

Telenor Microfinance Bank Limited
Condensed Interim Financial Statements
For the three months ended March 31, 2020 (Un-audited)

Telenor Microfinance Bank Limited
Condensed Interim Balance Sheet (Un-audited)
As at March 31, 2020

March 31, 2020 (Un-audited) (USD in '000)	December 31, 2019 (Audited)		Note	March 31, 2020 (Un-audited) (Rupees in '000)	December 31, 2019 (Audited)
ASSETS					
		Cash and balances with State Bank of Pakistan			
20,936	20,778	and National Bank of Pakistan	6	3,490,175	3,463,741
30,814	44,441	Balances with other banks	7	5,136,759	7,408,549
11,997	29,693	Lendings to financial institutions	8	2,000,000	4,950,000
93,520	82,622	Investments	9	15,590,096	13,773,400
100,119	119,967	Advances - net of provisions	10	16,690,171	19,998,939
45,457	45,992	Operating fixed assets	11	7,577,925	7,667,057
24,124	21,585	Other assets		4,021,588	3,598,248
-	-	Deferred tax asset - net	13	-	-
326,967	365,078	Total assets		54,506,714	60,859,934
LIABILITIES					
218,339	246,968	Deposits and other accounts	12	36,397,848	41,170,537
-	-	Borrowings		-	-
-	-	Subordinated debt		-	-
67,996	68,199	Other liabilities		11,335,138	11,369,058
1,513	1,640	Deferred tax liability - net	13	252,319	273,360
287,848	316,807	Total liabilities		47,985,305	52,812,955
39,119	48,271	NET ASSETS		6,521,409	8,046,979
REPRESENTED BY:					
25,660	25,660	Share capital		4,277,589	4,277,589
123,536	123,483	Reserves		20,593,946	20,585,009
(110,376)	(100,959)	Accumulated losses		(18,400,080)	(16,830,229)
38,820	48,184			6,471,455	8,032,369
187	(25)	Surplus / (Deficit) on revaluation of assets - net of deferred tax		31,214	(4,130)
112	112	Deferred grants		18,740	18,740
39,119	48,271			6,521,409	8,046,979
MEMORANDUM / OFF BALANCE SHEET ITEMS					
14					

The annexed notes 1 to 20 form an integral part of these condensed interim financial statements.

**President and
Chief Executive Officer**

Chairman

Director

Director

Telenor Microfinance Bank Limited
Condensed Interim Profit and Loss Account (Un-audited)
For the three months ended March 31, 2020

Quarter ended			Quarter ended	
March 31, 2020	March 31, 2019		March 31, 2020	March 31, 2019
(USD in '000)		Note	(Rupees in '000)	
13,584	16,297	Mark-up / return / interest earned	2,264,516	2,716,761
(5,742)	(5,364)	Mark-up / return / interest expensed	(957,235)	(894,257)
7,842	10,933	Net mark-up / return / interest income	1,307,281	1,822,504
(65)	(2,855)	Provision against non-performing loans and advances - net	(10,770)	(475,961)
-	-	Provision for diminution in the value of investments	-	-
(50)	(83)	Bad debts written off directly	(8,407)	(13,918)
(115)	(2,938)	Net mark-up / return / interest income after provisions	(19,177)	(489,879)
7,727	7,995		1,288,104	1,332,625
NON MARK-UP / NON INTEREST INCOME				
11,728	12,079	Fee, commission and brokerage income	1,955,101	2,013,603
547	354	Other income	91,157	58,984
12,275	12,433	Total non-mark-up / non-interest income	2,046,258	2,072,587
20,002	20,428		3,334,362	3,405,212
NON MARK-UP / NON INTEREST EXPENSES				
(29,068)	(28,764)	Administrative expenses	(4,845,733)	(4,795,146)
(12)	(4)	Other provisions / write-offs	(2,000)	(626)
(1)	-	Other charges	(210)	(5)
(29,081)	(28,768)	Total non-mark-up / non-interest expenses	(4,847,943)	(4,795,777)
(9,079)	(8,340)		(1,513,581)	(1,390,565)
-	-	Extraordinary / unusual items	-	-
(9,079)	(8,340)	LOSS BEFORE TAXATION	(1,513,581)	(1,390,565)
(496)	(370)	Taxation - current	(82,651)	(61,688)
(1)	-	- prior	(159)	-
213	213	- deferred	35,477	35,494
(284)	(157)		(47,333)	(26,194)
(9,363)	(8,497)	LOSS AFTER TAXATION	(1,560,914)	(1,416,759)
(USD)			(Rupees)	
(0.02)	(0.02)	Basic and diluted loss per share	(3.65)	(3.99)

The annexed notes 1 to 20 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 three months ended March 31, 2020

Quarter ended			Quarter ended	
March 31, 2020	March 31, 2019		March 31, 2020	March 31, 2019
(USD in '000)			(Rupees in '000)	
(9,363)	(8,499)	Loss after taxation for the period	(1,560,914)	(1,416,759)
		Other comprehensive income		
		<i>Item not to be reclassified to statement of profit or loss in subsequent periods</i>		
-	-	Remeasurement loss on defined benefit obligation	-	-
-	-	Related tax impact	-	-
(9,363)	(8,499)	Comprehensive loss for the period transferred to equity	(1,560,914)	(1,416,759)
		Component of comprehensive income for the period not transferred to equity		
		<i>Item to be reclassified to statement of profit or loss subsequently on sale</i>		
299	5	Surplus on revaluation of 'available for sale' investments	49,781	805
(87)	(2)	Related tax impact	(14,436)	(251)
(9,363)	(8,499)	Total comprehensive loss for the period	(1,525,569)	(1,416,205)

The annexed notes 1 to 20 form an integral part of these condensed interim financial statements.

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Telenor Microfinance Bank Limited
Condensed Interim Cash Flow Statement (Un-audited)
For the three months ended March 31, 2020

Quarter ended			Quarter ended	
March 31, 2020	March 31, 2019		March 31, 2020	March 31, 2019
(USD in '000)			(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES				
(9,079)	(8,340)	Loss before taxation	(1,513,581)	(1,390,565)
Adjustments for non cash and other items:				
2,094	1,683	Depreciation and amortisation	349,051	280,600
761	-	Depreciation on right-of-use assets	126,826	-
482	-	Mark-up / Return / Interest expense on Lease liability against right-of-use assets	80,391	-
115	2,939	Provision against non-performing loans and advances - net	19,177	489,879
242	673	Provision for gratuity	40,315	112,222
-	4	Other provisions / write-offs	-	626
(2,914)	(1,629)	Amortisation of discount on available-for-sale securities	(485,741)	(271,495)
-	(24)	(Gain) / Loss on sale of operating fixed assets	-	(4,004)
780	3,646		130,019	607,828
<i>Decrease / (increase) in operating assets</i>				
17,696	21,796	Lending to financial institutions	2,950,000	3,633,543
19,733	(4,377)	Advances	3,289,591	(729,613)
(2,561)	(9,142)	Other assets (excluding advance taxation)	(426,920)	(1,524,065)
34,868	8,277		5,812,671	1,379,865
<i>(Decrease) / increase in operating liabilities</i>				
(28,630)	5,468	Deposits and other accounts	(4,772,689)	911,612
83	8,388	Other liabilities (excluding lease liability against right-of-use assets and payable to defined benefit plan)	13,912	1,398,339
(28,547)	13,856		(4,758,777)	2,309,951
(475)	(296)	Income tax paid	(79,229)	(49,289)
(223)	(228)	Contribution to defined benefit plan	(37,130)	(38,044)
(2,676)	16,915	Net cash (used in) / generated from operating activities	(446,027)	2,819,746
CASH FLOW FROM INVESTING ACTIVITIES				
(7,685)	(15,612)	Net Investment in available for sale securities	(1,281,174)	(2,602,649)
(2,326)	(980)	Investments in operating fixed assets	(387,690)	(163,391)
6	47	Proceeds from disposal of operating fixed assets	944	7,767
(10,005)	(16,545)	Net cash used in investing activities	(1,667,920)	(2,758,273)
CASH FLOW FROM FINANCING ACTIVITIES				
(788)	-	Payment of lease liability against right-of-use assets	(131,409)	-
(788)	-	Net cash used in financing activities	(131,409)	-
(13,469)	370	Net (decrease) / increase in cash and cash equivalents	(2,245,356)	61,473
65,219	48,437	Cash and cash equivalents at beginning of the period	10,872,290	8,074,705
51,750	48,807	Cash and cash equivalents at end of the period	8,626,934	8,136,178

The annexed notes 1 to 20 form an integral part of these condensed interim financial statements.

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Chairman

Director

Director

Telenor Microfinance Bank Limited
Condensed Interim Statement of Changes in Equity (Un-audited)
For the three months ended March 31, 2020

	Capital reserves				Total capital reserve	Accumulated losses	Total
	Share capital	Share premium	Statutory reserve	Depositors' protection fund			
	----- (Rupees in '000) -----						
Balance as at January 01, 2019 (Audited)	3,547,269	9,332,649	802,481	277,823	10,412,953	(345,238)	13,614,984
Total comprehensive income for the period							
Loss after tax for the period	-	-	-	-	-	(1,416,759)	(1,416,759)
Other comprehensive loss - net of tax	-	-	-	-	-	-	-
	-	-	-	-	-	(1,416,759)	(1,416,759)
Transfer to statutory reserve *	-	-	-	-	-	-	-
Transfer to Depositors' Protection Fund							
- return on investments	-	-	-	7,192	7,192	(7,192)	-
Balance as at March 31, 2019 (Un-audited)	3,547,269	9,332,649	802,481	285,015	10,420,145	(1,769,189)	12,198,225
Total comprehensive income for the period							
Loss after tax for the period	-	-	-	-	-	(14,935,068)	(14,935,068)
Other comprehensive loss - net of tax	-	-	-	-	-	(99,688)	(99,688)
	-	-	-	-	-	(15,034,756)	(15,034,756)
Transfer to statutory reserve *	-	-	-	-	-	-	-
Issue of share capital	730,320	10,138,580	-	-	10,138,580	-	10,868,900
Transfer to Depositors' Protection Fund							
- return on investments	19.4	-	-	26,284	26,284	(26,284)	-
Balance as at December 31, 2019 (Audited)	4,277,589	19,471,229	802,481	311,299	20,585,009	(16,830,229)	8,032,369
Total comprehensive loss for the period							
Loss after tax for the period	-	-	-	-	-	(1,560,914)	(1,560,914)
Other comprehensive income - net of tax	-	-	-	-	-	-	-
	-	-	-	-	-	(1,560,914)	(1,560,914)
Transfer to statutory reserve *	-	-	-	-	-	-	-
Transfer to Depositors' Protection Fund							
- return on investments	19.4	-	-	8,937	8,937	(8,937)	-
Balance as at March 31, 2020 (Un-audited)	4,277,589	19,471,229	802,481	320,236	20,593,946	(18,400,080)	6,471,455

* 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.

** 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.

The annexed notes 1 to 20 form an integral part of these condensed interim financial statements.

President and
Chief Executive Officer

Chairman

Director

Director

Telenor Microfinance Bank Limited
Notes to the Condensed Interim Financial Statements (Un-audited)
For the three months ended March 31, 2020

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 30 May 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 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 jointly held by Telenor Pakistan B.V, a joint stock company based in Amsterdam with 55% shareholding (December 31, 2019: 55%) and Alipay (Hong Kong) Holding Limited with 45% (December 31, 2019: 45%) shareholding.

The holding company of Telenor Pakistan B.V. is Telenor ASA, Norway, while the holding company of Alipay (Hong Kong) Holding Limited is Ant Financial.

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 April 30, 2020.

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 December 30, 2003 issued by the SBP.

The US Dollar amounts reported in the balance sheet, profit and loss account, statement of comprehensive income and cash flow statement are stated as additional information, solely for the convenience of the users of financial statements. For the purpose of translation to US Dollar, spot rate of Rs. 166.7037 per US Dollar has been used for 2020 and 2019 as it was the prevalent rate on the reporting date.

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

Wherever 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 SBP and SECP differ with the requirements of 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 SBP and SECP shall prevail.

3.2 The SBP vide BSD circular No. 10, dated 26 August 2002 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) vide its SRO 633(1) / 2014 dated July 14, 2014 has deferred the applicability of International Accounting Standard (IAS) 39 "Financial Instrument: Recognition and Measurement", International Accounting Standard (IAS) 40 "Investment Property" and International Financial Reporting Standard (IFRS) 7, 'Financial Instruments : Disclosures' . Accordingly, the requirements of these standards have not been considered in the preparation of these interim condensed financial statements. However, investments have been classified and valued in accordance with the requirements of Prudential Regulation for Microfinance Banks or directives issued by SBP.

3.3 The State Bank of Pakistan through its BPRD Circular No. 04 of 2019 dated 23 October 2019 has decided that the effective date of International Financial Reporting Standard 9, 'Financial Instruments' implementation to be January 01, 2021 for all banks/DFIs/MFBs. Accordingly, the requirements of this standard has not been considered in the preparation of these condensed interim financial statements.

3.4 The disclosures made in these condensed interim financial statements have been limited based on International Accounting Standard 34 - "Interim Financial Reporting". Accordingly, 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 December 31, 2019. Comparative Balance Sheet is stated from the audited annual financial statements as of December 31, 2019, whereas comparative condensed interim profit and loss account, condensed interim other comprehensive income, condensed interim cash flow statement and condensed interim statement of changes in equity are stated from unaudited condensed interim financial statements for the three months period ended March 31, 2019.

4. BASIS OF MEASUREMENT

4.1 Accounting convention

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.

4.2 Functional and presentation currency

These condensed interim financial statements have been presented in Pakistani Rupees, which is the Bank's functional and presentation currency.

5. 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 December 31, 2019.

5.1 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 December 31, 2019.

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 December 31, 2019.

	Note	March 31, 2020 (Un-audited) (Rupees in '000)	December 31, 2019 (Audited)
6. CASH AND BALANCES WITH STATE BANK OF PAKISTAN AND NATIONAL BANK OF PAKISTAN			
Cash in hand - local currency		1,058,759	936,918
Balance with State Bank of Pakistan - current account		2,323,919	2,391,443
Balance with National Bank of Pakistan - current account		107,497	135,380
	6.1	2,431,416	2,526,823
		3,490,175	3,463,741

- 6.1 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.

Note	March 31, 2020 (Un-audited)	December 31, 2019 (Audited)
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(Rupees in '000)

7. BALANCES WITH OTHER BANKS

In Pakistan

- Current accounts	7.1 & 7.2	195,600	209,104
- PLS deposit accounts	7.3	3,941,159	4,199,445
- Fixed term deposits		1,000,000	3,000,000
		<u>5,136,759</u>	<u>7,408,549</u>

- 7.1 This represents demand deposits with various financial institutions carrying markup at rates ranging between 11.25% to 14.25% per annum (December 31, 2019: 11.25% to 14.25% per annum).

- 7.2 This include certain guarantees of Rs. 119.36 million (December 31, 2019: Rs. 119.36 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.

- 7.3 This represents fixed term deposit with a commercial bank carrying mark-up at rate of 11.70% per annum (December 31, 2019: 14.25% to 14.30% per annum) and having maturity in April 2020 (December 31, 2019: January 2020).

Note	March 31, 2020 (Un-audited)	December 31, 2019 (Audited)
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(Rupees in '000)

8. LENDINGS TO FINANCIAL INSTITUTIONS

Call money lendings - unsecured	8.1	<u>2,000,000</u>	<u>4,950,000</u>
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- 8.1 This represent call money lending to various financial institutions carrying mark-up rate ranging from 10.60 to 10.70% (December 31, 2019: 13.05% to 13.36%) per annum and having maturity in April 2020 (December 31, 2019: January 2020).

Note	March 31, 2020 (Un-audited)	December 31, 2019 (Audited)
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(Rupees in '000)

9. INVESTMENTS

Federal Government Securities - available for sale

Market Treasury Bills	9.1	15,546,132	13,779,217
Surplus / (Deficit) on revaluation of investment		43,964	(5,817)
		<u>15,590,096</u>	<u>13,773,400</u>

- 9.1 These carry mark-up at rates ranging between 13.15% to 13.47% (December 31, 2019: 13.10% to 13.47%) per annum, having maturities up to September 2020 (December 31, 2019: May 2020). These securities have an aggregate face value of Rs. 15,800 million (December 31, 2019: Rs. 14,300 million).

10. ADVANCES - net of provisions	Note	March 31, 2020 (Un-audited)		December 31, 2019 (Audited)	
		Number of loans outstanding	(Rupees in '000)	Number of loans outstanding	(Rupees in '000)
Advances - gross					
- Secured		85,479	6,705,989	93,525	7,143,892
- Unsecured	10.1	619,306	15,937,597	803,169	20,316,673
		704,785	22,643,586	896,694	27,460,565
Less: Provision held					
- Specific	10.1	122,507	(3,858,643)	448,556	(3,993,209)
- General	10.2		(2,094,772)		(3,468,417)
	10.3		(5,953,415)		(7,461,626)
Advances - net of provisions			16,690,171		19,998,939

10.1 Advances include Rs. 5,950.41 million (December 31, 2019: Rs. 5,781.65 million) which have been placed under non-performing status as detailed below:

	March 31, 2019 (Un-audited)			December 31, 2019 (Audited)		
	Amount outstanding	Provision required	Provision held	Amount outstanding	Provision required	Provision held
	----- (Rupees in '000) -----					
Other Assets Especially						
Mentioned (OAEM)	663,481	-	-	777,081	-	-
Substandard	631,460	146,791	146,791	622,234	148,018	148,018
Doubtful	1,842,096	901,603	901,603	1,046,903	513,226	513,226
Loss	2,813,373	2,810,249	2,810,249	3,335,433	3,331,966	3,331,966
	5,950,410	3,858,643	3,858,643	5,781,651	3,993,209	3,993,209

10.2 This includes general provision of Rs. 120.790 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 general provision in addition to the above general provision in view of the circumstances indicating credit deterioration in the portfolio.

10.3 Particulars of provision against non-performing advances

	March 31, 2020 (Un-audited)			December 31, 2019 (Audited)		
	Specific	General	Total	Specific	General	Total
	----- (Rupees in '000) -----					
Opening balance	3,993,209	3,468,417	7,461,626	572,968	669,763	1,242,731
Charge for the period / year	1,429,669	9,553	1,439,222	6,605,948	2,798,654	9,404,602
Reversals	(45,254)	(1,383,197)	(1,428,452)	(584,626)	-	(584,626)
	1,384,415	(1,373,645)	10,770	6,021,322	2,798,654	8,819,976
Amount written off	(1,518,981)	-	(1,518,981)	(2,601,081)	-	(2,601,081)
Closing balance	3,858,643	2,094,772	5,953,415	3,993,209	3,468,417	7,461,626

10.4 Particulars of write offs

	March 31, 2020 (Un-audited)	December 31, 2019 (Audited)
	(Rupees in '000)	
Against provisions	1,518,981	2,601,081
Directly charged to the profit and loss account	8,407	49,502
	1,527,388	2,650,583

11. OPERATING FIXED ASSETS

	March 31, 2020 (Un-audited)	December 31, 2019 (Audited)
Property and equipment	3,316,260	3,508,629
Intangible assets	741,783	791,046
Capital work-in-progress	834,938	555,612
Right-of-use assets	2,684,944	2,811,770
	7,577,925	7,667,057

11.1 Additions during the period - at cost

Improvements to leasehold buildings	5,119	446,666
Furniture and fixtures	48,458	85,004
Office equipments	10,649	282,339
Computer equipments	29,995	1,305,775
Intangible assets	14,143	575,710
	<u>108,364</u>	<u>2,695,494</u>

11.2 Disposals during the period - at cost

Furniture and fixtures	-	4,126
Office equipments	-	3,784
Computer equipments	-	2,578
Vehicles	1,891	30,883
	<u>1,891</u>	<u>41,371</u>

12. DEPOSITS AND OTHER ACCOUNTS

Current deposits	14,829,264	13,247,452
Saving deposits	3,939,736	6,020,702
Fixed deposits	17,628,848	21,902,383
	<u>36,397,848</u>	<u>41,170,537</u>

12.1 Particulars of deposits by ownership

Individual depositors	29,630,617	27,178,714
Institutional depositors		
- Corporations / firms etc	4,315,528	3,927,331
- Banks / financial institutions	2,451,703	10,064,492
	<u>36,397,848</u>	<u>41,170,537</u>

13. DEFERRED TAX LIABILITY - NET

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

Deductible temporary differences

- Deficit on revaluation of assets (investments)	(12,750)	1,687
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Taxable temporary differences

- Accelerated tax depreciation allowance	(239,569)	(275,047)
	<u>(252,319)</u>	<u>(273,360)</u>

14. MEMORANDUM / OFF BALANCE SHEET ITEMS

	Note	March 31, 2020 (Un-audited)	December 31, 2019 (Audited)
(Rupees in '000)			
Contingent liabilities	14.1	128,120	128,120
Acceptances, endorsements and other obligations (including commitments)		685,500	398,777
		<u>813,620</u>	<u>526,897</u>

14.1 Contingencies

14.2.1 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. The Bank had filed an appeal with Commissioner (Appeals) after paying 25% of the tax demand and the proceedings are still in process. No additional provision has been recorded as the Bank is confident of a favourable decision.

14.2.2 During year 2019, the Bank was served with an order from Khyber Pakhtunkhwa Revenue Authority (KPRA) creating a demand aggregating to Rs. 13.59 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 had not been constituted in KPK at that time, the Bank filed a writ petition before Peshawar High Court (PHC) and acquired an interim stay order against the demand while the petition is still pending before PHC. As the demand is unlawful and has been raised without proper verification of facts, no provision has been made in the books and relief is expected from higher appellate forums.

- 14.2.3** During year 2019, a recovery notice of Rs. 17.09 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 2016 to December 2016, however, it was not received by the Bank till May 23, 2019. The Bank has acquired a stay order against this demand from Lahore High Court. The Bank also filed an appeal before the Commissioner (Appeals). As the demand is unlawful and has been raised without proper verification of facts, no provision has been made in the books and a favorable outcome is expected in appeals.
- 14.2.4** FBR issued a show cause notice for amendment of assessment of tax year 2016 in May 2017; with intention of increasing TMB's taxable income by adding back several expenses including write-offs, some provisions etc. A fresh notice was issued in November 2019 and the Bank re-filed its detailed factual and legal response and provided related information during December 2019. On February 28, 2020, an assessment Order has been served on the Bank, raising a demand of Rs. 51.7 million against which the Bank has filed an appeal before Commissioner (Appeals) after paying an amount of Rs. 9.16 million. No provision has been made by the Bank against outstanding demand in expectation of a favorable outcome in appeals.
- 14.2.5** The Bank received notices dated November 11, 2019 for conduct of Sales tax and Federal Excise audits, for the period from January 2016 to Dec 2016 by FBR under sections 25 of the Sales Tax Act, 1990 and section 46 of the Federal Excise Act, 2005. Accordingly, the Bank has provided records requested by FBR and the audit is in process.
- 14.2.6** During the period, the Bank received notice from FBR to intimate regarding selection for audit u/s. 177 of the Income Tax Ordinance, 2001 for tax year 2016. The tax authority has requested the Bank to furnish records / documents for audit purposes.

	Quarter ended	
	31 March 2020	31 March 2019
	(Un-audited)	
	(Rupees in '000)	
15. MARK-UP / RETURN / INTEREST EARNED		
On:		
Advances	1,426,181	2,206,158
Available-for-sale investments in Government Securities	485,741	271,495
Deposits with financial institutions / Banks	143,801	74,588
Call money lendings	152,853	102,018
Repurchase agreement lendings	55,940	62,502
	2,264,516	2,716,761
16. MARK-UP / RETURN / INTEREST EXPENSED		
On:		
Deposits	876,314	894,257
Borrowings	530	-
Lease liabilities against right-of-use assets	80,391	-
	957,235	894,257
17. FEE, COMMISSION AND BROKERAGE INCOME		
Loan processing fee	197,786	187,619
Income from branchless banking	1,755,306	1,819,746
Others	2,009	6,238
	1,955,101	2,013,603

18. 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:

	31 March 2020 (Un-audited)					31 December 2019 (Audited)				
	Associates	Key management personnel	Directors	Retirement benefit plans	Total	Associates	Key management personnel	Directors	Retirement benefit plans	Total
	(Rupees in '000)					(Rupees in '000)				
Loans										
At 1 January	-	21,233	-	-	21,233	-	32,564	10,029	-	42,593
Given during the period	-	-	-	-	-	-	12,645	-	-	12,645
Repaid during the period	-	(2,900)	-	-	(2,900)	-	(23,976)	(10,029)	-	(34,005)
18.1	-	18,333	-	-	18,333	-	21,233	-	-	21,233
Deposits										
At 1 January	15,575	980	16,036	1,458,447	1,491,038	22,654	746	-	1,243,059	1,266,459
Received during the period	504,432	8,585	525	135,336	648,878	1,787,851	42,078	16,036	4,400,209	6,246,174
Withdrawn during the period	(519,533)	(9,421)	(16,001)	(71,846)	(616,801)	(1,794,930)	(41,844)	-	(4,184,821)	(6,021,595)
	474	144	561	1,521,937	1,523,115	15,575	980	16,036	1,458,447	1,491,038
Other Assets										
Receivable from defined benefit plan	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
Other Liabilities										
Payable against goods and services	1,855,150	-	-	-	1,855,150	1,593,576	-	-	-	1,593,576
Payable to defined contribution plan	-	-	-	59,876	59,876	-	-	-	58,819	58,819
Payable to defined benefit plan	-	-	-	73,701	73,701	-	-	-	70,516	70,516
	1,855,150	-	-	133,577	1,988,727	1,593,576	-	-	129,335	1,722,911
Capital Expenditure										
	-	-	-	-	-	61,179	-	-	-	61,179
Transactions during the period										
Directors' meeting fees	-	-	2,000	-	2,000	-	-	5,675	-	5,675
Remuneration of Key Management Personnel	-	64,381	15,286	-	79,667	-	104,597	140,544	-	245,141
Mark-up expense	-	-	-	51,882	51,882	-	-	-	148,674	148,674
Communication expense	15,887	-	-	-	15,887	58,088	-	-	-	58,088
Sale of vehicle	-	-	-	-	-	-	-	-	-	-
Rent	4,248	-	-	-	4,248	138,474	-	-	-	138,474
Professional consultancy charges	94,750	-	-	-	94,750	564,778	-	-	-	564,778
Other charges	-	-	-	-	-	69,070	-	-	-	69,070
Repair and maintenance	19,500	-	-	-	19,500	141,907	-	-	-	141,907
Advertisement	258,450	-	-	-	258,450	1,186,848	-	-	-	1,186,848
	392,834	64,381	17,286	51,882	526,383	2,159,165	104,597	146,219	148,674	2,558,655

18.1 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.

19. GENERAL

- 19.1** 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.
- 19.2** The figures have been rounded off to the nearest thousand rupees, unless otherwise stated.
- 19.3** Figures of these condensed interim profit and loss account have not been subjected to limited scope review by the auditors.
- 19.4** 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.

20. DATE OF AUTHORISATION FOR ISSUE

These condensed interim financial statements were authorised for issue by the Board of Directors in their meeting held on July 16, 2020.

**President & Chief Executive
Officer**

Chairman

Director

Director