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**KHUSHHALI MICROFINANCE BANK LIMITED
CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2020**

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INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE MEMBERS OF KHUSHHALI MICROFINANCE BANK LIMITED REPORT ON REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

Introduction

We have reviewed the accompanying condensed interim statement of financial position of Khushhali Microfinance Bank Limited ("the Bank") as at 30 June 2020, and the related condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim statement of changes in equity, and condensed interim cash flow statement, and notes to the condensed interim financial statements for the six-month period then ended (here-in-after referred to as the "condensed interim financial statements"). Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with accounting and reporting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on these financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements is not prepared, in all material respects, in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting.

The engagement partner on the audit resulting in this independent auditor's report is Muhammad Ahsan Shahzad.

Chartered Accountants
Place: Islamabad
Date: 26 August 2020

KHUSHALI MICROFINANCE BANK LIMITED
CONDENSED INTERIM BALANCE SHEET
AS AT 30 JUNE 2020

	Note	30 June 2020 (Un-Audited)	31 December 2019 (Audited)
-----Rupees '000-----			
ASSETS			
Cash and balances with SBP and NBP	7	1,982,343	2,926,228
Balances with other banks/NBFIs/MFBs	8	7,141,473	4,181,130
Lending to financial institutions	9	2,200,000	450,000
Investments	10	10,572,341	10,111,744
Advances - net of provisions	11	55,734,300	53,541,152
Operating fixed assets	12	3,715,424	3,612,304
Other assets	13	9,099,726	6,275,454
Deferred tax asset	14	520,404	395,116
Total assets		90,966,011	81,493,128
LIABILITIES			
Deposits	15	73,243,789	63,882,349
Borrowings	16	833,115	1,326,021
Subordinated debt	17	2,400,000	2,400,000
Other liabilities	18	4,971,290	4,486,108
Total liabilities		81,448,194	72,094,478
NET ASSETS		9,517,817	9,398,650
REPRESENTED BY:			
Share capital	19	1,705,000	1,705,000
Statutory reserve		1,791,583	1,784,843
Capital reserve		24,255	24,255
Unappropriated profit		5,986,223	5,885,119
		9,507,061	9,399,217
Surplus/(deficit) on revaluation of assets		10,756	(567)
Total Capital		9,517,817	9,398,650
MEMORANDUM / OFF-BALANCE SHEET ITEMS	20	-	-

The annexed notes from, 1 to 28, form an integral part of these condensed interim financial statements.

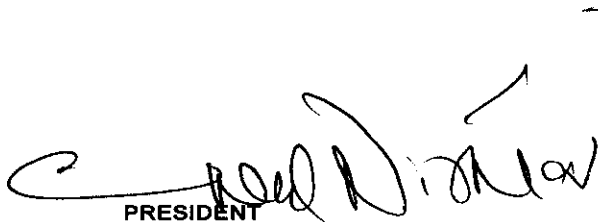

PRESIDENT


CHAIRMAN

KHUSHALI MICROFINANCE BANK LIMITED
CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED)
FOR THE HALF YEAR ENDED 30 JUNE 2020

	Note	Half year ended	
		30 June 2020	30 June 2019
		-----Rupees '000-----	
Mark-up/ return/ interest earned	21	8,897,363	7,234,269
Mark-up/ return/ interest expensed	22	<u>4,138,955</u>	<u>3,112,720</u>
Net mark-up/ interest income		4,758,408	4,121,549
Provision against non-performing loans and advances		<u>2,168,975</u>	604,108
Bad debts written-off directly		1,573	3,970
Net mark-up/ interest income after provisions		<u>2,587,860</u>	<u>3,513,471</u>
NON MARK-UP / NON INTEREST INCOME			
Fee, commission and brokerage income	23	<u>618,456</u>	754,630
Other income	24	<u>26,031</u>	55,533
Total non-markup / non interest income		<u>644,487</u>	810,163
		<u>3,232,347</u>	4,323,634
NON MARK-UP / NON INTEREST EXPENSE			
Administrative expenses		<u>2,959,120</u>	2,710,871
Other provisions		30,449	1,096
Other charges		<u>4,359</u>	11,759
Total non-markup / interest expenses		<u>2,993,928</u>	2,723,726
PROFIT BEFORE TAXATION		238,419	1,599,908
TAXATION			
Current		<u>233,529</u>	429,946
Prior year		-	-
Deferred		<u>(129,914)</u>	(105,316)
		<u>103,615</u>	324,630
PROFIT AFTER TAXATION		134,804	1,275,278
Unappropriated profit brought forward		<u>5,885,119</u>	4,776,212
Profit available for appropriations		<u>6,019,923</u>	<u>6,051,490</u>
APPROPRIATIONS - TRANSFERS TO			
Statutory reserve		<u>6,740</u>	63,764
Microfinance social development fund		13,480	127,528
Depositors' protection fund		6,740	63,764
Risk mitigation fund		6,740	63,764
Final/ Interim dividend		-	255,750
		<u>33,700</u>	574,570
UNAPPROPRIATED PROFIT CARRIED FORWARD		<u>5,986,223</u>	<u>5,476,920</u>
EARNINGS PER SHARE - BASIC AND DILUTED	25	<u>0.63</u>	<u>5.98</u>

The annexed notes from, 1 to 28, form an integral part of these condensed interim financial statements.

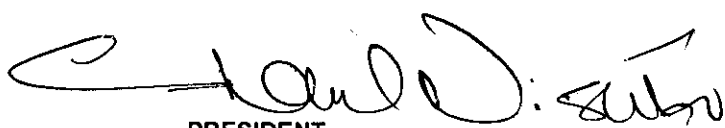

 PRESIDENT


 CHAIRMAN

KHUSHHALI MICROFINANCE BANK LIMITED
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE HALF YEAR ENDED 30 JUNE 2020

	Half year ended	
	30 June 2020	30 June 2019
	----Rupees '000----	
Profit after taxation	134,804	1,275,278
Other comprehensive income that can not be reclassified into profit and loss in subsequent periods		
Remeasurement loss on post employment benefit obligation	-	-
Deferred tax relating to remeasurement loss on post employment benefit obligation	-	-
	-	-
Other comprehensive income/ (loss) that can be reclassified into profit and loss in subsequent periods		
Surplus/(deficit) on revaluation of investments	15,150	(7,361)
Deferred tax (liability)/asset on surplus/(deficit) on revaluation of investments - AFS	(4,394)	2,040
Transfer to profit and loss on disposal of available for sale investments:		
Revaluation deficit	798	-
Deferred tax asset on revaluation deficit	(231)	-
	11,323	(5,321)
Other comprehensive income/ (loss) transferred to equity	11,323	(5,321)
Total comprehensive income	146,127	1,269,957

The annexed notes from, 1 to 28, form an integral part of these condensed interim financial statements.

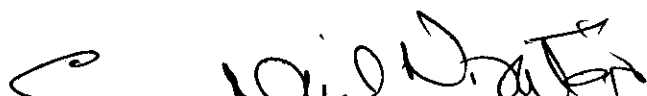

PRESIDENT


CHAIRMAN

KHUSHHALI MICROFINANCE BANK LIMITED
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE HALF YEAR ENDED 30 JUNE 2020

	Share Capital	Statutory Reserve	Capital Reserve	Unappropriated Profit	Total
	Rupees '000				
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
Total comprehensive income for the six months ended 31 December 2019					
Net profit for the six months ended 31 December 2019	-	-	-	560,891	560,891
Other comprehensive income	-	-	-	(12,471)	(12,471)
				548,420	548,420
Transfers to					
Statutory reserve	-	28,044	-	(28,044)	-
Microfinance Social Development Fund	-	-	-	(56,089)	(56,089)
Risk Mitigation Fund	-	-	-	(28,044)	(28,044)
Depositors' Protection Fund	-	-	-	(28,044)	(28,044)
		28,044		(140,221)	(112,177)
Balance as at 31 December 2019	1,705,000	1,784,843	24,255	5,885,119	9,399,217
Total comprehensive income for the half year ended 30 June 2020					
Net profit for the half year ended 30 June 2020	-	-	-	134,804	134,804
Other comprehensive income	-	-	-	-	-
				134,804	134,804
Transfers to					
Statutory reserve	-	6,740	-	(6,740)	-
Microfinance Social Development Fund	-	-	-	(13,480)	(13,480)
Risk Mitigation Fund	-	-	-	(6,740)	(6,740)
Depositors' Protection Fund	-	-	-	(6,740)	(6,740)
		6,740		(33,700)	(26,960)
Balance as at 30 June 2020	1,705,000	1,791,583	24,255	5,986,223	9,507,061

The annexed notes from, 1 to 28, form an integral part of these condensed interim financial statements.


 PRESIDENT


 CHAIRMAN

KHUSHALI MICROFINANCE BANK LIMITED
CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)
FOR THE HALF YEAR ENDED 30 JUNE 2020

	Half year ended	
	30 June 2020	30 June 2019
	----Rupees '000----	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	238,419	1,599,908
Adjustment for non cash items:		
Depreciation of property and equipment	189,148	149,249
Depreciation of right of use asset	178,348	162,721
Amortization of intangible assets	49,846	26,458
Amortization of deferred grant	-	(1,183)
Provision against non performing advances	1,653,127	604,108
Loss / (gain) on disposal of operating fixed assets	269	(14,682)
Mark-up / return / interest earned	(8,009,676)	(6,411,579)
Interest income on investments and deposits	(887,687)	(822,690)
Interest expense on borrowings and deposits	3,829,965	2,919,329
Interest expense on subordinated debt	179,548	58,859
Interest expense on lease liability	129,442	134,532
Provision against other assets	30,449	1,096
Charge for defined benefit plan	76,620	60,548
	(2,580,601)	(3,133,234)
Loss before changes in operating assets and liabilities	(2,342,182)	(1,533,326)
(Increase) / decrease in operating assets:		
Lending to financial institutions	(1,750,000)	-
Advances	(3,846,275)	(4,911,478)
Other assets	(81,744)	128,220
	(5,678,019)	(4,783,258)
Increase in operating liabilities:		
Deposits	9,361,440	695,902
Other liabilities	250,929	858,242
	9,612,369	1,554,144
Net cash generated / (used in) from operating activities	1,592,168	(4,762,440)
Markup received on advances	5,220,086	5,531,499
Interest received on investment and deposit accounts	904,300	840,247
Interest paid on deposits, borrowings and subordinated debt	(3,896,431)	(2,840,822)
Interest paid on leases	(129,442)	(134,532)
Contribution to defined benefit plan	(20,559)	(19,783)
Income tax paid	(235,330)	(731,620)
Net cash generated / (used in) from operating activities	3,434,792	(2,117,451)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in held to maturity securities - net	(444,649)	2,116,577
Purchase of operating fixed assets	(454,059)	(657,985)
Sale proceeds of operating fixed assets	177	15,538
Net cash (used in) / inflow from investing activities	(898,531)	1,474,130
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	-	(80,443)
Principal paid against leases	(26,897)	(32,793)
Borrowings paid	(492,906)	(802,758)
Net cash used in financing activities	(519,803)	(915,994)
Net decrease in cash and cash equivalents	2,016,458	(1,559,315)
Cash and cash equivalents at beginning of the period	7,107,358	11,128,844
Cash and cash equivalents at the end of the period	9,123,816	9,569,529
Cash and cash equivalents comprise of the following:		
Cash and balances with State Bank of Pakistan and National Bank of Pakistan	1,982,343	2,701,119
Balances with other banks / NBFIs / MFBs	7,141,473	6,868,410
	9,123,816	9,569,529

The annexed notes from, 1 to 28, form an integral part of these condensed interim financial statements.


PRESIDENT


CHAIRMAN

KHUSHHALI MICROFINANCE BANK LIMITED
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE HALF YEAR ENDED 30 JUNE 2020

1 STATUS AND NATURE OF BUSINESS

Khushhali Microfinance Bank Limited (KMBL/the Bank) came into existence with the promulgation of the Khushhali 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 Mikrokredietfonds (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 187 branches, 5 service centers and 33 permanent booths in operation as at 30 June 2020 (31 December 2019: 186 branches, 13 service centers and 27 permanent booths) and is licensed to operate nationwide.

2 BASIS OF PREPARATION & STATEMENT OF COMPLIANCE

2.1 These condensed interim financial statements 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 the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;
- Provisions of and directives issued under the Microfinance Institutions Ordinance, 2001 and the Companies Act, 2017; and
- Directives issued by the State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP).

Wherever the requirements of the Microfinance Institution Ordinance, 2001, the Companies Act, 2017 or the directives issued by the SBP and SECP differ with the requirements of IFRS, the requirements of the Microfinance Ordinance, 2001, the Companies Act, 2017 and the said directives shall prevail.

IFRS 9 "Financial Instrument" has been applicable in several overseas jurisdictions from 01 January 2018 and is progressively being adopted in others. The requirements of this standard are incorporated in the Bank's financial statements for the jurisdictions where IFRS 9 has been adopted. As per the SBP's BPRD Circular Letter no. 4 dated 23 October 2019, the applicability of IFRS 9 to banks in Pakistan has been deferred to accounting periods beginning on or after 01 January 2021. The impact of the application of IFRS 9 in Pakistan on the Bank's financial statements is being assessed.

Previously, the Bank recognized revenue from loan procession fee, under IAS 18 "Revenue", upon approval of loan application. Upon adoption of IFRS 15 "Revenue from Contracts with Customers", in the previous year, 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.



- 2.2 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 2019, 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.

3 BASIS OF MEASUREMENT

- 3.1 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, available for sale and held for trading investments which are measured at fair value.
- 3.2 These condensed interim financial statements have been presented in Pakistan Rupees to the nearest thousand, which is the functional and presentation currency of KMBL.

4 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 2019.

5 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 2019.

6 FINANCIAL RISK MANAGEMENT AND CORNAVIRUS (COVID-19) IMPLICATIONS

The financial risk management policies adopted by KMBL are consistent with those disclosed in the financial statements of KMBL for the year ended 31 December 2019 except for the following additional consideration due to the COVID-19. The coronavirus pandemic and the measures to reduce its spread have significantly impacted Pakistan's economy. Accordingly, SBP responded to the crises by taking various measures on both the fiscal and economic fronts. Regulatory measures impetus to economic activity include the following:

- Policy rate reduced by 625 basis points over the 04 months period from 13.25% to 7.00% by June 2020.
- Allowing banks to defer/reschedule/restructure the loans of impacted borrowers through a COVID-19 relief package.
- Introduction of refinancing schemes for payment of wages and salaries.

COVID-19 will impact financial sector in Pakistan on a number of fronts including increase in overall credit risk pertaining to the assets portfolio, reduced fee income due to overall slowdown in economic activity, slowdown of disbursements due to substantial decrease in demand for credit, continuity of business operations and managing cyber security threat as a significant number of the Bank's staff is working from home and an ever increasing number of customers are being encouraged to use digital channels.

6.1 Asset Quality & Credit Risk Management

The Risk Management function of the Bank is regularly conducting assessments of the credit portfolio in order to analyze the impacts of the COVID19 on bank's portfolio. Reports in this regard are shared with management and board on a regular basis. In addition, bank has further strengthened its credit procedures in the light of COVID-19. The Bank is continuously reviewing the portfolio, to identify accounts susceptible to higher risk, resulting from the COVID-19 outbreak.

The Bank expects that several borrowers will be severely impacted by this pandemic. Since many of such borrowers have availed the SBP enabled deferment / restructuring & rescheduling relief package, the full potential effect of the economic stress is difficult to predict given the uncertain economic environment. Accordingly, management is of view that it is appropriate to provide for an additional general provision of Rs. 220 million, as of 30 June 2020 based on management's assessment of asset quality and credit risk.

6.2 Liquidity Risk Management

In view of the relaxation granted by SBP for deferral of principal and markup and rescheduling of loans there will be an impact on the maturity profile of the Bank. The Asset and Liability Committee (ALCO) of the Bank is continuously monitoring the liquidity position and the Bank is confident that the liquidity buffer currently maintained is sufficient to cater to any adverse movement in the cash flow maturity profile.



6.3 Equity Risk Management

The Bank does not have any investment in shares, accordingly, the Bank is not exposed to equity risk.

6.4 Operational Risk Management

The Bank is closely monitoring the situation and has invoked required actions to ensure the safety and security of Bank staff and uninterrupted service to customers. Business Continuity Plans (BCP) for respective areas are in place and tested. The Bank has significantly enhanced monitoring of cyber security risk during these times. Remote work capabilities were enabled for staff, where required, and related risk and control measures were assessed to ensure that the Bank's information assets are protected from emerging cyber threats and comply with the regulatory protocols required under the circumstances. The Bank is communicating with its customers on how they can connect with the Bank through its full suite of channels including digital and online channels as well as enhancing customer awareness pertaining to online fraud risks. The Bank has taken all measures to ensure that service levels are maintained, customer complaints are resolved and turnaround times are monitored and the Bank continues to meet the expectations of its employees and customers.



Khushhali Microfinance Bank Limited

	Note	30 June 2020 (Unaudited)	31 December 2019 (Audited)
		-----Rupees '000-----	
7 CASH AND BALANCES WITH SBP AND NBP			
Cash in hand - Local currency	7.1	591,101	1,104,101
Balance with State Bank of Pakistan in			
Local currency current accounts - SBP	7.2	1,390,784	1,822,011
Balance with National Bank of Pakistan in			
Local currency deposit accounts - NBP	7.3	458	116
		<u>1,982,343</u>	<u>2,926,228</u>

7.1 These cash in hand 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".

7.2 This represents the balance maintained with SBP to meet the requirement of maintaining a minimum balance equivalent to 5.00% (2019: 5.00%) 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.

7.3 This represents balances held in saving accounts carrying interest at the rate of 6.50% (2019:11.25%) per annum.

	Note	30 June 2020 (Unaudited)	31 December 2019 (Audited)
		-----Rupees '000-----	
8 BALANCES WITH OTHER BANKS/NBFIS/MFBS			
In Pakistan:			
Local currency current accounts		708,918	726,330
Local currency deposit accounts	8.1	6,432,555	3,454,800
		<u>7,141,473</u>	<u>4,181,130</u>

8.1 This represents balances held in saving accounts carrying interest at the rate ranging from 4.50% to 13.50% (2019: 4.50% to 14.80%) per annum.

	Note	30 June 2020 (Unaudited)	31 December 2019 (Audited)
		-----Rupees '000-----	
9 LENDING TO FINANCIAL INSTITUTIONS			
Call lending	9.1	1,250,000	450,000
Repurchase agreement lending (reverse repo)	9.2	950,000	-
		<u>2,200,000</u>	<u>450,000</u>

9.1 This represents call lending carrying interest at the rate of 7.10% to 7.50% (2019: 13.00%) per annum maturing on 02 July 2020 (2019: 02 January 2020)

9.2 This represents reverse repo against Pakistan Investment Bond (PIB) carrying interest at the rate of 7.01% (2019: Nil) per annum and maturing on 02 July 2020.

9.2.1 Pakistan Investment Bond held as collateral against lending to financial institutions - reverse repo is as follows:

	30 June 2020 (Unaudited)	31 December 2019 (Audited)	
		-----Rupees '000-----	
Held by bank	950,000	-	
Further given as collateral	-	-	
	<u>950,000</u>	<u>-</u>	

9.2.2 These reverse repo 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".

Khushhali Microfinance Bank Limited

	Note	30 June 2020 (Unaudited)	31 December 2019 (Audited)
-----Rupees '000-----			
10 INVESTMENTS			
Available for sale (AFS)			
Federal Government Securities			
Market Treasury Bills - AFS	10.1	7,407,191	5,412,542
Held to maturity (HTM)			
Term finance certificates (TFCs)	10.2	150,000	150,000
Term deposit receipts (TDRs)	10.3	3,000,000	4,550,000
		3,150,000	4,700,000
Net surplus / (deficit) on revaluation of Federal Securities - (AFS)	10.4	15,150	(798)
		<u>10,572,341</u>	<u>10,111,744</u>

10.1 This represents T-Bills having maturity period ranging from 81 to 186 days (2019: 84 days) carrying interest at rate ranging from 7.85% to 12.20% (2019: 13.40%) per annum.

10.2 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% and 2.00%, respectively, receivable on semi-annual basis from the date of issue.

	Note	30 June 2020 (Unaudited)	31 December 2019 (Audited)
-----Rupees '000-----			
10.3 Term deposit receipts (TDRs)			
Micro finance banks	10.3.1	1,500,000	4,550,000
Other banks / DFIs / NBFIs	10.3.2	1,500,000	-
		<u>3,000,000</u>	<u>4,550,000</u>

10.3.1 This represents investment in short term deposits receipts maturing on 04 October 2020 (2019: 01 January 2020 to 04 October 2020) and carries mark-up at the rate of 16.50% (2019: 14.60% to 16.50%) per annum.

10.3.2 This represented investment in short term deposit receipts maturing on 30 July 2020 (2019: Nil) and carried markup at the rate of 7.75% (2019: Nil) per annum.

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

10.5 The investments in T-Bills (refer to Note 10.1) held by the Bank also includes T-Bills amounting to Rs. 1,094.79 million to comply with the statutory liquidity requirements as set out under the Regulations Risk Management R-3 "Maintenance of cash reserve and liquidity".



		30 June 2020 (Unaudited)		31 December 2019 (Audited)	
		Number of loans outstanding	Amount of loans outstanding Rupees '000	Number of loans outstanding	Amount of loans outstanding Rupees '000
	Note	Number	Rupees '000	Number	Rupees '000
	11.1	119,973	14,450,738	104,890	12,052,545
	11.2	758,090	41,642,679	766,338	41,554,899
		878,063	56,093,417	871,228	53,607,444
	11.3		(928,038)		(760,829)
			(725,089)		(495,841)
			(1,653,127)		(1,256,670)
			54,440,290		52,350,774
		2,089	1,294,010	2,106	1,190,378
		880,152	55,734,300	873,334	53,541,152

11 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

11.1 This includes microcredit loans amounting to Rs. 97.30 million (2019: Rs. 127.60 million) which are partially (50%) secured against lien marked on deposits held with the Bank.

11.2 This includes 77 micro enterprise clients (2019: 435) having aggregate amount of Rs. 6.82 million (2019: Rs. 28.09 million) backed by USAID loan loss guarantee of 50% of outstanding principal for delinquent borrowers.

11.3 General provision, under the current policy, is maintained at the rate of 1.00% (2019: 1.00%) of micro credit advances other than those secured against gold and other cash collaterals, net of specific provision. As discussed in Note 6.1, the Bank has recognized an additional amount of Rs. 220 million, as general provision, to account for its estimates of any incurred risk of default due to economic slowdown resulting from COVID 19 epidemic.

11.4 Particulars of provision against non-performing advances

	30 June 2020 (Unaudited)		31 December 2019 (Audited)	
	General	Total	Specific	General
	Rupees '000			
Opening balance for the period	760,829	1,256,670	214,024	507,275
Provision charge for the period / year - net	1,939,727	2,168,975	2,266,479	(11,434)
Advances written off against provision	(1,772,518)	(1,772,518)	(1,719,674)	-
	167,209	396,457	546,805	(11,434)
Closing balance for the period	928,038	1,653,127	760,829	495,841
				1,256,670

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Khushhali Microfinance Bank Limited

	30 June 2020	31 December 2019
	(Unaudited)	(Audited)
	-----Rupees '000-----	

11.5	Particulars of write offs	11.5.1	1,772,518	1,719,674
	Against provision		1,573	4,338
	Related to other classified advances			
	Bad debts written-off directly		<u>1,774,091</u>	<u>1,724,012</u>

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

11.6 Rescheduled loan due to COVID-19

The SBP has advised vide circular letter No. 1 of 2020 to provide regulatory relief to Dampen the effect of COVID-19 to microfinance borrowers. Accordingly, the following loans were deferred/rescheduled:

	30 June 2020 (Unaudited)		31 December 2019 (Audited)	
	Number	Amount of loans outstanding	Number of loans outstanding	Amount of loans outstanding
		Rupees '000		Rupees '000
Deferment (Rolled Over) Bullet Loans under regulatory relief	78,014	4,462,441	-	-
Rescheduled Bullet Loans under regulatory relief	71,258	4,158,502	-	-
	<u>149,272</u>	<u>8,620,943</u>	-	-
Rescheduled Loans - Relief provided to EMI borrowers	158,835	8,468,784	-	-
	<u>308,107</u>	<u>17,089,727</u>	-	-

11.6.1 In addition to SBP regulatory relief measures, the Bank provided relief to EMI (Equal Monthly Instalment) borrowers by providing grace period up to 30 June 2020, in respect of instalments that have fallen due after 15 February 2020. The value of these instalments amounted to Rs 2.92 billion, whereas, the total value of such outstanding loans amounts to Rs 8.47 billion.

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Khushhali Microfinance Bank Limited

		30 June 2020 (Unaudited)	31 December 2019 (Audited)
		-----Rupees '000-----	
12 OPERATING FIXED ASSETS	Note		
Capital work-in-progress		372,235	48,165
Right of use assets	12.1	1,706,144	1,817,643
Property and equipment		1,122,897	1,246,018
Intangible assets		514,148	500,478
		<u>3,715,424</u>	<u>3,612,304</u>
12.1 Right of use assets			
Cost			
Balance as at January 01, / Initial recognition under IFRS-16		2,158,593	1,908,109
Addition during the period / year		66,849	250,484
Balance at the end		<u>2,225,442</u>	<u>2,158,593</u>
Amortization			
Balance as at January 01,		(340,950)	-
Depreciation charged during the period / year		(178,348)	(340,950)
Balance at the end		<u>(519,298)</u>	<u>(340,950)</u>
Net book value at the end		<u>1,706,144</u>	<u>1,817,643</u>
12.2 Details of additions and deletions during the period / year are as follows:			
Additions			
Capital work-in-progress		391,681	508,174
Right of use assets		66,849	250,484
Property and equipment		66,473	654,808
Intangible assets		63,516	486,585
		<u>588,519</u>	<u>1,900,051</u>
Less: transfers from capital work-in-progress			
Property and equipment		(58,815)	(464,249)
Intangible assets		(8,796)	(346,463)
		<u>(67,611)</u>	<u>(810,712)</u>
		<u>520,908</u>	<u>1,089,339</u>
Deletions (at net book value)			
Property and equipment		(446)	(4,757)
		<u>(446)</u>	<u>(4,757)</u>
13 OTHER ASSETS	Note		
Mark-up accrued	13.1	8,350,720	5,561,130
Suspended markup on non-performing advances		(467,585)	(559,805)
		<u>7,883,135</u>	<u>5,001,325</u>
Interest receivable on investments and deposit accounts		239,996	256,609
Loan and advances - unsecured			
Employees		4,103	8,395
Suppliers		39,961	12,335
		<u>44,064</u>	<u>20,730</u>
Receivable from Microfinance Social Development Fund		135,361	250,358
Insurance premium receivable from SBP		344,667	375,480
Prepayments		108,412	85,030
Insurance claims receivable		7,164	7,150
Security deposits		6,722	6,612
Other receivables	13.2	401,423	312,929
		<u>9,170,944</u>	<u>6,316,223</u>

Khushhali Microfinance Bank Limited

	Note	30 June 2020	31 December 2019
		(Unaudited)	(Audited)
		-----Rupees '000-----	
Less: Provision against doubtful receivables			
Opening balance		40,769	39,219
Provision charge for the period / year - other assets		30,449	1,692
Receivables written off against provision		-	(142)
Closing balance	13.3	71,218	40,769
		9,099,726	6,275,454

13.1 This includes accrued interest amounting to Rs.1,889.76 million (2019: Nil) related to deferred/rescheduled/restructured loans as discussed in Note 6.1.

13.2 This includes an amount of Rs. 71.95 million (2019: Rs. 71.95 million) paid under protest to the taxation authorities. This also includes payment which was paid under six orders from ATIR amounting to Rs. 165 million, however, the amount is now adjustable against corporate tax liability owing to the decision dated 30 January 2020 in favour of the Bank.

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

		30 June 2020	31 December 2019
		(Unaudited)	(Audited)
		-----Rupees '000-----	
14	DEFERRED TAX ASSET		

Deferred tax assets arising on account of temporary differences in:

Provision against advances and other assets	500,060	376,260
Remeasurement of post employment benefit obligation	54,831	54,831
Provisions against workers' welfare fund	15,762	14,587
Deficit on revaluation of assets - AFS	-	231
	570,653	445,909

Deferred tax liability in respect of:

Operating fixed assets	(45,855)	(50,793)
Surplus on revaluation of assets - AFS	(4,394)	-
	(50,249)	(50,793)
	520,404	395,116

14.1 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.

15 DEPOSITS

	Note	30 June 2020		31 December 2019	
		(Unaudited)		(Audited)	
		Number of accounts	Rupees '000	Number of accounts	Rupees '000
Fixed deposits	15.2	67,187	52,631,853	60,976	41,892,758
Saving deposits	15.3	60,234	15,657,101	58,483	14,161,700
Current deposits		2,190,934	4,954,835	2,211,547	7,827,891
		2,318,355	73,243,789	2,331,006	63,882,349

	30 June 2020		31 December 2019	
	(Unaudited)		(Audited)	
15.1 Particulars of deposits by ownership	Number of accounts	Rupees '000	Number of accounts	Rupees '000
Individual depositors	2,314,566	50,388,076	2,327,344	46,669,991
Institutional depositors				
Corporations / firms	3,688	16,884,920	3,590	10,027,594
Banks / financial institutions	101	5,970,793	72	7,184,764
	<u>2,318,355</u>	<u>73,243,789</u>	<u>2,331,006</u>	<u>63,882,349</u>
15.2	This represents term deposits having tenure of 3 to 36 months (2019: 1 to 36 months) carrying interest at the rates ranging from 7.00 % to 15.00 % (2019: 7.00% to 15.00%) per annum. This includes fixed deposits amounting to Rs. 404.23 million (2019: Rs. 498.55 million) on which lien is marked against advances to borrowers.			
15.3	This represents savings accounts carrying interest at the rates ranging from 5.00% to 12.75% (2019: 5.00% to 14.60%) per annum. This includes saving deposits amounting to Rs. 113.66 million (2019: Rs.113.66) on which lien is marked against advances to borrowers.			
			30 June 2020	31 December 2019
			(Unaudited)	(Audited)
			-----Rupees '000-----	
16	BORROWINGS	Note		
	Unsecured			
	Borrowing from financial institutions outside Pakistan	16.1	362,281	634,354
	Secured			
	Borrowings from financial institutions in Pakistan	16.2	470,834	691,667
			<u>833,115</u>	<u>1,326,021</u>
16.1	Borrowing from financial institutions outside Pakistan			
	Asian Development Bank		181,865	363,730
	ECO Trade & Development Bank (TF-III)		180,416	270,624
			<u>362,281</u>	<u>634,354</u>
16.2	Borrowing from financial institutions in Pakistan			
	Pak Oman Investment Company (TF-II)		-	62,500
	Pak Oman Investment Company (TF-III)		187,500	250,000
	Pak Oman Investment Company (TF-IV)		250,000	312,500
	Bank Alfalah Limited (TF-I)		-	25,000
	Allied Bank Limited (TF-I)		33,334	41,667
			<u>470,834</u>	<u>691,667</u>
16.3	Loan repayment schedule:			
	Opening balance		1,326,021	2,964,872
	Repayment during the period / year		(492,906)	(1,638,851)
	Closing balance		<u>833,115</u>	<u>1,326,021</u>
17	SUBORDINATED DEBT			
	Term finance certificate (TFC) - I	17.1	1,000,000	1,000,000
	Term finance certificate (TFC) - II	17.2	1,400,000	1,400,000
			<u>2,400,000</u>	<u>2,400,000</u>

- 17.1 The Bank has 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 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.
- 17.2 This represents rated, unsecured, subordinated and privately placed term finance certificates of with Rs.100,000/- each fully subscribed on 27 December 2019 to improve capital adequacy at the rate of 3 month KIBOR plus 2.70% per annum. The issue is for a period of 8 years from the date of subscription and will mature on 27 December 2027. The issue has assigned preliminary rating of single 'A' (Single A) with stable outlook. The principal amount of issued TFC - II will be redeemed in twelve equal quarterly installments, commencing from the 63rd month from the issue date including lock-in and loss absorbency clause.

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
	-----Rupees '000-----	
18 OTHER LIABILITIES		
Mark-up / return / interest payable on deposits	1,190,903	1,057,857
Interest payable on borrowings/subordinated debt	71,287	91,251
Lease liability	1,910,283	1,870,331
Accrued expenses	523,957	390,259
Payable to defined benefit plan - KMBL employees gratuity fund	148,198	92,137
Corporate taxes payable - net	64,144	65,946
GST/FED payable	17,138	49,063
Payable to suppliers	105,281	98,525
Bills payable	175,966	130,554
Provision for workers' welfare fund	54,350	50,300
Dividend payable	150,244	150,244
Payable to service providers	3,290	44,936
Withholding tax payable	40,954	279
Contribution payable to		
Microfinance Social Development Fund	197,097	183,617
Risk Mitigation Fund	98,548	91,808
Depositors' Protection Fund	98,548	91,808
Other payables	121,102	27,193
	<u>4,971,290</u>	<u>4,486,108</u>
19 SHARE CAPITAL		
19.1 Authorized capital		
	2020	2019
	Number	Number
Ordinary shares of Rs. 10 each		
	<u>600,000,000</u>	<u>600,000,000</u>
	<u>6,000,000</u>	<u>6,000,000</u>
19.2 Issued, subscribed and paid-up capital		
	2020	2019
	Number	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>

Khushhali Microfinance Bank Limited

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
	-----Rupees '000-----	
19.3	The shareholders of the Bank are as follows:	
	506,285	506,285
	417,057	417,057
	243,568	243,568
	168,795	168,795
	339,295	339,295
	30,000	30,000
	1,705,000	1,705,000
20	MEMORANDUM / OFF-BALANCE SHEET ITEMS	
20.1	Contingencies	
	There has been no change in the status of contingencies, for the period, from those disclosed in the financial statements for the year ended 31 December 2019.	
	30 June 2020 (Unaudited)	31 December 2019 (Audited)
	-----Rupees '000-----	
20.2	Commitments	
	121,821	133,011
	30 June 2020 (Unaudited)	30 June 2019 (Unaudited)
	-----Rupees '000-----	
21	MARK-UP / RETURN / INTEREST EARNED	
	Mark-up/interest/gain on:	
	8,009,676	6,411,579
	296,322	214,977
	591,365	607,713
	8,897,363	7,234,269
22	MARK-UP / RETURN / INTEREST EXPENSED	
	Interest on borrowings from:	
	34,480	56,616
	50,805	84,990
	85,285	141,606
	179,548	58,859
	3,744,680	2,777,723
	129,442	134,532
	4,138,955	3,112,720
23	FEE, COMMISSION AND BROKERAGE INCOME	
	519,602	693,980
	98,854	60,650
	618,456	754,630

Khushhali Microfinance Bank Limited

	30 June 2020 (Unaudited)	30 June 2019 (Unaudited)
	-----Rupees '000-----	
24 OTHER INCOME		
Recoveries against advances written off	25,985	39,487
Amortization of deferred grant	-	1,183
Gain on disposal of fixed assets	-	14,682
Others	46	181
	<u>26,031</u>	<u>55,533</u>

25 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.

	30 June 2020 (Unaudited)	30 June 2019 (Unaudited)
	-----Rupees '000-----	
Profit for the period after taxation	134,804	1,275,278
Microfinance Social Development Fund	(13,480)	(127,528)
Risk Mitigation Fund	(6,740)	(63,764)
Depositors' Protection Fund	(6,740)	(63,764)
	<u>(26,960)</u>	<u>(255,056)</u>
Profit attributable to equity shareholders	<u>107,844</u>	<u>1,020,222</u>
Weighted average number of ordinary shares (Numbers in '000)	<u>170,500</u>	<u>170,500</u>
Earnings per share - Basic (Rupees)	<u>0.63</u>	<u>5.98</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.

26 RELATED PARTY TRANSACTIONS

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 2020 and balances outstanding at that date are as follows:

	30 June 2020 (Unaudited)	30 June 2019 (Unaudited)
	-----Rupees '000-----	
Transactions during the period		
-with shareholders		
Lending to financial institutions	8,967,899	1,163,157
Repayment of lending to financial institutions	(9,023,000)	(1,163,157)
Repayment of interest on Investment	3,504	2,860
Borrowings	478,005	-
Repayment of borrowings	(513,887)	(7,654)
Branchless banking services of loan portfolio	1,052	189,955
Income		
Interest income on deposit account bank balances	8,323	3,295
Interest income lending to financial institutions	7,688	920
Interest income on investments (TFC)	3,643	3,059

Khushhali Microfinance Bank Limited

30 June 2020 30 June 2019
(Unaudited) (Unaudited)
-----Rupees '000-----

Transactions during the period**-with shareholders****Expenses**

Interest expense on borrowings	34,469	-
Fee, commission and bank charges	25	23
-with others		
Cost reimbursement received from MSDF	205,315	173,344
Cost reimbursement claim from MSDF	85,756	54,148
Remuneration of Key Management Personnel	84,036	88,612

30 June 2020 31 December 2019
(Unaudited) (Audited)
-----Rupees '000-----

Balances outstanding at the end**-with shareholders**

Balances with banks	530,313	530,606
Investments	50,000	50,000
Interest receivable on lending to financial institutions	-	246
Interest payable on borrowings and subordinated debt	10,557	7,297
Borrowings and subordinated debt	460,000	360,000

-with defined benefit plan

Balance payable to KMBL employees gratuity fund	148,198	92,137
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-with key management personnel including President

Advances - staff loans	116,196	86,371
Other assets - loans and advances to employees	24,152	720
Deposits	117,012	104,109

-with others

Receivable from MSDF	135,361	250,358
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27 GENERAL

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

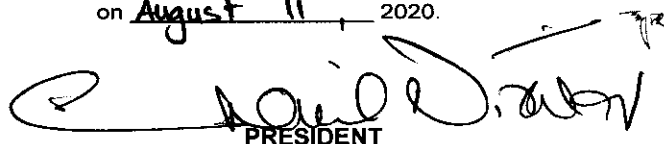
27.2 Corresponding figures have been re-arranged and reclassified, wherever necessary, for the purpose of comparison. The significant reclassification is as follows:

		30 June 2019 (Unaudited) Rupees in '000
From	To	
Administrative expenses / Interest on lease liability	Mark-up/ return/ interest expensed / Interest on lease liability	
		<u>134,532</u>

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

28 DATE OF APPROVAL

These condensed interim financial statements were approved by the Board of Directors of the Bank in their meeting held on August 11, 2020.


PRESIDENT


CHAIRMAN