

TELENOR MICROFINANCE BANK LIMITED
Condensed Interim Financial Statements
For the nine months ended September 30, 2020 (Un-audited)

TELENOR MICROFINANCE BANK LIMITED
CONDENSED INTERIM BALANCE SHEET (UN-AUDITED)
AS AT SEPTEMBER 30, 2020

| September 30, 2020 (Un-audited) (USD in '000) | December 31, 2019 (Audited) (Restated note 13.1) | | Note | September 30, 2020 (Un-audited) (Rupees in '000) | December 31, 2019 (Audited) (Restated note 13.1) |
|--|--|--|------|---|--|
| ASSETS | | | | | |
| | | Cash and balances with State Bank of Pakistan | | | |
| 18,796 | 20,903 | and National Bank of Pakistan | 6 | 3,114,519 | 3,463,741 |
| 27,021 | 44,710 | Balances with other banks | 7 | 4,477,489 | 7,408,549 |
| 61,823 | 29,873 | Lendings to financial institutions | 8 | 10,244,147 | 4,950,000 |
| 71,996 | 83,121 | Investments | 9 | 11,929,956 | 13,773,400 |
| 72,352 | 120,692 | Advances - net of provisions | 10 | 11,988,921 | 19,998,939 |
| 40,392 | 46,270 | Operating fixed assets | 11 | 6,693,043 | 7,667,057 |
| 26,296 | 21,715 | Other assets | | 4,357,374 | 3,598,248 |
| - | - | Deferred tax asset - net | 13 | - | - |
| 318,676 | 367,284 | Total assets | | 52,805,449 | 60,859,934 |
| LIABILITIES | | | | | |
| 210,576 | 248,461 | Deposits and other accounts | 12 | 34,892,933 | 41,170,537 |
| - | - | Borrowings | | - | - |
| - | - | Subordinated debt | | - | - |
| 60,577 | 68,610 | Other liabilities | | 10,037,678 | 11,369,058 |
| - | - | Deferred tax liability - net | 13 | - | - |
| 271,153 | 317,071 | Total liabilities | | 44,930,611 | 52,539,595 |
| 47,523 | 50,213 | NET ASSETS | | 7,874,838 | 8,320,339 |
| REPRESENTED BY: | | | | | |
| 25,815 | 25,815 | Share capital | | 4,277,589 | 4,277,589 |
| 44,916 | - | Advance against future issue of right shares | 14 | 7,442,700 | - |
| 124,389 | 124,229 | Reserves | | 20,611,584 | 20,585,009 |
| (147,893) | (99,919) | Accumulated losses | | (24,506,164) | (16,556,869) |
| 47,227 | 50,125 | | | 7,825,709 | 8,305,729 |
| 187 | (25) | Surplus / (Deficit) on revaluation of assets - net of deferred tax | | 30,996 | (4,130) |
| 109 | 113 | Deferred grants | | 18,133 | 18,740 |
| 47,523 | 50,213 | | | 7,874,838 | 8,320,339 |
| MEMORANDUM / OFF BALANCE SHEET ITEMS | | | | | |
| | | | 15 | | |

The annexed notes 1 to 21 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 NINE MONTHS ENDED SEPTEMBER 30, 2020

| Nine months ended | | Quarter ended | | | Nine months ended | | Quarter ended | | |
|--|----------------------|--------------------|----------------------|--|-------------------|---------------------|----------------------|--------------------|----------------------|
| September 30, 2020 | September 30, 2019 | September 30, 2020 | September 30, 2019 | | Note | September 30, 2020 | September 30, 2019 | September 30, 2020 | September 30, 2019 |
| (USD in '000) | | (USD in '000) | | | | (Rupees in '000) | | (Rupees in '000) | |
| | (Restated note 13.1) | | (Restated note 13.1) | | | | (Restated note 13.1) | | (Restated note 13.1) |
| 26,872 | 47,365 | 7,351 | 15,095 | Mark-up / return / interest earned | 16 | 4,452,739 | 7,848,538 | 1,218,034 | 2,501,329 |
| (13,345) | (16,016) | (3,553) | (5,264) | Mark-up / return / interest expensed | 17 | (2,211,285) | (2,653,866) | (588,750) | (872,327) |
| 13,527 | 31,349 | 3,798 | 9,831 | Net mark-up / return / interest income | | 2,241,454 | 5,194,672 | 629,284 | 1,629,002 |
| (9,918) | (12,196) | (3,095) | (2,102) | Provision against non-performing loans and advances - net | 10.3 | (1,643,439) | (2,020,978) | (512,921) | (348,384) |
| - | - | - | - | Provision for diminution in the value of investments | | - | - | - | - |
| (375) | (204) | (149) | (70) | Bad debts written off directly | 10.4 | (62,063) | (33,877) | (24,754) | (11,638) |
| (10,293) | (12,400) | (3,244) | (2,172) | | | (1,705,502) | (2,054,855) | (537,675) | (360,022) |
| 3,234 | 18,949 | 554 | 7,659 | Net mark-up / return / interest income after provisions | | 535,952 | 3,139,817 | 91,609 | 1,268,980 |
| NON MARK-UP / NON INTEREST INCOME | | | | | | | | | |
| 28,903 | 37,292 | 8,854 | 12,846 | Fee, commission and brokerage income | 18 | 4,789,335 | 6,179,389 | 1,467,075 | 2,128,620 |
| 3,937 | 1,096 | 1,366 | 379 | Other income | | 652,385 | 181,531 | 226,407 | 62,842 |
| 32,840 | 38,388 | 10,220 | 13,225 | Total non-mark-up / non-interest income | | 5,441,720 | 6,360,920 | 1,693,482 | 2,191,462 |
| 36,074 | 57,337 | 10,774 | 20,884 | | | 5,977,672 | 9,500,737 | 1,785,091 | 3,460,442 |
| NON MARK-UP / NON INTEREST EXPENSES | | | | | | | | | |
| (83,770) | (87,857) | (29,364) | (28,758) | Administrative expenses | | (13,880,943) | (14,558,065) | (4,865,622) | (4,765,187) |
| 1,036 | 179 | (7) | 580 | Other provisions / write-offs | | 171,676 | 29,660 | (1,220) | 96,101 |
| (1) | - | - | - | Provision for other charges | | (210) | (10) | - | (5) |
| (82,735) | (87,678) | (29,371) | (28,178) | Total non-mark-up / non-interest expenses | | (13,709,477) | (14,528,415) | (4,866,842) | (4,669,091) |
| (46,661) | (30,341) | (18,597) | (7,294) | | | (7,731,805) | (5,027,678) | (3,081,751) | (1,208,649) |
| - | - | - | - | Extraordinary / unusual items | | - | - | - | - |
| (46,661) | (30,341) | (18,597) | (7,294) | LOSS BEFORE TAXATION | | (7,731,805) | (5,027,678) | (3,081,751) | (1,208,649) |
| (1,253) | (1,710) | (404) | (829) | Taxation - Current | | (207,629) | (283,336) | (67,024) | (137,360) |
| 14 | (457) | - | (457) | - Prior | | 2,367 | (75,669) | - | (75,669) |
| 87 | - | (117) | 81 | - Deferred | | 14,347 | - | (19,384) | 13,377 |
| (1,152) | (2,167) | (521) | (1,205) | | | (190,915) | (359,005) | (86,408) | (199,652) |
| (47,813) | (32,508) | (19,118) | (8,499) | LOSS AFTER TAXATION | | (7,922,720) | (5,386,683) | (3,168,158) | (1,408,301) |
| (USD) | | (USD) | | | | (Rupees) | | (Rupees) | |
| (0.11) | (0.09) | (0.09) | (0.02) | Basic and diluted loss per share | | (18.52) | (15.19) | (14.87) | (3.97) |

The annexed notes 1 to 21 form an integral part of these condensed interim financial statements.

**President and
Chief Executive Officer**

Chairman

Director

Director

TELENOR MICROFINANCE BANK LIMITED
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020

| Nine months ended | | Nine months ended | | | Nine months ended | | Quarter ended | |
|----------------------|--------------------|----------------------|--------------------|---|----------------------|--------------------|----------------------|--------------------|
| September 30, 2020 | September 30, 2019 | September 30, 2020 | September 30, 2019 | | September 30, 2020 | September 30, 2019 | September 30, 2020 | September 30, 2019 |
| (USD in '000) | | (USD in '000) | | | (Rupees in '000) | | (Rupees in '000) | |
| (Restated note 13.1) | | (Restated note 13.1) | | | (Restated note 13.1) | | (Restated note 13.1) | |
| (47,813) | (32,508) | (19,118) | (8,499) | Loss after taxation for the period | (7,922,720) | (5,386,683) | (3,168,158) | (1,408,301) |
| | | | | 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 | - | - | - | - |
| (47,813) | (32,508) | (19,118) | (8,499) | Comprehensive loss for the period transferred to equity | (7,922,720) | (5,386,683) | (3,168,158) | (1,408,301) |
| | | | | 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 | 17 | (2) | 9 | Surplus on revaluation of 'available for sale' investments | 49,474 | 2,850 | (307) | 1,425 |
| (87) | (5) | (1) | (2) | Related tax impact | (14,347) | (794) | (89) | (413) |
| 212 | 12 | (3) | 7 | | 35,127 | 2,056 | (396) | 1,012 |
| (47,601) | (32,496) | (19,121) | (8,492) | Total comprehensive loss for the period | (7,887,593) | (5,384,627) | (3,168,554) | (1,407,289) |

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**President and
Chief Executive Officer**

Chairman

Director

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TELENOR MICROFINANCE BANK LIMITED
CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020

| Nine months ended | | | Nine months ended | |
|---|-------------------------|--|-----------------------|-------------------------|
| September 30, 2020 | September 30, 2019 | | September 30, 2020 | September 30, 2019 |
| (USD in '000) | | | (Rupees in '000) | |
| | (Restated note 13.1) | | | (Restated note 13.1) |
| CASH FLOW FROM OPERATING ACTIVITIES | | | | |
| (46,661) | (30,341) | Loss before taxation | (7,731,805) | (5,027,678) |
| Adjustments for non cash and other items: | | | | |
| 5,911 | 5,398 | Depreciation and amortisation | 979,469 | 894,456 |
| 1,730 | 1,422 | Depreciation on right-of-use assets | 286,744 | 235,711 |
| 1,469 | 787 | Mark-up / Return / Interest expense on Lease liability against right-of-use assets | 243,393 | 130,332 |
| 10,293 | 12,196 | Provision against non-performing loans and advances - net | 1,705,502 | 2,020,978 |
| 905 | 727 | Provision for gratuity | 149,983 | 120,415 |
| (1,036) | (179) | Other provisions / write-offs | (171,676) | (29,660) |
| (6,716) | (4,208) | Amortisation of discount on available-for-sale securities | (1,112,776) | (697,354) |
| 42 | (24) | Loss / (gain) on sale of operating fixed assets | 7,031 | (4,024) |
| 12,598 | 16,119 | | 2,087,670 | 2,670,854 |
| <i>Decrease / (increase) in operating assets</i> | | | | |
| (31,950) | 26,996 | Lending to financial institutions | (5,294,147) | 4,473,364 |
| 38,047 | (366) | Advances | 6,304,516 | (60,678) |
| (3,428) | (10,330) | Other assets (excluding advance taxation) | (568,058) | (1,711,699) |
| 2,669 | 16,300 | | 442,311 | 2,700,987 |
| <i>(Decrease) / increase in operating liabilities</i> | | | | |
| (37,885) | (28,512) | Deposits and other accounts | (6,277,604) | (4,724,444) |
| | | Borrowing from financial institutions | - | 542,204 |
| (5,287) | 12,197 | Other liabilities (excluding lease liability against right-of-use assets and payable to defined benefit plan) | (875,999) | 2,021,012 |
| (43,172) | (16,315) | | (7,153,603) | (2,161,228) |
| (1,237) | (1,911) | Income tax paid | (205,036) | (316,721) |
| (971) | (863) | Contribution to defined benefit plan | (160,836) | (143,065) |
| (76,774) | (17,011) | <i>Net cash used in operating activities</i> | (12,721,299) | (2,276,851) |
| CASH FLOW FROM INVESTING ACTIVITIES | | | | |
| 18,149 | 30,656 | Net Investment in available for sale securities | 3,007,251 | 5,079,797 |
| (4,250) | (6,827) | Investments in operating fixed assets | (704,204) | (1,131,208) |
| 33 | 82 | Proceeds from disposal of operating fixed assets | 5,456 | 13,656 |
| 13,932 | 23,911 | <i>Net cash generated from investing activities</i> | 2,308,503 | 3,962,245 |
| CASH FLOW FROM FINANCING ACTIVITIES | | | | |
| 44,916 | - | Proceeds from issuance of share capital | 7,442,700 | - |
| (1,872) | (3,086) | Payment of lease liability against right-of-use assets | (310,186) | (511,317) |
| 43,044 | (3,086) | <i>Net cash generated from / (used in) financing activities</i> | 7,132,514 | (511,317) |
| (19,798) | 3,814 | Net (decrease) / increase in cash and cash equivalents | (3,280,282) | 1,174,077 |
| 65,613 | 48,730 | Cash and cash equivalents at beginning of the period | 10,872,290 | 8,074,705 |
| 45,815 | 52,544 | Cash and cash equivalents at end of the period | 7,592,008 | 9,248,782 |

The annexed notes 1 to 21 form an integral part of these condensed interim financial statements.

President and
Chief Executive Officer

Chairman

Director

Director

TELENOR MICROFINANCE BANK LIMITED
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UN-AUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020

| | Share capital | Advance against future issue of right shares | Capital reserves | | | Total capital reserve | Accumulated losses | Total |
|---|---------------|--|------------------|-------------------|-----------------------------|-----------------------|--------------------|--------------|
| | | | Share premium | Statutory reserve | Depositors' protection fund | | | |
| ----- (Rupees in '000) ----- | | | | | | | | |
| Balance as at January 01, 2019 (As reported) | 3,547,269 | - | 9,332,649 | 802,481 | 277,823 | 10,412,953 | (345,238) | 13,614,984 |
| Adjustments (Note 13.1) | - | - | - | - | - | - | 153,066 | 153,066 |
| Balance as at January 01, 2019 (Restated) | 3,547,269 | - | 9,332,649 | 802,481 | 277,823 | 10,412,953 | (192,172) | 13,768,050 |
| Total comprehensive income for the period | | | | | | | | |
| Loss after tax for the period | - | - | - | - | - | - | (5,386,683) | (5,386,683) |
| Other comprehensive loss - net of tax | - | - | - | - | - | - | (5,386,683) | (5,386,683) |
| Transfer to statutory reserve * | - | - | - | - | - | - | - | - |
| Transfer to Depositors' Protection Fund ** - return on investments | - | - | - | - | 23,929 | 23,929 | (23,929) | - |
| Balance as at September 30, 2019 (Un-audited) | 3,547,269 | - | 9,332,649 | 802,481 | 301,752 | 10,436,882 | (5,602,784) | 8,381,367 |
| Total comprehensive income for the period | | | | | | | | |
| Loss after tax for the period | - | - | - | - | - | - | (10,844,850) | (10,844,850) |
| Other comprehensive loss - net of tax | - | - | - | - | - | - | (99,688) | (99,688) |
| | - | - | - | - | - | - | (10,944,538) | (10,944,538) |
| 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 | - | - | - | - | 9,547 | 9,547 | (9,547) | - |
| Balance as at December 31, 2019 (Audited) | 4,277,589 | - | 19,471,229 | 802,481 | 311,299 | 20,585,009 | (16,556,869) | 8,305,729 |
| Balance as at January 01, 2020 (as perviously reported) | 4,277,589 | - | 19,471,229 | 802,481 | 311,299 | 20,585,009 | (16,830,229) | 8,032,369 |
| Adjustments (Note 13.1) | - | - | - | - | - | - | 273,360 | 273,360 |
| Balance as at January 01, 2020 (as restated) | 4,277,589 | - | 19,471,229 | 802,481 | 311,299 | 20,585,009 | (16,556,869) | 8,305,729 |
| Total comprehensive loss for the period | | | | | | | | |
| Loss after tax for the period | - | - | - | - | - | - | (7,922,720) | (7,922,720) |
| Other comprehensive income - net of tax | - | - | - | - | - | - | (7,922,720) | (7,922,720) |
| Transfer to statutory reserve * | - | - | - | - | - | - | - | - |
| Advance against future issue of right shares | - | 7,442,700 | - | - | - | - | - | 7,442,700 |
| Transfer to Depositors' Protection Fund ** - return on investments | - | - | - | - | 26,575 | 26,575 | (26,575) | - |
| Balance as at September 30, 2020 (Un-audited) | 4,277,589 | 7,442,700 | 19,471,229 | 802,481 | 337,874 | 20,611,584 | (24,506,164) | 7,825,709 |

* 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 21 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 NINE MONTHS ENDED SEPTEMBER 30, 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.

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 Standard (IAS) 34, Interim Financial Reporting, issued by 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 the 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 condensed interim 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 disclosures made in these condensed interim financial statements have been limited based on IAS 34. 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 condensed interim balance sheet has been stated from the audited annual financial statements as of December 31, 2019 except for the restatement as explained in note 13.1, 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 nine months period ended September 30, 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.

As an additional information, the US Dollar amounts reported in the condensed interim balance sheet, condensed interim profit and loss account, condensed interim statement of comprehensive income and condensed interim cash flow statement are stated solely for the convenience of the users of financial statements. For the purpose of translation to US Dollar, spot rate of Rs. 165.7021 per US Dollar has been used for 2020 and 2019 as it was the prevalent rate on the reporting date.

4.3 Standards, interpretations and amendments to accounting and reporting standards as applicable in Pakistan that are effective in the current period

There are certain other new and amended standards, interpretations and amendments that are mandatory for the Bank's accounting periods beginning on or after January 01, 2020 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.

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

As referred to in note 4.4 to the 2019 annual financial statements of the Bank, there are certain amendments to the financial reporting standards which would become effective from the future financial years, however such amendments are not expected to have a material effect on the Bank's financial statements of the period of initial application.

With regard to IFRS 9, the SBP vide its BPRD Circular No. 04 of 2019 dated 23 October 2019 directed the banks in Pakistan to implement IFRS 9 with effect from 01 January 2021. 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 recognition and derecognition of financial instruments from IAS 39. The SBP has directed the Bank to conduct an impact assessment as at December 31, 2019 and the Bank is in the process of complying with the requirements.

5. SIGNIFICANT ACCOUNTING POLICIES AND FINANCIAL RISK MANAGEMENT

5.1 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 annual financial statements of the Bank for the year ended December 31, 2019.

5.2 COVID - 19 Implications

During the nine months period ended September 30, 2020, the global economic environment including Pakistan has been severely affected by the COVID -19 outbreak. To reduce the impact on businesses and economy in general, the SBP has undertaken various relief measures including in particular reduction in SBP Policy Rate by 625 basis points and allowed the Banks to reschedule / restructure eligible financing facilities on case to case basis.

Despite the aforementioned relief measures, COVID-19 has adversely impacted the overall economic activity and disrupted business operations in Pakistan. Resultantly, it has impacted banks by increasing the overall credit risk.. The Bank's management and Board is fully cognizant of these challenges posed by the COVID-19 outbreak and lock down imposed by the Government of Pakistan. The Bank continues its operations to serve customers through its branch network across Pakistan and the digital channels by observing the Government instructions and adopting precautionary measures. Further a significant number of the Bank's staff was working from home through using technology infrastructure during the period ended September 30, 2020 which potentially exposes the Bank to greater challenge of managing cyber security risks.

In addition to the above operational challenges, the Bank is also monitoring its credit risk exposure through its risk management function and assessment of the credit portfolio to identify customers or portfolios that may require additional risk management considerations. Subsequent to the emergence of the COVID - 19 situation and in line with the SBP directives, the Bank has restructured / reschedule a number of financing facilities with an aggregate outstanding balance of Rs. 5,123 Million after review of the restructuring / rescheduling proposals as per the established policies of the Bank. The impact of such restructuring / rescheduling has also been assessed on the credit risk, liquidity and maturity profile of the Bank. Accordingly, the Bank considers that the liquidity buffer is sufficiently maintained at this stage.

The management of the Bank is constantly monitoring the situation and is taking appropriate actions in response to the current situation and will adapt as the situation evolves.

5.2 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 annual 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 | September 30, 2020 (Un-audited) | December 31, 2019 (Audited) |
|---|------|---------------------------------------|-----------------------------------|
| 6. CASH AND BALANCES WITH STATE BANK OF PAKISTAN AND NATIONAL BANK OF PAKISTAN | | | |
| Cash in hand - local currency | | 1,125,690 | 936,918 |
| Balance with State Bank of Pakistan - current account | | 1,899,283 | 2,391,443 |
| Balance with National Bank of Pakistan - current account | | 89,546 | 135,380 |
| | 6.1 | 1,988,829 | 2,526,823 |
| | | <u>3,114,519</u> | <u>3,463,741</u> |

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 | September 30, 2020 (Un-audited) | December 31, 2019 (Audited) |
|-------------------------------------|-----------|---------------------------------------|-----------------------------------|
| 7. BALANCES WITH OTHER BANKS | | | |
| In Pakistan | | | |
| - Current accounts | | 276,646 | 209,104 |
| - PLS deposit accounts | 7.1 & 7.2 | 4,200,843 | 4,199,445 |
| - Fixed term deposits | 7.3 | - | 3,000,000 |
| | | <u>4,477,489</u> | <u>7,408,549</u> |

7.1 This represents demand deposits with various financial institutions carrying markup at rates ranging between 5.5% to 8.0% per annum (December 31, 2019: 11.25% to 14.25% per annum).

7.2 This include certain guarantees of Rs. 110 million (December 31, 2019: Rs. 119.36 million) which have been given on behalf of the Bank by another financial institution for a Bank's client and vendor respectively. These guarantees are secured against the profit and loss sharing deposits maintained with the same financial institution.

| | Note | September 30, 2020 (Un-audited) | December 31, 2019 (Audited) |
|--|------|---------------------------------------|-----------------------------------|
| 8. LENDINGS TO FINANCIAL INSTITUTIONS | | | |
| Call money lendings - unsecured | 8.1 | 6,300,000 | 4,950,000 |
| Repurchase agreement lendings (reverse repo) | 8.2 | 3,944,147 | - |
| | | <u>10,244,147</u> | <u>4,950,000</u> |

8.1 This represent call money lending to a financial institution carrying mark-up rate ranging from 6.95% to 7.03% (December 31, 2019: 13.05% to 13.36%) per annum and having maturity in October 2020 (December 31, 2019: January 2020).

8.2 Securities held as collateral against lending to financial institutions (Reverse repo)

| | September 30, 2020 (Un-audited) | | | December 31, 2019 (Audited) | | |
|------------------------------------|---------------------------------|--------------------------------|------------------|-----------------------------|--------------------------------|----------|
| | Held by Bank | Further given as collateral | Total | Held by Bank | Further given as collateral | Total |
| | ----- (Rupees in '000) ----- | | | | | |
| Market treasury bills (face value) | 4,000,000 | - | 4,000,000 | - | - | - |
| | <u>4,000,000</u> | <u>-</u> | <u>4,000,000</u> | <u>-</u> | <u>-</u> | <u>-</u> |

| | Note | September 30, 2020 (Un-audited) | December 31, 2019 (Audited) |
|---|------|---------------------------------------|-----------------------------------|
| 9. INVESTMENTS | | | |
| Federal Government Securities - available for sale | | | |
| Market Treasury Bills | 9.1 | 11,886,299 | 13,779,217 |
| Surplus / (deficit) on revaluation of investment | | 43,657 | (5,817) |
| | | <u>11,929,956</u> | <u>13,773,400</u> |

9.1 These carry mark-up at rates ranging between 6.86% to 9.8% (December 31, 2019: 13.10% to 13.47%) per annum, having maturities up to May 2021 (December 31, 2019: May 2020). These securities have an aggregate face value of Rs. 12,200 million (December 31, 2019: Rs. 14,300 million).

10. ADVANCES - net of provisions

| | Note | September 30, 2020 (Un-audited) | | December 31, 2019 (Audited) | |
|------------------------------|------|------------------------------------|------------------|--------------------------------|------------------|
| | | Number of loans outstanding | (Rupees in '000) | Number of loans outstanding | (Rupees in '000) |
| Advances - gross | | | | | |
| - Secured | | 65,070 | 5,255,182 | 93,525 | 7,143,892 |
| - Unsecured | 10.1 | 325,043 | 9,643,646 | 803,169 | 20,316,673 |
| | | 390,113 | 14,898,828 | 896,694 | 27,460,565 |
| Less: Provision held | | | | | |
| - Specific | 10.1 | 114,349 | (2,841,889) | 448,556 | (3,993,209) |
| - General | 10.2 | | (68,018) | | (3,468,417) |
| | | | (2,909,907) | | (7,461,626) |
| Advances - net of provisions | | | 11,988,921 | | 19,998,939 |

10.1 Particulars of non-performing advances

Advances include Rs. 4,227.503 million (December 31, 2019: Rs. 5,781.65 million) which have been placed under non-performing status as detailed below:

| | September 30, 2020 (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) | 411,483 | - | - | 777,081 | - | - |
| Substandard | 377,216 | 74,214 | 74,214 | 622,234 | 148,017 | 148,017 |
| Doubtful | 1,252,010 | 584,225 | 584,225 | 1,046,903 | 513,226 | 513,226 |
| Loss | 2,186,794 | 2,183,450 | 2,183,450 | 3,335,433 | 3,331,966 | 3,331,966 |
| | 4,227,503 | 2,841,889 | 2,841,889 | 5,781,651 | 3,993,209 | 3,993,209 |

10.2 This includes general provision of Rs. 68.018 million (2019: Rs. 163.234 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.

10.3 Particulars of provision against non-performing advances

| | September 30, 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 | 5,273,728 | 11,502 | 5,285,230 | 6,605,948 | 2,798,654 | 9,404,602 |
| Reversals | (229,890) | (3,411,901) | (3,641,791) | (584,626) | - | (584,626) |
| | 5,043,838 | (3,400,399) | 1,643,439 | 6,021,322 | 2,798,654 | 8,819,976 |
| Amount written off | (6,195,158) | - | (6,195,158) | (2,601,081) | - | (2,601,081) |
| Closing balance | 2,841,889 | 68,018 | 2,909,907 | 3,993,209 | 3,468,417 | 7,461,626 |

10.4 Particulars of write offs

| | September 30, 2020 (Un-audited) | December 31, 2019 (Audited) |
|---|------------------------------------|--------------------------------|
| | (Rupees in '000) | |
| Against provisions | 6,195,158 | 2,601,081 |
| Directly charged to the profit and loss account | 62,063 | 49,502 |
| | 6,257,221 | 2,650,583 |

11. OPERATING FIXED ASSETS

| | September 30, 2020 (Un-audited) | December 31, 2019 (Audited) |
|---|---------------------------------------|-----------------------------------|
| Note | (Rupees in '000) | |
| Property and equipment | 3,120,344 | 3,508,629 |
| Right-of-use assets | 2,125,508 | 2,811,770 |
| Intangible assets | 649,575 | 791,046 |
| Capital work-in-progress | 797,616 | 555,612 |
| | <u>6,693,043</u> | <u>7,667,057</u> |
| 11.1 Additions during the period - at cost | | |
| Improvements to leasehold buildings | 1,991 | 36,198 |
| Furniture and fixtures | 223 | 6,725 |
| Office and Computer equipments | 125,234 | 272,631 |
| Intangible assets | 6,959 | 183,892 |
| | <u>134,407</u> | <u>499,446</u> |
| 11.2 Disposals during the period - at cost | | |
| Furniture and fixtures | 8,119 | 1,484 |
| Office and Computer equipments | - | 6,362 |
| Vehicles | 5,865 | 15,842 |
| | <u>13,984</u> | <u>23,688</u> |
| 12. DEPOSITS AND OTHER ACCOUNTS | | |
| Current deposits | 18,286,963 | 13,247,452 |
| Saving deposits | 4,207,745 | 6,020,702 |
| Fixed deposits | 12,398,225 | 21,902,383 |
| | <u>34,892,933</u> | <u>41,170,537</u> |
| 12.1 Particulars of deposits by ownership | | |
| Individual depositors | 31,948,997 | 27,178,714 |
| Institutional depositors | | |
| - Corporations / firms etc | 1,232,144 | 3,927,331 |
| - Banks / financial institutions | 1,711,792 | 10,064,492 |
| | <u>34,892,933</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:

| | September 30, 2020 | December 31, 2019 |
|--|-------------------------------|---------------------------------|
| | (Un-audited) | (Audited) |
| | (Rupees in '000) | |
| | | (Restated note 13.1) |
| Deductible temporary differences | | |
| - Deficit on revaluation of assets (investments) | - | 1,687 |
| - Un-absorbed tax depreciation | 229,850 | 273,360 |
| | 229,850 | 275,047 |
| Taxable temporary differences | | |
| - Accelerated tax depreciation allowance | (217,189) | (275,047) |
| - Surplus on revaluation of assets (investments) | (12,661) | - |
| | (229,850) | (275,047) |
| | - | - |

- 13.1** In accordance with the requirements of International Accounting Standard 12 'Income Taxes' the deferred tax asset should be recognised to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity. During the prior years, the Bank had not recognized deferred tax asset to the extent of availability of taxable temporary differences (deferred tax liability on account of accelerated tax depreciation) under the requirements of IAS 12 which has now been adjusted in the condensed interim financial statement with retrospective effect by restatement of prior periods presented as required by IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

Financial impact of restatement on each item of financial statements are as follows:

| | As previously reported | Adjustment | As restated |
|---|-----------------------------------|-------------------|--------------------|
| | (Rupees in '000) | | |
| Equity as at 01 January 2019 | 13,614,984 | 153,066 | 13,768,050 |
| Equity as at 31 December 2019 | 8,032,369 | 273,360 | 8,305,729 |
| Deferred tax liability as at 31 December 2019 | 273,360 | (273,360) | - |
| Loss for the nine months ended 30 September 2019 | (5,325,683) | (61,000) | (5,386,683) |
| Loss for the year ended 31 December 2019 | (11,026,144) | 181,294 | (10,844,850) |

14. ADVANCE AGAINST FUTURE ISSUE OF RIGHT SHARES

This represents equity injection by the sponsor shareholders amounting to Rs. 7,442.7 million (USD 45 million) in the Bank on August 31, 2020 in proportion to their respective shareholding. The shares are yet to be allotted against such subscription.

15. MEMORANDUM / OFF BALANCE SHEET ITEMS

| | Note | June 30, 2020 (Un-audited) | December 31, 2019 (Audited) |
|--|------|----------------------------------|-----------------------------------|
| | | (Rupees in '000) | |
| Contingent liabilities | 15.1 | 128,120 | 128,120 |
| Commitments in respect of fixed assets | | 974,451 | 398,777 |
| | | <u>1,102,571</u> | <u>526,897</u> |

15.1 Contingencies

The status of all the contingencies is same as disclosed under note 19.1 of the annual financial statements for the year ended December 31, 2019 except as follows:

During the period, the Bank has received notices from Federal Board of Revenue (FBR) requiring Bank to furnish records/documents in pursuance of audit proceedings u/s. 177 of the Income Tax Ordinance, 2001 for tax years 2016 and 2017 as well as in respect of amended assessment proceedings for tax years 2015, 2018 and 2019.

| | Nine months ended | | Quarter ended | |
|---|---------------------------------------|-----------------------|---------------------------------------|-----------------------|
| | September 30, 2020 (Un-audited) | September 30, 2019 | September 30, 2020 (Un-audited) | September 30, 2019 |
| | (Rupees in '000) | | (Rupees in '000) | |
| 16. MARK-UP / RETURN / INTEREST EARNED | | | | |
| On: | | | | |
| Advances | 2,656,725 | 6,530,927 | 759,669 | 2,133,076 |
| Available-for-sale investments in Government Securities | 1,112,776 | 697,354 | 294,519 | 197,522 |
| Deposits with financial institutions / Banks | 286,967 | 311,303 | 64,695 | 117,486 |
| Call money lendings | 302,442 | 206,538 | 79,297 | 45,528 |
| Repurchase agreement lendings | 93,829 | 102,416 | 19,854 | 7,717 |
| | <u>4,452,739</u> | <u>7,848,538</u> | <u>1,218,034</u> | <u>2,501,329</u> |
| 17. MARK-UP / RETURN / INTEREST EXPENSED | | | | |
| On: | | | | |
| Deposits | 1,967,180 | 2,522,786 | 513,610 | 809,748 |
| Borrowings | 712 | 748 | 182 | 690 |
| Lease liabilities against right-of-use assets | 243,393 | 130,332 | 74,958 | 61,889 |
| | <u>2,211,285</u> | <u>2,653,866</u> | <u>588,750</u> | <u>872,327</u> |
| 18. FEE, COMMISSION AND BROKERAGE INCOME | | | | |
| Loan processing fee | 422,727 | 708,131 | 122,593 | 310,579 |
| Income from branchless banking | 4,357,388 | 5,460,643 | 1,341,706 | 1,815,548 |
| Others | 9,220 | 10,615 | 2,776 | 2,493 |
| | <u>4,789,335</u> | <u>6,179,389</u> | <u>1,467,075</u> | <u>2,128,620</u> |

19. 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:

| Note | September 30, 2020 (Un-audited) | | | | | December 31, 2019 (Audited) | | | | |
|--|---------------------------------|--------------------------|-----------|--------------------------|-------------|-----------------------------|--------------------------|-----------|--------------------------|-------------|
| | Associates | Key management personnel | Directors | Retirement benefit plans | Total | Associates | Key management personnel | Directors | Retirement benefit plans | Total |
| ----- (Rupees in '000) ----- | | | | | | | | | | |
| Loans | | | | | | | | | | |
| At 1 January | - | 21,233 | - | - | 21,233 | - | 32,564 | 10,029 | - | 42,593 |
| Given during the period | - | 10,315 | - | - | 10,315 | - | 12,645 | - | - | 12,645 |
| Repaid during the period | - | (10,336) | - | - | (10,336) | - | (23,976) | (10,029) | - | (34,005) |
| 12.2 | - | 21,212 | - | - | 21,212 | - | 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 | 2,012,836 | 30,936 | 525 | 525,253 | 2,569,550 | 1,787,851 | 42,078 | 16,036 | 4,400,209 | 6,246,174 |
| Withdrawn during the period | (1,915,533) | (31,065) | (16,001) | (323,756) | (2,286,355) | (1,794,930) | (41,844) | - | (4,184,821) | (6,021,595) |
| | 112,878 | 851 | 561 | 1,659,943 | 1,774,234 | 15,575 | 980 | 16,036 | 1,458,447 | 1,491,038 |
| Other Liabilities | | | | | | | | | | |
| Payable against goods and services | 1,277,634 | - | - | - | 1,277,634 | 1,593,576 | - | - | - | 1,593,576 |
| Payable to defined contribution plan | - | - | - | 55,078 | 55,078 | - | - | - | 58,819 | 58,819 |
| Payable to defined benefit plan | - | - | - | 59,663 | 59,663 | - | - | - | 70,516 | 70,516 |
| | 1,277,634 | - | - | 114,741 | 1,392,375 | 1,593,576 | - | - | 129,335 | 1,722,911 |
| Capital Expenditure | | | | | | | | | | |
| | - | - | - | - | - | 61,179 | - | - | - | 61,179 |
| Transactions during the period / year | | | | | | | | | | |
| Directors' meeting fees | - | - | 6,105 | - | 6,105 | - | - | 5,675 | - | 5,675 |
| Remuneration of Key Management Personnel | - | 198,087 | 45,854 | - | 243,941 | - | 104,597 | 140,544 | - | 245,141 |
| Mark-up expense | - | - | - | 106,339 | 106,339 | - | - | - | 148,674 | 148,674 |
| Communication expense | 61,715 | - | - | - | 61,715 | 58,088 | - | - | - | 58,088 |
| Rent | 23,912 | - | - | - | 23,912 | 138,474 | - | - | - | 138,474 |
| Professional consultancy charges | 339,130 | - | - | - | 339,130 | 564,778 | - | - | - | 564,778 |
| Other charges | - | - | - | - | - | 69,070 | - | - | - | 69,070 |
| Repair and maintenance | 81,827 | - | - | - | 81,827 | 141,907 | - | - | - | 141,907 |
| Customer Incentives | 830,845 | - | - | - | 830,845 | 1,186,848 | - | - | - | 1,186,848 |
| | 1,337,430 | 198,087 | 51,959 | 106,339 | 1,693,815 | 2,159,165 | 104,597 | 146,219 | 148,674 | 2,558,655 |

19.1 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.

20. GENERAL

20.1 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 except as disclosed in note 13.1 to these condensed interim financial statements.

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

21. DATE OF AUTHORISATION FOR ISSUE

These condensed interim financial statements were authorised for issue by the Board of Directors in their meeting held on October 22, 2020.

**President & Chief Executive
Officer**

Chairman

Director

Director