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**KHUSHHALI MICROFINANCE BANK LIMITED
CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2021**

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INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE MEMBERS OF KHUSHHALI MICROFINANCE BANK LIMITED

REPORT ON REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

Introduction

We have reviewed the accompanying condensed interim balance sheet of Khushhali Microfinance Bank Limited ("the Bank") as at 30 June 2021, and the related condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim statement of changes in equity, and condensed interim cash flow statement, and notes to the condensed interim financial statements for the six-month period then ended (here-in-after referred to as the "condensed interim financial statements"). Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with accounting and reporting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on these financial statements based on our review.

Scope of Review

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

Conclusion

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

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



Chartered Accountants
Place: Islamabad
Date: 30 August 2021

KHUSHALI MICROFINANCE BANK LIMITED
CONDENSED INTERIM BALANCE SHEET
AS AT 30 JUNE 2021

	Note	30 June 2021 (Unaudited)	31 December 2020 (Audited)
-----Rupees '000-----			
ASSETS			
Cash and balances with SBP and NBP	7	2,660,553	2,850,265
Balances with other banks/NBFIs/MFBs	8	9,457,573	10,752,177
Lending to financial institutions	9	-	795,981
Investments	10	15,615,327	17,679,889
Advances - net of provisions	11	64,298,575	60,640,787
Operating fixed assets	12	3,724,322	3,688,195
Other assets	13	11,715,064	10,241,141
Deferred tax asset	14	544,678	454,439
Total assets		108,016,092	107,102,874
LIABILITIES			
Deposits	15	87,333,134	88,649,814
Borrowings	16	1,604,167	427,708
Subordinated debt	17	3,000,000	2,400,000
Other liabilities	18	4,808,581	4,831,474
Total liabilities		96,745,882	96,308,996
NET ASSETS		11,270,210	10,793,878
REPRESENTED BY:			
Share capital	19	1,705,000	1,705,000
Statutory reserve		1,901,878	1,871,831
Capital reserve		24,255	24,255
Unappropriated profit		7,650,986	7,200,276
		11,282,119	10,801,362
Deficit on revaluation of assets		(11,909)	(7,484)
Total capital		11,270,210	10,793,878
MEMORANDUM / OFF-BALANCE SHEET ITEMS	20	-	-

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



PRESIDENT


CHAIRMAN

KHUSHALI MICROFINANCE BANK LIMITED
CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED)
FOR THE HALF YEAR ENDED 30 JUNE 2021

	Note	Half year ended	
		30 June 2021	30 June 2020
		-----Rupees '000-----	
Mark-up/ return/ interest earned	21	8,916,948	8,897,363
Mark-up/ return/ interest expensed	22	4,452,938	4,138,955
Net mark-up/ interest income		4,464,010	4,758,408
Provision against non-performing loans and advances		1,282,638	2,168,975
Bad debts written-off directly		10,485	1,573
Net mark-up/ interest income after provisions		3,170,887	2,587,860
NON MARK-UP / NON INTEREST INCOME			
Fee, commission and brokerage income	23	857,454	618,456
Other income	24	54,285	26,031
Total non-markup / non interest income		911,739	644,487
		4,082,626	3,232,347
NON MARK-UP / NON INTEREST EXPENSE			
Administrative expenses		3,204,261	2,959,120
Other provisions		49,458	30,449
Other charges		9,339	4,359
Total non-markup / interest expenses		3,263,058	2,993,928
		819,568	238,419
PROFIT BEFORE TAXATION		819,568	238,419
TAXATION			
Current		307,055	233,529
Prior year		-	-
Deferred		(88,433)	(129,914)
		218,622	103,615
PROFIT AFTER TAXATION		600,946	134,804
Unappropriated profit brought forward		7,200,276	5,885,119
Profit available for appropriations		7,801,222	6,019,923
APPROPRIATIONS - TRANSFERS TO			
Statutory reserve		30,047	6,740
Microfinance social development fund		60,095	13,480
Depositors' protection fund		30,047	6,740
Risk mitigation fund		30,047	6,740
		150,236	33,700
UNAPPROPRIATED PROFIT CARRIED FORWARD		7,650,986	5,986,223
EARNINGS PER SHARE - BASIC AND DILUTED	25	2.82	0.63

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

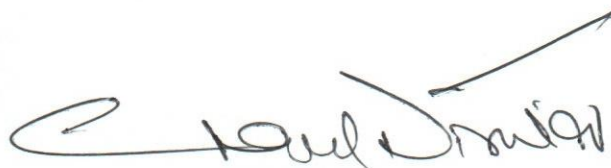

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KHUSHHALI MICROFINANCE BANK LIMITED
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE HALF YEAR ENDED 30 JUNE 2021

	Half year ended	
	30 June 2021	30 June 2020
	-----Rupees '000-----	
Profit after taxation	600,946	134,804
Other comprehensive income	-	-
Comprehensive income for the period transferred to equity	600,946	134,804
Comprehensive (loss) / income for the period not transferred to equity		
Items that may be subsequently reclassified to profit and loss:		
(Deficit) / Surplus on revaluation of investments - AFS	(16,773)	15,150
Transfer to profit and loss on disposal of available for sale investments	10,541	798
Deferred tax relating to revaluation of investments - AFS	1,807	(4,625)
Comprehensive (loss) / income for the period not transferred to equity	(4,425)	11,323

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



PRESIDENT


CHAIRMAN

KHUSHALI MICROFINANCE BANK LIMITED
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE HALF YEAR ENDED 30 JUNE 2021

	Share capital	Statutory reserve	Capital reserve	Unappropriated profit	Total
	-----Rupees '000-----				
Balance as at 31 December 2019	1,705,000	1,784,843	24,255	5,885,119	9,399,217
Total comprehensive income for the half year ended 30 June 2020					
Net profit for the half year ended 30 June 2020	-	-	-	134,804	134,804
Other comprehensive income	-	-	-	-	-
	-	-	-	134,804	134,804
Transfers to					
Statutory reserve	-	6,740	-	(6,740)	-
Microfinance Social Development Fund	-	-	-	(13,480)	(13,480)
Risk Mitigation Fund	-	-	-	(6,740)	(6,740)
Depositors' Protection Fund	-	-	-	(6,740)	(6,740)
	-	6,740	-	(33,700)	(26,960)
Balance as at 30 June 2020	1,705,000	1,791,583	24,255	5,986,223	9,507,061
Total comprehensive income for the six months ended 31 December 2020					
Net profit for the six months ended 31 December 2020	-	-	-	1,604,952	1,604,952
Other comprehensive income	-	-	-	10,341	10,341
	-	-	-	1,615,293	1,615,293
Transfers to					
Statutory reserve	-	80,248	-	(80,248)	-
Microfinance Social Development Fund	-	-	-	(160,496)	(160,496)
Risk Mitigation Fund	-	-	-	(80,248)	(80,248)
Depositors' Protection Fund	-	-	-	(80,248)	(80,248)
	-	80,248	-	(401,240)	(320,992)
Balance as at 31 December 2020	1,705,000	1,871,831	24,255	7,200,276	10,801,362
Total comprehensive income for the half year ended 30 June 2021					
Net profit for the half year ended 30 June 2021	-	-	-	600,946	600,946
Other comprehensive income	-	-	-	-	-
	-	-	-	600,946	600,946
Transfers to					
Statutory reserve	-	30,047	-	(30,047)	-
Microfinance Social Development Fund	-	-	-	(60,095)	(60,095)
Risk Mitigation Fund	-	-	-	(30,047)	(30,047)
Depositors' Protection Fund	-	-	-	(30,047)	(30,047)
	-	30,047	-	(150,236)	(120,189)
Balance as at 30 June 2021	1,705,000	1,901,878	24,255	7,650,986	11,282,119

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

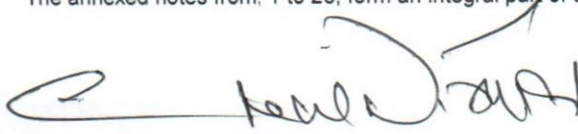

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KHUSHALI MICROFINANCE BANK LIMITED
CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)
FOR THE HALF YEAR ENDED 30 JUNE 2021

	Note	Half year ended	
		30 June 2021	30 June 2020
		-----Rupees '000-----	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		819,568	238,419
Adjustment for non cash items:			
Depreciation of property and equipment		236,987	189,148
Depreciation of right of use asset		184,774	178,348
Amortization of intangible assets		73,699	49,846
Provision against non performing advances		1,725,140	1,653,127
(Gain) / Loss on disposal of operating fixed assets		(7,941)	269
Mark-up / return / interest earned		(7,965,399)	(8,009,676)
Interest income on investments and deposits		(951,549)	(887,687)
Interest expense on borrowings and deposits		4,208,217	3,829,965
Interest expense on subordinated debt		120,652	179,548
Interest expense on lease liability		124,069	129,442
Provision against other assets		49,458	30,449
Charge for defined benefit plan		74,130	76,620
		(2,127,763)	(2,580,601)
Loss before changes in operating assets and liabilities		(1,308,195)	(2,342,182)
(Increase) / decrease in operating assets:			
Lending to financial institutions		795,981	(1,750,000)
Advances		(5,382,928)	(3,846,275)
Other assets		78,784	(81,744)
		(4,508,163)	(5,678,019)
(Decrease) / increase in operating liabilities:			
Deposits		(1,316,680)	9,361,440
Other liabilities		(18,223)	250,929
		(1,334,903)	9,612,369
Net cash (used in) / generated from operating activities		(7,151,261)	1,592,168
Markup received on advances		6,476,824	5,220,086
Interest received on investment and deposit accounts		929,836	904,300
Interest paid on deposits, borrowings and subordinated debt		(4,463,169)	(3,896,431)
Interest paid on leases		(124,069)	(129,442)
Contribution to defined benefit plan		(38,460)	(20,559)
Income tax paid		(450,973)	(235,330)
Net cash (used in) / generated from operating activities		(4,821,272)	3,434,792
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in held to maturity securities - net		2,058,331	(444,649)
Purchase of operating fixed assets		(377,227)	(454,059)
Sale proceeds of operating fixed assets		17,427	177
Net cash inflow / (used in) from investing activities		1,698,531	(898,531)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal paid against leases		(138,034)	(26,897)
Subordinated debt received		600,000	-
Borrowings received		1,400,000	-
Borrowings paid		(223,541)	(492,906)
Net cash inflow / (used in) financing activities		1,638,425	(519,803)
Net Increase in cash and cash equivalents		(1,484,316)	2,016,458
Cash and cash equivalents at beginning of the period		13,602,442	7,107,358
Cash and cash equivalents at the end of the period		12,118,126	9,123,816
Cash and cash equivalents comprise of the following:			
Cash and balances with State Bank of Pakistan and National Bank of Pakistan	7	2,660,553	1,982,343
Balances with other banks / NBFIs / MFBs	8	9,457,573	7,141,473
		12,118,126	9,123,816

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


PRESIDENT


CHAIRMAN

KHUSHHALI MICROFINANCE BANK LIMITED
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE HALF YEAR ENDED 30 JUNE 2021

1 STATUS AND NATURE OF BUSINESS

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

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

On March 18, 2008, SBP sanctioned a scheme for transfer of assets, liabilities and undertaking of Khushhali Bank (KB) into KMBL 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 KB were transferred to the Bank at their respective book values based 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 Mikrokredietfonds (Triple Jump B.V), responsAbility Global Micro and SME Finance Fund (formerly responsAbility Micro and SME Finance Fund and before that responsAbility Global Microfinance Fund) represented by MultiConcept Fund Management S.A (formerly responsAbility Management Company S.A and before that Credit Suisse Microfinance Fund Management Company), 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.

On November 01, 2019, responsAbility Management Company S.A has been replaced as management company by MultiConcept Fund Management Company S.A., acting in its own name but on behalf of the fund (the "New Management Company").

The Bank's registered office and principal place of business is situated at 5th Floor, Ufone Tower, Blue Area, Islamabad. The Bank has 199 branches and 37 permanent booths in operation as at 30 June 2021 (31 December 2020: 193 branches and 41 permanent booths) and is licensed to operate nationwide.

2 BASIS OF PREPARATION & STATEMENT OF COMPLIANCE

2.1 These condensed interim financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting. The accounting and reporting standards as applicable in Pakistan for interim financial reporting comprise of:

- International Accounting Standard (IAS) 34, Interim Financial Reporting, issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;
- Provisions of and directives issued under the Microfinance Institutions Ordinance, 2001 and the Companies Act, 2017; and
- Directives issued by the State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP).

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

State Bank of Pakistan, vide SBP BPRD circular no. 24, dated 05 July 2021, has extended the applicable date of adoption of IFRS-9 'Financial Instrument' from annual periods beginning on or after 01 January 2021 to annual periods beginning on or after 01 January 2022. Previously the application of IAS 39, Financial Instruments Recognition and Measurement, was also deferred by SBP. Meanwhile, the banks are required to submit IFRS 9 compatible proforma financial statements for year ended December 31, 2020 and perform parallel run of IFRS 9 on quarterly basis. Further, SBP will provide a timeline by December 2021 for absorption of "Expected Credit Loss" (ECL), for Capital Adequacy Ratio (CAR) purposes, after assessment / evaluation of proforma financial statements.

2.2 These condensed interim financial statements do not include all the information and disclosures required for the annual financial statements, and should be read in conjunction with the annual financial statements of the Bank as at December 31, 2020, which have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for financial reporting. The accounting and reporting standards as applicable in Pakistan for financial reporting comprise of: 'International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Act, 2017; Provisions of and directives issued under the Microfinance Institutions Ordinance, 2001 and the Companies Act, 2017; and Directives issued by the State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Microfinance Institution Ordinance, 2001, the Companies Act, 2017 or the directives issued by the SBP and SECP differ with the requirements of IFRS, the requirements of the Microfinance Ordinance, 2001, the Companies Act, 2017 and the said directives shall prevail.



3 BASIS OF MEASUREMENT

- 3.1 This condensed interim financial information has been prepared under the historical cost convention as modified for obligations under staff retirement benefits, right of use asset and lease liability, which are measured at present value and investments available for sale, which are measured at mark-to-market basis.

4 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted for the preparation of these condensed interim financial statements are the same as those applied in the preparation of the annual financial statements for the year ended 31 December 2020.

5 ACCOUNTING ESTIMATES

The basis for accounting estimates adopted in the preparation of this condensed interim financial statements are the same as those applied in the preparation of the financial statements of KMBL for the year ended 31 December 2020.

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

The financial risk management objectives and policies adopted by the Bank are consistent with those disclosed in the financial statements for the year ended 31 December 2020. These risk management policies continue to remain robust and the Bank is reviewing its portfolio regularly and conducts rapid portfolio reviews in line with emerging risks and effect of COVID-19 related disruptions.

COVID-19 continue to impact financial institution in Pakistan on a number of fronts including increase in overall credit risk pertaining to the loans and advances portfolio, reduced fee income due to low interest rate environment and continuity of business operations.

6.1 Asset quality & credit risk management

The Risk Management function of the Bank is regularly conducting assessments of the credit portfolio to identify borrowers most likely to get affected due to changes in the business and economic environment. The Bank has further strengthened its credit review procedures in the light of COVID-19. The Bank is continuously reviewing the portfolio, to identify accounts susceptible to higher risk, resulting from the COVID-19 outbreak.

The Bank expects that several borrowers will be severely impacted by this pandemic. Since many of such borrowers have availed the SBP enabled deferment / restructuring & rescheduling relief package, the full potential effect of the economic stress is difficult to predict given the uncertain economic environment. Accordingly, management is of view that it is appropriate to provide for an additional general provision of Rs. 400 million, as of 30 June 2021 based on management's assessment of asset quality and credit risk.

6.2 Liquidity risk management

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

6.3 Equity risk management

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

6.4 Operational risk management

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

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Khushhali Microfinance Bank Limited

	Note	30 June 2021 (Unaudited)	31 December 2020 (Audited)
-----Rupees '000-----			
7 CASH AND BALANCES WITH SBP AND NBP			
Cash in hand - Local currency		740,190	925,172
Balance with State Bank of Pakistan in			
Local currency current accounts - SBP	7.1	1,898,669	1,923,772
Balance with National Bank of Pakistan in			
Local currency deposit accounts - NBP	7.2	21,694	1,321
		<u>2,660,553</u>	<u>2,850,265</u>

7.1 This represents the balance maintained with SBP to meet the requirement of maintaining a minimum balance equivalent to 5.00% (2020: 5.00%) of the Bank's time and demand deposits with a tenure of less than one year, in accordance with the requirement of R-3A of the Prudential Regulations.

7.2 This represents balances held in a saving account carrying interest at the rate of 5.50% (2020:5.50%) per annum.

	Note	30 June 2021 (Unaudited)	31 December 2020 (Audited)
-----Rupees '000-----			
8 BALANCES WITH OTHER BANKS/NBFIS/MFBS			
In Pakistan:			
Local currency current accounts		472,852	1,324,015
Local currency deposit accounts	8.1	8,984,721	9,428,162
		<u>9,457,573</u>	<u>10,752,177</u>

8.1 This represents balances held in saving accounts carrying interest at the rate ranging from 4.50% to 9.00% (2020: 4.50% to 9.00%) per annum.

	Note	30 June 2021 (Unaudited)	31 December 2020 (Audited)
-----Rupees '000-----			
9 LENDING TO FINANCIAL INSTITUTIONS			
Repurchase agreement lending (reverse repo)	9.1	-	795,981

9.1 This represented reverse repo transactions carried interest at the rate ranging from 6.05% to 7.18% per annum and matured on 13 January 2021.

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

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
-----Rupees '000-----		
Market Treasury Bills/PIB's - Held by	-	800,000
	-	800,000

Khushhali Microfinance Bank Limited

	Note	30 June 2021 (Unaudited)	31 December 2020 (Audited)
-----Rupees '000-----			
10 INVESTMENTS			
Available for sale (AFS)			
Federal Government Securities			
Market Treasury Bills - AFS	10.1	4,949,543	8,401,224
Pakistan Investment Bonds (PIB's)	10.2	7,182,557	7,139,207
Held to maturity (HTM)			
Term finance certificates (TFCs)	10.3	150,000	150,000
Term deposit receipts (TDRs)	10.4	3,350,000	2,000,000
		3,500,000	2,150,000
Deficit on revaluation of AFS investments	10.5	(16,773)	(10,542)
		15,615,327	17,679,889

10.1 This represents T-Bills having maturity period ranging from 84 to 182 days (2020: 84 days) carrying interest at rate ranging from 7.32% to 7.50% (2020: 7.13% to 7.15%) per annum.

10.2 This represents fixed / floating interest based Pakistan Investment Bonds (PIB's) at the interest rate ranging from 7.72% to 8.73% (2020: 7.40% to 8.42%) maturing on September 19, 2022, June 19, 2023, August 20, 2023 and October 22,

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 tenure, carrying profit at the rate of 6 month KIBOR + 1.50% (2020: 6 month KIBOR + 1.50%); and 100 TFC's having face value of Rs 1,000,000/- each issued by Soneri Bank Limited for perpetual tenure, carrying profit at the rate of 6 month KIBOR + 2.00% (2020: 6 month KIBOR + 2.00%) respectively. Interest on these TFC's is receivable on semi annual basis from the date of issue.

	Note	30 June 2021 (Unaudited)	31 December 2020 (Audited)
-----Rupees '000-----			
10.4 Term deposit receipts (TDRs)			
Micro finance banks	10.4.1	2,150,000	2,000,000
Other banks / DFIs / NBFIs	10.4.2	1,200,000	-
		3,350,000	2,000,000

10.4.1 This represents investment in short term deposits receipts maturing on 21 July 2021 and 06 November 2021 (2020: 13 April 2021) and carries mark-up at the rate of 8.60% and 8.55% (2020: 8.50%) per annum respectively.

10.4.2 This represents investment in short term deposit receipts maturing on 29 July 2021 and 02 August 2021 and carries markup at the rate of 8.25% and 8.15% respectively per annum.

10.5 In accordance with requirement of R-11C of the Prudential Regulations, available for sale securities have been valued on mark-to-market basis and the resulting surplus / (deficit) is kept in a separate account titled 'surplus / (deficit) on revaluation of investments' and is charged through statement of comprehensive income.

JPK

Khushhali Microfinance Bank Limited

	30 June 2021		31 December 2020			
	(Unaudited)		(Audited)			
	Number of loans outstanding	Amount of loans outstanding	Number of loans outstanding	Amount of loans outstanding		
11	ADVANCES - NET OF PROVISIONS					
	Micro credit:					
	Secured	11.1	165,793	22,085,358	147,994	19,122,631
	Unsecured		690,808	42,344,548	731,643	41,525,606
			856,601	64,429,906	879,637	60,648,237
	Less: provisions held:					
	Specific			(797,221)		(649,341)
	General	11.2		(927,919)		(815,513)
				(1,725,140)		(1,464,854)
	Microcredit advances - net of provisions			62,704,766		59,183,383
	Staff loans		2,622	1,593,809	2,313	1,457,404
	Advances - net of provisions		859,223	64,298,575	881,950	60,640,787

11.1 This includes microcredit loans amounting to Rs. 54.1 million (2020: Rs. 68.8 million) which are partially (50%) secured against lien marked on deposits held with the Bank.

11.2 General provision is maintained at the rate of 1.70% (2020: 1.56%), on outstanding microcredit net of gold and cash collaterals and specific provision, against the regulatory requirement of 1.00% specified in prudential regulations for Microfinance Banks.

11.3 Particulars of provision against non-performing advances

	30 June 2021 (Unaudited)		31 December 2020 (Audited)	
	Specific	General	Specific	General
	Rupees '000		Rupees '000	
Opening balance	649,341	815,513	760,829	495,841
Provision charge for the period / year - net	1,170,232	112,406	2,643,505	319,672
Advances written off against provision	(1,022,352)	-	(2,754,993)	-
	147,880	112,406	(111,488)	319,672
Closing balance	797,221	927,919	649,341	815,513
		1,725,140		1,464,854

Khushhali Microfinance Bank Limited

	30 June 2021	31 December 2020
(Unaudited)		(Audited)
	Rupees '000-----	

11.4 Particulars of write offs

Against provision:

Related to other classified advances
Bad debts written-off directly

11.4.1	1,022,352	2,754,993
	10,485	29,178
	<u>1,032,837</u>	<u>2,784,171</u>

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

11.5 Rescheduled Portfolio / COVID - 19 affected portfolio

SBP vide circular letter No. 1 of 2020 dated 26 March 2020 and subsequently vide circular letter No. 7 of 2020 dated 10 August 2020 provided regulatory relief based on specific requirement to borrowers to defer payment of principal on loan obligations by one year. Further financing facilities of such borrowers, who were unable to service the markup amount or need deferment exceeding one year, were allowed to be restructured / rescheduled upon their request. This scheme was expired on 31 March 2021. The bank also deferred / rescheduled certain loans in line with its internal credit policy. Following are the details of deferred / rescheduled loans outstanding as on 30 June 2021.


	30 June 2021 (Unaudited)		31 December 2020 (Audited)	
	Number of loans outstanding	Amount of loans outstanding Rupees '000	Number of loans outstanding	Amount of loans outstanding Rupees '000
Deferred / rollover loans	98,425	5,759,139	124,730	7,079,032
Rescheduled loans	302,873	18,670,764	382,427	18,359,884
	401,298	24,429,903	507,157	25,438,916



Khushhali Microfinance Bank Limited

	Note	30 June 2021 (Unaudited)	31 December 2020 (Audited)
		-----Rupees '000-----	
12 OPERATING FIXED ASSETS			
Capital work-in-progress		296,756	185,655
Right of use assets		1,534,464	1,555,393
Property and equipment		1,325,103	1,393,807
Intangible assets		567,999	553,340
		<u>3,724,322</u>	<u>3,688,195</u>
12.1	Details of additions and deletions during the period / year are as follows:		
Additions			
Capital work-in-progress		240,071	356,177
Right of use assets		163,846	98,656
Property and equipment		177,770	551,839
Intangible assets		88,567	153,005
		<u>670,254</u>	<u>1,159,677</u>
Less: transfers from capital work-in-progress			
Property and equipment		(96,624)	(176,797)
Intangible assets		(32,557)	(41,890)
		<u>(129,181)</u>	<u>(218,687)</u>
		<u>541,073</u>	<u>940,990</u>
Deletions (at net book value)			
Property and equipment		(9,486)	(4,757)
		<u>(9,486)</u>	<u>(4,757)</u>
13 OTHER ASSETS			
Mark-up accrued		12,181,527	9,580,967
Suspended markup on non-performing advances		(1,338,496)	(226,511)
		<u>10,843,031</u>	<u>9,354,456</u>
Interest receivable on investments and deposit accounts		188,523	166,810
Loan and advances - unsecured			
Employees		8,544	2,842
Suppliers		8,553	3,021
		<u>17,097</u>	<u>5,863</u>
Receivable from Microfinance Social Development Fund (MSDF)		37,866	52,625
Insurance premium receivable from SBP		215,986	383,231
Prepayments		161,693	101,306
Advance corporate tax - net		101,220	-
Insurance claims receivable		577	6,286
Receivable from defined benefit plan - KMBL employees gratuity fund		-	9,343
Security deposits		6,673	6,676
Other receivables	13.1	267,816	230,505
		<u>11,840,482</u>	<u>10,317,101</u>
Less: Provision against doubtful receivables			
Opening balance		75,960	40,769
Provision charge for the period / year - other assets		49,458	47,519
Receivables written off against provision		-	(12,328)
Closing balance	13.2	125,418	75,960
		<u>11,715,064</u>	<u>10,241,141</u>

13.1 This includes an amount of Rs. 71.95 million (2020: Rs. 71.95 million) paid under protest to the taxation authorities.

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

30 June 2021 31 December 2020
(Unaudited) (Audited)
-----Rupees '000-----

14 DEFERRED TAX ASSET

Deferred tax assets arising on account of temporary differences in:

Provision against advances and other assets	536,661	446,837
Remeasurement of post employment benefit obligation	50,606	50,606
Provisions against workers' welfare fund	20,692	18,082
Deficit on revaluation of assets - AFS	4,864	3,058
	612,823	518,583

Deferred tax liability in respect of:

Operating fixed assets	(68,145)	(64,144)
	(68,145)	(64,144)
	544,678	454,439


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

15 DEPOSITS

	Note	30 June 2021		31 December 2020	
		(Unaudited)		(Audited)	
		Number of accounts	Rupees '000	Number of accounts	Rupees '000
Fixed deposits	15.2	74,314	55,661,492	71,370	57,561,426
Saving deposits	15.3	66,070	25,421,744	64,126	22,754,423
Current deposits	15.4	2,337,017	6,249,898	2,275,738	8,333,965
		2,477,401	87,333,134	2,411,234	88,649,814

15.1 Particulars of deposits by ownership


Individual depositors	2,473,763	69,079,545	2,407,617	64,096,415
Institutional depositors				
Corporations / firms	3,611	13,215,681	3,539	17,050,192
Banks / financial institutions	27	5,037,908	78	7,503,207
	2,477,401	87,333,134	2,411,234	88,649,814

- 15.2 This represents term deposits having tenure of 3 to 36 months (2020: 1 to 36 months) carrying interest at the rates ranging from 6.50% to 14.50% (2020: 7% to 14.50%) per annum. This includes fixed deposits amounting to Rs. 509.23 million (2020: Rs. 321.38 million) on which lien is marked against advances to borrowers.
- 15.3 This represents savings accounts carrying interest at the rates ranging from 7% to 9.50% (2020: 7% to 9.60%) per annum. This includes saving deposits amounting to Rs. 21.07 million (2020: Rs. 8.07 million) on which lien is marked against advances to borrowers.
- 15.4 This includes current deposits amounting to Rs. 35.05 million (2020: Rs. 30.66 million) on which lien is marked against advances to borrowers. 

Khushhali Microfinance Bank Limited

		30 June 2021 (Unaudited)	31 December 2020 (Audited)
	Note	-----Rupees '000-----	
16	BORROWINGS		
	Unsecured		
	Borrowing from financial institutions outside Pakistan	16.1	-
	Secured		
	Borrowings from financial institutions in Pakistan	16.2	1,604,167
		<u>1,604,167</u>	<u>337,500</u>
		<u>1,604,167</u>	<u>427,708</u>
16.1	Borrowing from financial institutions outside Pakistan		
	ECO Trade & Development Bank (TF-III)		-
			90,208
		<u>-</u>	<u>90,208</u>
16.2	Borrowing from financial institutions in Pakistan		
	Pak Oman Investment Company (TF-III)	62,500	125,000
	Pak Oman Investment Company (TF-IV)	125,000	187,500
	Allied Bank Limited (TF-I)	16,667	25,000
	The Bank of Punjab (TF-2)	500,000	-
	Pakistan Mortgage Refinance Company Limited (TF-1)	900,000	-
		<u>1,604,167</u>	<u>337,500</u>
16.3	Loan repayment schedule:		
	Opening balance	427,708	1,326,021
	Availed during the period	1,400,000	-
	Repayment during the period / year	(223,541)	(898,313)
	Closing balance	<u>1,604,167</u>	<u>427,708</u>
17	SUBORDINATED DEBT		
	Term finance certificate (TFC) - I	17.1	1,000,000
	Term finance certificate (TFC) - II	17.2	1,400,000
	Term finance certificate (TFC) - III	17.3	600,000
		<u>3,000,000</u>	<u>2,400,000</u>
17.1	The Bank has raised 10,000/- rated, unsecured, subordinated and privately placed term finance certificates of face value Rs 100,000/- each fully subscribed on 19 March 2018 to improve capital adequacy at the rate of 6 month KIBOR plus 2.05% per annum. The issue is for a period of 8 years from the date of subscription and mature on 19 March 2026. The issue has call option after 10th redemption date including lock-in and loss absorbency clause. The principal will redeemed in two equal semi annual installments falling on the end of 90th month and 96th month from the date of issue. The issue has preliminary rating of 'single A' with stable outlook.		
17.2	This represents rated, unsecured, subordinated and privately placed term finance certificates of face value Rs.100,000/- each fully subscribed on 27 December 2019 to improve capital adequacy at the rate of 3 month KIBOR plus 2.70% per annum. The issue is for a period of 8 years from the date of subscription and will mature on 27 December 2027. The issue has assigned preliminary rating of single 'A' (Single A) with stable outlook. The principal amount of issued TFC - II will be redeemed in twelve equal quarterly installments, commencing from the 63rd month from the issue date including lock-in and loss absorbency clause.		
17.3	This represents 6,000 unsecured, subordinated and privately placed term finance certificates of face value Rs.100,000/- each fully subscribed on June 18, 2021. The issue is for a period of 8 years from the date of subscription and will mature on 18 June, 2029. Profit is priced at the rate of 6 months KIBOR plus 2.70% per annum and repayable every three months in arrears while principal shall be redeemed in twelve equal quarterly installments commencing from the 63rd month from the issue date. The issue has lockin and loss absorbency clause. <i>TR</i>		

Khushhali Microfinance Bank Limited

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
	-----Rupees '000-----	
18 OTHER LIABILITIES		
Mark-up / return / interest payable on deposits	1,324,563	1,462,270
Interest payable on borrowings/subordinated debt	43,245	39,838
Lease liability	1,856,507	1,830,695
Accrued expenses	613,663	539,646
Payable to defined benefit plan - KMBL employees gratuity fund	26,327	-
Corporate taxes payable - net	-	42,699
GST/FED payable	45,394	64,782
Payable to suppliers	14,811	65,525
Bills payable	340,925	114,582
Provision for workers' welfare fund	71,350	62,350
Dividend payable	150,244	150,244
Payable to service providers	3,781	4,524
Withholding tax payable	80,850	9,565
Contribution payable to		
Microfinance Social Development Fund	60,096	173,976
Risk Mitigation Fund	30,047	86,988
Depositors' Protection Fund	30,047	86,988
Other payables	116,731	96,802
	<u>4,808,581</u>	<u>4,831,474</u>
19 SHARE CAPITAL		
19.1 Authorized capital		
	2021	2020
	Number	Number
Ordinary shares of Rs. 10 each		
	<u>600,000,000</u>	<u>600,000,000</u>
	<u>6,000,000</u>	<u>6,000,000</u>
19.2 Issued, subscribed and paid-up capital		
	2021	2020
	Number	Number
Ordinary shares of Rs. 10 each fully paid for consideration other than cash		
	<u>170,500,000</u>	<u>170,500,000</u>
	<u>1,705,000</u>	<u>1,705,000</u>
19.3 The shareholders of the Bank are as follows:		
United Bank Limited	506,285	506,285
Rural Impulse Fund II S.A. SICAV-FIS	417,057	417,057
ShoreCap II Limited	243,568	243,568
ASN-NOVIB Mikrokredietfonds	168,795	168,795
MultiConcept Fund Management S.A. (formely responsibility Management Company S.A)	339,295	339,295
Bank Al Habib Limited	30,000	30,000
	<u>1,705,000</u>	<u>1,705,000</u>
20 MEMORANDUM / OFF-BALANCE SHEET ITEMS		
20.1 Contingencies		
There has been no significant change in the status of contingencies, for the period, from those disclosed in the financial statements for the year ended 31 December 2020. 		

Khushhali Microfinance Bank Limited

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
	-----Rupees '000-----	
20.2 Commitments		
Capital expenditure	85,885	240,660
	30 June 2021 (Unaudited)	30 June 2020 (Unaudited)
	-----Rupees '000-----	
21 MARK-UP / RETURN / INTEREST EARNED		
Mark-up/interest/gain on:		
Advances	7,965,399	8,009,676
Investment in Federal Government securities	532,781	296,322
Deposits/placements with banks/FI/MFBs/TFC etc	418,768	591,365
	<u>8,916,948</u>	<u>8,897,363</u>
22 MARK-UP / RETURN / INTEREST EXPENSED		
Interest on borrowings from:		
Financial institutions - Outside Pakistan	4,012	34,480
Financial institutions - Inside Pakistan	19,923	50,805
	<u>23,935</u>	<u>85,285</u>
Subordinated debt	120,652	179,548
Interest on deposits	4,184,282	3,744,680
Interest on lease liability	124,069	129,442
	<u>4,452,938</u>	<u>4,138,955</u>
23 FEE, COMMISSION AND BROKERAGE INCOME		
Micro-credit application processing fee	799,371	519,602
Other commission	58,083	98,854
	<u>857,454</u>	<u>618,456</u>
24 OTHER INCOME		
Recoveries against advances written off	32,354	25,985
Gain on disposal of fixed assets	20,860	-
Others	1,071	46
	<u>54,285</u>	<u>26,031</u>
25 EARNINGS PER SHARE - BASIC AND DILUTED		
Basic		
Basic earnings per shares is calculated by dividing the profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the period excluding ordinary shares purchased by the Bank and held as treasury shares.		
	30 June 2021 (Unaudited)	30 June 2020 (Unaudited)
	-----Rupees '000-----	
Profit for the period after taxation	600,946	134,804
Microfinance Social Development Fund	(60,095)	(13,480)
Risk Mitigation Fund	(30,047)	(6,740)
Depositors' Protection Fund	(30,047)	(6,740)
	<u>(120,189)</u>	<u>(26,960)</u>
Profit attributable to equity shareholders	<u>480,757</u>	<u>107,844</u>
Weighted average number of ordinary shares (Numbers in '000)	<u>170,500</u>	<u>170,500</u>
Earnings per share - Basic (Rupees)	<u>2.82</u>	<u>0.63</u>

Diluted

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

26 RELATED PARTY TRANACTIONS

The Bank's related parties comprise of President, Directors, Executives, Shareholders, Entities over which the directors are able to exercise significant influence and employee gratuity fund. Detail of transactions during the half year ended 30 June 2021 and balances outstanding at that date are as follows:

	30 June 2021 (Unaudited)	30 June 2020 (Unaudited)
	-----Rupees '000-----	
Transactions during the period		
-with shareholders		
Lending to financial institutions	-	8,967,899
Repayment of lending to financial institutions	-	(9,023,000)
Investments made during the period	207,794	-
Repayment of interest on Investment	2,061	3,504
Borrowings	-	478,005
Repayment of borrowings	(17,563)	(513,887)
Branchless banking services of loan portfolio	137	1,052
ATM services payments	4,166	-
Income		
Interest income on deposit account bank balances	3,091	8,323
Interest income lending to financial institutions	-	7,688
Interest income on investments (TDR)	2,200	3,643
Transactions during the period		
-with shareholders		
Expenses		
Interest expense on borrowings	17,765	34,469
Fee, commission and bank charges	7,568	25
Branchless banking services commission/ ATM charges	4,166	-
-with others		
Cost reimbursement received from MSDF	50,005	205,315
Cost reimbursement claim from MSDF	34,195	85,756
Remuneration of Key Management Personnel	72,446	87,917
Directors	2,000	2,300
	30 June 2021 (Unaudited)	31 December 2020 (Audited)
	-----Rupees '000-----	
Balances outstanding at the end		
-with shareholders		
Balances with banks	446,155	977,787
Investments	50,000	50,000
Interest receivable on lending to financial institutions	-	145
Interest receivable on investments (TFCs)	139	-
Interest payable on borrowings and subordinated debt	4,415	4,272
Borrowings and subordinated debt	360,000	360,000

Khushhali Microfinance Bank Limited


	30 June 2021 (Unaudited)	31 December 2020 (Audited)
	-----Rupees '000-----	
-with defined benefit plan		
Balance payable to KMBL employees gratuity fund	(26,327)	(9,343)
-with key management personnel including President		
Advances - staff loans	146,575	94,882
Other assets - loans and advances to employees	-	885
Deposits	145,659	121,311
-with others		
Receivable from MSDF	37,866	52,625

27 GENERAL

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

28 DATE OF APPROVAL

These condensed interim financial statements were approved by the Board of Directors of the Bank in their meeting held on August 25 2021. *EPK*


PRESIDENT


CHAIRMAN