MERE DES MEIN HAIN
IMKAAN BOHAT...

Khushhali Bank brings prosperity to every field by giving financial support to small farmers, giving them the opportunity to earn their own living.

khushhali
MICROFINANCE BANK

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BEST MICROFINANCE BANK
AWARD FOR 2018

khushhali
MICROFINANCE BANK

ANNUAL REPORT 2018

ANNUAL REPORT 2018

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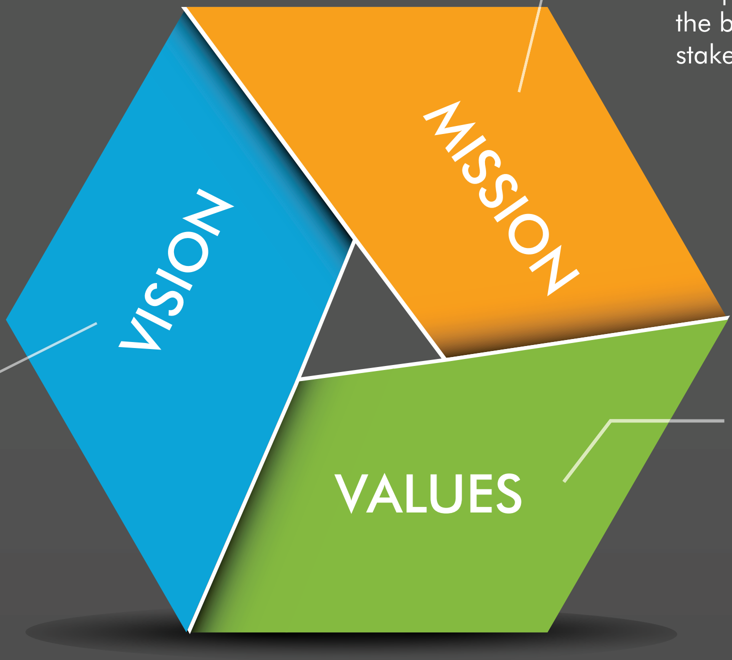
To strive for excellence and to adopt sustainable practices for the best long term interest of all stakeholders.



- Empower
- Excel
- Ethical

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

KHUSHHALI MICROFINANCE BANK LIMITED AN INTRODUCTION

Khushhali Microfinance Bank Limited (KMBL) is the pioneer microfinance bank in Pakistan specializing in provision of financial services to the marginalized segments of population. The bank caters to bottom of the pyramid markets in both urban and rural settings with the resolve to funnel poverty elimination through access to finance. Established in year 2000, Khushhalibank began as the first fully regulated microfinance bank working on a self-sustainable model. Its success over the years has fostered an ecosystem for the growth of microfinance industry within Pakistan where nearly 29% of the population lives near or below the poverty line, and improvement in availability of economic opportunities has the potential to drive growth and development at the grassroot level.

With a dedicated focus on accessibility of financial services, Khushhalibank has established service delivery through 197 locations (167 branches, 22 service centers & 8 Post Office Booths) by the end of December 2018. The financial solutions of KMBL offer customer-focused financial solutions to males and females alike, to invest in their microenterprises and uplift their business and living standards. The growth of microenterprises generates income and employment opportunities at community level, conserves local skills and prevents rural to urban migration. Over the past two decades, Khushhalibank has impacted over 6 million lives and driven poverty elimination and gender empowerment.

OUR SERVICES

Khushhali Microfinance Bank offers a suite of financial solutions to the low income segments of the country with the vision to empower them. By facilitating access to finance, Khushhalibank provides opportunities to small entrepreneurs to improve their economic potential, and provide a better life for their families as well as contribute to the economic uplift of the local community through job creation.

The loans offered by Khushhalibank provide client centric solutions to entrepreneurs and self-employed individuals in agriculture, livestock and micro, small and medium enterprises (MSMEs) sector. Khushhalibank works to bridge the gap to formal banking channels for microborrowers in both urban and rural centers, with a particular focus on areas with low financial inclusion. At the end of December 2018, 87% of the active clients of Khushhalibank were from rural areas.

Since agriculture sector in Pakistan provides employment to a major chunk of population, it remains a mainstay sector served by Khushhalibank. The bank has one of the biggest portfolios amongst the financial institutions in agriculture lending. Khushhalibank offers a variety of loan product options to small farmers to be able to buy seeds, fertilizers and pesticides. This year, Khushhalibank also started offering Khushhali Agri Plus, a new loan product with a higher loan ticket to enable farmers to buy agricultural equipment and irrigational tools.

In recent years, Khushhalibank has also started offering customized financing opportunities for micro, small and medium enterprises (MSMEs). Growth of MSME sector is critical to the economic development of Pakistan as it caters to a multitude of basic needs of the economy, provides employment and reduces pressure on the urban centers. In order to effectively enable MSMEs to use their loans for growth, Khushhalibank offers loans up to PKR 500,000 to these clients.

Currently, Khushhalibank offers loans from PKR 10,000 to PKR 500,000 to eligible clients, and the loan products take into account industry specific needs of the borrowers with respect to ticket size and repayment options. These loans provide an opportunity to small farmers and entrepreneurs to overcome the odds, invest in their working capital and assets and improve the economic potential of their enterprises. Loans from Khushhalibank also promote female entrepreneurs, and 31% of active borrowers of the bank as at December 31, 2018 were females.

BUSINESS HIGHLIGHTS

A Gross Loan Portfolio

PKR 43 + Billion

B Deposit Base

PKR 55+ Billion

C Micro Insurance Policies

900,000+

D Active Borrowers

700,000+

E Active Depositors

2+ Billion

F Percentage of active female borrowers

31.8%

G Percentage of active rural clients

87.0%

H Number of loans given to agri/ livestock farmers during 2018

700,000+

I Number of loans given to MSMEs during 2018

25,000+

YEAR IN REVIEW
2018

ENHANCING TECHNOLOGY PLATFORMS

Given the future of banking industry it is digital transaction channels, Khushhali Microfinance Bank is partnering with top notch service providers with the objective to acquire an all rounded, robust and efficient technological infrastructure which is essential to provide innovative products and services to the customers.

Khushhalibank realizes that a future-proof payments platform is critical to its digital transformation strategy. Therefore, this year, Khushhalibank acquired TPS' Multi-Channel Payment Platform to ready itself for the transformative forces that are shaping the future of banking. The new strategic partnership with TPS will enable the bank to leverage the capabilities of IRIS card management and transaction switching platform. The fundamentally flexible platform will transform Khushhalibank's digital payment infrastructure and allow quick roll-out of new and innovative services.

To facilitate its customers with digital banking services in the near future, Khushhalibank also signed an agreement with 1LINK (Guarantee) Limited (1LINK) to avail the full suite of its products. This association will enable the bank to issue PayPak debit cards to its customers, which are acceptable on all ATM and POS across Pakistan.

While enhancing technical infrastructure, Khushhalibank is equally focused on investing in solutions that strengthen governance and ensure high degree of compliance. In 2018, Khushhalibank joined hands with BenchMatrix to implement an automated regulatory Compliance Management System to ensure comprehensive enterprise-wide compliance effectively. RiskNucleus® Compliance Management System's implementation will enhance the monitoring of regulatory compliance policy through a complete automated rule book library mapped to key activities within the organization and enable effective compliance risk management, observation management and self-assessment.

With these technology solutions, Khushhalibank envisages to expand the scope of services offered to its customers.

PROVISION OF DIGITAL FINANCIAL SERVICES

Khushhali Microfinance Bank and IFC, a member of the World Bank Group, entered into an advisory engagement to support the development of an agri-digital scorecard to accelerate financial inclusion and access to finance for low-income farmers in Pakistan. This collaboration embodies the commitment from both institutions to support small landholders that are not in the radar of conventional banking ecosystem, thus facilitating the creation of a more resilient farming segment across the breadth of the country.

IFC is a leading development finance institution and functions as part of the World Bank Group to spur private sector activity through investment and advisory across the Globe. IFC has played a leading role in supporting Agri-digital practices by collaborating with selected practitioners that can help towards the cause of financial inclusion. Pakistan is a priority country for IFC.

This collaboration will leverage IFC's global experience in developing such scorecards in various geographies across Latin America, Africa and Asia. Notably, the project will benefit from IFC's most recent experiences in China where IFC's engagements have successfully ramped up outreach through large-scale institutions such as Bank of Langfang and Postal savings Bank of China. In addition, the project will leverage Khushhali Microfinance Bank's recently upgraded technology platform, T-24, which, with its optimal capabilities is amongst the best in the world.

The collaboration with IFC will further accelerate Khushhalibank's endeavors to support the agricultural base of our country. IFC and Khushhalibank have been long-standing partners in other areas as well.

DIGITAL FINANCING

ACKNOWLEDGEMENTS FOR PROVISION OF QUALITY SERVICES

In acknowledgement of its innovative services and extensive outreach to underserved client segments, Khushhali Microfinance Bank won the accolade of "Best Microfinance Bank" at the third Pakistan Banking Awards 2018 organized by the Institute of Bankers Pakistan. The award acknowledged the all-round performance of Khushhalibank in making financial solutions accessible for marginalized client segments in Pakistan and expanding outreach through penetration, efficiency and innovations, along with both a strong bottom line and social impact.

This year Khushhalibank achieved another milestone by proclaiming the Gold Price Disclosure Award by Microfinanza Ratings. The award proves Khushhalibank's commitment to transparency of its pricing information.

The Price Disclosure award is a public recognition of pricing transparency visible to investors and other international stakeholders who subscribe to the Data Platform. It signifies Khushhalibank's commitment to maintain highest standards of business practices as a major player within the microfinance sector of Pakistan. The Data Platform is a recent initiative for transparency in the financial inclusion sector that fills the gap left by Microfinance Transparency and unites several other microfinance initiatives (e.g. CERISE, SPTF, Smart campaign, PPI, MIMOSA, Factsheet, etc).

ENHANCING NETWORK WITH PAKISTAN POST

Outreach expansion remains a top priority for Khushhali Microfinance Bank to effectively reach out to under banked segments. In December 2018, Khushhalibank formed a strategic alliance with Pakistan Post to establish bank's permanent booths at General Post Offices (GPOs). In the pilot phase, booths have been established in eight GPOs in Karachi, Lahore, Peshawar and Rawalpindi regions. These booths offer loan disbursement and collection facilities in addition to other asset, liability and health insurance product offerings.

The alliance is a part of the initiatives undertaken by Khushhalibank to explore alternate service delivery methods to further improve accessibility of banking services to remote and vulnerable segments of population. Khushhalibank is actively working to contribute towards the achievement of financial inclusion targets set by State Bank of Pakistan. At the end of successful pilot, Khushhalibank plans to expand these booths to all GPOs and Post Malls.

KMBL FORMS VALUE CHAIN PARTNERSHIP WITH AGA KHAN RURAL SUPPORT PROGRAMME

Khushhali Microfinance Bank Limited has entered into an agreement with Aga Khan Rural Support Programme (AKRSP) for value chain partnership in Gilgit-Baltistan. Under this agreement, AKRSP will facilitate KMBL in the provision of financial services in the area. Both organizations have agreed to work closely to develop customized financials services as per the needs of the people of Gilgit-Baltistan and create alliances with local institutions. It will enact an instrumental role in uplift of socio-economic conditions of the local communities. The overarching aim is to increase financial inclusion in the area and give the locals an opportunity to improve their economic potential.

Khushhalibank understands that there is need of a robust financial infrastructure in the Gilgit-Baltistan region, and this partnership envisages providing customized financing opportunities to the people of GB which in turn will improve economic activity and livelihoods in the area.

Since 1982, AKRSP has been actively working in the Gilgit-Baltistan and Chitral areas for the development and uplift of local communities. The organization manages multiple programmes including skill enhancement trainings as well as employment generation opportunities through third party initiatives to improve the quality of life for the areas' people.

Both organizations plan to work together to develop financial services, including digital product offerings.

Aga Khan Rural Support Programme

KMBL PARTNERS WITH PAKISTAN TELECOMMUNICATION COMPANY LIMITED

Khushhali Microfinance Bank and Pakistan Telecommunication Limited (PTCL) signed a memorandum of understanding (MoU) to launch a financing scheme for the assistance of PTCL employees.

KMBL has offered a wide range of financing services to PTCL employees including purchase of Motorbikes through Value Chain from Honda Pakistan, salary loans, health insurance products, deposit side products, and house improvement loans.

This arrangement with PTCL is aligned to the bank's goal of responsibly expanding financial services, through innovative product offerings. Being a leading financial institution, KMBL already has alliances with organizations like Pakistan Post, PTV-Peshawar & Lahore and Provincial Housing Authority, Khyber Pakhtunkhwa. Through this agreement, PTCL aims to facilitate responsible borrowing for its employees and ease access to financing schemes for employee welfare.

CREATING OPPORTUNITIES FOR ALL

Over the past eighteen years, Khushhali Microfinance Bank has delivered on its promise to bring an opportunity of prosperity to the grassroots. Citi Foundation and Pakistan Poverty Alleviation Fund provide an annual platform to the microfinance banks to highlight the efforts of their clients. Khushhalibank's successful microentrepreneurs received acknowledgement at 12th Citi-PPAF Micro-entrepreneurship Awards. These awards are given to individuals who demonstrate courage and resilience to overcome distressing circumstances and establish successful businesses.

Sanobar bibi from Hyderabad won National Winner (female) entrepreneur award. Sanobar was orphaned at a young age and instead of depending on others for financial support, she moved to Hyderabad city at a young age and managed to set up a chicken shop. She established her place in a male dominated business and used her loans to expand her business.

Saifullah from Naseerabad won the award for Regional Winner (Balochistan). He had the vision to give up daily wage labor and set up his own business to provide a stable life to his family. He availed loans from Khushhalibank to set up a profitable gift shop.

Surayya Bibi from Muzaffarabad won the Regional Winner (Azad Jammu & Kashmir) award. She overcame tough financial circumstances and used loans from the bank to set up a small grocery store. With revenues from her business, over the years Surayya bibi has built her house on her own and provided good education to her daughter.

The appreciation of micro-entrepreneurs at such platforms boosts their confidence and brings their story of success to the forefront, to inspire others. Khushhali Microfinance Bank is proud of its clients, and is committed to support entrepreneurs by providing them with our microfinance products to improve lives and promote financial inclusion


12 Citi-PPAF


ROENTREPRENEURSHIP
AWARDS
July 09, 2018 | ISLAMABAD


Citi Foundation
citi
12th Citi-PPAF
ROENTREPRENEURSHIP
AWARDS
July 09, 2018 | ISLAMABAD

CORPORATE SOCIAL RESPONSIBILITY

EMPOWERING SMALL FARMERS THROUGH TRAINING PROGRAMS

Recognizing the importance of small farmers in an agri-based economy like Pakistan, Khushhali Microfinance Bank Limited takes regular initiatives for their uplift. These initiatives include free of cost training sessions to deliver information on modern cultivation techniques of a local crop in the climate change and water scarcity scenario along with information on new varieties of seeds, pesticides and fertilizers. Khushhali Microfinance Bank hopes to educate farmers and enable them to get improved returns from their farming activities. KMBL has collaborated with Pakistan Agricultural Research Council (PARC) to provide expert training to small farmers.

In 2018, four crop training sessions were held in Bhakkar, Rahimyar Khan, Khairpur and Pattoki covering pulses, mango crop, date palms and nursery (plants & fruits). In order to expand the scale of this initiative, KMBL collaborated with Radio Pakistan to arrange eight radio programmes on medium wave channel that has extensive reach in the rural areas of the country. The programmes invited crop experts from Pakistan Agriculture Research Council to talk about a seasonal crop. Topics covered included Sunflower, Maize, Mung Bean, Mash, Jawar & Bajra, Raya& Sarson, Oats respectively. Live calls were also received from the listeners to be answered by the expert during the programme. These programmes received an overwhelming response from all parts of the country. KMBL plans to continue engaging in effective and far reaching initiatives to work for the uplift of small farmers

GREEN OFFICE
A WWF INITIATIVE TO REDUCE ECOLOGICAL FOOTPRINT

CORPORATE SOCIAL RESPONSIBILITY

WOMEN EMPOWERMENT INITIATIVES

Women empowerment initiatives remain an important area in the Corporate Social Responsibility initiatives by Khushhali Microfinance Bank. This year, Khushhalibank joined hands with Minerva's SheReturns program to organize a social media marketing training workshop for female entrepreneurs on the occasion of Women's Entrepreneurship Day. This day is celebrated on November 19 every year to alleviate poverty by empowering and supporting women entrepreneurs.

A two day free of cost training and skill development workshop for Rawalpindi and Islamabad based female entrepreneurs was intended to make women economically powerful in the digital age. Social Media offers easy access and digital mechanisms to reach out to potential customers. The workshop highlighted how such initiatives will play an important role in equipping women entrepreneurs with the knowledge and technology required to build and grow their businesses online.

The initiative aimed to train women entrepreneurs with the knowledge, connections, skills and technology resources to improve efficiency in their business processes using social media marketing tools. Khushhali Microfinance Bank has remained committed to remove barriers for women entrepreneurs in Pakistan.

SheReturns is a program by Minerva developed to support women on a career break to return to work with confidence. It offers training to build skills required to succeed in modern work environment and create economic opportunities for women by providing them help to grow and succeed in professional world.

CORPORATE SOCIAL RESPONSIBILITY

WORKING FOR GREENER PAKISTAN

In May 2018, Khushhali Microfinance Bank was awarded 'Green Office Certification' by WWF-Pakistan in recognition for its efforts to implement environmentally sustainable practices within the head office. Khushhali Microfinance joined this programme in October 2017 and was able to get the certification within six months. Over this time, KMBL worked in close collaboration with WWF team to implement effective measures that will reduce the carbon footprint of the office by reducing wastage of resources like electricity, water and paper. Several innovative measures were introduced aimed at reducing the consumption of energy, improving waste management practices and enhancing staff awareness on sustainability and environment conservation through regular communication and training sessions.

The Certification was awarded after an in-depth inspection drive by the WWF Green Office Audit Team which took into account all the environmentally sustainable practices implemented within the office and their impact. Green Office is a programme of WWF-Pakistan which centers on reduction in consumption of natural resources, promotion of climate change mitigation measures and increased awareness about environment. The first audit scores offices based on their practices involving energy conservation, waste reduction, recycling, and awareness programmes. WWF Green Office conducts annual audits to ensure that all implemented practices are followed in true spirit and efforts are being made for continuous improvement towards reduction of carbon footprint.

Khushhalibank is committed to the cause of environment conservation and is promoting it through multiple avenues including tree plantation activities, staff awareness activities and effective changes in its policies and procedures that support environment conservation. A tree plantation drive was conducted for the year 2018 in which a total of 1500 trees (including fruit trees) were planted in Rawalpindi in collaboration with World Wildlife Fund-Pakistan. The inaugural round of this activity was held in Dhok Munshi Park, Rawalpindi where employees of Khushhalibank planted over 700 trees. These included plants like Amaltas, Kachnar, Taali, Dharaik, Guava and Black Plum, WWF-Pakistan will oversee the plantation of the remaining saplings in various schools, parks and green belts in Rawalpindi.

In addition, an organization-wide tree plantation activity was conducted under the banner of "Plant Khushhali" on the occasion of bank's 18th anniversary. Every employee participated by planting a tree and resolving to care for it. Around 4000 trees were planted during the campaign. The objective is to raise awareness among the staff about the country's need for tree

CORPORATE INFORMATION

Board of Directors

Mr. Aameer Karachiwalla	Chairman/Director
Mr. Sharjeel Shahid	Director
Mr. Pieter Kooi	Director
Mr. Geert Peetermans	Director
Mr. Robert Binyon	Director
Mr. Henning Haugerudbraaten	Director
Ms. Aatiqa Lateef	Independent Director
Mr. Humayun Bashir	Independent Director
Mr. Ghalib Nishtar	President & Chief Executive

Board Committees

Audit Committee

Ms. Aatiqa Lateef	Chair
Mr. Henning Haugerudbraaten	Member
Mr. Sharjeel Shahid	Member

Risk Management Committee

Mr. Pieter Kooi	Chair
Mr. Humayun Bashir	Member
Mr. Geert Peetermans	Member
Mr. Robert Binyon	Member

Human Resource & Compensation Committee

Mr. Robert Binyon	Chair
Ms. Aatiqa Lateef	Member
Mr. Humayun Bashir	Member

Social & Environmental Committee

Mr. Geert Peetermans	Chair
Mr. Pieter Kooi	Member
Mr. Henning Haugerudbraaten	Member

Digital Finance Committee

Mr. Humayun Bashir	Chair
Mr. Henning Haugerudbraaten	Member
Mr. Sharjeel Shahid	Member

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Sara Shah

Head Office:

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Web: www.khushhalibank.com.pk

BOARD OF DIRECTORS

AAMEER KARACHIWALLA | Chairman

With over 30 years of experience, Aameer Karachiwalla is a Chartered Accountant from the Institute of Chartered Accountants of England & Wales. Aameer 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 instrumental in launching 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 1Link. Before joining UBL, Aameer held senior positions at a number of financial institutions and multinationals including American Express Bank, Citicorp Investment Bank and Artal Group of Companies.

SHARJEEL SHAHID | Director

Sharjeel Shahid has more than 23 years of diversified experience of managing banking operations in large retail banks and business management for various institutions.

A tech savvy qualified Chartered Accountant, Shahid worked in London prior to working for Barclays, Standard Chartered and now United Bank in Pakistan. He has been instrumental in transformation of business models, corporate restructuring, cost optimisation and development of alternate delivery channels. He is currently spearheading the Digital Transformation Strategy for the second largest bank in the country, UBL.

PIETER KOOI | Director

Peter Kooi 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 MFI as a consultant over a period of seven years in its course from a development program into a commercial bank. From 1999, Peter 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, Peter was Director of the Microfinance Unit of UNCDF in New York. From March 2006 till May 2011, Peter Kooi supported ACLEDA Bank Plc. in its expansion to Myanmar and Laos as well as the establishment of ACLEDA Training Center. At present, Peter Kooi serves in the Boards of several SME banks and microfinance institutions. He is a Graduate of the Australian Institute of Company Directors.

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. He is Senior Managing Partner of Incofin Investment Management, an impact investment firm with AuM of close to USD 1 billion. He is designated Chief Investment Officer for Incofin Investment Management since 2001. Geert's strength is in strategy development, industry relations and international investment. He has been chairman of the Board of COAC Accion Rural SARL (Ecuador) & Board member of Financiera Confianza (Peru) and MFI Fie Gran Poder SA (Argentina). Currently he is Board Member of Microfinance Investment Vehicle Rural Impulse Fund II SICAV-FIS (Luxembourg), Incoteam (Belgium), Kenya Women Microfinance Bank in Kenya and Khushhali Microfinance Bank Limited. He is also a multi-linguist person knowing Dutch, English, Spanish, French & German languages at different levels.

ROBERT BINYON | Director

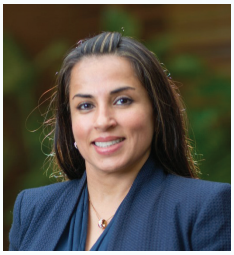
UK National, Robert Binyon graduated in Modern History from Christ Church Oxford and has a long experience of the banking industry around the globe, starting in 1972 with Morgan Grenfell, the London Merchant Bank. He held a variety of positions in the London Office and had two periods based in Geneva to run the Morgan Grenfell Bank in Switzerland. In 1985, he was appointed to the main board and in 1986 went to Japan to run the Tokyo operations of the group. Robert served as a member of Group management committee in 1988 and assumed responsibility for the Group's operations in the Asia Pacific region. Subsequently, he served as Chief Executive and Managing Director for three years of Tokai Bank Europe in London. From 1994 to 2003, Robert was a Managing Director of the Commonwealth Development Corporation (CDC) in London, responsible for the financial markets department. He has held a number of non-executive chairman and directorship roles, mostly in businesses or funds 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 many other commercial businesses operating in China and South East Asia.

HENNING HAUGERUDBRAATEN | Director

A Norwegian national, Henning Haugerudbraaten is a CFA (Chartered Financial Analyst) Charterholder. He has a diversified career spanning over 15 years. He holds a Master's degree from the Johns Hopkins University School of Advanced International Studies (SAIS) and a Bachelor's degree from the University of Oslo.

He is currently working as Principal in the private equity department of responsAbility Investments AG. He has also served at Triple Jump, Nordic Microfinance Initiative, McKinsey & Company, Norges Bank (central bank of Norway) and the World Bank Group. He is based in Bangkok, Thailand.

AATIQA LATEEF | Independent Director



Aatiqa Lateef is currently the CEO and Managing Partner of Asia Strategy Institute. Some of her additional roles include directorship in the Board of Khushhali Microfinance Bank and the Industry Advisory Board of Habib University. Prior to her role at ASI, Aatiqa was the CEO of TAF Foundation, a related company of the Byco Group where earlier she held the post of the Group Chief of Staff. In these roles, Aatiqa has been responsible for strategic initiatives to support vertically integrated businesses and objectives, and has also served as the corporate spokesperson. Aatiqa's more recent professional focus is within social enterprise and impact investment related to socio-economic upward mobility. Earlier in her career, Aatiqa 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. Aatiqa 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.

HUMAYUN BASHIR | Independent Director

Humayun brings 40 years of diversified experience with IBM in Pakistan, Afghanistan, Iran, and MEA headquarters Dubai, with good knowledge of working with banking, capital markets and Telecom sectors. He remained Chief Executive of IBM Pakistan for 16 years before retiring in 2016. He holds an engineering degree with Finance, management and leadership courses from IBA, IBM Academy NY, INSEAD and Boston University.

Humayun is a certified Director under IFC - PICG program and is currently serving as Chairman of National Clearing Company of Pakistan (NCCPL), and serves on Boards of NAFA /NBP mutual fund, Management Association of Pakistan (MAP), INJAZ Pakistan and as Chairman of PSX IT Steering committee. He is engaged with Startups and Incubators and is on Advisory Boards for promoting startups Eco system in country.

GHALIB NISHTAR | President & Chief Executive

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 Khushhalibank 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 in different sectors & 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.

MANAGEMENT

SALEEM AKHTAR BHATTI | Group Head Finance & CFO

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 | Group Head Business

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 17 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 22 years in country's leading commercial banks, where he progressed and achieved a learning curve ranging to different areas of banking. He is a seasoned banker having diversified experience with core competencies in the fields of Banking Operations, Alternate Delivery Channels development & deployment, Business Technology implementation, Operational Risk, BPR and Core Banking Systems implementation and migration.

Hammad has a 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 successfully 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 and Transformation Strategy.

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

ATIF AZIZ AHMED | Chief Information Officer

Atif Aziz Ahmed joined Khushhali Microfinance Bank in 2016. He brings 25+ 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 implementations. 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 to work 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.

RIZWAN HAFEEZ | Chief Compliance Officer

Rizwan Hafeez is a diversified professional with core competencies in the field of IT, Compliance, Operational Risk, Information Systems and Audit. Rizwan joined KMBL in 2015, bringing with him over 14 years of work experience in Regulatory/ Financial Crimes Compliance, Business Process Re-engineering, Information Systems Strategic Planning, MIS and Financial Control. 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/CFT).

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)

SYED ALI IMRAN BOKHARI | Chief Risk Officer

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 | Chief Marketing Officer

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.

SARA SHAH | Company Secretary & General Counsel

Sara Shah holds diversified legal experience with various law firms and service industries including The Chamber of MCAS & W Law Associates, Ali and Associates - an Intellectual Property law firm, PTCL and Express Media Group.

Prior to joining Khushhali Microfinance Bank Limited, Sara was associated with AkzoNobel Pakistan Limited, a Dutch Mutli National Company, as the Company Secretary.

Sara holds a Bachelor's degree in Law from Sindh Muslim Law college (Karachi) and an LLM degree in Dispute and Conflict Resolution from School of Oriental and African Studies (SOAS) UK.

IJAZ AHMED | Chief Human Resource Officer

Ijaz Ahmed is a seasoned HR professional with over 14 years of professional experience in telecom & banking sectors. He possesses a vast depth of expertise across many areas of HR including relationship management, learning & development, compensation, employer branding, leadership development, administration of policies & procedures, rewards & recognition, business partnerships and recruitment. His professional competencies include change & culture management, business process improvement, policies & procedures, stakeholder management, strategic HR and customer centric approach.

Ijaz began his career as a Project Manager at an offshore BPO. Subsequently, he moved to Jazz where he was responsible for leading key culture change initiatives.

Ijaz holds a Master's in Business Administration specializing in HR and is a Certified Trainer.

DANIYAL HAQ AWAN | Chief Internal Auditor

Daniyal Haq Awan is a Chartered Accountant from The Institute of Chartered Accountants of Pakistan with ten years of professional experience. His expertise are in External/Internal auditing, Risk Management, Project Management and IFRS Compliance. Daniyal has been associated with Khushhali Microfinance Bank for more than five years. His most recent assignment was in Finance Department where he was engaged in the implementation of CBAS project. Prior to joining KMBL, Daniyal has worked with Askari Bank Limited and A.F. Ferguson & Co. (a member firm of PwC network).

AFTAB ALAM | Head of Distribution

Aftab Alam is a microfinance and retail banking professional. He has over 16 years of progressive growth experience with Pakistan's leading microfinance banks and non-bank MFIs. He possesses extensive hands-on experience at different management positions. At these positions he has practically demonstrated his expertise to lead and manage Microfinance and SME lending, deposits, business planning, product management, leading large teams and distribution network.

Aftab has been associated with Khushhali Microfinance Bank for more than 10 years. In his present role as Head of Distribution, he is leading the sales and distribution network of the bank. He is responsible for developing and execution of banks sales and distribution strategy to drive profitable growth and that these are successfully communicated, inculcated and implemented across the organization. Aftab has a degree in Business Administration - Finance.

PRESIDENT & CEO REVIEW 2018

The economy of Pakistan witnessed slowdown during 2018 due to external and domestic challenges that were responded by an ongoing macroeconomic stabilization drive, interest rate hikes and exchange rate adjustment to reduce current account deficit, trade imbalance and curb inflation. This led to macroeconomic uncertainty, a tightening monetary policy and lower GDP growth.

The key challenges to the economy have been the balance of payments situation and challenges in terms of revenue collection where historically large current account deficit has forced tough decisions on the economy. The fiscal deficit for the year 2018 was recorded at 6.6% of GDP, exceeding even the revised target of 5.5%. A similar trend is apparent for the year 2019 and Government estimates are for the deficit to reach at 6.3% compared to a budgeted level of 5.1%. Likewise, imports rose to all time high of USD 67 billion ballooning the trade deficit to USD 37 billion. Consequently, Rupee continues to slide, losing 26% of its value during the year and crossing Rs 140 before retracting to slightly below this level. Policy rate was impacted by these developments and an increase of 425Bps YOY led to higher cost of deposits for the financial sector bringing stress on the overall spreads. The banking sector taking a conservative view focused deploying liquidity in short term investments and loan portfolio.

The microfinance sector remains resilient as gross loan portfolio witnessed a 35% increase to Rs 274 billion and number of borrowers reaching 6.9 million with a growth of 20% compared to the same period last year. Likewise, deposit continues to grow and closed at Rs 240 billion supported by 14% growth in number of savers to 35.2 billion at the end of 2018.

Performance Review 2018

It is satisfying to report on the consistent and resilient performance of Khushhali MF Bank as recorded at the end of 2018. Bank is making good progress with strong growth in both asset & liability portfolios; extended footprint, improved customer service offering and quality assets that positively impact long-term value proposition.

Key highlights of the year include:

- Market leadership in loans, deposit, revenue, profits and clients.
- Institute of Banker's Pakistan Award for the "The Best Microfinance Bank in Pakistan".
- Deepening outreach through growth and expansion in network across diverse segments of the markets.
- Launch of corporate identity statement through Electronic media
- Membership of 1Links switch, acquisition of payment system and multi-channel payment platform (TPS)
- Fostering alliances with strategic partners like Pakistan Post, AKRSP and IFC for new market segments.
- International "Gold Price Disclosure Award" for pricing transparency by Microfinanza Rating.
- "Green Office" certification for adopting green practices at corporate office from World Wildlife Fund.
- Dividend payout at 10% of PAT to the shareholders.

Profits and balance sheet footing continue to expand steadily with an all-time high pre-tax profit of Rs. 3.5 billion during 2018 as compared to Rs. 2.5 billion during 2017, an increase of 40%. Likewise after tax profit stood at Rs. 2.5 billion which is 37% more than the last year's profit of Rs. 1.8 billion.

The balance sheet growth was 20% YOY and closed at Rs 70 billion, lending book grew over 35% YOY with total net advances rising to over Rs. 43 billion, portfolio quality indicators primarily the ratio of non-performing advances (past due +30 days) closed at 1.18% against 1.01% of 2017. On the deposits, Rs 10 billion were added to close at Rs 56 billion which translate into ADR of 77%. Profit retention and injection of Rs 1 billion tier II capital last year strengthened the Capital Adequacy ratio to 18.9%.

Expanding balance sheet led to increase in Bank's net interest income by 28 % to Rs 7.3 billion from last year's Rs 5.7 billion. Fee based income reflects an increase of over 24% to Rs 1.5 billion from Rs 1.2 billion of last year.

The net administrative expenses to support business expansion showed an increasing trend and reached Rs 4.7 billion against Rs 3.9 billion of last year. In spite of increase in administrative cost, the cost to income ratio improved to 55% as against 57% of 2017. The consolidated impact of business performance helped improve last year ROE of 28.2% to 31.8% which is amongst the highest in the banking Industry.

We continue to expand into new territories targeting the unserved and underserved segments of the market through a suite of Group, Individual and micro enterprise products exploring opportunities across urban & rural divide in agriculture, small business and housing sectors. We plan to strengthen our offerings to retail depositors while investing in technology and the digital space with a more robust internal control environment.

We continue to pursue our corporate social responsibility commitments through program that support financial literacy, Health, Educational and Vocational Trainings for the farmers, Environment, Gender and Diversity.

Future Outlook

We enter the year 2019 with ambitious goals but a determination to succeed. We have the resources, the market positioning and the focus to overcome a relatively uncertain economic forecast.

The implementation of state of the art banking application Temenos T24, our utmost effort will be the smooth transition to new core banking system, beginning of digital journey for exploring untapped and emerging market opportunities and change management to effectively adopt and use technology and scale for business growth.

I hope we through our investments are able to bring improvement in terms of innovation, service quality and delivering better customer experience.
Our success depends upon our ability to anticipate change and take measures to respond with greater agility.

I am happy that our collective effort over the years has positioned Khushhali MF Bank at the top and we can now leverage this strength to retain our leadership while remaining committed to financial Inclusion.

I wish to acknowledge the support of our shareholders, regulator and a committed management team.

M. Ghalib Nishtar

President/Chief Executive

FINANCIAL HIGHLIGHTS **2018**

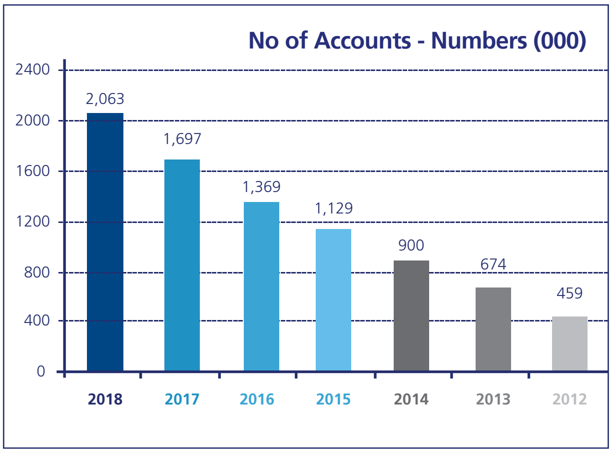
Financial Position / Performance		2018	2017	Change
Assets				
Cash and balance with SBP/Banks/MFBs	PKR M	9,291	4,063	129%
Lending to financial institutions	PKR M	1,838	475	287%
Invesments	PKR M	8,916	16,298	-45%
Advances - net of provisions	PKR M	43,374	32,216	35%
Operating fixed assets	PKR M	1,354	1,142	19%
Other assets	PKR M	5,700	4,768	20%
Total Assests	**PKR M**	**70,472**	**58,961**	**20%**
Liabilities				
Deposits	PKR M	(56,018)	(45,747)	22%
Borrowings	PKR M	(2,965)	(4,783)	-38%
Subordinated debt		(1,000)	-	100%
Other liabilities	PKR M	(2,290)	(2,076)	10%
Total liabilities	PKR M	(62,273)	(52,605)	18%
Net Assets	**PKR M**	**8,199**	**6,356**	**29%**
Shareholders Funds				
Share capital	PKR M	1,705	1,705	0%
Statutory reserve	PKR M	1,717	1,226	40%
Unappropriated Profit	PKR M	4,776	3,424	40%
Deferred grants etc	PKR M	1	2	-37%
Total Shareholders Funds	**PKR M**	**8,199**	**6,356**	**29%**
Profit & Loss				
Markup/return/interest earned	PKR M	11,926	8,741	36%
Markup/return/interest expensed	PKR M	(4,590)	2,996)	53%
Net Mark-up/interest income	**PKR M**	**7,336**	**5,745**	**28%**
Fee, commission and brokerage income	PKR M	1,524	1,226	24%
Other income	PKR M	7	5	57%
Total non mark-up/non interest income	**PKR M**	**1,531**	**1,231**	**24%**
Operating expenses	PKR M	(4,720)	3,872)	22%
Net provision against-non performing assets	PKR M	(676)	(615)	10%
Profit before tax	**PKR M**	**3,470**	**2,489**	**40%**
Taxation	PKR M	(1,012)	(688)	47%
Profit after tax	**PKR M**	**2,459**	**1,800**	**37%**
Ratios				
Return on equity	%	31.8%	28.2%	3%
Return on assets	%	3.6%	3.4%	5%

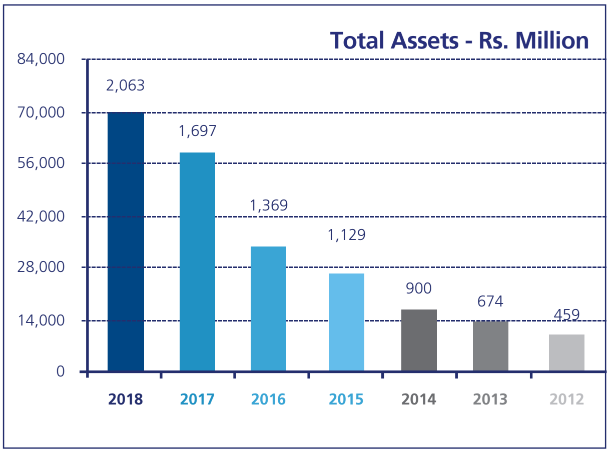
FINANCIAL HIGHLIGHTS **2018**

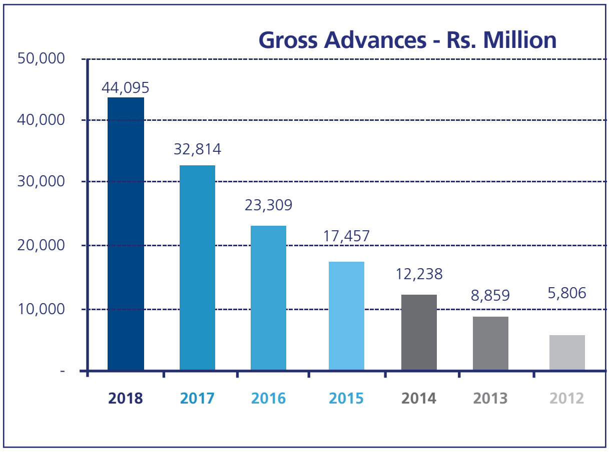
		2018	2017	2016	2015	2014	2013	2012
OUTREACH								
No of accounts	No	2,062,989	1,697,247	1,369,007	1,128,901	900,081	674,061	458,612
Active borrowers	No	784,480	671,015	556,787	520,517	468,369	409,010	364,138
No of branches/units	No	197	173	141	129	118	110	106
ASSETS								
Advances - Net	Rs M	43,374	32,216	22,940	17,247	12,106	8,757	5,717
Investments	Rs M	10,754	16,773	2,968	1,848	837	1,039	1,044
Cash/bank deposits/bal with SBP	Rs M	9,290	4,538	4,232	4,329	1,472	1,872	1,865
Operating fixed assets	Rs M	1,354	1,142	720	549	323	275	313
Other assets	Rs M	5,700	4,768	2,914	2,724	1,955	1,347	1,015
Total assets	Rs M	70,472	58,961	33,774	26,696	16,692	3,290	9,954
Non-performing loans	Rs M	512	324	347	338	113	70	64
Provision for non-performing loans	Rs M	721	598	369	220	132	103	89
LIABILITIES								
Deposits	Rs M	56,018	45,747	21,179	15,584	8,682	7,133	4,041
Borrowings	Rs M	2,965	4,783	6,200	5,890	3,730	2,746	3,010
Subordinated Debt	Rs M	1,000						
Other liabilities	Rs M	2,291	2,076	1,457	1,288	995	658	430
Total liabilities		62,274	52,605	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	1,705
Reserves	Rs M	1,717	1,226	865	611	446	305	241
Unappropriated profit	Rs M	4,776	3,424	2,367	1,618	1,134	739	526
Total shareholders funds	Rs M	8,198	6,354	4,937	3,934	3,285	2,752	2,473
PROFITABILITY								
Interest income	Rs M	11,926	8,741	5,926	4,407	3,129	2,278	1,499
Interest expense	Rs M	4,590	2,996	1,807	1,219	810	615	353
Net interest income	Rs M	7,336	5,745	4,119	3,187	2,320	1,663	1,146
Provisions/Written offs	Rs M	676	615	601	341	163	175	287
Fee & commission income	Rs M	1,524	1,226	940	640	478	325	246
Other income	Rs M	7	5	87	35	217	259	340
Operating expenses	Rs M	4,720	3,872	2,766	2,340	1,910	1,534	1,324
Profit before tax	Rs M	3,471	2,489	1,779	1,182	942	538	120
Taxation	Rs M	1,012	688	506	358	239	175	(48)
Profit after tax	Rs M	2,459	1,801	1,273	824	703	363	168
PROFITABILITY RATIOS								
Return on Assets (ROA)	%	3.6%	3.4%	3.4%	3.4%	3.7%	1.8%	-0.5%
Return on Equity (ROE)	%	31.8%	28.2%	23.4%	20.2%	18.5%	8.0%	-2.0%
Operating Self Sufficiency (OSS)	%	132.7%	130.6%	129.2%	127.8%	126.7%	114.8%	97.9%
Financial Self Sufficiency (FSS)	%	133.0%	130.0%	128.0%	126.0%	123.0%	107.8%	79.7%
EFFICIENCY/PRODUCTIVITY RATIOS								
Operating expense ratio	%	12.6%	14.3%	14.2%	16.6%	18.1%	21.0%	26.3%
Personnel productivity	Rs	170	171	170	170	179	178	154
Loan officer productivity	Rs	378	377	399	426	518	578	517
Average outstanding loan size	Rs	55,401	48,322	41,548	33,408	26,102	21,617	15,943
PORTFOLIO QUALITY RATIOS								
Portfolio at Risk > 30	%	1.2%	1.0%	1.5%	65.2%	77.9%	103.5%	1.1%
Portfolio at Risk > 90	%	0.8%	0.7%	0.8%	1.9%	0.9%	0.8%	0.4%
Write off ratio	%	1.7%	1.7%	2.6%	0.5%	0.3%	0.3%	6.0%
Risk coverage ratio	%	140.8%	184.4%	106.4%	1.3%	1.2%	2.1%	84.7%

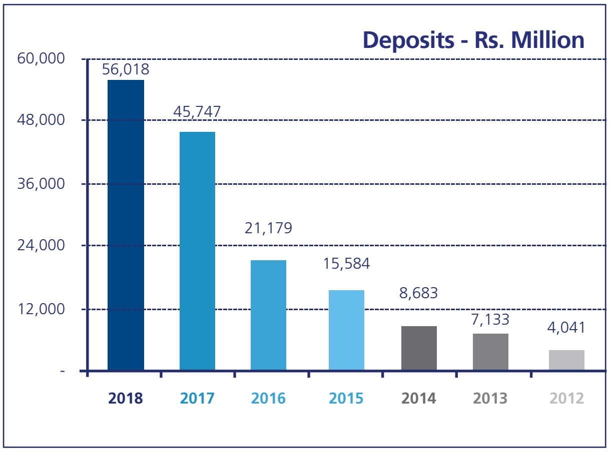
* ROA calculated as per CGAP Guideline: Net operating income less taxes divided by average assets.
** ROE calculated as per CGAP Guideline: Net operating income less taxes divided by average assets.

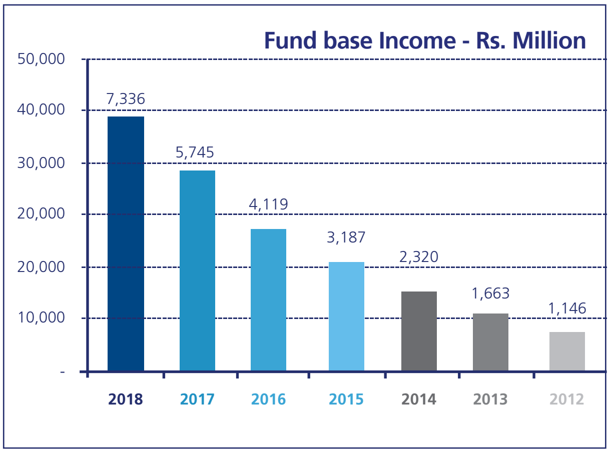
FINANCIAL HIGHLIGHTS 2018

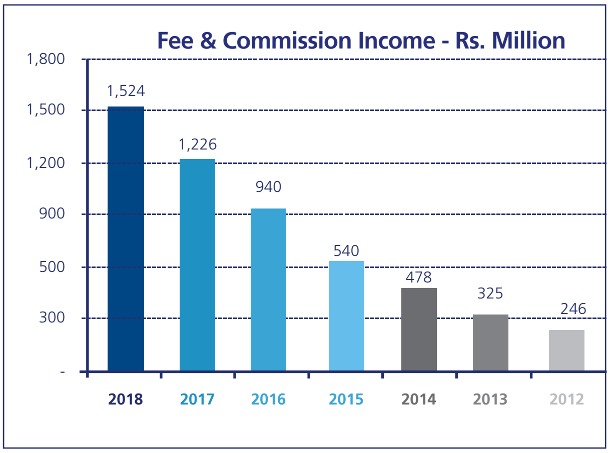


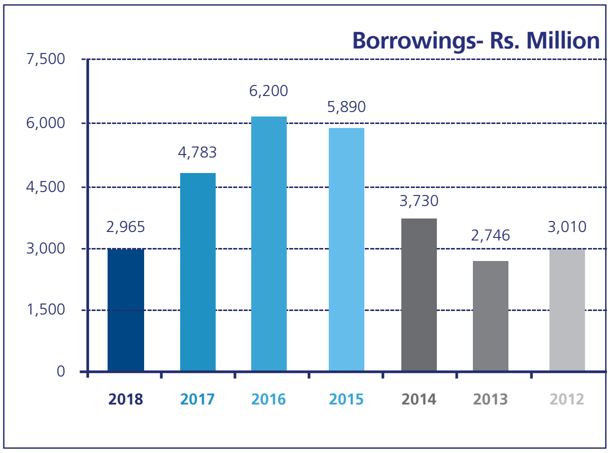


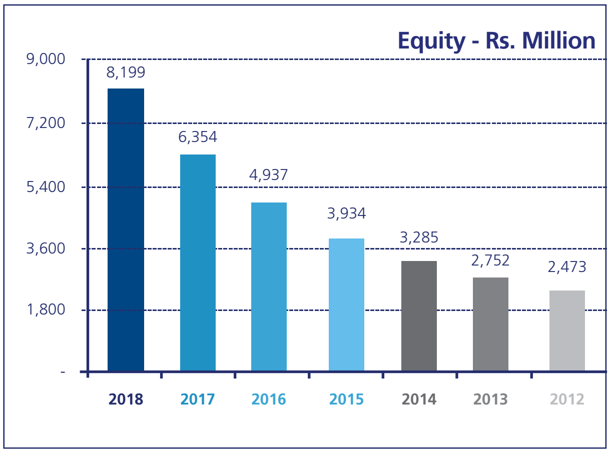


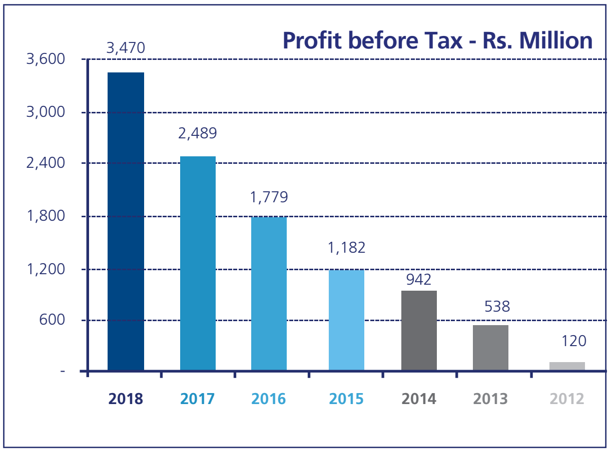


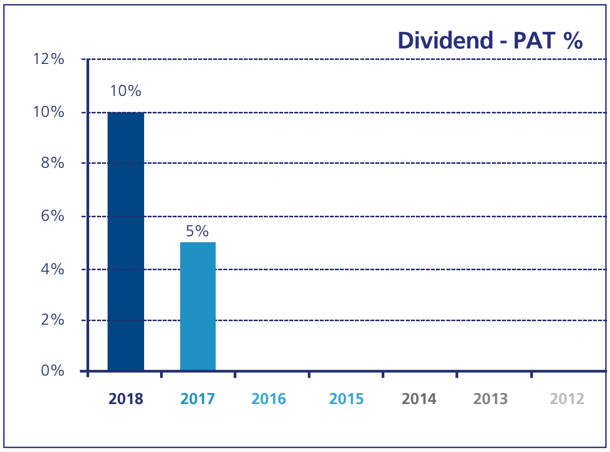





Borrowings- Rs. Million
7,500
6,000
4,500
3,000
1,500
0
2,965
4,783
6,200
5,890
3,730
2,746
3,010
2018
2017
2016
2015
2014
2013
2012


Equity - Rs. Million
9,000
7,200
5,400
3,600
1,800
-
8,199
6,354
4,937
3,934
3,285
2,752
2,473
2018
2017
2016
2015
2014
2013
2012


Profit before Tax - Rs. Million
3,600
3,000
2,400
1,800
1,200
600
-
3,470
2,489
1,779
1,182
942
538
120
2018
2017
2016
2015
2014
2013
2012


Dividend - PAT %
12%
10%
8%
6%
4%
2%
0%
10%
5%
2018
2017
2016
2015
2014
2013
2012

DIRECTORS REPORT 2018

Directors' Report to the Shareholders: 2018

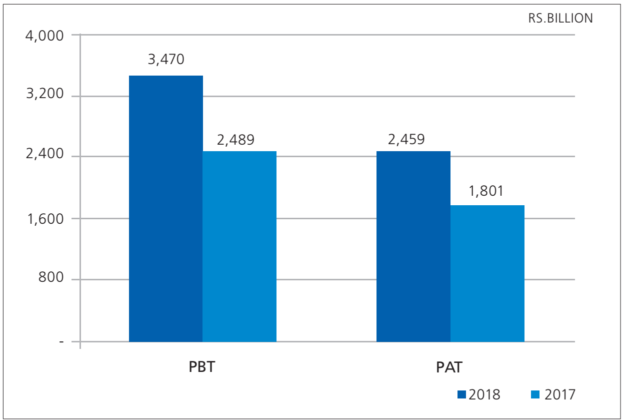
I am pleased to present audited financial statements for the financial year ended 31 December 2018.

Khushhali Microfinance Bank Limited (KMBL) remains committed to deliver on its five years Strategic Plan 2016-2020 and maintains its leads position in the sector. The strategy of managed growth and expansion is well reflected in the Best Microfinance Bank award conferred on KMBL. The award honors banking excellence by recognizing KMBL as the best Microfinance Bank of 2018 and was awarded by the Institute of Bankers Pakistan.

Financial Highlights

Bank's performance in 2018 reflects another year of sound financial results amidst signs of a positive outlook for economic growth in Pakistan. We posted impressive financial results for the year ended 31 December 2018, by registering profit before taxation of Rs 3.47 billion (2017: Rs 2.49 billion) – a solid growth of 39% YOY. The Bank's Profit after taxation was recorded at Rs 2.46 billion, 37% more than the last year's profit of Rs 1.80 billion.

The increase in profit resulted from the continuous growth in the balance sheet driven by retail deposits and its efficient deployment in high yielding loan assets. The earnings per share increased to Rs 11.54 for the year ended 2018 in comparison to Rs 8.45 per share in 2017. The break-up value per share also increased to Rs 48.09 (2017: Rs 37.27 per share), an increase of 29%. Consequently, the return on equity improved from 28.2% to 31.8% and return on average assets also improved from 3.4% to 3.6%in 2018.



The overall revenues increased by 36% over 2017, closing at Rs 11.93 billion (2017: Rs 8.74 billion). Net Markup Income increased by 28% and non-markup income by 22% YOY.

The sector experienced high PAR30+ during the year as a result of sugarcane and wheat crop performance adversely affected by market pricing. Consequently our PAR 30+ also increased marginally to 1.18% from 1.01% of last year. The overall expense growth was at 22% over 2017, however cost to income ratio reduced to 55% from 57 % of last year.

The Board is pleased to recommend a final cash dividend of Rs 1.50 per share (2017: Rs 0.53 per share) i.e. 10.40% of PAT for the year ended December 31, 2018 (2017: 5% of PAT).

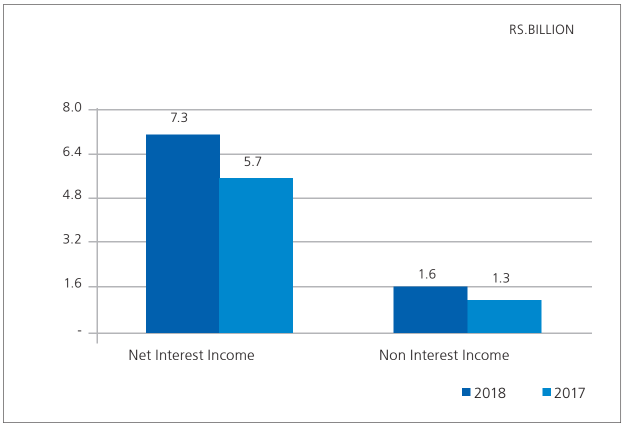
Financial Position

Net Markup Income:

The Bank's balance sheet growth has resulted from a robust buildup in deposits which increased by 23% YOY. Consequently, Net Markup Income increased by 28%, closing at Rs 7.34 billion (2017: Rs 5.74 billion). Interest margin was recorded at 13.7% as against 15.0% last year which was mainly affected due to rapidly increasing policy rate. The Bank's overall cost of fund increased by 70 bps to 8.4% in 2018 (2017: 7.7%) in spite of 425 bps increase in policy rate during the year.

Non-Mark up Income:

Non-markup income comprising of fee, commission and Other income increased by 22%, closing at Rs 1.64 billion in 2018 (2017: Rs 1.34 billion). Fee and commission income increased from Rs 1.23 billion to Rs 1.52 billion, an increase of 24% mainly due to the growth in loan portfolio. Other income slightly increased to Rs 114.84 million from Rs 113.49 million.



Provision and loan losses:

The net provisioning expenses stood at Rs 778.23 million (2017: Rs 712.64 million) and PAR30+ closed at 1.18% as against 1.01% of last year. The bank maintains general provision reserve of 1.16% as against the regulatory requirement of 1.00%.

Cost Management:

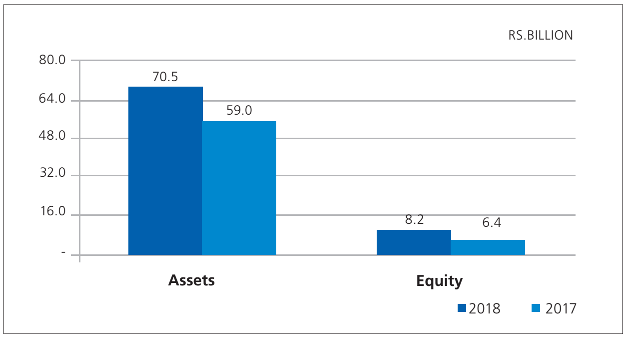
The administrative expenses increased by 22% from Rs 3.86 billion to Rs 4.71 billion in 2018 which is largely attributed to direct cost associated with business expansion and growth. In spite of increase in overall operating expenses to support business growth, the ratio of administrative expenses to gross loan portfolio reduced by 1.7% and closed at 12.6% (2017:

14.3%) and similarly the cost to income ratio also improved to 55% (2017: 57%)

The main contributor to the increase in operating expenses was employee related costs which increased by Rs 396.79 due to the net increase in headcount of 690 staff members for new branches and expansion of existing operations for business growth. Other administrative overheads increased by Rs 452.72 million primarily due to the addition of twelve branches and twelve service centers/post office booths, refurbishment cost of existing branches for MSME operations, marketing campaign for deposit mobilization, IT infrastructure upgrade and cost of alternative delivery channel.

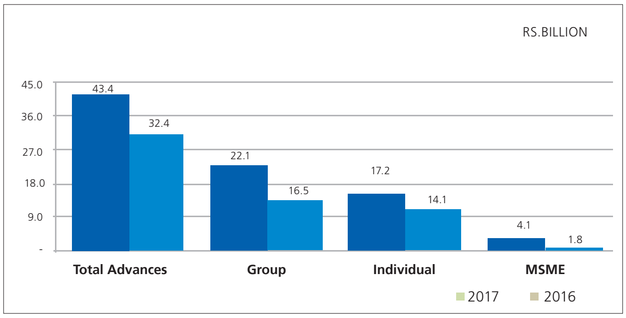
Assets & Equity:

The balance sheet footing increased by Rs 11.51 billion and reached at Rs 70.47 billion from Rs 58.96 billion of last year, reflecting growth of 20% YOY. On the other hand, the equity of the bank increased by Rs 1.84 billion and closed at Rs 8.20 billion from Rs 6.36 billion of last year, growth of 29% YOY.



Loan Portfolio:

Bank's aggregate loan portfolio grew by 34% during the year, strong contribution to this growth was made by the segment of group clients, Individual and MSME lending to agricultural, livestock and entrepreneur sectors. Accordingly, the gross loan portfolio increased by Rs 11.04 billion and reached at Rs 43.46 billion from Rs 32.42 billion of last year.



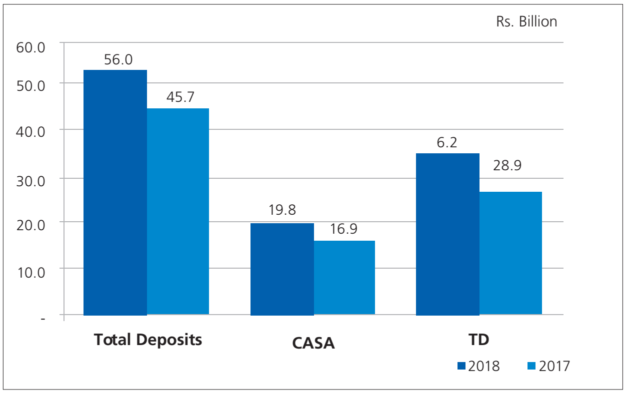
The group loan portfolio closed at Rs 22.1 billion (2017: Rs 16.5 billion) an increase of 34% and its composition 51% in the total loan book remained consistent with last year. Individual loan portfolio increased to Rs 17.2 billion (2017: Rs 14.1 billion) an increase of 22% and it share in the total portfolio decreased by 3% and Micro Small and Medium Enterprise (MSME) portfolio closed at Rs 4.1 billion (2017: Rs 1.8 billion) registering an increase of 128% YOY with the improved share of 9 %.

	2018		2017		YOY Growth	
Products	**Rs Billion**	**Mix - %**	**Rs Billion**	**Mix - %**	**Rs Billion**	**%**
Group loans	22.1	51%	16.5	51%	5.6	34%
Individual loans	17.2	40%	14.1	43%	3.1	22%
MSME loans	4.1	9%	1.8	6%	2.3	128%
Total	**43.4**	**100%**	**32.4**	**100%**	**11.0**	**34%**

Deposits:

The growth trend in deposits continue during the year with increase of Rs 10.27 billion to closed at Rs 56.02 billion (2017: Rs 45.75 billion) an increase of 23%.

The key feature of our deposit mobilization strategy focuses around developing sustainable relationship with high net worth clients and deepening the small depositors' base. The strategy of acquiring long term savings from senior citizen through specialized product has worked well and provided stability to our deposit base. The growth of retail deposits helped expand our loan portfolio and strengthened liquidity profile. Accordingly, bank maintains ADR at 77% in 2018 as compared to 70% of last year.



The results of operations under review are presented below;

	2018 Rs.'000	2017 Rs.'000
Profit after Tax	**2,458,786**	**1,800,566**
Re-measurement loss employment benefit obligation	(32,427)	(23,423)
Un-appropriated profit brought forward	3,423,732	2,366,816
Profit available for appropriation	**5,850,091**	**4,143,958**
APPROPRIATIONS:		
Transfer to:		
Statutory reserve	491,757	360,113
Microfinance Social Development Fund	245,879	180,056
Depositors' Protection Fund	122,939	90,028
Risk Mitigation Fund	122,939	90,028
Final Dividend 2017 : Rs 0.53 per share	90,365	-
	1,073,879	720,226
Un-appropriated Profit Carried Forward	**4,776,212**	**3,423,732**

Capital Adequacy Ratio

As of December 31, 2018 the Bank's capital adequacy ratio (CAR) is measured at 18.9% against 18.4% 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 1.50 per share (2017: Rs 0.53 per share) for the year ended December 31, 2018.

Credit Rating

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.

Awards and Recognition

KMBL has won the accolade of 'Best Microfinance Bank' at the third Pakistan Banking Awards 2018 organized by the Institute of Bankers of Pakistan. The pioneer microfinance bank of Pakistan was honored with this award for its all-round performance in expanding outreach, efficiency and innovations, social impact and a strong bottom line.

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
   - Board Digital Finance Committee - BDFC

SR No	Name of member	Designation and name of committee	BAC	BHRCC	BRMC	SEC	BDFC
		Meetings Held	**4**	**3**	**4**	**2**	**4**
		Meetings Attend					
1	Mr Robert Binyon *	Chair HRCC, Member SEC	4	-	4	1	-
2	Mr. Geert Peetermans	Chair SEC, Member BAC, BDFC & BRMC	2	3	-	2	4
4	Ms. Aatiqa Lateef	Chair BAC, Member HRCC & SEC	2	-	-	2	-
5	Mr. Peter Kooi**	Member BAC, BMRC & BDFC	-	2	4	-	4
3	Mr Zia Ijaz***	Chair BRMC, Member BAC & BHRCC	4	3	2	-	
6	Mr Ghalib Nishtar****	Chair BDFC & Member SEC	-	-	-	1	4

* Mr Robert Binyon took a leave of absence for 24th BHRCC meeting which was then deferred due to lack of quorum and for 11th SEC meeting held on 27.08.2018

** Mr Peter Kooi stepped down as member BAC during session I of 60th BOD meeting held on 22.05.2018. Accordingly, he did not attend 39th BAC meeting held on 22.05.2018 and 40th BAC meeting held on 27.08.2018. Later, he was appointed as member BAC during 61st BOD meeting held on 28.08.2018.

** Mr Zia Ijaz took leave of absence for 40th BAC meeting held on 27.08.2018, 24th BHRCC meeting which was deferred and 24th BRMC held on 27.08.2018. Moreover, he also took leave of absence for 41st BAC, 24th BHRCC and 25th BRMC. Mr Peter Kooi was Acting Chair for the 24th BRMC held on 27.08.2018 meeting and Mr. Geert Peetermans was Acting Chair for the 25th BRMC meeting held on 15.11.2018. ****GN stepped down as member SEC during session I of 60th BOD meeting held on 22.05.2018.

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	4	4
^Mr Geert Peetermans	Director	4	4
^Mr Peter Kooi	Director	4	4
^Mr. Robert Binyon*,**	Director	3	4
^Ms Aatiqa Lateef	Director	4	4
^Mr Zia Ijaz*'***	Director	2	4
Mr Ghalib Nishtar	President and CEO	4	4

^Elected in 11th AGM held on March 20, 2018.

*Mr. Robert Binyan and Mr Zia Ijaz took leave of absence for the 61st BOD meeting held on 28.08.2018.

** 60th BOD meeting had 2 sessions; Mr. Aameer Karachiwalla and Mr. Robert Binyan took leave of absence for session I of the meeting held on 22.05.2018 and attended the session II of the meeting held on 23.05.2018

*** Resigned as Director and approved by the BOD on 16.11.2018.

Change in Directors

Mr. Sharjeel Shahid, Mr. Humayun Bashir and Mr. Henning Haugerudbraaten have been appointed as members of the Board of Directors during the year.

The Board wishes to place on record the sincere appreciation for the valuable contribution of the outgoing director, Mr. Zia Ijaz.

Mr. Sharjeel Shahid, Mr. Humayun Bashir and Mr. Henning Haugerudbraaten were although appointed during 2018 but due to pending FPT clearance from SBP; all three directors did not attend any of the meetings in 2018.

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, 2018, 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	31.50%
Others	4	119,871,472	68.50%
Total	**6**	**170,500,000**	**100.00%**

SHAREHOLDERS HOLDING ABOVE 10% OF VOTING SHARES ARE

Shareholders	Shares
United Bank Limited	50,628,528
Rural Impulse Fund II S.A SICAV-FIS	41,705,663
ResponsAbility Management Company S.A	33,929,499
Shorecap II Limited	24,356,808
Total Shares	**150,620,498**

AUDITORS

The current auditors, BDO Ebrahim & Co Chartered Accountants, are completing their 5 year term, and are not eligible for reappointment as per the Code of Corporate Governance. Accordingly, the Board of Directors, on the recommendation of the Board Audit Committee, recommends the appointment of Ernst & Young Ford Rhodes, Chartered Accountants, as the auditors of the Bank for the financial year 2019.

APPRECIATION AND ACKNOWLEDGEMENT

On behalf of the Board, I express my sincere appreciation to the State Bank of Pakistan and other regulatory bodies for the guidance and support extended to KMBL during the year. I am also thankful to our investors for the trust that they have placed in the Bank. I also express my appreciation to our customers and most importantly I would like to acknowledge our employees whose painstaking commitment, hard work and dedication has enabled successful delivery of our promise to our stakeholders.

For and on behalf of the board

Chairman
February 15, 2019

AUDITORS' REPORT TO THE MEMBERS

Opinion

We have audited the annexed financial statements of Khushhali Microfinance Bank Limited (the Bank), which comprise the balance sheet as at December 31, 2018, the profit and loss account, the statement of comprehensive income, the statement of changes in equity, the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, 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 the audit.

In our opinion and to the best of our information and according to the explanations given to us, the balance sheet, the profit and loss account, the statement of comprehensive income, the statement of changes in equity and the cash flow statement together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan, and give the information required by the Microfinance Institution Ordinance, 2001 and the Companies Act, 2017 (XIX of 2017), 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, 2018 and of the profit and other comprehensive loss, the changes in equity and its cash flows for the year then ended.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditors Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the Financial Statements and Auditors Report Thereon

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditors report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting and reporting standards as applicable in Pakistan, the requirements of Microfinance Institution Ordinance, 2001 and the Companies Act, 2017 (XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Board of directors is responsible for overseeing the Bank's financial reporting process.

Auditors Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

  We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Based on our audit, we further report that in our opinion:

a) proper books of account have been kept by the Bank as required by the Companies Act, 2017 (XIX of 2017);

b) the balance sheet, the profit and loss account, the statement of comprehensive income, the statement of changes in equity and the cash flow statement together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;

c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Bank's business; and

d) 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.

The engagement partner on the audit resulting in this independent auditors report is Abdul Qadeer.

Bdohhaeni Co.

ISLAMABAD

DATED: February 15, 2019

BDO EBRAHIM & CO.

CHARTERED ACCOUNTANTS

Balance Sheet as at December 31, 2018

ASSETS	Note	2018 Rs.'000	2017 Rs.'000
Cash and balances with SBP and NBP	7	1,792,737	1,664,251
Balances with other Banks/ NBFIs/ MFBs	8	7,498,358	2,399,132
Lending to financial institutions	9	1,837,749	474,532
Investments	10	8,915,710	16,297,590
Advances - net of provisions	11	43,374,302	32,215,992
Operating fixed assets	12	1,353,528	1,141,596
Other assets	13	5,437,543	4,537,439
Deferred tax asset	14	262,025	230,670
Total Assets		**70,471,952**	**58,961,202**
LIABILITIES			
Deposits	15	56,017,988	45,746,861
Borrowings	16	2,964,872	4,782,681
Subordinated debt	17	1,000,000	-
Other liabilities	18	2,289,642	2,075,886
TOTAL LIABILITIES		**62,272,502**	**52,605,428**
NET ASSETS		**8,199,450**	**6,355,774**
REPRESENTED BY:			
Share capital	19	1,705,000	1,705,000
Statutory reserve	6.12	1,693,035	1,201,278
Capital reserve	6.13	24,255	24,255
Unappropriated profit		4,776,212	3,423,732
		8,198,502	6,354,265
Surplus/(deficit) on revaluation of assets	20	(235)	(106)
Deferred grants	21	1,183	1,615
TOTAL CAPITAL		8,199,450	6,355,774
MEMORANDUM / OFF BALANCE SHEET ITEMS	22	-	-

The annexed notes from 1 to 49 form an integral part of these financial statements.

PRESIDENT	**CHAIRMAN**	**DIRECTOR**	**DIRECTOR**

Profit And Loss Account for the year ended December 31, 2018

	Note	2018 Rs.'000	2017 Rs.'000
Mark-up/ return/ interest earned	23	11,926,025	8,740,749
Mark-up/ return/ interest expensed	24	4,590,105	2,995,881
Net mark-up/ interest income		7,335,920	5,744,868
Provision against non-performing loans and advances	11.5	738,738	690,079
Bad debts written off directly	11.6	39,492	22,565
Net mark-up/ interest income after provisions		6,557,690	5,032,224
NON MARK-UP/ NON INTEREST INCOME			
Fee, commission and brokerage income	25	1,523,716	1,226,405
Other income	26	114,835	113,493
Total non mark-up/ non interest income		1,638,551	1,339,898
		8,196,241	6,372,122
NON MARK-UP/ NON INTEREST EXPENSES			
Administrative expenses	27	4,706,553	3,857,042
Other provisions	13	5,452	11,262
Other charges	28	13,911	14,836
Total non-mark-up/ non interest expense		4,725,916	3,883,140
PROFIT BEFORE TAXATION		3,470,325	2,488,982
TAXATION			
Current	29	961,759	723,552
Prior year	29	72,022	47,570
Deferred	29	(22,242)	(82,706)
		1,011,539	688,416
PROFIT AFTER TAXATION		2,458,786	1,800,566
Unappropriated profit brought forward		3,423,732	2,366,815
Less: other comprehensive loss transferred to equity		(32,427)	(23,423)
Profit available for appropriation		5,850,091	4,143,958
APPROPRIATIONS:			
Transfer to:			
Statutory reserve	6.12	491,757	360,113
Microfinance Social Development Fund	6.14	245,879	180,057
Depositors' Protection Fund	6.14	122,939	90,028
Risk Mitigation Fund	6.14	122,939	90,028
Final dividend 2017 : Rs 0.53 per share	45	90,365	-
		1,073,879	720,226
UNAPPROPRIATED PROFIT CARRIED FORWARD		4,776,212	3,423,732
EARNINGS PER SHARE - BASIC AND DILUTED	34	11.54	8.45

The annexed notes from 1 to 49 form an integral part of these financial statements.

PRESIDENT	**CHAIRMAN**	**DIRECTOR**	**DIRECTOR**

Statement of Comprehensive Income for the year ended December 31, 2018

	Note	2018 Rs.'000	2017 Rs.'000
Profit after taxation		2,458,786	1,800,566
Other comprehensive income			
Items that will not be reclassified subsequently to profit and loss			
Remeasurement loss on post employment benefit obligation		(41,493)	(33,461)
Deferred tax relating to remeasurement loss on post employment benefit obligation	14.1	9,066	10,038
Other comprehensive loss transferred to equity		(32,427)	(23,423)
Items that may be subsequently reclassified to profit and loss			
Available for sale financial assets			
Deficit on revaluation of investments	10.5	(327)	(151)
Transfer to profit and loss on disposal of available for sale investments		151	201
Deferred tax asset/(liability) on (deficit)/surplus on revaluation of investments - AFS	14.1	47	(15)
		(129)	35
Total comprehensive income		2,426,230	1,777,178

The annexed notes from 1 to 49 form an integral part of these financial statements.

PRESIDENT	**CHAIRMAN**	**DIRECTOR**	**DIRECTOR**

Statement of Changes In Equity For the year ended December 31, 2018

	Share Capital	Statutory Reserve	Capital Reserve	Unappropriated Profit	Total
			Rs.'000		
Balance as at January 01, 2017	1,705,000	841,165	24,255	2,366,815	4,937,235
Total comprehensive income for the year					
Profit for the year	-	-	-	1,800,566	1,800,566
Other comprehensive loss	-	-	-	(23,423)	(23,423)
	-	-	-	1,777,143	1,777,143
Transfer to:					
Statutory reserve	-	360,113	-	(360,113)	-
Microfinance Social Development Fund	-	-	-	(180,057)	(180,057)
Risk Mitigation Fund	-	-	-	(90,028)	(90,028)
Depositors' Protection Fund	-	-	-	(90,028)	(90,028)
Balance as at December 31, 2017	1,705,000	1,201,278	24,255	3,423,732	6,354,265
Total comprehensive income for the year					
Profit for the year	-	-	-	2,458,786	2,458,786
Other comprehensive loss	-	-	-	(32,427)	(32,427)
	-	-	-	2,426,359	2,426,359
Transfer to:					
Statutory reserve	-	491,757	-	(491,757)	-
Microfinance Social Development Fund	-	-	-	(245,879)	(245,879)
Risk Mitigation Fund	-	-	-	(122,939)	(122,939)
Depositors' Protection Fund	-	-	-	(122,939)	(122,939)
Final dividend 2017 : Rs 0.53 per share	-	-	-	(90,365)	(90,365)
Balance as at December 31, 2018	1,705,000	1,693,035	24,255	4,776,212	8,198,502

The annexed notes from 1 to 49 form an integral part of these financial statements

PRESIDENT CHAIRMAN DIRECTOR DIRECTOR

Cash Flow Statement for the year ended December 31, 2018

	Note	2018 Rs.'000	2017 Rs.'000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		3,470,325	2,488,981
Adjustments for:			
Depreciation and amortization		282,112	219,012
Amortization of deferred grant		(430)	-
Provision against non-performing advances		738,738	690,079
Gain / (loss) on disposal of operating fixed assets		(242)	2,767
Mark-up on advances		(10,726,078)	(8,109,135)
Interest income on investments and deposit accounts		(1,199,947)	(631,614)
Interest expense on borrowings and deposits		4,518,180	2,995,881
Interest expense on subordinated debt		71,925	-
Provision against other assets		5,452	11,262
Charge for defined benefit plan		100,123	75,281
Surplus on revaluation of T-Bills-HFT		-	(24)
		(6,210,167)	(4,746,491)
Loss before changes in operating assets / liabilities		(2,739,842)	(2,257,510)
(Increase) / decrease in operating assets			
Advances		(11,897,047)	(9,966,540)
Other assets		141,421	(559,814)
Increase / (decrease) in operating liabilities			
Deposits		10,271,127	24,567,458
Other liabilities		(515,513)	(8,981)
		(2,000,012)	14,032,123
Net cash (used in) / generated from operations		(4,739,854)	11,774,613
Mark-up received on advances		9,606,668	7,012,392
Interest received on investments and deposit accounts		1,272,380	515,361
Interest paid on borrowings and subordinated debt		(4,470,726)	(2,747,920)
Contributions to defined benefit plan		(193,510)	(53,723)
Income taxes paid		(925,696)	(806,444)
		5,289,116	3,919,666
Net cash flow from operating activities		549,262	15,694,279
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in AFS/HFT/HTM securities - net		7,381,700	(13,329,551)
Purchase of operating fixed assets		(502,883)	(647,961)
Sale proceeds against disposal of operating fixed assets		9,082	4,316
Net cash flow investing activities		6,887,899	(13,973,196)
CASH FLOW FROM FINANCING ACTIVITIES			
Grant from Market Development Facility		-	1,615
Dividend paid		(28,423)	-
Subordinated debt		1,000,000	-
Borrowings during the year - net		(1,817,809)	(1,417,201)
Net cash flows from financing activities		(846,232)	(1,415,586)
Net increase/(decrease) in cash and cash equivalents		6,590,929	305,497
Cash and cash equivalents at beginning of the year		4,537,915	4,232,418
Cash and cash equivalents at end of the year	30	11,128,844	4,537,915

The annexed notes from 1 to 49 form an integral part of these financial statements.

PRESIDENT	CHAIRMAN	DIRECTOR	DIRECTOR

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, whereby 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 (repealed with the enactment of Companies Act, 2017) 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 Microkredietfonds (Triple Jump B.V), responsAbility Management Company S.A (formerly Credit Suisse Microfinance Fund Management Company) (Responsibility Global Microfinance Fund), Rural Impulse Fund II S.A. SICAS-FIS (Incofin Investment Management Comm.VA), and ShoreCap II Limited (Equator Capital Partners LLC) acquired 67.4% equity stake in KMBL from a selling consortium comprising of eleven shareholders. In view of the changes in the shareholding, a new microfinance banking license was issued on 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 161 branches, 28 service centers and 8 permanent booths in operation as at December 31, 2018 (December 31, 2017: 149 branches and 24 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 30, 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 accounting and reporting standards as applicable in Pakistan. 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).

Where 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.

The SBP, vide BSD Circular letter No. 10, dated August 26, 2002 has deferred the applicability of International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement" and IAS 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 staff 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 6.35

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

5.1 Amendments that are effective in current year

The Bank has adopted where applicable 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)
IFRS 2	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, 2019
IFRS 10	Consolidated Financial Statements - Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture	Immediately
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	Immediately
IAS 40	Investment Property - Amendments to clarify transfers or property to, or from, investment property	January 01, 2018

Other than the amendments to standards mentioned above, there are certain annual improvements made to IFRS that became effective during the year:

		Effective date (annual periods beginning on or after)
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

5.2 Amendments not yet effective

The following amendments to the accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard:

	Effective date (annual periods beginning on or after)
Conceptual framework for Financial reporting 2018 - Original Issue	March, 2018
Amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework	January 01, 2020

		Effective date (annual periods beginning on or after)
IAS 1	Presentation of Financial Statements - Amendments regarding the definition of materiality	January 01, 2020
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors - Amendments regarding the definition of materiality	January 01, 2020
IAS 19	Employee benefits - Amendments regarding plan amendments, curtailments or settlements	January 01, 2019
IAS 28	Investments in Associates and Joint Ventures - Amendments regarding long-term interests in associates and joint ventures	January 01, 2019
IAS 39	Financial Instruments: Recognition and Measurements-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	January 01, 2019
IFRS 3	Business Combinations - Amendments to clarify the definition of a business	January 01, 2020
IFRS 7	Financial Instruments : Disclosures - Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9	January 01, 2019
IFRS 9	Financial Instruments - Reissue to incorporate a hedge accounting chapter and permit the early application of the requirements for 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	January 01, 2019
IFRS 9	Financial Instruments - Finalised version, incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition	January 01, 2019
IFRS 9	Financial Instruments - Amendments regarding prepayment features with negative compensation and modifications of financial liabilities.	January 01, 2019

The Annual Improvements to IFRSs that are effective from the dates mentioned below against respective standards:

		Effective date (annual periods beginning on or after)
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, 2019
IAS 23	Borrowing Costs	January 01, 2019

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	January 01, 2019
IFRS 15	Revenue from Contracts with Customers	July 01, 2018
IFRS 16	Leases	January 01, 2019

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 (SECP):

IFRS 1	First Time Adoption of International Financial Reporting Standards
IFRS 14	Regulatory Deferral Accounts
IFRS 17	Insurance Contracts

The effects of IFRS 9 - Financial Instruments, IFRS 15 - Revenues from Contracts with Customers and IFRS 16 - Leases are still being assessed, as these new standards may have a significant effect on the Bank's future financial statements.

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 recognize 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 – 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 Subordinated debt

Subordinated loans are initially recorded at the amount of proceeds received. Mark-up accrued on subordinated loans is recognised as part of other liabilities and is charged to the profit and loss account over the period on an accrual basis.

6.9 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.

6.10 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 up till 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, 2018.

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.

6.11 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.

6.12 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.

6.13 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.

6.14 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

6.15 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.

6.16 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.

6.17 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.

6.18 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.

6.19 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.

6.20 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.

6.21 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.

6.21.1 Financial assets

Financial assets are cash and balances with SBP and NBP, balances with other banks and MFBs, 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.

6.21.2 Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangement entered into. Financial liabilities include borrowings, subordinated debt 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.

6.22 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 and loss account.

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.

6.23 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.

6.24 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 and loss.

6.25 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.

6.26 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.

6.27 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.

6.28 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.

6.29 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.

6.30 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.

6.31 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.

6.32 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.

6.33 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.

6.34 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, 2018 are disclosed in Note 40.

6.35 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	2018 Rs.'000	2017 Rs.'000
	Cash in hand - Local currency		507,221	534,728
	Balances with State Bank of Pakistan (SBP) in			
	Local currency current accounts	7.1	1,284,356	1,127,573
	Balances with National Bank of Pakistan (NBP) in:			
	Local currency deposit accounts	7.2	1,160	1,950
			1,792,737	1,664,251

7.1 This represents balance held with SBP to meet the requirement of maintaining a minimum balance equivalent to 5.00% (2017: 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 8.00 % (2017: 3.75%) per annum.

8	BALANCES WITH OTHER BANKS/NBFIS/MFBS	Note	2018 Rs.'000	2017 Rs.'000
	In Pakistan			
	Local currency current accounts		1,012,185	614,233
	Local currency deposit accounts	8.1	6,486,173	1,784,899
			7,498,358	2,399,132

8.1 This represents balances held with various banks in saving accounts carrying interest at the rates ranging from 6.50% to 11.75% (2017: 3.75% to 7.25%) per annum.

9	LENDING TO FINANCIAL INSTITUTIONS	Note	2018 Rs.'000	2017 Rs.'000
	Call/clean lending	9.1	500,000	-
	Repurchase agreement lending (reverse repo)	9.2	1,337,749	474,532
			1,837,749	474,532

9.1 This represents clean lending carrying interest at the rate of 11.25% (2017: Nil) per annum maturing on January 3, 2019.

9.2 This represents reverse repo carrying interest at the rate of 10.10% (2017: 5.85%) per annum maturing on January 2, 2019 (2017: January 2, 2018).

9.2.1 securities held as collateral against lending to financial institutions- Reverse repo are as follows:

	2018			2017		
	Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
		Rs.'000			Rs.'000	
Market Treasury Bills (T-Bills)	1,360,000	-	1,360,000	475,000	-	475,000

10	INVESTMENTS	Note	2018 Rs.'000	2017 Rs.'000
	Available for sale (AFS)			
	Federal Government securities			
	Market Treasury Bills (T-bills)	10.1	3,916,037	12,160,879
	Held for trading (HFT)			
	Federal Government securities			
	Market Treasury Bills (T-bills)	10.2	-	2,071,838
	Held to maturity (HTM)			
	Term finance certificates (TFCs)	10.3	150,000	50,000
	Term deposit receipts (TDRs)	10.4	4,850,000	2,015,000
			8,916,037	16,297,717
	Net deficit on revaluation of Federal Government securities - (AFS & HFT)	10.5	(327)	(127)
			8,915,710	16,297,590

10.1 This represents T-bills ranging from 70 to 84 days (2017: 80 to 84 days) carrying interest at the rates ranging from 8.72% to 10.27% (2017: 5.98% to 5.99%) per annum.

10.2 This represents T-Bills ranging from 80 to 84 days (2018: Nil) carrying interest at the rates ranging from 5.98% to 5.99% (2018: 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 tenure, carring profit at the rate of 6 month KIBOR + 1.50% (2017: 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, carring profit at the rate of 6 month KIBOR plus 2.00% (2017: Nil). Interest on these TFC's is receivable on semi-annual basis from the date of issue.

10.4	Term deposit receipts (TDRs)	Note	2018 Rs.'000	2017 Rs.'000
	Microfinance bank	10.4.1	2,850,000	1,715,000
	Other banks/DFIs/NBFIs	10.4.2	2,000,000	300,000
			4,850,000	2,015,000

10.4.1 This represents investment in short term deposits receipts and maturing from January 09, 2019 to June 09, 2019 (2017: January 14, 2018 to June 12, 2018) and carries mark-up at the rates ranging from 8.70% to 13.00% (2017: 8.00% to 9.25 %) per annum.

10.4.2 This represents investment in short term deposits receipts and maturing from January 07, 2019 to January 28, 2019 (2017 : August 03, 2018) and carries mark-up at the rate of 11.00% to 12.00% (2017: 7.00%) 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 investments in T-Bills (note 10.1, 10.2) 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	2018 Number of loans outstanding	2018 Amount outstanding	2017 Number of loans outstanding	2017 Amount outstanding
		Numbers	Rs.'000	Numbers	Rs.'000
Micro credit					
Secured	11.1	55,075	6,306,159	51,126	5,234,468
Unsecured	11.2	729,405	37,155,076	619,889	27,190,503
		784,480	43,461,235	671,015	32,424,971
Less: Provisions held					
Specific provision		9,630	(214,024)	5,885	(105,979)
General provision	11.3	743,904	(507,275)	639,591	(491,773)
			(721,299)		(597,752)
Microcredit advances - net of provisions			42,739,936		31,827,219
Staff loans	11.10	1,054	634,366	687	388,773
Advances - net of provision		785,534	43,374,302	671,702	32,215,992

11.1 This includes microcredit loans amounting to Rs. 301.2 million (2017: Rs. 688.5 million) which are partially (50% secured against lien marked on deposits held with the Bank.

11.2 This includes 2,395 micro enterprise clients (2017: 6,969) having aggregate amount of Rs. 520.9 million (2017: Rs. 1,412.7 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 1.16% (2017: 1.50%) of micro credit advances other than those secured against gold and other cash collaterals, net of specific provision. This includes provision amounting to Rs. 90.0 million (2017: Rs. 190.0 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. 512.2 million and interest/mark-up of Rs. 115.6 million (2017: principal amount of Rs. 324.2 million and interest /mark-up Rs. 57.3 million) which, as detailed below, have been placed under non-performing status.

Category of classification	2018 Amount outstanding	2018 Provisions required	2018 Provisions held	2017 Amount outstanding	2017 Provisions required	2017 Provisions held
	Rs.'000			Rs.'000		
OAEM	179,021	-	-	136,024	-	-
Sub-standard	111,999	21,485	21,485	54,783	10,744	10,744
Doubtful	175,029	70,758	70,758	118,987	43,718	43,718
Loss	161,782	121,781	121,781	71,759	51,516	51,516
	627,831	214,024	214,024	381,553	105,978	105,978

11.5 Particulars of provisions against non-performing advances

	2018 Specific	2018 General	2018 Total	2017 Specific	2017 General	2017 Total
	Rs.'000			Rs.'000		
Balance at beginning of the year	105,978	491,773	597,751	147,244	222,206	369,450
Provision charge for the year	723,236	15,502	738,738	420,512	269,567	690,079
Advances written off against provision	(615,190)	-	(615,190)	(461,778)	-	(461,778)
Balance at end of the year	214,024	507,275	721,299	105,978	491,773	597,751

11.6	**Particulars of write offs**	**Note**	**2018 Rs.'000**	**2017 Rs.'000**
	Against provisions			
	Related to other classified advances		615,190	461,778
	Bad debts written off directly	11.6.1	39,492	22,565
			654,682	484,343

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.

	2018		**2017**	
Normal Loans	**Amount Rs.'000**	**Portfolio at Risk**	**Amount Rs.'000**	**Portfolio at Risk**
Current	42,393,098	-	31,870,208	-
1 - 29 days late	555,911	1.28%	230,514	0.71%
30 - 59 days late	146,731	0.34%	115,308	0.36%
60 - 89 days late	92,261	0.21%	47,755	0.15%
90 - 179 days late	147,290	0.34%	103,893	0.32%
More than 179 days late	125,944	0.29%	57,293	0.18%
Total	43,461,235	2.46%	32,424,971	1.72%
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	43,461,235	2.46%	32,424,971	1.72%

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.

	Current Recovery Ratio	
	2018	2017
1st quarter	95.2%	114.5%
2nd quarter	133.4%	163.2%
3rd quarter	70.5%	93.8%
4th quarter	135.0%	191.3%
January - December	110.2%	143.8%

11.8.1 Annual loss rate for the year is 0% (2017: 0%) computed using the following formula. The actual loss rate is below 0% due to early repayments of principal outstanding.

ALR = (1 - CR) / T x 2

where:

ALR is the annual loss rate

CR is the collection rate in decimal form

T is the loan term expressed in years

11.9 Loan loss allowance

	2018				2017			
	Outstanding loan portfolio		Allowance for loan loss		Outstanding loan portfolio		Allowance for loan loss	
Normal loans	Share of total	Rs.'000	Share of total	Rs.'000	Share of total	Rs.'000	Share of total	Rs.'000
Current	97.5%	42,393,098	-	-	98.3%	31,870,208	-	-
1 - 29 days late	1.3%	555,911	-	-	0.7%	230,514	-	-
30 - 59 days late	0.3%	146,731	-	-	0.4%	115,308	-	-
60 - 89 days late	0.2%	92,261	10.0%	21,485	0.1%	47,755	10.1%	10,744
90 - 179 days late	0.3%	147,290	33.1%	70,758	0.3%	103,893	41.3%	43,718
More than 179 days late	0.3%	125,944	56.9%	121,781	0.2%	57,293	48.6%	51,516
Rescheduled loans								
Current	0.0%	-	-	-	-	-	-	-
1 - 29 days late	0.0%	-	-	-	-	-	-	-
30 - 59 days late	0.0%	-	-	-	-	-	-	-
60 - 89 days late	0.0%	-	-	-	-	-	-	-
90 - 179 days late	0.0%	-	-	-	-	-	-	-
More than 179 days late	0.0%	-	-	-	-	-	-	-
	100%	43,461,235	100%	214,024	100%	32,424,971	100%	105,978

11.10 This includes general purpose loans to employees of the Bank carrying interest at the rate of 3 M KIBOR+100 bps (2017: 3 M KIBOR + 100 bps) per annum and long term housing loans to eligible employees of the Bank for the period ranging from 5 to 20 years carrying interest at 3 M KIBOR-100 bps (2017: 3 M KIBOR - 100 bps) per annum. General purpose loans are partially secured against employees' accrued terminal benefits and long term housing loans are secured against equitable mortgage over unencumbered property respectively.

12 OPERATING FIXED ASSETS

	Note	2018 Rs.'000	2017 Rs.'000
Capital work-in-progress	12.1	350,703	436,854
Property and equipment	12.2	920,731	669,867
Intangible assets	12.3	82,094	34,875
		1,353,528	1,141,596

12.1 Capital work-in-progress

		Opening balance	Additions	Transferred	Closing balance
Advances to suppliers - software modules		353,015	166,188	(218,198)	301,005
Advances to suppliers - operating fixed assets		83,838	190,611	(224,751)	49,698
December 31, 2018	12.1.1	436,853	356,799	(442,949)	350,703
December 31, 2017		65,052	506,402	(134,600)	436,854

12.1.1 This represents advances to suppliers for development of various software modules and purchase of operating fixed assets.

12.2 Property and equipment

	Leasehold improvement	Furniture and fixtures	Electrical and office equipment	Computer equipment	Vehicles	Total
Cost			Rs.'000			
Balance as at January 1, 2017	92,641	312,108	421,516	310,524	190,759	1,327,548
Additions	61,688	19,522	63,680	47,225	49,434	241,549
Disposals	(3,058)	(12,834)	(5,280)	(559)	(784)	(22,515)
Balance as at December 31, 2017	151,271	318,796	479,916	357,190	239,409	1,546,582
Balance as at January 1, 2018	151,271	318,796	479,916	357,190	239,409	1,546,582
Additions	39,315	129,036	52,258	223,500	77,394	521,503
Disposals	-	(19,717)	(5,228)	(4,205)	(11,714)	(40,864)
Balance as at December 31, 2018	190,586	428,115	526,946	576,485	305,089	2,027,221
Accumulated Depreciation						
Balance as at January 1, 2017	7,448	106,162	224,802	239,028	118,933	696,373
Depreciation charge	25,211	29,542	66,341	41,010	33,669	195,773
Disposals	(518)	(8,423)	(5,468)	(559)	(464)	(15,432)
Balance as at December 31, 2017	32,141	127,281	285,675	279,479	152,138	876,714
Balance as at January 1, 2018	32,141	127,281	285,675	279,479	152,138	876,714
Depreciation charge	35,257	36,675	70,370	73,296	46,202	261,800
Disposals	-	(14,060)	(5,288)	(4,204)	(8,472)	(32,024)
Balance as at December 31, 2018	67,398	149,896	350,757	348,571	189,868	1,106,490
Carrying value						
2017	119,130	191,515	194,241	77,711	87,270	669,867
2018	123,188	278,219	176,189	227,914	115,221	920,731
Rates of depreciation per annum						
2017	20.00%	10.00%	20.00%	20.00% -33.33%	25.00%	
2018	20.00%	10.00%	20.00%	20.00% -33.33%	25.00%	

12.2.1 Cost of the assets as at December 31, 2018 includes Rs. 34.6 million (2017: Rs. 35.78 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. 497.75 million (2017: Rs. 416.15 million).

12.2.3 Details 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	Gain/(loss) on disposal	Mode of disposal	Particulars of purchaser/Remarks
2018				Rs.'000		
Vehicles						
Mercedes Benz	11,713	3,241	5,838	2,597	Buy Back	M. Ghalib Nishtar
Furniture and Fixture:						
Vault Room	369	292	-	(292)	Write off	Office Relocation
	12,082	3,533	5,838	2,305		
2017				Rs.'000		
Leasehold Improvements						
Renovation Work	3,058	2,540	-	(2,540)	Write Off	Office Relocation
Renovation Work	773	696	1,275	579	Sale	Polish Oil & Gas Company
Renovation Work	307	276	506	230	Sale	Polish Oil & Gas Company
Vehicles:						
Suzuki Bolan VX Petrol Euro II	711	320	610	290	Subrogation	IGI Insurance
	4,849	3,832	2,391	(1,441)		

12.3 Intangible assets

	2018 Rs.'000	2017 Rs.'000
Computer software		
Cost		
Balance as at January 1,	196,374	161,765
Additions	67,531	34,609
Balance as at December 31,	263,905	196,374
Amortization		
Balance as at January 1,	(161,499)	(138,261)
Amortization charge	(20,312)	(23,238)
Balance as at December 31,	(181,811)	(161,499)
Carrying amount	82,094	34,875

12.3.1 Amortization is charged on straight line basis @ 10% to 33.33 % per annum (2017: 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 (2017: 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. 67.22 million (2017: Rs. 44.54 million).

13 OTHER ASSETS

	Note	2018 Rs.'000	2017 Rs.'000
Mark-up accrued		3,971,074	2,793,391
Suspended markup on non-performing advances		(115,582)	(57,309)
		3,855,492	2,736,082
Interest receivable on investments and deposit accounts		103,662	176,095
Loans and advances - unsecured			
Employees		131,696	107,309
Suppliers		12,608	98,670
		144,304	205,979
Receivable from Microfinance Social Development Fund	13.1	208,743	588,880
Insurance premium receivable from SBP	13.2	606,023	539,588
Prepayments		277,652	126,402
Insurance claims receivable		7,443	8,269
Security Deposits		6,606	8,061
Other receivables	13.3	266,837	181,850
		5,476,762	4,571,206
Less: Provisions against doubtful receivables			
Balance at the beginning of the year		33,767	22,832
Provision charge for the year		5,452	11,262
Receivables written off against provision		-	(327)
Balance at the end of the year	13.4	39,219	33,767
		5,437,543	4,537,439

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 for crop and livestock insurance premium.

13.3 As explained in note 22.1, this includes an amount of Rs. 199.57 million (2017: 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

	2018 Rs.'000	2017 Rs.'000
Deferred tax assets arising on account of temporary differences in:		
Provision against advances and other assets	212,946	189,456
Remeasurement of post employment benefit obligation	47,354	38,288
Provision against Workers' Welfare Fund	10,772	7,472
Deficit on revaluation of assets - AFS	92	45
	271,164	235,261
Deferred tax liabilities arising on account of temporary differences in:		
Operating fixed assets	(9,470)	(4,100)
Deferred grants	331	(484)
Surplus on revaluation of assets - HFT	-	(7)
	262,025	230,670

14.1 Reconciliation of deferred tax

Balance at the beginning of the year	230,670	137,941
(Reversal)/charge for the year in respect of:		
Operating fixed assets	(5,370)	9,351
Provision against advances and other assets	23,490	71,771
Deferred grants	815	(484)
Surplus on revaluation of assets - HFT	7	(7)
Provision against Workers' Welfare Fund	3,300	2,075
Charge to profit and loss account	22,242	82,706
Charge to other comprehensive income		
Deferred tax on revaluation of available for sale investments	47	(15)
Deferred tax on remeasurement of post employment benefits obligation	9,066	10,038
Balance at the end of the year	262,025	230,670

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	2018 No. of accounts	2018 Amount Rs.'000	2017 No. of accounts	2017 Amount Rs.'000
Fixed deposits	15.2	52,456	36,211,113	37,572	28,853,240
Saving deposits	15.3	52,313	11,949,867	48,097	11,432,983
Current deposits		1,958,220	7,857,008	1,611,578	5,460,638
		2,062,989	56,017,988	1,697,247	45,746,861

15.1 Particulars of deposits by ownership

Individual depositors	2,060,246	43,962,455	1,694,478	31,274,083
Institutional depositors				
Corporation/firms	2,677	7,590,396	2,716	12,499,747
Banks/financial institutions	66	4,465,137	53	1,973,031
	2,062,989	56,017,988	1,697,247	45,746,861

15.2 This represents term deposits having tenure of 3 to 36 months (2017: 1 to 36 months) carrying interest at the rates ranging from 5.75 % to 13.50 % (2017: 5.25% to 13.00%) per annum. This includes fixed deposits amounting to Rs. 322.52 million (2017: Rs. 98.98 million) on which lien is marked against advances to borrowers.

15.3 This represents savings accounts carrying interest at the rates ranging from 7.00 % to 11.00 % (2017: 5.00% to 9.00%) per annum. This includes saving deposits amounting to Rs. 165.55 million (2017: Rs. 365.44) on which lien is marked against advances to borrowers.

16 BORROWINGS

	Note	2018 Rs.'000	2017 Rs.'000
Borrowing from financial institutions outside Pakistan	16.1	1,386,301	2,048,038
Borrowings from financial institutions in Pakistan	16.2	1,578,571	2,734,643
		2,964,872	4,782,681

16.1 Borrowings from financial institutions outside Pakistan

Unsecured			
Asian Development Bank	16.1.1	727,459	1,091,188
ECO Trade & Development Bank (TF-II)	16.1.2	207,800	415,600
ECO Trade & Development Bank (TF-III)	16.1.3	451,042	541,250
		1,386,301	2,048,038

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 3.93 % and 4.41 % (2017: 3.84% and 3.92%) per annum.

16.1.2 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 months 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.

16.1.3 This represents borrowing from ECO Trade and Development Bank amounting to USD 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 USD 5 million were translated at the exchange rate of Rs. 108.25 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	2018 Rs.'000	2017 Rs.'000
	Secured			
	Pak Oman Investment Company Limited (TF-II)	16.2.1	187,500	312,500
	Pak Oman Investment Company Limited (TF-III)	16.2.2	375,000	500,000
	Pak Oman Investment Company Limited (TF-IV)	16.2.3	437,500	500,000
	Askari Bank Limited (TF-I)	16.2.4	-	40,000
	Soneri Bank Limited (TF-IV)	16.2.5	-	150,000
	Syndicated Term Finance	16.2.6	428,571	857,143
	The Bank of Punjab (TF-I)	16.2.7	-	225,000
	Bank Alfalah Limited (TF-1)	16.2.8	100,000	100,000
	Allied Bank Limited (TF-1)	16.2.9	50,000	50,000
			1,578,571	2,734,643

16.2.1 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 7.82% to 10.66% (2017: 7.70% to 7.82%) 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.

16.2.2 This represents interbank money market borrowings for 5 years with grace period of 12 months from draw down date carrying interest rate ranging from 7.80% to 9.67% (2017: 7.63% to 7.80%) 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 borrowing for 5 years with grace period of 12 months from draw down date carrying interest rate ranging from 7.80% to 9.70% (2017: 7.78% to 7.80%) 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.

16.2.4 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 7.65% (2017: 7.62% to 7.65%) 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.

16.2.5 This represents term finance facility of Rs.300 million and carries interest at the rate of 7.71% (2017: 7.65%) 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.

16.2.6 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 7.51% to 12.09% (2017: 7.44% 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.

16.2.7 This represents interbank money market borrowing carrying interest rate ranging from 7.81% (2017: 7.69% to 7.75%) 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.

16.2.8 This represents interbank money market borrowing carrying interest rate ranging from 7.51% to 9.89% (2017: 7.45% to 7.46%) 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.

16.2.9 This represents interbank money market borrowing carrying interest rate of 7.81% to 10.24% (2017: 7.80%) 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.

16.3 Quarterly average borrowing

	Note	2018 Rs.'000	2017 Rs.'000
1st Quarter		4,470,081	6,776,716
2nd Quarter		3,946,110	5,595,794
3rd Quarter		3,590,031	5,395,965
4th Quarter		3,228,490	4,999,493

16.4 Loan repayment schedule

	2018 Rs.'000	2017 Rs.'000
Balance at the beginning of the year	4,782,681	6,199,882
Availed during the year	-	3,066,250
Repayments during the year	(1,817,809)	(4,483,451)
Balance at the end of the year	2,964,872	4,782,681

17 SUBORDINATED DEBT

	Note	2018 Rs.'000	2017 Rs.'000
Term finance certifcate - TFC I	17.1	1,000,000	-

17.1 The bank has raised 10,000/- rated, unsecured, subordinated and privately placed term finance certificates of worth Rs 100,000/- each fully subscribed on March 19, 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 March 19, 2026. The issue has call option after 10th redemption date including lock-in clause and loss absorbency clause. The principal will redeemed in two equal semi-annual installments falling on the end of 90th month and 96th month from the date of issue. The issue has preliminary rating of 'single A' with stable outlook.

18 OTHER LIABILITIES

	Note	2018 Rs.'000	2017 Rs.'000
Mark-up / return /interest payable on deposits		683,833	562,635
Accrued expenses		369,703	567,304
Payable to defined benefit plan - KB employees gratuity fund	18.1	19,418	71,312
Corporate Taxes payable - net	18.2	234,185	126,100
GST/FED payable		32,400	-
Payable to suppliers	18.3	110,974	148,624
Interest payable on borrowings/subordinated debt		89,578	91,397
Bills payable		74,548	56,508
Provision for Workers' Welfare Fund		38,472	24,907
Dividend payable		61,942	-
Payable to service providers		33,766	20,630
Withholding tax payable		32,825	17,793
Contribution payable to			
Microfinance Social Development Fund	6.14	245,879	180,056
Risk Mitigation Fund	6.14	122,939	90,028
Depositors' Protection Fund	6.14	122,939	90,028
Other payables		16,241	28,564
		2,289,642	2,075,886

18.1 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 of one year eligible salary constitutes the basic salary for the service upto July 26, 2004 and last drawn gross salary thereafter. 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, 2018 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 under performing 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.

Disclosures related to employees gratuity fund are given below:

		2018 Rs.'000	2017 Rs.'000
a)	**Amounts recognized in the balance sheet**		
	Present value of defined benefit obligations	545,320	457,011
	Fair value of plan assets	(525,902)	(385,699)
	Balance sheet liability	19,418	71,312
b)	**Movement in net liability**		
	Opening net liability	71,312	16,292
	Net expense recognized in profit or loss	100,123	75,281
	Remeasurement losses recognized in OCI	41,493	33,462
	Contributions	(193,510)	(53,723)
	Closing net liability	19,418	71,312
c)	**Changes in present value of defined benefit obligation**		
	Opening defined benefit obligation	457,011	386,561
	Current service cost	102,855	77,041
	Interest expense	39,415	33,556
	Benefits due but not paid (payables)	(6,632)	(15,912)
	Benefits paid	(77,598)	(50,760)
	Remeasurements - experience losses	30,269	26,525
	Closing defined benefit obligation	545,320	457,011

d) Changes in fair value of plan assets

	2018 Rs.'000	2017 Rs.'000
Opening fair value of plan assets	385,699	370,269
Interest income	42,147	35,316
Contributions	193,510	53,723
Benefits paid	(77,598)	(50,761)
Benefits due but not paid	(6,632)	(15,912)
Return on plan assets, excluding interest income	(11,225)	(6,936)
Closing fair value of plan assets	525,901	385,699

e) Amounts recognized in the profit and loss account

	2018	2017
Current service cost	102,855	77,041
Interest cost on defined benefit obligation	39,415	33,556
Interest income on plan assets	(42,147)	(35,316)
	100,123	75,281

f) Amounts recognized in other comprehensive income

	2018	2017
Remeasurement losses for the year		
Experience adjustments in present value of defined benefit obligation	30,269	26,525
Return on plan assets, excluding interest income	11,225	6,936
	41,494	33,461

g) Major categories of plan assets

	2018		2017	
	Rs.'000	Percentage	Rs.'000	Percentage
Accrued interest	3,127	0.59%	9,177	2.38%
Cash at bank - Saving Deposits	233,951	44.49%	12,434	3.22%
Term Finance Certificates	150,000	28.52%	-	0.00%
Term deposits	145,455	27.66%	380,000	98.52%
Payables to out-going employees	(6,632)	-1.26%	(15,912)	-4.13%
	525,901	100.00%	385,699	100.00%

h) The latest actuarial valuation was carried out on December 31, 2018. The significant assumptions used for actuarial valuation are as follows:

	2018	2017
Discount rate - per annum	13.75%	9.50%
Salary increase rate - per annum	12.75%	10.00%
Mortality rate	SLIC 2001-05	SLIC 2001-05

i) Sensitivity analysis

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
		Rs.'000	
Discount rate	1%	489,826	611,605
Salary rate increase	1%	616,939	487,722

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 (2017: 11 years).

j) Expected contribution of the Bank to the defined benefit gratuity fund for the year ending December 31, 2019 will be Rs. 119.18 million.

k) Comparison for five years

	2018	2017	2016	2015	2014
Present value of defined benefits obligation and Fair value of plan assets			Rs.'000		
Present value of defined benefits obligations at year end	545,320	457,011	386,561	312,017	251,546
Fair value of plan assets at year end	(525,902)	(385,699)	(370,269)	(231,449)	(186,413)
	19,418	71,312	16,292	80,568	65,133

18.2 Taxes payable - net

	Note	2018 Rs.'000	2017 Rs.'000
Opening balance		126,100	161,422
Payments		(807,102)	(750,683)
Advance tax paid		(118,594)	(55,761)
Adjustments:			
Prior year charge	29	72,022	47,570
Provision for the year	29	961,759	723,552
Closing balance		234,185	126,100

18.3 This includes payable to insurance companies amounting to Rs. 23.9 million (2017: Rs. 4.5 million) against crop and livestock insurance premium.

19 SHARE CAPITAL

19.1 Authorized capital

2018 Number	2017 Number		Note	2018 Rs.'000	2017 Rs.'000
600,000,000	600,000,000	Ordinary shares of Rs. 10 each		6,000,000	6,000,000

19.2 Issued, subscribed and paid up capital

2018 Number	2017 Number				
170,500,000	170,500,000	Ordinary shares of Rs. 10 each fully paid for consideration other than cash	19.2.1	1,705,000	1,705,000

19.2.1 The Shareholders of the Bank are as follows:

	2018 Rs.'000	2017 Rs.'000
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 Microkredietfonds	168,795	168,795
responsAbility Management Company S.A (formerly Credit Suisse Microfinance Fund Management Company)	339,295	339,295
Bank Al Habib Limited	30,000	30,000
	1,705,000	1,705,000

Particulars of major foreign shareholders, other than natural person, holding more than 5% of paid up capital of the Bank are as follows:

Rural Impulse Fund II S.A. SICAV-FIS, a Luxembourg specialized investment fund with its registered address at 5, Rue Jean Monnet, L-2013 Luxembourg, Grand Duchy of Luxembourg (hereinafter referred to as "RIF II"), and duly represented by its alternative investment fund manager, Incofin Investment Management Comm. VA, a company incorporated under the laws of Belgium, having its registered office at Sneeuwbeslaan 20, 2610 Antwerp, Belgium.

ShoreCap II Limited, a private limited life company limited by shares, organized and existing under the laws of the Republic of Mauritius, having its registered office at CIM Global Business 33, Edith Cavell Street, Port Louis, Republic of Mauritius (hereinafter referred to as "ShoreCap") and duly represented by its attorney/investment manager, Equator Capital Partners LLC of 100 North LaSalle Street, Suite 1710, Chicago IL 60602 USA.

ASN Microkredietpool (formerly ASN Novib Microkredietfonds), acting through its legal owner Pettelaar Effectenbewaarbedrijf N.V., a public company with limited liability organized and existing under the laws of the Netherlands with registered office in Utrecht, the Netherlands, and with offices at Graadt van Roggenweg 250, 3531 AH, Utrecht, the Netherlands, managed by ASN Beleggingsinstellingen Beheer B.V., duly represented by its agent Triple Jump B.V., a private company with limited liability, organized and existing under the laws of the Netherlands, with registered address in Amsterdam, and with offices at Nachtwachtlaan 20, 6th floor, 1058 EA Amsterdam, the Netherlands.

ResponsAbility Management Company S.A. (formerly named Credit Suisse Microfinance Fund Management Company), a public limited liability company (société anonyme), organized and existing under the laws of Luxembourg, having its registered office at 148-150, Boulevard de la Pétrusse, L-2330 Luxembourg, Grand Duchy of Luxembourg, and registered with the Luxembourg Trade and Companies Register under number B 45629, acting in its own name for ResponsAbility Global Microfinance Fund, an unincorporated investment fund (fonds commun de placement) organized under the laws of Luxembourg.

20 SURPLUS/(DEFICIT) ON REVALUATION OF ASSETS

	2018 Rs.'000	2017 Rs.'000
Deficit on revaluation of investment - AFS	(327)	(151)
Related deferred tax effect	92	45
Net deficit on revaluation of investment - AFS	(235)	(106)

(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 Regulations for Microfinance Banks dated June 10, 2014 issued by the State Bank of Pakistan.

21 DEFERRED GRANTS

	Note	2018 Rs.'000	2018 Rs.'000
Grant from Market Development Facility	21.1		
Received during the year		-	1,615
Accumulated amortization			
At the beginning of year		1,615	-
Amortization for the year		(432)	-
At the end of the year		1,183	1,615
		1,183	1,615

21.1 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.

22 MEMORANDUM/OFF BALANCE SHEET ITEMS

22.1 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 Taxpayer unit (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 meantime, 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 aside 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 remanded back the case to the department who passed the order in favour of the bank. 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.

e) For the period January 2015 to December 2016, the bank received two orders from AdCIR (Additional Commissioner Inland Revenue) for chargeability of super tax on total income instead of business income as defined under section

18 (2) of the Income Tax Ordinance, 2001. The Bank preferred an appeal against the alleged demand of Rs. 200.58 million which is pending adjudication before the Appellate Tribunal Inland Revenue (ATIR).

f) For the period January 2012 to December 2017, the bank received six orders from DCIR whereby statutory contributions made by the bank to three funds namely MSDF, DPF, RMF maintained by State Bank of Pakistan (SBP) amounting to Rs. 420.52 million were included in the taxable profit. In this regard, the Bank's appeal is pending for adjudication before the Appellate Tribunal Inland Revenue (ATIR). Relating to this matter, payment of Rs. 165 million under protest is carried as receivable from tax authorities as reflected in note no. 13.3.

22.2 COMMITMENTS

	Note	2018 Rs.'000	2017 Rs.'000
Capital expenditure	22.2.1	120,546	192,292

22.2.1 This represents capital commitments relating to acquisition of new core banking application Temenos-T24 amounting Rs. 85.5 million (2017 : Rs. 125.5 million) and Rs. 35.0 million (2017: Rs. 66.7 million) related to commitments for other capital expenditures.

23 MARK-UP/RETURN/INTEREST EARNED

	2018 Rs.'000	2017 Rs.'000
Mark-up/interest/gain on :		
Advances	10,726,078	8,109,135
Investment in Federal Government securities	558,940	280,617
Deposits/placements with banks/FI/MFBs/TFC etc	641,007	350,997
	11,926,025	8,740,749

24 MARK-UP/RETURN/INTEREST EXPENSED

	2018 Rs.'000	2017 Rs.'000
Interest on borrowings from:		
Financial institutions - Outside Pakistan	114,986	127,627
Financial institutions - Inside Pakistan	175,279	278,422
	290,265	406,049
Subordinated debt	71,925	-
Interest on deposits	4,227,915	2,589,832
	4,590,105	2,995,881

25 FEE, COMMISSION AND BROKERAGE INCOME

	2018 Rs.'000	2017 Rs.'000
Micro-credit application processing fee	1,402,204	1,124,696
Other commission	121,512	101,709
	1,523,716	1,226,405

26 OTHER INCOME

	2018 Rs.'000	2017 Rs.'000
Recoveries against advances written off	107,561	108,843
Amortization of deferred grant	430	-
(Loss)/Gain on disposal of fixed assets	242	(2,767)
Others	6,602	7,417
	114,835	113,493

27 ADMINISTRATIVE EXPENSES

	Note	2018 Rs.'000	2017 Rs.'000
Salaries, wages and benefits		2,125,175	1,839,353
Charge for defined benefit plan	18.1	100,123	75,281
Contract/ seconded staff expenses		362,952	276,829
Rent and rates		328,874	267,061
Depreciation	12.2	261,800	195,774
Repairs and maintenance		213,514	162,627
Vehicles up keep and maintenance		212,557	155,815
Advertisement		176,410	133,363
Printing, stationery and office supplies		131,011	131,289
Communication		154,572	130,726
Insurance		173,501	124,692
Cash management and financial charges		161,303	118,938
Utilities		146,168	111,067
Security charges		71,396	64,301
Training		52,868	45,876
Meetings and conferences		32,807	32,371
Amortization	12.3	20,312	23,238
Travelling and conveyance		27,306	20,843
Recruitment and development		22,669	18,578
Legal and professional charges		11,876	16,198
Consultancies		10,075	12,753
Newspapers and subscriptions		6,573	6,211
Auditors' remuneration	27.1	3,040	2,248
Miscellaneous		25,254	22,634
		4,832,136	3,988,066
Expenditure reimbursed during the year	27.2	(125,583)	(131,024)
		4,706,553	3,857,042

27.1 Auditors' remuneration

	Note	2018 Rs.'000	2017 Rs.'000
Audit fee		1,328	1,264
Certifications		1,050	375
Out of pocket expenses		662	608
		3,040	2,247

27.2 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 No. 1806 between ADB and Islamic Republic of Pakistan.

28 OTHER CHARGES

	Note	2018 Rs.'000	2017 Rs.'000
Penalties	28.1	30	2,820
Workers' welfare fund		13,565	11,916
Professional tax		316	100
		13,911	14,836

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

29 TAXATION

	Note	2018 Rs.'000	2017 Rs.'000
Current		961,759	723,552
Prior year: Super tax	29.1	72,022	47,570
		1,033,781	771,122
Deferred		(22,242)	(82,706)
		1,011,539	688,416

29.1 The Finance Act 2018 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 (2017: 3 percent) of the taxable income. The effects of above amendment has been incorporated in these financial statements and an amount of Rs. 72.02 million (2017: Rs. 47.57 million) has been recognized as prior year tax charge.

29.2 Comparison of tax provision against tax assessment

	Tax year		
	2018	2017	2016
		Rs.'000	
Income tax provision as per financial statements			
- Current year	723,552	499,455	355,121
- Super tax	47,570	32,761	21,690
Income Tax assessed as per tax return			
- Current year	725,469	497,410	354,362
- Super tax	72,022	47,570	32,761

29.3 Tax charge reconciliation

	2018 Rs.'000	2017 Rs.'000
Profit before tax	3,470,325	2,488,982
	%	%
Applicable tax rate	29.00	30.00
- Temporary difference	(0.01)	(0.03)
- Income tax relating to prior period	0.02	0.02
- Permanent difference	0.14	(2.33)
Average effective tax rate charged to income	29.15	27.66

29.4 The applicable income tax rate was reduced from 30% to 29% for the year on account of the changes made to Income Tax Ordinance, 2001 through Finance Act, 2018.

29.5 The applicable income tax rate for tax year 2019 (accounting year 2018) and onward was reduced to 29% through Finance Act 2018. Therefore, deferred tax is computed at the rate of 28% for temporary differences which are expected to be reversed/utilized in future.

30 CASH AND CASH EQUIVALENTS

	Note	2018 Rs.'000	2017 Rs.'000
Cash and balances with SBP and NBP	7	1,792,737	1,664,251
Balances with other Banks/ NBFIs/ MFBs	8	7,498,358	2,399,132
Lending to financial institutions	9	1,837,749	474,532
		11,128,844	4,537,915

31 NUMBER OF EMPLOYEES

	2018 Number	2017 Number
Credit sales staff-Permanent	2,078	1,779
Banking/support staff		
Permanent	1,776	1,500
Contractual	760	645
	2,536	2,145
Total number of employees at the end of the year	4,614	3,924

32 AVERAGE NUMBER OF EMPLOYEES

	2018 Number	2017 Number
Credit sales staff - Permanent	1,889	1,628
Banking / support staff		
Permanent	1,623	1,431
Contractual	714	599
	2,337	2,030
Average number of employees during the year	4,226	3,658

33 NUMBER OF BRANCHES

	2018 Number	2017 Number
Total branches/service centers at beginning of the year	173	141
Opened during the year		
Branches	13	10
Service centers/booths	18	22
Closed / merged during the year	(7)	-
Total branches/service centers/booths at the end of the year	197	173
Total branches at the end of the year	161	149
Total service centers/booths at the end of the year	36	24
Total branches/service centers/booths at the end of the year	197	173

34 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.

	2018 Rs.'000	2017 Rs.'000
Profit for the year after taxation	2,458,786	1,800,566
Microfinance Social Development Fund	(245,879)	(180,057)
Depositors' Protection Fund	(122,939)	(90,028)
Risk Mitigation Fund	(122,939)	(90,028)
	(491,757)	(360,113)
Profit attributable to equity holders	1,967,029	1,440,453
Weighted average number of ordinary shares (Numbers)	170,500,000	170,500,000
Earnings per share - basic (Rupees)	11.54	8.45

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.

35 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:

	2018				2017			
	President	Directors	Executives		President	Directors	Executives	
			KMPs	Other			KMPs	Other
	Rs.'000				Rs.'000			
Fee	-	200	-	-	-	300	-	-
Managerial remuneration	12,000	-	39,041	171,520	9,578	-	39,165	123,715
Charge for defined benefit plan	181	-	5,113	23,158	1,299	-	5,368	17,156
House rent allowance	5,400	-	17,568	77,184	4,158	-	17,624	55,672
Utilities	2,400	-	7,808	34,304	1,848	-	7,833	24,743
Medical	1,200	-	3,904	17,152	944	-	3,916	12,372
Conveyance allowance	370	-	6,085	63,517	297	-	6,062	42,380
Bonus	9,287	-	29,286	57,662	4,500	-	19,294	21,496
Others	1,466	-	292	16,069	30	-	528	11,973
Total	32,304	200	109,097	460,566	22,654	300	99,790	309,507
Number of person(s)	1	2	11	204	1	2	11	147

35.1 The President is also provided with a bank maintained car. Further, he is entitled to certain additional benefits in accordance with the Bank policy.

35.2 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.

35.3 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.

36 SCHEDULE OF MATURITY DISTRIBUTION OF MARKET RATE ASSETS AND LIABILITIES AS AT DECEMBER 31, 2018

	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			Rs.'000		
Advances	43,374,302	2,417,183	16,232,559	21,810,827	2,913,733
Investments	8,915,710	3,311,930	4,453,780	1,000,000	150,000
Other earning assets					
Balances with SBP and NBP - deposit accounts	1,160	1,160	-	-	-
Balances with other banks - deposit accounts	6,486,173	6,486,173	-	-	-
Lending to financial institutions	1,837,749	1,837,749	-	-	-
Total market rate assets	**60,615,094**	**14,054,195**	**20,686,339**	**22,810,827**	**3,063,733**
Other non-earning assets					
Cash in hand	507,221	507,221	-	-	-
Balances with SBP and NBP - current accounts	1,284,356	1,284,356	-	-	-
Balances with other banks - current accounts	1,012,185	1,012,185	-	-	-
Operating fixed assets	1,353,528	26,390	131,950	158,340	1,036,848
Other assets	5,437,543	938,351	1,892,916	859,588	1,746,687
Deferred tax asset	262,025	-	-	-	265,676
Total non-earning assets	**9,856,858**	**3,768,503**	**2,024,866**	**1,017,928**	**3,049,211**
Total assets	**70,471,952**	**17,822,698**	**22,711,205**	**23,828,755**	**6,112,944**
Market rate liabilities					
Cost bearing deposits	48,160,980	1,415,160	7,959,120	6,833,990	31,952,710
Subordinated debt	1,000,000	-	-	-	1,000,000
Borrowings	2,964,872	25,000	687,550	901,300	1,351,022
Total market rate liabilities	**52,125,852**	**1,440,160**	**8,646,670**	**7,735,290**	**34,303,732**
Other non-cost bearing liabilities					
Deposits	7,857,008	2,715,566	1,499,586	2,555,630	1,086,226
Other liabilities	2,289,642	716,285	962,294	393,414	223,196
Total non-cost bearing liabilities	**10,146,650**	**3,431,851**	**2,461,880**	**2,949,044**	**1,309,422**
Total liabilities	**62,272,502**	**4,872,011**	**11,108,550**	**10,684,334**	**35,613,154**
Net assets	**8,199,450**	**12,950,687**	**11,602,655**	**13,144,421**	**(29,500,210)**

36.1 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			Rs.'000		
Advances	32,215,992	1,541,219	13,701,131	15,554,456	1,419,186
Investments	16,297,590	6,059,050	9,888,540	300,000	50,000
Other earning assets					
Balances with SBP and NBP - deposit accounts	1,950	1,950	-	-	-
Balances with other banks - deposit accounts	1,784,899	1,784,899	-	-	-
Lending to financial institutions	474,532	474,532	-	-	-
Total market rate assets	**50,774,963**	**9,861,650**	**23,589,671**	**15,854,456**	**1,469,186**
Other non-earning assets					
Cash in hand	534,728	534,728	-	-	-
Balances with SBP and NBP - current accounts	1,127,573	1,127,573	-	-	-
Balances with other banks - current accounts	614,233	614,233	-	-	-
Operating fixed assets	1,141,596	105,622	375,210	172,083	488,681
Other assets	4,537,439	491,133	2,204,865	1,538,916	302,525
Deferred tax asset	230,670	-	-	-	230,670
Total non-earning assets	**8,186,239**	**2,873,289**	**2,580,075**	**1,710,999**	**1,021,876**
Total assets	**58,961,202**	**12,734,939**	**26,169,746**	**17,565,455**	**2,491,062**
Market rate liabilities					
Cost bearing deposits	40,286,223	5,919,843	10,712,394	7,527,647	16,126,339
Borrowings	4,782,681	75,000	693,175	909,009	3,105,497
Total market rate liabilities	**45,068,904**	**5,994,843**	**11,405,569**	**8,436,656**	**19,231,836**
Other non-cost bearing liabilities					
Deposits	5,460,638	2,184,255	2,184,255	1,092,128	-
Other liabilities	2,075,886	315,377	975,868	373,164	411,477
Total non-cost bearing liabilities	**7,536,524**	**2,499,632**	**3,160,123**	**1,465,292**	**411,477**
Total liabilities	**52,605,428**	**8,494,475**	**14,565,692**	**9,901,948**	**19,643,313**
Net assets	**6,355,774**	**4,240,464**	**11,604,054**	**7,663,507**	**(17,152,251)**

37 FINANCIAL INSTRUMENTS

37.1 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, 2018 are summarized as follows:

Description	Interest rate %	INTEREST/MARK-UP BEARING							NON INTEREST BEARING	Total
		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	Total	
		Rs.'000							Rs.'000	Rs.'000
Financial assets:										
Cash and balances in current and other accounts	-	-	-	-	-	-	-	-	2,803,762	2,803,762
Balance in deposit accounts	8.00 to 11.75	6,487,333	-	-	-	-	-	6,487,333	-	6,487,333
Lending to financial institutions	10.10 to 11.25	1,837,749	-	-	-	-	-	1,837,749	-	1,837,749
Investments	8.70 to 13.00	8,765,710	-	-	-	-	150,000	8,915,710	-	8,915,710
Advances	5.10 to 32.00	40,460,569	2,083,439	371,052	27,647	27,647	403,948	43,374,302	-	43,374,302
Other assets	-	-	-	-	-	-	-	-	7,053,096	7,053,096
		57,551,361	2,083,439	371,052	27,647	27,647	553,948	60,615,094	9,856,858	70,471,952
Financial liabilities:										
Deposits and other accounts	5.75 to 13.50	16,208,270	13,160,763	18,791,947	-	-	-	48,160,980	7,857,008	56,017,988
Borrowings	4.41 to 12.56	1,613,850	923,313	356,875	70,834	-	-	2,964,872	-	2,964,872
Subordinated debt	10.25	-	-	-	-	-	1,000,000	1,000,000	-	1,000,000
Other liabilities	-	-	-	-	-	-	-	-	2,289,642	2,289,642
		17,822,120	14,084,076	19,148,822	70,834	-	1,000,000	52,125,852	10,146,650	62,272,502
On balance sheet gap		39,729,241	(12,000,637)	(18,777,770)	(43,187)	27,647	(446,052)	8,489,242	(289,792)	8,199,450
Unrecognized:										
Commitments		-	-	-	-	-	-	-	(120,546)	(120,546)
Off balance sheet gap		39,729,241	(12,000,637)	(18,777,770)	(43,187)	27,647	(446,052)	8,489,242	(410,338)	8,078,904

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 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	Non interest bearing Total	Total
Financial assets:										
Cash and balances in current and other accounts	-	-	-	-	-	-	-	-	2,276,534	2,276,534
Balance in deposit accounts	3.75 to 6.25	1,786,849	-	-	-	-	-	1,786,849	-	1,786,849
Lending to financial institutions	5.85	474,532	-	-	-	-	-	474,532	-	474,532
Investments	5.98 to 9.25	16,247,590	-	-	-	-	50,000	16,297,590	-	16,297,590
Advances	5.10 to 32.00	30,796,807	1,102,943	81,043	18,376	17,847	198,976	32,215,992	-	32,215,992
Other assets	-	-	-	-	-	-	-	-	5,909,705	5,909,705
		49,305,778	1,102,943	81,043	18,376	17,847	248,976	50,774,963	8,186,239	58,961,202
Financial liabilities:										
Deposits and other accounts	5.00 to 13.00	24,159,884	2,113,953	14,012,386	-	-	-	40,286,223	5,460,638	45,746,861
Borrowings	3.84 to 10.47	1,677,184	1,726,351	951,438	356,875	70,833	-	4,782,681	-	4,782,681
Other liabilities	-	-	-	-	-	-	-	-	2,075,886	2,075,886
		25,837,068	3,840,304	14,963,824	356,875	70,833	-	45,068,904	7,536,524	52,605,428
On balance sheet gap		23,468,710	(2,737,361)	(14,882,781)	(338,499)	(52,986)	248,976	5,706,059	649,715	6,355,774
Unrecognized:										
Commitments		-	-	-	-	-	-	-	(192,292)	(192,292)
Off balance sheet gap		23,468,710	(2,737,361)	(14,882,781)	(338,499)	(52,986)	248,976	5,706,059	457,423	6,163,482

38 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.

38.1 Credit risk

Credit risk is the risk of suffering financial loss due to any of Bank's customer or counterparty 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 tools, 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 reviews financial performance of various counterparties on annual basis through detailed analysis using Financial Models and past business experience and limits for each counterparty in respective segments are defined accordingly.

38.2 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.

38.3 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.

38.4 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 cash flow 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. Early warning indicators have been developed and are assessed on daily basis in order to envisage any incoming risks and take appropriate actions. As at year end, the Bank has unavailed facilities cumulatively amounting to Rs. 4,350 million (2017: Rs. 3,650 million).

38.5 Capital adequacy risk

Capital adequacy risk is the risk that the bank may not meet minimum regulatory capital requirements. The bank maintains conservative safety margin beyond the regulatory requirements to ensure full compliance also in the event of stress. While setting targets in business and strategic plans, it is ensured that optimal use of available capital is made.

38.6 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.

38.7 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.

38.8 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.

39 CUSTOMER GRIEVANCE

39.1 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 dis-satisfied customer can affect Bank's image and reputation.

39.2 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 dis-satisfied with the resolution.

39.3 Initiative taken during 2018

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

	2018	2017
Total number of complaints received by the Bank during the year	745	475
Average time taken to resolve:	6	5

40 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	Carrying amount 2018	Carrying amount 2017	Fair Value 2018	Fair Value 2017
	Rs.'000		Rs.'000	
Available for sale securities	3,915,710	12,160,728	3,915,710	12,160,728
Held for sale securities	-	2,071,862	-	2,071,862
Investments (Note 10)	3,915,710	14,232,590	3,915,710	14,232,590

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 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, 2018.

Assets	Note	Rs'000	Level of hierarchy	Significant unobservable inputs	Inter-relationship between unobservable inputs and fair value
Investments - T Bills	10	3,915,710	Level 2	*	*

*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 these standards by Banks/DFIs.

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

	2018 Rs.'000	2017 Rs.'000
Opening balance	14,232,590	1,467,965
Additions during the year	41,883,198	26,318,381
Unrealised fair value gain/(loss) included in other comprehensive income	-	50
Disposals during the year	(52,200,078)	(13,553,806)
Closing balance	3,915,710	14,232,590

41 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 19.2.1 while remuneration of President, Directors and Executives is disclosed in note 35 to the financial statements. Detail of transactions during the year and balances outstanding at the year end are as follows:

Transactions during the year - with shareholders	2018 Rs.'000	2017 Rs.'000
Lending to financial institutions	8,475,000	9,820,000
Repayment of lending to financial institutions	8,475,000	9,345,000
Investments made during the year	4,550,000	2,800,000
Borrowings	-	175,000
Repayment of borrowings	-	1,091,764
Branchless banking services recovery of loan portfolio	2,037,576	2,487,685
ATM services payments	4,096	14,825
Income		
Interest income on deposit account bank balances	4,781	2,570
Interest income on lending to financial institutions	3,528	4,125
Interest income on Investment (TFC)	4,140	-
Expenses		
Interest expense on borrowings		
Fee, Commission & Bank charges	-	14,456
Branchless banking service commission/ATM charges	42	3,515
	22,546	37,514

	2018 Rs.'000	2017 Rs.'000
- with defined benefit plan		
Contribution paid to KB employees gratuity fund	193,510	53,723
- with others		
Cost reimbursement received from MSDF	680,114	-
Cost reimbursement claim from MSDF	125,583	131,024
Balances outstanding at the year end		
- with shareholders		
Balances with banks	317,256	70,138
Lending to financial institutions	-	475,000
Interest receivable on lending to financial institutions	-	228
Branchless banking services commission payable	-	3,466
Borrowings	-	-
Interest payable on borrowings	-	-
- with defined benefit plan		-
Balance payable to gratuity fund	19,418	71,312
- with key management personnel including President		-
Advances - staff loans	73,764	72,418
Other assets - loans and advances to employees	9,034	8,463
Deposits	21,189	32,292
- with others		
Receivable from MSDF	208,743	588,881

42 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.

43 GENERAL INFORMATION

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

	2018 Number	2017 Number
Offices		
Total branches of the Bank	161	149
Total service centers/of the Bank	36	24
Micro-credit cases		
Number of active cases at year end	784,480	671,015
Number of loans disbursed during the year	845,105	736,377
Average number of active borrowers for the year	727,748	613,901

	2018 Rs.'000	2017 Rs.'000
Microcredit portfolio		
Microcredit advances receivable - Gross	43,461,235	32,424,971
Total disbursements for the year	50,134,307	38,187,759
Portfolio Quality		
Portfolio at risk	512,226	324,249
Portfolio written off	654,682	484,343
Loan loss reserve	721,299	597,752
Average loan sizes		
Average outstanding loan size	55,401	48,322
Average gross loan portfolio	37,943,103	27,779,301
Information about the Bank's assets/liabilities		
Total assets	70,471,952	58,961,202
Current assets	64,042,328	55,817,227
Fixed assets	1,353,528	1,141,596
Average total assets	64,716,577	46,367,341
Current liabilities	26,659,348	32,962,115
Bank's equity	8,198,267	6,354,265

44 FINANCIAL RATIOS

	Note	2018 Percentage	2017 Percentage
Sustainability/Profitability			
Return on equity	44.1	31.75%	28.15%
Adjusted return on equity	44.2	32.19%	27.21%
Return on assets	44.3	3.57%	3.43%
Adjusted return on assets	44.4	3.62%	3.31%
Operational self sufficiency	44.5	132.72%	130.57%
Financial self sufficiency	44.6	133.00%	130.00%
Profit margin	44.7	24.65%	23.41%
Asset/Liability Management			
Current ratio	44.8	2.41%	1.69%
Yield on gross loan portfolio	44.9	28.63%	28.88%
Yield gap	44.10	10.57%	14.43%
Funding-expense ratio	44.11	11.94%	10.68%
Cost-of-funds ratio	44.12	8.38%	7.69%
Portfolio Quality			
Portfolio at risk	44.13		
from 1 - 29 days		1.28%	0.71%
from 30 - 59 days		0.34%	0.36%
from 60 - 89 days		0.21%	0.15%
from 90 - 179 days		0.34%	0.32%
over 179 days		0.29%	0.18%
Write-off ratio	44.14	1.70%	1.73%
Risk coverage ratio	44.15	140.82%	184.35%
Efficiency/Productivity			
Operating expense ratio	44.16	12.60%	14.26%
Cost to revenue ratio	44.17	54.54%	57.21%
Cost per borrower (Rupees)	44.18	6,651	6,515
Personnel productivity (Numbers)	44.19	170	171
Loan officer productivity (Numbers)	44.20	378	377
Average disbursed loan size (Rupees)	44.21	59,323	51,859
Average outstanding loan size (Rupees)	44.22	55,401	48,322

44.1 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.

44.2 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.

44.3 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.

44.4 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.

44.5 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.

44.6 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.

44.7 Profit margin measures the percentage of operating revenue that remains after all financial, loan loss provision and operating expenses are paid.

44.8 Current ratio measures how well the Bank matches the maturities of its assets and liabilities.

44.9 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.

44.10 Yield gap compares revenue actually received in cash with revenue expected from microcredit advances.

44.11 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.

44.12 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.

44.13 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.

44.14 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.

44.15 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.

44.16 Operating expense ratio is the most commonly used efficiency indicator for Microfinance Banks. It includes all administrative and personnel expenses.

44.17 Cost to revenue ratio measures how well the bank covers its operating costs through net revenue.

44.18 Cost per borrower provides a meaningful measure of efficiency for the Bank, by determining the average cost of maintaining an active borrower.

44.19 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.

44.20 Loan officer productivity measures the average case load of each loan officer.

44.21 Average disbursed loan size measures the average loan size that is disbursed to clients.

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

45 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors in their meeting held on February 15, 2019 proposed a cash dividend in respect of financial year 2018 of Rs. 1.50 per share (2017: Rs 0.53 per share). This appropriation will be approved in the forthcoming Annual General Meeting. The financial statements for the year ended December 31, 2018 do not include the effect of these appropriations which will be accounted for in the financial statements for the year ending December 31, 2019.

46 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 2018
1	Data Technology	Data archive and record management	Rs 11.9 million p.a
2	United Bank Limited	ATM/Debit Card production/ packaging & dispatch	Rs 0.9 million p.a
3	United Bank Limited	Call Center services	Rs 17.3 million p.a
4	United Bank Limited	SMS Alert on Debit card transaction	Rs 0.3 million p.a
5	Telenor Pakistan Limited	SMS transaction alert/intimation to the bank clients	Rs 0.9 million p.a
6	M3 Technologies (Pvt) Ltd	SMS transaction alert/intimation to the bank clients	Rs 0.5 million p.a
7	Family Planning	New client mobilization on behalf of bank New	Rs 47.7 million p.a
8	Health & Nutrition	New client mobilization on behalf of bank	Rs 14.7 million p.a
9	Sindh Graduate	New client mobilization on behalf of bank	Rs 23.3 million p.a
10	Human Development	New client mobilization on behalf of bank	Rs 83.1 million p.a
11	Society for Human Development	Client mobilization for group loans	Rs 16.2 million p.a
12	Prime Human Resource	Employees various Outsourcing services	Rs 214 million p.a
13	Security and Management Services	Security Guard Services	Rs 139 million p.a
14	Abacus Consulting (Pvt) Ltd	Quality Reviews of Branches	Rs 1.1 million p.a
15	MES Engineering	Maintenance of Generators at Branches	Rs 2.0 million p.a
16	HM Engineering	Maintenance of Generators at Branches	Rs 2.4 million p.a

47 CORRESPONDING FIGURES

The corresponding figures have been rearranged and reclassified, wherever considered necessary, to comply with the requirements of format prescribed by the SBP Banking Supervision Department (BSD) Circular number 11 dated December 30, 2003 and Companies Act, 2017. Following major reclassifications have been made during the year:

Description	Reclassified from	Reclassified to	Amount Rs. '000
Surplus/(deficit) on revaluation of assets	Deficit on revaluation of assets (within SOCE)	Surplus/(deficit) on revaluation of assets (outside SOCE)	(106)

48 DATE OF APPROVAL

These financial statements were approved by the Board of Directors of the Bank in their meeting held on February 15, 2019.

49 GENERAL

49.1 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.

49.2 The addresses of the branches of the Bank are as follows:

Branch Name	Address
Abbottabad	Ground Floor, Ali Plaza, Supply Bazar, Mansehra Road, Abbottabad.
Havelian	Malik Cottage Main Bazar Havelian, District Abbottabad.
Haripur	Pankad Area, Shahrah-E-Hazara, Haripur.
Hassanabdal	Near Hassanabdal Bus Stand Main Peshawar Road Hassanabdal
Mansehra	Ammar Arcade Opp: Noor College Balakot Road Mansehra.
Muzaffarabad	Raza Buliding , Poultry Form Road, Opp Ajk University Muzaffrabad
Attock	BVII-56 & 57, Indus Plaza, Near Geedar Chowk, Barq / Hamam Road, Attock City
Bhawalpur	Shop # 43 Model Town B Ghalla Mandi Road Bahawalpur
Jalalpur Pirwala	Madina Market, Near General Bus Stand Multan Road, Jalalpur Pirwala
Mandi Yazman	Khata/Khawat No 404 Khatoni No. 609, Situated At Chak No. 56/Db Alif, Bahawalpur Road, Opposite NBP Bank Mandi Yazman, Thsil Yazman District Bahawalpur.
Kahror Pacca	Union Council Bukshi Wali, Ward No. 16 / 8, Near Railway Chowk,Lodhran Road, Kahror Pacca
Khairpur Tamewali	Thana Mor Opposite Chand Restaurant Khairpur Tamewali Distt. Bahawalpur
Hasilpur	Near Al Riaz Honda Agency Main Bahawalpur Road Hasilpur
Lodhran	Near Jajal Pur Mor Lodhran
Dunyapur	Near Al-Mulk Hospital Railway Road Dunyapur
Mubarakpur	Street # 1,Abbasiatown,Main Noor Pur Kotla-Musa Khanroad,Opposite Al-Makka Petroleum,Mubarak Pur Tehsil Ahmad Pur East,District Bahawalpur.
Chona Wala	Chak # 161Murad Chona Wala
Bhakkar	Plot# 155 Club Road Mandi Town Bhakkar
Chowk Azam	Near Green Way Petrol Pump, Mm Road, Chowk Azam,Tehsil And District Layyah.
Darya Khan	Plot No. 89,Opposite PTCL Exchange Bhakkar Road, Darya Khan, Bhakkar
Dera Ismail Khan	Al Zaman Building Near Siraj Medical Circular Road D.I.Khan
Kalur Kot	Lodhi Market Sargodha Road,Kallur Kot-Bhakkar
Karor Lal Essan	Opposite Ptcl Exchange Fataih Pur Road Karor Lal Essan
Kot Sultan	Mohallaha Hassnain Abad, Khata No. 53, Near Civil Hospitalmultan Road Kotsultan
Leyyah	Plot#405 B Choubara Road Tehsil And Distt Layyah
Mankera	Near Ubl, Jhang Bhakkar Road Mankera
Paharpur	Opposit National Bank, Paharpur
Dera Ghazi Khan	Railway Road, J Block, Dg Khan

Qasba Gujjrat	Ghazi Ghat Chok Qasba Gujjrat
Kot Chutta	Khata No 109 Opposite Tehsil Office, Main Indus Highway Kot Chutta, District D G Khan
Jampur	Pesticide Market, Dajal Road, Jampur
Rajanpur	Kamran Market, Main Indus Highway
Fazilpur	M.Ismail Plaza Trafic Chowk Main Indus Highway Fazil Pur
Taunsa Sharif	Mangrotha Road Taunsa
Kot Mitthan	Anas Plaza Darbar Road Kot Mithan
Tibbi	Main Indus High Way Tibbi
Faisalabad	Pllot 834/A,Ayubi Plaza,Liaqat Road,Faisalabad
Shah Kot	Melad-E- Mustafa Chowk Jaranawal Bazar Shah Kot
Jarawala	Ismail Plaza Near Fesco Office Faisalabad Road
Jhang	Canal Colony Road Near Distt Courts Jhang
Toba Tek Singh	Al-Aziz Center Shorkot Road
Peer Mahal	Gousia Chowk Main Kamalia Road
Gojra	Ground Floor Saddique Plaza Tehsil Office Road Gojra
Shorekot	Near Sabir Chok, Jhang Road, Shorkot City
Hafizabad	Near Fiza Parda House, Gujranwala Road, Hafizabad
Gilgit	Hakim Market, Opposite Radio Pakistan, Zulfiqarabad, Gilgit
Ali Abad	Raman Plaza, Near Agha Khan Center, Karakuram Highway, Hunza
Gahkuch	Opposite City Park, Main Bazaar, Gahkuch
Narowal	Near Chan Peer Darbar Mohalla Sadique Pura Narowal
Gujrawala	Mian Sansi, Sheikhupura Road, Gujranwala
Wazirabad	Sialkot Road Opposite Bandhan Marriage Hall, Wazirabad
Kamoki	197/162 Near Shifa Eye Hospital, Main G.T Road Kamoki
Pasrur	Faisal Colony, Near Gujjar Pso Petrol Pump, Pasrur
Gujrat	Shehroz Plaza Near Sa Fans Gt Road, Gujrat
Shakargharh	Maqsood Plaza Railway Road Shakargarh
Sialkot	Shahab Pura Road, Near Alam Chowk, Sialkot
Daska	Circular Road, Civil Chowk Daska
Zafarwal	Khewat No. 575, Khasra No. 2637, Situated At Town Committee, Zafarwal, Mohalla & Tehsil Zafarwal, Distt. Narowal
Karachi - Rashid Minhas	Plot # L-04 Sector No 35.C Korangi Town Ship, Landhi Town Karachi
Karachi-Korangi	Sub-Plot No.6, Block No.1, Sooq Ul Aman, Plot No. Flt-1, Block-G, North Nazimabad, Kda'S
North Nazimabad -	Scheme No.2, Karachi
Karachi	Near Student Bakery, Opp: Tayyaba Mosque, Saudabad S1, Begum Khusrheed Road Malir
Mailr - Karachi	Karachi
Thatta	Shop # 6, Al-Shahbaz Shops, National Highway Thatta.
Badin	Survey # 33, Adjacent Abbasi Hospital, Main Dco Chowk, Karachi Road Badin
Hyderabad	Plot # Hcb-73, Qazi Abdul Qayyom Road, Gari Khata Hyderabad

Hala	Old National Highway, Near Ubl Hala, District Mitiari
Lahore - Jail Road	15- Shadman Colony Jail Road Lahore
Lahore - DHA	79-Cca, Sector Dd, Phase 4, Dha Lahore Cantt
Kasur	Minhas Colony Near Noor Mahal Cinema Lahore Road Kasur
Nankana Sahib	Adjacent Khalid Rice Mill,Morni Wala Karkhan, Nankana Sahib
Lahore - Shahdra	Khasra # 69, 71 Near Allah Ho Darbar, Adjacant Ztbl, Jia Musa, Shiekhupura Road, Shahdara Lahore
Khudian Khas	New Bus Stand Depalpur Road Khudian Khas Tehsil And Distt Kasur
Muridke	Near Bilal Masjid, G.T. Road Muridke
Sheikhupura	Al Rehman Center Near Millan Marriage Hall
Dadu	Opposite Govt. Pilot Girls School, College Road, Dadu
Badeh	Main Naseerabad Road, Badeh, Distt. Larkana
Qamber/Wagan	Opposite Govt Primary Main Boys School, Miro Khan Road Kambar
Khairpur	Near National Saving Centre, Katchehry Road Khairpur Mirs
Larkana	Bank Square Road, Larkana
Shahdadkot	Lakh Pat Road Shahdad Kot
Ranipur	Near Mazhar Model School, National Highway Ranipur City District Khairpur Mirs
Noshero Feroz	Main National Highway, Noshero Feroze
Mehar	Near Meezan Bank Limited, Kahirpu Nathatn Shah Road Mehar
Nawabshah	House No; A –306 Paro Hospital Road, Otaq Quarter Nawabshah
Sanghar	Choudhary Corner, Main Nawabshah Road, Sanghar.
Mirpurkhas	Plot # 7, Survey # 862/7, Ward-A, Pm Colony, Main Umar Kot Road, Mirpurkhas
Tando Allahyar	Plot # 2, Block # A, Survey # 273/1 Opposite Civil Hospital Distt: Tando Allah Yar
Tando Muhammad Khan	Plot No#C S 832 opposite To Ssp Office Tando Muhammad Khan
Jhudo	Plot #7, Ward No 03 Near Rajput Chowk Shahi Bazar Jhuddo Distt: Mirpurkhas
Mithi	Shop# 1-6, Sameer & Kunal Market Near Kashmir Chowk Main Naukot Road Mithi District Tharparkar
Umerkot	Haji Saleem Mahar Housing Society Near Sabzi Mandi Main Chore Road Umarkot
Multan	Royal Shoping Centre, Shop # 01, Azmat Wasti Road, Dera Adda Multan
Muzaffar Garh	Near Talairy Bypass Multan Road Muzaffargarh
Jahanian	Khewet No 19 Chak No 111/10R Opposite Govt Middle School No 3 For Boys, Madina Chowk Jahanian District Khanewal
Qadirpur Rawan	Gt Road, Qadir Pur Rawan, Tehsil & District Multan
Shujahabad	Jalal Pur Road Near Old Kb Bus Stand Shujabad
Zareef Shaheed	Lodhran Road Near Liaqat Chowk Zareef Shaheed
Rohillanwali	Near Canal Rest House Ali Pur Road Rohilanwali
Kot Addu	Near Pso Pump Opposite Faisal Motors Main Gt Road Kot Addu
Chowk Sarwar Shaheed	Near Mcb, Mm Road, Chowk Sarwar Shaheed
Peshawar	Gt Road Amin Hotel Peshwar

Kohat	Najam Complex Near Police Line Hangu Road Kohat
Malakand Agency	Shop#1-5 & 29-34, Tahir Plaza, Main Bazar Batkhela, Malakand Agency
Mardan	Cb 445/A- 2, Saddar Bazar, The Mall, Mardan Cantt. Mardan
Nowshera	Aljamil City Centre Near Police Petrol Pump Gt Road Nowshera
Charsada	M.G. Plaza Tangi Road, Charsadda
Buner	Irsal Plaza Opposite New Adda Mardan Road Sawari Buner
Swabi	Rehman Market, Mardan Road, Swabi
Swat (Mingora)	Shahzad Plaza Makan Bagh Mingora Swat
Rahim Yar Khan	16-A Businessman Colony Opst Desert Palm Hotel Rahim Yar Khan
Khanpur	Quaid E Millat Road,Oppsite National Saving Center Khanpur
Zahir Pir	Old Gt Road, Near Canal Rest House Chowk Zahir Pir, Tehsil Khanpur Distt. Rahim Yar Khan
Liaqatpur	Housing Scheme 87/A,Bank Road, Liaqatpur
Uch Sharif	Near Mariam Hospital, Main Abbasia Road, Uch Sharif
Sadiqabad	Klp Road Nishter Chowk Sadiqabad
Ahmedpur East	Near Sadar Police Station Katechary Road Ahmadpur East
Ali Pur	Near City Police Station Ali Pur
Feroza	Khan Pur Road Feroza
Bagh	Ground Floor, Al-Noor Plaza, Near Mds, College Road Bagh
Chakwal	Tehsil Chowk, Near Warid Franchise, Rawlpindi Road, Chakwal
Fatehjang	Ground Floor, Mudassar Awan Arcade, Rawalpindi Road, Fatehajang.
Gujar Khan	Near Bank Of Punjab, Gt Road, Gujar Khan Haji Karam Elahi Plaza
Islamabad	Ground Floor, 94 West Jinnah Ave Blue Area Islamabad
Jehlum	Opposite Tableeg Ul Islam High School Near Nadra Office, Civil Line, Jhelum
Mirpur	Allama Iqbal Road, Opposite Bok, Nangi Area, Mirpur-Ajk
Rawalpindi	Ropyal Brothers Plaza, B-130, Main Muree Road, Chandni Chowk, Rawalpindi.
Rawlakot	Al Makah Shoping Plaza, Near Ali Firdos Clinic, Cmh-Road, Rawalakot.
Sahiwal	Khewat # 15848/4764, Liaqat Ali Road, Sahiwal
Basirpur	Plot# 416 Main Bazar Depalpur Road Basirpur
Chichawatni	Plot#18-19, Near Lakar Mandi, Main G.T Road, Chichawatni
Mian Channu	Ma Ghani Colony, Corner Plot , Gt Road Near Opposite Tehsil Complex Mosque, Mian Channu
Pattoki	Khasra # 1920, 1573 Khewat # 926 Khatoni # 2857 Main Multan Road Opposite Naseem Anwar Hospital Tehsil Pattoki District Kasur
Ellahabad	Main Chunian To Ellaabad Road Near PSO Pump Ellahabad
Okara	M.A Jinnah Road Okara
Pakpattan	Khata #3182/3152, 4347/3993, Khatooni # 3384, 4754, College Road Pakpattan
Arifwala	21/A, Block, Main Muhammadi Road, Arifwala
Sargodha	Block # 16 Near Nadra Office Main Road, Sargodha
Sahiwal - SGD	Main Sarghoda Road, Nawanlok Sahiwal, District Sarghoda

Chiniot	461-C-D Chaudhary Center Jhumra Chowk Jhang Road Chiniot
Khushab	Block # 02, Plot # 01,Bank Square,Jauharabad Distt. Khushab
Mianwali	Sonay Khel Market, Govt High School Road, Mianwali
Bhalwal	Plot No. 451, Block No. 4, Liaqat Shaheed Road Bhalwal,District Sargodha.
Mandi Bahauddin	Tahreem Plaza ,Punjab Center, Phalia Road Mandi Bahauddin
Daherki	Main Gt Road, Daharki
Ghotki	Plot # 115, Devri Sahib Road, Near NBP, Ghotki
Nasirabad	Near City Police Station Quetta Road Dera Murad Jamali Nasirabad Balouchistan
Pano Aqil	Near Eid Gah, Baiji Chawk, Pano Aqil
Shikarpur	Hizb Plaza Plot# 3/1, Near Jahaz Chowk Station Road Shikarpur
Sukkur	Miltary Road Sukkur
Rato Dero	Main Bus Stand Ratodero
Kandh Kot	Main Haibat Road Adjacent National Bank Of Pakistan
Kashmor	Opposite Shell Petrol Pump Main Kandhkot Road Kashmore
Vehari	E-8 Karkhana Bazar Vehari
Burewala	Ramay Market Near Ztbl Burewala
Chishtian	Opposite Sadar Eid Gah Gillani Market High Way Road Chishtian Distt Bahawalnagar
Daharanwala	Waraich Market Haroonabad Road Dahranwala
Fort Abbas	School Bazar Fort Abbas
Haroonabad	Front Main Bazar Bangla Road Haroonabad
Minchan abad	Circuler Road Near Mcb Minchanabad
Bahawalnagar	City Chok Jial Raod
Khanewal	Rca Chowk, Block No 2, Street Noo1, Khanewal

49.3 The addresses of the Service Centers of the Bank are as follows:

Service Center Name	Address
Head Rajkaan	Noor Pur Road Head Rajkaan Opposite First Microfinance Bank
Fateh Pur	Opposite PSO Petrol Pump Karor Road Fateh Pur
Dulley Wala	Opposite PTCL Service Centre Near Lari Adda Mm Road Dullay Wala
Sanglla Hill	Masjid Wala Bazar Near Ghala Mandi Sangla Hill
Qila Didar Singh	Chahal Chowk, Opposite Govt Schools Of Boys #1, Main Bazar Qila Dedar Singh Tehsil And District Gaujranwala
Dinga	Qasim Plaza, Kamla Link, Haider Chowk, Dinga
Shahdadpur	Shop No # Cs-455, Near Babar Mobile Market Station Road, Shahdadpur, District Sangha
Tando Adam	Shop # Cs-945/1, Near Muhammadi Chowk, Opposite Sonehri Bank, Tando Adam District Sanghar.
Gharo	Near Town Committee Main National Highway Gharo
Kot Radha Kishan	Azam Abad Main Raiwind Road Kot Radha Kishan
Mor Khunda	Opposite Uc-49 Adjacent Al-Najaf Merrage Hall Main Lahore Road Mor Khunda
Shraqpur-Shareef	Bhatti Town,Lahore Jaranwala Road Near Main Bus Stop Sharaqpur
Farooqabad	Approch Road Farooq Abad Service Centre Khushhali Bank

Mehrabpur	Near Tameer Bank,Railway Phatak Road Mehrabpur
Kot Ghulam Muhammad	Ward B, Kot Ghulam Muhammad Taluka Kot Ghulam Muhammad District Mirpurkhas
Kunri	Plot No A409/219 Station Road Kunri District Umerkot
Basti Larh	Green Market Adda Larh Bahawalpur Road Multan
Shah Jamal	Shah Jamal Khan Garh Road
Matotli	Rana Colony Basti Road Near UBL Matotali
Talagang	Khasra No.557, Rawalpindi Road Opposite Makah Hospital Talagang
Harappa	Khata No 23 Khatoni No. 53 Bypass Chowk Harrapa, Dist Sahiwal
Mandi Ahmed Abad	Kangan Pur Road Mandi Ahmad Abad
Silanwali	Khewat # 2583Khatooni # 2597 46 Ada Road Near NADRA Office Sillawali
Pindi Bhatian	Near ZTBL Pindi Bhattian
Qaidabad	Khewat # 1188 Khatooni # 1569 Plot # 62 3 Marla Scheme # 1 Sargodha Road Quaidabad
Bhera	Khewat # 1304 Khatooni # 1877 Cha Jhangi Wala Dahkali Near Bank Of Punjab Bhera Tehsil Bhera,Dist Sargodha.
Gago Mandi	Sheikh Fazal Road Gagoo Mandi
Marot	Faisal Bazar Near Nrsp Bank Marot

49.4 The addresses of the permanent booths of the Bank are as follows:

Permanent Booth Name	Address
Karachi	Guru Mandir Near Garden , Karachi
Karachi	Main GPO I.I Chandigarh Road Karachi
Lahore	General Post Office Booth B.Block Model Town Lahore
Lahore	General Post Office Booth Hall No.1 Mall Road Lahore
Peshawar	GPO Peshawar University Campus Peshawar
Peshawar	GPO Peshawar Saddar Cantt Peshawar
Rawalpindi	GPO Saddar Dist And Sub-Dist. Rawalpindi Near UBL Bank Saddar Branch
Islamabad	General Post Office Booth G-6 KMBL Islamabad

49.5 Figures have been rounded off to the nearest thousand rupees unless otherwise stated.

PRESIDENT **CHAIRMAN** **DIRECTOR** **DIRECTOR**

Islamabad
Corporate Branch

Punjab

Anarkali Lahore
Ahmedpur East
Alipur
Arifwala
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
Kahror Pacca
Kalur Kot
Karor Lal Essan
Kasur
Khairpu Tamiwali
Khanewal
Kot Mithan
Khanpur
Khushab
Kot Adu
Liaqatpur
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
Pattoki
Qasba Gurat
Qadirpur Rawan (Loother)
Rohillawali
Rahim Yar Khan
Rajanpur
Rawalpindi
Shah Jamal
Sanglla Hill
Sillanwali
Shahdra-Lahore
Sahiwal-SGD
Shah Kot
Shakargarh
Shorekot
Sadiqabad
Sahiwal
Sargodha
Sheikhupura
Shujaabad
Sialkot
Talagang
Taunsa Sharif
Tibbi
Toba Tek Singh
Uch Sharif
Vehari
Wazirabad
Zahir Pir
Zafarwal

KPK

Abbotabad
Buner
Havelian
Charsada
Dera Ismail Khan
Haripur
Havalian
Kohat
Malakand Agency
Mansehra
Mardan
Nowshera
Peshawar
Paharpur
Swabi
Swat (Mingora)

Sindh

Badeh
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
Aliabad