net of tax	<u>(3,915,985)</u>	<u>(331,831)</u>	<u>(2,499,924)</u>	<u>(225,760)</u>

The annexed notes 1 to 29 form an integral part of these condensed interim financial statements.

Chairman

Director

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

	Six months ended	
	30 June 2019	30 June 2018
	(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES		
Loss before taxation	(3,819,029)	(293,300)
Adjustments for non cash and other items:		
Depreciation and amortisation	730,298	320,107
Mark-up / Return / Interest expense on Lease liability against right-of-use assets	68,443	-
Provision against non-performing advances - net	1,694,833	235,995
Provision for gratuity	67,432	66,496
Other provisions / write-offs	66,441	163,046
Amortisation of discount on available-for-sale securities	(499,832)	(201,817)
(Gain) / Loss on sale of operating fixed assets	(5,275)	1,173
	2,122,340	585,000
Increase in operating assets		
Lending to financial institutions	(1,626,636)	3,368,059
Advances	(817,883)	(5,538,290)
Other assets (excluding advance taxation and receivable from defined benefit plan)	(624,534)	(1,014,559)
	(3,069,053)	(2,170,231)
Increase in operating liabilities		
Deposits and other accounts	2,929,573	7,209,264
Other liabilities	2,353,806	372,306
	5,283,379	7,581,570
Income tax paid	(138,347)	(118,635)
Payment against defined benefit plan	(90,565)	(37,431)
Net cash generated from operating activities	288,725	5,546,973
CASH FLOW FROM INVESTING ACTIVITIES		
Investments in available for sale securities	(21,314,765)	(21,706,669)
Investments in operating fixed assets	(559,560)	(663,050)
Proceeds from redemption of available for sale securities	24,210,034	21,165,743
Proceeds from disposal of operating fixed assets	11,509	12,516
Net cash generated from / (used in) investing activities	2,347,218	(1,191,460)
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	(493,853)	-
Grant received	-	20,418
Net cash generated from financing activities	(493,853)	1,490,428
Net increase in cash and cash equivalents	2,142,090	5,845,941
Cash and cash equivalents at beginning of the period	8,074,705	7,652,397
Cash and cash equivalents at end of the period	10,216,795	13,498,338

The annexed notes 1 to 29 form an integral part of these condensed interim financial statements.

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Telenor Microfinance Bank Limited
Condensed Interim Statement of Changes in Equity (Un-audited)
For the six months ended 30 June 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	-	-	-	-	-	(329,315)	(329,315)
Other comprehensive income - net of tax	-	-	-	-	-	-	-
	-	-	-	-	-	(329,315)	(329,315)
Transfer to statutory reserve *	-	-	-	-	-	-	-
Issue of share capital	938,400	531,610					1,470,010
Transfer to Depositors' Protection Fund 28.4	-	-	-	-	9,101	(9,101)	-
Balance as at 30 June 2018 (Un-audited) <i>As restated</i>	2,285,339	531,610	343,469	802,481	268,722	1,890,604	6,122,225
Total comprehensive income for the period							
Loss after tax for the period	-	-	-	-	-	(2,186,423)	(2,186,423)
Other comprehensive income - net of tax	-	-	-	-	-	(40,318)	(40,318)
	-	-	-	-	-	(2,226,741)	(2,226,741)
Transfer to statutory reserve *	-	-	-	-	-	-	-
Issue of share capital	1,261,930	(531,610)	8,989,180				9,719,500
Transfer to Depositors' Protection Fund 28.4	-	-	-	-	9,101	(9,101)	-
Balance as at 31 December 2018 (Audited)	3,547,269	-	9,332,649	802,481	277,823	(345,238)	13,614,984
Total comprehensive loss for the period							
Loss after tax for the period	-	-	-	-	-	(3,917,382)	(3,917,382)
Other comprehensive income - net of tax	-	-	-	-	-	-	-
	-	-	-	-	-	(3,917,382)	(3,917,382)
Transfer to statutory reserve *	-	-	-	-	-	-	-
Issue of share capital	-	-	-	-	-	-	-
Transfer to Depositors' Protection Fund 28.4	-	-	-	-	14,947	(14,947)	-
Balance as at 30 June 2019 (Un-audited)	3,547,269	-	9,332,649	802,481	292,770	(4,277,567)	9,697,602

* 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 29 form an integral part of these condensed interim financial statements.

Chairman

Director

Director

Director

Telenor Microfinance Bank Limited

Notes to the Condensed Interim Financial Information (Un-audited)

For the six months ended 30 June 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 underserved 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.

1.4 The credit rating companies PACRA and JCR-VIS have maintained the long-term entity rating of the bank at "A+" and short term rating at "A1" as of 25 April 2018 and 30 April 2019, respectively.

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** 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. 881,011 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.

The Bank has elected not to recognize right-of-use assets and lease liabilities for some leases having a lease term less than 12 months. The lease payments associated with these leases are recognized as an expenses on a straight-line basis over the lease term. 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 June 2019 (Rupees in '000)
Impact on Statement of Financial Position	
Increase in operating fixed assets - right-of-use assets	1,451,913
Decrease in other assets - prepayments - rent	<u>(258,493)</u>
	1,193,420
Increase in other liabilities - lease liabilities against right-of-use assets	<u>(1,243,509)</u>
Decrease in net assets	<u><u>(50,089)</u></u>
Impact on condensed interim profit and loss account	
	Six months ended 30 June 2019 (Rupees in '000)
Increase in mark-up expense - lease liabilities against right-of-use assets	(68,443)
(Increase) / decrease in administrative expenses:	
- Depreciation on right-of-use assets	(151,192)
- Rent expense	<u>169,546</u>
Increase in loss before tax	(50,089)
Decrease in tax	-
Increase in loss after tax	<u><u>(50,089)</u></u>

4.2.2 In view of the application of above IFRS, the Bank's accounting policy for right-of-use assets and their related lease liabilities is as follows:

A contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. The Bank mainly leases properties for its operations. The Bank recognizes a right-of-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. The right-of-use asset is depreciated using the straight line method from the commencement date to the earlier of end of the useful life of right-of-use asset or end of the lease term. The estimated useful lives of assets are determined on the same basis as that for owned assets. In addition, the right-of-use asset is periodically reduced by impairment losses, if any.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, a change in assessment of whether extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

4.3 Standards, interpretations of and amendments to accounting and reporting standards as applicable in Pakistan that are not yet effective in the current period.

There are various standards, interpretations and amendments to accounting and reporting standards as applicable in Pakistan that are not effective in the current period. These are not likely to have material effect on the Bank's financial statements except for the following:

IFRS 9 'Financial Instruments' and amendment – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 July 2018 and 1 January 2019 respectively). IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on the recognition and derecognition of financial instruments from IAS 39. The Securities and Exchange Commission of Pakistan vide its notification dated 14 February 2019 modified the effective date for implementation of IFRS 9 as 'reporting period/ year ending on or after 30 June 2019 (earlier application is permitted)'. State Bank of Pakistan has also informed the Bank that keeping in view the implementation challenges of IFRS 9 and representations by the banking industry, it has been decided that IFRS 9 is not applicable on the interim financials for the period ending 30 June 2019 for banks/DFIs/MFBs. Accordingly, the requirements of IFRS-9 have not been considered in the preparation of these financial statements. The Bank is in the process of assessing the full impact of this standard.

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 June 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		1,729,962	1,094,817
Balance with State Bank of Pakistan - current account		2,971,192	3,013,734
Balance with National Bank of Pakistan - current account		196,750	101,755
	8.1	3,167,942	3,115,489
		4,897,904	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.			
9. BALANCES WITH OTHER BANKS			
In Pakistan			
- Current accounts		235,140	51,891
- PLS deposit accounts	9.1 & 9.2	3,833,751	3,212,508
- Fixed term deposits	9.3	1,250,000	600,000
		5,318,891	3,864,399
9.1 This represents demand deposits with various commercial banks carrying markup at rates ranging between 10.15% to 13.25% 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 institutions for the Bank's clients. These guarantees are secured against the profit and loss sharing deposits (of the guarantee amount).			
9.3 This represents fixed term deposits with a commercial bank carrying mark-up at rates ranging from 13.15% to 13.6% per annum (31 December 2018: 11.5% per annum) and will mature on 24 July and 29 July 2019 (31 December 2018: January 2019), respectively.			
10. LENDINGS TO FINANCIAL INSTITUTIONS			
Call money lendings - unsecured	10.1	7,100,000	1,500,000
Repurchase agreement lendings (reverse repo)		-	3,973,364
		7,100,000	5,473,364
10.1 These represent call money lendings to various financial institutions carrying mark-up at rates ranging between 12.35% to 12.75% per annum (31 December 2018: 10.25% per annum) and having maturities up to July 2019 (31 December 2018: January 2019). Subsequent to the period end, these had matured.			
11. INVESTMENTS			
Federal Government Securities - available for sale			
Market Treasury Bills	11.1	6,614,741	9,011,722
Deficit on revaluation of investment		(1,309)	(3,277)
		6,613,432	9,008,445
11.1 These carry mark-up at rates ranging between 11.5% to 12.72% (31 December 2018: 8.75% to 10.35%) per annum, having maturities up to August 2019 (31 December 2018: March 2018). These securities have an aggregate face value of Rs. 6,700 million (31 December 2018: Rs. 9,098 million).			

12. ADVANCES - net of provisions	Note	30 June 2019 (Un-audited)		31 December 2018 (Audited)	
		Number of loans outstanding	(Rupees in '000)	Number of loans outstanding	(Rupees in '000)
Advances - gross					
- Secured		98,071	7,022,746	94,736	6,965,111
- Unsecured	12.1	714,491	27,064,752	594,705	27,222,439
		<u>812,562</u>	<u>34,087,498</u>	<u>689,441</u>	<u>34,187,550</u>
Less: Provision held					
- Specific	12.1	81,103	(1,445,402)	31,608	(572,968)
- General	12.2		(574,227)		(669,763)
	12.3		(2,019,629)		(1,242,731)
Advances - net of provisions			<u>32,067,869</u>		<u>32,944,819</u>

12.1 Advances include Rs. 2,198.69 million (31 December 2018: Rs. 1,401.873 million) which have been placed under non-performing status as detailed below:

	30 June 2019 (Un-audited)			31 December 2018 (Audited)		
	Amount outstanding	Provision required	Provision held	Amount outstanding	Provision required	Provision held
	----- (Rupees in '000) -----					
Other Assets Especially Mentioned (OAEM)	187,267	-	-	410,339	-	-
Substandard	142,951	25,755	25,755	278,602	65,665	65,665
Doubtful	855,015	422,380	422,380	345,254	170,581	170,581
Loss	1,013,457	997,267	997,267	367,678	336,722	336,722
	<u>2,198,690</u>	<u>1,445,402</u>	<u>1,445,402</u>	<u>1,401,873</u>	<u>572,968</u>	<u>572,968</u>

12.2 This includes general provision of Rs. 261.807 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 and Rs. 312.419 million as explained in detail in note 12.6.

12.3 Particulars of provision against non-performing advances

	30 June 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 year	1,855,535	314,587	2,170,122	984,657	490,662	1,475,319
Reversals	(87,405)	(410,123)	(497,528)	(109,934)	-	(109,934)
	<u>1,768,130</u>	<u>(95,536)</u>	<u>1,672,594</u>	<u>874,723</u>	<u>490,662</u>	<u>1,365,385</u>
Amount written off	(895,696)	-	(895,696)	(363,514)	-	(363,514)
Closing balance	<u>1,445,402</u>	<u>574,227</u>	<u>2,019,629</u>	<u>572,968</u>	<u>669,763</u>	<u>1,242,731</u>

12.4 Particulars of write offs	30 June 2019 (Un-audited) (Rupees in '000)	31 December 2018 (Audited)
Against provisions	895,696	363,514
Directly charged to the profit and loss account	22,239	21,124
	<u>917,935</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. 496.07 million as at 30 June 2019 to performing status and has deferred the provisioning on the same.

12.6 The Bank, based on the prudent approach maintained during the year 2018 for recording general provision based on higher delinquency ratio being observed on the advances portfolio, has recorded a general provision on the outstanding portfolio over and above the requirements of the Prudential Regulations issued by the State bank of Pakistan. The total amount of the enhanced provision is Rs. 312 million (31 December 2018: Rs. Rs. 392 million) against the total outstanding portfolio.

Considering the significant increase in PAR during the year, the management carried out an exercise to assess the recoverability of this amount by checking their subsequent recoveries till 25 August 2019. As a result, an additional specific provision has been recorded on the net exposure for the six months period ended 30 June 2019 amounting to Rs. 561 million (net of the general and specific provision already appearing in the books on these loans).

13. OPERATING FIXED ASSETS		(Un-audited) (Rupees in '000)	(Audited)
Property and equipment	13.1	3,524,542	2,245,207
Intangible assets		506,952	420,257
Capital work-in-progress		395,990	335,887
		<u>4,427,484</u>	<u>3,001,351</u>
13.1	This includes right-of-use assets amounting to Rs 1,451.913 million (2018: NIL) due to the adoption of IFRS 16 more fully explained in note 4.2.		
13.2	Additions during the period - at cost (other than right of use assets)		
Improvements to leasehold buildings		36,198	16,267
Furniture and fixtures		6,725	39,408
Electrical, office and computer equipments		272,631	339,861
Vehicles - owned		-	50,440
Intangible assets		183,892	20,560
		<u>499,446</u>	<u>466,536</u>

13.3 Disposals during the period - at cost

Electrical, office and computer equipments		6,362	625
Vehicles - owned		15,842	7,071
Vehicles - leased		-	1,560
Furniture		1,484	-
		23,688	9,256

14. OTHER ASSETS

Mark-up / return / interest accrued		2,391,161	1,878,603
Receivable from branchless banking agents	14.1	474,542	468,575
Loans to employees	14.2	280,612	307,193
Security deposits		123,968	42,389
Prepayments - rent		140,531	96,432
Prepayments - others		210,810	16,621
Receivable from defined benefit plan		47,491	24,358
Branchless banking transaction fee receivable		558,291	819,636
Advance tax - net		20,906	28,535
Receivable from SBP against livestock insurance		25,473	25,473
Receivable from SBP against international remittances		15,297	4,168
Advance sales tax		380,685	337,954
Others		239,037	128,073
		4,908,804	4,178,010
Less: Provision held against other assets		(305,474)	(214,718)
		4,603,330	3,963,292

14.1 This represents amount receivable from branchless banking agents against e-cash credited into their M-wallet accounts for providing un-interrupted services to the customers.

14.2 These represent advance against salaries to staff and executives of the Bank for a maximum period of 36 months. These are secured against the retirement benefits of employees.

	<i>Note</i>	30 June 2019 (Un-audited)	31 December 2018 (Audited)
(Rupees in '000)			
15. DEPOSITS AND OTHER ACCOUNTS			
Current deposits		18,669,462	11,036,931
Fixed deposits		19,920,797	21,631,302
Saving deposits		6,614,223	9,606,676
		45,204,482	42,274,909

	Note	30 June 2019 (Un-audited) (Rupees in '000)	31 December 2018 (Audited)
15.1 Particulars of deposits by ownership			
Individual depositors		25,954,448	22,956,738
Institutional depositors			
- Corporations / firms etc		10,681,947	8,911,254
- Banks / financial institutions		8,568,087	10,406,917
		<u>45,204,482</u>	<u>42,274,909</u>

16. OTHER LIABILITIES

Mark-up / return / interest payable		290,940	280,058
Payable against branchless banking transactions		2,653,251	1,678,802
Accrued expenses		3,348,331	2,825,399
Commission payable - branchless banking	23.2	66,469	133,490
Provision for staff bonus		279,636	350,698
Withholding tax payable		210,153	76,137
Payable to defined contribution plan	16.1	80,054	63,873
Payable to Workers' Welfare Fund		103,365	102,453
Bills payable		810,334	413,446
Switch settlement liability		730,514	274,392
Lease liability against right-of-use assets	4.2	1,243,510	-
Others		150,331	170,824
		<u>9,966,888</u>	<u>6,369,572</u>

16.1 This includes an amount of Rs. 64 million payable to the fund to make up for the shortfall in the fund's assets.

17. 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)	380	918
	<u>380</u>	<u>918</u>

Taxable temporary difference

Accelerated tax depreciation allowance	(105,823)	(153,984)
	<u>(105,443)</u>	<u>(153,066)</u>

17.1 As a matter of prudence, the Bank has not recorded deferred tax asset of Rs. 1,049.3 million, Rs. 586.32 million, Rs. 102.78 million and Rs. 88.17 million on deductible temporary differences representing taxable business losses and unabsorbed tax depreciation of Rs 3,618 million, loan losses of Rs. 2,022 million, turnover tax of Rs. 354.411 million, lease liability and provisions against other assets of Rs. 304.037 million, respectively.

18. SHARE CAPITAL

18.1 Issued, subscribed and paid-up share capital

30 June 2019 (Un-audited) (Number of shares in '000)	31 December 2018 (Audited)		30 June 2019 (Un-audited) (Rupees in '000)	31 December 2018 (Audited)
		Ordinary shares of Rs. 10 each		
		Held by		
235,267	235,267	- Telenor Pakistan B.V	2,352,669	2,352,669
119,460	119,460	- Alipay (Hong Kong) Holding Limited	1,194,600	1,194,600
<u>354,727</u>	<u>354,727</u>		<u>3,547,269</u>	<u>3,547,269</u>

		30 June 2019 (Un-audited) (Rupees in '000)	31 December 2018 (Audited)
19. MEMORANDUM / OFF BALANCE SHEET ITEMS			
Acceptances, endorsements and other obligations (including commitments)	19.1	549,438	341,259
Contingent liabilities	19.2	107,608	94,080
Bills for collection		-	-
		<u>657,046</u>	<u>435,339</u>

		30 June 2019 (Un-audited) (Rupees in '000)	31 December 2018 (Audited)
19.1 Commitments			
Operating leases		-	98,987
Acquisition of operating fixed assets		549,438	122,905
		<u>549,438</u>	<u>221,892</u>

19.2 Contingencies

- 19.2.1** The Bank was served with an order from Sindh Revenue Board (SRB) claiming additional sales tax amounting to Rs. 69.33 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) Inland Revenue and based on the opinion of its tax advisor is confident of a favourable decision.
- 19.2.2** The Bank was served with an order from Deputy Commissioner 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. 8.441 million and Rs. 8.706 million respectively including default surcharge and penalty. The Bank has filed an appeal with Commissioner (Appeals) Inland Revenue and based on the opinion of its tax adviser, is confident of a favorable decision. For this reason, provision against the above balance has not been made.
- 19.2.3** 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.
- 19.2.4** 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 has filed an appeal with the Collector (Appeals) and expects a favorable outcome.
- 19.2.5** 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.
- 19.2.6** The Bank was served an order under section 161 / 205 by the Officer Inland Revenue on 27 April 2018 raising a demand of Rs. 11.255 million. The Company has filed appeal before CIR(A) and paid 25% of the tax demand raised in the order to obtain stay against recovery of balance amount. The CIR (A) in his order passed on 07 February 2019 has granted the Bank stay against recovery of the balance amount till 19 September 2019.

	Six months ended		Quarter ended	
	30 June 2019 (Un-audited) (Rupees in '000)	30 June 2018	30 June 2019 (Un-audited) (Rupees in '000)	30 June 2018
20. MARK-UP / RETURN / INTEREST EARNED				
On:				
Advances	4,397,851	3,609,970	2,191,693	1,910,499
Available-for-sale investments in				
Government Securities	499,832	201,817	228,337	103,952
Deposits with financial institutions / Banks	193,817	50,050	119,229	24,140
Call money lendings	161,010	40,313	58,992	25,148
Repurchase agreement lendings	94,699	61,552	32,197	33,630
	<u>5,347,209</u>	<u>3,963,702</u>	<u>2,630,448</u>	<u>2,097,369</u>

	Note	Six months ended		Quarter ended	
		30 June	30 June	30 June	30 June
		2019	2018	2019	2018
21. MARK-UP / RETURN / INTEREST EXPENSED		(Un-audited) (Rupees in '000)		(Un-audited) (Rupees in '000)	
On:					
Deposits		1,713,038	1,176,531	818,781	582,993
Borrowings		58	-	58	-
Lease liabilities against right-of-use assets		68,443	-	68,443	-
		<u>1,781,539</u>	<u>1,176,531</u>	<u>887,282</u>	<u>582,993</u>
22. FEE, COMMISSION AND BROKERAGE INCOME					
Loan processing fee		397,552	340,026	209,933	183,337
Income from branchless banking		3,645,095	3,848,176	1,825,349	2,014,026
Others		8,122	9,988	1,884	5,715
		<u>4,050,769</u>	<u>4,198,190</u>	<u>2,037,166</u>	<u>2,203,078</u>

	Note	30 June	
		2019	2018
		(Un-audited)	(Un-audited)
23. ADMINISTRATIVE EXPENSES		(Rupees in '000)	
Salaries and other allowances		2,028,227	1,460,754
Contribution to defined contribution plan		76,890	72,037
Charge for defined benefit plan		67,432	66,496
Staff welfare		43,890	34,346
Training and capacity building		11,241	2,289
Rent and taxes		60,885	146,279
Legal and professional charges		873,707	480,453
Utilities		46,808	28,221
Communication		77,827	40,801
Travelling and conveyance		120,662	89,418
Insurance		194,901	138,677
Printing and stationery		23,643	31,762
Repairs and maintenance		387,987	274,186
Depreciation	23.1	633,239	271,272
Amortisation		97,059	48,835
Auditors' remuneration		13,490	1,891
Advertisement		2,375,664	961,122
Security services		131,352	109,302
Bank charges		64,235	68,988
Other expenses		72,883	16,222
Commission - Branchless Banking	23.2	2,390,856	2,608,031
		<u>9,792,878</u>	<u>6,951,382</u>

23.1 This includes depreciation on right-of-use assets amounting to Rs. 151.433 million

23.2 This represents commission expense payable to retailers and franchisees in respect of branchless banking services.

24. OTHER PROVISIONS / WRITE OFFS

This includes provision of Rs. 1.437 million against certain unreconciled balances relating to deposit accounts, certain internal accounts and other balances. The Bank's practice is to maintain the above difference in a suspense account. The balance of Rs. 1.437 million could not be reconciled and accordingly has been charged off to the condensed interim profit and loss account. Furthermore, subsequent to the period end, no additional charge / balance was noted out of the above account.

25. LOSS PER SHARE

25.1 Basic

Loss after taxation for the period	<u>(3,917,382)</u>	<u>(329,315)</u>
	(Number in '000) (Restated)	
Weighted average number of ordinary shares	<u>354,727</u>	<u>207,359</u>
	(Rupees) (Restated)	
Loss per share	<u>(11.04)</u>	<u>(1.59)</u>

25.2 Diluted

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

26. FAIR VALUE MEASUREMENTS

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.

26.1 Fair value of financial instruments

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

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

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

On balance sheet financial instruments

	Carrying/ Notional value	30 June 2019 (Un-Audited)			Total
		Fair value			
		Level 1	Level 2	Level 3	
----- (Rupees in '000) -----					
Financial assets measured at fair value					
- Investments - Available-for-sale securities	6,614,741	-	6,613,432	-	6,613,432
Financial assets not measured at fair value -					
- Cash and balances with SBP and NBP	4,897,904				-
- Balances with other banks	5,318,891				-
- Lendings to financial institutions	7,100,000				-
- Advances	32,067,869				-
- Other assets	3,678,939				-
	59,678,344	-	6,613,432	-	6,613,432
Financial liabilities not measured at fair value					
- Deposits and other accounts	45,204,482				45,204,482
- Borrowings	-				-
- Other liabilities	9,653,370				9,653,370
	54,857,852	-	-	-	54,857,852

On balance sheet financial instruments

	Carrying/ Notional value	31 December 2018 (Audited)			Total
		Fair value			
		Level 1	Level 2	Level 3	
----- (Rupees in '000) -----					
Financial assets measured at fair value					
- Investments - Available-for-sale securities	9,011,722	-	9,008,445	-	9,008,445
Financial assets not measured at fair value					
- Cash and balances with SBP and NBP	4,210,306				4,210,306
- Balances with other banks	3,864,399				3,864,399
- Lendings to financial institutions	5,473,364				5,473,364
- Advances	32,944,819				32,944,819
- Other assets	3,441,361				3,441,361
	58,945,971	-	9,008,445	-	58,942,694
Financial liabilities not measured at fair value					
- Deposits and other accounts	42,274,909				42,274,909
- Borrowings	-				-
- Other liabilities	6,190,982				6,190,982
	48,465,891	-	-	-	48,465,891

27. 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 June 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	-	-	(11,496)	(10,029)	-	(21,525)	-	-	(28,610)	(2,638)	-	(31,248)
27.1	-	-	21,068	-	-	21,068	-	-	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	-	18,825,569	15,113	-	2,810,332	21,651,014	-	28,426,059	23,360	-	2,720,380	31,169,799
Withdrawn during the period	-	(18,777,920)	(15,169)	-	(2,718,092)	(21,511,181)	-	(28,454,721)	(35,661)	-	(2,273,244)	(30,763,626)
	-	70,303	690	-	1,335,299	1,406,292	-	22,654	746	-	1,243,059	1,266,459
Other Assets												
Receivable from defined benefit plan	-	-	-	-	47,491	47,491	-	-	-	-	24,358	-
	-	-	-	-	47,491	47,491	-	-	-	-	24,358	-
Other Liabilities												
Payable against branchless banking transactions	-	343,788	-	-	-	343,788	-	344,074	-	-	-	344,074
Miscellaneous payable	-	1,062,980	73,945	-	-	1,136,925	-	1,105,931	-	-	-	-
Payable to defined contribution plan	-	-	-	-	80,054	80,054	-	-	-	-	63,873	63,873
	-	1,406,769	73,945	-	80,054	1,560,767	-	1,450,005	-	-	63,873	407,947
Capital Expenditure	-	6,013	-	-	-	6,013	-	708,484	-	-	-	-
Transactions during the period												
Mark-up expense	-	-	-	-	19,594	19,594	-	-	-	-	26,178	26,178
Rent	-	22,548	-	-	-	22,548	-	58,985	-	-	-	58,985
Professional consultancy charges	-	254,253	-	-	-	254,253	-	205,156	-	-	-	205,156
Repair and maintenance	-	41,403	-	-	-	41,403	-	83,575	-	-	-	83,575
Advertisement	-	564,816	-	-	-	564,816	-	425,813	-	-	-	425,813
	-	883,020	-	-	19,594	902,614	-	773,529	-	-	26,178	799,707

27.1 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.

28. GENERAL

- 28.1** 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.
- 28.2** The figures have been rounded off to the nearest thousand rupees, unless otherwise stated.
- 28.3** Figures of the condensed interim profit and loss account for the quarter ended 30 June 2019 have not been subjected to limited scope review by the auditors.
- 28.4** 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. Further, the amount transferred to Depositors' Protection Fund for the period ended 30 June 2018 have been revised based on the average investment return for the year ended 31 December 2018.
- 28.5** The Bank currently does not have a permanent CEO in office and as such in his absence these condensed interim financial statements have been signed by two directors, as required under section 232(I) of the Companies Act, 2017. Subsequent to 30 June 2019, the Chief Executive Officer of the Bank was appointed after clearance of fit and proper test by the State Bank of Pakistan. He will join the Bank in November 2019.

29. DATE OF AUTHORISATION FOR ISSUE

These condensed interim financial statements were authorised for issue by the Board of Directors in their meeting held on 30 August 2019.

Chairman

Director

Director

Director