



2018 2019

BEST MICROFINANCE BANK AWARD

ANNUAL REPORT
2019



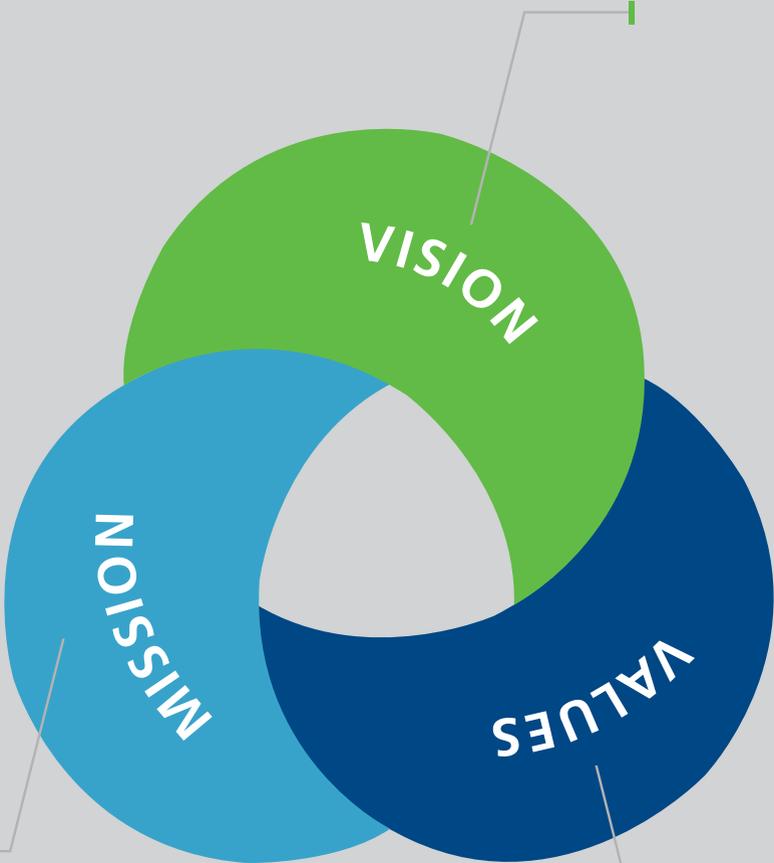
Annual
Report
2019



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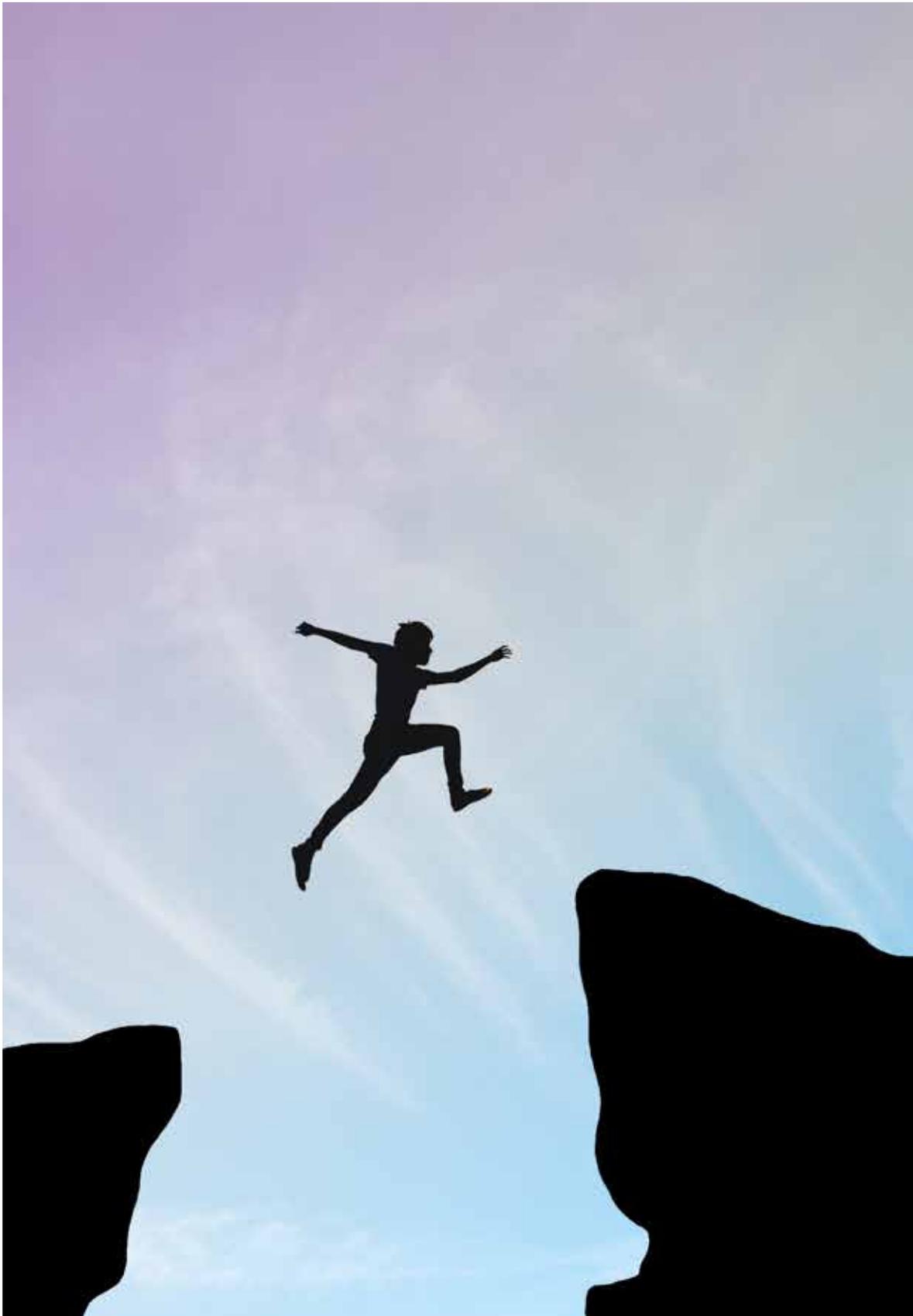
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To be a leading Micro Finance Bank providing financial services to Micro, Small and Medium Enterprises and low income households across Pakistan.



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

- Empowerment
- Excellence
- Ethical



KMBL – AN INTRODUCTION

Eradication of poverty in any developing country remains a top priority for improving its economic status. In Pakistan in particular, where the backbone of its economy is heavily dependent on the agricultural outcome, Khushhali Microfinance Bank Limited plays its role in lifting the lower-income groups by providing them with easy products & services and encouraging micro-entrepreneurship among males and females alike.

Since its inception in 2000, KMBL has focused on increasing outreach in the pro-poor geographical and market segments. KMBL is one of the few Microfinance Banks in the country, with a unique operating environment and outreach. KMBL operations have spread across a diverse geographical area, ranging from the widely spread plain rural areas to the densely populated urban centers.

In 2019, KMBL further expanded its overall footprint to 226 locations, and the spread of this geographic network highlights KMBL's efforts to reach the unbanked population of Pakistan. With 186 Branches, 27 Permanent Booths and 13 Service Centers, KMBL is paving a path towards equipping its client to be more financially literate and empowered to become strong participants in the economic ecosystem of Pakistan.





OUR WORK





Khushhali Microfinance Bank Limited (KMBL) offers an array of financial products and services especially designed for the lower-income groups of the country to equip them to become a strong participant in the economy of Pakistan. With the vision to bank the unbanked areas of Pakistan, KMBL has a customer-centric portfolio of loan products, savings, health and life insurances and other services.

The loan products offered by KMBL caters to entrepreneurs and self-employed individuals, regardless of their genders, in sectors like agriculture, livestock, and micro, small and medium sized enterprises (MSMEs). These products form a bridge to the formal lending system for micro-borrowers in urban and rural areas and hence results in financial inclusion for individuals being left out of the conventional banking system. In 2019, about 86% of KMBL's client base is from rural areas, exhibiting the success in the ongoing efforts for financial inclusion.

KMBL is in constant strive for designing customized products to facilitate the MSME groups for micro-financing opportunities. With rising demands and business requirements, KMBL has increased its loan brackets in various products including Khushhali Agri Plus, Khushhali Cash Sahulat Plus, and Khushhali Sarmaya with loans up to PKR 1,000,000/- to provide more opportunities for MSMEs in Pakistan. KMBL currently has the largest financing portfolio for micro-borrowers, where active participation of female entrepreneurs is also prevailing. This year, females constitute 33% of all active borrowers who are now playing an equal part in the Pakistan economic ecosystem. Various other initiatives are also being taken to facilitate their efforts despite their underprivileged situations.

BUSINESS HIGHLIGHTS



Gross Loan Portfolio
53,607,461,191



Deposit Base
63,881,805,969



Micro Insurance Policies
126,685



Active Borrowers
871,228



Active Depositors
681,487



Percentage of Active Female Borrowers
33%



Percentage of Active Rural Clients
86%



Number of loans given to Agri/Livestock Farmers
681,487



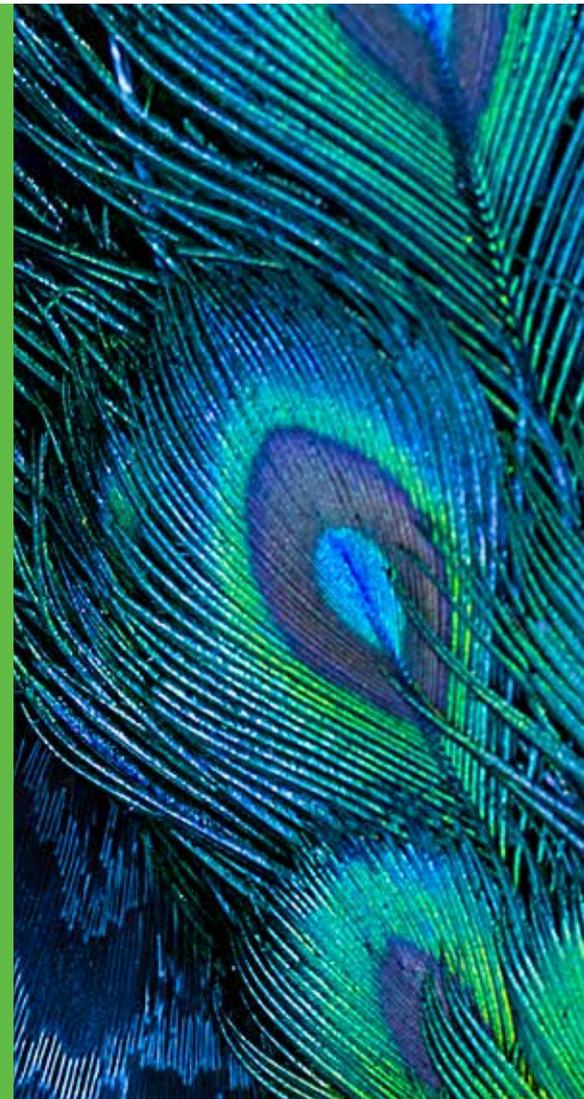
Number of loans given to MSMEs
40,078



2019 IN A NUTSHELL

In the efforts towards bringing innovation and lead customer experience management domain, Khushhali Microfinance Bank Limited joined hands with C Square to introduce Contact Center / CX Solution by Genesys and Advantage which is one of the best rated solutions globally. Services that have been availed are Genesys Voice portal, Genesys outbound, Genesys Social media & Advantage CRM. Hence, a systematic process flow was able to take form with the facility of one window operation. Contact Center is now able to perform a variety of transactions both financial and non-financial e.g. Debit card activation\blocking, Funds transfer, bill payment, IBFT etc. The digital engagement multi-channel tools of Genesys Solution have made the long term vision of automation and efficiency of KMBL in the customer experience domain possible.

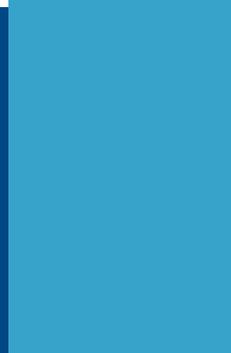
Given the changing customer expectations during the era of digital transformation in the banking sector, Khushhali Microfinance Bank Limited realizes the need to provide prompt, reliable and quality customer service across all touch points. Opting for the Genesys® contact center platform has helped Khushhali Microfinance Bank to take their customer experience into the new digital era providing a wide verity of services to its customers on a single call with complete security, confidentiality and trust.



Leading with Best Customer Experience Practices



PROVISION OF DIGITAL FINANCIAL SERVICES





Khushhali Microfinance bank has joined hands with IFC to undertake a two year digital-agri finance transformation project with the primary objective of improving access to finance for farmers. This project has multi-dimensional impact whereby it will not only simplify the access to finance but it will also be able to reach out to the new rural microfinance customers in Pakistan.

The project will comprise a segmentation approach, which will drive the Bank's market strategy by delivering relevant product concepts. The project will leverage data from both Khushhali's existing customer base and external sources as input into developing a credit risk scorecard which will subsequently be digitized, i.e. embedded into a loan origination app for use by loan officers. The project will also address with potential value change collaboration possibilities.

Work has commenced on Phase 1 of the project to understand the specific needs of the various

agri customers (i.e. wheat, cotton, mango, sugar cane, buffalo milk etc.). Detailed focus groups were conducted to understand customer needs and identify potential product ideas. Based on the report, a few product ideas will then be tested & matured to assess the propensity for uptake.

Concurrently, work has also commenced on the development of the credit risk score card model, which is in its initial phase as KMBL extracts data sets against the identified variables to be assessed by the IFC analytics team.

ACKNOWLEDGEMENTS FOR PROVISIONS OF QUALITY SERVICES

Being the pioneer in the industry of microfinance banks, KMBL not only laid the foundation of micro-financing in Pakistan economy but also proved to be the best service provider even after 20 years of its incorporation. Running for the second year consecutively, Khushhali Microfinance Bank Limited has been awarded with "Best Microfinance Bank 2019" in Pakistan by the Pakistan Banking Awards 2019, held by Institute of Bankers Pakistan (IBP). The award was presented to KBML to acknowledge its tireless efforts in making financial services accessible to the unbanked areas as well as to the marginalized segments of Pakistan. The bank was appreciated for expanding its outreach through innovative

and customer-centric products and services along with the strong bottom-line and social impact in the community.

In its efforts towards a sustainable environment, Khushhali Microfinance Bank Limited has been awarded with Green Office Certification 2019. To achieve sustainability, KMBL implemented measures to reduce the overall carbon footprint of office by reducing wastage of resources like electricity, water and paper. 14 awareness sessions were also arranged to reinforce the implementation of Green Office initiative.



KMBL CLIENTS MAKING A MARK IN THE SOCIETY

With the promise of creating endless opportunities to the grassroots level of the Pakistan economy, KMBL clients proved to be leading on the road of prosperity. Every year Citi Foundation and Pakistan Poverty Alleviation Fund (PPAF) organize a platform for all microfinance banks across Pakistan to showcase the accomplishments of its clients beside their adversities and distressful circumstances.

Gul Hassan from a small town of Naseerabad area in Balochistan won the National Runner Up accolade at the 13th Citi PPAF awards. Starting with 5 goats and 2 cows, Gul Hassan availed his first loan from KMBL to expand his humble business. With much dedication, he was able to increase operations capacity to buy 20 goats and 6 cows to upgrade his livestock business and employ multiple people from his small community.

Another award of Regional Winner of entrepreneurs from Azad Jammu Kashmir area was presented to one of KMBL's most committed clients, Robina Bibi who is a widow from a small village working to provide for her children. Starting her livestock business from scratch, she was able to expand her business from PKR 0 monthly income to PKR 70,000 as her monthly livelihood.

Finally, Muhib Ali was the Regional Runner Up entrepreneur from Balochistan who was the victim



of 2012 floods and was rescued by Pakistan army. He and his family had to live in camps for six months and had to move to a more secured place for his family. From working as a daily labor to inaugurating his own shop with KMBL's loan, Muhib Ali proved to be a successful entrepreneur who not only made his present comfortable but was able to establish means of daily income for his family.

Such appreciation boosted their confidence and motivated their families to work harder for themselves as well as for the people in their communities. Khushhali Microfinance Bank Limited takes pride in its clients for their diligence and hard work to take full advantage of the opportunities provided to them.



INVESTING IN SMALL FARMERS OF PAKISTAN





Khushhali Microfinance Bank Limited (KMBL) is completely aware of the importance of small farmers in a country where agriculture serves as the backbone of its economy. To empower these farmers, KMBL took the series of initiatives that include free of cost training sessions in different parts of the country as well as arranging radio sessions for imparting necessary agricultural knowledge.

In 2019, various training sessions were carried out for farmers with collective efforts from Swat, Jampur, Rawalakot, Gujranwala, Gujjar Khan and Sahiwal branches on various crops like Olives, cotton, Rice and Maize along with sessions on how to maintain successful livestock business. Along with these sessions, KMBL in collaboration with Mercurial Minds held mobile radio live shows on Guava in KP and Mango crop in Punjab areas.

KMBL also conducted informational radio programs for farmers on various crops and kitchen

gardening by inviting National Agricultural Research Center NARC experts to the shows. These programs were aired every Thursday for eight weeks with a different topic every week via Radio Pakistan. Every session was designed for farmers as per their famous crop cultivation in particular areas. These farmers were not only educated on how to cultivate their crop effectively but were also provided with ways they can successfully finance their operations by reaching out to the available Agri products in the market.

INITIATIVES FOR WOMEN EMPOWERMENT

For nineteen years, women empowerment has remained a core subject of interest for KMBL's Corporate Social Responsibility initiatives. In 2019, KMBL worked on various entrepreneurial projects for women to learn skills and equip themselves to become a part of the economic ecosystem of Pakistan.

On the occasion of International Women's Day 2019, Khushhali Microfinance Bank Limited sponsored five highly talented female finalists of NAVTTC Youth Skill Development Program. The objective was to empower these women with technical skills and boost their confidence to secure their future financially.

Initiatives to empower women from rural areas were also taken that includes

organizing a knowledgeable session on livestock management for women in Gujar Khan, celebrating World Women's Day. On the occasions of Rural Women's Day Poverty Elevation Day, a successful micro-entrepreneur and a famous YouTube inspirational speaker, Shahid Hussain Joiya, was invited to hold multiple to acknowledge the critical role that rural and indigenous women can play to enhance rural development; leading towards eradicating rural poverty. Sessions on micro-entrepreneurship were delivered to women in Shah Allah Ditta and Bahawalpur area. Females aspiring to start their own business were motivated to start home based small scale businesses.

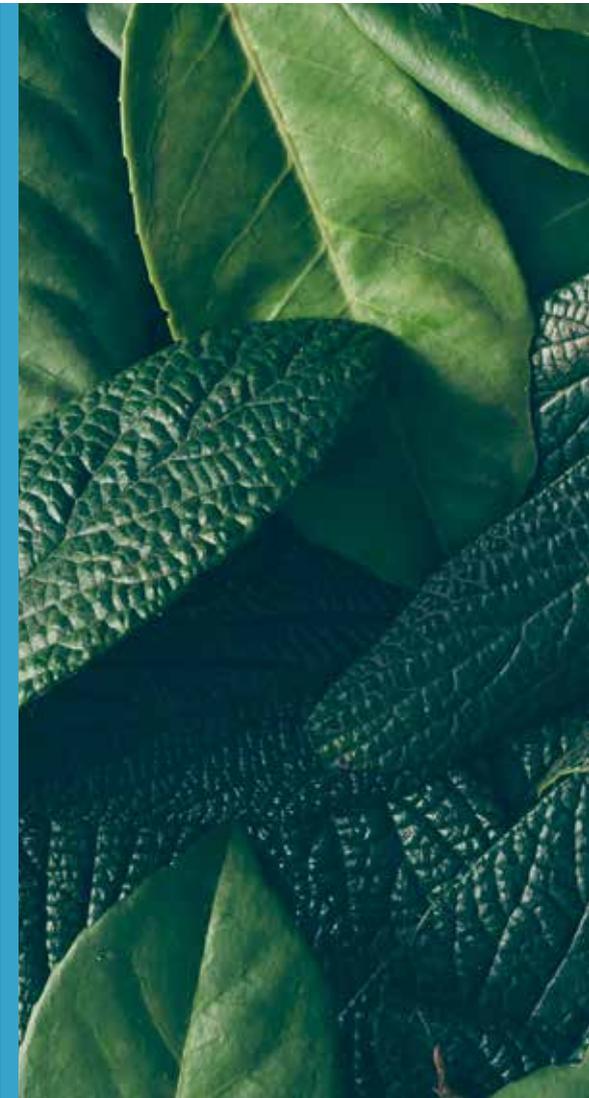


WORKING TOWARDS A GREENER PAKISTAN

Climate change is one of the most pressing issues faced by our planet right now. As scientific data suggest that Pakistan will be the 8th worst affected countries by the climate crisis, therefore KMBL is constantly playing its part in taking immediate steps to address the climate crisis.

As a part of Corporate Social Responsibility (CSR), Khushhali Microfinance Bank Limited, undertook a number of noteworthy initiatives last year to help improve the natural environment in the country. In the lead-up to the International Day of Forests on March 21, KMBL sponsored a manual operation for the regeneration of indigenous tree species by removal of Invasive Alien Species in the Margalla Hills National Park, Islamabad. Invasive alien plant species are plants that are non-native to an ecosystem and cause economic or environmental harm or adversely affect human health.

Among the tree-plantation initiatives, another important one was its pledge to plant 6,000 trees at Changa Manga, near Lahore. Trees are critical in purifying the environment as they release oxygen we breathe, improve air quality, preserve soil, and support wildlife. In the last couple of years, Changa Manga has seen the clearing away of large swathes of trees to make way for new construction sites in the city. Therefore, the purpose of the project was to compensate for the vegetation loss by planting



new trees in the area. The whole activity was sponsored by KMBL and managed to surpass its pledge by planting a total of 10,000 trees in 2019.

Not limiting itself to green investments, KMBL also set up a Children camping site near trail 5 at Margalla Hills, Islamabad. The project, undertaken in July 2019 through collaboration with the Islamabad Wildlife Management Board, aimed to provide opportunities for recreation to the younger lot of the capital city. It will also aim to sensitize the children about the environment by teaching them about the importance of caring for nature and for valuable wildlife species inhabiting the park.

In efforts to mitigate environmental damages, KMBL is proud to have made sustainability a part of its corporate identity. As such, it remains committed to undertaking initiatives in the future that can contribute to a green and healthy environment.



YOUTH DEVELOPMENT





With the vision to empower the entire micro-economy of Pakistan, Khushhali Microfinance Bank Limited (KMBL) also work towards the youth development as part of its Corporate Social Responsibility (CSR). Various initiatives have been taken to promote education as well as skill development among youth to equip them for a better future.

These initiatives include sponsoring NUST FICS Award for building entrepreneurs in Pakistan where students working on Green Energy business were selected to shape their ideas into reality through required funding. In similar lines, KMBL sponsored another start-up in NAVTTC Female Trainees conducted across the country where the selected team was able to start its own business with the funds received. KMBL also provided sponsorship to various students in Hunar Foundation and Aman Foundation for vocational training skills. With the vision to provide opportunities to the unprivileged people

in our society, KBML also donated interactive / smart board equipment for students in Welfare School in Gulmit at Gilgit-Baltistan.

Through these initiatives, we strive to provide individual and collective socio-economic empowerment across Pakistan.

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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Legal Advisors:

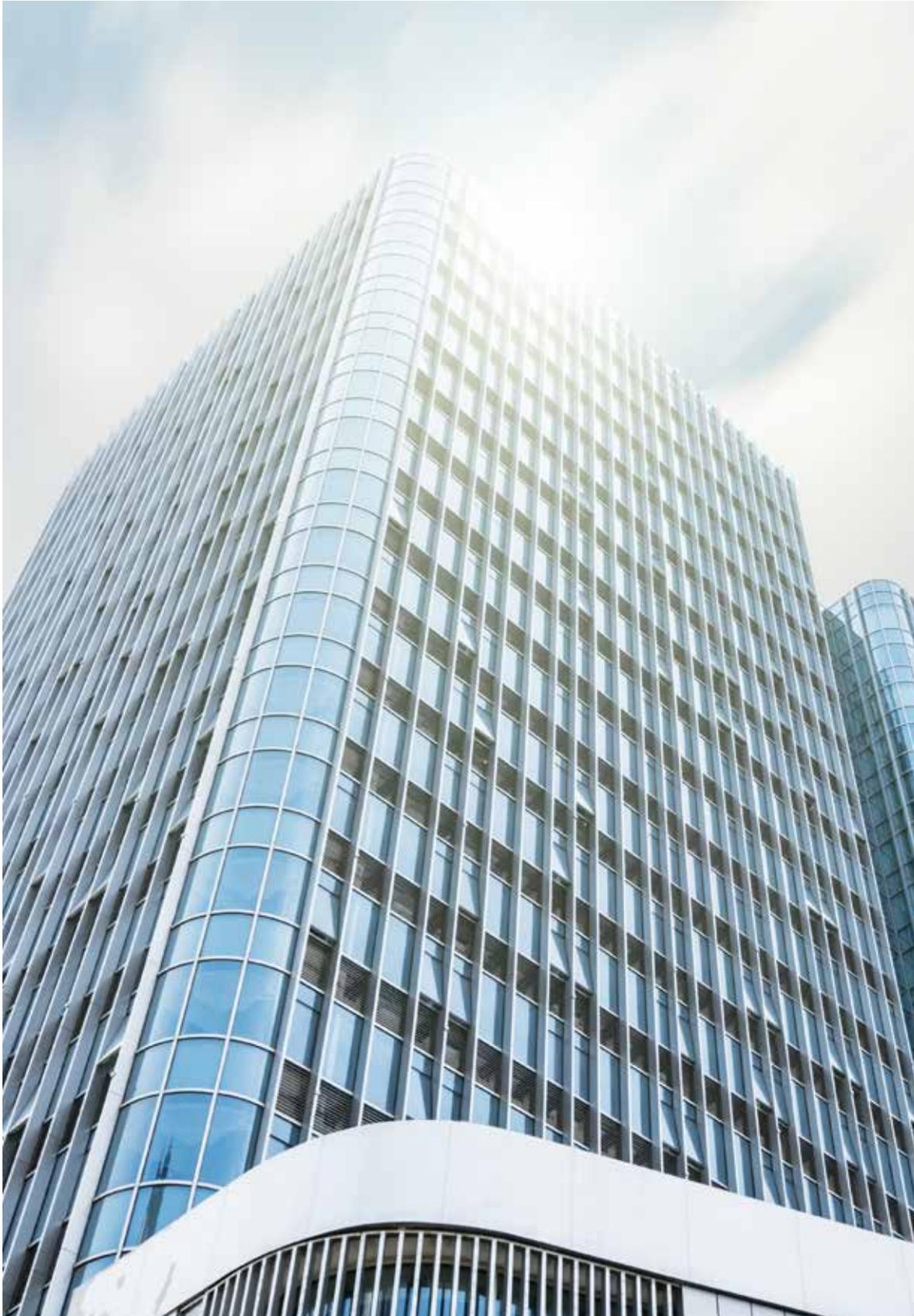
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Company Secretary

Sara Shah



BOARD OF DIRECTORS



Aameer Karachiwalla
Director/Chairman

With over 30 years of experience, Mr. Aameer Karachiwalla is a Fellow of the Institute of Chartered Accountants of Pakistan. Mr. Karachiwalla was re-appointed the Chief Financial Officer of UBL in July 2016. He joined UBL in 1998 and has previously held the positions of Chief Operating Officer, Chief of Staff and Group Executive Retail Banking at UBL. During this time, he has been 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 (Pvt) Limited. Before joining UBL, Mr. Karachiwalla held senior positions at a number of financial institutions and multinationals including American Express Bank, Citicorp Investment Bank and Artal Group of Companies.



Sharjeel Shahid
Director

Sharjeel Shahid has more than 25 years of diversified experience of managing banking operations in large retail banks and business management for various institutions. A qualified Chartered Accountant who specializes in digital transformation, Sharjeel 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 optimization and development of alternate delivery channels. He is currently spearheading the Digital Transformation Strategy for the second largest bank in the country, UBL.

He is also serving on the Board of several companies in different sectors.



Geert Peetermans
Director

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



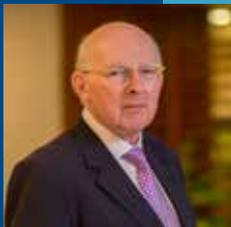
Henning Haugerudbraaten
Director

A Norwegian national, Henning Haugerudbraaten is a CFA (Chartered Financial Analyst) Charterholder. He has a diversified career spanning over 20 years in investments, risk management, and management consulting. 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.

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 the 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 based in Thailand and Chairman and Independent director of many other commercial businesses operating in China and South East Asia."

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), Foree, and INJAZ Pakistan. He is engaged with Startups and Incubators and is on Advisory Boards for promoting startups Eco system in the country.

Ghalib Nishtar

Executive Director



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

He was part of the process initiated by the Government of Pakistan to reform the financial sector under the Microfinance Sector Development Program in 2000 and has been a critical force in demonstrating the success of microfinance in Pakistan with Khushhali Bank as a leading benchmark. His accomplishments include successful steering of the divestment process of Khushhali Microfinance Bank in the year 2012 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 has undergone an ambitious transformation program to better serve the expanded microenterprise segment of the market in the country and Khushhali has received 'The Best Microfinance Bank Award' consecutively for the past two years.

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 Boards and Steering Committees; has represented the Bank at Summits, Conferences and meetings at national and International forums and contributes towards print media on issues of Financial Inclusion.

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



Ghalib Nishtar

President & Chief Executive Officer

As the founder President of Khushhali Microfinance Bank since 2000, Ghalib Nishtar was part of the process initiated by the Government of Pakistan to reform the financial sector under the Microfinance Sector Development Program with the objective of providing sustainable financial services access to the low Income segments of the market.

Under his leadership Khushhali Microfinance Bank has emerged as Pakistan's largest microfinance institution with a nationwide presence across the country.

Prior to Khushhali Bank he has over 20 years of management experience commencing with Bank of America in 1982 and concluding with the National Bank of Pakistan, country's largest commercial bank, as its Senior Executive Vice President.



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.



Sara Shah

Company Secretary & General Counsel

Sara Shah graduated with an LLM in Alternate Dispute Resolution from the School of Oriental and African Studies (SOAS) UK in 2012. An enrolled Advocate for the District and High Court of Sindh, Ms. Shah holds a diversified legal experience ranging from Intellectual property laws, criminal and civil litigation, Telecommunication laws, Banking and Media laws. During her career span of almost nine years Ms. Shah has worked at various leading law firms and service industries within Pakistan namely the Chamber of Malik, Chaudhry Ahmed Siddiqui and Waheed, Pakistan Telecommunications Limited, Express Media Group, Ali and Associates an Intellectual Property Law firm and Akzo Nobel Pakistan Limited a Dutch Multi National Public Listed Entity where she served as the Company Secretary.



Amina Hassan

Group Head Business

Amina Hassan has over 20 years' service-sector experience with the particular focus on managing grassroots initiatives for socio-economically vulnerable groups such as illiterate adults, child workers and people with disabilities. With an MBA in Management and a Masters in Applied Psychology, she is adept at problem-solving and dealing with clients. In her association with KMBL of 19 years, she is recognized for her contribution towards establishing effective retail distribution & a client service platform across branch, area, region & the national level. Joining KMBL at inception as a branch manager, Ms. Hassan has progressed with the bank to become the first woman on the senior management team. She received specialized training in micro-enterprise management from the Kennedy School at Harvard University, Boulder, USA, several management & retail related training domestically. Her portfolio also boasts exposure visits to International best practices such as BRI, Indonesia, Imon Tajikistan and M-Paisa, Kenya.

Shaista Abdullah

Chief Digital Officer



Shaista is a senior experienced professional who has spent most of her professional career in South Africa. She has deep expertise across a range of customer centric and marketing disciplines, primarily in the B2C space which includes Customer Experience Management, Customer Value Management, Customer Loyalty & Retentions, Market Research and Business Intelligence within the telecommunications sector (both fixed and mobile businesses). Shaista has worked in leadership roles with large multinationals like Deloitte Consulting, Vodacom South Africa (Vodafone group) and Telkom South Africa. Her move back to Pakistan coincided with an opportunity to start up a customer loyalty and retentions department previously non-existent at PTCL in Islamabad.

Shaista's management philosophy is centered around leading by example. She has mobilized high performance teams on a number of occasions and is passionate about team cohesiveness and cross functional rapport to achieve improved customer experience. Shaista is also an avid health and fitness enthusiast and enjoys hiking and biking.

Shaista has a BS (cum laude) & MS degree from Texas Woman's University Denton Texas and has completed the Management Advanced Program from WITS Business School South Africa.

Hammad Haider

Head Operations



Hammad Haider has a varied experience of about 20 years serving in various International and local Commercial Banks within Pakistan, where he progressed and achieved a learning curve ranging in different areas of Banking. He is a diversified professional with core competencies in the field of Operations, Business Technology Products, Operational Risk and Branch Banking Operations. His banking Career started from Emirates Bank International and prior to joining KMBL, he was Head-Alternate Delivery Channels in Allied Bank. Having a Masters in Public Administration, Commerce & Business background, by working on such dynamic assignments and roles, developed a skill set for technology based products, that enhanced IT practicality fervor, which enabled him to work for organizations in enhancing their technology driven products in line with their business needs. Hammad is exceedingly motivated and a pragmatic person with extensive experience in leading on the analysis, development, and strategic improvement of processes. His areas of expertise other than commercial banking areas are BPR and System Migrations.

Ijaz Ahmed

Chief Human Resources Officer



Ijaz Ahmed is a veteran HR professional with an MBA and over 15 years of progressive experience across multiple sectors, such as Banking, Technology, and Telecom. He brings in an in-depth expertise and understanding of complex human resources matters: Talent Management, Employee Relations, Engagement and Employer Branding, Learning & development, Rewards & Retention. His forte includes HR transformation, Leadership Development, Strategic Business Partnering & Stakeholder Management, Culture & Change Management, and Customer-Centric Talent Development.

Prior to joining KMBL, Ijaz was associated with Jazz (previously known as Mobilink) where he was responsible for partnering with the business and leading key cultural improvement initiatives.

In his personal time, Ijaz is an avid reader, an ardent tennis player, and a fitness enthusiast.

MANAGEMENT

Ali Imran Bokhari Chief Risk Officer



Syed Ali Imran Bokhari is a management executive with diversified experience, of over 19 years, in development and implementation of Compliance and Risk Management Frameworks, development and implementation of Standard Operating Procedures (SOPs), Financial & Management Consulting Services, Institutional Assessments and Appraisals, Supervision and Administration of Audit & Assurance Services, Financial Reporting, Regulatory Compliance, Corporate Governance, and Restructuring & Business Valuation, including feasibility analysis & share valuation. He is a Certified Expert in Risk Management from Frankfurt School of Finance and Management, Germany, a Certified Financial Consultant from Canada and Chartered Accountancy Finalist from Pakistan. He holds membership 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).

Rizwan Hafeez Chief Compliance Officer



Rizwan is a diversified professional with core competencies in the field of Compliance, IT, Operational Risk and Audit. Prior to joining KMBL, he was Head, Compliance – Retail Clients at Standard Chartered Bank (Pakistan) Limited. He has extensive knowledge and expertise in Consumer, SME and Branch Banking with a particular focus on regulatory compliance and policy framework. His compliance journey spans over 15 years with diversified portfolios, including business compliance, regulatory compliance and financial crimes compliance. He has over 19 years of work experience which includes more than 17 years of banking experience. His areas of practice include Compliance, AML/CFT, Business Process Re-engineering, Information Systems Strategic Planning, MIS and Financial Control. He has previously been associated with Union Bank Limited, MCB Bank Limited and Sidat Hyder Morshed Associates (Pvt.) Ltd. He holds an MBA (MIS) degree from IBA Karachi. He is also a Certified Information Systems Auditor (CISA) and Certified Internal Auditor (CIA).

Atif Aziz Ahmed Chief Information Officer



Atif Aziz Ahmed 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 deployments. He has also worked at well-renowned stock brokerage firms in Pakistan, including KASB Securities and AKD Securities, where he lead the Information Technology teams. He started his career in 1993 from IBM Pakistan, where he worked as a systems engineer for two years before leaving for Canada and then US to work at AT&T Research Labs, New Jersey. He came back to Pakistan in January 2000 and worked as a senior project manager at an off-shore software project development company for four years. Atif considers the importance of software programming as well as technology in general in our lives and therefore is an ardent proponent of including computer programming in the curriculum from a very early stage in schools. Atif also likes to teach and has taught at different institutions in Pakistan. These institutions include FAST - NU, ICAP and Karachi Institute of Technology and Entrepreneurship (KITE). He is very fond of giving career advice to the youth of Pakistan and has conducted several career-counseling sessions for BBA and MBA students of various institutions as well.

Atif holds Masters and Bachelors in Computer Science degrees from the National University of Computer and Emerging Sciences FAST-NU, Karachi.



Nabeel Saeed Head of Branding & Communications

A storyteller by heart, solutions expert, Nabeel Saeed brings with him 20+ years of diversified marketing & communication experience working for a variety of prestigious companies in Cambodia, Qatar, Pakistan and USA. Serving FMCG, Real Estate, Telecom, Oil & Gas, IT industry and Banking, prior to joining Khushhali Microfinance Bank, he was heading the Marketing function at Cynosure Solutions based in the United States. From working on a prestigious Colors of Venice project in Qatar to participating in the Annual Billionaire's conference in Moscow, Nabeel has had the pleasure of working with multi-cultural societies and working with people from across the globe and partnered relationships for life.

He holds a Bachelor (Hons.) & Master degree in Business Administration from Hamdard Institute of Management Sciences, Hamdard University, Karachi.



Daniyal Haq Awan Chief Internal Auditor

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



Muhammad Aftab Alam Head of Distribution

Mr. Aftab is a retail banking professional. He has over 17 years' progressive experience with Pakistan's leading microfinance and non-bank MF institutions. He possesses extensive hands-on experience in different management positions. In these positions, he has demonstrated his expertise to lead and manage Microfinance, SME lending, deposits value streams. He excels in business planning, product management, people management and growing distribution networks.

In his present role, he is leading the sales and distribution network of Pakistan's largest microfinance bank - a role in which he led the bank's efforts to provide best-in-class financial services to the 'bottom-of-the-pyramid' segment as well as MSMEs of the country. He is responsible for developing and execution of banks sales & distribution strategy to drive profitable growth and that these are successfully communicated, inculcated and implemented across the organization.

Mr. Alam serves as an active member of a number of SBP committees and subcommittees on financial inclusion, microfinance, SME, Agriculture and Housing. He has attended the Boulder Microfinance program (Turin, Italy) and Frankfurt School of Business and Finance (Frankfurt, Germany).

Mr. Aftab has a degree in Business Administration – Finance.



Ibrahim Sajid Head of Products

Mr. Sajid brings in a wealth of experience and knowledge of Business and Consumer Market Segments, Product Planning and Design, Pricing, Strategy for Marketing and Sales Channels, Business Analysis, Customer Centricity, Business Process Improvement & Optimization. Prior to joining us, he has held various key roles in the E-commerce and Telecom sectors across Pakistan and companies such as Daraz.pk, where he worked as the Head of Production (visuals and content), Telenor Pakistan as Head of Mobile Agriculture, Jazz and Zong CMPak, to name a few. In addition, he was also associated with the National College of Arts (NCA) Lahore, in the capacity of Assistant Professor of Photography and Visual Aesthetics. Mr. Sajid holds a Master's Degree in Photography and Design from Elisava School of Design & Engineering, Barcelona, Spain and an executive MBA from IBM, UET Lahore, Pakistan.



PRESIDENT & CEO REVIEW 2019

Economy

The year 2019 was a challenging one with declining GDP growth rates, rising inflation and the widening twin deficits, but the Government of Pakistan was successful in reaching an agreement with IMF on a deep rooted economic reform program for stabilization that will lead to a gradual return to growth in the later years. The stabilization program includes implementation of the market-based exchange rate, effective monetary management, import contraction, export friendly environment, avoidance of deficit monetization & a social protection program to protect the most vulnerable segments of the population. The impact of these measures is visible in the form of continuous decline in deficits, particularly the current account deficit that also benefited by import compression. On the other side, increased inflationary pressure due to tight monetary management, depleting purchasing powers were disconcerting factors impairing business growth. This resulted in a drop of overall GDP growth to less than 3 percent, which is the lowest in the last 5 years. Even so, it is important to continue to address the chronic vulnerabilities and structural weaknesses of the Pakistan economy and to put it on a sustainable growth trajectory.

Microfinance Sector Review

The Microfinance sector was exceptionally challenged in terms of deteriorating portfolio quality and keeping up with the fast-changing compliance environment. Loan portfolio was badly impaired due to economic slowdown, challenges to agriculture sector due to unusual weather conditions across country and crops, non-availability of the private credit bureau, lack of responsible lending by some Microfinance Institutions to the individual borrowers in the same family without consideration for their repayment capacity and staff poaching resulting in portfolio concentration and client over indebtedness which led to the high level of loan losses. Resultantly, microfinance sector profitability plunged drastically during the year and is likely to impact next year's performance as well.

Khushhali MF Bank Performance

Despite sector challenges during 2019, the Bank remained fairly resilient and demonstrated its ability to progress even in an uncertain environment with strong growth in both asset & liability portfolios; extended footprint, improved customer service offering that positively impact long-term value proposition. The business strategy of the bank focused on sustainable growth with corrective measures to improve credit quality and capital efficient investments, delivering core revenue growth during the year:

Key highlights of the year include:

- Industry leadership in loans, deposit, revenue, profits and clients.
- Institute of Banker's Pakistan Award for the "The Best Microfinance Bank in Pakistan" for the second year in running at the fourth Pakistan Banking Awards 2019
- Transition to a new core banking platform Temenos T-24 that sets the foundation for our digital Journey and the successful Implementation of the TPS Multi-Channel Payment Platform and 24/7 customer contact center . This provides us with enhanced operational capability to offer new products and services like mobile and internet banking as well as host of other features for an improved customer experience.
- Fostering alliances with strategic partners like International Finance Corporation (member of World Bank Group) for digitization in the bank as well as streamlining further the lending and scoring processes to expand our market position, efficiency, enhance deposit mix and engage in new product offerings and innovations.
- Strengthening of capital base with the injection of Tier II capital to position ourselves for future growth
- Renewal of our Smart Campaign Certification for client protection

Future Outlook

The Microfinance sector outlook remains positive, on the back of opportunities enabled by the active pursuit of financial inclusion to millions of untapped customers across Pakistan. For that reason, Khushhali MF bank will pursue inclusion as one of its strategic objectives to promote inclusive economic growth in the country.

The stated vision for financial inclusion in Pakistan is to improve the access and usage of quality financial services amongst the lower segment of the population with dignity and fairness. However, credit impairment will remain a challenge for some

time due to a difficult macro- economic environment, but I am confident of our ability to rise and meet them.

In spite of a challenging year in 2019, I believe our team has the experience of handling difficult situations in the past & given the longstanding relationship of trust and credibility with our clients we would be able to steer them out of this situation and restore our performance to historical levels. We must be more vigilant and strengthen our control environment by pro-active risk management and compliance.

I am confident that we will continue on our journey of innovation for improved service delivery & enhanced customer experience. The unbanked markets in the country offer tremendous opportunity and the clients we serve truly deserving in terms access to financial services so that they can leverage their skill and enterprise for their well- being and that of their families for a positive economic and social Impact.

I am confident that the collective efforts and commitment that we have invested in establishing the foundations of Khushhali will take it from strength to strength with each passing year Inshallah.

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



M. Ghalib Nishtar

President/Chief Executive

FINANCIAL HIGHLIGHTS 2019

Financial Position		2019	2018	Change
Assets				
Cash and balance with SBP/Banks/MFBs	PKR M	7,107	9,291	-24%
Lending to financial institutions	PKR M	450	1,838	-76%
Invesments	PKR M	10,112	8,916	13%
Advances - net of provisions	PKR M	53,541	43,374	23%
Operating fixed assets	PKR M	3,612	1,354	167%
Other assets	PKR M	6,671	5,700	17%
Total Assests	PKR M	81,493	70,472	16%
Liabilities				
Deposits	PKR M	(63,882)	(56,018)	14%
Borrowings	PKR M	(1,326)	(2,965)	-55%
Subordinated debt		(2,400)	(1,000)	140%
Other liabilities	PKR M	(4,486)	(2,290)	96%
Total liabilities	PKR M	(72,094)	(62,273)	16%
Net Assets	PKR M	9,399	8,199	15%
Shareholders Funds				
Share capital	PKR M	1,705	1,705	0%
Statutory reserve	PKR M	1,809	1,717	5%
Unappropriated Profit	PKR M	5,885	4,776	23%
Deferred grants etc	PKR M	(1)	1	-160%
Total Shareholders Funds	PKR M	9,399	8,199	15%
Profit & Loss				
Markup/return/interest earned	PKR M	15,259	11,926	28%
Markup/return/interest expensed	PKR M	(6, 799)	(4,590)	48%
Net Mark-up/interest income	PKR M	8,460	7,336	15%
Fee, commission and brokerage income	PKR M	1,887	1,524	24%
Other income	PKR M	22	7	201%
Total non mark-up/non interest income	PKR M	1,909	1,531	25%
Operating expenses	PKR M	(5,653)	(4,720)	20%
Net provision against-non performing assets	PKR M	(2,197)	(676)	255%
Profit before tax	PKR M	2,518	3,470	-27%
Taxation	PKR M	(682)	(1,012)	-33%
Profit after tax	PKR M	1,836	2,459	-25%
Ratios				
Return on equity	%	17.5%	31.8%	-45%
Return on assets	%	2.0%	3.6%	-44%

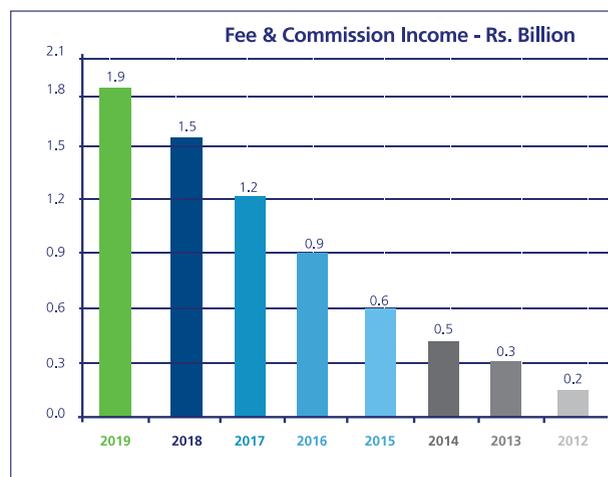
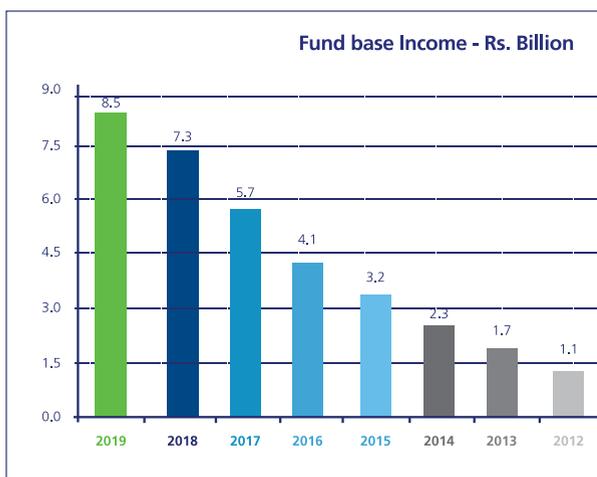
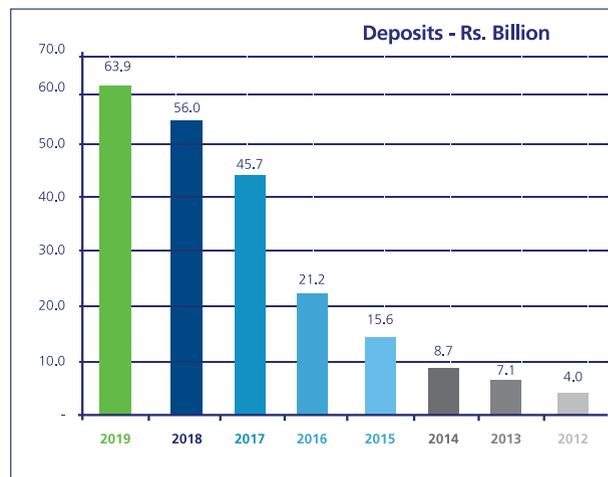
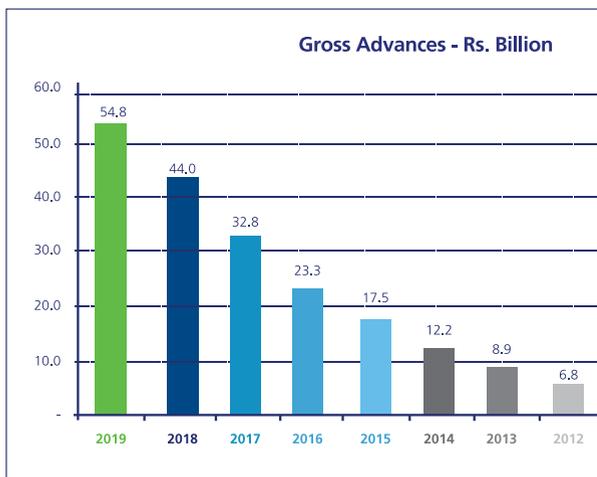
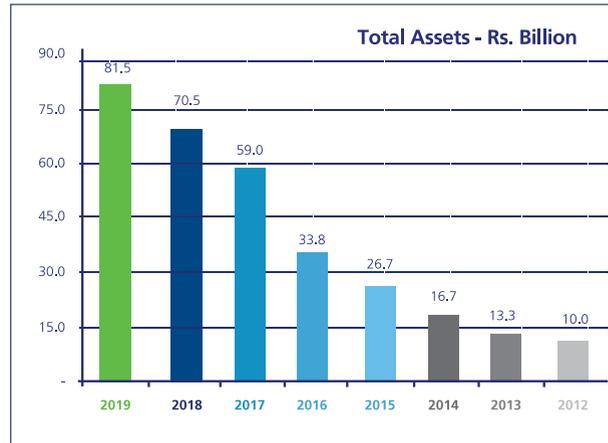
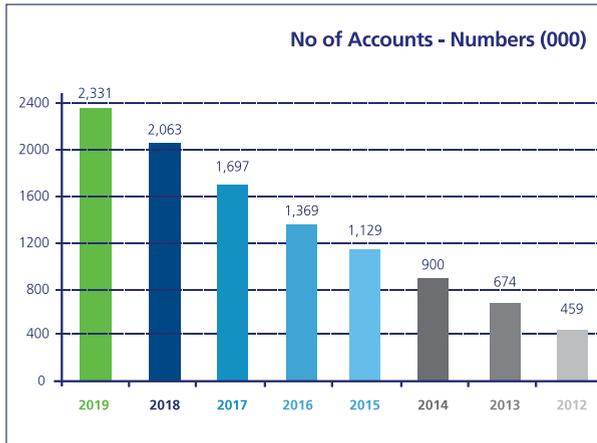
EIGHT YEAR STATISTICS

		2019	2018	2017	2016	2015	2014	2013	2012
OUTREACH									
No of accounts	No	2,331,006	2,062,989	1,697,247	1,369,007	1,128,901	900,081	674,061	458,612
Active borrowers	No	871,228	784,480	671,015	556,787	520,517	468,369	409,010	364,138
No of branches/units	No	226	197	173	141	129	118	110	106
ASSETS									
Advances - Net	Rs M	53,541	43,374	32,216	22,940	17,247	12,106	8,757	5,717
Investments	Rs M	10,562	10,754	16,773	2,968	1,848	837	1,039	1,044
Cash/bank deposits/bal with SBP	Rs M	7,107	9,290	4,538	4,232	4,329	1,472	1,872	1,865
Operating fixed assets	Rs M	3,612	1,354	1,142	720	549	323	275	313
Other assets	Rs M	6,671	5,700	4,768	2,914	2,724	1,955	1,347	1,015
Total assets	Rs M	81,493	70,472	58,961	33,774	26,696	16,692	13,290	9,954
Non-performing loans	Rs M	1,983	512	324	347	338	113	70	64
Provision for non-performing loans	Rs M	2,259	721	598	369	220	132	103	89
LIABILITIES									
Deposits	Rs M	63,882	56,018	45,747	21,179	15,584	8,682	7,133	4,041
Borrowings	Rs M	1,326	2,965	4,783	6,200	5,890	3,730	2,746	3,010
Subordinated Debt	Rs M	2,400	1,000						
Other liabilities	Rs M	4,486	2,291	2,076	1,457	1,288	995	658	430
Total liabilities		72,094	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	1,705
Reserves	Rs M	1,809	1,717	1,226	865	611	446	305	241
Unappropriated profit	Rs M	5,885	4,776	3,424	2,367	1,618	1,134	739	526
Total shareholders funds	Rs M	9,399	8,198	6,354	4,937	3,934	3,285	2,752	2,473
PROFITABILITY									
Interest income	Rs M	15,259	11,926	8,741	5,926	4,407	3,129	2,278	1,499
Interest expense	Rs M	6,799	4,590	2,996	1,807	1,219	810	615	353
Net interest income	Rs M	8,460	7,336	5,745	4,119	3,187	2,320	1,663	1,146
Provisions/Written offs	Rs M	2,197	676	615	601	341	163	175	287
Fee & commission income	Rs M	1,887	1,524	1,226	940	640	478	325	246
Other income	Rs M	22	7	5	87	35	217	259	340
Operating expenses	Rs M	5,653	4,720	3,872	2,766	2,340	1,910	1,534	1,324
Profit before tax	Rs M	2,519	3,471	2,489	1,779	1,182	942	538	120
Taxation	Rs M	683	1,012	688	506	358	239	175	(48)
Profit after tax	Rs M	1,836	2,459	1,801	1,273	824	703	363	168
PROFITABILITY RATIOS									
Return on Assets (ROA)	%	2.0%	3.6%	3.4%	3.4%	3.4%	3.7%	1.8%	-0.5%
Return on Equity (ROE)	%	17.5%	31.8%	28.2%	23.4%	20.2%	18.5%	8.0%	-2.0%
Operating Self Sufficiency (OSS)	%	115.8%	132.7%	130.6%	129.2%	127.8%	126.7%	114.8%	97.9%
Financial Self Sufficiency (FSS)	%	116.0%	133.0%	130.0%	128.0%	126.0%	123.0%	107.8%	79.7%
EFFICIENCY/PRODUCTIVITY RATIOS									
Operating expense ratio	%	11.7%	12.6%	14.3%	14.2%	16.6%	18.1%	21.0%	26.3%
Personnel productivity	Rs	162	170	171	170	170	179	178	154
Loan officer productivity	Rs	356	378	377	399	426	518	578	517
Average outstanding loan size	Rs	61,531	55,401	48,322	41,548	33,408	26,102	21,617	15,943
PORTFOLIO QUALITY RATIOS									
Portfolio at Risk > 30	%	3.7%	1.2%	1.0%	1.5%	1.9%	0.9%	0.8%	1.1%
Portfolio at Risk > 90	%	2.5%	0.8%	0.7%	0.8%	0.5%	0.3%	0.3%	0.4%
Write off ratio	%	3.5%	1.7%	1.7%	2.6%	1.3%	1.2%	2.1%	6.0%
Risk coverage ratio	%	63.4%	140.8%	184.4%	106.4%	65.2%	77.9%	103.5%	84.7%

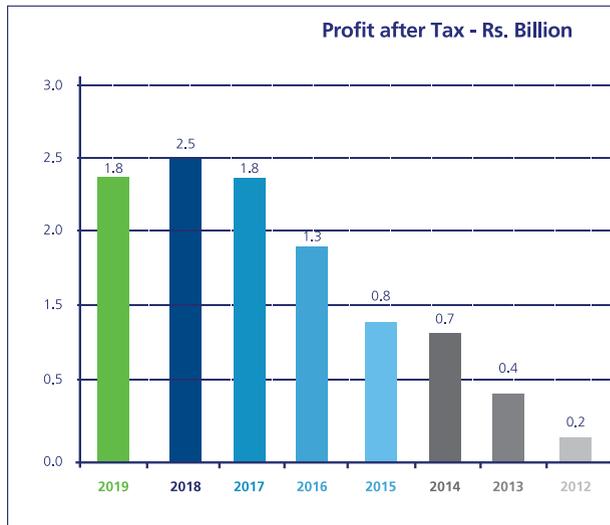
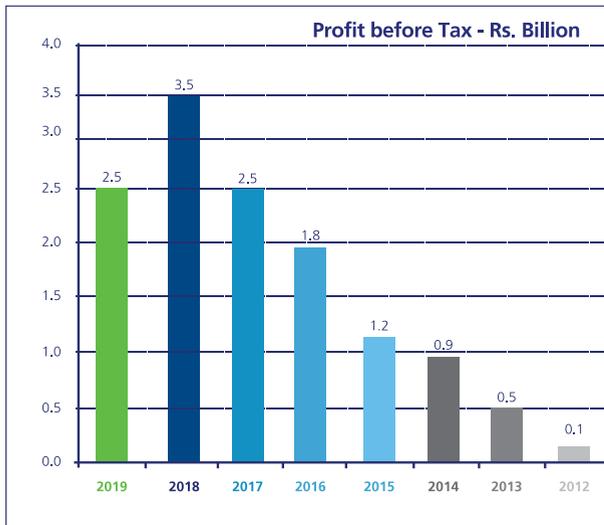
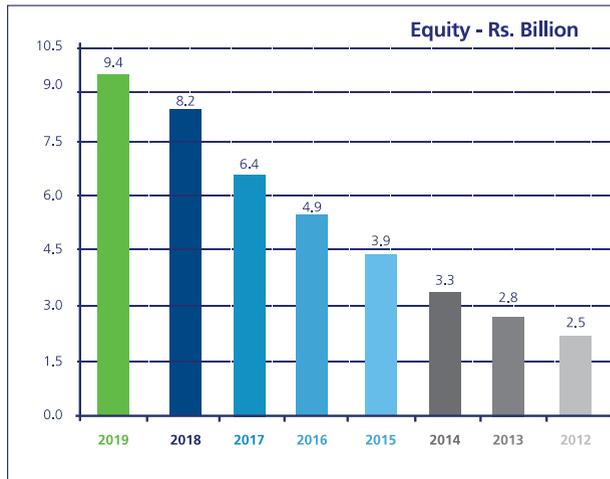
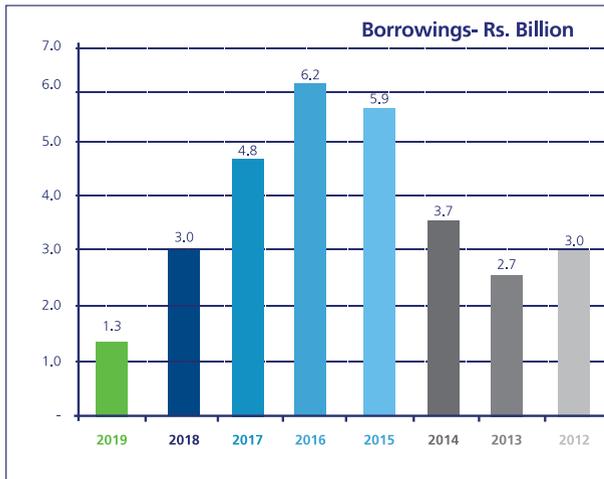
*ROA calculated as per CGAP Guideline: Net operating Income less taxes divided by average assets.

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

FINANCIAL REVIEW (2012-2019)



FINANCIAL REVIEW (2012-2019)





DIRECTORS
REPORT
2019

Directors' Report to the Shareholders: 2019

On behalf of the Board of Directors, I am pleased to present audited financial statements for the financial year ended 31 December 2019.

Economic Developments

Pakistan's economy experienced a slowdown year, the economic challenges intensified during the year. Strong underlying inflationary pressures, unusual weather conditions, rupees devaluation and cuts in the expenditure budget created pressure on economic activity. Monetary policy shifted gears with a cumulative increase of 750 basis points in the policy rate since January 2018.

The stabilization measures implemented during the recent period by the Government are taking shape as key monthly indicators are showing visible signs of improvement. The current account deficit is narrowing and an increase in financial inflows is contributing to reduced pressure on external accounts. On the other hand, recent inflation numbers have been on the high side and there remain near term risks to inflation primarily from food price shocks and potential increases in utility prices. However, several factors are expected to gradually moderate the pressure on inflation. These include the recent appreciation of the exchange rate after the introduction of the market-based exchange rate and ongoing fiscal consolidation. These developments indicate that the key factors have been identified and plans are in place to manage priorities. As the domestic demand decelerates, it appears that the economy will continue to move along a macroeconomic adjustment path for some time.

Microfinance Industry Performance

During 2019, the microfinance industry is undergoing a stressful situation in terms of its portfolio quality as a result of several factors. These include the effect of high overall growth rates of around 40% p.a. over the past five years and geographic concentration of growth in certain areas. In addition, imprudent lending practices of some institutions which have quickly expanded without sufficient internal capacity have led to increased incidence of client over-indebtedness. The impact of portfolio quality impairment is reflected in the yearly financial results of the entire sector. The industry is experiencing high portfolio at risk (PAR30+) and write off ratios of up to 16% and 11% respectively. This has financially impacted individual institutions in varying degrees. While KMBL has the largest total exposure, we have taken measures to successfully contain the situation to a large extent.

In spite of multiple challenges, the performance of the Bank's core business remains on a growth trajectory, with leading market shares in terms of loans outstanding, deposits, total assets and profit.

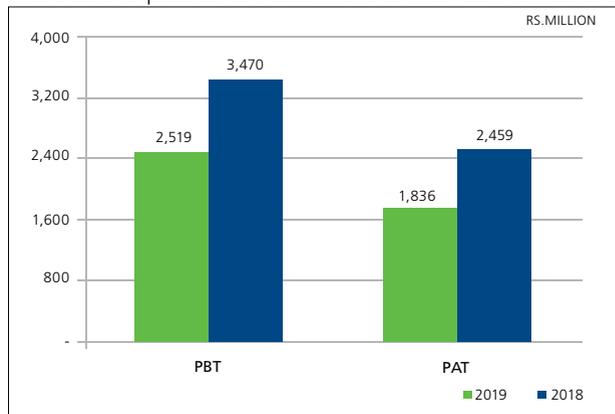
Financial Highlights

The Bank has posted profit before tax of Rs 2.52 billion (2018: Rs 3.47 billion), a reduction of 27% year-on-year (YOY) and

profit after tax of Rs 1.84 billion (2018: Rs 2.46 billion), a reduction of 25%.

Earnings per share closed at Rs 8.62 for the year in comparison to Rs 11.54 per share last year. However, break-up value per share increased to Rs 55.13 (2018: Rs 48.09 per share), an increase of 15%. The return on equity was reduced from 31.8% to 17.5% and return on average assets from 3.6% to 2.0% YOY.

The Board is pleased to recommend a final cash dividend of



Rs 1.50 per share (2018: Rs 1.50 per share) i.e., 13.9 % of PAT for the year ended December 31, 2019 (2018: 10.4% of PAT).

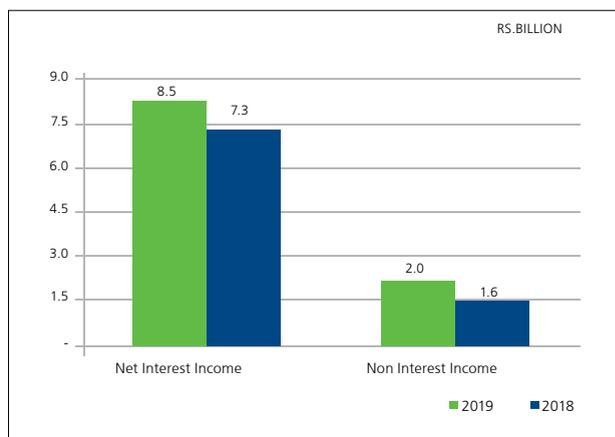
Financial Performance

Net Markup Income:

Net Markup Income increased by 15%, closing at Rs 8.46 billion (2018: Rs 7.34 billion). Higher yield on earning assets due to re-pricing of certain segment of the loan portfolio and rollover of investments at maturity at higher rates resulted in the interest margin increasing to 14.4% against 13.7% of last year. The Bank's overall cost of fund increased by 240 bps to 10.7% in 2019 (2018: 8.3%) due to an increase of 325 bps in policy rate during the year.

Non-Markup Income:

Non-markup income comprising of fees, commissions and other income increased by 20%, closing at Rs 1.97 billion in 2019



(2018: Rs 1.64 billion). Fee and commission income increased from Rs 1.52 billion to Rs 1.89 billion, an increase of 24%, mainly due to the growth in loan portfolio. Other income decreased to Rs 86.59 million from Rs 114.84 million due to decrease in recoveries against written off advances.

Provision and Loan Losses:

A key portfolio quality indicator, PAR 30+%, has been recorded at 3.70% (2018: 1.18%) and annual loss rate stood at 3.48% (2018: 1.70%). The key reasons for portfolio quality impairment include geographic concentration, higher incidence of client over-indebtedness caused by imprudent lending practices by some institutions for the pursuance of high growth, suspension of the private credit bureau for nearly three years impairing credit underwriting quality, crop crises resulting from back to back natural disasters (hailstorm/excessive rains), and weak commodities prices impacting repayment capacity of the borrowers. The combined effect of the aforesaid factors led to the increase in provision charge on the classified loan portfolio to Rs 2,259 million (2018: Rs 778 million), an increase of Rs 1,481 million.

Cost Management:

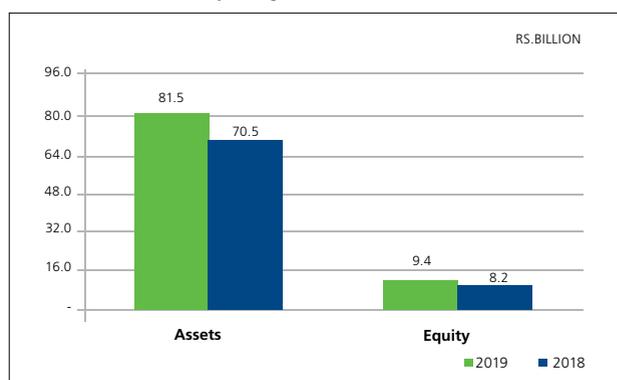
The administrative expenses increased by 20% from Rs 4.71 billion in 2018 to Rs 5.64 billion in 2019 which is largely attributed to the direct cost associated with the addition of 29 new branches, business expansion, and start up effects of the adoption of IFRS 16 (accounting for leases). In spite of a double digit inflation rate, rupee devaluation, and the increase in the number of branches, the ratio of administrative expenses to gross loan portfolio improved by 0.9% and closed at 11.7% (2018: 12.6%). However, the cost to income ratio of 55.9% marginally increased from 54.5% of last year.

The main contributor to the increase in operating expenses was employee related costs, which increased by Rs 432 million due to the net increase in headcount of 762 staff members for new branches and expansion of existing operations for business growth. Other administrative overheads increased by Rs 498 million, primarily due to first time IFRS 16 implementation effect of Rs 214 million and with the remaining Rs 284 million relating to the addition of twenty five new branches and the conversion to branches of four service centers/post office booths, refurbishment cost of existing branches for MSME operations, the variable cost of insurance coverage - bio-metric verification - stationery and printing and increase in the overall depreciation/amortization cost due to implementation of core banking application during the year.

Assets & Equity:

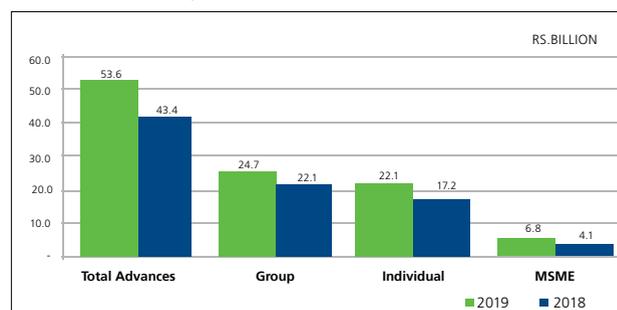
Total assets increased by Rs 11.02 billion and reached at Rs 81.49 billion from Rs 70.47 billion last year, reflecting growth of 16% YOY. On the other hand, the equity of the Bank increased by Rs 1.20 billion and closed at Rs 9.40 billion from

Rs 8.20 billion of last year, growth of 15% YOY.



Loan Portfolio:

Bank's loan portfolio grew by 24% and crossed the Rs 50 billion mark to close at Rs 53.61 billion (2018: Rs 43.46 billion). The growth in the portfolio was mainly contributed by General loans - Individual and MSME loans to clients in the agricultural, livestock and entrepreneur sectors.



The group loan portfolio increased to Rs 24.7 billion from Rs 22.1 billion of last year, an increase of 12%, and its share in total portfolio dropped by 5% compared to last year. The Individual loan portfolio increased to Rs 22.1 billion from Rs 17.2 billion of last year, an increase of 28%, and its share in the total portfolio improved by 1%. The Micro Small and Medium Enterprise (MSME) portfolio closed at Rs 6.8 billion from Rs 4.1 billion of last year, registering an increase of 66% YOY with the improved share of 4%.

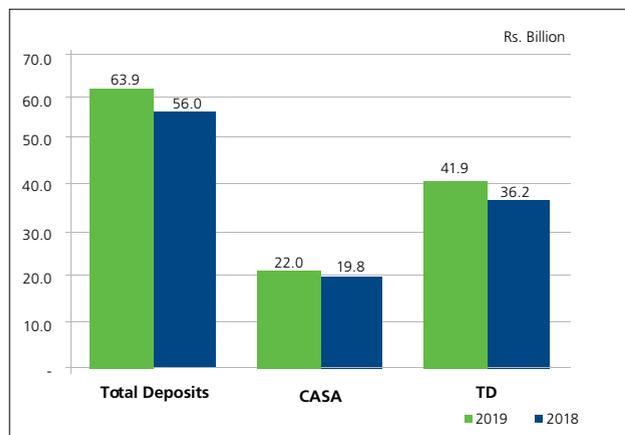
Products	2019		2018		YOY Growth	
	Rs Billion	Mix - %	Rs Billion	Mix - %	Rs Billion	%
Group loans	24.7	46%	22.1	51%	2.6	12%
Individual loans	22.1	41%	17.2	40%	4.9	28%
MSME loans	6.8	13%	4.1	9%	2.7	66%
Total	53.6	100%	43.4	100%	10.2	24%

Deposits:

The Bank continues to fund business expansion from its deposit base and increased deposits to Rs 63.88 billion from Rs 56.02 billion of last year which translates into a net addition of Rs 7.86 billion, corresponding to a growth of 14%.

Saving deposits increased from Rs 11.95 billion to Rs 14.16

billion, an increase of 19%, Term deposits increased from Rs 36.2 billion to Rs 41.89 billion an increase of 16%, while current deposit remains at Rs 7.83 billion against Rs 7.86 billion of last year.



The results of operations under review are presented below;

	2019 Rs.'000	2018 Rs.'000
Profit after Tax	1,836,169	2,458,786
Re-measurement loss employment benefit obligation	(12,471)	(32,427)
Un-appropriated profit brought forward	4,776,212	3,423,732
Profit available for appropriation	6,599,910	5,850,091
APPROPRIATIONS:		
Transfer to:		
Statutory reserve	91,808	491,757
Microfinance Social Development Fund	183,617	245,879
Depositors' Protection Fund	91,808	122,939
Risk Mitigation Fund	91,808	122,939
Final Dividend 2018 : Rs 1.50 per share (Rs 0.53 per share)	255,750	90,365
	714,792	1,073,879
Un-appropriated Profit Carried Forward	5,885,119	4,776,212

Capital Adequacy Ratio

As of December 31, 2019, the Bank's capital adequacy ratio (CAR) is measured at 19.2% against 18.9% of 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 (2018: Rs 1.50 per share) for the year ended December 31, 2019.

Credit Rating

The credit rating company JCR-VIS has maintained the Bank's 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

Khushhali Microfinance Bank is the largest Microfinance Bank of Pakistan and was awarded 'Best Microfinance Bank' for the second year in a row at the fourth Pakistan Banking Awards 2019

organized by the Institute of Bankers of Pakistan on account of 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 the 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 director 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

During the year, the board reconstituted the board committees in its 63rd board meeting held on February 15, 2019 with the following board members composition:

Committee Name	Chair	Member	Member	Member
BAC	Ms Aatiqa Lateef	Mr Henning Haugerudbraten	Mr Sharjeel Shahid	-
BHRCC	Mr Robert Binyon	Ms Aatiqa Lateef	Mr Humayun Bashir	-
BRMC	Mr Pieter Kooi	Mr Humayun Bashir	Mr Geert Peetermans	Mr Robert Binyon
SEC	Mr Geert Peetermans	Mr Pieter Kooi	Mr Henning Haugerudbraten	-
BDFC	Mr Humayun Bashir	Mr Henning Haugerudbraten	Mr Sharjeel Shahid	-

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

SR No	Name of member	Designation and name of committee	BAC	BHRCC	BRMC	SEC	BDFC
Meetings Held			4	4	4	2	4
Meetings Attend							
1	^Mr Robert Binyon	Chair BHRCC, Member BRMC, SEC	-	4	3	1	-
2	^Mr Geert Peetermans *	Chair SEC, Member BAC, BRMC & BDFC	1	-	3	1	1
3	^Ms Aatiqa Lateef **	Chair BAC, Member BHRCC & SEC	3	3	-	1	-
4	^Mr. Peter Kooi	Chair BRMC, Member BDFC	1	-	4	2	1
5	Mr Sharjeel Shahid	Member BAC & BDFC	3	-	-	-	3
6	Mr Henning Haugerudbraaten	Acting Chair SEC, Member BAC, BDFC	3			1	3
7	Mr Humayun Bashir	Chair BDFC & Member BRMC & BHRCC	-	3	3	-	3
8	^Mr Ghalib Nishtar	Chair BDFC & Member SEC	-	-	-	1	-

^ The composition of the board committee has been changed in 63rd board meeting held on February 15, 2019.

*Mr Geert Peetermans took leave of absence for the 28th BRMC and 13th SEC meetings, which were held on August 22, 2019 & August 23, 2019 respectively.

** Ms. Aatiqa Lateef took leave of absence for the 44th BAC, and 27th BHRCC meetings, which were held on August 22, 2019 & August 23, 2019 respectively.

Meetings of the Board

The Board meets on a quarterly basis, and the meeting dates are scheduled well in advance to enable the Directors to plan ahead. When required, the Board will meet on an ad hoc basis to consider urgent matters.

Details of attendance of each Director at Board meetings held during the year 2019 are set out in the table below:

Name of Director	Designation	Meeting Attended	Eligibility
Mr Aameer Karachiwalla	Chairman	4	4
Mr Geert Peetermans *	Director	3	4
Mr Peter Kooi	Director	4	4
Mr Robert Binyon	Director	4	4
Ms Aatiqa Lateef *	Director	3	4
^Mr Sharjeel Shahid	Director	3	4
Mr Henning Haugerudbraaten **	Director	3	4
Mr Humayun Bashir	Director	4	4
Mr Ghalib Nishtar	President and CEO	4	4

^ Mr Sharjeel Shahid took charge as board member in the 64th BOD meeting held on June 12, 2019.

*Ms Aatiqa Lateef and Mr Geert Peetermans took leave of absence for the 65th BOD meeting held on August 23, 2019.

** Mr Henning Haugerudbraaten took leave of absence for the 63rd BOD meeting held on February 15, 2019.

Change in Directors

Mr Peter Kooi and Ms Aatiqa Lateef resigned from the board of directors on November 15, 2019 and December 09, 2019 respectively. On behalf of the Board of Directors, we wish to place on record our sincerest appreciation for the contributions made during their tenures as board members.

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, 2019, 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, 2019 is as follows;

SHAREHOLDING

No of shareholders	From	To	Total shares-No
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

*formerly responsAbility Micro and SME Finance Fund and before that responsAbility Global Microfinance Fund, represented by MultiConcept Fund Management S.A (formerly responsAbility Management Company S.A and before that Credit Suisse Microfinance Fund Management Company).

AUDITORS

The present auditors, M/s Ernst & Young Ford Rhodes, Chartered Accountants have completed their assignment for the year ended December 31, 2019. Being eligible, they have offered themselves for reappointment. As advised by the Board's Audit Committee, the Board recommends appointment of M/s Ernst & Young Ford Rhodes, Chartered Accountants, as auditors for the year ending December 31, 2020.

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 the successful delivery of our promise to our stakeholders.

For and on behalf of the board,



Chairman

Place: Islamabad

Dated: February 28, 2020

Independent Auditors' Report

To the members of Khushhali Microfinance Bank Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the annexed financial statements of Khushhali Microfinance Bank Limited (the Bank), which comprise the balance sheet as at 31 December 2019 and the profit and loss account, the statement of other comprehensive income, the statement of changes in equity and the cash flow statement for the year 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 Companies Act, 2017(XIX of 2017), provisions of and directives issued under the Microfinance Institutions Ordinance, 2001 and directives issued by the State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP) in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at 31 December 2019 and of the profit, the other comprehensive income, 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 Directors' 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 will 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 identified, 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 the Companies Act, 2017 (XIX of 2017), provisions of and directives issued under the Microfinance Institutions Ordinance, 2001 and directives issued by the State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP) 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 other 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) no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Other Matter

The financial statements of the Bank for the year ended 31 December 2018 were audited by another firm of chartered accountants who expressed an unmodified opinion thereon in the audit report dated 15 February 2019.

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



EY Ford Rhodes
Chartered Accountants
Islamabad, Pakistan

Date: 13 March 2020

Khushhali Microfinance Bank Limited
Balance Sheet as at December 31, 2019

ASSETS	Note	2019 Rs.'000	2018 Rs.'000
Cash and balances with SBP and NBP	7	2,926,228	1,792,737
Balances with other Banks/ NBFIs/ MFBs	8	4,181,130	7,498,358
Lending to financial institutions	9	450,000	1,837,749
Investments	10	10,111,744	8,915,710
Advances - net of provisions	11	53,541,152	43,500,532
Operating fixed assets	12	3,612,304	1,353,528
Other assets	13	6,275,454	5,311,313
Deferred tax asset	14	395,116	262,025
Total Assets		81,493,128	70,471,952
LIABILITIES			
Deposits	15	63,882,349	56,017,988
Borrowings	16	1,326,021	2,964,872
Subordinated debt	17	2,400,000	1,000,000
Other liabilities	18	4,486,108	2,289,642
Total Liabilities		72,094,478	62,272,502
Net Assets		9,398,650	8,199,450
REPRESENTED BY:			
Share capital	19	1,705,000	1,705,000
Statutory reserve	6.12	1,784,843	1,693,035
Capital reserve	6.13	24,255	24,255
Unappropriated profit		5,885,119	4,776,212
		9,399,217	8,198,502
Surplus/(deficit) on revaluation of assets	20	(567)	(235)
Deferred grants	21	-	1,183
Total Capital		9,398,650	8,199,450
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

Khushhali Microfinance Bank Limited

Profit And Loss Account for the year ended December 31, 2019

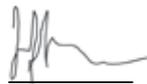
	Note	2019 Rs.'000	2018 Rs.'000
Mark-up/ return/ interest earned	23	15,258,718	11,926,025
Mark-up/ return/ interest expensed	24	6,799,214	4,590,105
Net mark-up/ interest income		8,459,504	7,335,920
Provision against non-performing loans and advances	11.5	2,255,045	738,738
Bad debts written off directly	11.6	4,338	39,492
Net mark-up/ interest income after provisions		6,200,121	6,557,690
NON MARK-UP/ NON INTEREST INCOME			
Fee, commission and brokerage income	25	1,886,864	1,523,716
Other income	26	86,593	114,835
Total non mark-up/ non interest income		1,973,457	1,638,551
NON MARK-UP/ NON INTEREST EXPENSES			
Administrative expenses	27	5,635,527	4,706,553
Other provisions	13	1,692	5,452
Other charges	28	17,852	13,911
Total non-mark-up/ non interest expense		5,655,071	4,725,916
PROFIT BEFORE TAXATION			
		2,518,507	3,470,325
TAXATION			
Current	29	807,813	961,759
Prior year	29	-	72,022
Deferred	29	(125,475)	(22,242)
		682,338	1,011,539
		1,836,169	2,458,786
PROFIT AFTER TAXATION			
Unappropriated profit brought forward		4,776,212	3,423,732
Other comprehensive loss transferred to equity		(12,471)	(32,427)
Profit available for appropriation		6,599,910	5,850,091
APPROPRIATIONS:			
Transfer to:			
Statutory reserve	6.12	91,808	491,757
Microfinance Social Development Fund	6.14	183,617	245,879
Depositors' Protection Fund	6.14	91,808	122,939
Risk Mitigation Fund	6.14	91,808	122,939
Final dividend 2018 : Rs 1.50 per share (2017: Rs. 0.53 per share)	45	255,750	90,365
		714,791	1,073,879
UNAPPROPRIATED PROFIT CARRIED FORWARD			
		5,885,119	4,776,212
EARNINGS PER SHARE - BASIC AND DILUTED			
	34	8.62	11.54

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


PRESIDENT


CHAIRMAN


DIRECTOR


DIRECTOR

Khushhali Microfinance Bank Limited

Statement of Comprehensive Income for the year ended December 31, 2019

	Note	2019 Rs.'000	2018 Rs.'000
Profit after taxation		1,836,169	2,458,786
Other comprehensive income			
Items that will not be reclassified subsequently to profit and loss:			
Remeasurement loss on post employment benefit obligation		(19,948)	(41,493)
Deferred tax relating to remeasurement loss on post employment benefit obligation	14.1	7,477	9,066
Other comprehensive loss transferred to equity		(12,471)	(32,427)
Items that may be subsequently reclassified to profit and loss:			
Deficit on revaluation of investments - AFS	10.4	(798)	(327)
Transfer to profit and loss on disposal of available for sale investments		327	151
Deferred tax asset/(liability) on (deficit)/surplus on revaluation of investments - AFS	14.1	139	47
		(332)	(129)
Total comprehensive income		<u>1,823,366</u>	<u>2,426,230</u>

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



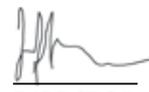
PRESIDENT



CHAIRMAN



DIRECTOR



DIRECTOR

Khushhali Microfinance Bank Limited

Cash Flow Statement for the year ended December 31, 2019

	Note	2019 Rs.'000	2018 Rs.'000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		2,518,507	3,470,325
Adjustments for:			
Depreciation and amortization		392,965	282,112
Depreciation on right of use assets		340,950	-
Amortization of deferred grant		(1,183)	(432)
Provision against non-performing advances		2,255,045	738,738
Gain on disposal of operating fixed assets		(18,351)	(242)
Mark-up on advances		(13,497,141)	(10,726,078)
Interest income on investments and deposit accounts		(1,761,577)	(1,199,947)
Interest expense on borrowings and deposits		6,434,397	4,518,180
Interest expense on subordinated debt		135,781	71,925
Interest expense on lease liability		229,036	-
Provision against other assets		1,692	5,452
Charge for defined benefit plan		127,076	100,123
		(5,361,310)	(6,210,169)
Loss before changes in operating assets/liabilities Increase) / decrease in operating assets		(2,842,803)	(2,739,844)
Advances		(12,295,665)	(11,897,046)
Other assets		171,445	141,422
		(12,124,220)	(11,755,624)
Increase / (decrease) in operating liabilities			
Deposits		7,864,361	10,271,127
Other liabilities		(409,577)	(515,513)
		7,454,784	9,755,614
Net cash used in operation		(7,512,239)	(4,739,854)
Mark-up received on advances		12,351,308	9,606,668
Interest received on investments and deposit accounts		1,608,630	1,272,380
Interest paid on borrowings, deposits and subordinated debt		(6,194,481)	(4,470,726)
Contributions to defined benefit plan		(74,305)	(193,510)
Income taxes paid		(976,052)	(925,696)
		6,715,100	5,289,116
Net cash (used in)/generated from operating activities		(797,139)	549,262
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in AFS/HFT/HTM securities		(1,196,505)	7,381,700
Purchase of operating fixed assets		(838,855)	(502,883)
Sale proceeds against disposal of operating fixed assets		23,108	9,082
Net cash (used in)/generated from investing activities		(2,012,252)	6,887,899
CASH FLOW FROM FINANCING ACTIVITIES			
Dividend paid		(167,448)	(28,423)
Payment of lease liability		(355,796)	-
Subordinated debt		1,400,000	1,000,000
Borrowings during the year - net		(1,638,851)	(1,817,809)
Net cash used in financing activities		(762,095)	(846,232)
Net (decrease)/increase in cash and cash equivalents		(3,571,486)	6,590,929
Cash and cash equivalents at beginning of the year		11,128,844	4,537,915
Cash and cash equivalents at end of the year	30	7,557,358	11,128,844

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


PRESIDENT


CHAIRMAN


DIRECTOR


DIRECTOR

Khushhali Microfinance Bank Limited

Notes to the Financial Statements for the year ended December 31, 2019

1 STATUS AND NATURE OF BUSINESS

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

In pursuance of the requirements of Improving Access of Financing Service Program (IAFSP) Agreement signed in 2008 between the Government of Pakistan (GOP) and Asian Development Bank, where by all microfinance institutions in Pakistan including KMBL were required to operate under Microfinance Institutions Ordinance, 2001. Consequently, with the approval of SBP, KMBL was incorporated as a public company with Securities and Exchange Commission of Pakistan (SECP) and Certificate of Incorporation was issued under the repealed Companies Ordinance, 1984 (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 Khushhali Bank (KB) into KMBL with effect from April 1, 2008, a microfinance institution licensed under the Microfinance Institution Ordinance, 2001. In accordance with the scheme of conversion all assets and liabilities of the KB were transferred to the Bank at their respective book values based on the audited accounts of the Bank as of March 31, 2008.

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

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

The Bank's registered office and principal place of business is situated at 5th Floor, Ufone Tower, Blue Area, Islamabad. The Bank has 186 branches, 13 service centers and 27 permanent booths in operation as at December 31, 2019 (December 31, 2018: 161 branches, 28 service centers and 8 permanent booths) 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. The Bank has also elected to present additional disclosures, refer to notes 43 and 44, by applying the definitions of selected financial terms and ratios for microfinance prescribed by the Microfinance Consensus Guidelines, issued by the Consultative Group to Assist the Poor (CGAP), in September 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).

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

The SBP, vide BPRD Circular letter No. 04, dated October 23, 2019 has deferred the applicability of International Financial Reporting Standard (IFRS - 9), "Financial Instruments" for financial Institutions till December 31, 2020. 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 Standards, interpretations and amendments that are effective in the current year

The Bank has adopted the following approved accounting standards as applicable in Pakistan which became effective during the year:

IFRS - 15: Revenue from Contracts with Customers

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

Previously, the Bank recognized revenue from loan procession fee, under IAS 18, on approval of loan application. Upon adoption of IFRS 15, the markup/ return income is now within the scope of IFRS 9 and is to be recognized by applying the effective interest rate method. In accordance with guidance available under IFRS 9, loan procession fee is an integral part of the effective interest rate of a financial instrument. As explained above, IFRS 9 is not currently applicable on the Bank. Accordingly, the Bank will continue its current revenue recognition policy for its loan processing fee, until the adoption of IFRS 9, as per BPRD Circular No. 04 dated October 23, 2019.

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

IFRS - 16: Leases

In these financial statements, the Bank has applied IFRS 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard are described below.

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 replaces previous guidelines on accounting for leases, including IAS 17: Leases, IFRIC 4: Determining whether an Arrangement contains a Lease, SIC-15: Operating Leases - Incentive, and SIC-27: Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

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

depreciation of lease assets separately from interest on lease liabilities in the income statement.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Bank is the lessor.

The Bank has adopted IFRS 16 from January 01, 2019 and applied the simplified transition approach and has not restated comparative amounts for the year prior to first adoption i.e. 2018, as permitted under the specific transitional provisions in the standard.

Based on this assessment, the Bank has recognized liabilities in respect of lease rentals which had previously been expensed as rent expenses. These liabilities were initially measured as the present value of the remaining lease payments, discounted using the incremental weighted average borrowing rate of 13.79% per annum as of January 01, 2019.

	31 December 2019 Rs.'000	1 January 2019 Rs.'000
Total lease liability recognized	(1,870,331)	(1,746,607)

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

	31 December 2019 Rs.'000	1 January 2019 Rs.'000
Right of use assets	1,817,643	1,908,109

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

Impact on Balance Sheet

Increase in fixed assets - right of use assets	1,817,643	1,908,109
Decrease in other assets - prepayments	(161,502)	(161,502)
Increase in total assets	1,656,141	1,746,607
Increase in other liabilities - lease liability against right of use assets	(1,870,331)	(1,746,607)
Decrease in current tax	62,115	-
Decrease in net assets	(152,075)	-

The Bank expects that net profit after tax will have adverse effect in initial years due to unwinding of lease liability however after some years' impact will decrease and net result will be zero. IFRS 16.49 requires a lessee to present in the Profit and Loss account the interest expense on lease liabilities separately from the depreciation charge for the right-of-use assets. The interest expense on the lease liabilities is a component of 'Mark-up/ return/ interest expensed' (Note 24). Depreciation charge on the right-of-use assets was included in the 'Administrative expenses' (Note 27).

	For the year ended 31 December 2019 (Rs. '000)
Impact on Profit and Loss account	
Increase in mark-up expense - lease liability	(229,036)
(Increase) / Decrease in administrative expenses:	
- Depreciation on right-of-use assets	(340,950)
- Rent expense	355,796
Decrease in profit before tax	(214,190)
Decrease in tax	62,115
Decrease in profit after tax	(152,075)

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

As a result of the adoption of IFRS 16, earning per share for the 12 months ended December 31, 2019 has reduced

by Rs. 0.89 per share.

The lease liabilities as at January 01, 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

Assets	(Rs. '000)
Operating lease commitments as at 31 December 2018	-
Weighted average incremental borrowing rate as at 1 January 2019	13.79%
Discounted operating lease commitments as at 1 January 2019	<u>-</u>
Less:	-
Commitments relating to short-term leases	-
Commitments relating to leases of low-value assets	-
Add:	
Lease payments relating to renewal periods not included in operating lease commitments as at 31 December 2018	<u>1,746,607</u>
Lease liabilities as at 1 January 2019	<u><u>1,746,607</u></u>

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment:

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.
- How an entity considers changes in facts and circumstances.

The Bank determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

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 adoption of these standards did not have any material impact on the Bank's financial statements.

5.2 Standards, interpretations and amendments that are not effective in the current year

a) 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)
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 & IAS 8	Presentation of Financial Statements & Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Materiality, to clarify the definition of materiality and its alignment with the definition used in the Conceptual Framework (amendments)	January 01, 2020
IAS 1	Presentation of Financial Statements (amendment): Classification of Liabilities as Current or Non-Current (amendments)	January 01, 2022
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, 2021
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, 2020
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, 2021
IFRS 9	Financial Instruments - Finalised version, incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition	January 01, 2021
IFRS 9	Financial Instruments - Amendments regarding prepayment features with negative compensation and modifications of financial liabilities	January 01, 2021
IFRS 9	Financial Instruments - Amendments regarding prepayment features with negative compensation and modifications of financial liabilities.	January 01, 2021
IFRS 14	Regulatory Deferral Accounts - Original issue	July 01, 2019
IFRS 10 & IAS 28	Consolidated Financial Statements & Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – (Amendment)	Not yet finalized

b) 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)
FRS 9	Financial Instruments	January 01, 2021

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):

		Effective date (annual periods beginning on or after)
IFRS 1	First Time Adoption of International Financial Reporting Standards	July 01, 2009
IFRS 17	Insurance Contracts	January 01, 2021

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

6.1 Cash and Cash equivalents

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

6.2 Sale and Repurchase agreements

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

6.3 Investments

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

Investments are classified as follows:

a) Held for trading investments

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

b) Available for sale investments

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

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

On reclassification of an investment from the available for sale category, the investment is reclassified at its fair value on the date of reclassification. This fair value becomes its new cost or amortized cost, as applicable. For investments with fixed maturity, any gain or loss previously recognised in "surplus/ (deficit) on revaluation of assets" is amortized to Profit and Loss over the remaining life of the investment using the effective interest rate 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 and mark-up 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 12.3 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 expenses are charged to Profit and Loss account during the year.

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 Bank 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 12.4 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 Profit and Loss account, 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 substantially 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 balance sheet 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 constitutes 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, 2019.

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 KB 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

The above contributions represents outflow of economic resources of the Bank and thus are required to be included within Profit and Loss account as expense, under IFRSs, reducing the amount of profit after tax, but as required by the SBP Banking Supervision Department (BSD) Circular number 11 dated December 30, 2003, the related annual contributions are instead disclosed as appropriation from profit available from distribution, within the Profit and Loss account, and are separately presented in the statement of changes in equity. The Bank has, however, deducted these contributions, from the amount of profit after tax to arrive at Profit attributable to equity holders, for the purpose of calculation of Earnings Per Share.

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 Profit and Loss account to the extent of the actual expenses incurred. Expenses incurred against grants committed but not received, is recognized directly in the Profit and Loss account and reflected in balance sheet as 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 grant 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 recognized 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 recognized in Profit and Loss account.

Fee and commission income is recognised at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services. The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract.

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 (Policy applicable before January 01, 2019)

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 Profit and Loss account 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 transferred 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.

Leases (Policy applicable as of January 01, 2019)

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within Note 12 'Operating fixed assets'.

Lease liabilities

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made.

6.21 Financial instruments

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 deposits, 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 account for the year 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 date of the transaction 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 the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in Profit and Loss account.

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 year.

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 liabilities of the Bank that either require fair value measurements or only fair value disclosures as at December 31, 2019 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) Useful lives

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.

	Note	2019 Rs.'000	2018 Rs.'000
7	CASH AND BALANCES WITH SBP AND NBP		
	Cash in hand - Local currency	1,104,101	507,221
	Balance with State Bank of Pakistan in Local currency current accounts - SBP	7.1 1,822,011	1,284,356
	Balance with National Bank of Pakistan in Local currency deposit accounts - NBP	7.2 116	1,160
		<u>2,926,228</u>	<u>1,792,737</u>
7.1	This represents balance held with SBP to meet the requirement of maintaining a minimum balance equivalent to 5.00% (2018: 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 11.25 % (2018: 8.00%) per annum.		
		2019 Rs.'000	2018 Rs.'000
8	BALANCES WITH OTHER BANKS/NBFIs/MFBs		
	In Pakistan		
	Local currency current accounts	726,330	1,012,185
	Local currency deposit accounts	8.1 3,454,800	6,486,173
		<u>4,181,130</u>	<u>7,498,358</u>
8.1	This represents balances held with various banks in saving accounts carrying interest at the rates ranging from 4.50% to 14.80% (2018: 6.50% to 11.75%) per annum.		

	Note	2019 Rs.'000	2018 Rs.'000
9 LENDING TO FINANCIAL INSTITUTIONS			
Call/clean lending	9.1	450,000	500,000
Repurchase agreement lending (reverse repo)	9.2	-	1,337,749
		<u>450,000</u>	<u>1,837,749</u>

9.1 This represents call lending carrying interest at the rate of 13.00% (2018: 11.25%) per annum maturing on January 2, 2020 (2018: January 3, 2019).

9.2 This represented reverse repo transaction carrying interest rate 2019: Nil (2018: 10.10%) per annum (2018: maturing on January 2, 2019).

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

	2019			2018		
	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

	Note	2019 Rs.'000	2018 Rs.'000
10 INVESTMENTS			
Available for sale (AFS)			
Federal Government securities-Market Treasury Bills (T-bills)	10.1	5,412,542	3,916,037
Held to maturity (HTM)			
Term finance certificates (TFCs)	10.2	150,000	150,000
Term deposit receipts (TDRs)	10.3	4,550,000	4,850,000
		<u>10,112,542</u>	<u>8,916,037</u>
Net deficit on revaluation of Federal Government securities - (AFS)	10.4	(798)	(327)
		<u>10,111,744</u>	<u>8,915,710</u>

10.1 This represents T-bills of 84 days (2018: 70 days to 84 days) carrying interest at the rate of 13.40% (2018: 8.72% to 10.27%) per annum. These 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".

10.2 This represents 10,000 term finance certificates (TFC's) having face value of Rs. 5,000/- each duly issued by Bank Al Habib Limited for perpetual tenure, carrying profit at the rate of 6 month KIBOR + 1.50% (2018: 6 month KIBOR + 1.50%); and 100 TFC's having face value of Rs 1,000,000/- each issued by Soneri Bank Limited for perpetual tenure, carrying profit at the rate of 6 month KIBOR + 2.00% (2018: 6 month KIBOR + 2.00%) respectively. Interest on these TFC's is receivable on semi annual basis from the date of issue.

	Note	2019 Rs.'000	2018 Rs.'000
10.3 Term deposit receipts (TDRs)			
Microfinance bank	10.3.1	4,550,000	2,850,000
Other banks/DFIs/NBFIs	10.3.2	-	2,000,000
		<u>4,550,000</u>	<u>4,850,000</u>

10.3.1 This represents investment in short term deposits receipts maturing from January 1, 2020 to October 4, 2020 (2018: January 9, 2019 to June 9, 2019) and carries mark-up at the rates ranging from 14.60% to 16.50% (2018: 8.70% to 13.00 %) per annum.

10.3.2 This represented investment in short term deposit receipts, 2019: Nil (2018 : January 7, 2019 to January 28, 2019) and carried nil mark-up at 2019 (2018: 11.00% to 12.00%) per annum.

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

11 ADVANCES - NET OF PROVISIONS

Loan type	Note	2019		2018	
		Number of loans outstanding	Amount outstanding	Number of loans outstanding	Amount outstanding
		Numbers	Rs.'000	Numbers	Rs.'000
Micro credit					
Secured	11.1	104,890	12,052,545	55,075	6,306,159
Unsecured	11.2	766,338	41,554,899	729,405	37,155,076
		871,228	53,607,444	784,480	43,461,235
Less: Provisions held					
Specific provision		30,205	(760,829)	9,630	(214,024)
General provision	11.3	827,634	(495,841)	743,904	(507,275)
			(1,256,670)		(721,299)
Microcredit advances - net of provisions			52,350,774		42,739,936
Staff loans	11.10	2,106	1,190,378	1,054	760,596
Advances - net of provision		873,334	53,541,152	785,534	43,500,532

- 11.1 This includes microcredit loans amounting to Rs. 127.6 million (2018: Rs. 301.2 million) which are partially (50%) secured against lien marked on deposits held with the Bank.
- 11.2 This includes 435 micro enterprise clients (2018: 2,395) having aggregate amount of Rs. 28.09 million (2018: Rs. 520.90 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 1.00% (2018: 1.16%) of micro credit advances other than those secured against gold and other cash collaterals, net of specific provision.

11.4 Particulars of non-performing advances

Advances include principal amount of Rs. 1,983.6 million and mark-up of Rs. 559.9 million (2018: principal amount of Rs. 512.2 million and mark-up of Rs. 115.6 million) which, as detailed below, have been placed under non-performing status.

Category of classification	2019			2018		
	Amount outstanding	Provisions required	Provisions held	Amount outstanding	Provisions required	Provisions held
	Rs.'000			Rs.'000		
OAEM	845,324	-	-	179,021	-	-
Sub-standard	446,549	87,661	87,661	111,999	21,485	21,485
Doubtful	726,216	287,307	287,307	175,029	70,758	70,758
Loss	525,413	385,861	385,861	161,782	121,781	121,781
	2,543,502	760,829	760,829	627,831	214,024	214,024

11.5 Particulars of provisions against non-performing advances

	2019			2018		
	Specific	General	Total	Specific	General	Total
	Rs.'000			Rs.'000		
Balance at beginning of the year	214,024	507,275	721,299	105,978	491,773	597,751
Provision charge for the year	2,266,479	(11,434)	2,255,045	723,236	15,502	738,738
Advances written/charge off against provision	(1,719,674)	-	(1,719,674)	(615,190)	-	(615,190)
Balance at end of the year	760,829	495,841	1,256,670	214,024	507,275	721,299

	Note	2019 Rs.'000	2018 Rs.'000
11.6 Particulars of write offs			
Against provisions			
Related to other classified advances		1,719,674	615,190
Bad debts written off directly	11.6.1	4,338	39,492
		<u>1,724,012</u>	<u>654,682</u>

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

11.7 Portfolio quality report

The Bank's main measure of loan delinquency is an aged portfolio-at-risk ratio. Loans are separated into classes depending on the number of days they are over-due. For each of such classes 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. Loan payments are applied first to any interest due, then to any installment of principal that is due but unpaid, beginning with the earliest such installment. The number of days of delay is based on the due date of the earliest loan installment that has not been fully paid. Late payment surcharge/ penalty on overdue advances is not added to principal.

Normal Loans	2019		2018	
	Amount Rs.'000	Portfolio at Risk	Amount Rs.'000	Portfolio at Risk
Current	49,557,942	-	42,393,098	-
1 - 29 days late	2,065,908	3.85%	555,911	1.28%
30 - 59 days late	666,664	1.24%	146,731	0.34%
60 - 89 days late	353,617	0.66%	92,261	0.21%
90 - 179 days late	576,772	1.08%	147,290	0.34%
More than 179 days late	386,541	0.72%	125,944	0.29%
Total	<u>53,607,444</u>	<u>7.55%</u>	<u>43,461,235</u>	<u>2.46%</u>
Rescheduled loans				
Current	-	-	-	-
1 - 29 days late	-	-	-	-
30 - 59 days late	-	-	-	-
60 - 89 days late	-	-	-	-
90 - 179 days late	-	-	-	-
More than 179 days late	-	-	-	-
Total	<u>53,607,444</u>	<u>7.55%</u>	<u>43,461,235</u>	<u>2.46%</u>

11.8 Current recovery ratio

The Bank measures loan delinquency using a current recovery ratio. The numerator of this ratio is total cash receipts of principal and mark-up during the reporting period (including advance 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	
	2019	2018
1st quarter	109.5%	95.2%
2nd quarter	120.6%	133.4%
3rd quarter	144.7%	70.5%
4th quarter	128.6%	135.0%
January - December	<u>125.5%</u>	<u>110.2%</u>

11.8.1 Annual loss rate for the year is 0% (2018: 0%) computed using the following formula. The actual loss rate is below 0% due to early repayments of principal outstanding.

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

where:

'ALR' is the annual loss rate, 'CR' is the collection rate in decimal form and 'T' is the loan term expressed in years

11.9 Loan loss allowance

	2019				2018			
	Outstanding loan portfolio		Allowance for loan loss		Outstanding loan portfolio		Allowance for loan loss	
	Share of total	Rs.'000	Share of total	Rs.'000	Share of total	Rs.'000	Share of total	Rs.'000
Normal loans								
Current	92.4%	49,557,942	-	-	97.5%	42,393,098	-	-
1 - 29 days late	3.9%	2,065,908	-	-	1.3%	555,911	-	-
30 - 59 days late	1.2%	666,664	-	-	0.3%	146,731	-	-
60 - 89 days late	0.7%	353,617	11.5%	87,661	0.2%	92,261	10.0%	21,485
90 - 179 days late	1.1%	576,772	37.8%	287,307	0.3%	147,290	33.1%	70,758
More than 179 days late	0.7%	386,541	50.7%	385,861	0.3%	125,944	56.9%	121,781
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%	53,607,444	100%	760,829	100%	43,461,235	100%	214,024

11.10 This includes general purpose loans to employees of the Bank carrying interest at the rate of 5% (2018: 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 5% (2018: 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. This also includes interest free staff entitlement vehicle loans amounting Rs. 266.95 million (2018: Rs. 126.23 million).

12	OPERATING FIXED ASSETS	Note	2019 Rs.'000	2018 Rs.'000
	Capital work-in-progress	12.1	48,165	350,703
	Right of use assets	12.2	1,817,643	-
	Property and equipment	12.3	1,246,018	920,731
	Intangible assets	12.4	500,478	82,094
			3,612,304	1,353,528

12.1 Capital work-in-progress

		Opening balance	Additions	Transferred	Closing balance	
	Advances to suppliers - software modules	301,005	79,568	(346,463)	34,110	
	Advances to suppliers - operating fixed assets	49,698	428,606	(464,249)	14,055	
	December 31, 2019	12.1.1	350,703	508,174	(810,712)	48,165
	December 31, 2018		436,853	356,799	(442,949)	350,703

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

	Note	2019 Rs.'000	2018 Rs.'000
12.2 Right of Use Assets			
Right of use assets - Initial recognition under IFRS - 16		1,908,109	-
Additions during the year		250,484	-
Depreciation charged during the year		(340,950)	-
Net book value at the end of year		<u>1,817,643</u>	<u>-</u>

Set out below are the carrying amounts of lease liabilities (included under 'Other liabilities' in Note 18) and the movements during the period

As at 1 January – effect of adoption of IFRS 16	5.1	(1,746,607)	-
Addition		(250,484)	-
Accretion of interest		(229,036)	-
Payments		355,796	-
As at 31 December 2019		<u>(1,870,331)</u>	<u>-</u>

12.3 Property and equipment

	Leasehold improvement	Furniture and fixtures	Electrical and office equipment	Computer equipment	Vehicles	Total
	Rs.'000					
Cost						
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	<u>190,586</u>	<u>428,115</u>	<u>526,946</u>	<u>576,485</u>	<u>305,089</u>	<u>2,027,221</u>
Balance as at January 1, 2019	190,586	428,115	526,946	576,485	305,089	2,027,221
Additions	91,457	104,249	144,056	222,838	92,208	654,808
Disposals	-	(20,841)	(19,127)	(46,297)	(27,982)	(114,247)
Balance as at December 31, 2019	<u>282,043</u>	<u>511,523</u>	<u>651,875</u>	<u>753,026</u>	<u>369,315</u>	<u>2,567,782</u>
Accumulated Depreciation						
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	<u>67,398</u>	<u>149,896</u>	<u>350,757</u>	<u>348,571</u>	<u>189,868</u>	<u>1,106,490</u>
Balance as at January 1, 2019	67,398	149,896	350,757	348,571	189,868	1,106,490
Depreciation charge	46,997	44,257	81,263	101,322	50,925	324,764
Disposals	-	(17,260)	(18,233)	(46,014)	(27,983)	(109,490)
Balance as at December 31, 2019	<u>114,395</u>	<u>176,893</u>	<u>413,787</u>	<u>403,879</u>	<u>212,810</u>	<u>1,321,764</u>
Carrying value						
2018	<u>123,188</u>	<u>278,219</u>	<u>176,189</u>	<u>227,914</u>	<u>115,221</u>	<u>920,731</u>
2019	<u>167,648</u>	<u>334,630</u>	<u>238,088</u>	<u>349,147</u>	<u>156,505</u>	<u>1,246,018</u>
Rates of depreciation per annum						
2018	20%	10.0%	20%	20% -33.33%	25%	
2019	20%	10.0%	20%	20% -33.33%	25%	

12.3.1 Cost of the assets as at December 31, 2019 includes Rs. 25.7 million (2018: Rs. 34.6 million) in respect of assets acquired against grants received.

12.3.2 The cost of fully depreciated property and equipment that are still in use is Rs. 611.6 million (2018: Rs. 497.8 million).

12.3.3 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
2019	Rs.'000					
Vehicles						
-Toyota Corolla XLI	1,291	1	1,320	1,319	Auction	M Hammad Akbar
	<u>1,291</u>	<u>1</u>	<u>1,320</u>	<u>1,319</u>		
2018						
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
	<u>12,082</u>	<u>3,533</u>	<u>5,838</u>	<u>2,305</u>		

12.4 Intangible assets	2019 Rs.'000	2018 Rs.'000
Computer software		
Cost		
Balance as at January 1,	263,905	196,374
Additions	486,585	67,531
Write-off	(23)	-
Balance as at December 31,	<u>750,467</u>	<u>263,905</u>
Amortization		
Balance as at January 1,	(181,811)	(161,499)
Amortization charge	(68,201)	(20,312)
Write-off	23	-
Balance as at December 31,	<u>(249,989)</u>	<u>(181,811)</u>
Carrying amount	<u>500,478</u>	<u>82,094</u>

- 12.4.1 Amortization is charged on straight line basis @ 10% to 33.33 % per annum (2018: 10% to 33.33%), starting from the month the asset is available for use.
- 12.4.2 Cost of the intangible assets includes Rs. 25.48 million (2018: Rs 25.48 million) in respect of assets acquired from grant received.
- 12.4.3 The cost of fully amortized intangible assets that are still in use is Rs. 179.8 million (2018: Rs. 67.2 million).

13	OTHER ASSETS	Note	2019 Rs.'000	2018 Rs.'000
	Mark-up accrued		5,561,130	3,971,074
	Suspended markup on non-performing advances		(559,805)	(115,582)
			5,001,325	3,855,492
	Interest receivable on investments and deposit accounts		256,609	103,662
	Advances - unsecured			
	Employees		8,395	5,466
	Suppliers		12,335	12,608
			20,730	18,074
	Receivable from Microfinance Social Development Fund	13.1	250,358	208,743
	Insurance premium receivable from SBP	13.2	375,480	606,023
	Prepayments		85,030	277,652
	Insurance claims receivable		7,150	7,443
	Security Deposits		6,612	6,606
	Other receivables	13.3	312,929	266,837
			6,316,223	5,350,532
	Less: Provisions against doubtful receivables			
	Balance at the beginning of the year		39,219	33,767
	Provision charge for the year		1,692	5,452
	Receivables written off against provision		(142)	-
	Balance at the end of the year	13.4	40,769	39,219
			6,275,454	5,311,313

13.1 This represents amount receivable from Micro Finance Social Development Fund (MSDF) against cost reimbursed to service providers and 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. 71.95 million (2018: Rs.199.57 million) paid under protest to the taxation authorities. This also includes payment which was paid under six orders from ATIR amounting to Rs. 165 million, however, the amount is now adjustable against corporate tax liability owing to the decision dated January 30, 2020 in favour of the Bank.

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

14	DEFERRED TAX ASSET	2019 Rs.'000	2018 Rs.'000
	Deferred tax assets/(liabilities) arising on account of temporary differences in:		
	Provision against advances and other assets	376,260	212,946
	Remeasurement of post employment benefit obligation	54,831	47,354
	Provision against Workers' Welfare Fund	14,587	10,772
	Deficit on revaluation of assets - AFS	231	92
		445,909	271,164
	Deferred tax liability arising on account of temporary differences in:		
	Operating fixed assets	(50,793)	(9,470)
	Deferred grants	-	331
		395,116	262,025

	2019 Rs.'000	2018 Rs.'000
14.1 Reconciliation of deferred tax		
Balance at the beginning of the year	262,025	230,670
(Reversal)/charge for the year in respect of:		
Operating fixed assets	(41,323)	(5,370)
Provision against advances and other assets	163,314	23,490
Deferred grants	(331)	815
Surplus on revaluation of assets - HFT	-	7
Provision against Workers' Welfare Fund	3,815	3,300
Charge to profit and loss account	125,475	22,242
Charge to other comprehensive income		
Deferred tax on revaluation of available for sale investments	139	47
Deferred tax on remeasurement of post employment benefits obligation	7,477	9,066
Balance at the end of the year	<u>395,116</u>	<u>262,025</u>

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

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

	Note	2019		2018	
		No. of accounts	Amount Rs.'000	No. of accounts	Amount Rs.'000
15 DEPOSITS					
Fixed deposits	15.2	60,976	41,892,758	52,456	36,211,113
Saving deposits	15.3	58,483	14,161,700	52,313	11,949,867
Current deposits		2,211,547	7,827,891	1,958,220	7,857,008
		<u>2,331,006</u>	<u>63,882,349</u>	<u>2,062,989</u>	<u>56,017,988</u>
15.1 Particulars of deposits by ownership					
Individual depositors		2,327,344	46,669,991	2,060,246	43,962,455
Institutional depositors					
Corporation/firms		3,590	10,027,594	2,677	7,590,396
Banks/financial institutions		72	7,184,764	66	4,465,137
		<u>2,331,006</u>	<u>63,882,349</u>	<u>2,062,989</u>	<u>56,017,988</u>

15.2 This represents term deposits having tenure of 1 to 36 months (2018: 3 to 36 months) carrying interest at the rates ranging from 7.00 % to 15.00 % (2018: 5.75% to 13.50%) per annum. This includes fixed deposits amounting to Rs. 498.55 million (2018: Rs. 322.52 million) on which lien is marked against advances to borrowers.

15.3 This represents savings accounts carrying interest at the rates ranging from 5.00 % to 14.60 % (2018: 7.00% to 11.00%) per annum. This includes saving deposits amounting to Rs. 113.66 million (2018: Rs.165.55) on which lien is marked against advances to borrowers.

	Note	2019 Rs.'000	2018 Rs.'000
16 BORROWINGS			
Borrowing from financial institutions outside Pakistan	16.1	634,354	1,386,301
Borrowings from financial institutions in Pakistan	16.2	691,667	1,578,571
		<u>1,326,021</u>	<u>2,964,872</u>

16.1	Borrowings from financial institutions outside Pakistan	Note	2019 Rs.'000	2018 Rs.'000
	Unsecured			
	Asian Development Bank	16.1.1	363,730	727,459
	ECO Trade & Development Bank (TF-II)	16.1.2	-	207,800
	ECO Trade & Development Bank (TF-III)	16.1.3	270,624	451,042
			<u>634,354</u>	<u>1,386,301</u>

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

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

The interest is being paid on bi-annual basis charged at the rate equal to weighted average cost of deposits during the preceding six months in the banking industry as calculated by SBP. The interest rates used for the bi-annual payment during the year were determined to be 6.95 % and 8.79 % (2018: 3.93% and 4.41%) per annum.

16.1.2 This represented borrowing from ECO Trade and Development Bank amounting to USD 5 million. The term loan was for 4 years which had grace period of two years and principal amount was to be repaid in five equal semi annual installments of USD one million each commencing from twenty fourth month after first disbursement. The loan carried mark-up at the rate of six month USD LIBOR plus a spread of 2.9% per 360 days. The loan was settled on August 15, 2019.

The Bank had 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 was to 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 was 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 plus 1.77% actual/365 on unadjusted basis commencing from date of disbursement.

16.2	Borrowings from financial institutions in Pakistan:	Note	2019 Rs.'000	2018 Rs.'000
	Secured			
	Pak Oman Investment Company Limited (TF-II)	16.2.1	62,500	187,500
	Pak Oman Investment Company Limited (TF-III)	16.2.2	250,000	375,000
	Pak Oman Investment Company Limited (TF-IV)	16.2.3	312,500	437,500
	Syndicated Term Finance	16.2.4	-	428,571
	Bank Alfalah Limited (TF-1)	16.2.5	25,000	100,000
	Allied Bank Limited (TF-1)	16.2.6	41,667	50,000
			<u>691,667</u>	<u>1,578,571</u>

16.2.1 This represents term finance facility of Rs. 500 million carrying interest at the rates ranging from 7.82% to 12.90% (2018: 7.82% to 10.66%) per annum for a period of five years with a grace period of twelve months from draw down date 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 term finance facility of Rs. 500 million carrying interest at the rates ranging from 9.67% to 15.67% (2018: 7.80% to 9.67%) per annum for a period of five years with a grace period of twelve months from draw down date 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 term finance facility of Rs. 500 million carrying interest at the rates ranging from 7.80% to 15.73% (2018: 7.80% to 9.70%) per annum for a period of five years with a grace period of twelve months from draw down date and repayable in 8 semi annual equal installments. These borrowings are secured against charge over current and future assets of Rs. 667 million.
- 16.2.4 This represents syndicated (JS Bank Limited, Askari Bank Limited and PAIR Investment Company Limited) term finance facility of Rs.1,500 million and carrying interest at the rates ranging from 12.09% to 14.41% (2018: 7.51% to 12.09%) per annum for a period of four years from the draw down date with a 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. The facility is settled on December 30, 2019.
- 16.2.5 This represents term finance facility of Rs. 100 million carrying interest at the rates ranging from 12.10% to 14.43% (2018: 7.51% to 9.89%) per annum for a period of 3 years with a grace period of twelve months from draw down date. These borrowings are secured against charge over current and future assets of Rs. 667 million.
- 16.2.6 This represents term finance facility of Rs. 50 million carrying interest at the rates ranging from 10.24% to 15.49% (2018: 7.81%) per annum for a period of 5 years with a grace period of twenty four months from draw down date. These borrowings are secured against charge over current and future assets of Rs. 334 million.

16.3	Quarterly average borrowing	Note	2019 Rs.'000	2018 Rs.'000
	1st Quarter		2,787,272	4,470,081
	2nd Quarter		2,425,731	3,946,110
	3rd Quarter		1,983,125	3,590,031
	4th Quarter		1,617,417	3,228,490
16.4	Loan repayment schedule			
	Balance at the beginning of the year		2,964,872	4,782,681
	Availed during the year		-	-
	Repayments during the year		(1,638,851)	(1,817,809)
	Balance at the end of the year		<u>1,326,021</u>	<u>2,964,872</u>
17	SUBORDINATED DEBT			
	Term finance certificate - TFC I	17.1	1,000,000	1,000,000
	Term finance certificate - TFC II	17.2	1,400,000	-
			<u>2,400,000</u>	<u>1,000,000</u>

- 17.1 The Bank has raised 10,000/- rated, unsecured, subordinated and privately placed term finance certificates of worth Rs 100,000/- each fully subscribed on 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 and loss absorbency clause. The principal will redeemed in two equal semi annual installments falling on the end of 90th month and 96th month from the date of issue. The issue has preliminary rating of 'single A' with stable outlook.
- 17.2 This represents rated, unsecured, subordinated and privately placed term finance certificates of with Rs.100,000/- each fully subscribed on December 27, 2019 to improve capital adequacy at the rate of 3 month KIBOR plus 2.70% per annum. The issue is for a period of 8 years from the date of subscription and will mature on December 27, 2027. The issue has assigned preliminary rating of single 'A' (Single A) with stable outlook. The principal amount of issued TFC - II will be redeemed in twelve equal quarterly installments, commencing from the 63rd month from the issue date including lock-in and loss absorbency clause.

18	OTHER LIABILITIES	Note	2019 Rs.'000	2018 Rs.'000
	Mark-up / return /interest payable on deposits		1,057,857	683,833
	Interest payable on borrowings/subordinated debt		91,251	89,578
	Lease liability	12.2	1,870,331	-
	Accrued expenses		390,259	369,703
	Payable to defined benefit plan - KMBL employees gratuity fund	18.1	92,137	19,418
	Corporate taxes payable - net	18.2	65,946	234,185
	GST/FED payable		49,063	32,400
	Payable to suppliers	18.3	98,525	110,974
	Bills payable		130,554	74,548
	Provision for Workers' Welfare Fund		50,300	38,472
	Dividend payable		150,244	61,942
	Payable to service providers		44,936	33,766
	Withholding tax payable		279	32,825
	Contribution payable to:			
	Microfinance Social Development Fund	6.14	183,617	245,879
	Risk Mitigation Fund	6.14	91,808	122,939
	Depositors' Protection Fund	6.14	91,808	122,939
	Other payables		27,193	16,241
			4,486,108	2,289,642

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 where 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, 2019 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 Bank has assumed. Since the benefit is calculated on the final salary, the benefit amount would also increase proportionately.

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

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

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

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

Disclosures related to employees gratuity fund are given below:

a)	Amounts recognized in the balance sheet	2019 Rs.'000	2018 Rs.'000
	Present value of defined benefit obligations	697,783	545,320
	Fair value of plan assets	(605,646)	(525,902)
	Balance sheet liability	92,137	19,418

	2019 Rs.'000	2018 Rs.'000		
b) Movement in net liability				
Opening net liability	19,418	71,312		
Net expense recognized in profit or loss	127,076	100,123		
Remeasurement losses recognized in OCI	19,948	41,493		
Contributions	(74,305)	(193,510)		
Closing net liability	<u>92,137</u>	<u>19,418</u>		
c) Changes in present value of defined benefit obligation				
Opening defined benefit obligation	545,320	457,011		
Current service cost	130,479	102,855		
Interest expense	70,765	39,415		
Benefits due but not paid (payables)	(14,021)	(6,631)		
Benefits paid	(47,306)	(77,598)		
Remeasurements - experience losses	12,546	30,268		
Closing defined benefit obligation	<u>697,783</u>	<u>545,320</u>		
d) Changes in fair value of plan assets				
Opening fair value of plan assets	525,902	385,699		
Interest income	74,168	42,147		
Contributions	74,305	193,510		
Benefits paid	(47,306)	(77,598)		
Benefits due but not paid	(14,021)	(6,631)		
Return on plan assets, excluding interest income	(7,402)	(11,225)		
Closing fair value of plan assets	<u>605,646</u>	<u>525,902</u>		
e) Amounts recognized in the profit and loss account				
Current service cost	130,479	102,855		
Interest cost on defined benefit obligation	70,765	39,415		
Interest income on plan assets	(74,168)	(42,147)		
	<u>127,076</u>	<u>100,123</u>		
f) Amounts recognized in other comprehensive income				
Remeasurement losses for the year				
Experience adjustments in present value of defined benefit obligation	12,546	30,268		
Return on plan assets, excluding interest income	7,402	11,225		
	<u>19,948</u>	<u>41,493</u>		
g) Major categories of plan assets	2019	2018		
	Rs.'000	Percentage	Rs.'000	Percentage
Accrued interest	5,808	0.96%	3,127	0.59%
Cash at bank - Saving Deposits	263,859	43.57%	233,951	44.49%
Term Finance Certificates	150,000	24.77%	150,000	28.52%
Term deposit receipts	200,000	33.02%	145,455	27.66%
Payables to out-going employees	(14,021)	(2.32%)	(6,632)	(-1%)
	<u>605,646</u>	<u>100.00%</u>	<u>525,901</u>	<u>100.00%</u>

- h) The latest actuarial valuation was carried out on December 31, 2019. The significant assumptions used for actuarial valuation are as follows:

	2019	2018
Discount rate - per annum	11.75%	13.75%
Salary increase rate - per annum	10.75%	12.75%
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%	626,572	782,957
Salary rate increase	1%	784,661	623,863

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 balance sheet.

The weighted average duration of the defined benefit obligation is 11 years (2018: 11 years).

- j) Expected contribution of the Bank to the defined benefit gratuity fund for the year ending December 31, 2020 will be Rs. 151.9 million.

k) **Comparison for five years**

	2019	2018	2017	2016	2015
	Rs.'000				
Present value of defined benefits obligation and Fair value of plan assets					
Present value of defined benefits obligation at year end	697,783	545,320	457,011	386,561	312,017
Fair value of plan assets at year end	(605,646)	(525,902)	(385,699)	(370,269)	(231,449)
	92,137	19,418	71,312	16,292	80,568

18.2	Taxes payable - net	Note	2019 Rs.'000	2018 Rs.'000
	Opening balance		234,185	126,100
	Payments		(782,408)	(807,102)
	Advance tax paid		(193,644)	(118,594)
	Adjustments:			
	Prior year charge	29	-	72,022
	Provision for the year	29	807,813	961,759
	Closing balance		<u>65,946</u>	<u>234,185</u>

- 18.3 This includes payable to insurance companies amounting to Rs. 28.90 million (2018: Rs. 23.9 million) against crop and livestock insurance premium.

19 SHARE CAPITAL

19.1 Authorized capital

2019	2018		2019	2018
Number	Number		Rs.'000	Rs.'000
<u>600,000,000</u>	<u>600,000,000</u>	Ordinary shares of Rs. 10 each	<u>6,000,000</u>	<u>6,000,000</u>

19.2 Issued, subscribed and paid up capital

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

19.2.1 The Shareholders of the Bank are as follows:

	2019	2018
	Rs.'000	Rs.'000
United Bank Limited	506,285	506,285
Rural Impulse Fund II S.A. SICAS-FIS	417,057	417,057
ShoreCap II Limited	243,568	243,568
ASN-NOVIB Microkredietfonds	168,795	168,795
responsAbility Global Micro and SME Finance Fund	339,295	339,295
Bank Al Habib Limited	30,000	30,000
	<u>1,705,000</u>	<u>1,705,000</u>

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 Global Micro and SME Finance Fund an unincorporated investment fund (fonds commun de placement) organized under the laws of Luxembourg (formerly responsAbility Micro and SME Finance Fund and before that responsAbility Global Microfinance Fund) ("the Fund") represented by MultiConcept Fund Management S.A and before that by responsAbility Management Company S.A (formerly Credit Suisse Microfinance Fund Management Company), organized and existing under the laws of Luxembourg, having its registered office at 148-150, Boulevard de la Petrusse, L-2330 Luxembourg, Grand Duchy of Luxembourg, and registered with the Luxembourg Trade and Companies Register under number B 45629.

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

20 SURPLUS/(DEFICIT) ON REVALUATION OF ASSETS

	2019	2018
	Rs.'000	Rs.'000
Deficit on revaluation of investment - AFS	(798)	(327)
Related deferred tax effect	231	92
Net deficit on revaluation of investment - AFS	<u>(567)</u>	<u>(235)</u>

20.1 (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	2019 Rs.'000	2018 Rs.'000
	Grant from Market Development Facility			
	Received during the year		-	-
	Accumulated amortization			
	At the beginning of year		1,183	1,615
	Amortization for the year		(1,183)	(432)
	At the end of the year		-	1,183
		21.1	-	1,183

21.1 This represented 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 dated October 23, 2012 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, an appeal filed by the Bank was dismissed in limine by the Honorable Islamabad High Court. Subsequently, the Bank filed an appeal with the honorable Supreme Court which suspended the impugned judgment of learned High Court and Appellate Tribunal Inland Revenue (ATIR) and remanded back the matter in toto on all issues to the Adjudicating Officer to examine the same afresh which is pending for re-assessment. 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 received two orders dated December 06, 2013 and February 06, 2014 amounting to Rs 172.86 million from Deputy Commissioner of Inland Revenue (DCIR) for under declaration of FED of Rs. 71.53 million, FED not paid on banking services of Rs. 40.64 million, and Rs. 60.69 million on non-withholding of Sales Tax/FED on disposal of fixed assets and non-apportionment of input tax. The Bank preferred an appeal before CIR (Appeals) who remanded the case back to the DCIR for reassessment. During re-assessment proceedings, the stance of the bank on most of the issues amounting to Rs. 141.04 million was accepted by the FBR. For remaining alleged amount of Rs 31.82 million the Bank preferred an appeal before the Appellate Tribunal Inland Revenue (ATIR) which is pending on the reporting date. Related to this matter, payment of Rs. 7.82 million under protest is carried as receivable from taxable authorities as reflected in note 13.3 to the financial statements.
- c) For the period from January 2013 to December 2013, the Bank has received two orders from DCIR, one order dated April 29, 2016 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 second order dated June 21, 2016 for 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, the Bank filed civil petitions against the order of ATIR, which is pending for 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, one order dated April 29, 2016 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 second order dated June 21, 2016 for 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 to the ATIR who remanded back the case to the adjudicating officer. On the re-assessment, the stance of the Bank in case of processing fee paid in the provinces of Rs 75.37 million was accepted by the FBR. For remaining alleged demand aggregating to Rs 55.69 million, Bank filed civil petitions against the order of ATIR which is pending for adjudication before the Honorable High Court of Islamabad.
- e) For the period from January 2015 to December 2016, the Bank received two orders from ACIR (Additional Commissioner Inland Revenue) dated November 22, 2017 and December 06, 2017 for chargeability of super

tax on total income instead of business income of the Bank 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 from January 2016 to December 2017, Punjab Revenue Authority (PRA) issued demand during the year dated April 16, 2019 alleging short deposit of Sales Tax as input tax was fully claimed by the Bank instead of apportionment of input tax. The Bank views that apportionment does not apply to the Bank and being aggrieved of the order, the Bank filed a reference with Honorable Lahore High Court, which is pending for adjudication. The Bank has paid, under protest, an amount of Rs. 28 million, which is recognized as Other receivables as the Bank remains confident of full recovery, in due course and without significant time value of money loss (refer to note 13.3 to the financial statements).
- g) For the period from January 2015 to December 2015, the Bank has received an order dated April 10 2019 from DCIR for non- deduction of withholding tax on rental payments made during the mentioned period. In this regard, the Bank's appeal is pending for adjudication before the Commissioner Inland Revenue (Appeals). Relating to this matter, payment of Rs. 1.56 million under protest is carried as receivable from tax authorities as reflected in Note 13.3.

In respect of above tax cases, based upon advise of its tax consultants, management expects favorable outcomes and is confident that significant outflow of economic resources will be not be required, as a result of final decisions of Appellate authorities. Accordingly, no provision has been recognized, in respect of these tax cases.

22.2	COMMITMENTS	Note	2019 Rs.'000	2018 Rs.'000
	Capital expenditure	22.2.1	133,011	120,546
22.2.1	This represents capital commitments relating to digital financial services, audit management solution and other capital expenditures of Rs. 48.00 million, Rs. 20.00 million and Rs. 65.00 million respectively.			
23	MARK-UP/RETURN/INTEREST EARNED			
	Mark-up/interest/gain on :			
	- Advances		13,497,141	10,726,078
	- Investment in Federal Government securities		536,490	558,940
	- Deposits/placements with banks/FI/MFBs/TFC etc		1,225,087	641,007
			15,258,718	11,926,025
24	MARK-UP/RETURN/INTEREST EXPENSED			
	Interest on borrowings from:			
	Financial institutions - Outside Pakistan		112,401	114,986
	Financial institutions - Inside Pakistan		206,080	175,279
			318,481	290,265
	Subordinated debt		135,781	71,925
	Interest on deposits		6,115,916	4,227,915
	Interest on lease liability		229,036	-
			6,799,214	4,590,105
25	FEE, COMMISSION AND BROKERAGE INCOME			
	Micro-credit application processing fee		1,705,351	1,402,204
	Other commission		181,513	121,512
			1,886,864	1,523,716
26	OTHER INCOME			
	Recoveries against advances written off		65,440	107,561
	Amortization of deferred grant		1,183	432
	(Loss)/Gain on disposal of fixed assets		18,351	242
	Others		1,619	6,600
			86,593	114,835

27	ADMINISTRATIVE EXPENSES	Note	2019 Rs.'000	2018 Rs.'000
	Salaries, wages and benefits		2,449,515	2,125,175
	Charge for defined benefit plan	18.1	127,076	100,123
	Contract/ seconded staff expenses		443,941	362,952
	Rent and rates		21,826	328,874
	Depreciation	12.3	324,764	261,800
	Depreciation - Right of use Assets		340,950	-
	Repairs and maintenance		286,916	213,514
	Vehicles up keep and maintenance		336,272	212,557
	Advertisement		150,019	176,410
	Printing, stationery and office supplies		188,492	131,011
	Communication		232,244	154,572
	Insurance		235,026	173,501
	Cash management and financial charges		81,966	161,303
	Utilities		203,729	146,168
	Security charges		94,724	71,396
	Training		81,130	52,868
	Meetings and conferences		39,898	32,807
	Amortization	12.4	68,201	20,312
	Travelling and conveyance		28,861	27,306
	Recruitment and development		10,182	22,669
	Legal and professional charges		12,369	11,876
	Consultancies		3,016	10,075
	Newspapers and subscriptions		6,241	6,573
	Auditors' remuneration	27.1	3,294	3,040
	Miscellaneous		14,809	25,254
			<u>5,785,461</u>	<u>4,832,136</u>
	Expenditure reimbursed during the year	27.2	<u>(149,934)</u>	<u>(125,583)</u>
			<u>5,635,527</u>	<u>4,706,553</u>
			2019 Rs.'000	2018 Rs.'000
27.1	Auditors' remuneration			
	Audit fee		1,728	1,328
	Certifications		752	1,050
	Out of pocket expenses		814	662
			<u>3,294</u>	<u>3,040</u>
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.			
			2019 Rs.'000	2018 Rs.'000
28	OTHER CHARGES	Note		
	Penalties	28.1	5,218	30
	Workers' welfare fund		11,827	13,565
	Professional tax		807	316
			<u>17,852</u>	<u>13,911</u>
28.1	This represent penalties imposed by State Bank of Pakistan against non-compliance of certain Prudential Regulations and other directives issued by SBP.			

	Note	2019 Rs.'000	2018 Rs.'000
29 TAXATION			
Current		807,813	961,759
Super tax	29.1	-	72,022
		807,813	1,033,781
Deferred	29.5	(125,475)	(22,242)
		<u>682,338</u>	<u>1,011,539</u>

29.1 The Finance Act 2018 continued super tax for another year which was earlier introduced through Finance Act, 2015 and is applicable at the rate of 2 percent of taxable profit for accounting year 2018 (tax year 2019) and lately super tax has been withdrawn through Finance Supplementary (Second Amendment) Act 2019 for accounting year 2019 (tax year 2020).

29.2 Comparison of tax provision against tax assessment

	Tax year		
	2019	2018	2017
		Rs.'000	
Income tax provision as per financial statements			
- Current year	899,319	723,552	499,455
- Super tax	62,440	47,570	32,761
Income tax assessed as per tax return			
- Current year	898,781	725,469	497,410
- Super tax	61,668	72,022	47,570

29.3 Tax charge reconciliation

	2019 Rs.'000	2018 Rs.'000
Profit before tax	<u>2,518,507</u>	<u>3,470,325</u>
	%	%
Applicable tax rate	29.00	29.00
Income tax relating to prior period	-	0.02
Change in rate of tax	(0.37)	0.44
Permanent difference	(1.94)	0.14
Others	0.40	(0.45)
Average effective tax rate charged to income	<u>27.09</u>	<u>29.15</u>

29.4 The applicable income tax rate is maintained at 29% (2018: 29%) as per Income Tax Ordinance, 2001 through Finance Act, 2019.

29.5 The applicable income tax rate for tax year 2020 (accounting year 2019) calculated at 29% through Finance Act 2019. Accordingly deferred tax is computed at the rate of 29% (2018: 28%) for temporary differences which are expected to be reversed/utilized in future.

	2019 Rs.'000	2018 Rs.'000
30 CASH AND CASH EQUIVALENTS		
Cash and balances with SBP and NBP	2,926,228	1,792,737
Balances with other Banks/ NBFIs/ MFBS	4,181,130	7,498,358
Lending to financial institutions	450,000	1,837,749
	<u>7,557,358</u>	<u>11,128,844</u>

31 NUMBER OF EMPLOYEES	2019 Number	2018 Number
Credit sales staff-Permanent	2,446	2,078
Banking/support staff		
Permanent	2,025	1,776
Contractual	905	760
	<u>2,930</u>	<u>2,536</u>
Total number of employees at the end of the year	<u>5,376</u>	<u>4,614</u>
32 AVERAGE NUMBER OF EMPLOYEES		
Credit sales staff - Permanent	2,293	1,889
Banking / support staff		
Permanent	1,948	1,623
Contractual	856	714
	<u>2,804</u>	<u>2,337</u>
Average number of employees during the year	<u>5,097</u>	<u>4,226</u>
33 NUMBER OF BRANCHES		
Total branches/service centers at beginning of the year	197	173
Opened during the year	25	13
Branches	19	18
Service centers/booths	(15)	(7)
Closed / merged during the year	<u>226</u>	<u>197</u>
Total branches/service centers/booths at the end of the year		
Total branches at the end of the year	186	161
Total service centers/booths at the end of the year	<u>40</u>	<u>36</u>
Total branches/service centers/booths at the end of the year	<u>226</u>	<u>197</u>
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 share		
	2019 Rs.'000	2018 Rs.'000
Profit for the year after taxation	1,836,169	2,458,786
Microfinance Social Development Fund	(183,617)	(245,879)
Depositors' Protection Fund	(91,808)	(122,939)
Risk Mitigation Fund	(91,808)	(122,939)
	<u>(367,233)</u>	<u>(491,757)</u>
Profit attributable to equity holders	<u>1,468,936</u>	<u>1,967,029</u>
Weighted average number of ordinary shares (Numbers)	<u>170,500</u>	<u>170,500</u>
Earnings per share - basic (Rupees)	<u>8.62</u>	<u>11.54</u>

Diluted

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

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 Bank is as follows:

	2019				2018			
	President	Directors	Executives		President	Directors	Executives	
			KMPs	Other			KMPs	Other
	Rs.'000				Rs.'000			
Fee	-	325	-	-	-	200	-	-
Managerial remuneration	13,920	-	45,307	224,127	12,000	-	39,041	171,520
Charge for defined benefit plan	-	-	6,330	30,183	181	-	5,113	23,158
House rent allowance	6,264	-	20,388	100,857	5,400	-	17,568	77,184
Utilities	2,784	-	9,061	44,825	2,400	-	7,808	34,304
Medical	1,392	-	4,531	22,413	1,200	-	3,904	17,152
Conveyance allowance	833	-	7,979	100,725	370	-	6,085	63,517
Bonus	8,000	-	16,668	46,463	9,287	-	29,286	57,662
Others	1,971	-	687	11,588	1,466	-	292	16,069
Total	35,164	325	110,951	581,181	32,304	200	109,097	460,566
Number of person(s)	1	2	10	253	1	2	11	204

- 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, 2019

	TOTAL	Up to one month	Over one month up to six months	Over six months up to one year	Over one year
	Rs.'000				
Market rate assets					
Advances	53,541,152	5,172,810	17,691,147	26,058,169	4,619,026
Investments	10,111,744	1,050,000	7,411,744	1,500,000	150,000
Other earning assets					
Balances with SBP and NBP - deposit accounts	116	116	-	-	-
Balances with other banks - deposit accounts	3,454,800	3,454,800	-	-	-
Lending to financial institutions	450,000	450,000	-	-	-
Total market rate assets	67,557,812	10,127,726	25,102,891	27,558,169	4,769,026
Other non-earning assets					
Cash in hand	1,104,101	1,104,101	-	-	-
Balances with SBP and NBP - current accounts	1,822,011	1,822,011	-	-	-
Balances with other banks - current accounts	726,330	726,330	-	-	-
Operating fixed assets	3,612,304	67,407	385,180	404,443	2,755,274
Other assets	6,275,454	699,080	1,971,783	3,082,959	521,632
Deferred tax asset	395,116	-	-	-	395,116
Total non-earning assets	13,935,316	4,418,929	2,356,963	3,487,402	3,672,022
Total assets	81,493,128	14,546,655	27,459,854	31,045,571	8,441,048
Market rate liabilities					
Cost bearing deposits	56,054,458	18,256,346	10,572,096	9,522,029	17,703,987
Subordinated debt	2,400,000	-	-	-	2,400,000
Borrowings	1,326,021	-	492,906	405,406	427,709
Total market rate liabilities	59,780,479	18,256,346	11,065,002	9,927,435	20,531,696
Other non-cost bearing liabilities					
Deposits	7,827,891	782,789	1,174,184	1,174,184	4,696,734
Other liabilities	4,486,108	196,679	1,099,127	523,863	2,666,439
Total non-cost bearing liabilities	12,313,999	979,468	2,273,311	1,698,047	7,363,173
Total liabilities	72,094,478	19,235,814	13,338,313	11,625,482	27,894,869
Net assets	9,398,650	(4,689,159)	14,121,541	19,420,089	(19,453,821)

36.1 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
Rs.'000					
Market rate assets					
Advances	43,500,532	2,417,183	16,232,559	21,810,827	3,039,963
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	60,741,324	14,054,195	20,686,339	22,810,827	3,189,963
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	5,311,313	938,351	1,892,916	859,588	1,620,458
Deferred tax asset	262,025	-	-	-	262,025
Total non-earning assets	9,730,628	3,768,503	2,024,866	1,017,928	2,919,331
Total assets	70,471,952	17,822,698	22,711,205	23,828,755	6,109,294
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	217,649
Total non-cost bearing liabilities	10,146,650	3,431,851	2,461,880	2,949,044	1,303,875
Total liabilities	62,272,502	4,872,011	11,108,550	10,684,334	35,607,607
Net assets	8,199,450	12,950,687	11,602,655	13,144,421	(29,498,313)

37
37.1

FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

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, 2019 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
Rs. '000										
Financial assets:										
Cash and balances in current and other accounts	-	-	-	-	-	-	-	-	3,652,442	3,652,442
Balance in deposit accounts	4.50 to 14.80	3,454,916	-	-	-	-	-	-	3,454,916	3,454,916
Lending to financial institutions	13.00	450,000	-	-	-	-	-	-	450,000	450,000
Investments	13.40 to 16.50	9,961,744	-	-	-	-	150,000	-	10,111,744	10,111,744
Advances	5.00 to 33.00	48,922,126	2,799,194	761,973	179,113	173,547	438,247	-	53,541,152	53,541,152
Other assets	-	62,788,786	2,799,194	761,973	179,113	173,547	588,247	-	10,282,874	10,282,874
									14,202,268	14,202,268
									67,290,860	67,290,860
Financial liabilities:										
Deposits and other accounts	5.00 to 15.00	38,350,471	6,166,447	11,537,540	-	-	-	-	56,054,458	63,882,349
Borrowings	8.79 to 15.73	898,312	356,875	70,834	-	-	-	-	1,326,021	1,326,021
Subordinated debt	15.98 to 16.25	-	-	-	-	-	2,400,000	-	2,400,000	2,400,000
Other liabilities	-	-	-	-	-	-	-	4,486,108	4,486,108	4,486,108
									12,313,999	12,313,999
									1,888,269	1,888,269
On balance sheet gap		23,540,003	(3,724,128)	(10,846,401)	179,113	173,547	(1,811,753)	-	7,510,381	9,398,650
Unrecognized:		-	-	-	-	-	-	-	(133,011)	(133,011)
Commitments		-	-	-	-	-	-	-	-	-
Off balance sheet gap		23,540,003	(3,724,128)	(10,846,401)	179,113	173,547	(1,811,753)	-	7,510,381	9,265,639
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:										
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	-	57,551,361	2,083,439	371,052	27,647	27,647	553,948	-	6,926,867	6,926,867
									9,856,859	9,856,859
									60,615,094	60,615,094
Financial liabilities:										
Deposits and other accounts	5.75 to 13.50	16,208,270	13,160,763	18,791,947	-	-	-	-	48,160,980	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	10.00	-	-	-	-	-	1,000,000	-	1,000,000	1,000,000
Other liabilities	-	-	-	-	-	-	-	-	2,289,642	2,289,642
									10,146,650	10,146,650
									52,125,852	52,125,852
On balance sheet gap		17,822,120	(14,084,076)	(19,148,822)	70,834	27,647	(446,052)	-	8,489,242	8,199,451
Unrecognized:		39,729,241	(12,000,637)	(18,777,770)	(43,187)	27,647	-	-	(289,791)	(289,791)
Commitments		-	-	-	-	-	-	-	-	-
Off balance sheet gap		39,729,241	(12,000,637)	(18,777,770)	(43,187)	27,647	(446,052)	-	(120,546)	(120,546)
									(410,337)	(410,337)

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. The 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 the Bank will be unable to meet its obligations in a timely manner as they fall due. The Market and Liquidity desk monitors risk appetite limits to avoid undue threats. The Bank's liquidity position is monitored by ALCO on monthly basis through liquidity and capacity ratios, concentrations in terms of nature and size of funding on portfolio as well as transaction basis, funding liquidity and cashflow gaps etc. The Bank has a comprehensive Liquidity Contingency Plan in place to manage liquidity risk and maintains sufficient counter balancing capacity at all times to meet all its obligations on timely basis. 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. 1,250 million (2018: Rs. 4,350 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 2019

The following initiatives were undertaken by the Bank.

- In accordance with State Bank's guidelines regarding Customer Grievance Handling Mechanism (CGHM), Bank has strengthened its complaint management unit by developing centralized complaint management system which helps in capturing, acknowledging, tracking, automatic escalation of unresolved complaints, managing complaint status and producing/extracting relevant report.
- In terms of Complaint Resolution, turnaround time has been reduced to enrich customer's satisfaction up to optimum level.
- 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 the Bank's customers, complaint lodgment channels and procedures are displayed at branches and on webpages both in Urdu and English Languages. Customers are encouraged to lodge their concerns without any distress. Noteworthy increase in number of complaints shows the results of these efforts confirming visibility and reliability on overall Compliant Management.

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

	2019	2018
Total number of complaints received by the Bank during the year	3363	745
Average time taken to resolve: Business Days	5	6

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		Fair Value	
	2019	2018	2019	2018
	Rs.'000		Rs.'000	
Available for sale securities (Note 10)	5,411,744	3,915,710	5,411,744	3,915,710

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, 2019.

Assets	Note	2019 Rs'000	Level of hierarchy	Significant unobservable inputs	Inter-relationship between unobservable inputs and fair value
Investments - T Bills	10	5,411,744	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 with JS Bank have not been revalued at fair value as at the balance sheet date as the SBP, vide BPRD Circular letter No. 04, dated October 23, 2019 has deferred the applicability of International Financial Reporting Standard (IFRS - 9), "Financial Instruments" for financial Institutions till December 31, 2020.

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

	2019 Rs.'000	2018 Rs.'000
Opening balance	3,915,710	14,232,590
Additions during the year	26,096,451	41,883,198
Unrealised fair value gain/(loss) included in other comprehensive income	(798)	(327)
Disposals during the year	(24,599,619)	(52,199,751)
Closing balance	<u>5,411,744</u>	<u>3,915,710</u>

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	2019 Rs.'000	2018 Rs.'000
Lending to financial institutions	5,044,753	8,475,000
Repayment of lending to financial institutions	5,044,753	8,475,000
Investments made during the year	990,294	4,550,000
Borrowings	1,981,344	-
Subordinated debt	210,000	150,000
Repayment of borrowings	1,981,344	-
Branchless banking services recovery of loan portfolio	305,752	2,037,576
ATM services payments	16,912	4,096
Income		
Interest income on deposit account bank balances	9,177	4,781
Interest income on lending to financial institutions	3,987	3,528
Interest income on Investment (TFC)	6,737	4,140
Expenses		
Interest expense on borrowings	2,432	-
Interest expense on TFC	20,351	10,824
Fee, Commission & Bank charges	5,290	42
Branchless banking service commission/ATM charges	-	22,546
- with defined benefit plan		
Contribution paid to KB employees gratuity fund	74,305	193,510
- with others		
Cost reimbursement received from MSDF	321,745	680,114
Cost reimbursement claim from MSDF	149,934	125,583
Balances outstanding at the year end		
- with shareholders		
Balances with banks	530,606	317,256
Investments/ TFCs	50,000	50,000
Interest receivable on investments/TFCs	246	201
Borrowings and subordinated debt	360,000	150,000
Interest payable on borrowings/subordinated debt	7,297	4,355

	2019 Rs.'000	2018 Rs.'000
- with defined benefit plan		
Balance payable to gratuity fund	92,137	19,418
- with key management personnel including President		
Advances - staff loans	86,371	73,764
Other assets - loans and advances to employees	720	9,034
Deposits	104,109	21,189
- with others		
Receivable from MSDF	250,358	208,743

42 CAPITAL RISK MANAGEMENT

The Bank's objectives when managing its capital are:

- To comply with the capital requirements set by the SBP;
- 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
- 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, based on definition of financial terms prescribed by Microfinance Consensus Guidelines, is included in these financial statements to facilitate the calculation of financial ratios.

	2019 Number	2018 Number
Offices		
Total branches of the Bank	186	161
Total service centers/of the Bank	40	36
Micro-credit cases		
Number of active cases at year end	871,228	784,480
Number of loans disbursed during the year	866,813	845,105
Average number of active borrowers for the year	827,854	727,748
	2019 Rs.'000	2018 Rs.'000
Microcredit portfolio		
Microcredit advances receivable - Gross	53,607,444	43,461,235
Total disbursements for the year	57,995,961	50,134,307
Portfolio Quality		
Portfolio at risk	1,983,594	512,226
Portfolio written off	1,724,012	654,682
Loan loss reserve	1,256,670	721,299
Average loan sizes		
Average outstanding loan size	61,531	55,401
Average gross loan portfolio	48,534,340	37,943,103
Information about the Bank's assets/liabilities		
Total assets	81,493,128	70,471,952
Current assets	72,716,682	64,042,328
Fixed assets	3,612,304	1,353,528
Average total assets	75,982,540	64,716,577
Current liabilities	44,199,609	26,659,348
Bank's equity	9,398,650	8,198,267

44 FINANCIAL RATIOS

The definition of ratios, presented below and described in notes 44.1 to 44.22, are in accordance with provisions of Microfinance Consensus Guidelines issued by The Consultative Group to Assist the Poor (CGAP) and does not necessarily reflect the Bank's internal practices, which are based on more granular data. The current year ratios include the impact of implementation of IFRS - 16.

	Note	2019 Percentage	2018 Percentage
Sustainability/Profitability			
Return on equity	44.1	17.52%	31.75%
Adjusted return on equity	44.2	17.76%	32.19%
Return on assets	44.3	2.03%	3.57%
Adjusted return on assets	44.4	2.06%	3.62%
Operational self sufficiency	44.5	115.80%	132.72%
Financial self sufficiency	44.6	116.00%	133.00%
Profit margin	44.7	13.65%	24.65%
Asset/Liability Management			
Current ratio	44.8	1.63	2.40
Yield on gross loan portfolio	44.9	28.39%	28.58%
Yield gap	44.10	5.63%	10.67%
Funding-expense ratio	44.11	13.73%	11.92%
Cost-of-funds ratio	44.12	10.66%	8.31%
Portfolio Quality			
Portfolio at risk	44.13		
from 1 - 29 days		3.85%	1.28%
from 30 - 59 days		1.24%	0.34%
from 60 - 89 days		0.66%	0.21%
from 90 - 179 days		1.08%	0.34%
over 179 days		0.72%	0.29%
Write-off ratio	44.14	3.48%	1.70%
Risk coverage ratio	44.15	63.35%	140.82%
Efficiency/Productivity			
Operating expense ratio	44.16	11.72%	12.58%
Cost to revenue ratio	44.17	55.92%	54.54%
Cost per borrower (Rupees)	44.18	6,997	6,651
Personnel productivity (Numbers)	44.19	162	170
Loan officer productivity (Numbers)	44.20	356	378
Average disbursed loan size (Rupees)	44.21	66,907	59,323
Average outstanding loan size (Rupees)	44.22	61,531	55,401

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 28, 2020 proposed a cash dividend in respect of financial year 2019 of Rs. 1.50 per share (2018: Rs 1.50 per share). This appropriation will be approved in the forthcoming Annual General Meeting. The financial statements for the year ended December 31, 2019 do not include the effect of these appropriations which will be accounted for in the financial statements for the year ending December 31, 2020.

46 MATERIAL OUTSOURCING ARRANGEMENTS

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 2019
1	Prime Human Resource	Employees various Outsourcing services	Rs 276 million
2	Data technologies (Private) Ltd	Data archive, Scanning and record management	Rs 33.3 million
3	Family Planning Association of Pakistan	Client mobilization for group loans	Rs 84.2 million
4	Health & Nutrition Development Society	Client mobilization for group loans	Rs 22.8 million
5	Sindh Graduate Association	Client mobilization for group loans	Rs 29.9 million
6	Human Development Foundation	Client mobilization for group loans	Rs 132.5 million
7	Society for Human Development	Client mobilization for group loans	Rs 25.2 million
8	Security and Management Services	Security Guard Services	Rs 207.6 million
9	Abacus Consulting (Private) Ltd	Quality Reviews of Branches	Rs 2.8 million
10	MES Engineering	Maintenance of Generators at Branches	Rs 5.9 million
11	HM Engineering	Maintenance of Generators at Branches	Rs 6.8 million
12	M3 Technologies (Private) Ltd	SMS transaction alert/intimation to the Bank's clients	Rs 3.0 million

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
Staff Loans	Other Assets	Advances - Net Of Provisions	126,230

48 DATE OF APPROVAL

These financial statements were approved by the Board of Directors of the Bank in their meeting held on February 28, 2020.

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:

S. No.	Branch Name	Address
1	Abbottabad	Ground Floor, Ali Plaza, Mansehra Road, Supply Bazar Abbotabad
2	Ahmedpur East	Khewat No.54/54, Khatooni No. 55, Katechary Road N/By Sheikh Petrol Pump Tehsil Ahmed Pur East.
3	Ali Abad	Khasra No.3891, Ramzan Plaza, Near Agha Khan health center, Karakurum Highway, Aliabad Hunza, Gilgit Baltistan.
4	Ali pur	Khata No221, College Chowk, Opposite Sibtain Town, Ali Pur Road, Mohallah Ghalwain, Tehsil Ali Pur, Distt MuzaffarGarh
5	Arifwala	21- A/ Block, Main Muhammadi Road, Karkhana Bazar, Arifwala, Distt PakPatan
6	Attock	BV 11-56 & 57, Indus Plaza, Barq Road, Near Geedar Chowk, Attock City

S. No.	Branch Name	Address
7	Badeh	Shop No 1-3, Mohallah Pyaro Khan Sariyo, Main Badeh Naseerabad Road, Badeh,
8	Badin	Tehsil Dokri, District Larkana Survey # 33, Adjacent Abbasi Hospital Main DCO Chowk, Karachi Road, Badin
9	Bagh	Al Noor Plaza, Ground Floor, college Road Bagh AK
10	Bahawalnagar	Plot no 7, City Chowk, Jail Road Bahawalnagar
11	Bahawalpur	Shop # 43, New Ghalla Mandi, Model Town 'B', Bahawalpur
12	Basirpur	Khewat No. 416, Khasra No. 75/15/1, Main basirpur Road, Tehsil Depalpur, District Okara
13	Bhakkar	Plot No- 155/2, Club Road , Bhakkar
14	Bhalwal	Plot No 451, Block 4, Liaqat Shaheed Road Bhalwal
15	Buner	Khatooni No 464, Shops located at Opposite New Bus Stand Mardan Road Sawarai District Buner
16	Burewala	Khewat No. 165/154, Khatooni No.331, Salim Khatta, Mohal 439/E.B, Multan Road Industrial Area Tehsil Burewala, District Vehari
17	Chakwal	Shop No. 4/1785, Tehsil Chowk, Near Warid Franchise, Rawalpindi Road, Chakwal
18	Charsada	M. G Plaza, Tangi Road, Charsadda
19	Chichawatni	Plot No. 18-19, Main G T , Road, Near Lakkari Mandi Pull, Chichawatani
20	Chiniot	461- C-D, Chaudhary Center, Jhumra Chowk, Jhang Road, Chiniot
21	Chishtian	Gillani Market Opposite Sadar Eid Gah Highway Road Chishtian, District Bahawalnagar
22	Chona Wala	Khewat No.56/54, Khatooni No. 338 to 343, Square No. 43, 62, situated at Main Hasilpur road Chonawala, Mohal Chak No. 161/M, Tehsil Hasil Pur, District Bahawalpur.
23	Chowk Azam	Khata # 19 Moza lohanch thal Kalan, Multan Mianwala Road, Near greenway Petrol Pump, Chowk Azam, tehsil & District Layyah
24	Chowk Sarwar Shaheed	Property No. 964SH, Khatta No.18, Salim Khatta, Mohal 571/TM,MM Road, Chowk Sarwar Shaheed, Tehsil Kot Addu, District Muzaffargarh.
25	Dadu	Plot # 629, Mian Road, Adjacent to Govt Girls High School, Dadu
26	Daherki	Deh Tapo, Taluka Daherki, District Ghotki.
27	Dahranwala	Warraich Market, Haroonabad Road, Dahranwala, District Bahawalnagar
28	Darya Khan	Plot No 89, ward No. 8, Bhakkar Road Darya Khan, Tehsil Darya Khan, District Bhakkar
29	Daska	Property No.889/11-B/Banglow, Circular Road, oppoiste Civil Hospital, Daska, District Sialkot
30	Dera Ghazi Khan	Khasra No 12289/9829, 12288/9829, Block- J Railway Road , Dera Ghazi Khan
31	Dera Ismail Khan	Al Zaman Building near Siraj Medicle Complex , Circular Road , Dera Ismail Khan
32	Dunyapur	Khewat No. 17, Khatooni No. 110, Railway Road , Near Al- Mulk Hospital, Dunyapur, District Lodhran
33	Ellahabad	Khasra No 2928/1153, Khewat No. 831, Khatooni No. 1638, Situated at Mahal Main Chunian Ellahabad Road Near PSO Pump Ellahabad, Tehsil Chunian, and District Kasur.
34	Faisalabad	Ayubi Plaza P- 834/A , Liaqat Road, Near Police Line Petrol Pump Faisalabad
35	FatehJang	Shop No 1 , Ground Floor, Mudassir Awan Arcade, Pindi Road Fatehjang, District Attock

S. No.	Branch Name	Address
36	Fazilpur	M Ismaeel Plaza Traffic Chowk Main Indus Highway Fazilpur
37	Feroza	Khewat No. 167, Khatooni No.248, Situated at Shahi Road Feroza, Mouza Hayat Lar, Feroza, Tehsil Liaqatpur & District Rahim Yar Khan.
38	Fort Abbas	Khata No 259/260, Khatooni No, 259, School Bazar, Fort Abbas, Distric Bahawalnagar
39	Gahkuch	Khasra No.1087, Rais Market, Opposite City Park, Near LG & RD Office, Main Bazar, Gahkuch, Tehsil Punial, District Ghizar, Gilgit
40	Ghotki	Plot No 115, Devri Sahib road Near National bank of Pakistan Ghotki
41	Gilgit	S M Abdul Hakim Market, Near radio Pakistan, Zulfiqarabad, Jutial, tehsil & district gilgit
42	Gojra	P -499, Siddique Commercial Center, Tehsil Office Road, Gojra Distric Toba Tek Singh
43	Gujar Khan	Haji Raja Karam Ellahi Plaza, G T Road, Gujar Khan District Rawalphindi
44	Gujranwala	Khasra No 182, Khewat No. 42, Khatooni Number 43, Mouza Main Sansi, Tehsil & District Gujranwala
45	Gujrat	Ground Floor Shehroz Plaza, Near S.A fans Area Estate Main G T Road Gujrat
46	Hafizabad	Khewat No.508, Khatooni No.1469, Street No. 06 Near Fiza Carpet, Gujranwala Road, Tehsil and District Hafizabad
47	Hala	Plot No. 284, Old Main National Highway, Adjacent babi- Nooh, Hala
48	Haripur	Pandak Area, Shahrah-e-e Hazara, Haripur
49	Haroonabad	Plot # 734, Front Main Bazar Bangla Road Tehsil Haroonabad, District Bahawalnagar
50	Hasilpur	Khata No. 34/29, Plot Adjacent Honda Motorcycle Showroom, Near Bus Stand, Main Bahawalpur Road Hasilpur.
51	Hassanabdal	Manan Ali Khan Plaza, Near General Bus Stand, G T Road Hassanabdal, District Attock
52	Havelian	Malik Cottage, main Bazar Havelian, District Abbottabad.
53	Hyderabad	Plot No. HCB-73, Qazi Abdul Qayyom Road, gari Khata hyderabad.
54	Islamabad	Amir Plaza, Ground Floor, 94-West, Jinnah Avenue, Blue Area, Islamabad.
55	Jahnia	Khewat No. 19, Chak No. 111/10 - R, Opposite Govt. Middle School No. 03 for Boys, Madina Chowk, Jahanian, District Khanewal.
56	Jail Road-Lahore	House No 15, Shadman Colony, Jail Road, Lahore
57	Jalalpur Pirwala	Almadina Market, Near General Bus stand Multan Road Jalalpur Pirwala.
58	Jampur	Ward No. 13, Registry No. 692/1 Pesticide Market Dajal Road Jampur, Tehsil Jampur, District Rajanpur.
59	Jaranwala	Ismail plaza, Muhallah Usmania Park, Faisalabad Road, Near Fesco Office, Jaranwala.
60	Jhang	Canal Colony road, District Courts Branch, Jhang Saddar
61	Jhelum	Ground Floor, Shan-e-e Muhammadi Plaza, Opposite Tableegh-ul-Islam High School, Near NADRA Office, Civil Lines Jhelum.
62	Juddo	Plot City Survey No 7, Ward No 3 B, Near Rajput Chowk, Shahi Bazar, jhuddo, Tehsil jhuddo, District Mirpurkhas.
63	Kahror Pacca	Ward No. 16/8, Lodhran Road, Union Council Bakhshi Wali, Kahror Pacca, District Lodhran.
64	Kallur Kot	Khata No.244/243, Khatooni No.366, Ward No.2, Lodhi Market Kallur Kot, District Bhakkar

S. No.	Branch Name	Address
65	Kambar/Wagan	Opposite Govt primary boys School, Miro Khan Road, Kambar
66	Kamoki	197/162, Near Shifa Eye Hospital , Main G T Road, Kamoki
67	Kandkot	Jaryan No 264, Main Haibat Road Near National Bank of Pakistan Branch Kandh Kot
68	Karachi	Plot No 13, Commercial Area main Rashid Minhas Road, Gulshan e Iqbal, Block- 10 Opp. Lal Flats Karachi.
69	Karachi - Korangi	Plot No L-04, Sector 35- C, korangi Township, Karachi.
70	Karor Lal Essan	Khasra No. 289, Sewag Plaza, Opposite PTCL Exchange, Fatehpur Road, karor lal Essan, District Layyah.
71	Kashmore	Jaryan No.1/684, Deh kashmore, Taluka & District Kashmore
72	Kasur	Khewat No. 1068, Khatooni No. 1388, Minhas Colony, Chowk Khan Mahal Cinema, Main Lahore Road Kasur.
73	Khairpur	Kacherri Road Khairpur.
74	Khairpur Tamewali	Khata No 119/111, Khatooni No 271-276 Opposite Chand Restrurant, Tehsil Khairpur Tamewali, District Bahawalpur.
75	khanewal	Plot No.1, Street No 1, Block-2, RCA Chowk, khanewal.
76	Khanpur	Qaid Millat Road, opposite Saving Center, khanpur, District Rahim Yar Khan.
77	Khudian Khas	Khewat No.1005, Khatooni No. 3230, Khasra No.6664, Mahal khudian, Near New Bus Stand, Main Depalpur Road, Tehsil & District Kasur.
78	Khushab	Block # 02,Plot # 01,Bank Square, Jauharabad Distt. Khushab
79	Kohat	Najam Complex, Near Police Lines, hangu Road, Kohat
80	Kot addu	Opp. Faisal Motors, Near PSO Pump, Main G T Road , Kot Addu, Tehsil Kotaddu, District Muzaffargarh.
81	Kot Chuhtta	Khata No. 109, Opposite Tehsil Office, Main Indus Highway, Kot Chutta, District Dera Ghazi Khan
82	Kot Mithan	Ward No.7, Registry No.1018 & 1081, Darbar Road, Kot Mithan, Tehsil & District Rajanpur
83	Kot Sultan	Khata No. 77, Mohalla Husnain Abbad Near Civil Hospital, Multan Road , Kot Sultan, District Leyyah.
84	Lahore Shahdara	71, Near Allah Ho Darbar & Masjid Tuheed, Adjacent ZTBL Bank, Main Sheikhpura Road, Jia Musa, Shahdara, Lahore.
85	Lahore-DHA	Plot No. 79, Block CCA, Phase-IV, Defense Housing Authority, Lahore Cantt
86	Larkana	C.S/ R.s No 1827/1876, Near Bank Square, Larkana
87	Leyyah	Plot # 405 / B- 2nd , Main Choubara Road, Near MCB Leyyah.
88	LiaqatPur	87- A, Scheme No.2 , Bank Road, Opposite Qayyum petrolium, Liaqatpur.
89	Lodhran	Plot / khewat No. 509/479 & 528/486, Jalal Pur More Near masjid e Ahl - e - hadees, Bahawalpur Road Lodhran.
90	Malakand Agency	Shop # 1-5 and 29-34Tahir Plaza, Main Bazar, Batkhela, Malakand Agency.
91	Mandi Bahauddin	Khewat No. 282, Khatooni No. 486 to 487, tehreem plaza Punjab Center, Phalia Road, Mandi Bahauddin.
92	Mandi Yazman	Khata/Khawat No 404 Khatoni No. 609, Situated at Chak No. 56/DB Alif, Bahawalpur Road, Opposite NBP Bank Mandi Yazman

S. No.	Branch Name	Address
93	Mankera	Khata # 224-225/218-219, Khatooni # 356-357, Mankera Town, Main Jhang-Bhakhar Road, Tehsil Mankera District Bhakhar
94	Mansehra	Ammar's Arcade, Near noor College, Old Balakot Bypass Road, Mansehra.
95	Mardan	CB 445/ A- 2, Saddar Bazar, The Mall, Mardan Cantt. Mardan.
96	Mehar	Survey No 151, Khairpur Nathan Shah Road, Mehar, District Dadu
97	Mian Channu	M A Ghani colony, street # 04, Corner Plot, GT Road, Near Opposite Tehsil Complex Mosque , Mian Channu
98	Mianwali	Plot No. 706, Soney Khel Market , Govt. High School Road, Mianwali.
99	Minchan Abad	Khata/ khatooni No. 152, Mouza (Mohal Michinabad) Distt. Bahawalnagar.
100	Mirpur	Plot No 1., Sector No. II, Allama Iqbal Road, Mirpur, Azad Kashmir.
101	Mirpurkhas	Ward -A , MP Colony , Main Umer Kot Road, Mirpurkhas.
102	Mithi	Shop # 01 to 6, Sameer & Kunal Market Near Kashmir Chowk Main Naukot Road Mithi, District Tharparkar
103	Mubarik Pur	Khewat no. 205, Khatooni No.526, Situated at Mohala Mubarik Pur, Tehsil Ahmad Pur east, Distt. Bahawalpur
104	Multan	Shop No.1, Royal Shopping Centre, Azmat Warsi Road, Dera Ada Chowk, Multan.
105	Muridke	Salim Qitta 17, Khewat No. 419, Khatooni No. 1019 to 1023, Mouza Mureedke Near Bilal Masjid Main GT Road Tehsil Mureedke, District Sheikhupura
106	Muzaffar Garh	Intiqal No.6365, Khewat No.60, Opposite Graveyard Roshan Shah, Multan Road, District Muzaffargarh.
107	Muzaffarabad	Raza Building, Poultry Farm Road, Opposite AJK University, Muzaffarabad, A.K
108	Nankana Sahib	Khewat No.551, Khatooni No.700, Adjacent Khalid Rice Mills, Morni Wala Karkhana, District Nankana Sahib
109	Narowal	VI-284, Near Siddique Pura Morre, Circular Road, Narowal.
110	Naseerabad	Khasra No.6775/76, Near City Police Station , Main Quetta Road, Dera Murad Jamali, Naseerabad.
111	NawabShah	House # A-306, Paro hospital Road, Otaq Quarter, Nawabshah
112	Nosheroferoze	Plot Near Jilbani Petroleum Services, Mian National Highway, Naseer Feroze.
113	Nowshera	Al Jameel City Centre, Near PSO Police Petrol Pump, Main GT Road, Nowshera.
114	Okara	Habib Cotton Factory, M. A Jinnah Road, Chack No. 1-A/4-L, Okara.
115	Paharpur	Khawat No.870 Khatooni No.843, Khasra No.4809/1&4814, Qitta 4, Khewat No.886, Khatooni No.839, Khasra No.4810, Rangpur Road, Mouza Paharpur Kalain, Tehsil Paharpur, Dera Ismail Khan
116	Pakpattan	Khata No. 3182/3152, 4347/3993, Khatooni No. 3384, 4754, College Road, Pakpattan.
117	Pannu Aqil	Plot No. 435, Baiji Road, Pannu Aqil.
118	Pasrur	Faisal Colony, Main Sialkot Pasrur Road, Near Gujar PSO Petrol Pump, Pasrur.
119	Pattoki	Khasra # 1920/1573 Khewat # 926 Khatoni # 2857 Main Multan Road opposite Naseem Anwar Hospital Pattoki
120	Peshawar	Amin Hotel Main GT Road Hashtnagri Peshawar

S. No.	Branch Name	Address
121	Pir Mahal	Khewat No. 3, Khatooni No.12 to 13, Situated at Chak No.319 GB Urban, Tehsil Pir Mahal, District Toba Taik Singh
122	Qadirpur Rawan	Plot No. 26, Opposite Town committee Office , G.T. Road QadirPur Rawan
123	Qasba Gujrat	Khewat No. 382, khatooni No. 1, Salim Khatta, ghazi Ghat Road, Near Chowk ghazi Ghat, Qasba Gujrat, Tehsil Kot Addu, Disst. Muzaffargarh
124	Rahim Yar Khan	Khewat No. 302/278, Situated at 16-A, Businessman Colony, Opposite Desert Palm Hotel, Rahim Yar Khan
125	RajanPur	Kamran Market, opposite Jamia Sheiks Darkhasti, Rajanpur.
126	Ranipur	Shop No. 1-3, Plot No. 232/4-7, Near Mazhar Model School, Main National Highway, Ranipur.
127	Ratodero	Shop No 1,2 & 3, Ward- B, Near Main Bus Stand , Ratodero, District Larkana
128	Rawalpindi	Ropyal Brothers Plaza, Property No. B- 130, Main Muree Road, Chandni Chowk, Satellite Town, Rawalpindi
129	Rawlakot	Al- Makkah Shopping Plaza , CMH Road , Near Ali Firdous Clinic, Supply Bazaar, Rawalakot.
130	Rohillanwala	Khata No. 57 Situated at Mohal Sandaila, Main Ali Pur Road Near Canal House Rohillanwali, Tehsil & District Muzafargarah.
131	Sadiq Abad	Chak No. 10/NP, Nishtar Chowk, KLP Road, Sadiqabad, District Rahim Yar Khan.
132	Sahiwal	Khewat No.15848/4764, Liaqat Ali Road, Sahiwal.
133	Sahiwal-SGD	Khewat No. 2695, Nawan Lok, Main Sargodha Road, Tehsil Sahiwal, District Sargodha.
134	Sanghar	Choudhary Corner, Main Nawabshah Road Sanghar.
135	Sargodha	Property No 3354, block No. 16, Near NADRA Office, Sargodha
136	Shah Kot	Khawat No 33, Khatooni No 34, Khasra No, 519, Haq Bahoo Chowk, Shah Kot, District Nankana
137	Shahdad Kot	City Survey No. 883, Ward- A, Lakhpati Road Near Keenjhar Public School, Shahdad Kot, Tehsil & District Shahdad Kot.
138	Shakargarh	Khasra No. 1449/178, Maqsood Plaza, Near Railway Phatak, Railway Road, Shakargarh, Tehsil Shakargarh, District Narowal.
139	Sheikhupura	Al Rehman Center, Near Millan Marriage Hall , Main Lahore Road Sheikhupur.
140	Shikarpur	Hizb Plaza, Plot No. 3/1, Near Jahaz Chowk, Station Road Shikarpur.
141	Shorekot	Khata No. 1191, Ammad Ashraf Plaza Jhang Road, Shorekot City, Tehsil Shorekot District Jhang
142	Shujahabad	Plot No E-456, opposite Khan Brothers Bus Stand , Jalalpur Road, Shujahabad.
143	Sialkot	Small Industrial State, Near Alam Chowk, Shahabpura Road Sialkot
144	Sukkur	Plot- Serial # 274, Opposite Total Petrol Pump, Military Road, Sukkur.
145	Swabi	Rehman Market, Swabi Mardan Road , Swabi.
146	Swat (Mingora)	Ground Floor , Shahzad Plaza, Saidu Sharif, Makan Bagh Road, Mingora, Swat.
147	Tando Allahyar	Plot # 2 Block A, Survey # 273/1, Opposite to Civil Hospital, Main Hyderabad Road, Tando Allahyar
148	Tando Muhammad Khan	Plot No. C S 832, Opposite SSP office, Tando Muhammad Khan

S. No.	Branch Name	Address
149	Taunsa Sharif	Khata No. 1739, Mangrotha Road, Taunsa Sharif
150	Thatta	Shop No. 6, Al-Shahbaz Shops, National Highway, Thatta
151	Tibbi	Khata No.81, main Indus Highway, Tibbi Qaisrani, Tehsil Taunsa & District D G Khan
152	Toba Tek Singh	Al- Aziz Center Shore Kot Road, Toba Tek Singh.
153	UCH Sharif	Abbaisa Road Opposite Mariam Hospital Near Lallu Wali Pull Uch Sharif Tehsil Ahmedpur East Dist. Bahawalpur
154	UmarKot	Saleem Shopping Center, Shop No. 1 & 2 Gulshan-e- Saleem Housing Society, Main Chore Cantt Road, Opposite M. A Jinnah Park, Umerkot
155	Vehari	Plot # E/8 Main Karkhana Bazar Near Goal Chowk, Vehari
156	Wazirabad	Khewat No.1223, Khatoni No.1954, Khasra No.1767, Main Sialkot Road, Opposite Bandhan Marriage Hall, Wazirabad
157	Zafarwal	Khewat No. 575, Khasra No. 2637, Situated at Town Committee, Zafarwal, Mohalla & Tehsil Zafarwal, Disst. Narowal
158	Zahirpir	Old GT Road, Canal Rest House Chowk, Zahir Pir, District Rahim Yar Khan.
159	Zareef Shaheed	Khewat no. 350/342, Khatooni no. 1120 to 1124, Situated at Main Lodhran Road Near Liaqat Chowk Raja Ram Zareef Shaheed Tehsil Shujabad Dist. Multan.
160	Malir Karachi	S-1/296, Saudabad, Malir, Karachi
161	North Nazim Abad	Sub-Plot No.6, Block No.1, Sooq Ul Aman, Plot No. FLT-1, Block-G, North Nazimabad, KDA's Scheme No.2, Karachi
162	Head Rajkaan	Chak No.35, DNB Noor Pur Road, Head Rajkaan, Tehsil Mandi Yazman, Distt. Bahawalpur
163	Kot Radha Kishan	Khewat No.302, Khatooni No.422 to 437, Main Raiwind Road, Azam Abad, Opposite NADRA Office, Kot Radha Kishan, Distt. Kasur
164	Talagang	Khewat No. 664, Khatooni No. 1192, Khasra No. 3625/1274, Sadiq Abad Chowk Main Sargodha Road, Talagang, Distt Chakwal
165	Farooqabad	Khewat No. 266, Khatooni No. 291,320, Near Bus Stand Main Approach Road, Farooqabad, Distt. Sheikhupura
166	Tando Adam	Shop No. CCS/945/1, Near Muhammadi Chowk, Tando Adam, Distt. Sanghar
167	Marot	Khewat No. 122/116, Khatooni No.311 & 580, Salim Khatta Qitta 6, Mohal 319/HR, Main Fort Abbas Road, Marot, Tehsil Fort Abbas Distt. Bahawalnagar.
168	Jatoi	Khata No. 7/6, Khatooni No.13 to 16, Mohalla Qasir Ghazlani, Tehsil Jatoi & District Muzaffargarh
169	Gagoo Mandi	Khewat No. 182, Khatooni No. 525 to 529, Salim Khatta, Chak No. 187 EB, P/O Gagoo, Tehsil Burewala District Vehari
170	Sarai Mohajir	Khewat No 130, Jhang Bhakkar Road, Sarai Mohajir
171	Mandi Ahmad Abad	Khewat No.44, Khatooni No.95 Kangan Pur Road Mandi Ahmad Abad Tehsil Deepalpur, District Okara
172	Sanjar Pur	Khewat No. 3, Khatooni No.29 to 33, KLP Road Opposite Agriculture Office Sanjarpur, Chak No.44/NP, Hadbast 102, Tehsil Sadiqabad & District Rahim Yar Khan
173	Adda Zakhira	Khewat No.75/71, Khatooni No.195, Salim khatta Qitta 1, Mohal 231-WB, Adda Zakhira, Tehsil Dunyapur, District Lodhran

S. No.	Branch Name	Address
174	Shah Jamal	Khata No. 309 Khatoni No. 357 Khan Garh Road Near Mullan Walla Chowk Shah Jamal , District Muzfargarh
175	Muhammad Pur Dewan	Khata # 268 main Indus highway, opposite Rural Health Center, Muhammad Pur Dewan, Tehsil Jampur District Rajanpur
176	Sillanwali	Khawat No.522, Khatooni No.642, Khasra No546/55, Zia Shaheed Road, Mohalla Mandi Sillanwali, District Sargodha.
177	Jacobabad	Survey No. 202/33/5, Kamora Line, Main Quetta Road, Taluka & District Jacobabad
178	Pindi Bhattian	Khawat No.183, Khatooni No.476 to 494, Qitta 397, Hafizabad Road, Mohal & Tehsil Pindi Bhattian, District Hafizabad
179	Shahdad Pur	City Survey No.1009, Situated at Ward A, Station Road, Shahdadpur, District Sanghar.
180	Timergara	Ground Floor, Shah Shopping Centre, Bypass Road, Near Shaheed Chowk Timergara District Lower Dir.
181	Kunri	Plot No.148-149, Survey No. 209/1 & 209/2 Deh Chajhro, Tapo Chajhro, Taluka Kunri District Umerkot.
182	Lala Musa	Khata No.1, Khatooni No. 1 to 263, Khasra No. 288, G. T Road, Near Nisar Hospital, Mohal Kaira, Lala Musa, Tehsil Kharian & District Gujrat.
183	Qaidabad	Khawat No.1188, Khatooni No.1569, Plot No.62, Mianwali Sargodha Road Quaidabad Tehsil Quaidabad District Khushab.
184	Mailsi	Khawat No 73/71, Khatooni No. 97, Khasra no.92/19/2, Mohal & Tehsil Mailsi, District Vehari
185	Sangla Hill	Khawat No. 335, Khatooni No. 783, Murabba No. 28, Qila No.05, Main Safdarabad Road, Opposite Allah Bux Town, Chak No 46/R.B, Tehsil Sangla Hill, District Nankana Sahib.
186	Karachi-DHA	Shop # 01, Plot # 30-E, Badar Commercial, Street # 1, Phase V, DHA Karachi.

49.3 The addresses of the service centers of the Bank are as follows:

S. No.	Service Center Name	Address
1	Matotali	Khasra No 32/26, Ward # 02, Basti Wala road, Rana Colony, Matotali, Shujahabad District Multan
2	Basti Larh	Bahawalpur Road Grains market Ada Larr Tehsil & Dist. Multan
3	Mehrabpur	DSC. No.IIIA-285, Town Mehrabpur, Tehsil Mehrabpur, District Naushehro Feroze, Sindh
4	Dinga	Khasra No. 3028/2 & 3028/1, Khawat No. 140 & 142, Khatooni No. 747,749 situated at Mouza Dinga, Tehsil kharian, district Gujrat
5	Harappa	Khata No.23, Khatooni No.53, Bypass Chowk Harappa, District Sahiwal
6	Sharaqpur- Shareef	Khawat No. 578, Khatooni No. 1748, Khasra No. 670/1 Aqab Lal puli Chungi Stop near General Bus stand, Main Sharaqpur Shareef-Jaranwala Lahore.
7	Mor Khunda	Khawat No.24, Khatooni No. 166, Khasra No. 846/2/2, Main Lahore Road, Opposite UC-49 Office, Mor Khunda, Tehsil & District Nankana Sahib.
8	Bhera	Khawat No. 1304, Khatooni No. 1877 Cha Jhangi wala dahkeli near Bank of Punjab bhera, Bhalwal dist. Sargodha.

S. No.	Service Center Name	Address
9	Qila Didar Singh	Khewat No.1246, Khatooni No.1543, and Khasra No. 324 Situated at Main Bazar Opposite Govt. High School No. 1 for boys, Mouza Qila Singh Tehsil Sardar & District Gujranwala.
10	Kot Ghulam Muhammad	Ward No.B Plot No. 977, Main Road Kot Ghulam Muhammad District Mirpur Khas.
11	Dulley Wala	Khewat No. 2126/2039, Khatooni No.3649 Situated at MM Road, Mohal Dulley Wala, Tehsil & District Bhakkar.
12	Fateh Pur	Khata No. 29 Situated at Chak No 249/TDA Ward No 1, Karor Fateh Pur road Fateh Pur Tehsil Karor District Layyah.
13	Gharo	Main National Highway Near Town Committee, Gharo

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

S. No.	Permanent Booth Name	Address
1	GPO-New Town Karachi	General Post Office, New Town Guru Mandir, Karachi.
2	GPO-Chandigarh Road Karachi	General Post Office, I.I Chundrigar Road, Karachi.
3	GPO-Model Town Lahore GPO-Mall Road Lahore	General Post Office, Model Town Lahore.
4	GPO-University Road	General Post Office, Bank Square, Mall Road, Lahore.
5	Peshawar	General Post Office, Beside Pashtu Academy, University of Peshawar, Peshawar.
6	GPO-Saddar Cannt	General Post Office, main Saddar,GPO Road Peshawar.
7	GPO -G 6 Islamabad	General Post Office, Near Melody Food Park, Sector G-6, Islamabad.
8	GPO-Saddar Road Rawalpindi	General Post Office, Main Saddar, Adjacent Mall Plaza, Mall Road, Rawalpindi.
9	Nowshera Virkan	Khewat No. 257, Khatooni No. 305, Qitta 2, Salim Khatta, Mohal Ghatthri, Tehsil Virkan, Distt. Gujranwala
10	Safdarabad	Khewat No. 682, Khatooni No. 1356, Murrabba, 193, Qila 10, Mohal Chak 13 RB, Tehsil Safdarabad, Distt. Sheikhpura
11	Phalia	Khewat No. 14, Khatooni No. 69, Abdullah Plaza, Main gujrat Road, Phalia Keema, Distt. Mandibahauddin.
12	Jafferabad	Pakistan Post Office, T chowk, Dera Allah Yar, Distt. Jafferabad.
13	Abdullah Harron Road Karachi(GPO)	Pakistan Post Saddar GPO, Abdullah Harron Road Karachi.
14	Chaksawari	Wahid Plaza, Main Road, Chaksawi, Mirpur, Azad Kashmir.
15	GPO Oghi- Abbotabad	Pakistan Post Office, Batgram Road, Near Police Station, Oghi, Distt. Mansehra
16	Alipur Chatta	Khewat No. 1100, Khatooni No 1547,, Khasra No. 1599, Near Railway Phatak, Gujranwala Road, Tehsil Wazirabad, Alipur Chatta, Distt. Gujranwala.
17	Lalian	Khewat No. 291, Khasra No.720, Bangle Road, Near Nawab Chowk, Opposite Dera Ghulam Muhammad Lali, Mouza Lalian, Tehsil Lalian , District Chiniot
18	Nowshera	Khewat No. 821, Khatooni no. 1482, Khasra No. 2155, Opposite Nissal Plaza, Sakesar Road Nowshera, District Khushab

S. No.	Permanent Booth Name	Address
19	Sumandari	Khewat no. 373/348, Khatooni No.651 to 652, Chak No. 467Ghaf Bay, Tehsil Samundri & District Faisalabad
20	Kamalia	Khasra No. 4209, Plot No. 1062 D, Niaz Chowk, Mohalla Niazabad, Kamalia, District Toba Tek Singh
21	Thoker Niaz Baig	Khasra No 10713, Khatooni No. 1099, Lalazar Market Raiwind Road Lahore
22	Mandi Faizabad	Khewat No. 05, Khatooni No. 143- in Salam Khata, Qitat 104 Main Jaranwala Road, Mohala Kot Yaqoob, Mandi Faizabad
23	Kot Momin	Khawat No.226 Bhagtan Wala Road, Near Askar Petrol Pump, Mohal & Tehsil Kot Momin District, Sargodha
24	Jhabran Mandi	Khewat 1096/1084, Khatooni no. 2257, Main Grain Market Jhabran Mandi, Sheikhpura.
25	Chungi Amar Sadhu	Khewat No. 194, Khatooni No. 542 to 549, Ferozepur Road, Mouza Dhollu khurd, Model Town, Lahore.
26	Paroa	Khewat No. 859, Khatooni No. 1135, Khasra No. 2452/3121, Main Paroa Adda, Near HBL, Tehsil Paroa, District D.I.Khan
27	Shaheed Fazal Rahu	Book Entry No.579, Survey No.131/300, Deh Baro Dari, Tapu Golarchi, Taluka Shaheed Fazil Rahoo, District Badin Shahi Bazar, Tehsil Golarchi

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



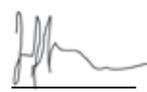
PRESIDENT



CHAIRMAN



DIRECTOR



DIRECTOR



Prosperity on all Accounts

55-C, 5th Floor, Ufone Tower,
Jinnah Avenue, Blue Area, Islamabad.

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