

2017

Annual Report



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Vision

To be a leading Micro Finance Bank providing financial services to Micro, Small and Medium Enterprises and low income households across Pakistan

Mission

To strive for excellence and to adopt sustainable practices for the best long term interest of all stakeholders

Values

- Empower
- Excel
- Ethical



Corporate Governance



AAMEER KARACHIWALLA
DIRECTOR/CHAIRMAN



GEERT PEETERMANS
DIRECTOR



PIETER KOOI
DIRECTOR



ROBERT BINYON
DIRECTOR



SYED ZIA IJAZ
DIRECTOR



AATIQA LATEEF
INDEPENDENT DIRECTOR



M.GHALIB NISHTAR
CEO & EX OFFICIO DIRECTOR

Aameer Karachiwalla | Director/Chairman

With over 30 years of experience, Mr. Aameer Karachiwalla is a Fellow of the Institute of Chartered Accountants of Pakistan. Mr. Karachiwalla was re-appointed the Chief Financial Officer of UBL in July 2016. He joined UBL in 1998 and has previously held the positions of Chief Operating Officer, Chief of Staff and Group Executive Retail Banking at UBL. During this time, he has been involved in the bank's branchless banking business, implementing the IT vision of the bank and in developing the bank's overall restructuring plan which led to its successful privatization. He is also the Chairman of the Board at UBL Insurers Ltd and TLink. Before joining UBL, Mr. Karachiwalla held senior positions at a number of financial institutions and multinationals including American Express Bank, Citicorp Investment Bank and Artal Group of Companies.

Geert Peetermans | Director

Belgium national, Geert Peetermans is an Economic Sciences Masters, specializing in General Management. His diversified career spans over 20 years and in various continents & cultures, in Market Research & Analysis, Technical Advisor for Ecuador and Microfinance Consultant. Mr. Peetermans is currently working as Chief Investment Officer for Incofin Investment Management since 2001. His strength is in strategy development, industry relations & international investment. He has been chairman of the Board of COAC Accion Rural SARL (Ecuador) and Board member of Financiera Confianza (Peru) and MFI Fie Gran Poder SA (Argentina). Currently, he is Board Member of Kenya Women Microfinance Bank (Kenya), Microfinance Investment Vehicle Rural impulse Fund II SICAV-FIS (Luxembourg), Incoteam (Belgium) and Khushhali Microfinance Bank Limited. He is also a multi-linguist person knowing Dutch, English, Spanish, French & German languages at different levels.

Pieter Kooi | Director

Dutch, born in 1958. Pieter Kooi joined the Board in March 2013. He obtained his Master's degree with distinction in corporate finance and sociology at the Erasmus University in Rotterdam, the Netherlands. From 1993, he advised ACLEDA, in Cambodia, as a microfinance consultant over a period of seven years in its course from a development program into a commercial bank. From 1999, Mr. Kooi worked as a short-term microfinance consultant on projects in fifteen countries located mainly in Africa and Asia. From September 2002 until December 2005, Mr. Kooi was Director of the Microfinance Unit of UNCDF in New York. From March 2006 till May 2011, he supported ACLEDA Bank Plc. as a part-time consultant in the establishment of ACLEDA Bank Lao, ACLEDA Training Center and ACLEDA Securities. At present, Mr. Kooi serves in several Boards and Board committees (Credit, Risk, ALCO, Audit) and provides short-term consultancies in governance and strategic management of retail financial institutions. He is a Graduate of the Australian Institute of Company Directors.

Robert Binyon | Director

UK National, Robert Binyon graduated in Modern History from Christ Church, Oxford and has extensive experience of banking industry around the globe, starting in 1972 with London Merchant Bank Morgan Grenfell where he held a variety of positions in the London Office. Mr. Binyon had two periods based in Geneva to run the Morgan Grenfell Bank in Switzerland. In 1985, he was appointed to the main board and as a member of Group management committee from 1988 when he had responsibility for the Group's operations in the Asia Pacific region, based in Tokyo. He has served as Chief Executive and Managing Director for three years of Tokai Bank Europe in London. From 1994 to 2003, Mr. Binyon was a Managing Director of the Commonwealth Development Corporation (CDC) running the financial markets department. He also held a number of non-executive chairman and directorship roles, mostly in businesses operating or investing in Asia or other emerging markets and mostly focused on the SME sector.

Currently, he is chairman of Lakeshore LLP, a private equity fund and of Khronos Advisory Limited, both based in Thailand, and Chairman of a number of other commercial businesses operating in China and South East Asia.

Syed Zia Ijaz | Director

Syed Zia Ijaz is a Fellow Member of Institute of Chartered Accountants of Pakistan with over 25 years of experience in Pakistan and abroad in organizations such as Askari Bank, Riyadh Bank and Allied Bank. Mr. Ijaz has held diverse roles such as Chief Financial Officer, Group Chief-Commercial & Retail Banking and Group Chief-Operations. Mr. Ijaz has been associated with UBL since November 2014 as SEVP / Group Executive, Branch Banking.

Aatiqa Lateef | Independent Director

Aatiqa Lateef is currently the CEO of TAF Foundation. Prior to her role at TAF, she was the Group Chief of Staff at Byco Industries Incorporated where she was responsible for strategic initiatives to support the group's vertically integrated businesses and objectives. Ms. Lateef also served as the Byco Groups Corporate Spokesperson. Her development work revolves around living-income socio-economic mobility initiatives.

Earlier in her career, Ms. Lateef was a business strategy consultant with the global firm BearingPoint in Chicago and later, an Associate Partner heading the Corporate Practice Group of the Pakistan based multinational law firm of Awan Raza. She has served as General Counsel/EVP Strategy where she was instrumental in transitioning Pakistan's oldest financial institution, HBFCL, from public to private sector. Ms. Lateef is a Doctor of Law (J.D.) from South Texas College of Law Houston and holds an MBA in Strategy from Mays School of Business, Texas A&M University.

M.Ghalib Nishtar | CEO & Ex Officio Director

M.Ghalib Nishtar is the founding President of Khushhali Microfinance Bank, Pakistan's largest microfinance bank. He is regarded as a pioneer microfinance banker of Pakistan's burgeoning microfinance industry.

He was part of the process initiated by the Government of Pakistan to reform the financial sector under the Microfinance Sector Development Program in 2000 and has been a critical force in demonstrating the success of microfinance in Pakistan with Khushhali as a leading benchmark.

More recent accomplishments include successful steering of the divestment process of Khushhali Microfinance Bank as a consequence of which the bank was able to attract investment from leading domestic and global investors. With the new set of investors on board the bank is undergoing an ambitious transformation program to be able to serve the expanded microenterprise segment of the market in the country.

Prior to Khushhali, he commenced his career with the Bank of America in 1982 and concluding with the National Bank of Pakistan, one of the country's largest commercial bank as its Senior Executive Vice President.

He serves on many Boards and Steering Committees; has represented the Bank at Summits, Conferences and meetings at national and International forums and contributes regularly towards print media on issues of financial inclusion for the poor.

He holds a Master's degree in Computer Science and is the recipient Sitara-i-Imtiaz, one of Pakistan's highest Presidential civil awards.

Team & Management



SALEEM AKHTAR BHATTI
CHIEF FINANCIAL OFFICER



AMINA HASSAN
HEAD RETAIL BANKING



F.S. HAMMAD HAIDER
HEAD OPERATIONS



RIZWAN HAFEEZ
HEAD COMPLIANCE & BUSINESS SUPPORT



ATIF AZIZ AHMED
CHIEF INFORMATION OFFICER



SYED ALI IMRAN BOKHARI
HEAD INTERNAL AUDIT



NABEEL SAEED
HEAD MARKETING & COMMUNICATION

Saleem Akhtar Bhatti | Chief Financial Officer

Saleem Akhtar Bhatti is a finance expert with more than 25 years of industry experience. Saleem joined Khushhali Microfinance Bank in 2001. Prior to KMBL, Saleem held various management positions providing leadership and strategic direction in the finance & accounting functions through financial strategy, planning, financial and management accounting, budgeting, tax planning, defining financial policies and controls.

Amina Hassan | Head Retail Banking

Amina Hassan is a well-rounded service-sector professional with profound experience in managing grassroots initiatives for socio-economically vulnerable groups. Amina joined KMBL in 2001 with the first batch of executive trainees, and has progressed with the bank over the past 16 years to become the first woman on the senior management team. She is recognized for her contribution towards establishing effective retail distribution and client service platform across the branch, area, region and national level.

Amina holds MBA in Management and a Masters in Applied Psychology. In addition, she has received specialized training in micro-enterprise management from the Kennedy School at Harvard University, USA, along with other retail related trainings.

F.S.Hammad Haider | Head Operations

F.S.Hammad Haider carries a varied experience of over 20 years in country's leading commercial banks, where he progressed and achieved a learning curve ranging to different areas of banking. He is a professional, having diversified banking experience, with core competencies in the field of Banking Operations, Business Technology Products, Operational Risk, BPR and Systems Migration.

He has proven track record of enabling and enhancing technology driven environment in-line with business needs of the organizations he has worked for; and leveraging on this ability, he has been able to shoulder the responsibilities in KMBL's core banking system change as a Project Director, where he has brought in technology enabled payment solutions to complement with the new Core Banking System in accordance with bank's Digital Financial Strategy (DFS).

F.S.Hammad Haider holds a Masters in Public Administration degree and prior to joining KMBL, he was Head – Alternate Delivery Channels in Allied Bank.

Rizwan Hafeez | Head Compliance & Business Support

Rizwan Hafeez is a diversified professional with core competencies in the field of IT, Compliance, Operational Risk and Audit. Rizwan joined KMBL in 2015, bringing with him over 14 years of work experience in Business Process Re-engineering, Information Systems Strategic Planning, MIS, Financial Control, Compliance and AML. Prior to joining KMBL, he was Head, Compliance – Retail Clients at Standard Chartered Bank (Pakistan) Limited. He has extensive knowledge and expertise in Consumer and SME Banking with a particular focus on regulatory compliance, policy framework and detection and prevention of financial crimes (AML/CDD). He has previously been associated with Union Bank Limited, MCB Bank Limited and Sidat Hyder Morshed Associates (Pvt.) Ltd.

Rizwan holds an MBA (MIS) degree from IBA Karachi. He is also a Certified Information Systems Auditor (CISA) and Certified Internal Auditor (CIA).

Atif Aziz Ahmed | Chief Information Officer

Atif Aziz Ahmed joined Khushhali Microfinance Bank in 2016. He brings 24+ years of diverse, local as well as international technology experience with him.

Prior to Khushhali Microfinance Bank, Atif headed the technology division at Tameer Micro Finance Bank for four and a half years where his areas of influence included technology strategy, operations and project deployments. He has also worked at well-renowned stock brokerage firms in Pakistan including KASB Securities and AKD Securities, where he led the Information Technology teams. He started his career in 1993 from IBM Pakistan, where he worked as a systems engineer for two years before leaving for Canada and then US to work at AT&T Research Labs, New Jersey. He came back to Pakistan in January 2000 and worked as a senior project manager at an off-shore software project development company for four years.

Atif holds Masters and Bachelors in Computer Science degrees from FAST (Foundation for Advancement of Science and Technology), which was, at the time affiliated with University of Karachi.

Syed Ali Imran Bokhari | Head Internal Audit

Syed Ali Imran Bokhari is a management executive with diversified experience, of around 18 years, in development and implementation of Compliance and Risk Management Frameworks, Supervision and Administration of operational, financial, and compliance auditing, development and implementation of Standard Operating Procedures (SOPs), Financial & Management Consulting Services, Institutional Assessments and Appraisals, Financial Reporting, Regulatory Compliance, Corporate Governance, and Restructuring & Business Valuation, including feasibility analysis & share valuation.

Ali Imran is a Certified Financial Consultant from Canada and Chartered Accountancy Finalist from Pakistan. He holds memberships of Institute of Internal Auditors, USA, and Institute of Financial Consultants, USA. He is also an associate member of Association of Certified Fraud Examiners (ACFE) USA.

Nabeel Saeed | Head Marketing & Communication

Nabeel Saeed brings with him more than 17 years of diversified marketing experience working for a variety of prestigious companies in Cambodia, Qatar, Pakistan and USA. Prior to joining Khushhali Microfinance Bank in 2017, he was heading the Marketing function at Cynosure Solutions based in the United States. He has also worked with National Bank of Pakistan as Senior Vice President – Corporate Communications where he developed and executed the brand strategy for the bank and also led their digitization. He has served Dawlance as the Vice President Communications where he created their corporate campaigns and oversaw the branding of over 2200 retail outlets.

Nabeel holds a Master's & Bachelors (Honors) degree in Business Administration from the Hamdard Institute of Management Sciences, Hamdard University, Karachi.

About Khushhalibank

Khushhali Microfinance Bank is a pioneer institution amidst Pakistan's microfinance banking industry, having been created in 2000 to address the challenges of poverty and access to finance. Over the decades, the Bank has created a customer-focused expertise, backed by strong financial, operations and product management to invest in next generation financial and delivery management systems aimed at Pakistan's rural and urban communities.

The Bank has touched more than 6 million lives over the past 17 years. It acts as a catalyst for sustainable growth and economic development while educating the masses about approach to formal banking channels for financing needs instead of informal money lenders hence promoting financial inclusion.

As the industry leader, Khushhali Microfinance Bank features the largest network of outlets comprising of 149 branches and 24 service centers by December 2017, with a deep rooted presence in the rural parts of the country. Khushhali Microfinance Bank has played a revolutionary role in the development and growth of microfinance industry in Pakistan, attracting new players and investors to the domain. Currently, the bank is actively investing in its technological infrastructure and partnering with leading digital solution providers to adopt the digital technology wave that will define the future of financial transactions in the country. Khushhali Microfinance Bank aims to be at the forefront of digital transformation of financial industry of Pakistan in order to continue making a difference in the lives of millions.



Clients

Khushhali Microfinance Bank primarily serves micro-borrowers from various economic segments based in rural, peri-urban and urban localities of Pakistan. The bank has a presence in all provinces of Pakistan and is working to deepen its outreach in remote areas where access to banking services is still limited. Since inception, KMBL has been the bank for the unbanked population segments. It aims to provide financing solutions to capable entrepreneurs, both male and female, in realizing their full potential. During 2017, KMBL disbursed more than 735,000 loans. Out of these, 87% were extended to clients based in rural segments.

Access to finance is one of the major constraints hindering the growth of small businesses, self-employed individuals and start-ups from the low income segments. KMBL loan products are designed to provide a viable solution to an opportunity for a better life.



Products & Services

Our financial solutions are giving an opportunity to every Pakistani to realize their potential for economic independence throughout the country. With more than 6 million relationships, our resolve to create new opportunities is stronger than ever.

The Bank offers loans in three broad categories: Group Loans, Individual Loans and MSME Loans. These loan products include both general as well as purpose specific loans.

- PKR 20,000 to PKR 150,000 - Micro loans
- PKR 500,000. These loans are designed to cater to clients from multiple economic segments including agriculture, livestock, enterprises, and entail varying repayment and collateral options depending on the need and business cash flow of the clients.

In Pakistan, agriculture industry comprises of small farmers who have the potential to increase yield and income with better resources for investment. More than 42% of KMBL's loan portfolio is in the agriculture sector.

Till December 2017, 28% of active borrowers were females who had taken loans to invest in their businesses. The Bank is proud to be a stepping stone for many female entrepreneurs at the grassroots level for improving their businesses including schools, salons, general stores, tailoring shops and clothing businesses, to name only a few.

Deposits:

Khushhali Microfinance Bank has the highest deposit base in the microfinance industry and is effectively utilizing its deposit base to drive portfolio growth. Year 2017 was a particularly successful year in terms of deposit mobilization as the deposit base doubled as compared to FY 2016.

KMBL's deposit menu caters to more diverse customer base and includes current and savings account for individuals from all income segments as well as corporations. Deposit accounts for low income segments include current account that can be opened with a deposit of PKR 5/- only and can be operated without any average balance restriction. The savings account for low income segment can be opened with a deposit of PKR 100 only, offers monthly profits and imposes no average monthly balance restriction. The deposit product menu also envisages encouraging previously unbanked segments to use banking channels for savings and transactions.

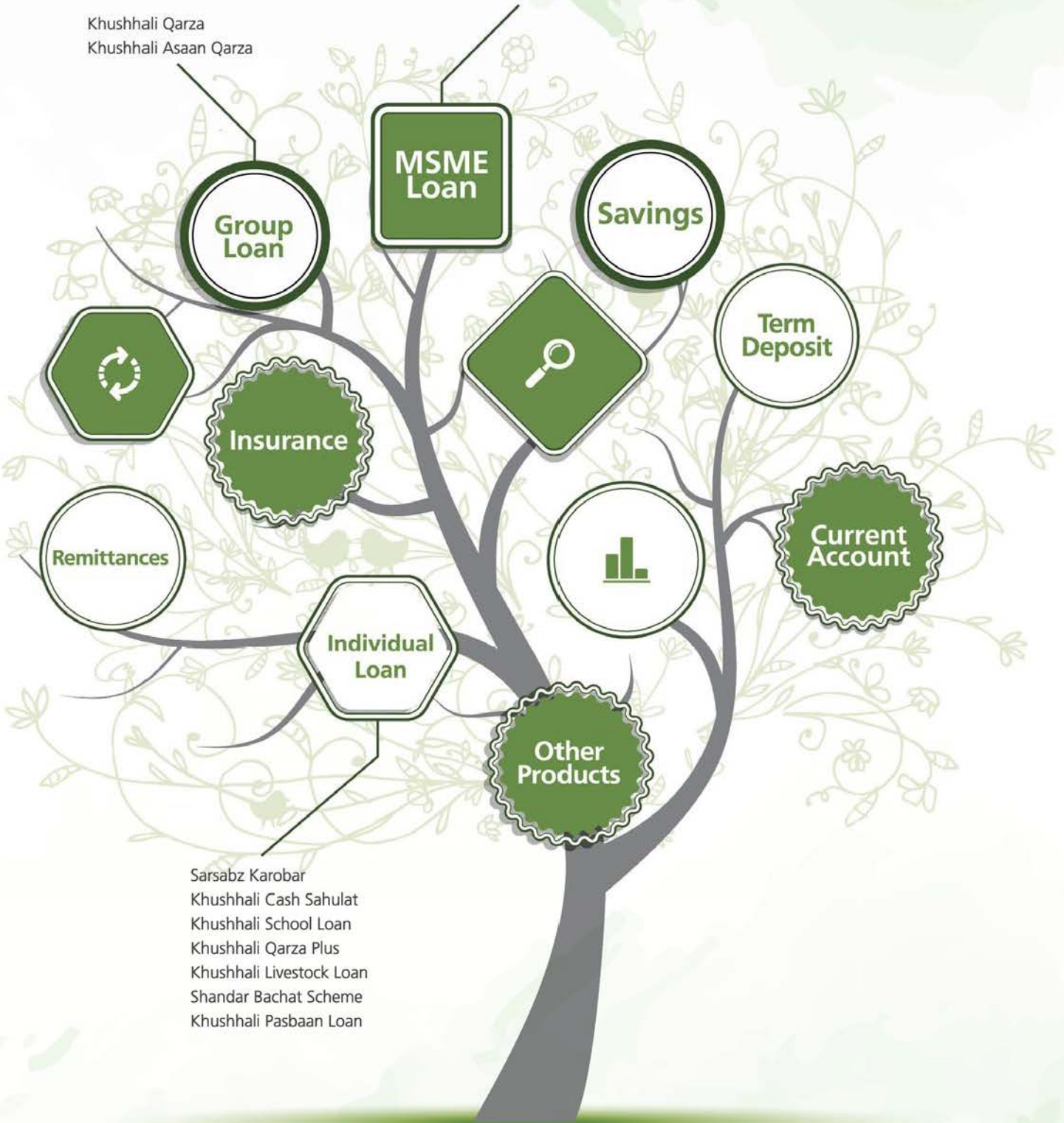
Insurance:

Khushhali Microfinance Bank offers micro health insurance products for individuals and families in partnership with two leading insurance companies of Pakistan. During 2017, over 106,000 insurance policies were sold.

In addition, KMBL also offer credit linked life and disability insurance to all of its borrowers.

Khushhali Sarmaya (Micro Enterprise Lending)

Khushhali Qarza
Khushhali Asaan Qarza



Sarsabz Karobar
Khushhali Cash Sahulat
Khushhali School Loan
Khushhali Qarza Plus
Khushhali Livestock Loan
Shandar Bachat Scheme
Khushhali Pasbaan Loan

Enhancing Outreach to the Unbanked

Over the year 2017, outreach expansion remained a priority for the bank in order to penetrate in remote rural and semi urban markets, including the northern areas of Pakistan. The rural economy has substantial potential to increase livelihood and improve food security of the country, therefore, such areas remained a critical area of focus of the bank's outreach strategy. Through a combination of branch and service center network, KMBL increased the touch points available to its clients, and strengthened group lending particularly to small farmers in remote rural areas.

Apart from rural markets, another area of focus for KMBL is the Gilgit-Baltistan area where the bank opened three new branches. This is driven by the requirements of the China Pakistan Economic Corridor (CPEC). The CPEC is opening new business opportunities for people in northern areas every day, making easy access to banking services a necessity. KMBL opened 10 new branches and 22 service centers this year. Khushhali Microfinance Bank's expansion supports the State Bank of Pakistan's financial inclusion agenda. As the pioneer bank in the microfinance industry of Pakistan, KMBL realizes that the benefits of financial inclusion are not only significant for individuals but also for the national and regional economies.

In November 2017, KMBL launched a new initiative called "Branch on Wheels" featuring a fully equipped vehicle designed to deliver banking services. This initiative has been designed to cater to communities spread over remote areas with no direct access to banks. The pilot phase was run under Value Chain Financing in collaboration with Market Development Facility (MDF) and Shakarganj Food Products Limited. This new service offers exclusive loan products for livestock rearing and agriculture to farmers associated with Shakarganj Food Products Ltd. It is envisaged that such services will enable farmers to improve their income generation capabilities as well as eradicate their reliance on middle men to meet their routine financing needs. KMBL's loan products enable farmers to invest in their business with the freedom to make beneficial business decisions and improve their income and living standard. This is an extension to KMBL's efforts towards increasing financial inclusion of marginalized communities. The pilot venture has been launched in Jhang and the Bank plans to extend the service to other similar areas where KMBL branches do not exist.



Banking on Technology

As a part of its aim to boost business growth and service quality, Khushhali Microfinance Bank embarked upon a technological transformation starting 2017. It was critical to have the right technology solutions in place so that the Bank can compete not only with its current competition but be ready to fulfill all its future business aspirations as well.

As a starting point, the Bank created a technology roadmap containing recommendations of what the Bank needs to do, to technologically equip itself for the future commencing with the acquisition of a modern core banking application. Accordingly, the Bank joined the ranks of global microfinance and commercial banks to deploy Temenos T-24 Core Banking Application on the highly advanced Oracle Exadata and Exalogic, which are ranked as one of the top specialized engineered systems in the world.

Moreover, the Bank realized that to be able to serve our customers with a variety of products and channels in a more agile manner, it would be more beneficial for the Bank to establish its own Alternate Delivery Channel (ADC) function with its ATM Switch and Call Center facilities. For this purpose, the Bank acquired a well-known industry ATM Switch IRIS and Genesys Call Center Solution.

In addition to these, another key technology based initiative included setting up of a new Enterprise GL System (Oracle Financials) and a Human Capital Management System from Oracle as well.

Once completed by the end of the year 2018, these initiatives will provide the Bank with the essential technological foundation on which to build its customer centric digital financial services setup collaborating with best of the breed partners that may include FinTechs, Innovation incubators, Telcos, and even other banks.



Empowered Women

Women empowerment is intrinsic to the development of national economies. For a developing economy like Pakistan, where almost half of the total population is female, it is a paramount need to use its economic potential to the fullest. KMBL has always prioritized policies that support women inclusion in the economy. KMBL's loan products have been designed to facilitate female clients to borrow and invest in agriculture, livestock, home based/commercial enterprises and trade. In addition, the savings products encourage females to move away from informal saving methods and save with the bank for secure savings with returns. Since inception, KMBL has serviced more than 580,000 loans to female borrowers who have invested in enterprises, agricultural industry and livestock and have successfully managed to add to their family's income and in some cases, they supported families entirely on their own. As at December 31, 2017, KMBL had over 190,000 active female borrowers with over 80% of these borrowers based in rural areas of the country. KMBL aims to be instrumental in empowering females at the grass roots level of the economy in order to give a boost to the national economy.



Client Protection

This year, Khushhali Microfinance Bank was conferred SMART Certification by MicroFinanza Rating for successfully demonstrating adherence to the industry's Client Protection Principles. The certification is an independent, third-party evaluation that publicly recognizes financial institutions that take adequate care of their clientele. The certification is another laurel that Khushhali Microfinance Bank has achieved for its exemplary banking practices.

The SMART Campaign is a global initiative made up of microfinance leaders from around the world who believe that protecting clients is not only the right thing to do, but also the smart thing to do. By providing microfinance institutions the tools and resources they need to deliver transparent, respectful and prudent financial services to all its clients, the SMART Campaign is helping the industry in achieving its two goals of helping clients and attaining long term financial success, as well as making microfinance a model of responsible banking around the world.

SMART certification is a major achievement for KMBL as it validates the bank's focus on client service. Going forward, we plan to maintain and even improve the standards set for client service.





Partnership on the Road to Prosperity

Asian Development Bank

Agriculture and small businesses are critical sectors in Pakistan's economy that play a significant role in job creation and poverty reduction.

To enable Khushhali Microfinance Bank to extend access to credit for agriculture-related borrowers and small businesses, the Asian Development Bank (ADB) offered a USD 20 million loan to the Bank.

ADB's assistance will enable KMBL to increase the provision of financial services to micro, small, and medium-sized enterprises (MSMEs) from 5,700 to over 30,000 by 2020. Women are expected to comprise up to 25% of loan recipients. A separate technical assistance program will support the establishment of a MSME training academy as well as investments in KMBL's "technology upgradation" program.

It is expected that ADB's support will deepen the market penetration of KMBL into the rural economy and enhance access to small businesses vital to economic growth and prosperity.



United States Agency for International Development

As a part of the Micro, Small and Medium Enterprise outreach strategy of the bank and its aim to aid farmers in purchasing agricultural machinery, assets and other irrigational tools, Khushhali Microfinance Bank rolled out agriculture loans under the Khushhali Agri Plus scheme. The loan scheme is organized under the Financial Market Development (FMD) project – a five year technical and training collaboration program funded by USAID in which Khushhali Microfinance Bank is one of the partners.

This scheme not only empowers farmers to innovate their farming practices, but also assists them in amplifying their crop yields with the latest machinery. With the help of Khushhali Agri Plus, farmers in rural and semi-urban localities can purchase machinery equipment like tractors, trailers, threshers, rotivators, laser levelers, sprayers, seed drills etc. along with allied irrigational tools such as Peter engine, turbine, transformers, solar tube wells and more.

Development Credit Authority (DCA) Partner

KMBL signed a portfolio guarantee agreement with Development Credit Authority (DCA) USAID for a period of 8 years. The Guarantee Agreement is intended to strengthen KMBL's ability to provide loans to Small and Medium Enterprises (SMEs) in Pakistan, thereby stimulating economic growth. Under this agreement, USAID provides 50% of the net portfolio losses (principal only) of qualifying small and medium enterprise lending. The eligible SME borrowers include non-sovereign Pakistan enterprise, entrepreneurs and NGOs that have up to 250 employees and less than PKR 400 million annual revenue with the maximum loan of PKR 500K for 3 to 24 month.

The guarantee ceiling sub-amount for KMBL under this agreement was initially allocated at USD 1.25m out of the total allocation of USD 60m. This allocation has now increased to USD 26m which is highest among the four partners working with USAID on this program.



Corporate Social Responsibility

KMBL maintains a healthy portfolio of CSR activities supporting multiple causes for the benefit of the society and economy at large. Women empowerment, Promotion of Agriculture, Youth Skill Development and Environment Conservation remain some of the top priorities for the bank. Going forward, KMBL will enter more strategic collaborations that will enable the bank to effectively deliver and carry out its corporate social responsibility.



Farm Extension Services-Promoting Agriculture

Khushhali Microfinance Bank regularly organizes training and education programs for small farmers of remote rural areas. These sessions are free of cost and open to all farmers of the area. The farmers are briefed by an Agricultural expert on a certain crop mainly cultivated in the area selected for the training. The experts advise them how to boost their yield by cultivating high-yielding disease-resistant varieties, efficiently using the fertilizers and pesticides, preparing the land and employing effective post-harvest techniques.

Furthering its pursuit of achieving the goal of promoting sustainable agricultural environment for the farmers in the rural areas of Pakistan, KMBL has signed an agreement with Pakistan Agriculture Research Council (PARC). The alliance aims at facilitating small farmers by regularly providing them expert trainers to guide the farmers to adapt modern cultivation techniques in farming. KMBL's agreement with PARC follows the bank's earnest efforts of providing a flourishing environment to small farmers through a combination of its financial services and its CSR activities entailing regular training programs for the farmers, who lack adequate knowledge of profitable farm business.

Quarterly training programs were conducted on Maize, Rice and Cotton crops in remote areas of Okara, Narowal, Hasilpur and Sargodha districts during the year.



Celebrating The International Women's Day

To mark this year's International Women's Day, Khushhali Microfinance Bank in collaboration with the National Agriculture Research Council (NARC) arranged a three day training based on the vision to empower women by teaching them skills that can become their means of income from a home based business, help them support their male counterparts and boost their confidence.

The three-day training comprised of cooking and preparation of various household items like fruit jam, ketchup, yogurt, cheese and fresh fruit squash. All recipes were based on research done by the scientists at NARC. Women interested in cooking and entrepreneurial activities, registered online for the program and participated enthusiastically in the three day extensive training. The experienced staff of NARC covered both the theoretical and practical aspects of the skill. Laboratory sessions were held during which the trainers informed the participants about the use of specific tools and equipment for making of the marketable items and responded to their queries while advising them about the source of all the raw material and tools available in the market.



Tree Plantation-Caring for the Environment

Khushhali Microfinance Bank continued its collaboration with World Wildlife Federation-Pakistan (WWF-P) to arrange tree plantation drives and eco workshops all around the year to raise awareness regarding environment conservation amongst its employees. Planting trees not only improves water quality but recreates wildlife habitat, migration corridors and helps to mitigate climate change. Over the year, 2500 tree saplings including Amaltas and Kachnar plants were planted by the staff.

During the visit of animal sanctuaries, WWF-P conducted awareness sessions on endangered species like the Vulture, Markhor and Snow Leopard. Eco workshops included team building activities like clean up drives, knots techniques, tent pitching, directions and navigation.

More workshops are planned to be held for staff of other cities in 2018. These hands-on interactive environmental awareness workshops help build capacity of the employees with an opportunity to contribute directly towards nature conservation initiatives.



Skill Enhancement-Investing in the Future Generation

In line with the Bank's objective to provide skill development opportunities to the youth, this year Khushhali Microfinance Bank sponsored the education of some of the students at The Hunar Foundation (THF) as a CSR initiative. These set of vocational skills being imparted at THF includes plumbing, mechanical manufacturing, welding & fabrication, auto/ motorcycle mechanical, refrigeration and air conditioning. The skills enable these young men and women to enter into income generating careers after the completion of their education and contribute towards the improvement of their living standards.

Founded in the Year 2008, The Hunar Foundation's key objective is to provide school graduates and other young adults with international standard vocational training that meets the expectations of the market, leading to employment or small business creation – and eventually economic freedom and empowerment. THF offers this opportunity to the underprivileged and marginalized segments of society where the need is more urgent. THF has a defined and systematic process by which students are inducted, taught employable trades and then assisted with placement in the industry.



Corporate Information

Board of Directors

Mr. Aameer Karachiwalla	Chairman of BOD/Director
Mr. M.Ghalib Nishtar	President & Chief Executive
Mr. Pieter Kooi	Director
Mr. Geert Peetermans	Director
Mr. Robert Binyon	Director
Ms. Aatiqa Lateef	Independent Director
Mr. Syed Zia Ijaz	Director

Audit Committee

Ms. Aatiqa Lateef	Chairman
Mr. Pieter Kooi	Member
Mr. Geert Peetermans	Member
Mr. Syed Zia Ijaz	Member

Human Resource and Compensation Committee

Mr. Robert Binyon	Chairman
Ms. Aatiqa Lateef	Member
Mr. Syed Zia Ijaz	Member

Risk Management Committee

Mr. Syed Zia Ijaz	Chairman
Mr. Pieter Kooi	Member
Mr. Geert Peetermans	Member

Social and Environmental Committee

Mr. Geert Peetermans	Chairman
Mr. Robert Binyon	Member
Mr. M.Ghalib Nishtar	Member
Ms. Aatiqa Lateef	Member

IT Committee

Mr. M.Ghalib Nishtar	Chairman
Mr. Pieter Kooi	Member
Mr. Geert Peetermans	Member

Share Registrar

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President & CEO Review: 2017

Pakistan's GDP growth rate increased by 0.8 percentage points over the previous year to reach 5.3 percent in 2017, major impetus came from improved performance of services and agriculture sector while the Industrial sector witnessed modest recovery. Low interest rate environment contributed to the growth in private sector credit benefitting businesses. Headline inflation for FY17 remained below the target of 6 percent for the year.

The balance of payments situation is under stress due to relatively high current account deficit (CAD) at 4.1 percent of GDP (US\$12.4 billion) in FY17. This trend continued in Jul-Jan FY18, and CAD reached US\$9.2 billion (2.8 percent of GDP). Exports, after contracting for three consecutive fiscal years, have started to recover, but relatively stronger import growth has resulted in a higher trade deficit. Government imposed regulatory duties on some imports to retard the pace of import growth. In addition, the exchange rate depreciated in December 2017 (by 5 percent) and further depreciation outlook of around 4% in Q1-18. The policy interest rate remained under stress to ease demand pressures. Despite this, official international reserves have declined to US\$20 billion by the FY 17, compared to US\$ 23 billion at the end of 2016. To support declining reserves, government issued international bonds of US\$2.5 billion in November 2017.

The microfinance sector in Pakistan continued on a positive trajectory in the year 2017 with gross loan portfolio crossing the PKR 200 billion mark as against PKR 137 billion in the previous year (aggregating 46% growth) and active borrowers reached 5.8 million against 4.6 million of last year (aggregating 26% growth). On the other hand deposits for the sector closed at PKR 186 billion against PKR 121 billion last year (aggregating 35% growth).

Overall, the microfinance industry is an important pillar of the policy agenda for financial inclusion in the country.

Performance Review 2017

The bank has consolidated its market position by outperforming in all the categories during the year and key highlights of the year include;

- A balanced all round business performance with record revenue & profits, nearly doubling the size of the balance sheet and improvement in the overall quality of loan portfolio
- Deepening outreach with 10 new branches and 22 service centers including presence in Gilgit-Baltistan
- Accomplishing SMART certification on compliance of International Client protection Principal standards.
- Acquisition of top of the line core banking system Temenos (T-24) with Oracle engineered systems to support growing business volumes and provide a platform for future digital initiatives for enhanced customer experience. The implementation of core banking system is expected to be completed in Q4-18 and includes establishing our Independent Alternate delivery channel setup.
- First time Dividend payment to the shareholders.

Khushhalibank's core business has performed well during the year with the Bank posting the highest ever pre-tax profit of PKR 2.53 billion against last year's profit of PKR 1.78 billion, registering a growth of 42%. After tax profit stood at PKR 1.83 billion, 44% more than the last year's profit of PKR 1.27 billion.

The balance sheet growth was 75% YOY and closed at PKR 59 billion, making us the largest microfinance bank in the country. The lending book grew over 40% YOY with total net advances rising to over PKR 32 billion, portfolio quality indicators primarily, the ratio of non performing advances improved from 1.5% to 1.0%. On the deposits, PKR 25

billion were added to close at PKR 45.7 billion which is again the highest in the sector. The impressive growth in deposits helped to improve ADR to 70% from 108% of last year and overall improvement in liquidity indicators.

The gross investment portfolio increased from PKR 4.5 billion to PKR 16.8 billion, a growth of 273% YOY. Likewise, the higher profits contributed to an increase in equity by 29% and ROE improved to 28.2% against 23.4% of last year.

Expanding balance sheet led to increase in Bank's net interest income by 39% to PKR 5.7 billion from last year's PKR 4.1 billion. Fee based income reflects an increase of over 31% to PKR 1.2 billion from PKR 0.9 billion.

The net administrative expenses to support ongoing business expansion showed an increasing trend and reached at PKR 3.9 billion against PKR 2.8 billion of last year. In spite of increase in administrative cost, the ratio of admin cost to gross loan portfolio shows stability at 14% and cost to income ratio was maintained at 57% in 2017.

Future Outlook

It is our endeavor to pursue the path of sustainable growth. The efforts of Khushhali team over the past five years have been tremendous in terms of implementing the transformation program and achieving a premier market position.

With the resolve, to deliver on our mission to help customers seize opportunity at every stage of their financial life cycle, It is our ongoing endeavor to understand the unique dynamics of our market segment and the ability to respond positively while exploring new opportunities and turning them into prospects of a better life for our customers.

With a growing balance sheet size, improving capital base our real asset remain our customers who have been loyal and continue to entrust us with their business and confidence at all times, for which we are indebted to them. They are our reason for existence and we assure them of our commitment to serve them better by providing them products and services that best suit their needs.

I would like to place on record our appreciation for the efforts of all our regulators who have supported us in our endeavours and provided valuable guidance. Our shareholders have provided steadfast support and been a source of strength and to them we are deeply grateful.



M. Ghalib Nishtar
President

Financial Highlights: 2017

Financial Position / Performance		2017	2016	Change
Assets				
Cash and balance with SBP/Banks/MFBs	PKR M	4,063	2,688	51%
Lending to financial institutions	PKR M	475	1,544	-69%
Invesments	PKR M	16,298	2,968	449%
Advances - net of provisions	PKR M	32,216	22,940	40%
Operating fixed assets	PKR M	1,142	720	59%
Other assets	PKR M	4,768	2,914	64%
Total Assests	PKR M	58,961	33,773	75%
Liabilities				
Deposits	PKR M	(45,747)	(21,179)	116%
Borrowings	PKR M	(4,783)	(6,200)	-23%
Other liabilities	PKR M	(2,077)	(1,457)	42%
Total Liabilities	PKR M	(52,607)	(28,836)	82%
Net Assets	PKR M	6,354	4,937	29%
Shareholders Funds				
Share capital	PKR M	1,705	1,705	0%
Statutory reserve	PKR M	1,225	865	42%
Unappropriated Profit	PKR M	3,424	2,367	45%
Total Shareholders Funds	PKR M	6,354	4,937	29%

Profit & Loss				
Markup/return/interest earned	PKR M	8,741	5,926	47%
Markup/return/interest expensed	PKR M	(2,996)	(1,807)	66%
Net Mark-up/interest income	PKR M	5,745	4,119	39%
Fee, commission and brokerage income	PKR M	1,226	940	31%
Other income	PKR M	5	87	-95%
Total non mark-up/non interest income	PKR M	1,231	1,027	20%
Operating expenses	PKR M	(3,872)	(2,766)	40%
Net provision against-non performing assets	PKR M	(615)	(601)	2%
Profit before tax	PKR M	2,489	1,779	40%
Taxation	PKR M	(688)	(506)	36%
Profit after tax	PKR M	1,801	1,273	41%

Ratios				
Return on equity	%	28.2%	23.4%	20%
Return on assets	%	3.4%	3.4%	0%

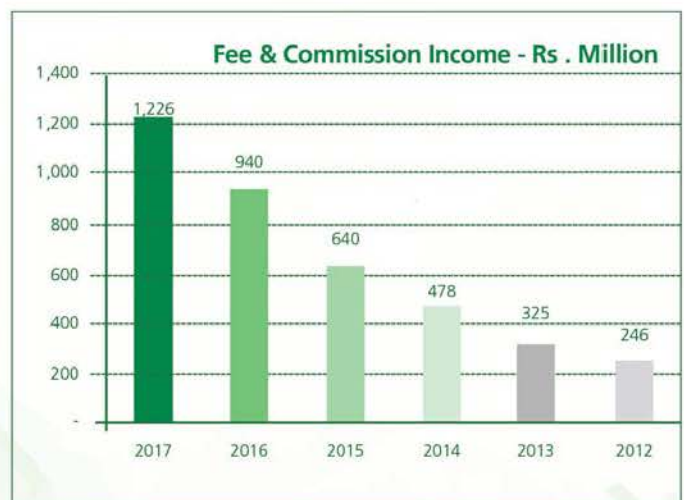
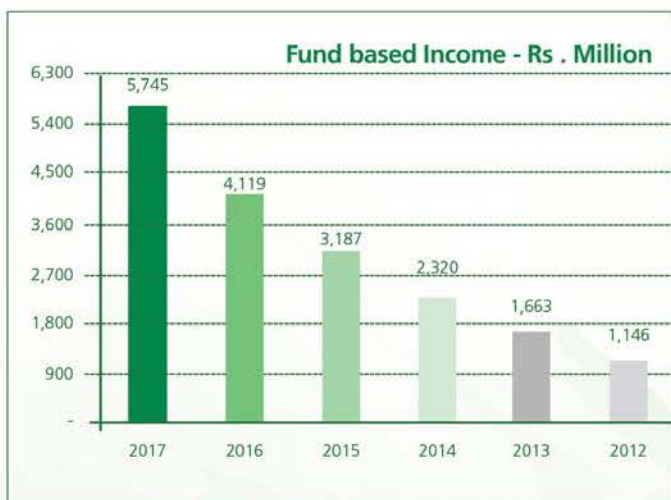
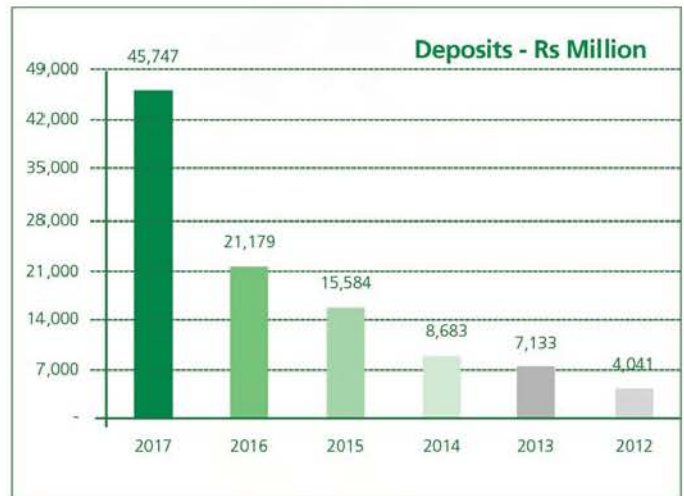
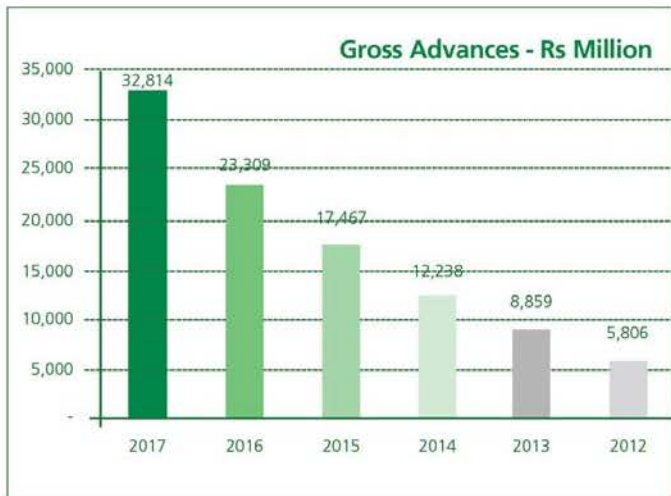
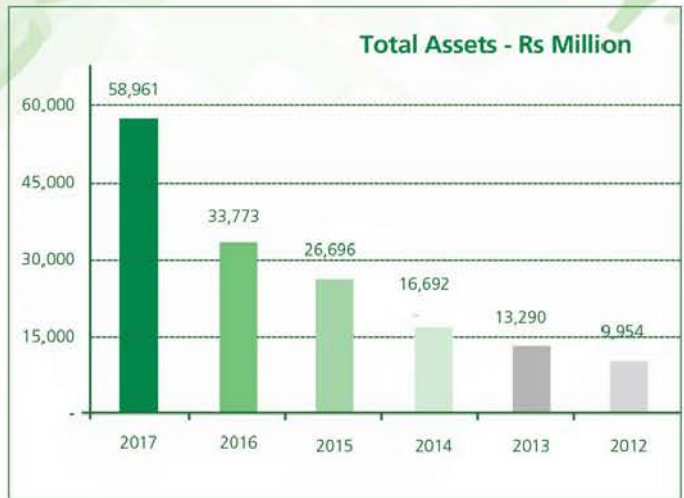
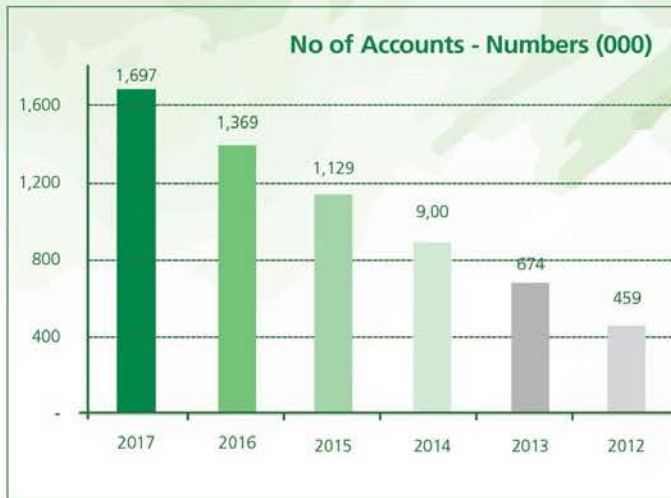
Six Year Statistics

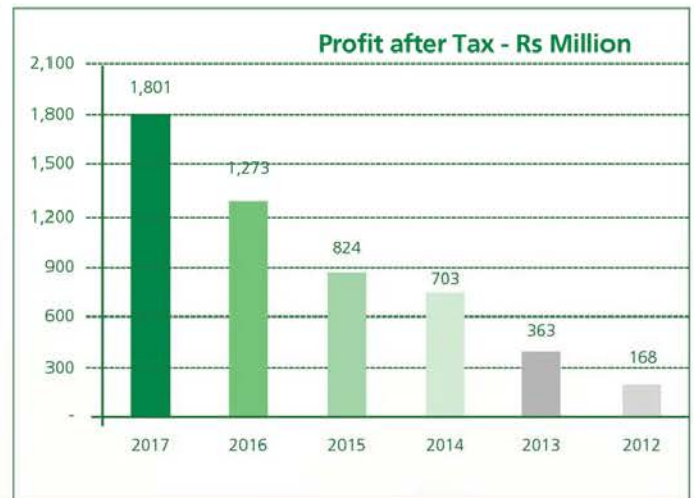
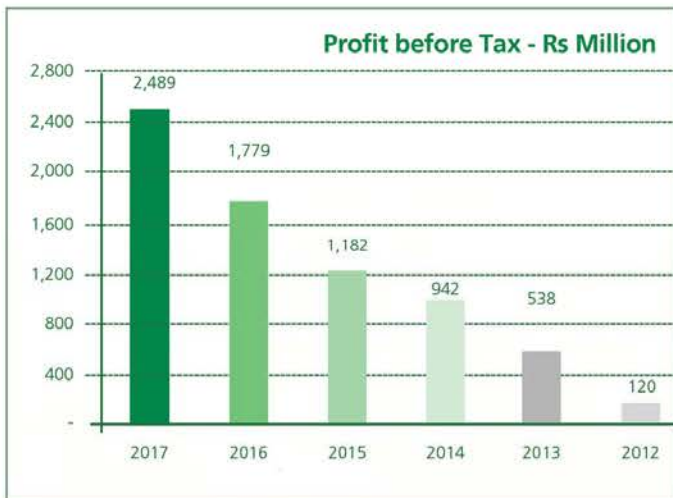
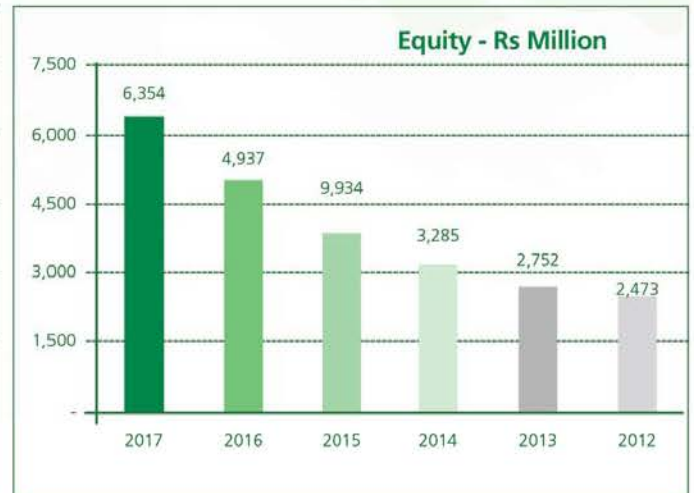
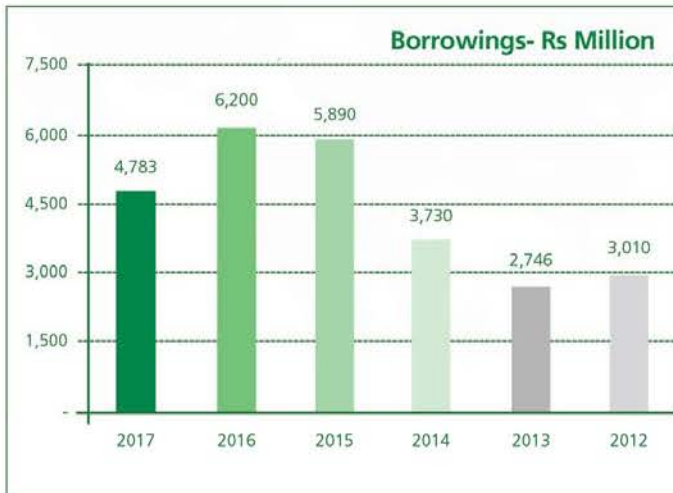
		2017	2016	2015	2014	2013	2012
OUTREACH							
No of accounts	No	1,697,247	1,369,007	1,128,901	900,081	674,061	458,612
Active borrowers	No	671,015	556,787	520,517	468,369	409,010	364,138
No of branches/units	No	173	141	129	118	110	106
ASSETS							
Advances - Net	Rs M	32,216	22,940	17,247	12,106	8,757	5,717
Investments	Rs M	16,298	2,968	1,848	837	1,039	1,044
Cash/bank deposits/bal with SBP	Rs M	4,538	4,232	4,329	1,472	1,872	1,865
Operating fixed assets	Rs M	1,142	720	549	323	275	313
Other assets	Rs M	4,768	2,914	2,724	1,955	1,347	1,015
Total assets	Rs M	58,961	33,774	26,696	16,692	13,290	9,954
Non-performing loans	Rs M	324	347	338	113	70	64
Provision for non-performing loans	Rs M	598	369	220	132	103	89
LIABILITIES							
Deposits	Rs M	45,747	21,179	15,584	8,682	7,133	4,041
Borrowings	Rs M	4,783	6,200	5,890	3,730	2,746	3,010
Other liabilities	Rs M	2,077	1,457	1,288	995	658	430
Total liabilities	Rs M	52,607	28,836	22,762	13,407	10,537	7,481
SHAREHOLDERS FUNDS							
Share capital	Rs M	1,705	1,705	1,705	1,705	1,705	1,705
Reserves	Rs M	1,225	865	611	446	305	241
Unappropriated profit	Rs M	3,424	2,367	1,618	1,134	739	526
Total shareholders funds	Rs M	6,354	4,937	3,934	3,285	2,752	2,473
PROFITABILITY							
Interest income	Rs M	8,741	5,926	4,407	3,129	2,278	1,499
Interest expense	Rs M	2,996	1,807	1,219	810	615	353
Net interest income	Rs M	5,745	4,119	3,187	2,320	1,663	1,146
Provisions/Written offs	Rs M	615	601	341	163	175	287
Fee & commission income	Rs M	1,226	940	640	478	325	246
Other income	Rs M	5	87	35	217	259	340
Operating expenses	Rs M	3,872	2,766	2,340	1,910	1,534	1,324
Profit before tax	Rs M	2,489	1,779	1,182	942	538	102
Taxation	Rs M	688	506	358	239	175	(48)
Profit after tax	Rs M	1,801	1,273	824	703	363	168
PROFITABILITY RATIOS							
Return on Assets (ROA)	%	3.4%	3.4%	3.4%	3.7%	1.8%	-0.5%
Return on Equity (ROE)	%	28.2%	23.4%	20.2%	18.5%	8.0%	-2.0%
Operating Self Sufficiency (OSS)	%	130.6%	129.2%	127.8%	126.7%	114.8%	97.9%
Financial Self Sufficiency (FSS)	%	130.0%	128.0%	126.0%	123.0%	107.8%	79.7%
EFFICIENCY/PRODUCTIVITY RATIOS							
Operating expense ratio	%	14.3%	14.2%	16.6%	18.1%	21.0%	26.3%
Personnel productivity	Rs	171	170	170	179	178	154
Loan officer productivity	Rs	377	399	426	518	578	517
Average outstanding loan size	Rs	48,322	41,548	33,408	26,102	214,617	15,943
PORTFOLIO QUALITY RATIOS							
Portfolio at Risk > 30	%	1.0%	1.5%	1.9%	0.9%	0.8%	1.1%
Portfolio at Risk > 90	%	0.7%	0.8%	0.5%	0.3%	0.3%	0.4%
Write off ratio	%	1.7%	2.6%	1.3%	1.2%	2.1%	6.0%
Risk coverage ratio	%	184.4%	106.4%	65.2%	77.9%	103.5%	84.7%

* ROA calculated as per CGAP Guideline: Net operating income less taxes divided by average assets.

** ROE calculated as per CGAP Guideline: Net operating income less taxes divided by average equity.

Financial Review (2012 – 2017)





Directors' Report to the Shareholders: 2017

I am pleased to present, on behalf of the Board of Directors of Khushhali MF Bank Ltd, financial Statements along with detailed financial results of the Bank for the year ended December 31, 2017.

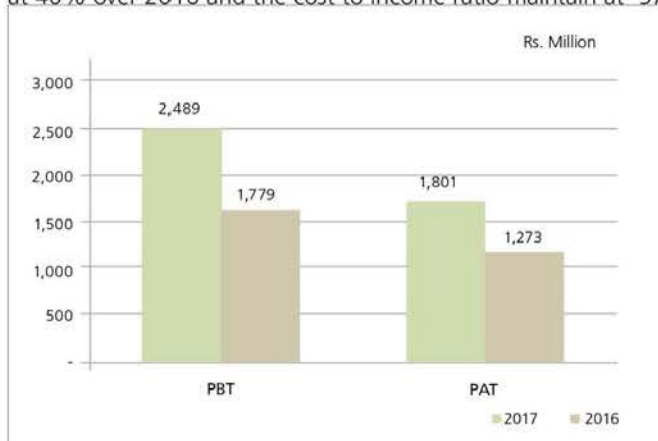
Over the past few years, the bank has substantially expanded its network, calibrated growth and reoriented the strategy in line with its five years Strategic Plan 2016-2020. Continuing the momentum of last year, bank expanded its balance sheet on all accounts and now leads the sector in terms of deposits, loans, total assets and profitability.

Financial Highlights

Total assets maintain at 3.4% in 2017.

The overall revenues increased by 47% over 2016, closing at Rs 8.74 billion. Net Markup Income has increased by 39% and non-markup income by 20% year on year.

The focus on underwriting standards, risk management and persistent recoveries resulted in a net reduction in NPLs as PAR30+ improved from 1.5% in 2016 to 1.0% in 2017. However, the Bank has prudently increased the level of general provision to 1.50% in 2017 (2016: 1.00%) on the outstanding loan portfolio thus provisioning expense for the year closing at Rs 712 million against Rs 685 million last year. The overall expense growth was at 40% over 2016 and the cost to income ratio maintain at 57



%in 2017 despite of expansion and up-gradation of the branch network and technology investment in core banking application. The Board is pleased to recommend a final cash dividend of Rs. 0.53 per share i.e. 5% of PAT for the year ended December 31, 2017 (2016: Nil).

Financial Position

Net Markup Income:

The Bank's Net Markup Income increased by 39%, closing 2017 at Rs 5.7 billion. Interest margin was recorded at 15.0% in 2017 as against 16.8% last year. The Bank's balance sheet growth has resulted from a robust buildup in deposits which increased by 116% year on year in 2017. The Bank's overall cost of deposits

increased by 30 bps to 7.7% in 2017 (2016: 7.4%) as Bank sourced stable long term deposits to fuel loan book growth which helped increase interest earnings.

Non-Mark up Income:

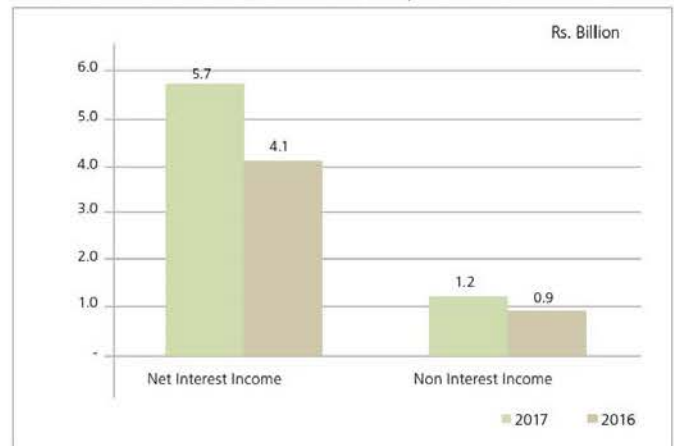
Overall non-mark up income increased by 20% in 2017 on year on year comparison. Non-markup income comprising of Fee and commission income increased from Rs 940 million in 2016 to Rs 1,226 million in 2017, an increase of 31% mainly due to growth in the loan portfolio. Other income decreased to Rs 113 million from Rs 179 million, the decline in other income is caused due to one-time reversal of provision of Worker Welfare Fund of Rs. 52.8 million last year following the judgment of the Supreme Court of Pakistan.

Provision and loan losses:

The assets quality indicators witness improvement as PAR30+ improved to 1.0% at the end of 2017 as against 1.5% of last year. However, the Provision expense and direct write off against advances increased to Rs 713 million in 2017 from Rs 685 million, as the bank prudently increased its general provision reserve from regulatory requirement of 1.0% to 1.5%.

Cost Management:

The Bank is pursuing high growth model requiring upfront investment. The administrative expenses increased from Rs 2.76 billion to Rs 3.86 billion in 2017. In spite of increase in overall



operating expenses to support portfolio growth, the ratio of operating expenses to gross loan portfolio shows stability at 14% and cost to income ratio also maintain at 57% in 2017.

The main contributor to the increase in operating expenses was employee related costs which increased by Rs 566 million due to the net increase in headcount of 658 staff members for new branches and expansion of existing operations for business growth. Other administrative overheads increased by Rs 535 million primarily due to the opening of ten additional branches and twenty two service centers, refurbishment cost of existing branches for MSME operations, marketing campaign for deposit

mobilization, IT infrastructure upgrade and cost of alternative delivery channel.

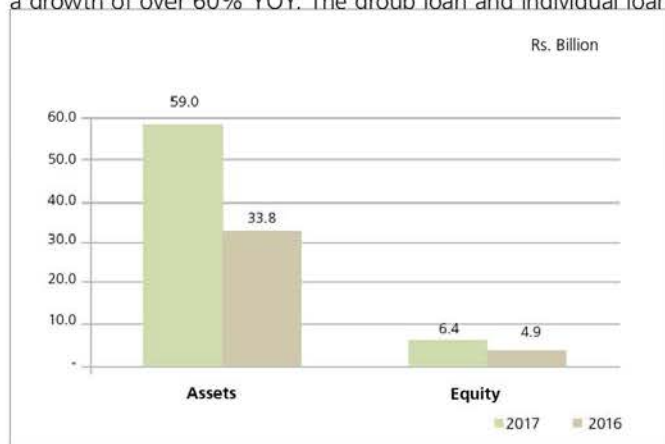
Assets & Equity:

The balance sheet footing increased by Rs 25.2 billion and reached at Rs 59.0 billion from Rs 33.8 billion of last year, reflecting growth of 75% YOY. On the other hand, the equity of the bank increased by Rs 1.4 billion and close at Rs 6.35 billion from Rs 4.94 billion of last year, growth of 29% YOY.

Loan Portfolio:

The growth trend in the loan portfolio continues, during the year gross loan portfolio increased by Rs 9.2 billion and reached at Rs 32.4 billion from Rs 23.1 billion of last year, growth of 40%.

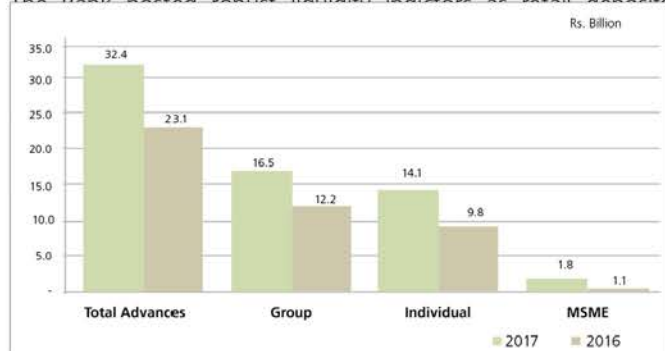
The Micro Enterprise (ME) roll out plan was successfully completed in 19 additional branches during the year thus increasing the number of ME branches to 54 at the end of 2017 (2016: 35). The Bank has serviced over 13,000 ME clients (2016: 6,000 clients) with outstanding loan portfolio of around Rs 1.8 billion, a growth of over 60% YOY. The group loan and individual loan



portfolio increased from Rs 12.2 billion to Rs 16.5 billion, and Rs 9.8 billion to Rs 14.1 billion respectively.

Deposits:

The Bank posted robust liquidity indicators as retail deposits



increased by 116 % from Rs 21.2 billion to Rs 45.7 billion during the year. The key feature of our deposit mobilization strategy focuses around active acquisition of new to bank relationships with aggressive focus on stable and sustainable deposits. The growth of retail deposits helped expand our loan portfolio and strengthened liquidity profile. The Bank's ADR improve from

108% to 70% in 2017.

The results of operations under review are presented below;

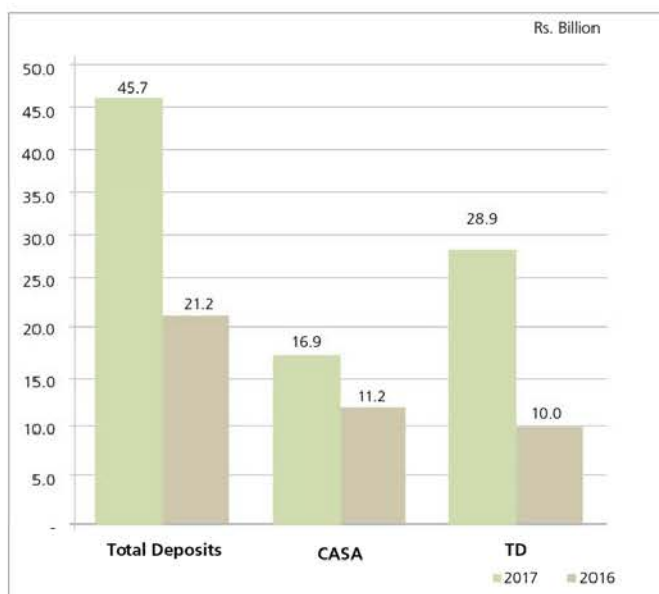
Products	2017		2016	
	Rs Billion	Mix - %	Rs Billion	Mix - %
Group loans	16.5	51%	12.2	53%
Individual loans	14.1	43%	9.8	42%
MSME loans	1.8	6%	1.1	5%
Total	32.4	100%	23.1	100%

Capital Adequacy Ratio

As of December 31, 2017 the Bank's capital adequacy ratio (CAR) is measured at 19% against 20% last year. The Bank's CAR compares well against the mandatory requirement of 15% as per the Prudential Regulations (PR) for Microfinance Banks.

Dividend

The board has recommended a cash dividend of Rs 0.53 per share for the year ended December 31, 2017.



Credit Rating

	2017 Rupees	2016 Rupees
Profit after Tax	1,800,564,665	1,272,734,278
Re-measurement loss employment benefit obligation	(23,422,967)	(15,138,993)
Un-appropriated profit brought forward	2,366,815,511	1,618,313,938
Profit available for appropriation	4,143,957,209	2,875,909,223
APPROPRIATIONS:		
Transfer to:		
Statutory reserve	360,112,933	254,546,856
Microfinance Social Development Fund	180,056,467	127,273,428
Depositors' Protection Fund	90,028,233	63,636,714
Risk Mitigation Fund	90,028,233	63,636,714
	<u>720,225,867</u>	<u>509,093,712</u>
Un-appropriated Profit Carried Forward	3,423,731,343	2,366,815,511

The credit rating company JCR-VIS has maintained banks long term credit rating of "A+" (Single A plus) and short term credit rating at "A-1"(A - One) with "stable" outlook.

Statement of Corporate Governance

The Bank has adopted good corporate governance practices and the Directors are pleased to inform that:

1. The financial statements prepared by the management of the Bank present fairly its state of affairs, the results of its operations, cash flows and changes in equity.
2. Proper books of account of the Bank have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
4. The Bank has followed international accounting standards, as applicable to Banks in Pakistan, in the preparation of the accounts without any departure therefrom.
5. The system of internal control in the Bank is sound in design, and is effectively implemented and monitored.
6. There are no significant doubts about the Bank's ability to continue as a going concern.
7. No directors has acquired any shares in the bank during the year and no trading was carried out in the shares of the bank during the year by the Directors, CEO, CFO, CS, CIA or their spouses and minor children.
8. The Board has constituted the following four committees with defined terms of reference,
 - Board Audit Committee - BAC

- Board Human Resources & Compensation Committee - BHRCC
- Board Risk Management Committee – BRMC
- Social & Environmental Committee – SEC

The number of board committee meetings attended during the year by each director is shown below;

Designation and name of committee		BAC	BHRCC	BRMC	SEC
Meetings Held		4	4	4	4
Meetings Attended					
Syed Javed *	Chair BRMC, Member BHRCC	1	2	2	1
Mr. Robert Binyon	Chair BHRCC, Member SEC	1	4	3	4
Mr. Geert Peetermans	Chair SEC, Member BAC, BRMC	4	3	4	4
Ms. Aatiqa Lateef **	Member BAC, BHRCC, SEC	3	3	2	3
Mr. Peter Kooi ***	Member BRMC, BAC	4	1	4	3
Mr. Teizoon Kisat ****	Chair BAC	1	1	-	-
Mr Syed Zia Ijaz*	Chair BRMC, Member BHRCC and BAC	-	1	1	-
Mr. Aameer Karachiwala		1	1	-	-
Mr. M. Ghalib Nishtar	President & CEO/Member SEC	1	4	4	4

*Syed Javed resigned on 19 August, 2017, after which Mr. Syed Zia Ijaz was appointed as Chair BRMC, member BHRCC and BAC after his appointment on 15 September, 2017

**Leave of absence of Ms. Aatiqa Lateef was approved for the last BAC, SEC and BHRCC meeting of the year 2017.

***Mr. Pieter Kooi acted as Acting Chair during the last BAC meeting of 2017 in absence of Ms. Aatiqa Lateef. Mr. Pieter Kooi acted as Acting Chair during the third BRMC meeting of 2017, since Mr. Zia Ijaz was not allowed to sit on the BOD of KMBL until his FPT clearance from SBP.

****Mr. Teizoon Kisat was Chairman BAC until he resigned 15 February, 2017 thereafter Ms. Aatiqa Lateef was appointed as Chair BAC

Meetings of the Board

During the year under review, the Board of Directors met four times. The number of meetings attended by each director during the year and their eligibility is shown below:

Name of Director	Designation	Meeting Attended	Eligibility
Mr Aameer Karachiwalla *	Chairman	3	4
Syed Javed**	Director	2	2
Mr Geert Peetermans	Director	4	4
Mr Peter Kooi ***	Director	4	4
Mr. Robert Binyon	Director	4	4
Mr Teizoon Kisat	Director	1	1
Ms Aatiqa Lateef****	Director	3	4
Mr Syed Zia Ijaz	Director	1	1
Mr M.Ghalib Nishtar	President and CEO	4	4

* Mr. Aameer Karachiwalla requested a leave of absence for the 56th BOD meeting dated 24 May 2017; thereafter Mr. Syed Javed was elected the Acting Chairman for that meeting.

**The 55th BOD meeting dated 14 & 15 February, 2017 had two sessions, during session I, Mr. Syed Javed requested leave of absence from the BOD which was approved, during session II, Mr. Aameer Karachiwalla requested a leave of absence which was approved and in his absence Mr. Syed Javed was elected the Acting Chairman for that session.

***58th BOD meeting dated 23 & 24 November, 2017 also had two sessions, during session I Mr. Aameer Karachiwalla requested a leave of absence which was approved and in his absence Mr. Pieter Kooi was elected the Acting Chairman for that session, Mr. Aameer Karachiwalla was present for session II of the meeting.

****Ms. Aatiqa Lateef requested a leave of absence for the 58th BOD meeting dated 23 & 24 November, 2017.

Change in Directors

Mr. Teizon Kisat resigned from the board of the Bank on February 15, 2017, whereas Mr. Syed Javed resigned on 19 August, 2017 and was replaced by Mr. Zia Ijaz on 15 September, 2017, following FTP clearance received from SBP.

CGAP Compliant Reporting

The Consultative Group to Assist the Poor (CGAP), a consortium of international public and private development agencies housed at the World Bank, has issued two guidelines to enhance transparent reporting for microfinance institutions i.e. disclosure guidelines for financial reporting and definitions

of selected financial terms, ratios and adjustments.

The Bank in its financial statements as at December 31, 2017, has complied with the above stated guidelines. The CGAP disclosures and ratios are presented in addition to the requirements of SBP BSD circular 11 dated December 30, 2003.

Pattern of Shareholding

The Pattern of shareholding of the Bank as at December 31, 2017 as required under section 236 of the Companies Ordinance 1984 is as follows;

SHAREHOLDING

No of shareholders	From	To	Total shares
1	1	5,000,000	3,000,000
1	5,000,001	20,000,000	16,879,502
2	20,000,001	35,000,000	58,286,307
2	35,000,001	65,000,000	92,334,191
6			170,500,000

CATEGORIES OF SHAREHOLDERS

Particulars	Number	Shares held	%
Individual	-	-	-
Joint Stock Companies	-	-	-
Financial Institutions	2	53,628,528	31.5%
Others	4	119,871,472	68.5%
Total	6	170,500,000	100.0%

SHAREHOLDERS HOLDING ABOVE 10% OF VOTING SHARES ARE

Share holders	Shares
United Bank Limited	50,628,528
Rural Impulse Fund II S.A SICAV-FIS	41,705,663
Credit Suisse Microfinance Fund Management Company	33,929,499
ShoreCap II Limited	24,356,808
Total Shares	150,620,498

AUDITORS

The present auditors of the Bank BDO Ebrahim & Co Chartered Accountants retire and being eligible, offer themselves for re-appointment in the forthcoming Annual General Meeting. The Board of Directors on the recommendations of the Board Audit Committee recommends BDO Ebrahim & Co Chartered Accountants as auditors of the bank for the next year

APPRECIATION AND ACKNOWLEDGEMENT

On behalf of the Board and management, I would like to place on record our appreciation for the efforts of our Regulators and the Government of Pakistan, in particular the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan, banks, financial institutions and other regulatory bodies for developing and strengthening the microfinance banking

and financial industry through continuous improvements in the regulatory and governance framework. I would also like to take this opportunity to thank our customers and shareholders for entrusting us with their confidence. We assure them that we remain committed to maintaining high service standards and a strong culture of good corporate governance and compliance in all our endeavors. I would also like to acknowledge the efforts and dedication demonstrated by the employees towards the growth of KMBL

For and on behalf of the board



Chairman
February 14, 2018



AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Khushhali Microfinance Bank Limited (the Bank) as at December 31, 2017 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Bank's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Microfinance Institutions Ordinance, 2001 and the repealed Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we state that:

- (a) In our opinion, proper books of accounts have been kept by the Bank as required by the repealed Companies Ordinance, 1984 and the Microfinance Institutions Ordinance, 2001;
- (b) In our opinion:-
 - (i) The balance sheet, profit and loss account and statement of comprehensive income together with the notes thereon have been drawn up in conformity with the requirements of the Microfinance Institutions Ordinance, 2001 and the repealed Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - (ii) The expenditure incurred during the year was for the purpose of the Bank's business; and
 - (iii) The business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank.
- (c) In our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Microfinance Institutions Ordinance, 2001 and the repealed Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at December 31, 2017 and of the profit, its comprehensive income, its cash flows and changes in equity for the year then ended; and
- (d) In our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

Islamabad:

DATE: February 14, 2018

Abdul Qadeer
 CHARTERED ACCOUNTANTS

Engagement Partner: Abdul Qadeer

Balance Sheet as at December 31, 2017

ASSETS	Note	2017 Rupees	2016 Rupees
Cash and balances with SBP and NBP	7	1,664,250,667	1,300,649,633
Balances with other Banks/NBFIs/MFBs	8	2,399,132,491	1,387,702,166
Lending to financial institutions	9	474,532,125	1,544,066,350
Investments	10	16,297,589,979	2,967,965,444
Advances - net of provisions	11	32,215,991,964	22,939,531,448
Operating fixed assets	12	1,141,596,047	719,729,802
Other assets	13	4,537,439,345	2,775,892,413
Deferred tax asset	14	230,670,339	137,941,145
Total Assets		58,961,202,957	33,773,478,401
LIABILITIES			
Deposits	15	45,746,860,734	21,179,403,031
Borrowings	16	4,782,681,290	6,199,882,198
Other liabilities	17	2,075,886,201	1,457,096,531
TOTAL LIABILITIES		52,605,428,225	28,836,381,760
NET ASSETS		6,355,774,732	4,937,096,641
REPRESENTED BY:			
Share capital	18	1,705,000,000	1,705,000,000
Statutory reserve	6.11	1,201,279,368	841,166,435
Capital reserve	6.12	24,255,224	24,255,224
Unappropriated profit		3,423,731,343	2,366,815,511
Deficit on revaluation of investments		(105,745)	(140,529)
		6,354,160,190	4,937,096,641
Deferred grants	19	1,614,542	-
TOTAL CAPITAL		6,355,774,732	4,937,096,641
MEMORANDUM/OFF BALANCE SHEET ITEMS	20	-	-

The annexed notes from 1 to 47 form an integral part of these financial statements.



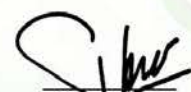
PRESIDENT



CHAIRMAN



DIRECTOR



DIRECTOR

Profit And Loss Account for the year ended December 31, 2017

	Note	2017 Rupees	2016 Rupees
Mark-up/return/interest earned	21	8,740,749,552	5,926,210,005
Mark-up/return/interest expensed	22	2,995,880,748	1,807,109,349
Net mark-up/interest income		5,744,868,804	4,119,100,656
Provision against non-performing loans and advances	11.5	690,079,654	673,517,609
Bad debts written off directly	11.6	22,565,411	11,288,911
Net mark-up/interest income after provisions		5,032,223,739	3,434,294,136
NON MARK-UP/NON INTEREST INCOME			
Fee, commission and brokerage income	23	1,226,404,419	939,507,349
Other income	24	113,493,650	179,151,826
Total non mark-up/non interest income		1,339,898,069	1,118,659,175
		6,372,121,808	4,552,953,311
NON MARK-UP/NON INTEREST EXPENSES			
Administrative expenses	25	3,857,042,543	2,755,914,151
Other provisions	13	11,262,361	8,236,104
Other charges	26	14,835,998	9,720,872
Total non-mark-up/non interest expense		3,883,140,902	2,773,871,127
PROFIT BEFORE TAXATION		2,488,980,906	1,779,082,184
TAXATION			
Current	27	723,552,023	499,455,148
Prior year	27	47,569,905	32,760,476
Deferred	27	(82,705,687)	(25,867,718)
		688,416,241	506,347,906
PROFIT AFTER TAXATION		1,800,564,665	1,272,734,278
Unappropriated profit brought forward		2,366,815,511	1,618,313,938
Profit available for appropriation		4,167,380,176	2,891,048,216
APPROPRIATIONS:			
Transfer to:			
Statutory reserve	6.11	360,112,933	254,546,856
Microfinance Social Development Fund	6.13	180,056,467	127,273,428
Depositors' Protection Fund	6.13	90,028,233	63,636,714
Risk Mitigation Fund	6.13	90,028,233	63,636,714
		720,225,866	509,093,712
UNAPPROPRIATED PROFIT		3,447,154,310	2,381,954,504
EARNINGS PER SHARE - BASIC AND DILUTED	33	8.45	5.97

The annexed notes from 1 to 47 form an integral part of these financial statements.



PRESIDENT



CHAIRMAN



DIRECTOR



DIRECTOR

Statement of Comprehensive Income for the year ended December 31, 2017

	Note	2017 Rupees	2016 Rupees
Profit after taxation		1,800,564,665	1,272,734,278
Other comprehensive income			
Items that will not be reclassified subsequently to profit and loss			
Remeasurement loss on post employment benefit obligation		(33,461,382)	(19,493,576)
Deferred tax relating to remeasurement loss on post employment benefit obligation	14.1	10,038,415	4,354,583
		(23,422,967)	(15,138,993)
Items that may be subsequently reclassified to profit and loss			
Available for sale financial assets			
Deficit on revaluation of investments		(151,064)	(200,756)
Transfer to profit and loss on disposal of available for sale investments		200,756	(314,470)
Deferred tax asset/(liability) on (deficit)/surplus on revaluation of investments - AFS	14.1	(14,908)	160,857
		34,784	(354,369)
Other comprehensive income transferred to equity		(23,388,183)	(15,493,362)
Total comprehensive income		1,777,176,482	1,257,240,916

(Deficit)/surplus on revaluation of available for sale investments is charged through statement of comprehensive income in accordance with the R-11(c) "Treatment of Surplus/(deficit)" of the Prudential Regulations (PR) for Microfinance Banks dated June 10, 2014 issued by the State Bank of Pakistan.

The annexed notes from 1 to 47 form an integral part of these financial statements.


PRESIDENT


CHAIRMAN


DIRECTOR


DIRECTOR

Cash Flow Statement for the year ended December 31, 2017

	Note	2017 Rupees	2016 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before changes in operating assets/liabilities	28	(2,257,509,947)	(1,451,717,290)
(Increase)/decrease in operating assets			
Advances		(9,966,540,170)	(6,366,517,482)
Other assets		(559,813,364)	(131,621,675)
Increase/(decrease) in operating liabilities			
Deposits		24,567,457,703	5,595,675,902
Other liabilities		(8,981,420)	(31,608,538)
		14,032,122,749	(934,071,793)
CASH INFLOW/(OUT FLOW) FROM OPERATIONS		11,774,612,802	(2,385,789,083)
Mark-up received on advances		7,012,392,213	5,563,847,041
Interest received on investments and deposit accounts		515,361,410	326,724,572
Interest paid on borrowings and deposits		(2,747,920,009)	(1,805,789,295)
Contributions to defined benefit plan		(53,723,044)	(145,597,228)
Income taxes paid		(806,444,012)	(505,833,096)
		3,919,666,558	3,433,351,994
Net cash inflow from operating activities		15,694,279,360	1,047,562,911
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments in AFS/HFT/HTM securities - net		(13,329,551,094)	(1,120,655,600)
Purchase of operating fixed assets		(647,960,788)	(350,318,471)
Sale proceeds against disposal of operating fixed assets		4,316,022	10,446,595
Net cash outflow from investing activities		(13,973,195,860)	(1,460,527,476)
CASH FLOWS FROM FINANCING ACTIVITIES			
Grant from Market Development Facility		1,614,542	-
Grant from Enclude micro savings project		-	7,314,144
Borrowings during the year - net		(1,417,200,908)	309,484,806
Net cash (outflow)/inflow from financing activities		(1,415,586,366)	316,798,950
Net increase/(decrease) in cash and cash equivalents		305,497,134	(96,165,615)
Cash and cash equivalents at beginning of the year		4,232,418,149	4,328,583,764
Cash and cash equivalents at end of the year	29	4,537,915,283	4,232,418,149

The annexed notes from 1 to 47 form an integral part of these financial statements.


PRESIDENT


CHAIRMAN


DIRECTOR


DIRECTOR

Statement of Changes In Equity For the year ended December 31, 2017

	Share Capital	Statutory Reserve	Capital Reserve	(Deficit) / Surplus on Revaluation of Investments	Unappropriated Profit	Total
	Rupees					Rupees
Balance as at January 01, 2016	1,705,000,000	586,619,579	24,255,224	213,840	1,618,313,938	3,934,402,581
Total comprehensive income for the year						
Profit for the year	-	-	-	-	1,272,734,278	1,272,734,278
Other comprehensive income	-	-	-	(354,369)	(15,138,993)	(15,493,362)
	-	-	-	(354,369)	1,257,595,285	1,257,240,916
Transfer to:						
Statutory reserve	-	254,546,856	-	-	(254,546,856)	-
Microfinance Social Development Fund	-	-	-	-	(127,273,428)	(127,273,428)
Risk Mitigation Fund	-	-	-	-	(63,636,714)	(63,636,714)
Depositors' Protection Fund	-	-	-	-	(63,636,714)	(63,636,714)
Balance as at December 31, 2016	1,705,000,000	841,166,435	24,255,224	(140,529)	2,366,815,511	4,937,096,641
Total comprehensive income for the year						
Profit for the year	-	-	-	-	1,800,564,665	1,800,564,665
Other comprehensive income	-	-	-	34,784	(23,422,967)	(23,388,183)
	-	-	-	34,784	1,777,141,698	1,777,176,482
Transfer to:						
Statutory reserve	-	360,112,933	-	-	(360,112,933)	-
Microfinance Social Development Fund	-	-	-	-	(180,056,467)	(180,056,467)
Risk Mitigation Fund	-	-	-	-	(90,028,233)	(90,028,233)
Depositors' Protection Fund	-	-	-	-	(90,028,233)	(90,028,233)
Balance as at December 31, 2017	1,705,000,000	1,201,279,368	24,255,224	(105,745)	3,423,731,343	6,354,160,190

The annexed notes from 1 to 47 form an integral part of these financial statements.

Appropriations recommended by the Board of Directors subsequent to the year ended December 31, 2017 are disclosed in note 44 to these financial statements.


PRESIDENT


CHAIRMAN


DIRECTOR


DIRECTOR

Notes to the Financial Statements for the year ended December 31, 2017

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 August 4, 2000. It commenced its business with the issuance of license by the State Bank of Pakistan (SBP) on August 11, 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 of the requirements of Improving Access of Financing Service Program (IAFSP) Agreement signed in 2008 between the 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 on February 28, 2008.

On March 18, 2008, SBP sanctioned a scheme for transfer of assets, liabilities and undertaking of KMBL into the Bank with effect from April 1, 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 March 31, 2008.

On June 4, 2012, a consortium led by United Bank Limited and comprising ASN-NOVIB Mikrokedietfonds (Triple Jump B.V), responsAbility Management Company S.A.(formerly Credit Suisse Microfinance Fund Management Company) (ResponsAbility 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 November 19, 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 149 branches and 24 service centers in operation as at December 31, 2017 (December 31, 2016: 139 branches and 2 service centers) and is licensed to operate nationwide.

2 BASIS OF PRESENTATION

These financial statements have been presented in accordance with the requirements of format prescribed by the SBP Banking Supervision Department (BSD) Circular number 11 dated December 31, 2003. Additional disclosures have been presented in compliance with microfinance Consensus Guidelines issued by Consultative Group to Assist the Poor (CGAP) July, 2003.

3 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan, requirements of the repealed Companies Ordinance, 1984 and Microfinance Institutions Ordinance, 2001. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by International Accounting Standard Board (IASB) as are notified under the repealed Companies Ordinance, 1984, provisions of and directives issued by SECP and the SBP. In case requirements differ, the provisions or the directives of the repealed Companies Ordinance, 1984, Microfinance Institutions Ordinance, 2001 or the requirements of the directives issued by SECP and the SBP shall prevail. During the year, new Companies Act has been promulgated since May 30, 2017, however, the provisions of the Act, have not been considered for the preparation of these financial statements as per the directive of Securities and Exchange Commission of Pakistan issued vide Circular No. 23 dated October 06, 2017.

The SBP, vide BSD Circular letter No. 10, dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement and International Accounting Standard 40, "Investment Property" for banking companies till further instructions. Further, according to the

notification of the SECP issued vide SRO 411(1)/2008 dated April 28, 2008, IFRS 7, Financial Instruments: Disclosures has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements of various circulars issued by the SBP.

4 BASIS OF MEASUREMENT

Accounting convention

These financial statements have been prepared under the historical cost convention as modified for obligations under employee retirement benefits, which are measured at present value and investments available for sale and held for trading, which are measured at mark-to-market basis.

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires the use of certain accounting estimates and judgments in application of accounting policies. The area involving a high degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 6.34.

5 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED APPROVED ACCOUNTING STANDARDS

5.1 Amendments that are effective in current year but not relevant to the Bank

The Bank has adopted the amendments to the following approved accounting standards as applicable in Pakistan which became effective during the year from the dates mentioned below against the respective standards:

	Effective date (annual periods beginning on or after)
IAS 7 Statement of Cash Flows - Amendments resulting from the disclosure initiative	January 01, 2017
IAS 12 Income Taxes - Amendments regarding the recognition of deferred tax assets for unrealized losses	January 01, 2017

Other than the amendments to standards mentioned above, there are certain annual improvements made to IFRS that became effective during the year:
Annual Improvements to IFRSs (2012 – 2014) Cycle:

IFRS 12 Disclosure of Interests in Other Entities	January 01, 2017
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The adoption of the above amendments did not have any effect on the financial statements.

5.2 Amendments not yet effective

The following amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

	Effective date (annual periods beginning on or after)
IFRS2 Share-based Payment - Amendments to clarify the classification and measurement of share-based payment transactions	January 01, 2018
IFRS 4 Insurance Contracts - Amendments regarding the interaction of IFRS 4 and IFRS 9	January 01, 2018
IFRS 7 Financial Instruments : Disclosures - Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9	Applies when IFRS 9 is applied
IFRS 9 Financial Instruments - Reissue to incorporate a hedge accounting chapter and permit the early application of the requirements for	

		Effective date (annual periods beginning on or after)
	presenting in other comprehensive income the 'own credit' gains or losses on financial liabilities designated under the fair value option without early applying the other requirements of IFRS 9	
IFRS 9	Financial Instruments - Finalised version, incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition.	January 01, 2018
IFRS 9	Financial Instruments - Amendments regarding prepayment features with negative compensation and modifications of financial liabilities	January 01, 2019
IFRS 10	Consolidated Financial Statements - Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture	Deferred indefinitely
IAS 28	Investments in Associates and Joint Ventures - Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture	Deferred indefinitely
IAS 28	Investments in Associates and Joint Ventures - Amendments regarding long-term interests in associates and joint ventures	January 01, 2019
IAS 39	Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the 'own use' scope exception.	Applies when IFRS 9 is applied
IAS 40	Investment Property - Amendments to clarify transfers of property to, or from, investment property	January 01, 2018

The Annual Improvements to IFRSs that are effective for annual periods beginning on or after January 01, 2018 are as follows:

Annual Improvements to IFRSs (2014 – 2016) Cycle:

IFRS 1	First-time Adoption of International Financial Reporting Standards	January 01, 2018
IAS 28	Investments in Associates and Joint Ventures	January 01, 2018

Annual Improvements to IFRSs (2015 – 2017) Cycle:

IFRS 3	Business Combinations	January 01, 2019
IFRS 11	Joint Arrangements	January 01, 2019
IAS 12	Income Taxes	January 01, 2018

The Bank expects that the adoption of the other amendments and interpretations of the standards will not have any material impact and therefore will not affect the Bank's financial statements in the period of initial application

5.3 Standards or Interpretations not yet effective

The following new standards have been issued by the International Accounting Standards Board (IASB), which have been adopted locally by the Securities and Exchange Commission of Pakistan effective from the dates mentioned below against the respective standard:

		Effective date (annual periods beginning on or after)
IFRS 9	Financial Instruments	July 01, 2018
IFRS 15	Revenue from Contracts with Customers	July 01, 2018

The effects of IFRS 15 - Revenues from Contracts with Customers and IFRS 9 - Financial Instruments are still being assessed, as these new standards may have a significant effect on the Bank's future financial statements.

The following new standards and interpretations have been issued by the International Accounting Standards Board (IASB), which have not been adopted locally by the Securities and Exchange Commission of Pakistan:

IFRS 1 First Time Adoption of International Financial Reporting Standards

IFRS 14 Regulatory Deferral Accounts

IFRS 16 Leases

IFRS 17 Insurance Contracts

The Bank expects that the adoption of the other amendments and interpretations of the standards will not have any material impact and therefore will not affect the Bank's financial statements in the period of initial application.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the presentation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

6.1 Cash and Cash equivalents

Cash and cash equivalents comprise of cash in hand, balances with treasury bank and balance with other banks and short term, highly liquid investments that are readily convertible to known amount of cash and subject to an insignificant risk of changes in value

6.2 Sale and Repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the balance sheet and are measured in accordance with the accounting policies for investment securities. The counter party liability for consideration received is included in borrowings from the financial institutions. The difference between sale and repurchase price is treated as markup/return/interest expense over the period of the transaction. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognized as investment in the balance sheet. Amounts paid under these agreements are included in lending to financial institutions. The difference between the purchase and the resale price is treated as markup/return/interest income over the period of the transaction.

6.3 Investments

All purchases and sale of investments are recognized using settlement date accounting. Settlement date is the date on which investments are delivered to or by the Bank. All investments are derecognized when the right to receive economic benefits from the investments has expired or has been transferred and the Bank has transferred substantially all the risks and rewards of ownership.

Investments are classified as follows:

a) Held for trading investments

These represent securities acquired with the intention to trade by taking advantage of short-term market/ interest rate movements. These are measured at mark-to-market and surplus/ (deficit) arising on revaluation of 'held for trading' investments is taken to profit and loss account.

b) Available for sale investments

Investments which may be sold in response to need for liquidity or changes in interest rates, exchange rates or equity prices are classified as available for sale. Available for sale investments are initially recognized at cost and subsequently measured at mark-to-market basis.

The surplus/ (deficit) arising on revaluation of available for sale investments is carried as "surplus/ (deficit) on revaluation of assets" through statement of comprehensive income and also shown in the balance sheet below equity. The surplus/ (deficit) arising on these investments is taken to the profit and loss account, when actually realized upon disposal.

On reclassification of an investment from the available for sale category, the investment is reclassified at its fair value on the date of reclassification. This fair value becomes its new cost or amortized cost, as applicable. For investments with fixed maturity, any gain or loss previously recognised in "surplus/ (deficit) on revaluation of assets" is amortized to profit and loss over the remaining life of the investment using the effective interest

method and if the investment does not have a fixed maturity, the gain or loss previously recognized in "surplus/ (deficit) on revaluation of assets" is recognized in profit and loss when the investment is sold or disposed off.

c) Held to maturity investments

Investments with fixed maturity, where management has both the intent and the ability to hold till maturity, are classified as held to maturity. Subsequent to initial recognition at cost, these investments are measured at amortized cost, less provision for impairment in value, if any. Amortized cost is calculated taking into account effective interest rate method. Profit on held to maturity investments is recognized on a time proportion basis taking into account the effective yield on the investments.

Premium or discount on acquisition of held to maturity investments are amortized through profit and loss account over the remaining period, using the effective interest rate method.

6.4 Advances

Advances are stated net of provisions for non-performing advances. Advances that are overdue for 30 days or more are classified as non-performing and divided into following categories:

a) Other Assets Especially Mentioned (OAEM)

Advances and mark-up in arrears for 30 days or more but less than 60 days.

b) Substandard

Advances and mark-up in arrears for 60 days or more but less than 90 days.

c) Doubtful

Advances and mark-up in arrears for 90 days or more but less than 180 days.

d) Loss

Advances and mark-up in arrears for 180 days or more.

In addition, the Bank maintains a Watch List of all accounts delinquent by 5 - 29 days. However, such accounts are not treated as non-performing for the purpose of classification / provisioning.

In accordance with the Prudential Regulations (the Regulations) for Microfinance Banks issued by SBP, the Bank maintains specific provision for potential loan losses for all non-performing outstanding advances net of cash and gold collaterals realizable without recourse to a Court of Law at the following rates:

OAEM	Nil
Substandard	25%
Doubtful	50%
Loss	100%

In addition, minimum of 1% general provision required under the Regulations is made on outstanding advances net of specific provision. However, general provision is not required in cases wherein loans have been secured against gold or other cash collateral with appropriate margin. General and specific provisions are charged to the profit and loss account.

In accordance with the Regulations, non-performing advances are written-off one month after the loan is categorized as Loss. However, the Bank continues its efforts for recovery of the written-off balances.

Under exceptional circumstances, management reschedules repayment terms for clients who have suffered catastrophic events and who appear willing and able to fully repay their loans. The classification made as per Regulations is not changed due to such rescheduling. The accrued mark-up till the date of rescheduling is received prior to such rescheduling.

6.5 Operating fixed assets

Capital work in progress

Capital work-in-progress are stated at cost less impairment losses (if any) and consist of expenditure incurred, advances made and other costs directly attributable to operating fixed assets in the course of their construction and installation. Cost also includes applicable borrowing costs, if any. Transfers are made to relevant operating fixed assets category as and when assets are ready for use.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset and the costs of dismantling and removing the items and restoring the site on which they are located, if any.

Depreciation is charged on the straight line basis at rates specified in note 12.2 to the financial statements, so as to write off the cost of assets over their estimated useful lives. Full month's depreciation is charged in the month of capitalization and no depreciation is charged in the month of disposal.

Subsequent costs are included in the assets carrying amount when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. Carrying amount of the replaced part is derecognized. All other repair and maintenance are charged to income during the period.

Gains and losses on disposal of property and equipment are taken to the profit and loss account.

Intangible assets

An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and that the cost of such asset can also be measured reliably. These are stated at cost less accumulated amortization and impairment losses, if any.

Intangible assets comprise of computer software and related applications. Intangible assets are amortized over their estimated useful lives at rate specified in note 12.3.1 to the financial statements. Subsequent expenditure is capitalized only when it increases the future economic benefit embodied in the specific asset to which it relates. All other expenditure is recognized in profit and loss account as incurred.

6.6 Impairment of non-financial assets

Assets that have an indefinite useful life –a for example, goodwill or intangible assets not ready to use – are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

6.7 Deposits

Deposits are initially recorded at the amount of proceeds received. Mark-up accrued on deposits, if any is recognised separately as part of other liabilities, and is charged to the profit and loss account over the period.

6.8 Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Current

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are off-set when there is a legally enforceable right to offset current tax assets against current tax liabilities where there is an intention to settle the balances on a net basis.

Prior years

The taxation charge for prior years represents adjustments to the tax charge relating to prior years, arising from assessments and changes in estimates made during the current year, except otherwise stated.

6.9 Employee benefits

Salaries, wages and benefits are accrued in the period in which the associated services are rendered by employees of the Bank.

The Bank operates an approved funded gratuity scheme for all eligible employees completing the minimum qualifying period of one year of service. In accordance with the gratuity scheme eligible salary constitute the basic salary for the service uptill July 26, 2004 and gross salary for service thereafter which is paid to the employee on the basis of period in service. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of defined obligation is determined by discounting the estimated market yield on Government bonds and have terms to maturity approximating to the terms of the related liability. The Bank has a policy of carrying out actuarial valuations annually with the assistance of independent actuarial appraisers. The latest actuarial valuation was carried out on December 31, 2017.

The remeasurement gains and losses are recognized immediately in other comprehensive income (OCI). Further, past service costs are recognized in profit and loss account in the year in which they arise.

6.10 Mark-up bearing borrowings

Mark-up bearing borrowings are recognized initially at cost being the fair value of consideration received, less attributable transaction costs. Subsequent to initial recognition mark-up bearing borrowings are stated at original cost less subsequent repayments

6.11 Statutory reserve

In compliance with the requirements of Regulation 4, the Bank is required to maintain a statutory reserve to which an appropriation equivalent to 20% of the profit after tax is made till such time the reserve fund equals the paid up capital of the Bank. However, thereafter, the contribution is reduced to 5% of the profit after tax

6.12 Capital reserve

Pursuant to the Scheme of conversion, as explained in note 1 to the financial statements, the unappropriated profit of KMBL has been treated as Capital reserve of the Bank.

6.13 Contributions

In pursuance of the requirement of Microfinance Sector Development Program (Schedule-6 Loan # 1806-Pak, Fund Rules and "Report and Recommendation of the President to the Board of Asian Development Bank" and as confirmed by the SBP vide its letter dated February 17, 2015, the Bank contributes an aggregate of 20% of its annual profit after tax to the following three funds:

Depositor's Protection Fund	5% of the profit after tax
Risk Mitigation Fund	5% of the profit after tax
Microfinance Social Development Fund	10% of the profit after tax

6.14 Cash reserve requirement

In compliance with the Regulations, the Bank maintains a cash reserve equivalent to not less than 5% of its time and demand liabilities in a current account opened with the State Bank of Pakistan.

6.15 Statutory liquidity requirement

The Bank maintains liquidity equivalent to at least 10% of its time and demand deposits in the form of liquid assets i.e. cash, gold and unencumbered approved securities.

6.16 Grants

Grants of non-capital nature are recognized as deferred income at the time of their receipt. Subsequently, these are recognized in the income and expenditure account to the extent of the actual expenditure incurred. Expenditure incurred against grants committed but not received, is recognized directly in income and expenditure account and reflected as a receivable from donors.

Grants that compensate the Bank for the cost of an asset are recognized in the profit and loss account as other operating income on a systematic basis over the useful life of the asset.

The grant related to an asset is recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Bank will comply with the conditions attached to it.

6.17 Revenue recognition

Mark-up/ return on advances is recognized on accrual/ time proportion basis, except for income, if any, which warrants suspension in compliance with the Regulations. Mark-up recoverable on non-performing advances is recognized on a receipt basis in accordance with the requirements of the Regulations. Loan processing fee is recognized as income on the approval of loan application of borrowers.

Mark-up/ return on investments is recognised on time proportion basis using effective interest method. Where debt securities are purchased at premium or discount, those premiums/ discounts are amortized through the profit and loss account over the remaining period of maturity.

Income from interbank deposits in saving accounts is recognized in the profit and loss account as it accrues using the effective interest method.

Gains and losses on sale of investments and operating assets are recognised in profit and loss account currently.

Dividend income is recognized when the right to receive the dividend is established.

Fee, brokerage and commission income is recognized on accrual basis.

6.18 Borrowing costs

Borrowings are recorded at the amount of proceeds received.

The cost of borrowings is recognized on an accrual basis as an expense in the period in which it is incurred.

6.19 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Bank leases certain property and equipment. Leases of property and equipment where the Bank has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

6.20 Financial instrument

Financial assets and liabilities are recognized when the Bank becomes a party to the contractual provisions of the instrument. These are derecognized when the Bank ceases to be the party to the contractual provisions of the instrument. All financial assets and liabilities are initially measured at cost which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, amortized cost or cost, as the case may be.

6.20.1 Financial assets

Financial assets are cash and balances with SBP and NBP, balances with other banks, lending to financial institutions, investments, advances and other receivables. Advances are stated at their nominal value as reduced by appropriate provisions against non-performing advances, while other financial assets excluding investments are stated at cost. Investments classified as available for sale are valued at mark-to-market basis and investments classified as held to maturity are stated at amortized cost.

6.20.2 Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangement entered into. Financial liabilities include borrowings and other liabilities which are stated at their nominal value. Financial charges are accounted for on accrual basis.

Any gain or loss on the recognition and derecognition of the financial assets and liabilities is included in the net profit

and loss for the period in which it arises.

6.21 Impairment – financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit and loss account.

6.22 Off-setting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Income and expense items of such assets and liabilities are also off-set and the net amount is reported in the financial statements.

6.23 Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates (the functional currency) which is Pak Rupees. The financial statements are also presented in Pak Rupees, which is the Bank's presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit and loss account.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss.

6.24 Provisions

Provisions are recognized when the Bank has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimate of the amount can be made.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

6.25 Exceptional items

Exceptional items, if any, are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Bank. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

6.26 Related party transactions

Transactions involving related parties arising in the normal course of business are conducted at arm's length at normal commercial rates on the same terms and conditions as third party transactions using valuation modes as admissible.

6.27 Earnings per share

The Bank presents earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit

or loss attributable to ordinary shareholders of the Bank by weighted average number of ordinary shares outstanding during the period.

6.28 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing particular products or services (business segment), or in providing product or services within a particular economic environment (geographical segment), and is subject to risk and rewards that are different from those of other segments. The Bank has only one reportable segment.

6.29 Other payables

Liabilities for other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for the goods and services received, whether or not billed to the Bank.

6.30 Dividend and apportioning to reserves

Dividend and appropriation to reserves are recognized in the financial statements in the period in which these are approved, except appropriation required by law which are recorded in the period to which they pertain.

6.31 Other receivables

These are recognized at cost, which is the fair value of the consideration given. An assessment is made at each balance sheet date to determine, whether there is an indication that a financial asset, or a group of financial assets, may be impaired. If such an indication exists, the estimated recoverable amount of that asset is determined and an impairment loss is recognized for the difference between the recoverable amount and the carrying value.

6.32 Contingencies

A contingent liability is disclosed when the Bank has a possible obligation as a result of past events, existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank or the Bank has a present legal or constructive obligation that arises from past events, but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

6.33 Fair value measurement

A number of assets and liabilities included in the financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Bank's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

Level 1: Quoted prices in active markets for identical items (unadjusted)

Level 2: Observable direct or indirect inputs other than Level 1 inputs

Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item and transfers of items between levels are recognised in the period they occur.

The financial assets and financial liabilities of the Bank that either require fair value measurements or only fair value disclosures as at December 31, 2017 are disclosed in Note 39.

6.34 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires the use of certain accounting estimates and assumptions. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas where assumptions and estimates are significant to the Bank's financial statements or where judgment is exercised in application of accounting policies are as follows:

a) Operating fixed assets

The Bank reviews useful life and residual value of operating fixed assets on regular basis. Any change in estimates may affect the carrying amounts of the respective items of operating fixed assets with a corresponding effect on the depreciation charge.

b) Provision for income taxes

The Bank recognizes tax liabilities for pending tax assessments using estimates based on expert opinion

obtained from tax/legal advisors. Differences, if any, between the income tax provision and the final tax liability is recorded when such liability is determined. Deferred income tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantively enacted by the balance sheet date.

c) Staff retirement benefits

Actuarial valuation of gratuity contributions requires use of certain assumptions related to future periods including increase in remuneration, expected long term return on plan assets and the discount rate used to convert future cash flows to current values. Actuarial gains and losses arising from changes in actuarial assumptions are taken in the other comprehensive income immediately.

d) Classification of investments

The classification of investments between different categories depends upon management's intentions to hold those investments. Any change in the classification of investments may affect their carrying amounts with a corresponding effect on the return and unrealized surplus/(deficit) on these investments.

e) Provision against advances

The Bank maintains a provision against advances as per the requirements of the Regulations and assesses the adequacy of provision against delinquent portfolio. Any change in the criteria/rate for provision may affect the carrying amount of the advances with a corresponding effect on the mark-up/interest earned and provision charge.

f) Provision and Contingent liabilities

The management exercises judgment in measuring and recognizing provisions and exposures to contingent liabilities related to pending litigations or other outstanding claims. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the financial settlement. Because of inherent uncertainty in this evaluation process, actual losses may be different from the originally estimated provision.

g) Financial instrument

The fair value of the financial instrument that are not traded in an active market is determined by using valuation techniques based on assumption that are dependent on conditions existing at the balance sheet.

h) Provision for doubtful receivables

The carrying amount of other receivables are assessed on regular basis and if there is any doubt about the realisability of these receivables, appropriate amount of provision is made.

7	CASH AND BALANCES WITH SBP AND NBP	Note	2017 Rupees	2016 Rupees
	Cash in hand			
	Local currency		534,727,147	445,290,595
	Balances with State Bank of Pakistan (SBP) in			
	Local currency current accounts	7.1	1,127,573,385	853,358,603
	Balances with National Bank of Pakistan (NBP) in:			
	Local currency current account		-	169,721
	Local currency deposit accounts	7.2	1,950,135	1,830,714
			1,950,135	2,000,435
			1,664,250,667	1,300,649,633

7.1 This represents balance held with SBP to meet the requirement of maintaining a minimum balance equivalent to 5.00% (2016: 5.00%) of the Bank's time and demand deposits with a tenure of less than one year, in accordance with R- 3A of the Regulations.

7.2 This represents balances held in saving accounts carrying interest at the rate of 3.75 % (2016: 3.50%) per annum.

8	BALANCES WITH OTHER BANKS/NBFIs/MFBs	Note	2017 Rupees	2016 Rupees
	In Pakistan			
	Local currency current accounts		614,233,306	634,124,975
	Local currency deposit accounts	8.1	1,784,899,185	753,577,191
			<u>2,399,132,491</u>	<u>1,387,702,166</u>

8.1 This represents balances held in saving accounts carrying interest at the rates ranging from 3.75% to 7.25% (2016: 3.75% to 7.75%) per annum.

9 LENDING TO FINANCIAL INSTITUTIONS

Repurchase agreement lending (reverse repo)	9.1	<u>474,532,125</u>	<u>1,544,066,350</u>
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9.1 This represents reverse repo carrying interest at the rate of 5.85% per annum (2016: 5.75 % to 5.90% per annum) maturing on January 2, 2018 (2016: January 3, 2017 and January 6, 2017).

9.1.1 Securities held as collateral against lending to financial institutions - reverse repo are as follows:

	2017			2016		
	Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
	Rupees			Rupees		
Market Treasury Bills (T-Bills)	475,000,000	-	475,000,000	1,550,000,000	-	1,550,000,000

10	INVESTMENTS	Note	2017 Rupees	2016 Rupees
	Available for sale (AFS)			
	Federal Government securities-Market Treasury Bills (T-bills)	10.1	12,160,879,494	1,468,166,200
	Held for trading (HFT)			
	Federal Government securities-Market Treasury Bills (T-bills)	10.2	2,071,837,800	-
	Held to maturity (HTM)			
	Term finance certificates (TFCs)	10.3	50,000,000	-
	Term deposit receipts (TDRs)	10.4	2,015,000,000	1,500,000,000
			<u>16,297,717,294</u>	<u>2,968,166,200</u>
	Net deficit on revaluation of Federal Government securities - (AFS & HFT)	10.5	(127,315)	(200,756)
			<u>16,297,589,979</u>	<u>2,967,965,444</u>

10.1 This represents T-bills ranging from 80 to 84 days (2016: 84 days to 182 days) carrying interest at the rates ranging from 5.98% to 5.99% (2016: 5.86% to 5.97%) per annum.

10.2 This represents T-Bills ranging from 80 to 84 days (2016: Nil) carrying interest at the rates ranging from 5.98% to 5.99% (2016: Nil) per annum.

10.3 This represents 10,000 term finance certificates (TFC's) having face value of Rs.5,000/- each duly issued by Bank Al Habib Limited for perpetual tenor. TFC's carrying profit @ 6 month KIBOR plus 1.50% is receivable on semi annual basis from the date of issue. (2016 : Nil)

10.4 Term deposit receipts (TDRs)

	Note	2017 Rupees	2016 Rupees
Microfinance bank	10.4.1	1,715,000,000	900,000,000
Other banks/DFIs/NBFIs	10.4.2	300,000,000	600,000,000
		<u>2,015,000,000</u>	<u>1,500,000,000</u>

10.4.1 This represents investment in short term deposits receipts and maturing from January 14, 2018 to June 12, 2018 (2016: January 04, 2017 to March 03, 2017) and carries mark-up at the rates ranging from 8.00% to 9.25 % (2016: 9.60% to 11.50 %) per annum.

10.4.2 This represents investment in short term deposits receipts and maturing on August 03, 2018 (2016 : January 12, 2017 to February 07, 2017) and carries mark-up at the rate of 7.00% (2016: 6.25% to 6.85 %) per annum.

10.5 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 June 10, 2014 issued by the State Bank of Pakistan.

10.6 The investment includes securities (T-Bills) which are held by the Bank to comply with the statutory liquidity requirements as set out under Regulations - Risk Management R-3 "Maintenance of cash reserve and liquidity".

11 ADVANCES - NET OF PROVISIONS

Loan type	Note	2017		2016	
		Number of loans outstanding	Amount outstanding	Number of loans outstanding	Amount outstanding
		Numbers	Rupees	Numbers	Rupees
Micro credit					
Secured	11.1	51,126	5,234,468,047	47,395	4,202,755,049
Unsecured	11.2	619,889	27,190,502,663	509,392	18,930,877,130
		<u>671,015</u>	<u>32,424,970,710</u>	<u>556,787</u>	<u>23,133,632,179</u>
Less: Provisions held					
Specific provision		5,885	(105,978,588)	7,195	(147,244,034)
General provision	11.3	639,591	(491,772,942)	524,025	(222,205,773)
			(597,751,530)		(369,449,807)
Microcredit advances - net of provisions			<u>31,827,219,180</u>		<u>22,764,182,372</u>
Staff loans	11.10	687	388,772,784	295	175,349,076
Advances - net of provision		<u>671,702</u>	<u>32,215,991,964</u>	<u>557,082</u>	<u>22,939,531,448</u>

11.1 This includes microcredit loans amounting to Rs. 688.5 million (2016: Rs. 841.0 million) which are partially (50%) secured against lien marked on deposits held with the Bank.

11.2 This includes 6,969 micro enterprise clients (2016: 5,394) having aggregate amount of Rs. 1,412.7 million (2016: Rs. 1,049.17 million) backed by USAID loan loss guarantee of 50% of outstanding principal for delinquent borrowers.

11.3 General provision is maintained at the rate of 1.50% (2016: 1.06%) of micro credit advances other than those secured against gold and other cash collaterals, net of specific provision. This includes provision amounting to Rs. 190.0 million (2016: Rs. 19.36 million) against unsecured micro credit advances in addition to the minimum requirements of Regulations to prudently manage credit risk of the Bank.

11.4 Particulars of non-performing advances

Advances include principal amount of Rs. 324.2 million and interest /mark-up of Rs. 57.3 million (2016: principal amount of Rs. 347.4 million and interest /mark-up Rs. 74.8 million) which, as detailed below, have been placed under non-performing status.

Category of classification	2017			2016		
	Amount outstanding	Provisions required	Provisions held	Amount outstanding	Provisions required	Provisions held
	Rupees			Rupees		
OAEM	136,024,107	-	-	116,333,692	-	-
Sub-standard	54,783,359	10,744,416	10,744,416	62,403,240	12,274,911	12,274,911
Doubtful	118,987,102	43,718,143	43,718,143	131,730,459	50,788,949	50,788,949
Loss	71,758,592	51,516,029	51,516,029	111,666,391	84,180,174	84,180,174
	<u>381,553,160</u>	<u>105,978,588</u>	<u>105,978,588</u>	<u>422,133,782</u>	<u>147,244,034</u>	<u>147,244,034</u>

11.5 Particulars of provisions against non-performing advances

	2017			2016		
	Specific	General	Total	Specific	General	Total
	Rupees			Rupees		
Balance at beginning of the year	147,244,034	222,205,773	369,449,807	72,938,517	147,413,178	220,351,695
Provision charge for the year	420,512,485	269,567,169	690,079,654	598,725,014	74,792,595	673,517,609
Advances written off against provision	(461,777,931)	-	(461,777,931)	(524,419,497)	-	(524,419,497)
Balance at end of the year	<u>105,978,588</u>	<u>491,772,942</u>	<u>597,751,530</u>	<u>147,244,034</u>	<u>222,205,773</u>	<u>369,449,807</u>

11.6 Particulars of write offs

Against provisions
Related to other classified advances

Bad debts written off directly

Note

11.6.1

	2017 Rupees	2016 Rupees
	461,777,931	524,419,497
	461,777,931	524,419,497
	22,565,411	11,288,911
	<u>484,343,342</u>	<u>535,708,408</u>

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

11.7 Portfolio quality report

The Bank's main measure of loan delinquency is an aged portfolio-at-risk ratio. Loans are separated into classes depending on the number of days they are over-due. For each of such class of loan, the outstanding principal balance of such loan class is divided by the outstanding principal balance of the gross loan portfolio before deducting allowance for non-performing advances. Loans are considered overdue if any payment has fallen due and remained unpaid. Loans payment are applied first to any interest due, then to any installment of principal that is due but unpaid, beginning with the earliest such installment. The number of days of delay is based on the due date of the earliest loan installment that has not been fully paid. Late payment surcharge/ penalty on overdue advances is not added to principal.

Normal Loans

Current
1 - 29 days late
30 - 59 days late
60 - 89 days late
90 - 179 days late
More than 179 days late
Total

2017	
Amount Rupees	Portfolio at Risk
31,870,207,674	-
230,514,480	0.71%
115,307,558	0.36%
47,754,998	0.15%
103,893,000	0.32%
57,293,000	0.18%
<u>32,424,970,710</u>	<u>1.72%</u>

2016	
Amount Rupees	Portfolio at Risk
22,595,023,304	-
191,234,704	0.83%
100,435,718	0.43%
53,522,784	0.23%
108,411,347	0.47%
85,004,322	0.37%
<u>23,133,632,179</u>	<u>2.33%</u>

Rescheduled loans

Current
1 - 29 days late
30 - 59 days late
60 - 89 days late
90 - 179 days late
More than 179 days late
Total

-	-
-	-
-	-
-	-
-	-
-	-
<u>-</u>	<u>-</u>
<u>32,424,970,710</u>	<u>1.72%</u>

-	-
-	-
-	-
-	-
-	-
-	-
<u>-</u>	<u>-</u>
<u>23,133,632,179</u>	<u>2.33%</u>

11.8 Current recovery ratio

The Bank measures loan delinquency using a current recovery ratio. The numerator of this ratio is total cash receipts of principal and mark-up during the reporting period (including advance receipts and late receipts). The denominator is total payments of principal and interest that fell due for the first time during the reporting period, as per the terms of the original loan contract (regardless of any subsequent negotiations). Penalty interest is not included in the numerator or denominator of the ratio.

1st quarter
2nd quarter
3rd quarter
4th quarter
January - December

Current Recovery Ratio

2017	2016
114.5%	196.3%
163.2%	276.2%
93.8%	110.7%
191.3%	254.8%
<u>143.8%</u>	<u>211.2%</u>

11.8.1 Annual loss rate for the year is 0% (2016: 0%) computed using the following formula. The actual loss rate is below 0% due to early repayments of principal outstanding.

$$ALR = (1 - CR) / T \times 2$$

where:

ALR is the annual loss rate

CR is the collection rate in decimal form

T is the loan term expressed in years

12.2 Property and equipment

	Leasehold improvement	Furniture and fixtures	Electrical and office equipment	Computer equipment	Vehicles	Total
Cost						
Rupees						
Balance as at January 1, 2016	-	232,298,574	350,053,231	267,077,164	186,040,108	1,035,469,077
Additions	92,640,840	91,228,342	93,298,363	45,308,936	11,946,298	334,422,779
Disposals	-	(11,419,301)	(21,835,171)	(1,861,847)	(7,227,389)	(42,343,708)
Balance as at December 31, 2016	92,640,840	312,107,615	421,516,423	310,524,253	190,759,017	1,327,548,148
Balance as at January 1, 2017	92,640,840	312,107,615	421,516,423	310,524,253	190,759,017	1,327,548,148
Additions	61,688,150	19,522,207	63,679,517	47,225,231	49,433,893	241,548,998
Disposals	(3,057,981)	(12,834,290)	(5,279,990)	(559,291)	(783,996)	(22,515,548)
Balance as at December 31, 2017	151,271,009	318,795,532	479,915,950	357,190,193	239,408,914	1,546,581,598
Accumulated Depreciation						
Balance as at January 1, 2016	-	87,429,600	184,768,282	209,560,747	95,828,443	577,587,072
Depreciation charge	7,447,539	26,579,535	59,931,693	31,315,347	30,284,733	155,558,847
Disposals	-	(7,847,606)	(19,897,579)	(1,847,836)	(7,179,887)	(36,772,908)
Balance as at December 31, 2016	7,447,539	106,161,529	224,802,396	239,028,258	118,933,289	696,373,011
Balance as at January 1, 2017	7,447,539	106,161,529	224,802,396	239,028,258	118,933,289	696,373,011
Depreciation charge	25,211,443	29,542,266	66,341,221	41,009,622	33,669,375	195,773,927
Disposals	(517,723)	(8,423,099)	(5,468,471)	(559,243)	(464,013)	(15,432,549)
Balance as at December 31, 2017	32,141,259	127,280,696	285,675,146	279,478,637	152,138,651	876,714,389
Carrying value						
2016	85,193,301	205,946,086	196,714,027	71,495,995	71,825,728	631,175,137
2017	119,129,750	191,514,836	194,240,804	77,711,556	87,270,263	669,867,209
Rates of depreciation per annum						
2016	20.00%	10.00%	20.00%	20.00%	-33.33%	25.00%
2017	20.00%	10.00%	20.00%	20.00%	-33.33%	25.00%

12.2.1 Cost of the assets as at December 31, 2017 includes Rs. 35.78 million (2016: Rs. 36.24 million) in respect of assets acquired against grants received.

12.2.2 The cost of fully depreciated property and equipment that are still in use is Rs. 416.15 million (2016: Rs. 330.87 million).

12.2.3 Detail of property and equipment disposed with the original cost or book value in excess of Rs. 1 million or Rs. 250,000 respectively, whichever is less, are as under:

Particulars	Cost	Book value	Sale Proceed	Mode of disposal	Particulars of purchaser
2017					
Leasehold Improvements					
Leasehold Improvements - Renovation Work	3,057,981	2,540,259	-	Write Off	Office Relocation
Leasehold Improvements - Renovation Work	772,850	695,565	1,274,748	Sale Contract	Polish Oil & Gas Company
Leasehold Improvements - Renovation Work	306,800	276,120	506,040	Sale Contract	Polish Oil & Gas Company
Vehicles					
Suzuki Bolan VX Petrol Euro II	711,026	319,982	610,000	Subrogation	IGI Insurance
	4,848,657	3,831,926	2,390,788		
2016					
Leasehold Improvements					
Electrical and office equipment	2,021,866	2	47,154	Quotation	Mehmood Ul Haq
APC smart UPS 20 KVA	6,409,000	1,711,448	3,358,000	Quotation	M/S. Allied Rental Modarba
Generator caterpillar diesel	1,507,100	1	315,101	Quotation	M/S. Rajab Ali Contractor
Diesel generator cummins	3,601,600	1	753,014	Quotation	M/S. Rajab Ali Contractor
Diesel generator cummins	1,773,500	1	370,800	Quotation	M/S. Rajab Ali Contractor
Diesel generator wilson	15,313,066	1,711,453	4,844,069		

12.3 Intangible assets

Computer software

Cost

Balance as at January 1, 2017

Additions

Balance as at December 31, 2017

Amortization

Balance as at January 1, 2017

Amortization charge

Balance as at December 31, 2017

Carrying amount

2017
Rupees

2016
Rupees

161,764,520

149,517,199

34,609,270

12,247,321

196,373,790

161,764,520

(138,261,422)

(119,823,097)

(23,237,617)

(18,438,325)

(161,499,039)

(138,261,422)

34,874,751

23,503,098

12.3.1 Amortization is charged on straight line basis @ 10% -33.33 % per annum (2016: 10% to 33.33%), starting from the month the asset is available for use.

12.3.2 Cost of the intangible assets includes Rs. 25.48 million (2016: Rs 25.48 million) in respect of assets acquired from grant received.

12.3.3 The cost of fully amortized intangible assets that are still in use is Rs. 44.54 million (2016: Rs. 41.63 million).

13 OTHER ASSETS

Note

2017
Rupees

2016
Rupees

Mark-up accrued

2,793,390,699

1,714,098,526

Suspended markup on non-performing advances

(57,308,688)

(74,759,611)

2,736,082,011

1,639,338,915

Interest receivable on investments and deposit accounts

176,094,867

59,842,034

Loans and advances - unsecured

Employees

107,309,000

93,102,445

Suppliers

98,669,804

2,587,295

205,978,804

95,689,740

Receivable from Microfinance Social Development Fund

13.1

588,880,528

267,138,823

Insurance premium receivable from SBP

13.2

539,588,005

420,645,646

Advance Sales tax / federal excise duty

13.3

150,829,031

155,411,943

Prepayments

126,401,918

120,037,680

Insurance claims receivable

8,269,260

7,523,775

Security Deposits

8,061,305

8,025,175

Other receivables

31,021,285

25,070,933

4,571,207,014

2,798,724,664

Less: Provisions against doubtful receivables

Balance at the beginning of the year

22,832,251

25,034,803

Provision charge for the year

11,262,361

8,236,104

Receivables written off against provision

(326,943)

(10,438,656)

Balance at the end of the year

13.4

33,767,669

22,832,251

4,537,439,345

2,775,892,413

13.1 This represents amount receivable from Micro Finance Social Development Fund (MSDF) against cost reimbursed to

service providers, the Bank's own cost reimbursement against community mobilization lending and management cost of hosting the fund.

13.2 This includes receivable from State Bank of Pakistan against claim lodged against crop and livestock insurance premium.

13.3 As explained in note 20.1, this includes Federal Excise Duty of Rs. 34.57 million paid under protest to the taxation authorities.

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

14 DEFERRED TAX ASSET

Deferred tax assets/(liabilities) arising on account of temporary differences in:

Operating fixed assets	(4,100,088)	(13,451,320)
Provision against advances and other assets	189,455,760	117,684,617
Deferred grants	(484,363)	-
Remeasurement of post employment benefit obligation	38,288,830	28,250,415
Provision against Workers' Welfare Fund	7,472,006	5,397,206
	<u>230,632,145</u>	<u>137,880,918</u>

Deferred tax liability arising on account of temporary differences in:

Deficit on revaluation of assets - AFS	45,319	60,227
Surplus on revaluation of assets - HFT	(7,125)	-
	<u>230,670,339</u>	<u>137,941,145</u>

14.1 Reconciliation of deferred tax

Balance at the beginning of the year	137,941,145	107,557,987
(Reversal)/charge for the year in respect of:		
Operating fixed assets	9,351,232	935,354
Provision against advances and other assets	71,771,143	39,160,938
Deferred grants	(484,363)	-
Surplus on revaluation of assets - HFT	(7,125)	-
Provision against Workers' Welfare Fund	2,074,800	(14,228,574)
Unused tax losses	-	-
Charge to profit and loss account	82,705,687	25,867,718
Charge to other comprehensive income		
Deferred tax on revaluation of available for sale investments	(14,908)	160,857
Deferred tax on remeasurement of post employment benefits obligation	10,038,415	4,354,583
Balance at the end of the year	<u>230,670,339</u>	<u>137,941,145</u>

14.2 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	2017		2016	
			No. of accounts	Amount Rupees	No. of accounts	Amount Rupees
	Fixed deposits	15.2	37,572	28,853,240,354	11,049	10,015,212,516
	Saving deposits	15.3	48,097	11,432,982,853	40,056	7,086,135,839
	Current deposits		1,611,578	5,460,637,527	1,317,902	4,078,054,676
			<u>1,697,247</u>	<u>45,746,860,734</u>	<u>1,369,007</u>	<u>21,179,403,031</u>
15.1	Particulars of deposits by ownership					
	Individual depositors		1,694,478	31,274,082,790	1,366,644	12,877,782,376
	Institutional depositors					
	Corporation/firms		2,716	12,499,747,401	2,328	6,903,669,730
	Banks/financial institutions		53	1,973,030,543	35	1,397,950,925
			<u>1,697,247</u>	<u>45,746,860,734</u>	<u>1,369,007</u>	<u>21,179,403,031</u>

15.2 This represents term deposits having tenure of 1 to 36 months (2016: 3 to 36 months) carrying interest at the rates ranging from 5.25 % to 13.00 % (2016: 5.25% to 14.00%) per annum. This includes fixed deposits amounting to Rs. 98.98 million (2016: Rs. 59.16 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 9.00 % (2016: 5.00% to 9.00%) per annum. This includes saving deposits amounting to Rs. 365.44 million (2016: Rs. 490.94) on which lien is marked against advances to borrowers.

16	BORROWINGS	Note	2017	2016
			Rupees	Rupees
	Unsecured			
	Borrowing from financial institutions outside Pakistan	16.1	2,048,038,432	2,481,667,912
	Secured			
	Borrowings from financial institutions in Pakistan	16.2	2,734,642,858	3,718,214,286
			<u>4,782,681,290</u>	<u>6,199,882,198</u>
16.1	Borrowings from financial institutions outside Pakistan			
	Asian Development Bank	16.1.1	1,091,188,432	1,454,917,912
	ECO Trade & Development Bank (TF-I)	16.1.2	-	507,250,000
	ECO Trade & Development Bank (TF-II)	16.1.3	415,600,000	519,500,000
	ECO Trade & Development Bank (TF-III)	16.1.4	541,250,000	-
			<u>2,048,038,432</u>	<u>2,481,667,912</u>

16.1.1 This represents receipts/ reimbursements up to eighty percent (80%) of outreach loan disbursements against credit facility under the Subsidiary Loan and Grant Agreement entered between the Bank and the Government of Pakistan (GoP) in pursuance of Loan Agreement (Special Operations) - Microfinance Sector Development Project, Loan #1806 between Asian Development Bank (ADB) and Islamic Republic of Pakistan.

The Bank is liable to repay the principal amount of the loan to GoP, over a period of 20 years including a grace period of 8 years, commencing from May 1, 2009, through bi-annual equal installments. The principal repayable is the aggregate equivalent of the amounts drawn by the Bank from the loan account for sub-loan expressed in Rupees, determined as of the respective dates of the withdrawal, while the GoP shall bear the foreign exchange risk.

The interest is being paid on bi-annual basis charged at the rate equal to weighted average cost of deposits during the preceding six months in the banking industry as calculated by SBP. The interest rates used for the bi-annual payment during the year were determined to be 3.84 % and 3.92 % (2016: 4.11% and 4.52%) per annum.

- 16.1.2** This represented borrowing from ECO Trade and Development Bank amounting to USD 5 million. The term of loan was two years and principal amount to be paid as bullet on maturity. The loan carried mark-up at the rate of six month USD LIBOR plus a spread of 2.5% per 360 days.

The Bank had entered into cross currency SWAP agreement with United Bank Limited for the borrowing. Under such arrangement USD 5 million were translated into Pak Rupees at the exchange rate of Rs. 101.45 at the time of loan disbursement. Further under this arrangement the bank is liable to interest payment at the rate of six months KIBOR plus a spread of 1% on the Rupee value of the loan which is payable semi annually commencing from date of disbursement per 365 days. The principal amount was fully paid during the year.

- 16.1.3** This represents borrowing from ECO Trade and Development Bank amounting to USD 5 million. The term loan is for 4 years which has grace period of two years and principal amount is to be repaid in five equal semi annual installments of USD one million each commencing from twenty fourth month after first disbursement. The loan carries mark-up at the rate of six month USD LIBOR plus a spread of 2.9% per 360 days.

The Bank has entered into cross currency SWAP and interest rate hedging agreement with JS Bank Limited for the borrowing. Under such arrangement USD 5 million were translated into Pak Rupees at the exchange rate of Rs. 103.90 at the time of loan disbursement and the loan will be repaid into five (5) equal installments of Rs.103.90 million each semi annually commencing from twenty fourth month from the date of first disbursement. Further, under this arrangement, the Bank is liable for interest payment at fixed rate of 10.47% per 365 days for the entire tenure of the loan.

- 16.1.4** This represents borrowing from ECO Trade and Development Bank amounting to US\$ 5 million which carries interest at the rate of 6 month USD LIBOR plus 2.5% per 360 days. The repayment of borrowing will be in six (6) equal semi annual installments starting on 18th month after the disbursement and interest is payable semi annually.

The Bank has entered into Cross Currency SWAP agreement with JS Bank Limited for the borrowing. Under such arrangement US\$ 5 million were translated at the exchange rate of Rs. 103.90 and the repayment will be in six (6) equal semi annual installments starting on 18th month after the disbursement. The interest is payable at the six months KIBOR 1.77% actual/365 on unadjusted basis commencing from date of disbursement.

16.2 Borrowings from financial institutions in Pakistan:	Note	2017 Rupees	2016 Rupees
Secured			
Pakistan Poverty Alleviation Fund (TF-II)	16.2.1	-	320,000,000
Pak Oman Investment Company Limited (TF-II)	16.2.2	312,500,000	437,500,000
Pak Oman Investment Company Limited (TF-III)	16.2.3	500,000,000	500,000,000
Pak Oman Investment Company Limited (TF-IV)	16.2.4	500,000,000	-
United Bank Limited (TF - I)	16.2.5	-	200,000,000
Askari Bank Limited (TF-I)	16.2.6	40,000,000	200,000,000
Soneri Bank Limited (TF-IV)	16.2.7	150,000,000	300,000,000
Syndicated Term Finance	16.2.8	857,142,858	1,285,714,286
The Bank of Punjab (TF-I)	16.2.9	225,000,000	-
Bank Alfalah Limited (TF-1)	16.2.10	100,000,000	-
Allied Bank Limited (TF-1)	16.2.11	50,000,000	-
United Bank Limited (RF)	16.2.12	-	175,000,000
MCB Bank Limited (RF)	16.2.13	-	300,000,000
		<u>2,734,642,858</u>	<u>3,718,214,286</u>

- 16.2.1** This represented borrowings from Pakistan Poverty Alleviation Fund (PPAF) and carried interest at the rate of 9.00% (2016: 5.11% to 9.00%) per annum. PPAF extended Rs. 1,500 million financing facility, hypothecated against receivables created out of financing from PPAF, however the hypothecation charge is not registered with SECP. The Bank was liable to repay the principal amount to PPAF in five (5) equal quarterly installments after the expiry of one year as grace period. The principal outstanding amount of Rs 320 million was paid during the year.
- 16.2.2** This represents interbank money market borrowings for five years with grace period of twelve months from draw down date and carries interest at the rates ranging 7.70% to 7.82 % (2016: 7.70% to 8.01%) per annum and repayable in 8 semi annual equal installments. These borrowings are secured against charge over current and future assets of Rs. 667 million.
- 16.2.3** This represents interbank money market borrowings for 5 years with grace period of 12 months from draw down date carrying interest rate ranging from 7.63% to 7.80% (2016: 7.63% to 7.70%) per annum and repayable in 8 semi annual equal installments. These borrowings are secured against charge over current and future assets of Rs. 667 million.
- 16.2.4** This represents interbank money market borrowing for 5 years with grace period of 12 months from draw down date carrying interest rate ranging from 7.78% to 7.80%(2016: Nil) per annum and repayable in 8 semi annual equal installments. This borrowing is secured against charge over current and future assets of Rs.667 million.
- 16.2.5** This represented interbank money market borrowings for three years with the grace period of six months from the date of first disbursement and carried interest at the rates ranging from 7.56% to 7.64 % (2016: 7.56% to 8.12%) per annum and repayable in five equal installments. These borrowings were secured against 40% partial Microfinance Credit Guarantee Facility (MCGF) by SBP and charge over current and future micro loans/advances of Rs. 400 million. The principal outstanding amount of Rs 200 million was paid during the year.
- 16.2.6** This represents interbank money market borrowings for three years with the grace period of six months from draw down date and carries interest at the rates ranging from 7.62% to 7.65% (2016: 7.54% to 7.55%) per annum and repayable in 10 equal quarterly installments. These borrowings are secured against 40% partial Microfinance Credit Guarantee Facility (MCGF) by SBP and charge over current and future assets of Rs. 320 million.
- 16.2.7** This represents term finance facility of Rs.300 million and carries interest at the rate of 7.65% (2016: 7.56% to 8.53%) per annum for a period of three years with grace period of one year from the draw down date. These borrowings are secured against 40% partial Microfinance Credit Guarantee Facility (MCGF) by SBP and charge over current and future assets of Rs. 300 million.
- 16.2.8** This represents syndicated (JS Bank Limited, Askari Bank Limited and PAIR Investment Company Limited) term finance facility of Rs.1,500 million and carries interest at the rate ranging from 7.44% to 7.45% (2016: 7.36% to 7.45%) per annum for a period of four years from the draw down date inclusive of grace period of six months. These borrowings are secured against 40% partial Microfinance Credit Guarantee Facility (MCGF) by SBP and charge over current and future assets of Rs. 200 million.
- 16.2.9** This represents interbank money market borrowing carrying interest rate ranging from 7.69% to 7.75% (2016: Nil) per annum for a period of 3 years from the draw down date inclusive of grace period of 1 year. This borrowing is secured against charge over present and future assets of the Bank worth Rs.300 million.
- 16.2.10** This represents interbank money market borrowing carrying interest rate ranging from 7.45% to 7.46% (2016: NIL) per annum for a period of 3 years from the draw down date inclusive of grace period of 1 year. This borrowing is secured against charge over present and future assets of the Bank worth Rs.667 million.
- 16.2.11** This represents interbank money market borrowing carrying interest rate of 7.80% (2016: NIL) per annum for a period of 5 years from the draw down date inclusive of grace period of 2 years. This borrowing is secured against charge over present and future assets of the Bank worth Rs.334 million.

16.2.12 This represented running finance facility of Rs. 175 million and carried interest at the rates ranging from 6.87% to 7.35% (2016: 6.85% to 7.35%) per annum for a period of one year from the draw down date. These borrowings were secured against charge over current and future assets of Rs. 234 million. The principal outstanding amount was paid during the year.

16.2.13 This represented running finance facility of Rs. 400 million from MCB Bank Limited (formerly NIB Bank Limited) carried interest rate ranging from 7.87% to 8.35% (2016: 7.79% to 8.24%) for a period of 1 year from the draw down date. These borrowings were secured against charge over present and future assets of the Bank worth Rs. 534 million. The principal outstanding amount was paid during the year.

16.3 Quarterly average borrowing

	2017 Rupees	2016 Rupees
1st Quarter	6,776,715,531	5,695,397,392
2nd Quarter	5,595,793,800	5,866,654,232
3rd Quarter	5,395,965,077	6,104,365,985
4th Quarter	4,999,493,346	6,256,694,254

16.4 Loan repayment schedule

Note

	2017 Rupees	2016 Rupees
Balance at the beginning of the year	6,199,882,198	5,890,397,392
Availed during the year	3,066,250,000	2,375,000,000
Repayments during the year	(4,483,450,908)	(2,065,515,194)
Balance at the end of the year	4,782,681,290	6,199,882,198

17 OTHER LIABILITIES

Mark-up / return /interest payable on deposits		562,634,790	305,310,307
Accrued expenses		567,304,141	240,516,728
Payable to defined benefit plan - KB employees gratuity fund	17.1	71,311,742	16,292,240
Taxes payable - net	17.2	126,100,062	161,422,146
Payable to suppliers	17.3	148,623,567	201,005,794
Interest payable on borrowings		91,397,300	100,761,044
Bills payable		56,508,519	78,395,885
Provision for Workers' Welfare Fund		24,906,686	17,990,688
Payable to service providers		20,629,700	34,024,900
Withholding tax payable		17,793,244	18,786,211
Contribution payable to:			
- Microfinance Social Development Fund	6.13	180,056,467	127,273,428
- Risk Mitigation Fund	6.13	90,028,233	63,636,714
- Depositors' Protection Fund	6.13	90,028,233	63,636,714
Other payables		28,563,517	28,043,732
		2,075,886,201	1,457,096,531

17.1 Payable to defined benefit plan - gratuity

General description

The scheme provides for terminal benefits for all its permanent employees who attain the minimum qualifying period at varying percentages of last drawn basic salary. The percentage depends on the number of service years with the Bank. Annual charge is based on actuarial valuation carried out as at December 31, 2017 using the Projected Unit

Credit Method.

The Bank faces the following risks on account of gratuity:

Final salary risk - The risk that the final salary at the time of cessation of service is greater than what the Company has assumed. Since the benefit is calculated on the final salary, the benefit amount would also increase proportionately.

Asset volatility - Most assets are invested in risk free investments i.e. Government bonds/Treasury bills. However, investments in equity instruments is subject to adverse fluctuations as a result of change in the market price

Discount rate fluctuation - The plan liabilities are calculated using a discount rate set with reference to Government bond yields. A decrease in Government bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the current plans' bond holdings.

Investment risks - The risk of the investment underperforming and not being sufficient to meet the liabilities. This risk is mitigated by closely monitoring the performance of investment.

Risk of insufficiency of assets - This is managed by making regular contribution to the Fund as advised by the actuary.

	2017 Rupees	2016 Rupees
a) Amounts recognized in the balance sheet		
Present value of defined benefit obligations	457,011,223	386,561,068
Fair value of plan assets	(385,699,481)	(370,268,828)
Balance sheet liability	<u>71,311,742</u>	<u>16,292,240</u>
b) Movement in net liability		
Opening net liability	16,292,240	80,568,150
Net expense recognized in profit or loss	75,281,164	61,827,742
Remeasurement losses recognized in OCI	33,461,382	19,493,576
Contributions	(53,723,044)	(145,597,228)
Closing net liability	<u>71,311,742</u>	<u>16,292,240</u>
c) Changes in present value of defined benefit obligation		
Opening defined benefit obligation	386,561,068	312,016,937
Current service cost	77,041,052	61,198,890
Interest expense	33,556,347	28,823,756
Benefits due but not paid (payables)	(15,911,708)	(2,962,030)
Benefits paid	(50,761,014)	(44,596,717)
Remeasurements - experience losses	26,525,478	32,080,232
Closing defined benefit obligation	<u>457,011,223</u>	<u>386,561,068</u>
d) Changes in fair value of plan assets		
Opening fair value of plan assets	370,268,828	231,448,787
Interest income	35,316,235	28,194,904
Contributions	53,723,044	145,597,228
Benefits paid	(50,761,014)	(44,596,717)
Benefits due but not paid	(15,911,708)	(2,962,030)
Return on plan assets, excluding interest income	(6,935,904)	12,586,656
Closing fair value of plan assets	<u>385,699,481</u>	<u>370,268,828</u>

e) Amounts recognized in the profit and loss account

Current service cost

Interest cost on defined benefit obligation

Interest income on plan assets

**2017
Rupees**

77,041,052

33,556,347

(35,316,235)

75,281,164

**2016
Rupees**

61,198,890

28,823,756

(28,194,904)

61,827,742

f) Amounts recognized in other comprehensive income

Remeasurement losses for the year

Experience adjustments in present value of defined benefit obligation

Return on plan assets, excluding interest income

26,525,478

6,935,904

33,461,382

32,080,232

(12,586,656)

19,493,576

g) Major categories of plan assets

Accrued interest

Cash at bank

National Saving Centre - Bonds

Term deposits

Payables to out-going employees

2017

Rupees

Percentage

9,177,592

12,433,597

-

380,000,000

(15,911,708)

385,699,481

2.38%

3.22%

-

98.52%

-4.13%

100.00%

2016

Rupees

Percentage

53,608,922

16,600,936

183,021,000

120,000,000

(2,962,030)

370,268,828

14.48%

4.48%

49.43%

32.41%

-0.80%

100.00%

h) The latest actuarial valuation was carried out on December 31, 2017. The significant assumptions used for actuarial valuation are as follows:

Discount rate - per annum

Salary increase rate - per annum

Mortality rate

2017

9.50%

10.00%

SLIC 2001-05

2016

10.00%

9.50%

SLIC 2001-05

i) Sensitivity analysis

Impact on defined benefit obligation

	Change in assumption	Impact on defined benefit obligation	
		Increase in assumption	Decrease in assumption
Rupees			
Discount rate	1%	(46,671,372)	56,284,350
Salary rate increase	1%	53,238,711	(45,191,292)

The above sensitivity analysis is based on changes in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the gratuity liability recognized within the statement of financial position.

The weighted average duration of the defined benefit obligation is 11 years.

j) Expected contribution of the Bank to the defined benefit gratuity fund for the year ending December 31, 2018 will be Rs. 102.14 million.

k) **Comparison for five years**

	2017	2016	2015	2014	2013
Present value of defined benefits obligation and Fair value of plan assets					
Present value of defined benefits obligations at year end	457,011,223	386,561,068	312,016,937	251,545,592	197,631,664
Fair value of plan assets at year end	(385,699,481)	(370,268,828)	(231,448,787)	(186,413,333)	(172,924,929)
	<u>71,311,742</u>	<u>16,292,240</u>	<u>80,568,150</u>	<u>65,132,259</u>	<u>24,706,735</u>

17.2 Taxes payable - net

Opening balance
Payments
Advance tax paid
Prior year charge
Provision for the year
Closing balance

Note

**2017
Rupees**

**2016
Rupees**

161,422,146	135,039,618
(750,683,023)	(481,007,580)
(55,760,989)	(24,825,516)
47,569,905	32,760,476
723,552,023	499,455,148
<u>126,100,062</u>	<u>161,422,146</u>

17.3 This includes payable to insurance companies amounting to Rs. 4.5 million (2016: Rs. 149.40 million) against crop and livestock insurance premium.

18 SHARE CAPITAL

18.1 Authorized capital

2017 Number	2016 Number	
<u>600,000,000</u>	<u>600,000,000</u>	Ordinary shares of Rs. 10 each

Note

**2017
Rupees**

**2016
Rupees**

<u>6,000,000,000</u>	<u>6,000,000,000</u>
----------------------	----------------------

18.2 Issued, subscribed and paid up capital

2017	2016	
<u>170,500,000</u>	<u>170,500,000</u>	Ordinary shares of Rs. 10 each fully paid for consideration other than cash

18.2.1

<u>1,705,000,000</u>	<u>1,705,000,000</u>
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18.2.1 The Shareholders of the Bank are as follows:

United Bank Limited	506,285,280	506,285,280
Rural Impulse Fund II S.A. SICAV-FIS	417,056,630	417,056,630
ShoreCap II Limited	243,568,080	243,568,080
ASN-NOVIB Mikrokedietfonds	168,795,020	168,795,020
responsAbility Management Company S.A.(formerly Credit Suisse Microfinance Fund Management Company)	339,294,990	339,294,990
Bank Al Habib Limited	30,000,000	30,000,000
	<u>1,705,000,000</u>	<u>1,705,000,000</u>

19 DEFERRED GRANTS

Grant from GoP

Accumulated amortization
At the beginning of year
Amortization for the year
At the end of the year

Note

19.1

**2017
Rupees**

**2016
Rupees**

- 251,589,232

- (251,523,789)

- (65,443)

- (251,589,232)

- -

Grant from USAID

Accumulated amortization
At the beginning of year
Amortization for the year
At the end of the year

19.2

- 98,374,901

- (98,188,242)

- (186,659)

- (98,374,901)

- -

Grant from Enclude

Received during the year

19.3

- 43,681,321

- 7,314,144

- 50,995,465

Accumulated amortization

At the beginning of year
Amortization for the year
At the end of the year

- (26,845,917)

- (24,149,548)

- (50,995,465)

- -

Grant from Market Development Facility

Received during the year

19.4

1,614,542 -

1,614,542 -

Accumulated amortization

At the beginning of year
Amortization for the year
At the end of the year

- -

- -

- -

1,614,542 -

1,614,542 -

- 19.1** This represents grant from GoP for assets acquired for institutional strengthening of the Bank, under the Subsidiary Loan and Grant Agreement (SLGA) entered with GoP in pursuance of Loan Agreement (Special Operations) - Microfinance Sector Development Project (MSDP), Loan #1806 between ADB and Islamic Republic of Pakistan. MSDP completed its tenure on June 30, 2007 and grant was fully amortized at the end of 2016.
- 19.2** This represents grant received from USAID on September 30, 2003 under the program “developing non-bankable territories for financial services” which was fully amortized at the end of 2016.
- 19.3** On September 24, 2010, the Bank entered into a two year grant agreement with Enclude (formerly Shore Bank International) to improve the capacity of the Bank for delivering saving products more effectively, profitably and at an enhanced scale. Enclude provided financial assistance of USD 300,000 in the form of grant to the Bank, in order to procure and implement a banking application named Bank Essential (BE). In the years 2015 and 2016, further grant was received from Enclude (formerly Shore Bank International) to promote Alternative Delivery Channel (ADC) marketing campaign in order to create client awareness and build uptake of Bank’s branchless banking services that was utilized completely by the Bank. The grant was fully amortized at the end of 2016.
- 19.4** This represents grant received under the “Pakistan Fund for Investment, Business Innovation and Regulatory Reform Partnership Agreement” with Market Development Facility (MDF) Australia, to support the bank by investing in a mobile van to disburse livestock loans and offer other financial services to rural farmers in south Punjab.

20 MEMORANDUM/OFF BALANCE SHEET ITEMS

20.1 Contingencies

- a) For the period January 2008 to December 2010, the taxation authorities issued an order to charge FED amounting to Rs. 65.231 million on grants received by the Bank and non-withholding of sales tax on taxable purchases from suppliers not registered in large tax payer units (LTU). In this respect, a civil petition filed by the bank is currently pending with the Honorable Supreme Court of Pakistan, against the order of Honorable Islamabad High Court wherein the Bank's appeal was dismissed in limine. In the mean time, the honorable Supreme Court has suspended the impugned judgment of learned High Court and Appellate Tribunal Inland Revenue (ATIR). Related to this matter, payment of Rs. 34.57 million under protest is carried as receivable from taxable authorities as reflected in note 13.3 to the financial statements.
- b) For the period from January 2011 to December 2012, the Bank has also received two orders from Deputy Commissioner of Inland Revenue (DCIR) for non-payment of FED of Rs. 40.64 million on grants received by the Bank, Rs.71.53 million on processing fee paid by the Bank in provinces and Rs. 2.78 million on non-withholding of sales tax on taxable purchases from suppliers not registered in LTU. The Bank preferred an appeal before CIR (Appeals) against the alleged orders for 2011 and 2012 which were remanded back by the CIR (Appeals) with the observation that DCIR order contains legal and factual infirmities.
- c) For the period from January 2013 to December 2013, the Bank has received two orders from DCIR for non-payment of FED of Rs. 25.16 million on grants received by the Bank, Rs. 48.53 million on processing fee paid by the Bank in provinces and Rs. 19.43 million on non-withholding of Sales Tax/FED on payments made for advertisement services, disposal of fixed assets and non-apportionment of input tax. The Bank preferred appeal against the alleged demand of the DCIR and in case of grant received by the Bank Rs 25.16 million, the ATIR has set a side the case and for remaining alleged demand, Bank filed a civil petition against the order of ATIR which is pending adjudication before the Honorable High Court of Islamabad.
- d) For the period from January 2014 to December 2014, the Bank has received two orders from DCIR for non-payment of FED of Rs. 26.62 million on grants received by the Bank, Rs.75.37 million on processing fee paid by the Bank in provinces and Rs. 29.07 million on non-withholding of Sales Tax/FED on payments made for advertisement services, disposal of fixed assets and non-apportionment of input tax. The Bank preferred appeal against the alleged demand of the DCIR and in case of processing fee paid by the Bank in provinces Rs 75.37 million, the ATIR has remanded the case back to the DCIR and for remaining alleged demand, Bank filed a civil petition against the order of ATIR which is pending adjudication before the Honorable High Court of Islamabad. Based on the decision of CIR(Appeals) in case of alleged orders of 2011, 2012 and tax counsel advice, the Bank is confident of a favorable outcome of the cases for the period January 2008 to December 2010 and January 2013 to December 2014, therefore, the management believes that no provision is required there against.

20.2 COMMITMENTS	Note	2017 Rupees	2016 Rupees
Capital expenditure	20.2.1	192,292,305	25,215,902
<p>20.2.1 This represents capital commitments relating to acquisition of new core banking application Temenos-T24 amounting Rs. 125.5 million (2016 : Nil) and Rs. 66.7 million (2016: 25.2 million) related to commitments for other capital expenditures.</p>			
21 MARK-UP/RETURN/INTEREST EARNED		2017 Rupees	2016 Rupees
Mark-up/interest/gain on :			
- Advances		8,109,135,309	5,554,368,948
- Investment in Federal Government securities		280,617,228	72,799,169
- Deposits/placements with banks/FI/MFBs/TFC etc		350,997,015	299,041,888
		<u>8,740,749,552</u>	<u>5,926,210,005</u>

	Note	2017 Rupees	2016 Rupees
22 MARK-UP/RETURN/INTEREST EXPENSED			
Interest on borrowings from:			
Financial institutions - Outside Pakistan		127,626,979	161,174,203
Financial institutions - Inside Pakistan		278,421,946	257,987,589
		<u>406,048,925</u>	<u>419,161,792</u>
Interest on deposits		2,589,831,823	1,387,947,557
		<u>2,995,880,748</u>	<u>1,807,109,349</u>
23 FEE, COMMISSION AND BROKERAGE INCOME			
Micro-credit application processing fee		1,091,965,737	852,112,688
Other commission		134,438,682	87,394,661
		<u>1,226,404,419</u>	<u>939,507,349</u>
24 OTHER INCOME			
Recoveries against advances written off		108,843,149	91,940,443
Amortization of deferred grant		-	24,401,650
(Loss)/Gain on disposal of fixed assets		(2,766,977)	4,875,795
Workers welfare fund		-	52,780,745
Others		7,417,478	5,153,193
		<u>113,493,650</u>	<u>179,151,826</u>
25 ADMINISTRATIVE EXPENSES			
Salaries, wages and benefits		1,839,352,559	1,340,022,516
Charge for defined benefit plan	17.1	75,281,164	61,827,742
Contract/ seconded staff expenses		276,828,947	223,291,346
Rent and rates		267,061,008	222,075,955
Depreciation	12.2	195,773,927	155,558,847
Repairs and maintenance		162,627,251	102,071,185
Vehicles up keep and maintenance		155,815,341	108,650,221
Advertisement		133,363,133	58,645,261
Printing, stationery and office supplies		131,289,220	81,139,569
Communication		130,726,426	94,284,695
Insurance		124,692,040	81,362,788
Cash Management and financial charges		118,938,433	68,906,601
Utilities		111,066,752	78,596,935
Security charges		64,300,852	51,561,496
Training		45,876,322	39,491,839
Meetings and conferences		32,371,153	27,327,379
Amortization	12.3	23,237,617	18,438,325
Travelling and conveyance		20,843,176	16,774,367
Recruitment and development		18,578,354	18,068,993
Legal and professional charges		16,197,532	7,395,790
Consultancies		12,753,249	9,187,019
Newspapers and subscriptions		6,210,679	5,888,034
Auditors' remuneration	25.1	2,247,450	2,097,425
Miscellaneous		22,633,958	7,268,523
		<u>3,988,066,543</u>	<u>2,879,932,851</u>
Expenditure reimbursed during the year	25.2	(131,024,000)	(124,018,700)
		<u>3,857,042,543</u>	<u>2,755,914,151</u>

25.1 Auditors' remuneration

Audit fee
Certifications
Out of pocket expenses

Note

**2017
Rupees**

1,264,450
375,000
608,000
2,247,450

**2016
Rupees**

1,264,450
350,000
482,975
2,097,425

25.2 This represents cost reimbursement from Microfinance Social Development Fund (MSDF) to recover the new client acquisition cost incurred by the Bank under the Loan Agreement (Special Operations) - Microfinance Sector Development Project, Loan #1806 between ADB and Islamic Republic of Pakistan.

26 OTHER CHARGES

Penalties
Workers' welfare fund
Professional tax

26.1

2,820,000
11,915,998
100,000
14,835,998

80,000
9,440,872
200,000
9,720,872

26.1 This represent penalties imposed by State Bank of Pakistan against non-compliance of certain Prudential Regulations and other directives issued by SBP.

27 TAXATION

Current
Prior year: Super tax

27.1

723,552,023
47,569,905
771,121,928
(82,705,687)
688,416,241

499,455,148
32,760,476
532,215,624
(25,867,718)
506,347,906

27.1 The Finance Act 2017 has extended levy of super tax for another year which was earlier introduced by Finance Act, 2015 and is applicable at the rate of 3 percent of the taxable income. The effects of above amendment has been incorporated in these financial statements and an amount of Rs. 47.57 million (2016: 32.76 million) has been recognized as prior year tax charge.

27.2 Tax charge reconciliation

Profit before tax (Rupees)

**2017
Rupees**

2,488,980,906

%
30.00
-
0.13
1.88
(4.31)
-
27.66

**2016
Rupees**

1,779,082,184

%
31.00
-
0.52
1.84
(4.90)
-
28.46

Applicable tax rate
Deferred tax relating to prior periods
Temporary difference
Income tax relating to prior period
Permanent difference
Rate change
Average effective tax rate charged to income

27.3 The applicable income tax rate was reduced from 31% to 30% for the year on account of the changes made to Income Tax Ordinance, 2001 through Finance Act, 2015.

27.4 The applicable income tax rate for tax year 2018 (accounting year 2017) and onward was reduced to 30% through Finance Act 2015. Therefore, deferred tax is computed at the rate of 30% for temporary differences which are expected to be reversed/utilized in future.

28	LOSS BEFORE CHANGES IN OPERATING ASSETS/LIABILITIES	Note	2017 Rupees	2016 Rupees
	Profit before taxation		2,488,980,906	1,779,082,184
	Adjustments for:			
	Depreciation and amortization		219,011,544	173,997,172
	Amortization of deferred grant		-	(24,401,650)
	Provision against non-performing advances		690,079,654	673,517,609
	Gain on disposal of operating fixed assets		2,766,977	(4,875,795)
	Mark-up on advances		(8,109,135,309)	(5,554,368,948)
	Interest on investments and deposit accounts		(631,614,243)	(371,841,057)
	Interest expense on borrowings and deposits		2,995,880,748	1,807,109,349
	Provision against other assets		11,262,361	8,236,104
	Charge for defined benefit plan		75,281,164	61,827,742
	Surplus on revaluation of T-Bills-HFT		(23,749)	-
			(4,746,490,853)	(3,230,799,474)
			(2,257,509,947)	(1,451,717,290)
29	CASH AND CASH EQUIVALENTS			
	Cash and balances with SBP and NBP	7	1,664,250,667	1,300,649,633
	Balances with other banks	8	2,399,132,491	1,387,702,166
	Lending to financial institutions	9	474,532,125	1,544,066,350
			4,537,915,283	4,232,418,149
30	NUMBER OF EMPLOYEES		2017 Number	2016 Number
	Credit sales staff-Permanent		1,779	1,396
	Banking/support staff			
	Permanent		1,500	1,312
	Contractual		645	558
			2,145	1,870
	Total number of employees at the end of the year		3,924	3,266
31	AVERAGE NUMBER OF EMPLOYEES			
	Credit sales staff - Permanent		1,628	1,302
	Banking / support staff			
	Permanent		1,431	1,175
	Contractual		599	529
			2,030	1,704
	Average number of employees during the year		3,658	3,006
32	NUMBER OF BRANCHES			
	Total branches/service centers at beginning of the year		141	129
	Opened during the year			
	Branches		10	10
	Service centers/booths		22	2
	Closed / merged during the year		-	-
	Total branches/service centers/booths at the end of the year		173	141
	Total branches at the end of the year		149	139
	Total service centers/booths at the end of the year		24	2
	Total branches/service centers/booths at the end of the year		173	141

33 EARNINGS PER SHARE

Basic

Basic earnings per share 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 year excluding ordinary shares purchased by the Bank and held as treasury shares.

	2017 Rupees	2016 Rupees
Profit for the year after taxation	1,800,564,665	1,272,734,278
Microfinance Social Development Fund	(180,056,467)	(127,273,428)
Depositors' Protection Fund	(90,028,233)	(63,636,714)
Risk Mitigation Fund	(90,028,233)	(63,636,714)
	(360,112,933)	(254,546,856)
Profit attributable to equity holders	1,440,451,732	1,018,187,422
Weighted average number of ordinary shares (Numbers)	170,500,000	170,500,000
Earnings per share - basic (Rupees)	8.45	5.97

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.

34 REMUNERATION PAID TO PRESIDENT, DIRECTORS AND EXECUTIVES

The aggregate amount charged in the financial statements for remuneration, including all benefits to President /Chief Executive, Directors and Executives of the Company is as follows:

	2017				2016			
	President	Directors	Executives		President	Directors	Executives	
	Rupees				Rupees			
			KMPs	Other			KMPs	Other
Fee	-	300,000	-	-	-	300,000	-	-
Managerial remuneration	9,578,092	-	39,164,704	123,714,709	8,212,728	-	38,333,970	91,775,330
Charge for defined benefit plan	1,298,637	-	5,367,505	17,156,121	1,129,250	-	5,284,227	12,687,982
House rent allowance	4,157,694	-	17,624,111	55,671,651	3,695,724	-	17,250,277	41,298,880
Utilities	1,847,868	-	7,832,940	24,742,819	1,642,548	-	7,666,779	18,355,030
Medical	944,460	-	3,916,468	12,371,615	821,268	-	3,833,395	9,177,572
Conveyance allowance	296,614	-	6,062,471	42,380,013	268,843	-	5,965,041	30,640,913
Bonus	4,500,000	-	19,294,066	21,496,298	3,600,000	-	12,703,420	14,406,646
Others	30,420	-	527,610	11,973,410	30,420	-	239,388	7,153,792
Total	22,653,785	300,000	99,789,875	309,506,636	19,400,781	300,000	91,276,497	225,496,145
Number of person(s)	1	2	11	147	1	2	11	109

- 34.1** The President is also provided with a Bank maintained car. Further, he is entitled to certain additional benefits in accordance with the Bank Policy.
- 34.2** Executives mean employees, other than the Chief Executive and directors, whose basic salary exceeds five hundred thousand rupees in a financial year. Further, executives are entitled to certain additional benefits in accordance with the Bank Policy.
- 34.3** Key Management Personnel (KMP) means persons having authority and responsibility for planning, directing and controlling the activities of the entity, either directly or indirectly, including any member (or non-executive) of the board.

35 SCHEDULE OF MATURITY DISTRIBUTION OF MARKET RATE ASSETS AND LIABILITIES AS AT DECEMBER 31, 2017

	TOTAL	Up to one month	Over one month up to six months	Over six months up to one year	Over one year
Market rate assets					
Rupees					
Advances	32,215,991,964	1,541,219,350	13,701,131,296	15,554,455,890	1,419,185,428
Investments	16,297,589,979	6,059,050,449	9,888,539,530	300,000,000	50,000,000
Other earning assets					
Balances with SBP and NBP - deposit accounts	1,950,135	1,950,135	-	-	-
Balances with other banks - deposit accounts	1,784,899,185	1,784,899,185	-	-	-
Lending to financial institutions	474,532,125	474,532,125	-	-	-
Total market rate assets	50,774,963,388	9,861,651,244	23,589,670,826	15,854,455,890	1,469,185,428
Other non-earning assets					
Cash in hand	534,727,147	534,727,147	-	-	-
Balances with SBP and NBP - current accounts	1,127,573,385	1,127,573,385	-	-	-
Balances with other banks - current accounts	614,233,306	614,233,306	-	-	-
Operating fixed assets	1,141,596,047	105,621,779	375,209,966	172,083,066	488,681,236
Other assets	4,537,439,345	491,133,383	2,204,865,402	1,538,916,237	302,524,323
Deferred tax asset	230,670,339	-	-	-	230,670,339
Total non-earning assets	8,186,239,569	2,873,289,000	2,580,075,368	1,710,999,303	1,021,875,898
Total assets	58,961,202,957	12,734,940,244	26,169,746,194	17,565,455,193	2,491,061,326
Market rate liabilities					
Large time deposits above Rs 100,000	27,723,011,086	1,338,865,202	6,063,122,485	5,114,179,564	15,206,843,835
All other time deposits (including fixed rate deposits)	1,130,229,268	7,785,289	76,079,283	126,869,796	919,494,900
Other cost bearing deposits	11,432,982,853	4,573,193,141	4,573,193,141	2,286,596,571	-
Borrowings	4,782,681,290	75,000,000	693,175,454	909,008,788	3,105,497,048
Total market rate liabilities	45,068,904,497	5,994,843,632	11,405,570,363	8,436,654,719	19,231,835,783
Other non-cost bearing liabilities					
Deposits	5,460,637,527	2,184,255,011	2,184,255,011	1,092,127,505	-
Other liabilities	2,075,886,201	315,377,468	975,867,552	373,163,632	411,477,549
Total non-cost bearing liabilities	7,536,523,728	2,499,632,479	3,160,122,563	1,465,291,137	411,477,549
Total liabilities	52,605,428,225	8,494,476,111	14,565,692,926	9,901,945,856	19,643,313,332
Net assets	6,355,774,732	4,240,464,133	11,604,053,268	7,663,509,337	(17,152,252,006)

35 SCHEDULE OF MATURITY DISTRIBUTION OF MARKET RATE ASSETS AND LIABILITIES AS AT DECEMBER 31, 2016

	TOTAL	Up to one month	Over one month up to six months	Over six months up to one year	Over one year
Rupees					
Market rate assets					
Advances	22,939,531,448	1,367,110,755	9,703,246,861	11,144,912,029	724,261,803
Investments	2,967,965,444	797,340,000	2,170,625,444	-	-
Other earning assets					
Balances with SBP and NBP - deposit accounts	1,830,714	1,830,714	-	-	-
Balances with other banks - deposit accounts	753,577,191	753,577,191	-	-	-
Lending to financial institutions	1,544,066,350	1,544,066,350	-	-	-
Total market rate assets	28,206,971,147	4,463,925,010	11,873,872,305	11,144,912,029	724,261,803
Other non-earning assets					
Cash in hand	445,290,595	445,290,595	-	-	-
Balances with SBP and NBP - current accounts	853,528,324	853,528,324	-	-	-
Balances with other banks - current accounts	634,124,975	634,124,975	-	-	-
Operating fixed assets	719,729,802	27,510,078	114,782,340	93,805,503	483,631,881
Other assets	2,775,892,413	365,152,461	1,256,498,552	959,694,635	194,546,765
Deferred tax asset	137,941,145	-	-	-	137,941,145
Total non-earning assets	5,566,507,254	2,325,606,433	1,371,280,892	1,053,500,138	816,119,791
Total assets	33,773,478,401	6,789,531,443	13,245,153,197	12,198,412,167	1,540,381,594
Market rate liabilities					
Large time deposits above Rs 100,000	9,966,872,092	1,397,951,207	3,270,546,941	2,050,430,962	3,247,942,982
All other time deposits (including fixed rate deposits)	48,340,424	1,344,780	6,779,533	8,597,711	31,618,400
Other cost bearing deposits	7,086,135,839	2,834,454,336	2,834,454,336	1,417,227,167	-
Borrowings	6,199,882,198	550,000,000	1,145,900,454	1,137,550,454	3,366,431,290
Total market rate liabilities	23,301,230,553	4,783,750,323	7,257,681,264	4,613,806,294	6,645,992,672
Other non-cost bearing liabilities					
Deposits	4,078,054,676	1,631,221,870	1,631,221,870	815,610,936	-
Other liabilities	1,457,096,531	784,911,966	748,015,504	265,518,720	158,650,341
Total non-cost bearing liabilities	5,535,151,207	1,916,133,836	2,379,237,374	1,081,129,656	158,650,341
Total liabilities	28,836,381,760	6,699,884,159	9,636,918,638	5,694,935,950	6,804,643,013
Net assets	4,937,096,641	89,647,284	3,608,234,559	6,503,476,217	(5,264,261,419)

36 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

36.1 Interest rate risk

The Bank's exposure to interest rate risk and the effective rates on its financial assets and liabilities as at December 31, 2017 are summarized as follows:

Description	INTEREST/MARK-UP BEARING						NON INTEREST BEARING Total	Total	Interest rate %	
	Maturity up to one year	Maturity after one year & up to two years	Maturity after two years & up to three years	Maturity after three years & up to four years	Maturity after four years & up to five years	Maturity after five years				Sub Total
	Rupees						Rupees			
Financial assets:										
Cash and balances in current and other accounts	-	-	-	-	-	-	2,276,533,838	2,276,533,838	-	
Balance in deposit accounts	1,786,849,320	-	-	-	-	1,786,849,320	-	1,786,849,320	3.75 to 7.25	
Lending to financial institutions	474,532,125	-	-	-	-	474,532,125	-	474,532,125	5.85	
Investments	16,247,589,979	-	-	-	-	50,000,000	-	16,297,589,979	5.98 to 9.25	
Advances	30,796,806,536	1,102,342,502	81,043,103	18,376,150	17,847,428	198,976,245	-	32,215,991,964	5.10 to 32.00	
Other assets	-	-	-	-	-	-	5,909,705,731	5,909,705,731	-	
	49,305,777,960	1,102,342,502	81,043,103	18,376,150	17,847,428	248,976,245	50,774,963,388	8,186,239,569	58,961,202,957	
Financial liabilities:										
Deposits and other accounts	24,159,884,472	2,113,952,697	14,012,386,038	-	-	-	40,286,223,207	5,460,637,527	45,746,860,734	5.00 to 13.00
Borrowings	1,677,184,242	1,726,350,909	951,437,805	356,875,000	70,833,334	-	4,782,681,290	-	4,782,681,290	3.84 to 10.47
Other liabilities	-	-	-	-	-	-	-	2,075,886,201	2,075,886,201	-
	25,837,068,714	3,840,303,606	14,963,823,843	356,875,000	70,833,334	-	45,068,904,497	7,536,523,728	52,605,428,225	
On balance sheet gap	23,468,709,246	(2,737,361,104)	(14,882,780,740)	(338,498,850)	(52,985,906)	248,976,245	5,706,058,891	649,715,841	6,355,774,732	
Unrecognized:										
Commitments	-	-	-	-	-	-	-	(192,292,305)	(192,292,305)	
Off balance sheet gap	23,468,709,246	(2,737,361,104)	(14,882,780,740)	(338,498,850)	(52,985,906)	248,976,245	5,706,058,891	457,423,536	6,163,482,427	

The Bank's exposure to interest rate risk and the effective rates on its financial assets and liabilities as at December 31, 2016 are summarized as follows:

Financial assets:										
Cash and balances in current and other accounts	-	-	-	-	-	-	1,932,943,894	1,932,943,894	-	
Balance in deposit accounts	755,407,905	-	-	-	-	755,407,905	-	755,407,905	3.5 to 6.25	
Lending to financial institutions	1,544,066,350	-	-	-	-	1,544,066,350	-	1,544,066,350	5.75 to 5.90	
Investments	2,967,965,444	-	-	-	-	2,967,965,444	-	2,967,965,444	6.31 to 11.50	
Advances	22,215,269,645	586,505,536	10,227,414	8,491,130	9,171,551	109,866,172	-	22,939,531,448	8.50 to 32.00	
Other assets	-	-	-	-	-	-	3,633,563,360	3,633,563,360	-	
	27,482,709,344	586,505,536	10,227,414	8,491,130	9,171,551	109,866,172	28,206,971,147	5,566,507,254	33,773,478,401	
Financial liabilities:										
Deposits and other accounts	13,821,786,973	1,149,673,082	2,129,888,300	-	-	-	17,101,348,355	4,078,054,676	21,179,403,031	5.00 to 14.00
Borrowings	2,833,450,909	1,440,100,909	1,250,100,909	551,229,471	125,000,000	-	6,199,882,198	-	6,199,882,198	4.11 to 11.32
Other liabilities	-	-	-	-	-	-	-	1,457,096,531	1,457,096,531	
	16,655,237,882	2,589,773,991	3,379,989,209	551,229,471	125,000,000	-	23,301,230,553	5,535,151,207	28,836,381,760	
On balance sheet gap	10,827,471,462	(2,003,268,455)	(3,369,761,795)	(542,738,341)	(115,828,449)	109,866,172	4,905,740,594	31,356,047	4,937,096,641	
Unrecognized:										
Commitments	-	-	-	-	-	-	-	(25,215,902)	(25,215,902)	
Off balance sheet gap	10,827,471,462	(2,003,268,455)	(3,369,761,795)	(542,738,341)	(115,828,449)	109,866,172	4,905,740,594	6,140,145	4,911,880,739	

37 RISK MANAGEMENT

The Bank defines risk as the possible outcome of actions or events which could hamper the Bank's ability to meet its objective (business objectives, ongoing financial viability, legal & regulatory compliance). In order to achieve these objectives, optimal tradeoff between risk and return is the ultimate goal of the Risk Management function within the bank. Based upon the concept of Enterprise Risk Management, the Risk Governance function is segregated into three levels i.e. Strategic, Macro and Micro. The BOD has delegated the oversight function of Risk Management to its Sub-Committee i.e. Board Risk Management Committee. Robust Risk Management System is in place including frameworks, policies, product programs, procedures and manuals to proactively address all potential threats to the Bank. The Bank ensures that the Risk management function is embedded within the culture of the organization.

37.1 Credit risk

Credit risk is the risk of suffering financial loss due to any of Bank's customer or counterparties failing to fulfill their contractual obligations which arise mainly from Bank's lending activities, placement of funds in deposits/money market and taking cover through guarantees and derivatives. The Bank's credit risk philosophy is based on the bank's strategy and risk appetite established by the BOD. The bank has a sound and effective credit risk management system in place in terms of the credit policy, credit risk policy and is integrated in the risk management framework. Credit evaluation system comprises of well-designed credit appraisal, monitoring, mechanism where special focus is given to asset quality management. Further, Credit Risk Unit closely monitors all stages of the credit life cycle including credit appraisal, evaluation, approval and administration, collection and recovery. There is a system in place to identify and correct portfolio concentrations in terms of geographies, products, economic segments etc. The risks identified through portfolio testing are reported to the Risk Management Committees of the bank along-with the corrective action plan. For this purpose various tool and techniques and stress tests are used to ensure that risk-return tradeoff is maintained. Risk review function is independent of those who approve and take risk. The Risk Asset Review function is performed by Risk Management as well as Audit Departments of the bank. The provision of loan losses is maintained in terms of SBP Regulations. The Bank has implemented Risk Rating Models for gauging counter party risks and setting risk appetite limits.

37.2 Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk governance structure of the bank is at the core of the three lines of defense including strategic, macro and micro - integrating risk management practices into processes, procedures, product programs, systems and culture. The framework is based upon SBP guidelines and international best practices, flexible enough to implement in stages and permits the overall approach to evolve in response to banks future requirements. Bank uses various risk mitigating tools and techniques such as Risk and Control Self-Assessment, Key Risk Indicators Analysis, Loss Data Analysis, Scenario Analysis and Stress testing under well-defined programs. There are dedicated units within the bank to manage operational risk, information security risk, business continuity risk, disaster recovery risk etc.

37.3 Market risk

Market risk is the risk that banks earnings or capital can be adversely affected by movement in market rates and prices. The Bank is directly exposed to market risk through its investment in instruments whose value is influenced by the market (investment price risk) and position in financial assets and liabilities that are not matched in terms of reprising dates or interest rate basis (interest rate risk). The Bank is indirectly exposed to market risk through its collateralized lending whose value is marked to market. In order to manage these risk effectively, the Risk Management Department has developed and implemented Market Risk Framework including defined policies, procedures, tools and

methodology to identify, measure, monitor and control market risk. The tools include Value-at-Risk (VaR), Price Value of Basis Point (PVBP) and Stress Testing to track potential losses. Risk levels are kept under check through defined Risk Appetite Limits which are periodically reviewed & approved. The marked to market portfolio is revalued on daily basis to ensure that there are no breaches of Risk Appetite Limits/Tolerance Levels. The bank has a strong Treasury Middle Office function to monitor and report risk on an ongoing basis. The Bank's investments comprises of available for sale (AFS), held to maturity (HTM) and held for trading (HFT) portfolios. The objective of mix portfolio is to make maximum returns and capital gains.

37.4 Liquidity risk

Liquidity risk is the risk that Bank will be unable to meet its obligations in a timely manner as they fall due. The Market and Liquidity desk monitors risk appetite limits to avoid undue threats. The Bank's liquidity position is monitored by ALCO on monthly basis through liquidity and capacity ratios, concentrations in terms of nature and size of funding on portfolio as well as transaction basis, funding liquidity and cashflow gaps etc. The bank has a comprehensive Liquidity Contingency Plan in place to manage liquidity risk and maintains sufficient counter balancing capacity at all times to meet all its obligations on timely basis. As at year end, the Bank has unavailed facilities cumulatively amounting to Rs. 3,650 million (2016: Rs. 400 million).

37.5 Capital adequacy risk

Capital adequacy risk is the risk that the bank may not meet minimum regulatory capital requirements. The bank has a strong capital base and also maintains Risk Appetite Limit which is higher than the regulatory requirement. While setting targets in business and strategic plans, it is ensured that optimal use of available capital is made.

37.6 Currency risk

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rate. Currency risk arises in financial instruments that are denominated in foreign currencies. The bank has obtained foreign currency borrowings from banks and hedged its foreign currency exposure by entering into cross currency swap agreements to mitigate this risk. The Bank has obtained foreign currency borrowings from ECO Trade and Development Bank and hedged its foreign currency exposure by entering into cross currency SWAP agreements with JS Bank Limited.

37.7 Social and environmental risk

Social and environmental risk is the risk of KMBL's activities or transactions directly or indirectly resulting in any loss or harm to the environment and to any individual. The bank is committed to adequately balancing its core objective of financial sustainability with its social mission of economic empowerment by improving the standard of living and accessibility of financial services. The Bank seeks to adhere to socially and environmentally sustainable business principles which create an environment that encourages the development of long-term value, the development of communities in which it operates and serves high standards of occupational health and safety, and of environmental, social and ethical responsibility. For realization of the social and environmental goals, concrete and measurable performance objectives are integrated into business planning, strategic and operational decision making processes and its wider governance structure. Social and environmental risks arising from the totality of the bank's operations and business activities are adequately defined, monitored and mitigated, within the bank's overall ESMS (Environmental and Social Management System). ESMS is a management process and goal oriented function whereby the institution specifies its social and environmental goals, aligns them to different functions of the bank, creates processes for said functions to achieve these goals, and following the implementation assesses the performance of the Bank in relation to its social and environmental goals.

37.8 Fair value of financial instruments

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date. The financial instruments

that are not traded in active market are carried at cost and are tested for impairment. The carrying amount of other receivables and payables are assumed to approximate their fair values.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Bank for similar financial instruments.

38 CUSTOMER GRIEVANCE

38.1 Overview

The Bank is committed to achieve and maintain professional excellence in managing customer’s complaints. A centralized Complaint Cell is established at Corporate Office to ensure that complaints raised by the customers are dealt promptly, efficiently, fairly and courteously at all times. The Bank believes in absolute customer satisfaction and is cognizant of the fact that any dissatisfied customer can affect Bank’s image and reputation.

38.2 General process for complaint resolution

Customer complaints received from any of the specified channels are being lodged, acknowledged, investigated and responded as per the timelines defined by State Bank of Pakistan. After doing an early assessment of a complaint, it is further assigned to the concerned department for investigation. Upon satisfaction with inquiry findings, Complaint Cell informs the customer about the resolution details with alternate grievance redressal forum, if dissatisfied with the resolution.

38.3 Initiative taken during 2017

The following initiatives were undertaken by the Bank.

- As part of Fair Treatment of Customer (FTC) initiatives, Service Quality Unit has added a dedicated toll free number 0800-88887 to Complaint Cell, where customers can call during business hours and register their grievances related to Products/Services/Staff. Same complaint lodgment services are available at Banks Call Center as well.
- The Bank Complaint Cell has made significant efforts to increase the Customer’s awareness level regarding their rights of making complaint. Keeping in view the literacy level of Banks customers, contact points and complaint lodgment procedures are displayed at branches and on webpages both in Urdu and English Languages. Customers are encouraged to lodge their concerns without any distress.
- In terms of Complaint Resolution, turnaround time has been significantly reduced to enrich customer’s satisfaction up to optimum level. The average turnaround time has been substantially improved during the year 2017 as compared to 2016.

The total number of complaints received by KMBL and average time taken to resolve these complaints are mentioned hereunder:

	2017 Number	2016 Number
Total number of complaints received by the Bank during the year	475	491
Average time taken to resolve:	5	9

39 FAIR VALUE MEASUREMENT

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable willing parties in an arm’s length transaction. Consequently, differences can arise between carrying values and fair value estimates.

Underlying the definition of fair value is the presumption that the Bank is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms

Financial assets which are traded in an open market are revalued at the market prices prevailing at the close of trading on the reporting date. The estimated fair value of all other financial assets and liabilities is not considered to be significantly different from book values as the items are either short-term in nature or periodically reprised. Set out below is a comparison by category of carrying amounts and fair values of the Bank's assets and liabilities, that are carried in the statement of the financial position:

Assets	Note	Carrying amount		Fair Value	
		2017	2016	2017	2016
		Rupees		Rupees	
Available for sale securities		12,160,728,430	1,467,965,444	12,160,728,430	1,467,965,444
Held for sale securities Investments	10	2,071,861,549	-	2,071,861,549	-
		<u>14,232,589,979</u>	<u>1,467,965,444</u>	<u>14,232,589,979</u>	<u>1,467,965,444</u>

The fair value of financial assets and liabilities except fixed term loan, staff loan, non-performing advances, and fixed term deposits is not significantly different from the carrying amount since assets and liabilities are either short term in nature or frequently reprice in the case of customer loan and deposits.

The fair value of fixed term loan, staff loan and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for such assets/liabilities and reliable data regarding market rates for similar instruments. The provision for non-performing advance is calculated in accordance with the Bank's accounting policy as stated in the policy note.

The management assessed that the cash, deposits, other assets and other liabilities approximate their fair value amounts largely due to the short-term maturities of these instruments except stated above.

Fair value hierarchy

International Financial Reporting Standard (IFRS) 13, "Fair Value Measurement" requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

The Bank use the following hierarchy for determining and disclosing the fair value of the assets and liabilities by valuation method:

Level 1: based on quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: based on valuation techniques whereby all inputs having a significant effect on the fair value are observable, either directly or indirectly and includes quoted prices for identical or similar assets or liabilities in markets that are not so much actively traded.

Level 3: based on valuation techniques whereby all inputs having a significant effect on the fair value are not observable market data.

The following table provides the fair value measurement hierarchy of the Bank's assets and liabilities. The valuation was carried at December 31, 2017.

Assets	Note	2017 Rupees	Level of hierarchy	Significant unobservable inputs	Inter-relationship between unobservable inputs and fair value
Investments	11	<u>14,232,589,979</u>	Level 2	*	
Market Treasury Bills					

*Note: Prices are derived from market corroborated sources such as indices and yield curves; and matrix pricing

Valuation technique used & key inputs

Revaluation rates for T-bills are contributed by money market brokers on daily basis

Transfer between levels of the fair value hierarchy are recognized at the end of the reporting period, during which the changes have occurred.

During the reporting period there were no transfers into and out of level 3.

Cross currency swap agreements entered during the year have not been revalued at fair value as at the balance sheet date as the SBP, vide BSD Circular letter No. 10, dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement. Subsequently, vide BSD Circular letter No. 6 of 2007 dated September 06, 2007, the SBP further instructed the Banks/DFIs, that as implementation of IAS 39 has been deferred, therefore, Banks /DFIs should not implement IAS 39 in respect of particular segment of investments or any other category of financial assets or liabilities until and unless SBP issues instructions for adoption of these standards by Banks/DFIs. Had the derivatives been measured at fair value as at December 31, 2017, profit for the year would have been lower by Rs. 32.37 million (2016: Rs. 22.88 million) on account of unrealised loss based on fair value confirmations obtained from counterparties to the said transactions.

39.1 The reconciliation of the opening and closing fair value balance of level 1 and 2 financial instruments is provided below:

	2017 Rupees	2016 Rupees
Opening balance	1,467,965,444	1,347,825,070
Additions during the year	26,318,380,874	3,025,241,200
Unrealised fair value gain/(loss) included in other comprehensive income		
Disposals during the year	49,692	(515,226)
Closing balance	<u>(13,553,806,031)</u>	<u>(2,904,585,600)</u>
	<u>14,232,589,979</u>	<u>1,467,965,444</u>

40 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. The detail of Bank's shareholders is given in note 18.2.1 while remuneration of President, Directors and Executives is disclosed in note 34 to the financial statements. Detail of transactions during the year and balances outstanding at the year end are as follows:

	2017 Rupees	2016 Rupees
Transactions during the year		
- with shareholders		
Lending to financial institutions	9,820,000,000	10,220,000,000
Repayment of lending to financial institutions	9,345,000,000	10,220,000,000
Investments made during the year	2,800,000,000	350,000,000
Borrowings	175,000,000	289,182,170
Repayment of borrowings	1,091,764,314	314,182,182
Branchless banking services recovery of loan portfolio	2,487,684,926	1,947,619,194
ATM services payments	14,825,318	6,023,242
Income		
Interest income on deposit account bank balances	2,570,308	1,503,906
Interest income on lending to financial institutions	4,124,980	11,157,396
Expenses		
Interest expense on borrowings	14,455,623	60,501,324
Fee, Commission & Bank charges	3,515,184	183,616
Branchless banking service commission/ATM charges	37,514,289	33,498,750

	2017 Rupees	2016 Rupees
- with defined benefit plan		
Contribution paid to KB employees gratuity fund	53,723,044	145,597,228
- with others		
Cost reimbursement received from MSDF	-	484,103,899
Cost reimbursement claim from MSDF	131,024,000	124,018,700
Balances outstanding at the year end		
- with shareholders		
Balances with banks	70,138,453	60,115,538
Lending to financial institutions	475,000,000	-
Interest receivable on lending to financial institutions	228,000	-
Branchless banking services commission payable	3,465,897	2,010,872
Borrowings	-	882,250,000
Interest payable on borrowings	-	18,056,585
- with defined benefit plan		
Balance payable to gratuity fund	71,311,742	16,292,240
- with key management personnel including President		
Advances - staff loans	72,417,964	66,595,293
Other assets - loans and advances to employees	8,463,316	10,985,288
Deposits	32,292,299	28,935,489
- with others		
Receivable from MSDF	588,880,528	267,138,823

41 CAPITAL RISK MANAGEMENT

The Bank's objectives when managing its capital are:

- a) To comply with the capital requirements set by the SBP;
- b) To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- c) To maintain a strong capital base to support the development of its business.

Capital requirements applicable to the Bank are set out under the Regulations. These requirements are put in place to ensure sufficient solvency margins. The Bank manages its capital requirement by assessing its capital structure against required capital level on regular basis. Currently, the Bank has paid up capital of Rs. 1.705 billion. The minimum paid up capital requirement applicable to the Bank is Rs. 1.00 billion. The Bank has maintained capital adequacy ratio in accordance with Regulation No. 1 which states that the Bank shall maintain capital equivalent to at least 15% of its risk-weighted assets.

The Bank will continue to maintain the required regulatory capital either through its risk management strategies or by increasing the capital in line with the business and capital needs.

42 GENERAL INFORMATION

The following information is included in these financial statements to facilitate the calculation of financial ratios

	2017 Number	2016 Number
Offices		
Total branches of the Bank	149	139
Total service centers/of the Bank	24	2
Micro-credit cases		
Number of active cases at year end	671,015	556,787
Number of loans disbursed during the year	736,377	620,737
Average number of active borrowers for the year	613,901	538,652

Microcredit portfolio

Microcredit advances receivable - Gross
Total disbursements for the year

2017 Rupees	2016 Rupees
32,424,970,710	23,133,632,179
38,187,758,821	27,377,582,629

Portfolio Quality

Portfolio at risk
Portfolio written off
Loan loss reserve

324,248,556	347,374,171
484,343,342	535,708,408
597,751,530	369,449,807

Average loan sizes

Average outstanding loan size
Average gross loan portfolio

48,322	41,548
27,779,301,445	20,261,634,302

Information about the Bank's assets/liabilities

Total assets
Current assets
Fixed assets
Average total assets
Current liabilities
Bank's equity

58,961,202,957	33,773,478,401
55,817,226,820	31,996,998,886
1,141,596,047	719,729,802
46,367,340,679	30,234,912,275
32,962,114,893	22,031,738,747
6,354,160,190	4,937,096,641

43 FINANCIAL RATIOS

Note

Sustainability/Profitability

Return on equity
Adjusted return on equity
Return on assets
Adjusted return on assets
Operational self sufficiency
Financial self sufficiency
Profit margin

	2017 Percentage	2016 Percentage
43.1	28.15%	23.43%
43.2	27.21%	21.93%
43.3	3.43%	3.44%
43.4	3.31%	3.22%
43.5	130.57%	129.15%
43.6	130.00%	128.00%
43.7	23.41%	22.57%

Asset/Liability Management

Current ratio
Yield on gross loan portfolio
Yield gap
Funding-expense ratio
Cost-of-funds ratio

43.8	1.69	1.45
43.9	28.88%	31.47%
43.10	14.43%	7.26%
43.11	10.68%	8.86%
43.12	7.69%	7.40%

Portfolio Quality

Portfolio at risk
from 1 - 29 days
from 30 - 59 days
from 60 - 89 days
from 90 - 179 days
over 179 days

43.13		
	0.71%	0.83%
	0.36%	0.43%
	0.15%	0.23%
	0.32%	0.47%
	0.18%	0.37%

Write-off ratio

43.14	1.73%	2.63%
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Risk coverage ratio

43.15	184.35%	106.36%
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Efficiency/Productivity

Operating expense ratio
Cost per borrower (Rupees)
Personnel productivity
Loan officer productivity
Average disbursed loan size (Rupees)
Average outstanding loan size (Rupees)

43.16	14.26%	14.17%
43.17	6,515	5,362
43.18	171	170
43.19	377	399
43.20	51,859	44,105
43.21	48,322	41,548

- 43.1** Return on equity (RoE) calculates the rate of return on the average equity for the year. RoE calculations are net operating income less taxes divided by average equity for the year.
- 43.2** Adjusted return on equity is calculated on an adjusted basis to address the effects of subsidies, provision against non-performing advances and other items that are not in the Bank's net operating income.
- 43.3** Return on assets (RoA) measures how well the Bank uses its total assets to generate returns. RoA calculations are net operating income less taxes divided by average assets during the year.
- 43.4** Adjusted return on assets is calculated on an adjusted basis to address the effects of subsidies, provision against non-performing advances and other items that are not included in the Bank's net operating income.
- 43.5** Operational self sufficiency measures how well the Bank covers its costs through operating revenues. In addition to operating expenses, financial expenses and loan loss provision expense are also included in the calculation.
- 43.6** Financial self sufficiency measures how well the Bank covers its costs, taking into account a number of adjustments to operating revenues and expenses. The purpose of these adjustments is to model how well the Bank covers its costs if its operations were unsubsidized and was funding its expansion with commercial-cost liabilities.
- 43.7** Profit margin measures the percentage of operating revenue that remains after all financial, loan loss provision and operating expenses are paid.
- 43.8** Current ratio measures how well the Bank matches the maturities of its assets and liabilities.
- 43.9** Yield on gross loan portfolio indicates the gross loan portfolio's ability to generate cash financial revenue from interest, fees and commission. It does not include any revenues that have been accrued but not paid in cash, or any non-cash revenues in the form of post-dated cheques, seized but unsold collateral, etc.
- 43.10** Yield gap compares revenue actually received in cash with revenue expected from microcredit advances.
- 43.11** Funding-expense ratio shows the blended interest rate the Bank is paying to fund its financial assets. This ratio can be compared with yield on the gross microcredit advances to determine the interest margin.
- 43.12** Cost-of-funds ratio gives a blended interest rate for all of the Bank's funding liabilities. Funding liabilities do not include interest payable or interest on loans to finance fixed assets.
- 43.13** Portfolio at risk ratio is the most accepted measure of portfolio quality. Portfolio at risk is the outstanding amount of all loans that have one or more installments of principal past due by certain number of days. Rescheduled loans are also included in the calculation, if any.
- 43.14** Write-off ratio represents the percentage of the Bank's microcredit advances that have been removed from the balance of the gross microcredit advances because they are unlikely to be repaid.
- 43.15** Risk coverage ratio shows how much of the portfolio at risk is covered by the Bank's provision against non-performing advances. It is an indicator of how prepared the Bank is to absorb loan losses in the worst case scenario.
- 43.16** Operating expense ratio is the most commonly used efficiency indicator for Microfinance Banks. It includes all administrative and personnel expenses.
- 43.17** Cost per borrower provides a meaningful measure of efficiency for the Bank, by determining the average cost of maintaining an active borrower.
- 43.18** Personnel productivity measures the overall productivity of total Bank's human resources in managing clients who have an outstanding loan balance and are thereby contributing to the financial revenue of the Bank.
- 43.19** Loan officer productivity measures the average case load of each loan officer.
- 43.20** Average disbursed loan size measures the average loan size that is disbursed to clients.

43.21 Average outstanding loan size measures the average outstanding microcredit balance by client, which may be significantly less than the average disbursed loan size.

44 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors in their meeting held on February 14, 2018 proposed a cash dividend in respect of financial year 2017 of Rs. 0.53 per share (2016: NIL). This appropriation will be approved in the forthcoming Annual General Meeting. The financial statements for the year ended December 31, 2017 do not include the effect of these appropriations which will be accounted for in the financial statements for the year ending December 31, 2018.

45 MATERIAL OUTSOURCING ARRANGEMENT

In compliance to the BPRD circular no 06 of 2017 of SBP, the material outsourcing arrangements of the bank are listed below;

Sr No	Name of the service provider	Nature of service	Estimated cost of outsourcing
1	Data technology	Data archive and record management	Rs 9.6 million p.a
2	United Bank Limited	ATM/Debit Card production/ packaging & dispatch	Rs 1.5 million p.a
3	United Bank Limited	Call Center services	Rs 12.2 million p.a
4	United Bank Limited	SMS Alert on Debit card transaction	Rs 0.3 million p.a
5	Telenor Pakistan (Pvt.) Limited	SMS transaction alert/intimation to the bank clients	Rs 2.2 million p.a
6	Family Planning Association of Pakistan	Client mobilization for group loans	Rs 47.7 million p.a
7	Health & Nutrition Development Society	Client mobilization for group loans	Rs 10.5 million p.a
8	Sindh Graduate Association	Client mobilization for group loans	Rs 19.8 million p.a
9	Human Development Foundation	Client mobilization for group loans	Rs 85.5 million p.a
10	Society for Human Development	Client mobilization for group loans	Rs 16.6 million p.a
11	Prime Human Resource	Employees various Outsourcing services	Rs 191 million p.a
12	Security and Management Services	Security Guard Services	Rs 112 million p.a

46 DATE OF APPROVAL

These financial statements were approved by the Board of Directors of the Bank in their meeting held on February 14, 2018.

47 GENERAL

47.1 Account captions as prescribed by BSD circular No. 11 dated December 30, 2003 which have nil balances, have not been reproduced in these financial statements.

47.2 Figures have been rounded off to the nearest rupee.

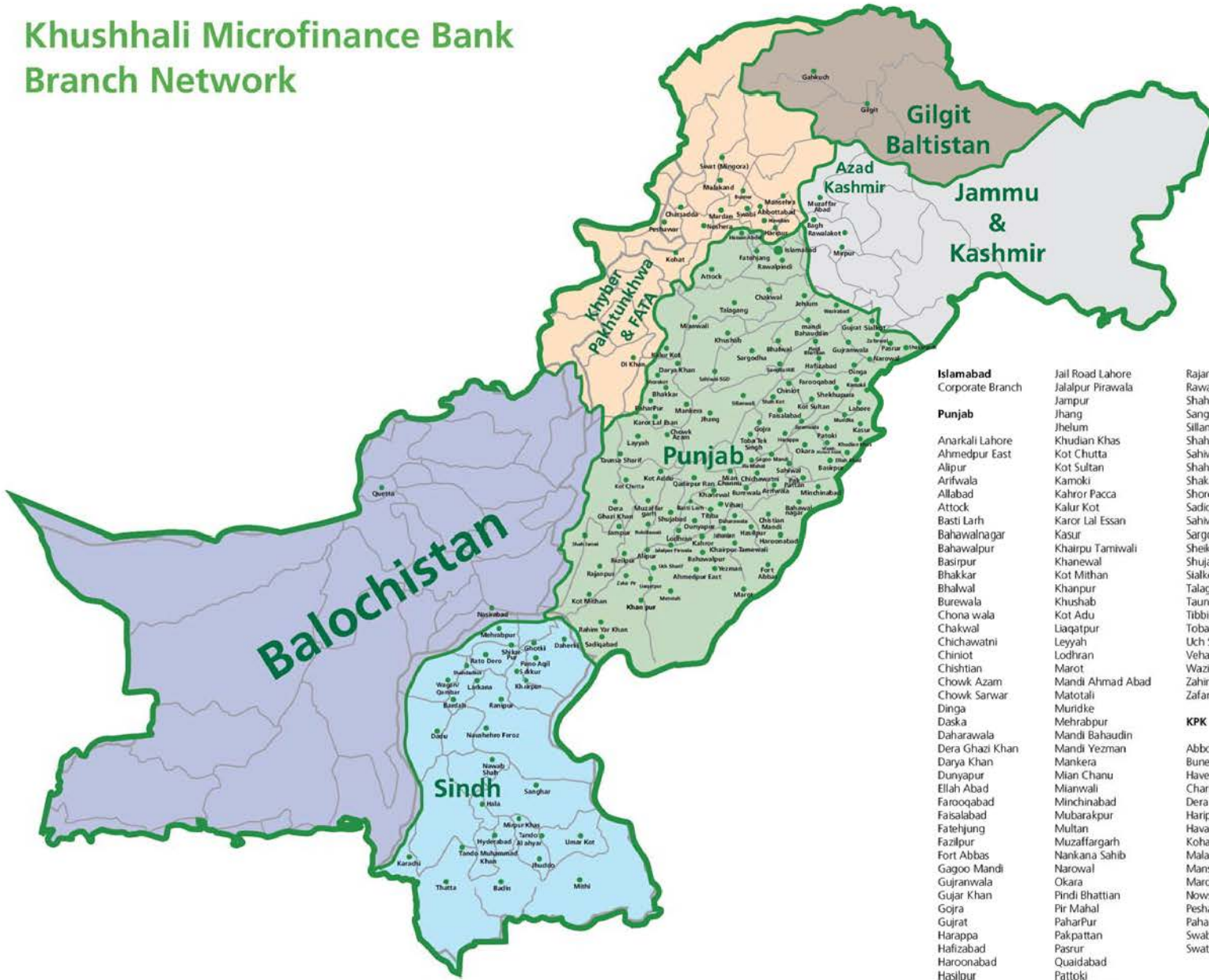

PRESIDENT


CHAIRMAN


DIRECTOR


DIRECTOR

Khushhali Microfinance Bank Branch Network



- Islamabad**
Corporate Branch
- Punjab**
Anarkali Lahore
Ahmedpur East
Alipur
Arifwala
Allabad
Attock
Basti Larh
Bahawalnagar
Bahawalpur
Basirpur
Bhakkar
Bhalwal
Burewala
Chona wala
Chakwal
Chichawatni
Chiniot
Chishtian
Chowk Azam
Chowk Sarwar
Dinga
Daska
Daharawala
Dera Ghazi Khan
Darya Khan
Dunyapur
EllaH Abad
Farooqabad
Faisalabad
Fatehjung
Fazilpur
Fort Abbas
Gagoo Mandi
Gujranwala
Gujar Khan
Gojra
Gujrat
Harappa
Hafizabad
Haroonabad
Hasilpur
Hassanabdal
Jahanian
Jaranwala
- Jail Road Lahore
Jalalpur Pirawala
Jampur
Jhang
Jhelum
Khudian Khas
Kot Chutta
Kot Sultan
Kamoki
Kahrur Pacca
Kallar Kot
Karor Lal Essan
Kasur
Khairpu Tamiwali
Khanewal
Kot Mithan
Khanpur
Khusab
Kot Adu
Liaquatpur
Leyyah
Lodhran
Marot
Mandi Ahmad Abad
Matotali
Muridke
Mehrabpur
Mandi Bahaudin
Mandi Yezman
Mankera
Mian Chanu
Mianwali
Minchinabad
Mubarakpur
Multan
Muzaffargarh
Nankana Sahib
Narowal
Okara
Pindi Bhattian
Pir Mahal
PaharPur
Pakpattan
Pasrur
Quaidabad
Qasba Gurat
Qadirpur Rawan (Looter)
Rohillawali
Rahim Yar Khan
- Rajanpur
Rawalpindi
Shah Jamal
Sanglla Hill
Sillanwali
Shahdra-Lahore
Sahiwal-SCD
Shah Kot
Shakargarh
Shorekot
Sadiqabad
Sahiwal
Sargodha
Sheikhupura
Shujaabad
Stalkot
Talangang
Tausna Sharif
Tibbi
Toba Tek Singh
Uch Sharif
Vehan
Wazirabad
Zahir Pir
Zafarwal
- KPK**
Abbotabad
Buner
Havelian
Charsada
Dera Ismail Khan
Haripur
Havelian
Kohat
Malakand Agency
Mansehra
Mardan
Nowshera
Peshawar
Paharpur
Swabi
Swat (Mingora)
- Sindh**
Badah
Badin
Dadu
Daherki
Ghotki
Hala
Hyderabad
Jhuddo
Kunri
Kashmore
Karachi
Kandh kot
Karachi- Korangi
Khairpur
Larkana
Mehar
Mirpurkhas
Mithi
Nashero Feroze
Nawabshah
Pannu Aqil
Ranipur
Ratodero
Shahdad Kot
Sanghar
Shikarpur
Sukkur
Tando Allahyar
Tando Adam
Tando Muhammad Khan
Thatta
Umar kot
Wagan/Kambar
- Balochistan**
Nasirabad
- AJK**
Muzaffarabad
Rawlakot
Bagh
Mirpur
- GB**
Gilgit
Gahkuch

Khushhali Microfinance Bank Network 2017

AJK

Muzaffarabad

Raza Building, Poultry Farm Road, Opp. AJK University, Muzaffarabad.
Ph:05822-920467/68/69

Bagh

Al-Noor Plaza Near MDS, College Road Bagh.
Ph: 05823-920158

Mirpur

Allama Iqbal Road, Opp. BOK, Nangi Area, Mirpur-AJK.
Ph: 05827448702

Rawalakot

Al-Makah Shopping Plaza, Near Ali Firdos Clinic, CMH- Road, Rawalakot.
Ph: 058-24442263

Nasirabad

Near Police Station, Quetta Road, Dera Murad Jamali, Nasirabad Balouchistan.
Ph: 0838-711338

Gilgit

Abdul Hakim Market, Near Radio Pakistan, Zulfiqarabad Jutial, Tehsil & District Gilgit.
Ph: 05811-450740

Gahkuch

Opp. City Park Main Bazar, Gahkuch, District Ghizar.
Ph: 05814-451655

Aliabad

Raman Plaza, Near Agha Khan Center, Karakoram Highway, Aliabad, Hunza.
Ph: 05813-455041

ICT

Islamabad

Ground Floor, 94 West Jinnah Ave, Blue Area, Islamabad.
Ph: 051-2804191

KPK

Abbotabad

Ground Floor, Ali Plaza, Supply Bazar, Mansehra Road, Abbotabad.
Ph: 0092-341622/330871

Haripur

Pankad Area, Shahrah-e-Hazara, Haripur.
Ph: 0995-610181

Havelian

Malik Cottage, Main Bazar, Havelian, District Abbottabad.
Ph: 0992-810963

Mansehra

Ammar Arcade, Opp. Noor College, Balakot Road, Mansehra.
Ph: 0997-304086

Dera Ismail Khan

Near Tank Adda, West Circular Road, Dera Ismail Khan.
Ph: 0996-716859/711382

Paharpur

Opp. National Bank Limited, Rangpur Road, Paharpur, District Dera Ismail Khan.
Ph: 0966-775224/25

Buner

Irsal Plaza, Opp. New Adda, Mardan Road, Sawari District Buner, KPK.
Ph: 0939-555637/555538

Peshawar

Amin Hotel Main Hashtnagri, GT Road, Peshawar.
Ph: 091-2612388/90

Swabi

Rehman Market, Mardan Road, Swabi.
Ph: 0938-223113/223212

Charsadda

M.G. Plaza, Tangi Road, Charsadda.
Ph: 091-6513300

Peshawar

Al-Jamil City Centre, Near Police Petrol Pump, GT Road, Nowshera.
Ph:0923-610923

Malakand

Shop# 1-5 & 29-34, Tahir Plaza, Main Bazar Batkhela, Malakand Agency.
Ph: 0932-415040

Mardan

CB 445/A-2, Saddar Bazar, The Mall, Mardan Cantt.
Ph: 0937-870194/96/69

Kohat

Najam Complex, Near Police Lines, Hangu Road, Kohat.
Ph: 0922560356

Swat(Mingora)

Shahzad Plaza, Makan Bagh, Mingora, Swat.
Ph:0946-724741/42/43/44/46

Attock

BVII-56 & 57, Indus Plaza, Near Geedar Chowk, Barg/Hamam Road, Attock City.
Ph: 0572700762/63/64

Hassanabdal

Near Hassanabdal Bus Stand, Main Peshawar Road, Hassanabdal.
Ph: 0572-520097/98/520191

Punjab

Bahawalpur

Opp. Bahawalpur Hospital, Model Town 'C' Road, Bahawalpur.
Ph:0622-884315/16/18/
0622-882856/889612

Hasil Pur

Near Al-Riaz Honda Agency, Main Bahawalpur Road, Hasilpur.
Ph: 062-2449935

Mandi Yazman

Khata/Khawati No 404, Khatooni No 609, Situated at chak No 56/DB Alif, Bhawalpur Road, Opposite NBP Bank Mandiyazman, Tehsil Yazman District Bhawalpur.
Ph: 062-2702184/85

Jalalpur Pirwala

Madina Market, Near General Bus Stand, Multan Road, Jalalpur Pirwala.
Ph:061-4212300/4212292
061-4212299/4210707

Khair Pur Tamewali

Khata# 119/111, Khatooni 271-276, Opp. Chand Restaurant, Tehsil Khairpur Tamewali, District Bahawalpur.
Ph: 0622-262010/11

DunyaPur

Near Al-Mulk Hospital, Railway Road, Duniyapur.
Ph: 0608-304317

Kahrer Pacca

Union Council Bukshi Wali, Ward No. 16 / 8, Near Railway Chowk, Lodhran Road, Kahrer Pacca.
Ph: 0608-342123

Lodhran

Khushhali Microfinance Bank near Jalalpur Mor, Lodhran.
Ph:0608-9361321/22/23/24

Bhakkar Area

Plot # 155-2, Club Road, Mandi Town, Bhakkar.
Ph: 0453-510187

Chok Azam

Multan-Mainwali Road, Near Greenway Petrol Pump, Chowk Azam, Tehsil & District Layyah.
Ph: 0606-381057/58

Darya Khan

Opposite PTCL Exchange, Near Hasmi Chowk Darya Khan, Bhakkar Road, Darya Khan .
Ph: 0453-252678

Kallur Kot

Ward #2, Lodhi Market, Sargodha Road, Kallur Kot.
Ph: 0453-200892/200992

Karor Lal Essan

Sewag Plaza, Opp. PTCL Exchange Fateh Pur Road, Karor Lal Essan, District Layyah.
Ph: 0606-811506/811505

Layyah

Plot# 405/B, Main Choubara Road, Layyah
Ph: 0606-414506/412207
0606-414706

Mankera

Near UBL, Jhang-Bhakkar Road, Tehsil Mankera, District Bhakkar.
Ph: 0453-410323/24/25

DG. Khan

Block J, Railway Road, DG. Khan.
Ph: 092-642470722

Mubarakpur

Street# 1, Abbasia town, Main Noor pur Kotla-Musa Khan Road, Opposite Al-Makka Petroleum, Mubarak pur Tehsil Ahmad Pur East, District Bahawalpur.

Kot Chutta

khata# 109, opp. Tehsil Office, Main Indus Highway, Kot Chutta.
Ph: 064-2843282

Fazilpur

M.Ismail Plaza, Main Indus Highway, Fazilpur Tehsil & District Rajanpur.
Ph: 0604-681090/681660

Jampur

Pesticide Market, Dajal Road, Jampur.
Ph: 0604-568800

Taunsa Sharif

Khushhali Microfinance Bank Ltd, Mangrotha Road, Taunsa Sharif .
Ph: 064-2601367

Kot Mithan

Registry No. 1018 & 1081, Darbar Road, Ward No.7, Kot Mithan.
Ph: 0604-317330

Rajanpur

Kamran Market, Main Indus Highway, Rajanpur.
Ph: 0604-690120

Tibbi

Main indus Highway, Tibbi-Qaisrani.
Ph: 0332-7194794

Chiniot

461-C-D Chaudhary Center, Jhumra Chowk, Jhang Road, Chiniot.
Ph: 047-6332692/93/91

Faisalabad

Plot# 834/A, Ayubi Plaza, Liaqat Road, Faisalabad.
Ph: 041-2616146/48

Shorkot

Near Sabir Chowk, Jhang Road, Shorkot City.
Ph: 047-5310472

Chona wala

Chak # 161, Murad chona wala.
Ph: 0622400053

Jhang

Canal Colony Road, Near District Courts, Jhang.
Ph: 047-7620985/620981
047-7627940

Hafizabad

Near Fiza Parda House, Gujranwala Road, Hafizabad.
Ph: 0547-541142

Jaranwala

Ismail Plaza, Faisalabad Road, Near FESCO Office Jaranwala.
Ph: 041-4310340

Toba Tek singh

Al-Aziz Center, Shorkot Road.
Ph: 046-2517512

Gojra

Ground Floor Saddique Plaza Tehsil Office Road, Gojra.
Ph: 0463-516504/05

Narowal

Near Chan Peer Darbar, Mohalla Sadique Pura, Narowal.
Ph: 0542-414267
0542-414167/68

Muridke

Near Bilal Masjid, Main G.T Road, Murdike.
Ph: 042-37980653/52

Gujranwala

Mian Sansi, Sheikhpura Road, Gujranwala.
Ph: 055-4440146/48/50

Wazirabad

Main Sialkot Road, Opp. Bandhan Marriage Hall, Wazirabad.
Ph: 055-6604693

Kamoki

197/162 Near Shifa Eye Hospital, Main G.T Road, Kamoki.
Ph: 055-6816240/41

Pasrur

Faisal Colony, Near Gujjar PSO Petrol Pump, Pasrur
Ph: 052-6442249

Gujrat

Shehroz Plaza, Near SA Fans, G.T Road, Gujrat.
Ph: 053-3536275

Shakargarh

Maqsood Plaza, Railway Road, Shakargarh.
Ph: 0542-451181/82

Sialkot

Shahab Pura Road, Near Alam Chowk, Sialkot.
Ph: 052-3258440

Daska

Circular Road, Civil Chowk Daska.
Ph: 056-6618120/25

Nankana Sahib

Adjacent Khalid Rice Mill, Morni Wala Karkhan, Nankana Sahib.
Ph: 056-2877212/13/14

Pattoki Branch

Khasra # 1920, 1573, Khewat # 926 Khatoni # 2857, Main Multan Road, Opposite Naseem Anwar Hospital Tehsil Patoki, District Kasur.
Ph: 049-4425350

Shahdara Lahore

Khasra# 69, 71, Near Allah Ho Darbar, Adjacent ZTBL, Jia Musa, Sheikhpura Road, Shahdara Lahore.
Ph: 042-37922966

Khudian Khas

New Lari Adda, Depalpur Road. Khudian Khas, Tehsil & District Kasur.
Ph: 049-2791062

Sheikhpura

Al-Rehman Center, Near Millan Marriage Hall, Lahore Road, Sheikhpura.
Ph: 056-3792192

Kasur

Minhas Colony Chowk, Khan Mahal Cinema, Main Lahore Road, Kasur.
Ph: 049-2773202/3

Anarkali Lahore

H#17 Haji buksh, New Anarkali, Fayyaz Road, Lahore
Ph: 042-37115622/23/24

Shahkot

Jaran Wala Bazar, Melad Chowk, Shahkot.
Ph: 056-3712283

Jail Road-Lahore

15 Shadman Chowk, Jail Road, Lahore.
Ph: 042-35408679

Jahanian

Khewat no 19 Chak No 111/ 10R Opposite Govt Middle School No 3 for boys, Madina Chowk Jahanian District Khanewal.
Ph: 065-2211272/73

Chowk Sarwar Shaheed

Near MCB, MM Road, Chowk Sarwar Shaheed, Tehsil Kot Addu, District Muzaffargarh.
Ph : 0662210351-52-53

Kot Addu

Near PSO Pump, Main G.T Road, Kot Addu.
Ph: 066-2241952

Multan

Shop#1, Royal Shopping Centre, Azmat Wasti Road, Dera Adda Chowk, Multan.
Ph: 061-4515981

Shujabad

Jalalpur Road, Near Old KB Bus Stand, Shujabad.
Ph: 061-4425473

Qadirpur Rawan

Khushhali Microfinance Bank Ltd, GT Road, Qadirpur Rawan, Tehsil & District Multan.
Ph: 061-4578668

Kot Sultan

Khata No. 53 Near Civil Hospital Multan Road, Kot Sultan, Tehsil & District Layyah.
Ph: 0606-470251/52/53

Muzaffargarh

Near Taliri Bypass, Multan Muzaffargarh.
Ph: 0662551792/1892

Ahmed Pur East

Near Saddar Police Station ketchary Road, Ahmed Pur East.
Ph: 062-2271450

Ali Pur

Main Ali Pur City Road, Opposite Sabtain Town Tehsil Ali Pur, District Muzaffargarh.
Ph: 066-2700873

Khan Pur

Quaid-e-Millat Road, Opp. National Saving Centre.
Ph: 068-5576922

Liaqat Pur

87-A, Bank Road, Liaqat Pur, District Rahim Yar Khan.
Ph: 068-5795499

Rahim Yar Khan

16-A MOH Buisnessman Colony, Opposite Desert Palm Hotel, Rahim Yar Khan.
Ph: 685886223

Sadiqabad

Nishtar Chowk, KLP Road, Sadiqabad.
Ph: 068-5700326/426

Uch Sharif

Opposite Mariam Hospital Main Abbasia Road, Uch Sharif.
Ph: 0622551151/52/53

Zahir Pir

Old G.T Road, Near Canal Rest House Chowk, Zahir Pir, Tehsil Khanpur, District Rahim Yar Khan.
Ph: 0685562191/92/93

Gujar Khan

Near Bank of Punjab, GT Road, Gujar Khan Haji Karam Elahi Plaza.
Ph: 0513-510433

Rawalpindi

Ropyal Brother Plaza, B-130, Main Murree Road, Chandni Chowk Rawalpindi.
Ph: 051-4572390

Jhelum

Civil Lines Road, Near Nadra Office, Opp. Tableeg Ul Islam High School, Jhelum.
Ph: 0544-611122

Fatehjang

Ground Floor, Mudassar Awan Arcade, Rawalpindi Road, Fatehjang.
Ph: 0572-212701

Arifwala

21/A-Block, Main Muhammadi Road, Arifwala.
Ph: 0457-835204/830202

Basirpur

Plot# 416, Main Bazar, Depalpur Road, Basirpur.
Ph: 044-4771122/4771030

Chichawatni

Plot#18-19, Near Lakar Mandi, Main G.T Road, Chichawatni.
Ph: 040-5483415/5480577

Khanewal

Block# 2, Street# 1, RCA Chowk, Khanewal.
Ph: 065-2551529/28

Mian Channu

MA Ghani Colony, Corner Plot GT Road, Near Opposite Tehsil Complex Mosque, Mian Chanu.
Ph: 065-2502886/2502882

Okara

M.A Jinnah Road, Okara
Ph: 044-2550045

Pakpattan

Khata# 3182/3152, 4347/3993, Khatooni# 3384, 4754, College Road, Pakpattan.
Ph: 0457-352477/352559 0457-373559

Sahiwal

Khewat # 15848/4764, Liaqat Ali Road, Sahiwal.
Ph: 0404-220113/225313

Bhalwal

Plot# 451, Block# 4, Liaqat Shaheed Road, Bhalwal, District Sargodha.
Ph:048-664257/6642971 048-6643071

Chakwal

Tehsil Chowk, Near Warid Franchise, Rawlpindi Road, Chakwal.
Ph: 0543-550917

Khushab

Plot# 221, Block# 4,
College Chowk
Jauharabad, District
Khushab.
Ph: 0454-722131/723131
0454-720845

Mandi Bahaudin

Tahreem Plaza A1:U152
Center, Phalia Road,
Mandi Bahauddin.
Ph: 0546-500988/500981
0546-521002

Mianwali

Sonay Khel Market, Govt
High School Road,
Mianwali.
Ph:0459-231010/231030
0459-231020

Sahiwal-SGD

Main Sarghoda Road,
Nawanlok Sahiwal, District
Sarghoda.
Ph: 048-6786101/102/103

Sargodha

Block# 16, Near NADRA
Office, Main Road,
Sargodha.
Ph:048-3740861/62

Bhawalnagar

City Chowk, Jail Road,
Bahawalnagar.
Ph: 063-2279054/55

Burewala

Ramay Market Near ZTBL,
Burewala.
Ph: 067-3354155

Chishtian

Opp. Saddar Eid gah,
Gillani Market, Highway
Road, Chishtian
Ph: 063-2500331

Dahranwala

Warrich Market,
Haroonabad Road,
Dahranwala, Tehsil
Chishtian, District
Bahawalnagar.
Ph: 0632440701

Fort Abbas

Opp. Punjab Bank Limited,
School Bazar, Fort Abbas.
Ph: 0632510594

Haroonabad

Front Main Bazar, Bangla
Road, Haroonabad.
Ph: 063-2250095/195

Minchanabad

Circular Road, Near NBP
Chowk, Minchanabad.
Ph: 063-2750137

Vehari

E-8 Karkhana Bazar, Vehari.
Ph: 067-3360301/04/06

Badin

Survey# 33, Adjacent
Abbasi Hospital, Main DCO
Chowk, Karachi Road,
Badin.
Ph: 029-7862330

Hala

Old National Highway,
Near UBL Hala, District
Mititari.
Ph: 022-3332352

Hyderabad

Plot# HCB-73, Qazi Abdul
Quyom Road, Gari Khata,
Hyderabad.
Ph: 022-2786620

Karachi

Plot# 13, Commercial
Area, Gulshan-e-Iqbal,
Block 10-A, Main Rashid
Minhas Road, Opp. Lal
Flates, Karachi.
Ph: 021-34818323

Karachi-2

Plot# L-04 Sector# 35-C,
Korangi Town Ship,
Landhi Town, Karachi.
Ph: 021-35060482

Tando Muhammad Khan

Plot # C-832, Opp. SSP
Office, Tando Muhammad
Khan.
Ph: 022-3342738/3340738

Thatta

Shop# 6, Al-Shahbaz
Shops, National Highway,
Thatta.
Ph: 0298-550084

Wagan/Kambar

Opp. Govt. Primary Main
Boys School, Miro Khan
Road, Kambar.
Ph: 0744-210072

Badeh

Main Naseerabad Road,
Badeh, District Larkana.
Ph: 0744-081074/081232

Dadu

Opp. Govt. Pilot Girls
School, College Road,
Dadu.
Ph: 0254-551575/710357

Khairpur

Near National Saving
Centre, Katchehry Road,
Khairpur Mirs.
Ph: 0243-714064

Larkana

Bank Square Road,
Larkana.
Ph: 074-4056980/81

Nashero Feroze

Main National Highway,
Noshero Feroze.
Ph: 0242-481270/71

Ranipur

Near Mazhar Model
School, National Highway,
Ranipur City, District
Khairpur Mirs.
Ph: 0243-730226/29

Mehar

Near Meezan Bank
Limited, Khairpur Nathan
Shah Road, Mehar.
Ph: 0254-730301/2

Jhuddo

Plot #7, Ward# 03, Near
Rajput Chowk, Shahi
Bazar, Jhuddo District
Mirpurkhas.
Ph: 0233-878990

Mirpurkhas

Plot#7, C.S# 862/7, Ward
A, PM Colony, Main
Umerkot Road, Mirpurkhas.
Ph: 0233-873163

Mithi

Shop# 2-3, Satyani
Shoping Centre, Main
Naukot Road, Mithi
Tharparkar.
Ph: 0232-262304

Nawabshah

House# A-306 Paro
Hospital Road, Otaq
Quarter, Nawabshah.
Ph: 0244-370093

Sanghar

Choudhary Corner, Main
Nawabshah Road, Sanghar.
Ph :0235-800161

Tando Allahyar

Plot # 2 Block No A,
Survey No 273/1 Opposite
Civil Hospital Main
Hyderabad Road, District
Tando Allahyar.
Ph: 0223892875

Umarkot

Haji Saleem Mahar,
Housing Society Near
Sabzi Mandi Main Chowk
Cantt Road, Umarkot.
Ph: 0238-500301

Daherki

Main G.T Road, Daharki
Ph: 0723-642663

Ghotki

Khushhali Microfinance
Bank, Plot # 115, Devri
Sahib Road, Near NBP,
Ghotki.
Ph: 0723-600239/20

Kashmore

Opp. Shell Petrol Pump,
Main Kandhkot Road,
kashmore.
Ph: 0722577223/24

Pannu Aqil

Near Eid Gah, Baiji
Chowk, Pano Aqil
Ph: 071-5814304

Shahdad Kot

Lakh Pat Road, Shahdad
Kot.
Ph: 074-4754522

Shikarpur

Hizb Plaza Plot# 3/1, Near
Jahaz Chowk, Station

Road, Shikarpur.
Ph: 0726-513023/24

Sukkur

Military Road, Sukkur.
Ph: 071-5816637

Ratodero

Main Bus Stand,
Ratodero.
Ph: 074 4088189

Khushhali Microfinance Bank Service Centres

Pindi Bhattian

Khewat# 228, Khatooni# 808 to 942, Khasra# 239, Near ZTBL, Lahore Road, Mouza & Tehsil Pindi Bhattian, District Hafizabad.

Pir Mahal

Ghousia Chowk, Main Kamalia Road.
Ph: 046-3367721

Zafarwal

Khewat No. 575, Khasra No 2637, Situated at Town Committee, Zafarwal, Mohalla & Tehsil Zafarwal, District Narowal .

Dinga

Khasra# 3028/2 & 3028/1
Khewat # 140 & 142,
Khatooni # 747, 749 situated at Mouza Dinga, Tehsil kharian, District Gujrat.
Ph: 053-7400889

Tando Adam

Shop # CS-945/1, Near Muhammadi Chowk, Opposite Soneri Bank, Tando Adam, District Sanghar.
Ph: 0235-575331

Shahdadpur

Shop # CS-455, Near Babar Mobile Market, Station Road, Shahdadpur, District Sanghar.
Ph: 0235-843331

Mehrabpur

DSC# IIIA-285, Town Mehrabpur, Tehsil Mehrabpur, District Naushehro Feroz.
Ph: 0242-430721/430821

Sangla Hill

Masjid Wala Bazar, Galla Mandi, Sangla Hill.
Ph: 056-3701039

Farooqabad

Approach Road, Farooq Abad.
Ph: 056-3874054

SC Ellahabad

Main Chunian to Ellahabad Road, Near PSO Pump, Ellahabad.
Ph: 049-4751114

Kunri

Plot# A-409 219, Station Road, Kunri District Umarnot.
Ph: 0238-557112

Qasba Gurat

Ghazi Ghat Chok, Qasba Gujrat, Tehsil KotAdu & District Muzaffargarh.
Ph: 0669022527

Basti Larh

Bahawalpur Road, Grains Market, Ada Larr, Tehsil & District Multan.

Matotli

Khasra# 32/26, Ward# 02, Basti Wala Road, Rana Colony, Matotali, Shujahabad District, Multan.
Ph: 061-4410006

Rohillanwali

Near Kanal Rest House, Alipur Road, Rohillawali.
Ph: 0662640641

Shahjmal

Khewat No. 309, Salam Khata situated at Khan Garh Road, Mohal Shah Jamal, Tehsil and District Muzaffargarh.
Ph: 0662470074

Harrapa

Khata No. 23, Khatooni No. 53, Bypass Chowk, Harappa, District Sahiwal.
Ph: 0404-504156

Mandi Ahmad Abad

Khatta#. 44, Main Kangan Pur Road, Mandi Ahmad Abad, Tehsil Depalpur, District Okara.
Ph: 044-4840012

Sillanwali

Khewat # 2583, Khatooni # 2597, 46 Ada Road, Near Nadra Office, Sillanwali.
Ph: 048-6532463

Talagang

Khasra No. 557, Rawalpindi Road, Talagang.
Ph: 0543-410244

Quaidabad

khewat# 1188, khatooni# 1569, Plot# 62 3 Marla Scheme# 1, Sargodha Road, Quaidabad.
Ph: 0454-880019

Kandh kot

Main Haibat Road Adjacent National Bank of Pakistan, Kandh kot .

Gagoo Mandi

Khewat# 262/250, Khatooni No. 710, Khasra No. 40/18, Sheikh Fazal Road, Mohal 187 Gagoo Mandi, Tehsil Burewala, District Vehari.

Marot

Khewat# 87, Khatooni# 233, Salim Khasra, Faisal Bazar, Mohal 319/HR Marot, Tehsil Fort Abbas, District Bahawalnagar.
Ph: 632570122



For Feedback & Comments email: pr.desk@kb.com.pk or Contact
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