


**Condensed Interim Financial Statements
For the period ended June 30,2019**

KHUSHHALI MICROFINANCE BANK LIMITED
CONDENSED INTERIM BALANCE SHEET
AS AT 30 JUNE 2019

	Note	30 June 2019 (Un-Audited)	31 December 2018 (Audited)
-----Rupees '000-----			
ASSETS			
Cash and balances with SBP and NBP	8	2,701,119	1,792,737
Balances with other banks/NBFIs/MFBs	9	6,868,410	7,498,358
Lending to financial institutions	10	-	1,837,749
Investments	11	6,791,772	8,915,710
Advances - net of provisions	12	47,807,901	43,500,531
Operating fixed assets	13	3,858,405	1,353,528
Other assets	14	5,948,784	5,311,313
Deferred tax asset	15	369,381	262,025
Total assets		74,345,772	70,471,951
LIABILITIES			
Deposits	16	56,713,890	56,017,988
Borrowings	17	2,162,114	2,964,872
Subordinated debt	18	1,000,000	1,000,000
Other liabilities	19	5,512,115	2,289,641
Total liabilities		65,388,119	62,272,501
NET ASSETS		8,957,653	8,199,450
REPRESENTED BY:			
Share capital	20	1,705,000	1,705,000
Statutory reserve		1,756,799	1,693,035
Capital Reserve		24,255	24,255
Unappropriated profit		5,476,920	4,776,212
		8,962,974	8,198,502
Surplus/(deficit) on revaluation of assets		(5,321)	(235)
Deferred grants		-	1,183
Total Capital		8,957,653	8,199,450
MEMORANDUM / OFF-BALANCE SHEET ITEMS	21	-	-

The annexed notes from, 1 to 29, form an integral part of these financial statements.

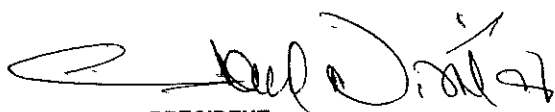

PRESIDENT


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KHUSHALI MICROFINANCE BANK LIMITED
CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED)
FOR THE HALF YEAR ENDED 30 JUNE 2019

	Note	Half year ended	
		30 June 2019	30 June 2018
-----Rupees '000-----			
Mark-up/ return/ interest earned	22	7,234,269	5,577,344
Mark-up/ return/ interest expensed	23	2,978,188	2,226,900
Net mark-up/ interest income		4,256,081	3,350,444
Provision against non-performing loans and advances		604,108	351,969
Bad debts written off directly		3,970	23,278
		608,078	375,247
Net mark-up/ interest income after provisions		3,648,003	2,975,197
NON MARK-UP / NON INTEREST INCOME			
Fee, commission and brokerage income	24	754,630	691,679
Other income	25	55,533	49,691
Total non-markup / non interest income		810,163	741,370
		4,458,166	3,716,567
NON MARK-UP / NON INTEREST EXPENSE			
Administrative expenses		2,845,403	2,245,205
Other provisions		1,096	1,773
Other charges		11,759	6,548
Total non-markup / interest expenses		2,858,258	2,253,526
PROFIT BEFORE TAXATION		1,599,908	1,463,041
TAXATION			
Current		429,946	452,157
Prior year		-	40,881
Deferred		(105,316)	(30,858)
		324,630	462,180
PROFIT AFTER TAXATION		1,275,278	1,000,861
Unappropriated profit brought forward		4,776,212	3,423,732
Less: other comprehensive loss transferred to equity		-	(2,055)
Profit available for appropriations		6,051,490	4,422,538
APPROPRIATIONS - TRANSFERS TO			
Statutory reserve		63,764	200,172
Microfinance Social Development Fund		127,528	100,086
Depositors' Protection Fund		63,764	50,043
Risk Mitigation Fund		63,764	50,043
Final/ Interim dividend		255,750	90,365
		574,570	490,709
UNAPPROPRIATED PROFIT CARRIED FORWARD		5,476,920	3,931,829
EARNINGS PER SHARE - BASIC AND DILUTED		5.98	4.70

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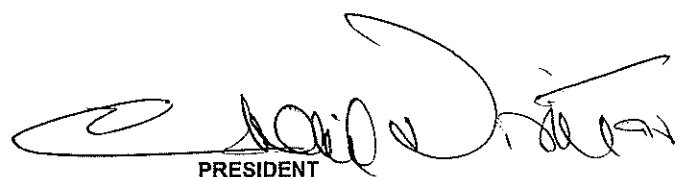

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KHUSHALI MICROFINANCE BANK LIMITED
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE HALF YEAR ENDED 30 JUNE 2019

	Half year ended	
	30 June 2019	30 June 2018
	-----Rupees '000-----	
Profit after taxation	1,275,278	1,000,861
Other comprehensive income that can not be reclassified into profit or loss in subsequent periods		
Remeasurement loss on post employment benefit obligation	-	(2,473)
Deferred tax relating to remeasurement loss on post employment benefit obligation	-	418
	-	(2,055)
Other comprehensive income that can be reclassified into profit or loss in subsequent periods		
Deficit on revaluation of investments	(7,361)	-
Transfer to profit and loss on disposal of available for sale investments	-	-
Deferred tax asset/(liability) on (deficit)/surplus on revaluation of investments - AFS	2,040	-
	(5,321)	-
Other comprehensive income transferred to equity	(5,321)	(2,055)
Total comprehensive income	1,269,957	998,806

The annexed notes from, 1 to 29, form an integral part of these financial statements.



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KHUSHHALI MICROFINANCE BANK LIMITED
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE HALF YEAR ENDED 30 JUNE 2019

	Share Capital	Statutory Reserve	Capital Reserve	Unappropriated Profit	Total
	-----Rupees '000-----				
Balance as at 31 December 2017	1,705,000	1,201,278	24,255	3,423,732	6,354,265
Total comprehensive income for the half year ended 30 June 2018					
Net profit for the half year ended 30 June 2018	-	-	-	1,000,861	1,000,861
Other comprehensive income	-	-	-	(2,055)	(2,055)
	-	-	-	998,806	998,806
Transfers to					
Statutory reserve	-	200,172	-	(200,172)	-
Microfinance Social Development Fund	-	-	-	(100,086)	(100,086)
Risk Mitigation Fund	-	-	-	(50,043)	(50,043)
Depositors' Protection Fund	-	-	-	(50,043)	(50,043)
	-	200,172	-	(400,344)	(200,172)
Final/ interim dividend (Rs. 0.53/share)	-	-	-	(90,365)	(90,365)
Balance as at 30 June 2018	1,705,000	1,401,450	24,255	3,931,829	7,062,534
Total comprehensive income for the Six months ended 31 December 2018					
Net profit for the six months ended 31 December 2018	-	-	-	1,457,925	1,457,925
Other comprehensive income	-	-	-	(30,372)	(30,372)
	-	-	-	1,427,553	1,427,553
Transfers to					
Statutory reserve	-	291,585	-	(291,585)	-
Microfinance Social Development Fund	-	-	-	(145,793)	(145,793)
Risk Mitigation Fund	-	-	-	(72,896)	(72,896)
Depositors' Protection Fund	-	-	-	(72,896)	(72,896)
	-	291,585	-	(583,170)	(291,585)
Balance as at 31 December 2018	1,705,000	1,693,035	24,255	4,776,212	8,198,502
Total comprehensive income for the half year ended 30 June 2019					
Net profit for the half year ended 30 June 2019	-	-	-	1,275,278	1,275,278
Other comprehensive income	-	-	-	-	-
	-	-	-	1,275,278	1,275,278
Transfers to					
Statutory reserve	-	63,764	-	(63,764)	-
Microfinance Social Development Fund	-	-	-	(127,528)	(127,528)
Risk Mitigation Fund	-	-	-	(63,764)	(63,764)
Depositors' Protection Fund	-	-	-	(63,764)	(63,764)
	-	63,764	-	(318,820)	(255,056)
Final/ interim dividend (Rs. 1.5/share)	-	-	-	(255,750)	(255,750)
Balance as at 30 June 2019	1,705,000	1,756,799	24,255	5,476,920	8,962,974

The annexed notes from, 1 to 29, form an integral part of these financial statements.


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KHUSHALI MICROFINANCE BANK LIMITED
CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)
FOR THE HALF YEAR ENDED 30 JUNE 2019

	Half year ended	
	30 June 2019	30 June 2018
	----Rupees '000----	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	1,599,908	1,463,041
Adjustment for non cash items:		
Depreciation of property and equipment	149,249	120,538
Depreciation of right of use asset	162,721	-
Amortization of intangible assets	26,458	9,668
Amortization of deferred grant	(1,183)	(215)
Provision against non performing advances	604,108	351,969
Gain on disposal of operating fixed assets	(14,682)	1,572
Mark-up / return / interest earned	(6,411,579)	(4,982,198)
Interest income on investments and deposits	(822,690)	(585,146)
Interest expense on borrowings and deposits	2,919,329	2,202,829
Interest expense on subordinated debt	58,859	24,071
Provision against other assets	1,096	1,854
Charge for defined benefit plan	60,548	51,657
	(3,267,766)	(2,813,401)
Loss before changes in operating assets and liabilities	(1,667,858)	(1,350,360)
(Increase) / decrease in operating assets:		
Advances	(4,911,478)	(5,162,691)
Other assets	128,220	(187,642)
	(4,783,258)	(5,350,333)
Increase/(decrease) in operating liabilities:		
Deposits	695,902	1,901,638
Other liabilities	858,242	(68,305)
	1,554,144	1,833,333
Net cash (used in) / generated from operating activities	(4,896,972)	(4,867,360)
Markup received on advances	5,531,499	4,451,972
Interest received on investment and deposit accounts	840,247	627,089
Interest paid on borrowings and subordinated debt	(2,840,822)	(2,135,718)
Contribution to defined benefit plan	(19,783)	(101,788)
Income tax paid	(731,620)	(457,814)
Net cash used in operating activities	(2,117,451)	(2,483,619)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in held to maturity securities	2,116,577	1,276,804
Purchase of operating fixed assets	(657,985)	(319,280)
Sale proceeds of operating fixed assets	15,538	446
Net cash inflow from investing activities	1,474,130	957,970
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(80,443)	(19,477)
Payment against leases	(32,793)	-
Subordinated received	-	1,000,000
Borrowings paid	(802,758)	(1,040,050)
Net cash used in financing activities	(915,994)	(59,527)
Net decrease in cash and cash equivalents	(1,559,315)	(1,585,176)
Cash and cash equivalents at beginning of the period	11,128,844	4,537,915
Cash and cash equivalents at the end of the period	9,569,529	2,952,739
Cash and cash equivalents comprise of the following:		
Cash and balances with State Bank of Pakistan and National Bank of Pakistan	2,701,119	1,792,737
Balances with other banks / NBFIs / MFBs	6,868,410	1,160,002
	9,569,529	2,952,739

The annexed notes from, 1 to 29, form an integral part of these financial statements.


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KHUSHHALI MICROFINANCE BANK LIMITED
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE HALD YEAR ENDED 30 JUNE 2019

1 STATUS AND NATURE OF BUSINESS

Khushhall Microfinance Bank Limited (KMBL/the Bank) came into existence with the promulgation of the Khushhall Bank Ordinance 2000, as a corporate body with limited liability on 4 August 2000. It commenced its business with the issuance of license by the State Bank of Pakistan (SBP) on 11 August 2000. KMBL was established to mobilize funds for providing microfinance services to poor persons, particularly poor women for mitigating poverty and promoting social welfare and economic justice through community building and social mobilization with the ultimate objective of poverty alleviation.

In pursuance to the requirements of improving Access to Financing Service Program (IAFSP) Agreement signed in 2008 between Government of Pakistan (GOP) and Asian Development Bank, where by all microfinance institutions in Pakistan including KMBL were required to operate under Microfinance Institutions Ordinance, 2001. Consequently, with the approval of SBP, KMBL was incorporated as a public company with Securities and Exchange Commission of Pakistan (SECP) and Certificate of incorporation was issued under the repealed Companies Ordinance, 1984 (replaced by Companies Act, 2017) on 28 February 2008.

On 18 March 2008, SBP sanctioned a scheme for transfer of assets, liabilities and undertaking of KMBL into the Bank with effect from 1 April 2008, a microfinance institution licensed under the Microfinance Institution Ordinance, 2001. In accordance with the scheme of conversion all assets and liabilities of the Bank were transferred to the Bank at their respective book values on the audited accounts of the Bank as of 31 March 2008.

On 4 June 2012, a consortium led by United Bank Limited and comprising ASN-NOVIB Mikro kredietfonds (Triple Jump B.V), responsibility Management Company S.A. (formerly Credit Suisse Microfinance Fund Management Company) (Responsibility Global Microfinance Fund), Rural Impulse Fund II S.A. SICAS-FIS (Incofin Investment Management Comm. VA), and ShoreCap II Limited (Equator Capital Partners LLC) acquired 67.4% equity stake in KMBL from a selling consortium comprising of eleven shareholders. In view of the changes in the shareholding, a new microfinance banking license was issued on 19 November 2012 by SBP to the Bank.

The Bank's registered office and principal place of business is situated at 5th Floor, Ufone Tower, Blue Area, Islamabad. The Bank has 175 branches, 19 service centers and 25 permanent booths in operation as at 30 June 2019 (31 December 2018: 161 branches, 28 service centers and 8 permanent booths) and is licensed to operate nationwide.

2 BASIS OF PREPARATION

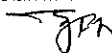
These condensed interim financial statements of KMBL have been prepared, in accordance with the requirements of the International Accounting Standard 34 - 'Interim Financial Reporting' (IAS-34), provisions of the Companies Act, 2017, the Microfinance Institution Ordinance, 2001 and directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP). Where, the requirements of the Companies Act, 2017, the Microfinance Institution Ordinance, 2001 or directives issued by the SECP and the SBP differ with the requirements of IFRS, the requirements of the Companies Act, 2017, the Microfinance Institutions Ordinance, 2001, or the requirements of the said directives prevail.

These condensed interim financial statements do not include all the information and disclosures required for the annual financial statements, and should be read in conjunction with the annual financial statements of KMBL as at 31 December 2018, which have been prepared in accordance with approved accounting standards as applicable in Pakistan, which comprise of International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Act, 2017, the requirements of the Companies Act, 2017, the Microfinance Institutions Ordinance, 2001, or the requirements of the said directives prevail. Further, the aforesaid financial statements also comply with the disclosure guidelines for financial reporting by Microfinance Institutions which are voluntary norms recommended by the Consultative Group to Assist the Poor (CGAP).

3 STATEMENT OF COMPLIANCE

These condensed interim financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Act, 2017, the requirements of the Companies Act, 2017, the Microfinance Institutions Ordinance, 2001, and the directives issued by the Securities and Exchange Commission of Pakistan (SECP) and SBP. Wherever, the requirements of the Companies Act, 2017, the Microfinance Institutions Ordinance, 2001, or directives issued by the SECP and the SBP differ with the requirements of IFRS, the requirements of the Companies ACT, 2017, the Microfinance Institutions Ordinance, 2001, or the requirements of the said directives prevail.

The SECP, through SRO 229 (I) / 2019 dated 14 February 2019, had notified that International Financial Reporting Standard 9 - Financial Instruments (IFRS 9), is applicable for accounting periods ending on or after 30 June 2019. Subsequent thereto, the SBP has relaxed applicability of IFRS 9 and specified that the same is not applicable on financial instruments of Microfinance Institutions for the period ended 30 June 2019. Accordingly, the requirements of IFRS 9 have not been considered for in preparation of these condensed interim financial statements.



4 BASIS OF MEASUREMENT

- 4.1 This condensed interim financial information has been prepared under the historical cost basis except obligation under employee retirement benefits, which are measured at present value and investments available for sale and held for trading which are measured at fair value.
- 4.2 This condensed interim financial statements have been presented in Pakistan Rupees, which is the functional and presentation currency of KMBL.

5 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted for the preparation of these condensed interim financial statements are the same as those applied in the preparation of the annual financial statements for the year ended 31 December 2018 except as described below:

5.1 CHANGE IN ACCOUNTING POLICIES

(a) IFRS 16 "Leases"

During the period, IFRS 16 - Leases became applicable to the Banks (effective for annual periods beginning on or after 1 January 2019) - the new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 replaces existing guidance on accounting for leases, including IAS 17, Leases, IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases - Incentive, and SIC-27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognize: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement.

KMBL has adopted IFRS 16 from 1 January 2019, bank chose the option to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption i.e. 2018, as permitted under the specific transitional provisions in the standard.

KMBL has assessed the estimated impact that the initial application of IFRS 16 will have on its financial statements. The actual impact of adopting IFRS 16 at 1 January 2019 may change because the bank has not finalized the testing and assessment of controls over its new IT systems and the new accounting policies are subject to change until the bank presents its first full financial statements that include the date of initial application.

Based on this assessment, bank has recognized liabilities in respect of lease rentals which had previously been expensed as rent expenses. These liabilities were initially measured as the present value of the remaining lease payments, discounted using the incremental weighted average borrowing rate of 14.5% per annum as of 1 January 2019.

	30 June 2019	1 January 2019
	-----Rupees '000-----	
Total lease liability recognised	<u>1,990,142</u>	<u>1,757,544</u>

On adoption of IFRS 16, the associated right-of-use assets were measured at the amount equal to the lease liability. The right-of-use assets are depreciated on a straight line basis over the lease term as this method most closely reflects the expected pattern of consumption of future economic benefits.

	30 June 2019	1 January 2019
	-----Rupees '000-----	
Right of use assets	<u>2,023,455</u>	<u>1,920,781</u>

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

Impact on Balance Sheet

Increase in fixed assets - right of use assets	2,023,455	1,920,781
Increase in other assets - prepayments	(141,824)	(163,238)
Increase in total assets	1,881,631	1,757,543
Increase in other liabilities - lease liability against right of use assets	(1,990,142)	(1,757,543)
Decrease in current tax	31,468	-
Decrease in net assets	<u>(77,043)</u>	<u>-</u>

The Bank expects that net profit after tax will have adverse effect in initial years due to unwinding of lease liability however after some years' impact will decrease and net result will be zero. IFRS 16.49 requires a lessee to present in the Profit and loss account the interest expense on lease liabilities separately from the depreciation charge for the right-of-use assets. The interest expense on the lease liabilities is a component of finance costs, which IAS 1.82(b) requires to be presented separately in the Profit and loss account. Consistent with this requirement, the bank presented interest expense on lease liabilities under 'Finance costs' in operating expenses and separate line item for depreciation charge on the right-of-use assets was included in the 'Operating Expenses'.

	For the six months ended 30 June 2019 <u>(Rupees in '000)</u>
Impact on profit and loss account	
Increase in mark-up expense - lease liability against right-of-use assets	(134,532)
(Increase) / decrease in administrative expenses:	
- Depreciation on right-of-use assets	(162,721)
- Rent expense	<u>188,742</u>
Decrease in profit before tax	(108,511)
Decrease in tax	<u>31,468</u>
Decrease in profit after tax	<u><u>(77,043)</u></u>

Earnings per share for the six months ended 30 June 2019 are Rs. 0.45 per share lower as a result of the adoption of IFRS 16.

While implementing IFRS 16, bank has used a single discount rate methodology for a portfolio of all leases. The Bank has opted not to recognize right-of-use assets for leases of low value. The payments associated with such leases are recognized as an expense on a straight line basis over the lease term.

(b) IFRS 15 "Revenue from contracts with customers"

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Bank has adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of 01 January 2019. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Bank elected to apply the standard to contracts that are not completed as at 01 January 2019.

Previously, the Bank recognized revenue from loan procession fee, under IAS 18, upon approval of loan application. Upon adoption of IFRS 15, the markup/ return income is now within the scope of IFRS 9 and is to be recognized by applying the effective interest rate method. In accordance with guidance available under IFRS 9, loan procession fee is an integral part of the effective interest rate of a financial instrument. As explained above, IFRS 9 is not currently applicable on the Bank. Accordingly, the Bank will continue its current revenue recognition policy for its loan processing fee, until the adoption of IFRS 9.

In respect of the Bank's remaining major sources of income, i.e. other fee, brokerage and commission income, adoption of IFRS 15 did not have any significant impact on these condensed interim financial information.

6 ACCOUNTING ESTIMATES

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

7 FINANCIAL RISK MANAGEMENT

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

Khushhali Microfinance Bank Limited

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Note	-----Rupees '000-----	
8 CASH AND BALANCES WITH SBP AND NBP		
Cash in hand - Local currency	843,978	507,221
Balance with State Bank of Pakistan in Local currency current accounts - SBP	8.1 1,856,637	1,284,356
Balance with National Bank of Pakistan in Local currency deposit accounts - NBP	8.2 504	1,160
	<u>2,701,119</u>	<u>1,792,737</u>

8.1 This represents the balance maintained with SBP to meet the requirement of maintaining a minimum balance equivalent to 5% (2018: 5%) of the Bank's time and demand deposits with a tenure of less than one year, in accordance with the R-3A of the Prudential Regulations.

8.2 This represents balances held in saving accounts carrying interest at the rate of 10.25% (2018: 8%) per annum.

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Note	-----Rupees '000-----	
9 BALANCES WITH OTHER BANKS/NBFIS/MFBS		
In Pakistan:		
Local currency current accounts	468,609	1,012,185
Local currency deposit accounts	9.1 6,399,801	6,486,173
	<u>6,868,410</u>	<u>7,498,358</u>

9.1 This represents balances held in saving accounts carrying interest at the rate ranging from 10.25% to 13.25% (2018: 6.5% to 11.75%) per annum.

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Note	-----Rupees '000-----	
10 LENDING TO FINANCIAL INSTITUTIONS		
Call/clean lending	10.1 -	500,000
Repurchase agreement lending (reverse repo)	10.2 -	1,337,749
	<u>-</u>	<u>1,837,749</u>

10.1 This represented clean lending carrying interest at the rate of 11.25% per annum and matured on 03 January 2019.

10.2 This represented reverse repo carrying interest at the rate of 10.10% per annum and matured on 02 January 2019.

10.2.1 Market Treasury Bills held as collateral against lending to financial institutions - reverse repo was as follows:

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
	-----Rupees '000-----	
Held by bank	-	-
Further given as collateral	-	1,360,000
	<u>-</u>	<u>1,360,000</u>

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Khushhali Microfinance Bank Limited

	Note	30 June 2019 (Unaudited)	31 December 2018 (Audited)
-----Rupees '000-----			
11 INVESTMENTS			
Available for sale (AFS)			
Federal Government Securities			
Market Treasury Bills - AFS	11.1	4,149,460	3,916,037
Held to maturity (HTM)			
Term finance certificates (TFCs)	11.2	150,000	150,000
Term deposit receipts (TDRs)	11.3	2,500,000	4,850,000
		2,650,000	5,000,000
Net deficit on revaluation of Federal Government Securities - (AFS)	11.4	(7,688)	(327)
		6,791,772	8,915,710

11.1 This represents T-Bills purchased for the period of 84 days (2018: 70 to 84 days) having yield return ranging from 11.03% to 12.56% (2018: 8.72% to 10.27%) per annum.

11.2 This represents 10,000 and 100 term finance certificates (TFC's) having face value of Rs.5,000/- and Rs.1,000,000/- each duly issued by Bank Al Habib Limited and Soneri Bank Limited, respectively, for perpetual tenor. These TFC's carrying profit @ 6 month KIBOR plus 1.50% (2018: 1.50%) and 2.00% (2018: 2%) respectively, receivable on semi annual basis from the date of

	Note	30 June 2019 (Unaudited)	31 December 2018 (Audited)
-----Rupees '000-----			
11.3 Term deposit receipts (TDRs)			
Micro finance banks	11.3.1	2,000,000	2,850,000
Other banks / DFIs / NBFIs	11.3.2	500,000	2,000,000
		2,500,000	4,850,000

11.3.1 This represents investment in short-term deposit receipts and maturing on 16 September 2019 and carries mark-up ranging from 11% to 14% (2018: 8.70% to 13.00%) per annum.

11.3.2 This represents investment in short-term deposits and maturing on 28 December 2019 and carries mark-up ranging from 11% to 14% (2018: 11% to 12%) per annum.

11.4 In accordance with the R-11C of the Prudential Regulations for Microfinance Banks (the Regulations), issued by the State Bank of Pakistan, dated 10 June 2014, available for sale and held for trading securities (if any) have been valued at mark-to-market basis and the resulting (deficit)/surplus is kept in a separate account titled "Surplus/ (deficit) on revaluation of investments" and charged through statement of comprehensive income in accordance with the R-11(c) "Treatment of Surplus/(deficit)" of the Regulations .

11.5 The investments in T-Bills (refer to Note 11.1) are held by the Bank to comply with the statutory liquidity requirements as set out under the Regulations Risk Management R-3 "Maintenance of cash reserve and liquidity".

12.4 Particulars of provision against non-performing advances

	30 June 2019 (Unaudited)		31 December 2018 (Audited)			
	Specific	General	Total	Specific	General	Total
	Rupees '000		Rupees '000			
Opening balance for the period	214,024	507,275	721,299	105,978	491,773	597,751
Provision charge for the year - net	658,921	(54,813)	604,108	723,236	15,502	738,738
Advances written off against provision	(431,142)	-	(431,142)	(615,190)	-	(615,190)
	227,779	(54,813)	172,966	108,046	15,502	123,548
Closing balance for the period	441,803	452,462	894,265	214,024	507,275	721,299

12.5 Particulars of write offs

	30 June 2018		31 December 2018	
	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Against provision				
Related to other classified advances			431,142	615,190
Bad debts written off directly			3,970	39,492
			435,112	654,682

12.5.1 This represents write offs against secured micro credit advances which were not recovered through sale of its collaterals in case of default loans.

Khushhali Microfinance Bank Limited

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
	Number of loans outstanding	Number of loans outstanding
	Number	Number
	Amount of loans outstanding Rupees '000	Amount of loans outstanding Rupees '000
12.1	87,532	9,741,209
12.2	729,971	37,940,584
	817,503	47,681,793
	(441,803)	(214,024)
	(452,462)	(507,275)
	(894,265)	(721,299)
	46,787,528	42,739,936
	1,795	1,054
	1,020,373	1,054
	819,298	47,807,901
	785,534	785,534
	43,500,531	43,500,531

12 ADVANCES - NET OF PROVISIONS

Micro credit - Secured
Micro credit - Unsecured

Less: Provisions held:

Specific provision
General provision

Microcredit advances - net of provisions

Staff loans

Advances - net of provision

12.1 This includes microcredit loans amounting to Rs. 196 million (2018: Rs. 301.2 million) which are partially (50%) secured against lien marked on deposits held with the Bank.

12.2 This includes 1,667 micro enterprise clients (2018: 2,395) having aggregate amount of Rs. 208.8 (2018: 520.9 million) backed by USAID loan loss guarantee of 50% of outstanding principal for delinquent borrowers.

12.3 General provision is maintained at the rate of 1.00% (2018: 1.16%) of micro credit advances other than those secured against gold and other cash collaterals, net of specific provision.

Khushhali Microfinance Bank Limited

		30 June 2019 (Unaudited)	31 December 2018 (Audited)
	Note	-----Rupees '000-----	
13 OPERATING FIXED ASSETS			
Capital work-in-progress		359,389	350,703
Right to use asset	13.1	2,023,455	-
Property and equipment		961,298	920,731
Intangible assets		514,263	82,094
		<u>3,858,405</u>	<u>1,353,528</u>
13.1 Right to use assets - Initial recognition under IFRS-16			
Addition during the period		1,920,781	-
Depreciation charged during the period		265,395	-
Net book value at the end		<u>(162,721)</u>	<u>-</u>
		<u>2,023,455</u>	<u>-</u>
13.2 Details of additions and deletions during the year as follows:			
Additions			
Capital work-in-progress		125,539	356,799
Right to use asset		2,023,455	-
Property and equipment		190,672	521,503
Intangible assets		458,627	67,531
		<u>2,798,293</u>	<u>945,833</u>
Less: transfers from capital work-in-progress			
Intangible assets		(116,853)	(442,949)
		<u>2,681,440</u>	<u>502,884</u>
Deletions (at net book value)			
Property and equipment		(856)	(8,840)
14 OTHER ASSETS			
Markup accrued		5,139,883	3,971,074
Suspended markup on non-performing advances		(404,311)	(115,582)
		<u>4,735,572</u>	<u>3,855,492</u>
Interest receivable on investments and deposit accounts		86,105	103,662
Loan and advances - unsecured			
Employees		9,989	5,466
Suppliers		9,574	12,608
		<u>19,563</u>	<u>18,074</u>
Receivable from Microfinance Social Development Fund		163,507	208,743
Insurance premium receivable from SBP		458,393	606,023
Prepayments and security deposits		116,807	284,258
Advance taxation - net		67,489	-
Insurance claim receivable		7,443	7,443
Other receivables	14.1	334,079	266,837
		<u>5,988,958</u>	<u>5,350,532</u>
Less: Provision against doubtful receivables			
Opening balance		39,219	33,767
Provision charge for the period - other assets		1,096	5,452
Receivables written off against provision		(141)	-
Closing balance	14.2	40,174	39,219
		<u>5,948,784</u>	<u>5,311,313</u>

- 14.2 This represents provisions made against receivables from resigned employees, cash embezzlement and insurance claim receivables.

Note	30 June 2019	31 December 2018
	(Unaudited)	(Audited)
	-----Rupees '000-----	
15 DEFERRED TAX ASSET		
Deferred tax assets arising on account of temporary differences in:		
Provision against advances and other assets	314,335	212,946
Remeasurement of post employment benefit obligation	49,046	47,354
Provisions against workers' welfare fund	12,949	10,772
Deficit on revaluation of assets - AFS	2,135	92
	378,465	271,164
Deferred tax liability in respect of:		
Operating fixed assets	(9,084)	(9,470)
Deferred grant	-	331
	(9,084)	(9,139)
	369,381	262,025

- 15.1 The deferred tax asset recognized in the financial statements represents the management's best estimate of the potential benefit which is expected to be realized in future years in the form of reduced tax liability as the Bank would be able to set off the profits earned in those years against temporary differences.

Management has prepared strategic development plan of the Bank for five years using assumptions which are linked to various variable factors such as the economic outlook of the country, investment growth, interest rate movements, expansion in depositors / advances portfolio etc.

16 DEPOSITS AND OTHER ACCOUNTS

Note	30 June 2019		31 December 2018		
	(Unaudited)		(Audited)		
	Number of accounts	Rupees '000	Number of accounts	Rupees '000	
Fixed deposits	16.2	56,667	37,703,666	52,456	36,211,113
Saving deposits	16.3	55,876	13,700,041	52,313	11,949,867
Current deposits		1,969,221	5,310,183	1,958,220	7,857,008
		2,081,764	56,713,890	2,062,989	56,017,988

16.1 Particulars of deposits by ownership

Individual depositors		2,078,709	43,413,496	2,060,246	43,962,455
Institutional depositors					
Corporations / firms		3,001	7,781,728	2,677	7,590,396
Banks / financial institutions		54	5,518,666	66	4,465,137
		2,081,764	56,713,890	2,062,989	56,017,988

- 16.2 This represents term deposits having tenure of 3 to 36 months (2018: 3 to 36 months) carrying interest at rates ranging from 7.00% to 14.25% (2018: 5.75% to 13.50%) per annum. The term deposits amounting to Rs 381.26 Million (2018: Rs 322.52 Million) are lien marked against advances to borrowers.

- 16.3 This represents saving accounts carrying interest at the rates ranging from 7.00% to 12.50% per annum (2018: 7.00% to 11.00%). This includes saving deposits amounting to Rs 113.66 million (2018: Rs 165.55 million) on which lien is marked against advances to borrowers.

Note	30 June 2019	31 December 2018	
	(Unaudited)	(Audited)	
	-----Rupees '000-----		
17 BORROWINGS			
Unsecured			
Borrowing from financial institutions outside Pakistan	17.1	1,010,328	1,386,301
Secured			
Borrowing from financial institutions in Pakistan	17.2	1,151,786	1,578,571
		2,162,114	2,964,872

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		30 June 2019 (Unaudited)	31 December 2018 (Audited)
	Note	-----Rupees '000-----	
17.1 Borrowing from financial Institutions outside Pakistan			
Asian Development Bank		545,594	727,459
ECO Trade & Development Bank (TF-II)		103,900	207,800
ECO Trade & Development Bank (TF-III)		360,834	451,042
		<u>1,010,328</u>	<u>1,386,301</u>
17.2 Borrowing from financial institutions in Pakistan			
Pak Oman Investment Company (TF-II)		125,000	187,500
Pak Oman Investment Company (TF-III)		312,500	375,000
Pak Oman Investment Company (TF-IV)		375,000	437,500
Syndicated Term Finance		214,286	428,571
Bank Alfalah Limited (TF-I)		75,000	100,000
Allied Bank Limited (TF-I)		50,000	50,000
		<u>1,151,786</u>	<u>1,578,571</u>
17.3 Loan repayment schedule:			
Opening balance		2,964,872	4,782,681
Availed during the period		-	-
Repayment during the period		(802,758)	(1,817,809)
Closing balance		<u>2,162,114</u>	<u>2,964,872</u>
18 SUBORDINATED DEBT			
Term finance certificate - TFC-1	18.1	<u>1,000,000</u>	<u>1,000,000</u>
18.1			
The bank had raised 10,000/- rated, unsecured, subordinated and privately placed term finance certificates of worth Rs 100,000/- each fully subscribed on 19 March 2018 to improve capital adequacy at the rate of 6 month KIBOR plus 2.05% per annum. The issue is for a period of 8 years from the date of subscription and mature on 19 March 2026. The issue has call option after 10th redemption date including lock-in clause and loss absorbency clause. The principal will redeemed in two equal semi annual installments falling on the end of 90th month and 96th month from the date of issue. The issue has preliminary rating of 'single A' with stable outlook.			
		30 June 2019 (Unaudited)	31 December 2018 (Audited)
	Note	-----Rupees '000-----	
19 OTHER LIABILITIES			
Mark-up / return / interest payable on deposits		816,408	683,833
Right of use liability	5.1	1,990,142	-
Accrued expenses		470,232	369,703
Payable to defined benefit plan - KB employees gratuity fund		60,183	19,418
Corporate taxes payable - net		-	234,185
GST/ FED payable		42,257	32,400
Payable to suppliers and service providers		335,954	144,740
Interest payable on borrowing/ subordinated debt		94,369	89,578
Bills payable		180,544	74,547
Provision for workers' welfare fund		44,650	38,472
Dividend payable		237,249	61,942
Withholding tax payable		23,743	32,825
Contribution payable to			
- Microfinance Social Development Fund		373,407	245,879
- Risk Mitigation Fund		186,703	122,939
- Depositor Protection Fund		186,703	122,939
Other payables		469,571	16,241
		<u>5,512,115</u>	<u>2,289,641</u>

20 SHARE CAPITAL**20.1 Authorized capital**

2019 Number	2018 Number	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Ordinary shares of Rs. 10 each		-----Rupees '000-----	
<u>600,000,000</u>	<u>600,000,000</u>	<u>6,000,000</u>	<u>6,000,000</u>

20.2 Issued, subscribed and paid-up capital

2019 Number	2018 Number		
Ordinary shares of Rs. 10 each fully paid for consideration other than cash			
<u>170,500,000</u>	<u>170,500,000</u>	<u>1,705,000</u>	<u>1,705,000</u>

20.3 The shareholders of the Bank are as follows:

United Bank Limited	506,285	506,285
Rural Impulse Fund II S.A. SICAV-FIS	417,057	417,057
ShoreCap II Limited	243,568	243,568
ASN-NOVIB Mikrokredietfonds	168,795	168,795
Responsibility Management Company SA (formerly Credit Suisse Microfinance Fund Management Company)	339,295	339,295
Bank Al Habib Limited	<u>30,000</u>	<u>30,000</u>
	<u>1,705,000</u>	<u>1,705,000</u>

21 MEMORANDUM / OFF-BALANCE SHEET ITEMS**21.1 Commitments**

Capital expenditure	<u>123,875</u>	<u>120,546</u>
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Half year ended

30 June 2019 (Unaudited)	30 June 2018 (Unaudited)
-----Rupees '000-----	

22 MARK-UP / RETURN / INTEREST EARNED

Mark-up/interest/gain on:

Mark-up on advances	6,411,579	4,982,198
Investment in Federal Government Securities	214,977	355,842
Deposits/placements with banks/FI/MFBs/TFC etc.	<u>607,713</u>	<u>239,304</u>
	<u>7,234,269</u>	<u>5,577,344</u>

23 MARK-UP / RETURN / INTEREST EXPENSED

Interest on borrowings from:

Financial institutions - Outside Pakistan	56,616	63,129
Financial institutions - Inside Pakistan	<u>84,990</u>	<u>91,112</u>
	<u>141,606</u>	<u>154,241</u>
Interest on subordinated debt	58,859	24,071
Interest on deposits	<u>2,777,723</u>	<u>2,048,588</u>
	<u>2,978,188</u>	<u>2,226,900</u>

	Half year ended	
	30 June 2019 (Unaudited)	30 June 2018 (Unaudited)
	-----Rupees '000-----	
24 FEE, COMMISSION AND BROKERAGE INCOME		
Micro credit application processing fee	693,980	635,738
Other charges	60,650	55,941
	<u>754,630</u>	<u>691,679</u>
25 OTHER INCOME		
Recoveries against advances written off	39,487	48,799
Amortization of deferred grant	1,183	215
Gain/(loss) on disposal of fixed assets	14,682	(1,572)
Others	181	2,249
	<u>55,533</u>	<u>49,691</u>

26 EARNINGS PER SHARE - BASIC AND DILUTED**Basic**

Basic earnings per shares is calculated by dividing the profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the period excluding ordinary shares purchased by the Bank and held as treasury shares

	Half year ended	
	30 June 2019 (Unaudited)	30 June 2018 (Unaudited)
	-----Rupees '000-----	
Profit for the year after taxation	1,275,278	1,000,861
Microfinance Social Development Fund	(127,528)	(100,086)
Risk Mitigation Fund	(63,764)	(50,043)
Depositors' Protection Fund	(63,764)	(50,043)
	<u>(255,056)</u>	<u>(200,172)</u>
Profit attributable to equity shareholders	<u>1,020,222</u>	<u>800,689</u>
Weighted average number of ordinary shares (Numbers)	<u>170,500</u>	<u>170,500</u>
Earnings per share - Basic (Rupees)	<u>5.98</u>	<u>4.70</u>

Diluted

There is no dilutive effect on the basic earnings per share of the Bank. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all dilutive potential ordinary shares. The Bank has no dilutive equity instruments.

27 RELATED PARTY TRANACTIONS

The Bank's related parties comprise of President, Directors, Executives, Shareholders, Entities over which the directors are able to exercise significant influence and employee gratuity fund. Detail of transactions during the half year ended 30 June 2019 and balances outstanding at that date are as follows:

	Half year ended	
	30 June 2019 (Unaudited)	30 June 2018 (Unaudited)
	-----Rupees '000-----	
Transactions during the year		
-with shareholders		
Lending to financial institutions	1,163,157	5,435,000
Repayment of lending to financial institutions	(1,163,157)	(5,435,000)
Investments made during the year	-	4,500,000
Branchless banking services of loan portfolio	189,955	1,700,929
ATM services payments	-	12,016
Interest income on deposit account bank balances	3,295	1,850
Interest income lending to financial institutions	920	1,559
Interest income on investments (TFC)	3,059	1,595
Fee, commission and bank charges	23	17
Branchless banking services commission/ ATM charges	-	22,112
-with defined benefit plan		
Contribution paid to KB employees gratuity fund	-	50,000
-with others		
Cost reimbursement received from MSDF	173,344	219,640
Cost reimbursement claim from MSDF	54,148	58,790
Remuneration of Key Management Personnel	88,612	85,374
Balances outstanding at the period end		
-with shareholders		
Balances with banks	248,372	194,924
Subordinated Debt	250,000	250,000

28 GENERAL

28.1 Figures have been rounded to the nearest thousand Rupee, unless otherwise restated.

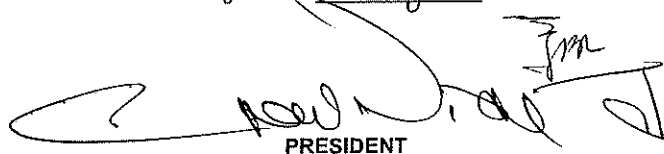
28.2 Corresponding figures have been re-arranged and reclassified, wherever necessary, for the purpose of comparison.

		31 December 2018 (Audited) Rupees in 000
From	To	
Other assets	Advances-net of provisions	126,229

28.3 Where there are no amounts to be disclosed in the account captions as prescribed by BSD Circular No.11 dated December 30, 2003 issued by SBP in respect of forms of financial statements for Microfinance banks, these captions have not been reproduced in these financial statements.

29 DATE OF APPROVAL

These condensed interim financial statements were approved by the Board of Directors of the Bank in their meeting held on 23 August 2019.


PRESIDENT


CHAIRMAN