

# ANNUAL REPORT 08

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فوشمالی بینک لمیٹڈ  
khushhalibanklimited





# ANNUALREPORT 08





Founded in the year 2000, as the country's first regulated microfinance institution was part of the Government of Pakistan's Poverty Reduction Strategy and Microfinance Sector Development Program. With its Headquarters in Islamabad Khushhali Bank operates on a nationwide mandate across Pakistan with leading commercial banks as its shareholders. Its mandate is to retail microfinance services and act as a catalyst in stabilizing the country's newly formed microfinance sector.

### **Mission Statement**

To strengthen the economic base of low-income populace across Pakistan by improving their accessibility towards financial services. By supporting a diverse product suite with exemplary customer service, and by combining cost-efficiency with next-generation delivery systems, we intend achieving our core objective of operational and financial self-sufficiency.

## Changing Lives **Transforming Destinies**



Ms. Sofia is one of the Citi-PPAF Microfinance Award Winners. She is a self-driven individual who changed her life with the support of Khushhali Bank Limited. Taking advantage of KBL's micro loan facility, today she owns a small yet successful business and is supporting her family better than ever.



Mr. Niaz Ahmed is also a Citi-PPAF Microfinance Award Winner, one of the successful micro entrepreneurs from Sukkur. His hard work and positive attitude played a major part in his success. However, to begin with he didn't have enough funds to run the business successfully. It was after he availed the loan facility from Khushhali Bank that his business flourished and made a substantial difference in his income and greatly improved his family's quality of life.



Masoom Ali Shah lives with his wife and seven children in Muzaffarabad. A craftsman by profession, he was living off a meagre pension from the Small Industry Department of the Government of Azad Jammu & Kashmir. His monthly pension was so insignificant that he was unable to make both ends meet. So he decided to establish a training and production centre. But lack of funds was a great obstacle as his plans were big and resources scant. With complete faith in Allah and confidence on his skills, Masoom applied for a loan from KBL. With less financial worries and a focused vision, he not only managed to establish the center but is also running it quite successfully. Masoom is thankful to KBL's financial assistance which enabled him earn livelihood in such a respectable manner.



Bushra Bibi runs her own noodle-making business from home. She still sells homemade vermicellis in the market but since she acquired loan from Khushhali Bank Limited things are quite different for her now. Today, she is financially independent and is also taking care of her family in a way like never before.



Jamali's father died when she was still a child. But her tragedy did not end there. Her elder brother who took up the challenge of supporting their family of six members also died in an accident soon after. This was the time when Jamali's family was fighting hard for survival. Tailoring being her subject of interest, Jamali took admission in the Jafakash Aurat Project at Gwadar. On completing the course, she started her own tailoring and sewing business and very soon received a great response from her locality. Khushhali Bank Limited offered her a timely loan through Jafakash Aurat Project, and now her monthly income has grown from Rs.3000 to an astounding Rs14,000. Microfinance from KBL has brought a major change in her life and her family's living condition has also changed tremendously. Jamali has now become a role model for many woman in the area, with the kind of confidence, determination and belief she wields in herself.



Riaz Hussain is a farmer from Sukkur. Although he is hard working, several factors have led him to be unsuccessful in his agriculture business. In order to generate more income, Hussain had a few ideas, but they were all expensive. Consequently, Hussain approached Khushhali Bank Limited for a loan. Because of the loan, Hussain was able to make a very positive impact on his family and community. He was able to boost his income level which enabled him improve his standard of living and retain credibility in the market. Riaz Hussain's success lies in his dedication and the loan provided by Khushhali Bank Limited.



## one promise

When a bank makes a momentous difference in people's lives by fostering commerce in places that seem as distant as the next spring of water, then a bank is more than a bank. It's a promise.

A promise to grow and protect. A promise to rise against the odds. A promise to better livelihood. A promise to bridge ordinary men and women with extraordinary opportunity to reach their

full potential. After nurturing over 1,500,000 microfinance relationships through our extensive network operating across Pakistan's rural and urban divides, we should know.

# Board & Management

## Board of Directors

Syed Ali Raza	Chairman
Zakir Mehmood	Director
Atif Aslam Bajwa	Director
M. R. Mehkari	Director
Samina Rizwan	Director
Zia Nazar Niazi	Director
M. Ghalib Nishtar	Ex- Oficio Director

## Audit Committee

M. R. Mehkari	Chairman
Atif Aslam Bajwa	Member
Samina Rizwan	Member

## Management Team

M. Ghalib Nishtar	President
Ali Raza Anjum	Head Risk Management
Saleem Akhtar Bhatti	Head Finance & Accounts
Nasir Naqvi	Head Information Technology
Zahid Raza	Head Human Resources
Umar Farooq	Head Operations
Yawar Khan Afridi	National Distribution Manager
Kamran Adeel	Manager Compliance
Aamir Shakoor Khan	Manager Audit
Amina Hassan	Regional Business Manager, Lahore Region
Aftab Alam	Regional Business Manager, Rawalpindi Region
Ch. Shahid Mehmood	Regional Business Manager, Multan Region
M. Asim Anwar	Regional Business Manager, Karachi Region
Niaz Ahmad Hingoro	Regional Business Manager, Hyderabad Region



## the spirit of khushhali

Khushhali Bank Limited enjoys the status of being the largest microfinance bank in Pakistan. With its mission to strengthen the economic base of low-income populace across Pakistan, Khushhali Bank is committed to its pledge. A promise to grow and protect.

A promise to rise against the odds. A promise to enhance the livelihoods of the poor. A promise to provide ordinary men and women with extraordinary opportunities to reach their full potential. Over the years, Khushhali Bank has brought a phenomenal change in the

lives of millions of individuals in rural and urban areas of Pakistan.

Khushhali Bank continues to expand its range of services and improve the quality of life and livelihoods of millions across Pakistan.

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# President's Message

The Year 2008 has been a turbulent one for the world economy with soaring energy prices, and un-precedent surge in food Inflation and financial market crises. These factors have had an adverse impact of varying Intensities on economies across the globe leading to slowdown in economic growth and forecast.

Consequently, the turmoil in the financial markets, slower growth in high Income countries and rising inflation has adversely affected the growth prospects of developing countries, particularly countries that are vulnerable to foreign capital flows and despite production growth at the aggregate level higher food and energy prices have caused real incomes to decline, significantly increasing hardship for low income households.

The same is true of Pakistan' economy that witnessed number of challenges during the preceding year that includes:

- Deceleration in economic growth
- Rising Inflation (Particularly food Inflation)
- Growing fiscal trade and current account deficits
- Political transition
- Geo- political factors leading to conflict & security challenges, particularly, in the northern part of the country

As indicated above the adverse impact of the situation is more pronounced within low Income households with meager Income levels and for Microfinance Institutions (MFI's) that serve this market segment in terms of increasing cost of operation as well as escalating cost of borrowings and delinquencies.

The MFI's are likely to face a challenging task over the short--medium term, witnessing slowdown in growth, rising costs and escalation in funding and portfolio risk.

However, despite the challenging environment the affects of the situation can be mitigated to an extent by pursuing the right strategies some of which were implemented during the year under review while more will follow over a short -medium term horizon.

## Re-aligning Growth Objectives

While the year in review witnessed growth in business and clients the numbers reflect a more sustained level of expansion to be pursued over the next two-three years

## Strengthening Internal Control

Independent risk management & compliance units were established during the year and are now fully operational to proactively review and respond to the emerging situation

The Bank has developed policies guidelines on key operation areas as mandated by State Bank of Pakistan under the Prudential Regulations and they stand approved by the Board. The Bank will however strengthen integration between policy and operation units to improve implementation of system of internal controls and control environment thus leading to operating efficiencies; improved compliance with laws and regulations and minimizing risk.

## Monitoring Operating Efficiency & Productivity

As a strategy the bank is phasing out dependence on non-core banking revenue (grants and subsidies); in this context; monitoring and review of operational and financial sustainability at the branch level has been initiated through sustainability benchmarking. This is an ongoing process for better service and optimal resource utilization leading to possibility of relocation or closure of non-performing branches and service centers. Efficiency & productivity benchmarks have been set across areas of operation and measured periodically.

## Portfolio Diversification

The portfolio concentration is being rationalized across segments and territories given the emerging market challenges and opportunities.

## Aligning Loan Product Design

The loan product has been realigned keeping in view the requirements of the client and business and while loan amounts have been enhanced by up to 40% but reviews are strictly based on risk and cash flow analysis.

## Deposit Mobilization

Khushhalibank has been a credit only institution since inception supported by a credit line from the Asian

Development Bank, however, our strategy of commercialization entails raising liability from clients and commercial sources for the future.

Accordingly, a new model of Full Service Branches was rolled out during the year at select volume-based sites to handle both asset and liability products along with in-branch service.

Low-overhead service centers will continue to support their respective full service branches in enhancing client outreach and will service asset products only. Mobile sales teams will deliver service at the client's doorstep.

Initially basic liability product is targeted at these locations in order to capture base market until core banking application capable of handling more complex product mix is implemented (Targeted: 4th Qtr 2009); accordingly the deposit mobilization drive will be fostered thereafter paving the way for requisite liquidity support to business growth and expansion.

## Micro Insurance

Micro insurance is an imminent need of low income households and provides a fee based income opportunity to Microfinance Institutions. While we have been marketing death-disability insurance across our entire client portfolio successfully the range of products will be expanded in 2009.

## Commercial Sources of Funding

The microfinance sector in Pakistan supported by nearly US dollars 400 million of donor funding channeled through the GOP helped fuel exponential growth over the period 2001-07 to one of the highest globally at 45% CAGR, these funds are gradually drying up and will not be able to keep pace commensurate with the expected growth rates targeted with the SBP Microfinance vision and strategy document.

Therefore, MFI's in Pakistan will have to look for alternate and commercial sources of funds for their capital requirement that include debt, deposit and equity. Debt financing in microfinance far exceeds equity, driven by the creation of microfinance Investment vehicles and structured debt instruments such as collateralized debt and loan obligations. These Instruments have been customized to the microfinance sector offering first loss junior tranches at

higher rates to the risk-leading development banks/donors and safer senior position with guaranteed return to commercial investors.

State Bank of Pakistan recently sponsored a credit guarantee facility providing MFI's access to enhanced funding from commercial bank's with up to forty percent first loss guarantee that may provide some relief but may not be sufficient to meet the requirement of sector.

Khushhalibank's thrust will be towards exploring opportunities to access commercial sources of funding besides pursuing deposit mobilization through launch of full service branches.

## Human Resource

While these measures will position Khushhalibank to capitalize on opportunities within an environment that is challenging and I believe our strength lies in attracting and retaining an exceptional team of committed human resource inducted across all parts of Pakistan that remained focused on delivering on Institutional goals and objectives under extreme circumstances. We will continue to invest in their skill enhancement and progression opportunities within the Institution.

I wish to acknowledge the support of all our stakeholders.



M. Ghalib Nishtar  
President

April 2009

## Directors' Report to the Shareholders 2008

On behalf of the Board of Directors, I am pleased to present the Annual Report of Khushhali Bank Limited along with the audited financial statements and Auditors Report thereon, for the period ended December 31, 2008.

### Preamble

Nearly eight years ago, Khushhali Bank (KB) was established through the promulgation of KB Ordinance 2000 as a part of Microfinance Sector Development Program (MSDP) which has ended in June 2008.

The review mission of Asian Development Bank (ADB) conducted a project wrap up review in July 2008 thus completing modalities related to program closure and KB exit from MSDP framework.

### Conversion of Khushhali Bank

The Government of Pakistan signed an agreement namely; "Improving Access to Financial Service Program" (IAFSP) with ADB with an envisaged outlay of US \$ 320m. In pursuance of the requirements of IAFSP; all Micro Finance Banks including KB were required to operate under the same legal/regulatory framework; i.e. MFIs Ordinance 2001.

Consequently, SBP prepared a conversion structure for KB which was agreed upon by the Ministry of Finance after which KB was advised to proceed with the conversion process that required KB's incorporation as new entity with SECP under the MFIs Ordinance 2001, issuance of MFB license to the new entity, liquidation of KB by transferring its assets, liabilities to newly licensed entity and repealing of KB's Ordinance 2000.

The Scheme of Conversion of KB was approved by the Board and its Shareholders and a new entity under the name and style of "Khushhali Bank Limited" (KBL) was incorporated with SECP.

In compliance with the requirements of Scheme of Conversion effective 1 April 2008, three months audit of KB was conducted to ascertain the assets and liabilities of KB for the purposes of their transfer to KBL. Accordingly; the financial statements of KB for three months; i.e. 1 January 2008 to 31 March 2008 were approved separately by the Board in October 2008.

### Operating Results for the Bank

The accounts under review are the first financial statements of the new entity; i.e. KBL and cover accounting period of nine months i.e. 1 April 2008 to 31 December 2008. As there is no comparative information for the balance sheet, profit and loss account, cash flow statement, statement of changes in equity and the related notes; therefore the comments are limited to the current financial statements.

### The results of operations under review are presented below;

	From 01 April 2008 to 31 December 2008 (Rupees)
<b>PROFIT AFTER TAXATION</b>	<b>102,762,558</b>
Un-appropriated profit brought forward	-
Profit available for appropriation	102,762,558
<b>APPROPRIATIONS:</b>	
Transfer to -	
- Statutory reserve	(20,552,512)
- Contribution to Microfinance Social Development Fund	(10,276,256)
- Depositors' Protection Fund	(5,138,128)
- Others – Risk Mitigation Fund	(5,138,128)
	(41,105,024)
<b>UNAPPROPRIATED PROFIT CARRIED FORWARD</b>	<b>61,657,534</b>

## Pattern of Shareholding

The Pattern of shareholding of KBL as at 31 December 2008, as required under section 236 of the Companies Ordinance 1984 is as follows:

### Shareholding

No. of Shareholders	From	To	Total Shares Held
3	1	1,000,000	3,000,000
4	1,000,001	3,000,000	9,500,000
2	3,000,001	5,000,000	10,000,000
3	5,000,001	20,000,000	48,000,000
3	20,000,001	40,000,000	100,000,000
<b>15</b>			<b>170,500,000</b>

### Categories of Shareholders

Particular	Number	Shares held	Percentage
Individual	-	-	-
Joint Stock Companies	-	-	-
Financial Institutions	15	170,500,000	100%

### Shareholders holding above 10% of voting shares are:

Shareholder	Shares
National Bank of Pakistan	40,000,000
Habib Bank Limited	30,000,000
MCB Bank Limited	30,000,000
United Bank Limited	20,000,000
Allied Bank Limited	20,000,000
<b>Total Shares</b>	<b>140,000,000</b>

## Credit Rating

During the year, credit rating agency JCR-VIS maintained Banks long term rating at "A-" and short term rating at "A-2" with stable outlook.

According to the JCR-VIS these rating reflect good credit quality and adequate protection factors.

## Capital Adequacy

As of 31 December 2008, the Bank's Capital Adequacy Ratio (CAR) measure at 43% as against the mandatory requirement of 15% under the Prudential Regulation (PR).

## Acknowledgement

On behalf of the Board of the Bank, I would like to express my sincere appreciation to the State Bank of Pakistan for their guidance and support; to the shareholders and customers for their patronage; and to the employees for their commitment.

  
S. Ali Raza  
Chairman

March 30, 2009

## Auditors' Report to the Members of Khushhali Bank Limited

We have audited the annexed balance sheet of Khushhali Bank Limited ("the Bank") as at 31 December 2008 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the period from 01 April 2008 to 31 December 2008 ("the period") then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- a) in our opinion, proper books of accounts have been kept by the Bank as required by the Companies Ordinance, 1984;
- b) in our opinion-
  - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, Microfinance Institutions Ordinance, 2001 and the directives issued by the State Bank of Pakistan, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied;
  - ii) the expenditure incurred during the period was for the purpose of the Bank's business; and
  - iii) the business conducted, investments made and the expenditure incurred during the period were in accordance with the objects of the Bank;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, Microfinance Institutions Ordinance, 2001 and the directives issued by the State Bank of Pakistan, 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 2008 and of the profit, its cash flows and changes in equity for the period then ended;
- d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

*KPMG Taseer Hadi & Co.*

ISLAMABAD  
30 March 2009

KPMG TASEER HADI & CO.  
CHARTERED ACCOUNTANTS

**Balance Sheet** as at 31 December 2008

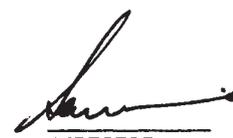
	Note	2008 (Rupees)
<b>ASSETS</b>		
Cash and balances with SBP and NBP	4	87,610,488
Balances with other Banks/ NBFIs/ MFBs	5	923,176,367
Lending to financial institutions-unsecured	6	600,000,000
Investments-net of provision	7	1,211,854,626
Advances-net of provisions	8	3,012,936,737
Operating fixed assets	9	157,587,129
Other assets	10	692,577,065
Deferred tax asset		-
<b>Total Assets</b>		<b>6,685,742,412</b>
<b>LIABILITIES</b>		
Deposits and other accounts	11	(18,168,500)
Borrowings	12	(4,628,462,756)
Subordinated debt		-
Other liabilities	13	(134,016,874)
Deferred tax liabilities		-
<b>Total Liabilities</b>		<b>(4,780,648,130)</b>
<b>NET ASSETS</b>		<b>1,905,094,282</b>
<b>REPRESENTED BY:</b>		
Share capital	14	1,705,000,000
Statutory reserve	3.8	60,643,340
Capital reserve	3.9	24,255,224
Reserve for contingencies	3.10	28,385,353
Unappropriated profit		61,657,534
		1,879,941,451
Deficit on revaluation of assets	15	(8,718,899)
Deferred grants	16	33,871,730
		<b>1,905,094,282</b>
<b>MEMORANDUM/ OFF BALANCE SHEET ITEMS</b>	17	

The annexed notes from 1 to 34 form an integral part of these financial statements.

  
**PRESIDENT/  
 CHIEF EXECUTIVE**

  
**CHAIRMAN**

  
**DIRECTOR**

  
**DIRECTOR**

**Profit and Loss Account** for the period ended 31 December 2008

	Note	From 01 April 2008 to 31 December 2008 (Rupees)
Mark-up/ return/ interest earned	18	668,794,539
Mark-up/ return/ interest expensed	19	(210,212,759)
Net mark-up/ interest income		458,581,780
Provision against non-performing advances/ lending to financial institutions/ other assets	8.2,10	(76,649,589)
Bad debts written off directly	8.3	(4,313,190)
		(80,962,779)
Net mark-up/ interest income after provisions		377,619,001
<b>NON-MARK-UP/ NON INTEREST INCOME</b>		
Fee, commission and brokerage income	20	97,247,000
Dividend income		-
Other income	21	330,653,788
Total non-mark-up/ non-interest income		427,900,788
		805,519,789
<b>NON-MARK-UP/ NON-INTEREST EXPENSES</b>		
Administrative expenses	22	(697,493,136)
Other provisions/ write offs	9.1.2	(5,264,095)
Other charges		-
Total non-mark-up/ non-interest expense		(702,757,231)
Extraordinary/ unusual items		-
<b>PROFIT BEFORE TAXATION</b>		102,762,558
Taxation - Current	23	-
- Prior years		-
- Deferred	23	-
		-
<b>PROFIT AFTER TAXATION</b>		102,762,558
Unappropriated profit brought forward		-
Profit available for appropriation		102,762,558
<b>APPROPRIATIONS:</b>		
<b>Transfer to-</b>		
-Statutory reserve	3.8	(20,552,512)
-Capital reserve		-
-Microfinance Social Development Fund	3.11	(10,276,256)
-Revenue reserve		-
-Depositors' Protection Fund	3.11	(5,138,128)
-Proposed cash dividend Rs. Nil per share		-
-Risk Mitigation Fund	3.11	(5,138,128)
		(41,105,024)
<b>UNAPPROPRIATED PROFIT CARRIED FORWARD</b>		61,657,534
<b>EARNINGS PER SHARE</b>	27	0.60

The annexed notes from 1 to 34 form an integral part of these financial statements.

  
PRESIDENT/  
CHIEF EXECUTIVE

  
CHAIRMAN

  
DIRECTOR

  
DIRECTOR

**Cash Flow Statement** for the period ended 31 December 2008

	Note	From 01 April 2008 to 31 December 2008 (Rupees)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation		102,762,558
Adjustments for:		
Depreciation and amortization		54,755,394
Amortization of deferred grant		(29,067,615)
Amortization of premium on investments held to maturity		14,229,517
Provision against non-performing advances		73,907,497
Gain on sale of investments		(10,037,249)
Loss on sale of operating fixed assets		5,264,095
Interest on investments and deposit accounts		(224,981,347)
Grant income		(89,877,168)
Financial charges		216,122,973
Provision against other assets		2,742,092
Provision for gratuity		18,056,552
		31,114,741
(Increase) / decrease in operating assets		133,877,299
Lending to financial institutions		250,000,000
Advances		(495,373,099)
Other assets (excluding advance taxation)		550,365,772
Increase / (decrease) in operating liabilities		304,992,673
Deposits and other accounts		18,168,500
Other liabilities		2,112,100
		325,273,273
<b>Cash from operations</b>		459,150,572
Interest received		205,007,951
Income taxes paid		(1,461,801)
Financial charges paid		(244,399,484)
Gratuity paid		(23,967,112)
Compensating absences paid		(197,289)
Net cash from operating activities		394,132,837
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investments made during the period		(162,457,800)
Investments encashed during the period		260,037,249
Purchase of operating fixed assets		(71,785,771)
Net cash from investing activities		25,793,678
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowings from financial institutions		(245,692,445)
Grant from Government of Pakistan		11,225,252
Grant from United State Agency for International Development (USAID)		74,184,857
Net cash used in financing activities		(160,282,336)
Net increase in cash and cash equivalents		259,644,179
Cash and cash equivalents transferred from Khushhali Bank		751,142,676
<b>Cash and cash equivalents at end of the period</b>	24	<b>1,010,786,855</b>

The annexed notes from 1 to 34 form an integral part of these financial statements.

  
PRESIDENT/  
CHIEF EXECUTIVE

  
CHAIRMAN

  
DIRECTOR

  
DIRECTOR

## Statement of Changes in Equity for the period ended 31 December 2008

	Share capital	Statutory reserve	Capital reserve (Rupees)	Reserve for contingencies	Unappropriated profit	Total (Rupees)
Balance transferred from Khushhali Bank	-	40,090,828	24,255,224	28,385,353	-	92,731,405
Profit for the period after taxation	-	-	-	-	102,762,558	102,762,558
<b>Transfer to:</b>						
- Statutory Reserve	-	20,552,512	-	-	(20,552,512)	-
- Microfinance Social Development Fund	-	-	-	-	(10,276,256)	(10,276,256)
- Risk Mitigation Fund	-	-	-	-	(5,138,128)	(5,138,128)
- Depositors' Protection Fund	-	-	-	-	(5,138,128)	(5,138,128)
Issue of share capital	1,705,000,000	-	-	-	-	1,705,000,000
<b>Balance at 31 December 2008</b>	<b>1,705,000,000</b>	<b>60,643,340</b>	<b>24,255,224</b>	<b>28,385,353</b>	<b>61,657,534</b>	<b>1,879,941,451</b>

The annexed notes from 1 to 34 form an integral part of these financial statements.

  
PRESIDENT/  
CHIEF EXECUTIVE

  
CHAIRMAN

  
DIRECTOR

  
DIRECTOR

## Notes to the Financial Statements for the period ended 31 December 2008

### 1. STATUS AND NATURE OF BUSINESS

Khushhali Bank ("KB") came into existence with the promulgation of the Khushhali Bank Ordinance, 2000 as a corporate body with limited liability on 4 August 2000. It commenced business with the issuance of license by the State Bank of Pakistan (SBP) on 11 August 2000.

KB 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.

The Government of Pakistan (GoP) signed "Improving Access to Financial Service Program" (IAFSP) with Asian Development Bank. In pursuance of the requirements of IAFSP; all microfinance institutions in Pakistan including KB need to operate under Microfinance Institutions Ordinance 2001.

Consequently, SBP prepared a conversion structure for KB which was agreed upon by the Ministry of Finance, GoP. SBP vide its letter dated 15 November 2007 advised KB to proceed with conversion process which primarily required KB's incorporation with the Securities and Exchange Commission of Pakistan (SECP) under Microfinance Institutions Ordinance, 2001. The scheme of conversion was approved by the shareholders of KB in the extra-ordinary general meeting held on 17 December 2007. Accordingly, an application for incorporation of Khushhali Bank Limited ("the Bank") was submitted to SECP on 15 February 2008. Subsequently SECP on 28 February 2008 issued Certificate of Incorporation of the Bank under the Companies Ordinance, 1984.

SBP vide its letter dated 18 March 2008, under section 47 of Khushhali Bank Ordinance 2000 sanctioned a scheme for transfer of assets, liabilities and undertakings of KB into the Bank with effect from 01 April 2008, a microfinance institution licensed under Microfinance Institutions Ordinance 2001.

In accordance with the scheme of conversion all assets and liabilities of KB were transferred to the Bank at their respective book values based on the audited accounts of KB as of 31 March 2008. Accordingly these are the first financial statements of the Bank for the nine months period ended on 31 December 2008 (the period) with no comparative information for the balance sheet, profit and loss account, cash flow statement, statement of changes in equity and the related notes.

The Bank's registered office and principal place of business is situated at 94-West Jinnah Avenue, Blue Area, Islamabad. The Bank has 114 branches in

operation as at 31 December 2008 and is licensed to operate nationwide.

### 2. BASIS OF PREPARATION

#### 2.1 Basis of presentation

These financial statements have been presented in accordance with the SBP Banking Supervision Department (BSD) circular number 11 dated 30 December 2003.

#### 2.2 Statement of compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the directives issued by SBP, requirements of the Companies Ordinance, 1984 and Microfinance Institutions Ordinance, 2001. Approved accounting standards comprise of such International Financial Reporting Standard (IFRS) issued by the International Accounting Standard Board as notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984 and directives issued by SBP. In case the requirements of the Companies Ordinance, 1984, Microfinance Institutions Ordinance, 2001 or directives issued by SBP differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984, Microfinance Institutions Ordinance, 2001 or the requirements of the said directives take precedence.

SBP has clarified that International Accounting Standard 39, "Financial Instruments: Recognition and Measurement" and International Accounting Standard 40, "Investment Property" are not applicable to the Bank. Accordingly, the requirements of these Standards have not been considered in the preparation of these financial statements. However, investments have been measured in accordance with the Prudential Regulation (the Regulations) and presented in accordance with the requirements of SBP BSD circular number 11 dated 30 December 2003.

#### 2.3 Forthcoming changes in approved accounting standards which are not yet effective

The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning as mentioned there against are either not relevant to the Branch's current operations or are not expected to have significant impact on the Branch's financial statements other than certain additional disclosures:

Revised IAS 1 - Presentation of financial statements (effective 1 January 2009)

Revised IAS 23 - Borrowing costs (effective 1 January 2009)

Amended IAS 27 - Consolidated and Separate Financial Statements (effective 1 July 2009)

IAS 29 - Financial Reporting in Hyperinflationary Economies (effective 28 April 2008)

Amendments to IAS 32 - Financial instruments (effective 1 January 2009)

Amendment to IFRS 2 - Share-based Payment (effective 1 January 2009)

Revised IFRS 3 - Business Combinations (effective 1 July 2009)

IFRS 8 - Operating Segments (effective 28 April 2008)

IFRIC 13 - Customer Loyalty Programmes (effective 01 July 2008)

IFRIC 15 - Agreement for the Construction of Real Estate (effective 01 January 2008)

IFRIC 16 - Hedge of Net Investment in a Foreign Operation (effective 1 October 2008)

IFRIC 17 - Distribution of Non-Cash Assets to Owners (effective 1 July 2009)

IFRIC 18 - Transfers of Assets from Customers (effective 1 July 2009)

The International Accounting Standards Board's annual improvements project published in May 2008, contains a number of amendments which would generally be applicable for financial periods beginning on or after 1 January 2009. These amendments extend to 35 standards and include changes in terminology and accounting requirements.

## 2.4 Basis of measurement

These financial statements have been prepared on the historical cost basis except that obligations under employee retirement benefit are measured at present value and investments available for sale are measured at fair market value.

## 2.5 Functional and presentation currency

These financial statements have been presented in Pakistan Rupee (PKR), which is the Bank's functional currency. All financial information presented in PKR has been rounded to the nearest of PKR, unless otherwise stated.

## 2.6 Significant estimates

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan, requires management to make judgments/estimates and associated assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses. These judgments/estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the

estimates about carrying value of assets and liabilities that are not readily apparent from other sources.

Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods. Judgments made by management in application of the approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year relates to provision against investments, advances, staff retirement benefits and determination of useful lives of depreciable assets and intangible assets which are discussed in following paragraphs.

### 2.6.1 Investments

The Bank determines that investments are impaired when there is a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In addition the impairment may be appropriate when there is an evidence of deterioration in the financial health of the invested entity/industry and sector performance and operational financial cash flows. Management considers all these factors in making the judgment of the investments impairment.

### 2.6.2 Advances

The Bank reviews its micro credit loan portfolio to assess amount of non-performing advances and provision required there against on regular basis. While assessing this requirement various factors including the financial position of the borrowers and the requirements of the Regulations are considered.

### 2.6.3 Operating fixed assets

Estimates of residual values and useful lives of operating fixed assets are reassessed annually and any change in estimate is taken into account in the determination of depreciation charge and impairment loss. Changes in estimates are accounted for over the estimated remaining economic life of the assets.

### 2.6.4 Impairment

The carrying amounts of the assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss.

### 2.6.5 Employee benefit

Defined benefit plan is provided for employees of the Bank. For defined benefit a deferred liability is recognized in the Bank's financial statements. The calculations in this regard require assumptions to be made of future outcomes, the principal ones being in respect of increase in remuneration and the discount rate used to convert future cash flows to current

values. The assumptions used vary as they are determined by independent actuary. Calculations are sensitive to changes in the underlying assumptions.

### 2.6.6 Provisions

Estimates of the amount of provisions recognized are based on current legal and constructive requirements. Because actual outflows can differ from estimates due to changes in laws, regulations, public expectations, prices and conditions, and can take place many years in the future, the carrying amounts of provisions are regularly reviewed and adjusted to take account of such changes.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand, balances with SBP, balances with National Bank of Pakistan (NBP) and balances with other banks.

### 3.2 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:

#### 3.2.1 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 fair value.

The surplus/ (deficit) arising on revaluation of available for sale is kept in "Surplus/ (deficit) on revaluation of assets" and is shown in the balance sheet below equity. The surplus / (deficit) arising on these investments is taken to the profit and loss account, when actually realised 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 amortised cost, as applicable. For investments with fixed maturity any gain or loss previously recognised in "Surplus/ (deficit) on revaluation of assets" is amortised to profit or loss over the remaining life of the investment using the effective interest method and if the investment does not have a fixed maturity, the gain or loss previously recognized in "Surplus / (deficit) on revaluation of assets" is recognised in profit and loss when the

investment is sold or disposed of.

#### 3.2.2 Held to maturity investments

Investments with fixed maturity, where management has both the intent and the ability to hold to 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 investment 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 investment's is amortized through profit and loss account over the remaining period till maturity.

### 3.3 ADVANCES (Micro credit loan portfolio), Loan loss provision and write-offs

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

#### a) Substandard

These are advances in arrears for 30 days or more but less than 90 days.

#### b) Doubtful

These are advances in arrears for 90 days or more but less than 180 days.

#### c) Loss

These are advances in arrears for 180 days or more.

In accordance with the Regulations the Bank maintains specific provision for potential loan losses for all non-performing advances as follows:

Substandard:	25% of outstanding principal
Doubtful:	50% of outstanding principal
Loss:	100% of outstanding principal

In addition, minimum 1.5% general provision required under the Regulations is calculated on outstanding advances net of specific provision.

General and specific provisions are charged to the profit and loss account in the period in which they occur.

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.

### 3.4 Operating fixed assets

#### 3.4.1 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 method at rate specified in note 9.1 to the financial statements, so as to write off the cost of assets over their estimated useful lives. Depreciation is charged on additions and deletions based on number of months the assets are available for use.

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

Gain and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amounts of fixed asset and are recognized within "other income" in the profit and loss account.

### 3.4.2 Intangible assets

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

Intangible assets comprise of computer software and related applications. Intangible assets are amortized over their estimated useful lives at rate specified in note 9.2.1 to the financial statements. Subsequent expenditure is capitalized only when it increases the future economic benefit embodied in the specific asset to which it relates. All other expenditure is recognized in profit and loss account as incurred.

### 3.5 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.

### 3.6 Taxation

Income tax expense/income comprises current and deferred tax. Income tax expense/ income is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or below equity, in which case it is recognized in equity or below equity.

The Bank takes into account the current income tax law and decisions taken by appellate authorities. Instances where the Bank's view differs from the view

taken by the income tax department at the assessment stage and where the Bank considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

#### 3.6.1 Current

Current tax is the tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, taking into account tax credits, rebates and tax losses, if any, and any adjustment to tax payable in respect of previous years.

#### 3.6.2 Deferred

Deferred tax is accounted for on all major taxable temporary differences between the carrying amounts of assets for financial reporting purposes and their taxation base. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. At each balance sheet date, the Bank reassesses the carrying and the unrecognized amount of deferred tax assets.

Deferred tax assets and liabilities are calculated at the rate that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred tax, on revaluation of investments, if any, is recognized as an adjustment to surplus/ (deficit) arising on such revaluation.

### 3.7 Employee benefits

Salaries, wages and benefits are accrued in the period in which the associated services are rendered by employees of the Bank. The accounting policy for post retirement benefit - gratuity is described below:

#### 3.7.1 Post retirement benefit- gratuity

The Bank operates an approved gratuity scheme for all eligible employees completing the minimum qualifying period of service as specified by the employee rules. Provision is made annually to cover obligations under the scheme in accordance with the actuarial recommendations. Relevant details are given in note 13.1 to the financial statements.

Actuarial gain and losses in excess of ten percent (10%) of the present value of the defined benefit obligation are recognized over the expected average future working lives of the employees participating in the scheme.

The amount recognized in the balance sheet date represents the present value of the defined benefit obligation adjusted for unrecognized actuarial gains and losses.

**3.8 Statutory reserve**

In compliance with the Regulations, 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.

**3.9 Capital reserve**

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

**3.10 Reserve for contingencies**

Reserve for contingencies was created for risk assets comprising advances, as a matter of prudence and to comply with the additional requirements of Asian Development Bank (ADB) for the first five years of KB operations which were completed on 6 February 2006.

The balance in contingency reserve as of 6 February 2006 remains intact. The management has discussed its requirement with the Project Completion Review Mission of ADB on the closure of ADB loan Agreement in October 2008 and the formal response is awaited.

**3.11 Contributions**

In compliance with the Regulations, the Bank contributes towards the following funds held by SBP;

Microfinance Social Development Fund:	10% of profit after tax
Depositor's Protection Fund:	5% of profit after tax

In addition to above the Bank also contributes 5 % of its profit after tax to Risk Mitigation Fund being maintained with SBP in pursuance of the requirements of the Sub-Loan agreement with SBP.

**3.12 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.

**3.13 Grants**

Grants that compensate the Bank for expenses incurred are recognised in the profit and loss account as other operating income on a systematic basis in the same periods in which the expenses are incurred.

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

The grant related to an asset is recognised in the balance sheet initially as deferred income when there

is reasonable assurance that it will be received and that the Bank will comply with the conditions attached to it.

**3.14 Sale and repurchase transactions**

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 financial institutions. The difference between sale and repurchase price is treated as mark-up /return/interest expense over the period of transaction. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognized as investments in the balance sheet. Amounts paid under these agreements are included in lending to financial institutions. The difference between purchase and resale price is treated as mark-up/return/interest over the period of transaction.

**3.15 Revenue recognition**

Mark-up/return (service charge) 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 recognised on a receipt basis in accordance with the requirements of the Regulations. Application processing fee is recognized as income when service is performed.

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

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

Gain and losses on sale of investments are included in income currently.

Gains and losses on sale of operating fixed assets are recognised in the profit and loss account.

**3.16 Borrowing costs**

Mark up, interest and other charges on borrowings are charged to income in the period in which they are incurred.

**3.17 Operating leases**

Operating lease rentals are recorded in profit and loss account on a time proportion basis over the term of the lease arrangements.

**3.18 Financial instruments**

Financial assets and liabilities are recognised 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, amortised cost or cost, as the case may be.

### 3.18.1 Financial assets

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

### 3.18.2 Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangement entered into. Financial liabilities include borrowings and other liabilities which are stated at their nominal value. Financial charges are accounted for on accrual basis. Any gain or loss on the recognition and derecognition of the financial assets and liabilities is included in the net profit and loss for the period in which it arises.

### 3.19 Off-setting

Financial assets and financial liabilities and tax assets and tax liabilities are only off-set and the net amount is reported in the financial statements when there is a legally enforceable right to set off the recognized amount and the Bank intends either to settle on net basis or to realize the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also off-set and the net amount is reported in the financial statements.

### 3.20 Foreign currencies

Transactions in foreign currencies are recorded at the approximate rates of exchange ruling on the date of the transaction. All monetary assets and liabilities denominated in foreign currencies are translated into PKR at the rate of exchange ruling on the balance sheet date and exchange differences, if any, are charged to income for the year.

### 3.21 Provisions

Provisions are recognized when the Bank has a legal

or constructive obligation as a result of past events, it is possible that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimate of the amount can be made.

## 3.22 Impairment

### Non financial assets

The carrying amounts of the Banks' non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

### 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 effective interest rate.

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

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

	Note	2008 (Rupees)
<b>4. CASH AND BALANCES WITH SBP AND NBP</b>		
Cash in hand-local currency		31,044,756
Balances with State Bank of Pakistan (SBP) in:		
Local currency current accounts	4.1	25,409,013
Balances with National Bank of Pakistan (NBP) in:		
Local currency current accounts		17,662,375
Local currency deposit accounts	4.2	13,494,344
		31,156,719
		<u>87,610,488</u>

**4.1** This represents balance maintained with SBP to meet the requirement of maintaining a minimum balance equivalent to 5% of the Bank's time and demand liabilities in accordance with regulation 6A of the Prudential Regulations.

**4.2** This represents balances held across the network for the purpose of lending to borrowers and recoveries from customers which carry interest rate of 5% per annum.

	Note	2008 (Rupees)
<b>5. BALANCES WITH OTHER BANKS/ NBFIs/ MFBs</b>		
In Pakistan-local currency		
Current accounts		68,149,369
Deposit accounts	5.1	855,026,998
		<u>923,176,367</u>

**5.1** This represents balances held across the network for the purpose of lending to borrowers and recoveries from customers which carry interest rate ranging from 5% to 12% per annum. This also includes Rs.650 million of Term Deposit Receipt with local commercial banks carrying interest rate ranging from 16.50% to 18.0% per annum with maturity upto one month.

	Note	2008 (Rupees)
<b>6. LENDING TO FINANCIAL INSTITUTIONS-UNSECURED</b>		
Call money lending	6.1	600,000,000
Other	6.2	100,000,000
Less: Provision for impairment	6.3	(100,000,000)
		-
		<u>600,000,000</u>

**6.1** Call placements have been made in the interbank market with other banks at the rates ranging from 15.00% to 16.00% per annum with maturity ranging from 26 to 59 days.

**6.2** This represents amount placed with Innovative Housing Finance Limited (IHFL) formerly, Crescent Standard Investment Bank Limited. The amount was initially given as a call money lending and was being rolled over on maturity dates in view of liquidity problems of the IHFL. On 30 June 2007 KB entered into an agreement with IHFL under which the principal amount has been restructured for a period of 7 years, with 2 years grace period, from the date of the agreement. Pursuant to the agreement, the principal shall be repaid by IHFL in 10 equal installments, each at six months interval, starting from 31 December 2009. The Bank shall also receive markup at the rate of 5% per annum calculated on the outstanding amount of principal, however, no markup shall be receivable for the period of 2 years from the date of agreement and thereafter, shall be receivable on quarterly basis.

**6.3** The Bank has fully provided the investment as advised by SBP.

	Note	2008 (Rupees)
<b>7. INVESTMENTS-NET OF PROVISION</b>		
<b>Available for sale investments</b>		
Federal government securities		
- Market Treasury Bills (T-Bills)	7.1	828,658,800
Add: Surplus on revaluation of available for sale securities	7.2	17,161,740
		<u>845,820,540</u>
<b>Held to maturity investments</b>		
Federal government securities		
- Pakistan Investment Bonds (PIBs)	7.3	366,034,086
		<u>1,211,854,626</u>

- 7.1** This represents T-Bills purchased for the period ranging from 14 days to 126 days and yielding interest ranging from 10.14% to 13.85% per annum. T-Bills amounting to Rs.272 million are given as collateral against borrowings (also refer note 12.2).
- 7.2** In compliance with the requirements of the Regulations, available for sale investments have been valued at market value and the resulting surplus/ deficit is kept in a separate account and is shown below the shareholders' equity in the balance sheet.
- 7.3** This represents 10 years PIBs with the maturity in 2011 and yield interest ranging from 12% to 13% per annum, receivable on semi-annual basis. Market value of PIBs held to maturity at the period end was Rs.326 million.

## 8. ADVANCES - NET OF PROVISIONS

Loan type	2008	
	Number of loans outstanding	Amount outstanding (Rupees)
Micro credit	312,851	3,093,335,635
Less: provisions held		
- Specific provision	20,647	(29,440,470)
- General provision	312,851	(50,958,428)
		(80,398,898)
Advances- net of provisions		<u>3,012,936,737</u>

### 8.1 Particulars of non-performing advances

Advances includes Rs. 68.66 million which, as detailed below, have been placed under non-performing status.

Category of classification	2008		
	Amount outstanding (Rupees)	Provisions required (Rupees)	Provisions held (Rupees)
Sub-standard	33,934,940	8,483,735	8,483,735
Doubtful	27,542,070	13,771,035	13,771,035
Loss	7,185,700	7,185,700	7,185,700
<b>Total</b>	<u>68,662,710</u>	<u>29,440,470</u>	<u>29,440,470</u>

## 8.2 Particulars of provisions against non-performing advances

From 01 April 2008 to 31 December 2008

	Specific (Rupees)	General (Rupees)	Total (Rupees)
Balance transferred from KB	20,208,757	39,464,028	59,672,785
Charge for the period	62,413,097	11,494,400	73,907,497
Amount written off	(53,181,384)	-	(53,181,384)
Balance at end of the period	29,440,470	50,958,428	80,398,898

From 01 April 2008  
to 31 December 2008  
(Rupees)

## 8.3 Particulars of write offs

Against provisions	53,181,384
Directly charged to profit and loss account	4,313,190
	57,494,574

## 9. OPERATING FIXED ASSETS

	Note	2008 (Rupees)
Property and equipment	9.1	149,787,867
Intangible assets	9.2	7,799,262
		157,587,129

## 9.1 Property and equipment

	Furniture and fixtures	Electrical and office equipment	Computer equipment	Vehicles	Total
	Rupees				
<b>Cost</b>					
<b>Cost of assets transferred from KB</b>	61,498,002	71,334,499	65,877,896	298,377,451	497,087,848
Additions during the period	19,377,685	16,165,840	15,634,825	11,509,659	62,688,009
Disposals	(3,501,803)	(4,785,705)	(11,075,154)	(2,520,153)	(21,882,815)
<b>Balance as at 31 December 2008</b>	77,373,884	82,714,634	70,437,567	307,366,957	537,893,042
<b>Depreciation</b>					
<b>Accumulated depreciation of assets transferred from KB</b>	19,224,784	40,889,569	51,519,205	239,387,153	351,020,711
Depreciation charge for the period	4,984,800	9,044,371	7,364,105	31,373,356	52,766,632
Disposals	(962,764)	(2,832,403)	(10,266,400)	(1,620,601)	(15,682,168)
<b>Balance as at 31 December 2008</b>	23,246,820	47,101,537	48,616,910	269,139,908	388,105,175
<b>Carrying amount as at 31 December 2008</b>	54,127,064	35,613,097	21,820,657	38,227,049	149,787,867
<b>Rates of depreciation per annum</b>	10%	20%	33%	25%	

9.1.1 Depreciation for the period includes Rs. 29.07 million being the depreciation charged on assets acquired as grant, as explained in detail in note 16.1 and 21.1 to the financial statements.

9.1.2 During the period assets with written down value of Rs. 5.26 million destroyed in the Marriot Hotel blast, were written off.

		<b>2008 (Rupees)</b>
<b>9.2 Intangible assets</b>		
<b>Cost</b>		
Cost of assets transferred from KB		5,619,330
Additions during the period		9,097,762
Balance as at 31 December 2008		14,717,092
<b>Amortization</b>		
Accumulated amortization transferred from KB		(4,929,068)
Charge for the period		(1,988,762)
Balance as at 31 December 2008		(6,917,830)
<b>Carrying amount</b>		<u>7,799,262</u>

9.2.1 Amortization is measured on straight line basis @ 33% per annum, from the month the asset is available for use.

		<b>2008 (Rupees)</b>
<b>10. OTHER ASSETS</b>		
Mark-up accrued		203,828,516
Less: suspended markup on non-performing advances		(8,371,662)
		195,456,854
Interest receivable on investments and bank deposit accounts		49,007,741
Advances-unsecured, considered good		
-Employees		33,046,366
-Suppliers		28,990,484
		62,036,850
Deposits		833,866
Prepayments		35,985,832
Advance taxation-net of provision		44,443,581
Receivable from Microfinance Social Development Fund	21.2	68,100,364
Receivable from Emergency Livelihood Restoration Fund for:		
Equity support	10.1	153,500,000
Operational cost support	21.3	60,201,533
Community group formation	21.3	17,320,100
		231,021,633
Receivable from Jafakash Aurat Project	10.2	909,522
Insurance claims receivable		1,171,106
Other receivables		9,643,632
		698,610,981
Less: provisions held against classified other assets		
-Provision held by KB and transferred to the bank		3,801,144
-Provision for the period		2,742,092
-Receivables written off against provision		(509,320)
		6,033,916
		<u>692,577,065</u>

- 10.1** This represents amount paid on behalf of Emergency Livelihood Restoration Programme (ELRP) launched by GoP during February 2006. The objective of ELRP is to revive local economies and reduce dependence on relief to effectees of 8 October 2005 earthquake. For this purpose, the Bank is the designated implementing agency and utilizes its organizational structure, personnel and coordinates with service providers for immediate outreach to effectees. In accordance with the provision of the ELRF Rules; an equity support of Rs.12,000 per household is paid as grant to the earthquake effectees on behalf of the ELRP in addition to soft loan of Rs.3,000 by the Bank for economic revival of the earthquake effectees.
- 10.2** The Bank entered into an agreement with Ministry of Women Development, Government of Pakistan dated 19 June 2005, whereby a project was launched in the name of "Jafakash Aurat Supporting Skills & Micro-Enterprise Development Amongst Gawadar Women" (JAP). The objective of JAP is to enable the women of Gwadar to supplement their livelihood through creating strong linkages between microcredit and skills development, thus leading to their economic empowerment. The Bank is the implementing agency under the agreement and recovers operational and capital cost at actual. The balance represents amount receivable from JAP, at the period end.

	No. of accounts	2008 (Rupees)
<b>11. DEPOSITS AND OTHER ACCOUNTS</b>		
Current deposits	3,477	18,168,500
<b>11.1</b> Particulars of deposits by ownership		
Individual depositors	3,477	18,168,500

	Note	2008 (Rupees)
<b>12. BORROWINGS</b>		
Borrowing from bank/ financial institution outside Pakistan-unsecured Asian Development Bank	12.1	4,364,753,752
Borrowings from banks/ financial institutions in Pakistan-secured	12.2	263,709,004
		<u>4,628,462,756</u>

- 12.1** This represents receipts/ reimbursements upto eighty percent (80%) of outreach loan disbursements against credit facility under the Subsidiary Loan and Grant Agreement entered between KB 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. By February 2006, KB has utilized US Dollar 52.51 million against total credit line amounting to US Dollar 52.57 million under the aforesaid loan agreement.

The Bank shall repay the principal amount of the loan to the GoP, over a period of 20 years including a grace period of 8 years, commencing from 1 May 2009, on bi-annual basis. The principal repayable is the aggregate equivalent of the amounts drawn by the Bank from the loan account for sub-loan expressed in PKR, 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 average weighted cost of deposits during the preceding six months in the banking industry as calculated by SBP. The interest rates used for the two bi-annual payments during the period were determined to be 3.61% and 5.58% per annum.

- 12.2** This represents interbank money market borrowings carrying interest rate of 14.25% per annum and are repayable by January 2009. These borrowings are secured against T-Bills amounting to Rs.272 million.

	Note	2008 (Rupees)
<b>13. OTHER LIABILITIES</b>		
Interest payable on borrowings		47,263,628
Accrued expenses		24,955,471
Provision for compensated absences		841,299
Payable to defined benefit plan - gratuity	13.1	205,847
Grant received in advance from USAID		1,742,000
Contribution payable to Microfinance Social Development Fund		10,276,256
Contribution payable to Risk Mitigation Fund		5,138,128
Contribution payable to Depositors' Protection Fund		5,138,128
Payable to service providers		14,570,800
Payable to suppliers		15,743,784
Other payables		8,141,533
		<u>134,016,874</u>
<b>13.1 Payable to defined benefit plan - gratuity</b>		
Payable balance transferred from KB		6,116,407
Provision for the period		18,056,552
Payments made during the period - to outgoing employees to gratuity fund		(7,488,895)
		<u>(16,478,217)</u>
Balance at end of the period		<u>205,847</u>
Reconciliation of the liability recognized in the balance sheet		
Present value of the defined benefit obligation		71,494,772
Unrecognized actuarial losses		(4,607,773)
Fair value of plan assets		<u>(66,681,152)</u>
		<u>205,847</u>
		<b>From 01 April 2008 to 31 December 2008</b>
	Note	(Rupees)
Expense recognized in profit and loss account:		
Current service cost		18,727,507
Interest cost		3,871,644
Expected return on plan assets		<u>(4,542,599)</u>
	22	<u>18,056,552</u>
		<b>2008 (Rupees)</b>
The fair value of plan assets is as per following detail:		
Investments in T-bills		62,991,500
Accrued interest		630,576
Bank balances		3,059,076
		<u>66,681,152</u>
Comparison of present value of defined obligation, fair value of plan assets and deficit is as follows:		
Present value of the defined benefit obligation		71,494,772
Fair value of plan assets		<u>(66,681,152)</u>
Deficit		<u>4,813,620</u>

The latest actuarial valuation of the scheme was carried out as at 31 December 2008. Significant actuarial assumptions used were as follows:

	<b>2008</b>
Discount rate per annum	15 %
Rate of increase in future compensation levels per annum	14 %
Mortality rate	EFU 1961-66
Average expected remaining working life of employees	11 years

#### 14. SHARE CAPITAL

##### 14.1 Authorized capital

2008 (Number)		2008 (Rupees)
<u>600,000,000</u>	Ordinary shares of Rs.10 each	<u>6,000,000,000</u>

##### 14.2 Issued, subscribed and paid-up capital

<u>170,500,000</u>	Ordinary shares of Rs.10 each fully paid for consideration other than cash (Note 14.2.1)	<u>1,705,000,000</u>
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**14.2.1** This represents ordinary shares allotted to shareholders of the Bank in terms of scheme of conversion. These ordinary shares were previously issued by KB against cash consideration.

**14.2.2** The shareholders of the Bank are as follow:

	Note	2008 (Rupees)
National Bank of Pakistan		400,000,000
Habib Bank Limited		300,000,000
MCB Bank Limited		300,000,000
United Bank Limited		200,000,000
Allied Bank Limited		200,000,000
Standard Chartered Bank (Pakistan) Limited		80,000,000
Askari Bank Limited		50,000,000
Citibank N.A		50,000,000
Bank Al Habib Limited		30,000,000
Soneri Bank Limited		25,000,000
Habib Metropolitan Bank Limited		25,000,000
The Royal Bank of Scotland		15,000,000
KASB Bank Limited		10,000,000
Saudi Pak Commercial Bank Limited		10,000,000
Mybank Limited		10,000,000
		<u>1,705,000,000</u>

#### 15. DEFICIT ON REVALUATION OF ASSETS

Surplus on revaluation of available for sale securities	7.2	17,161,740
Unamortised loss on reclassification of available for sale securities to held to maturity	15.1	<u>(25,880,639)</u>
		<u>(8,718,899)</u>

**15.1** This represents unamortised balance of revaluation loss of reclassified held to maturity (PIBs) investment. During the period management of the Bank reclassified PIBs from available for sale category to held to maturity category. Accordingly revaluation loss as of reclassification date amounting to Rs.34 million is being amortised over the remaining life of PIBs using effective interest method.

<b>16. DEFERRED GRANTS</b>	<b>Note</b>	<b>2008 (Rupees)</b>
Grant from GoP	16.1	251,589,232
Less: Grant amortized till 31st March 2008 for the period Apr-Dec 08	21	(229,033,917) (13,264,640)
		9,290,675
Grant from USAID	21.1	98,374,901
Less: Grant amortized till 31st March 2008 for the period Apr-Dec 08	21	(57,990,871) (15,802,975)
		24,581,055
		<u>33,871,730</u>
<b>16.1</b>	This represents grant from GoP for assets acquired for institutional strengthening of the Bank, under the Subsidiary Loan and Grant Agreement entered with GoP in pursuance of Loan Agreement (Special Operations) - Microfinance Sector Development Project (MSDP), Loan # 1806 between ADB and Islamic Republic of Pakistan. MSDP has completed its tenure on 30 June 2007. During the period the Bank has received reimbursements from SBP for all pending claims.	
<b>17. MEMORANDUM/ OFF BALANCE SHEET ITEMS</b>		
<b>17.1</b>	There are no contingent liabilities at the period end.	
<b>17.2</b>	Commitments for capital expenditure amounting to Rs.11.44 million are outstanding as at 31 December 2008.	
<b>18. MARK-UP/ RETURN/INTEREST EARNED</b>	<b>From 01 April 2008 to 31 December 2008 (Rupees)</b>	
Mark-up on advances		446,050,469
Less: suspended markup on non-performing advances		(2,237,277)
		443,813,192
Interest on investment in Government Securities		71,824,303
Interest on deposit accounts/ placements with other banks/ financial institutions/ mutual funds		153,157,044
		<u>668,794,539</u>
<b>19. MARK-UP/ RETURN/ INTEREST EXPENSED</b>		
Interest on borrowings from:		
Asian Development Bank		172,465,173
Other financial institutions		37,747,586
		<u>210,212,759</u>
<b>20. FEE, COMMISSION AND BROKERAGE INCOME</b>		
Deposit account opening fee (8,530 accounts @ Rs.50 each)		426,500
Micro-credit application processing fee (276,630 borrowers @ Rs.350 each)		96,820,500
		<u>97,247,000</u>

	From 01 April 2008 to 31 December 2008	
	Note	(Rupees)
<b>21. OTHER INCOME</b>		
Amortization of deferred grants	16	29,067,615
Re-imburement of cost share-USAID project	21.1	89,877,168
Re-imburement from MSDF	21.2	79,942,000
Grant/subsidies from ELRF	21.3	91,949,416
Others	21.4	39,817,589
		330,653,788

**21.1** KB entered into an agreement with USAID on 30 September 2003 for developing non-bankable territories for financial services, in Sindh and Baluchistan. Subsequently in September 2005, the scope of the grant was expanded to include seven FATA territories, whereby USAID revised its contribution from US Dollar 7.042 million to US Dollar 11.052 million while the total project cost was revised from US Dollar 9.371 million to US Dollar 14.142. Sindh and Baluchistan project period ended on September 2008 while completion date of FATA is September 2010. The cost share of USAID project is reimbursable to the Bank on monthly basis.

**21.2** This represents claims lodged by the Bank with Microfinance Social Development Fund (MSDF) for reimbursement of client acquisition cost incurred by the Bank under the Loan Agreement (Special Operations) -Microfinance Sector Development Project, Loan #1806 between ADB and Islamic Republic of Pakistan.

**21.3** This represents amount receivable from Emergency Livelihood Restoration Programme. The Bank is the designated implementing agency and utilizes its organizational structure, personnel and coordinates with service providers for immediate outreach to effectees. In compensation of cost incurred by the Bank, it is entitled to claim a composite figure of US Dollar 50 per household. Under ELRF Rules, 2006 the Bank is also eligible to claim Rs.1,200 per person for delivery of financial and non-financial services to community groups. Each community group comprises of 5 person.

**21.4** This includes an amount of Rs.24.84 million received during the period against previously recognized bad debts.

	From 01 April 2008 to 31 December 2008	
	Note	(Rupees)
<b>22. ADMINISTRATIVE EXPENSES</b>		
Salaries, wages and benefits		272,027,139
Charge for defined benefit plan	13.1	18,056,552
Contract/ seconded staff expenses		60,281,167
Consultancies		1,047,620
Recruitment and development		5,062,106
Training		10,896,892
Rent and rates		45,900,808
Insurance		12,748,003
Utilities		14,968,003
Legal and professional charges		2,964,290
Communication		16,757,194
Repairs and maintenance		9,994,208
Printing, stationery and office supplies		29,202,582
Advertisement		15,747,166
Auditors' remuneration	22.1	1,475,000
Depreciation	9.1	52,766,632
Amortization	9.2	1,988,762
Vehicles up keep and maintenance		56,832,709
Traveling and conveyance		15,413,763
Entertainment		1,702,306
Security charges		560,614
Bank charges		5,910,214
Newspapers and subscriptions		957,177
Donations	22.2	1,270
Programme cost-USAID		41,011,702
Miscellaneous		3,219,257
		697,493,136

From 01 April 2008  
to 31 December 2008**22.1 Auditors' remuneration**

	(Rupees)
Annual audit fee	750,000
Special certifications	470,000
Out-of-pocket expenses	255,000
	<u>1,475,000</u>

**22.2** This represents written down value of 27 computers, donated to Pakistan Centre for Philanthropy.

**23. TAXATION**

**23.1** Effective from 01 July 2007, pursuant to Clause (66-XVIII) of part I of Second Schedule to the Income Tax Ordinance, 2001 the Bank's income is exempt from tax for five years provided that no dividend is paid to the shareholders and profits are retained for the objectives of the Bank. Accordingly, the Bank has opted for tax holiday pursuant to the said clause and hence no provision for taxation has been made in these financial statements. Since section 113 "minimum tax on income of certain persons" of the Income Tax Ordinance, 2001 has been withdrawn during the period, therefore no provision for taxation is made in the current period.

**23.2** Numeric tax rate reconciliation is not given as the Bank is exempt from tax.

**24. CASH AND CASH EQUIVALENTS**

	Note	2008 (Rupees)
Cash and balances with SBP and NBP	4	87,610,488
Balances with other banks	5	923,176,367
		<u>1,010,786,855</u>

**25. NUMBER OF EMPLOYEES**

	2008 (Numbers)
Credit sales staff	808
Permanent	336
Banking/support staff	864
Permanent	1,200
Contractual	2,008
Total number of employees at the period end	<u>2,008</u>

**26. NUMBER OF BRANCHES**

Branches transferred from KB to the Bank	113
Branches opened during the period	1
Branches closed during the period	-
Total branches at end of the period	<u>114</u>

**27. EARNINGS PER SHARE**

	2008
Profit for the period after tax (Rupees)	102,762,558
Shares outstanding during the period (Numbers)	170,500,000
Earnings per share-basic and diluted (Rupees)	<u>0.60</u>

There is no dilutive effect on the basic earnings per share of the Bank.

## 28. REMUNERATION OF PRESIDENT, DIRECTORS AND EXECUTIVES

01 April 2008 to 31 December 2008

	President	Directors (Rupees)	Executives
Managerial remuneration	2,072,907	-	24,024,716
Gratuity	299,397	-	3,218,368
House rent and maintenance	932,805	-	10,811,138
Utilities	207,288	-	2,402,485
Medical	12,700	-	2,108,859
Conveyance	226,166	-	7,717,784
Bonus	-	-	2,231,239
Others	-	-	499,251
<b>Total</b>	<b>3,751,263</b>	<b>-</b>	<b>53,013,840</b>
Number of person(s)	1	8	31

28.1 The President is provided with a Bank maintained car.

28.2 Executives mean employees, other than the chief executive and directors, whose basic salary exceed five hundred thousand rupees in a financial year.

## 29. SCHEDULE OF MATURITY DISTRIBUTION OF MARKET RATE ASSETS AND LIABILITIES

	TOTAL	UPTO 1 MONTH	OVER 1 MONTH UPTO 6 MONTHS	OVER 6 MONTHS UPTO 1 YEAR	OVER ONE YEAR
<b>Rupees</b>					
<b>Market rate assets</b>					
Advances	3,012,936,737	135,458,934	1,468,973,147	1,408,504,656	-
Investments	1,211,854,626	248,436,250	597,384,290	-	366,034,086
Balances with SBP and NBP-deposit accounts	13,494,344	13,494,344	-	-	-
Balances with other banks-deposit accounts	855,026,998	855,026,998	-	-	-
Lending to financial institutions	600,000,000	300,000,000	300,000,000	-	-
<b>Total market rate assets</b>	<b>5,693,312,705</b>	<b>1,552,416,526</b>	<b>2,366,357,437</b>	<b>1,408,504,656</b>	<b>366,034,086</b>
<b>Other non-earning assets</b>					
Cash in hand	31,044,756	31,044,756	-	-	-
Balances with SBP and NBP-current accounts	43,071,388	43,071,388	-	-	-
Balances with other banks-current accounts	68,149,369	68,149,369	-	-	-
Other assets	692,577,065	163,085,270	393,061,295	111,698,814	24,731,686
Operating fixed assets	157,587,129	5,532,749	27,663,745	33,196,494	91,194,141
<b>Total non-earning assets</b>	<b>992,429,707</b>	<b>310,883,532</b>	<b>420,725,040</b>	<b>144,895,308</b>	<b>115,925,827</b>
<b>Total assets</b>	<b>6,685,742,412</b>	<b>1,863,300,058</b>	<b>2,787,082,477</b>	<b>1,553,399,964</b>	<b>481,959,913</b>
<b>Market rate liabilities</b>					
Borrowing from ADB	4,364,753,752	-	181,864,740	181,864,740	4,001,024,272
Borrowings from financial institutions	263,709,004	263,709,004	-	-	-
<b>Total market rate liabilities</b>	<b>4,628,462,756</b>	<b>263,709,004</b>	<b>181,864,740</b>	<b>181,864,740</b>	<b>4,001,024,272</b>
<b>Other non-cost bearing liabilities</b>					
Deposits and other accounts	18,168,500	18,168,500	-	-	-
Other liabilities	134,016,874	46,132,314	88,597,512	87,048	-
<b>Total non-cost bearing liabilities</b>	<b>152,185,374</b>	<b>64,300,814</b>	<b>88,597,512</b>	<b>87,048</b>	<b>-</b>
<b>Total liabilities</b>	<b>4,780,648,130</b>	<b>328,009,818</b>	<b>270,462,252</b>	<b>181,951,788</b>	<b>4,001,024,272</b>
<b>Net assets</b>	<b>1,905,094,282</b>	<b>1,535,290,240</b>	<b>2,516,620,225</b>	<b>1,371,448,176</b>	<b>(3,519,064,359)</b>
<b>Represented by:</b>					
Share capital	1,705,000,000				
Statutory reserve	60,643,340				
Capital reserve	24,255,224				
Unappropriated profit	61,657,534				
Reserve for contingencies	28,385,353				
Deficit on revaluation of assets	(8,718,899)				
Deferred grants	33,871,730				
	<b>1,905,094,282</b>				

30. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

30.1 Interest rate risk

The Bank's exposure to interest rate risk and the effective rates on its financial assets and liabilities as of 31 December 2008 are summarized as follows:

Description	INTEREST/MARK-UP BEARING						NON INTEREST BEARING		Total	Effective Interest Rate
	Maturity Upto one year	Maturity after one year & upto two years	Maturity after two years & upto three years	Maturity after three years & upto four years	Maturity after four years & upto five years	Maturity after five years	Total			
	Rupees						Rupees			
<b>Financial assets:</b>										
Cash and balances in current and other accounts	-	-	-	-	-	-	142,265,513	142,265,513	-	
Balance in deposit accounts	868,521,342	-	-	-	-	-	868,521,342	868,521,342	5.0 % to 18.0 %	
Lending to financial institutions	600,000,000	-	-	-	-	-	600,000,000	600,000,000	15.0 % to 16.0 %	
Investments	845,820,540	-	366,034,086	-	-	-	1,211,854,626	1,211,854,626	10.1 % to 13.9 %	
Advances	3,012,936,737	-	-	-	-	-	3,012,936,737	3,012,936,737	20.0 % to 23.0 %	
Other assets	-	-	-	-	-	-	598,652,777	598,652,777	-	
	5,327,278,619	-	366,034,086	-	-	-	5,693,312,705	740,918,290	6,434,230,995	
<b>Financial liabilities:</b>										
Deposits and other accounts	-	-	-	-	-	-	-	18,168,500	18,168,500	
Borrowings	627,438,484	363,729,480	363,729,480	363,729,480	363,729,480	2,546,106,352	4,628,462,756	4,628,462,756	3.6 % to 14.3 %	
Other liabilities	-	-	-	-	-	-	-	126,038,463	126,038,463	
	627,438,484	363,729,480	363,729,480	363,729,480	363,729,480	2,546,106,352	4,628,462,756	4,772,669,719	-	
<b>On balance sheet gap</b>	4,699,840,135	(363,729,480)	2,304,606	(363,729,480)	(363,729,480)	(2,546,106,352)	1,064,849,949	596,711,327	1,661,561,276	
<b>Un recognized:</b>										
Commitments	-	-	-	-	-	-	-	11,437,371	11,437,371	
<b>Off balance sheet gap</b>	4,699,840,135	(363,729,480)	2,304,606	(363,729,480)	(363,729,480)	(2,546,106,352)	1,064,849,949	585,273,956	1,650,123,905	

### 30.2 Market risk

The Bank's interest rates exposure comprises those originating from investing and lending activities. The Assets and Liability Management Committee of the Bank monitors and manages the interest rate risk with the objective of limiting the potential adverse effect on the profitability of the Bank.

### 30.3 Concentration of credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank is exposed to credit related losses in the event of non-performance by counter parties.

The Bank seeks to manage the credit risk by attempting to diversify the lending activities to avoid undue concentration of risks with customers in specific locations or activities. The Bank controls this risk through credit appraisals, assessing the credit-worthiness of customers. A provision for potential loan losses is maintained as required by Prudential Regulations. Further, the community organizations are structured in a way to exert social pressure on the borrowers to perform their obligations.

### 30.4 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet its net funding requirements. The Bank attempts to manage this risk by having adequate credit lines in place and maintaining sufficient liquidity at branch level to meet anticipated funding requirements.

### 30.5 Fair value of financial instruments

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values, except held to maturity assets which are carried at amortised cost.

## 31. RELATED PARTY TRANSACTIONS

The Bank's related parties comprise of directors, key management personnel, shareholders and 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 14.2.2 while remuneration of key employee personnel is disclosed in note 28 to the financial statements. Detail of transactions with the Bank's shareholders and employee retirement benefit fund, during the period under normal commercial banking terms and balances outstanding at the period end are as follows:

	<b>From 01 April 2008 to 31 December 2008 (Rupees)</b>
<b>Transactions with shareholder banks during the period</b>	
Profit earned on deposit accounts	10,273,047
Bank charges	5,586,597
Lending to shareholder banks	21,590,625,194
Repayment of lending from shareholder banks	21,140,625,194
Interest income	61,720,935
Lending from shareholder banks	4,505,279,056
Repayment of lending to shareholder banks	4,750,971,501
Interest expense	31,990,490
<b>Contributions to gratuity fund</b>	<b>16,478,217</b>

From 01 April 2008  
to 31 December 2008  
(Rupees)

**Transactions with subsidiaries of shareholder banks**

Sale of units in mutual fund 225,000,000

**Balances outstanding at the period end**

Bank balances with shareholder banks 295,274,258  
Advances receivable from executives 14,637,387  
Balance payable to gratuity fund 205,847

**32. CAPITAL MANAGEMENT**

The Bank's objectives when managing its capital are:

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

Capital requirements applicable to the Bank are set out under Microfinance Institution Ordinance, 2001. 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. 500 million. The bank has maintained capital adequacy ratio in accordance with regulation No. 4 of the Regulations 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.

**33. DATE OF APPROVAL**

These financial statements were approved by the Board of Directors of the Bank in their meeting held on March 30, 2009 .

**34. GENERAL**

Account captions, as prescribed by BSD circular No. 11 dated 30 December 2003 issued by the SBP, (in respect of forms of annual financial statements for Microfinance Banks / Institutions) where there are no amounts have not been reproduced in these financial statements except for in the balance sheet and profit and loss account.

  
PRESIDENT/  
CHIEF EXECUTIVE

  
CHAIRMAN

  
DIRECTOR

  
DIRECTOR

## Branch Network

### Rawalpindi (Northern Region), NWFP, FATA & AJK

#### Peshawar

Ground Floor, Hurmaz Plaza, Tehkal Payan,  
University Road, Peshawar  
Tel: 091-9218366/5840388  
Fax: 091-5840377

#### Khyber Agency (Jamrud)

Katyakhel Market, Jamrud Bazaar, Jamrud, Khyber Agency  
Tel: 091-5827655  
Fax: 091-5827656

#### Kohat

Samand Plaza, Behzadi Chakarkot, Bannu Road, Kohat  
Tel: 0922-522875  
Fax: 0922-522876

#### Karak

Kakakhel Market, Main Sabirabad Road Karak  
Tel: 0927-210001  
Fax: 0927-210002

#### Kurram Agency (Parachinar)

PA Chowk, Thari road, Parachinar, Kurram Agency  
Tel: 0926-312375  
Fax: 0926-311375

#### Orakzai Agency

Kalya Headquarter Orkzai Agency  
Tel: 0925-650157  
Fax: 0925-650157

#### Nowshera

Army Welfare Shop, 1st Floor, Daewoo Termina, Nowshera  
Tel: 0923-9220203-0923-614558  
Fax: 0923-9220203

#### Mardan

CB 445/A- 2, Saddar Bazar, The Mall, Mardan Cantt.  
Mardan  
Tel: 0937-9230445  
Fax: 0937-9230446

#### Charsadda

Ajmal Market, Tangi Road, Charssadda  
Tel: 091-6515724  
Fax: 091-9220106

#### Mohmand Agency

Haji Dilawar Market, Ghalanai, Mohmand Agency  
Tel: 0924-290052  
Fax: 0924-290106

#### Bajur Agency

Opposite Civil Colony near Car Park Hotel Khar, Bajour  
Tel: 0942-221250

#### Mingora (Swat)

Abasin Towers, Madayan Road, Mingora, Swat  
Tel: 0946-9240417

#### Malakand Agency (Batkhela)

Tahir Plaza, Main Bazar, Batkhela, Malakand Agency  
Tel: 0932-415039  
Fax: 0932-415239

#### Shangla

Shangla Plaza, College Road, Alpuri, Shangla  
Tel: 0996-850685  
Fax: 0996-850691

#### Swabi

Rehman Plaza, Mardan Road, Swabi  
Tel: 0938-330075/0938-223212  
Fax: 0938-223212

#### Batagram

First Floor, United Market, Main Shah Rahe Resham  
Batagram  
Tel: 0997-311778

#### Kohistan

Ground Floor, Kamila Market, Silk road, Dasso, Kohistan  
Tel: 0998-407213  
Fax: 0998-407213

#### Haripur

Pankad Area, Shahrah-e-Hazara, Haripur  
Tel: 0995-610181  
Fax: 0995-615281

#### Abbotabad

1st Floor, Silk Plaza, Supply bazar, Mansehra Road  
Abbotabad  
Tel: 0992 343108  
Fax: 0992 335313

#### Mansehra

Abid Khan Plaza, Near Kauho Ziarat, Shinkiar Road  
Mansehra  
Tel: 0997-920046  
Fax: 0997-920047

#### Muzaffarabad

Raza Buliding Poultry Form Road Opposite AJK University  
Muzaffarabad  
Tel: 05881042700  
Fax: 5881042710

#### Neelum

Main Bazar Atth Muqam Latif Market Neelum  
Tel: 058814-56363

**Rawalpindi**

1st Floor, 20-B North Star Plaza, Rehmanabad Chowk  
Murree Road, Rawalpindi  
Tel: 051-4842548  
Fax: 051-9290562

**Fatehjung (Attock)**

Shop # 3, Ground Floor, Itihad Plaza, Pindi Road, Fatehjung  
District Attock  
Tel: 057-2212132  
Fax: 057-221232

**Hassanabdal**

Plot # B-I-69, Khasra # 2534, Mohallah Milad Nagar near  
Civil Hospital Main Hazara Road, Hassanabdal  
Tel: 057-2523109

**Rawlakot (Poonch)**

Anmol Plaza Opposite Ali Firdous Clinic, C.M.H Road  
Rawalakot  
Tel: 058710-42710  
Fax: 058710-43245

**Bagh**

Ground Floor, Al-Noor Plaza, College Road, Bagh  
Tel: 058720-45061  
Fax: 058720-45062

**Lahore (Central Punjab)****Faisalabad**

1st Floor, Jinnah Center, Jinnah Colony, Faisalabad  
Tel: 041-9200780  
Fax: 041-9200779

**Sahiwal**

276/B-1, Alpha Tower High Street, Sahiwal  
Tel: 040-9200502  
Fax: 040-9200503

**Jhang**

Siddique Centre, Park Street, near DC House, Civil Lines  
Saddar, Jhang  
Tel: 0477-620986  
Fax: 0477-620986

**Toba Tek Singh**

Alaziz Centre Shore Kot Road, Toba Tek Singh  
Tel: 0462-517513  
Fax: 0462-514618

**Kasur**

Main Chowk District Courts Kachahry Road Sultani Market  
Kasur  
Tel: 049-2773201  
Fax: 049-2773202

**Lahore**

09 Ferozpur Road, near Muzang Chungi, Lahore  
Tel: 042-7534789/7534389  
Fax: 042-7534808

**Pakpattan**

Pakpattan Club Building, Club Road, Pakpattan  
Tel: 0457-353559  
Fax: 0457-352559

**Okara**

10-Mehr Market, M.A. Jinnah Road, Okara  
Tel: 0442-550003  
Fax: 0442-550004

**Sialkot**

BASF Building, Near Sublime Chowk, Main Defense Road  
Sialkot  
Tel: 052-3253208  
Fax: 052-3253208

**Narowal**

Usman Plaza, Siddique pura Morre, Circular Road, Narowal  
Tel: 054-2414267  
Fax: 052-3253208

**Gujranwala**

2nd Floor, Center Point Upper MCB, Ghalla Mandi Branch  
Main G.T Road, Gujranwala  
Tel: 055-9200842  
Fax: 055-9200843

**Hafizabad**

Shop # B-1-185, Garhi Awan Kasooke Road, Hafizabad  
Tel: 0547-541123  
Fax: 0547-541123

**Gujrat**

1st Floor, Fasial Plaza, G.T. Road, Gujrat  
Tel: 053-3521426  
Fax: 053-3521426

**Sheikhupura**

435-Gujranwala Road, Near Batti Chowk, Sheikhupura  
Tel: 056-3813565  
Fax: 056-3813564

**Wazirabad**

1st Floor, Yousaf Market, AC Road, Wazirabad  
Tel: 055-6609120  
Fax: 055-6609118

**Kamoki**

Main G.T. Road, Opposite Neelum Cinema, Kamoki  
Tel: 055-6811141 / 6402171  
Fax: 055-6811141 / 6402171

**Mandi Bahauddin**

Farooq Plaza, Link Kutchery Road, Mandi Bahaudin  
Tel: 0546-500980  
Fax: 0546-521002

**Sargodha**

19, 1st Floor, Zahoor Palza, Noori Gate, Sargodha  
Tel: 048-9230557  
Fax: 048-9230558

**Bhalwal**

Sugar Mill / Ajnala Road, Bhalwal  
Tel: 048-6642431  
Fax: 048-6642571

**Jhelum**

Flat # 03, 1st floor, Soldier Arcade, Civil Lines, Jhelum  
Tel: 0544-9270309  
Fax: 0544-9270322

**Chakwal**

Shop # BI/1631, Near Gulsher Petrol Station  
Talangang Road, Chakwal  
Tel: 0543-540864  
Fax: 0543-540864

**Khushab**

Plot No. 221, Block No. 4, College Chowk, Jauharabad  
Khusab  
Tel: 0454-920014  
Fax: 0454-920013

**Mianwali**

PAF Road, Chah Gull Khanwala, Mianwali  
Tel: 0459-920029  
Fax: 0459-920030

**Multan (Southern Punjab)****Bahawalpur**

2-Rehan Society, Noor Mahal Road, Bahawalpur  
Tel: 062-9255316  
Fax: 062-9255410

**Lodhran**

G.T. Road Qadir Pur Ranwaan, Disttict Multan  
Tel: 061-4578668

**Lodhran**

Shop No. 2&3, Ghalla Mandi, Lodhran  
Tel: 0608-9200142  
Fax: 0608-9200141

**Ahmed Pur East**

Ground Floor, Unique Plaza, KLP Road, near Uch By Pass,  
Ahmed Pur East  
Tel: 062-2272450

**Shujaabad**

Jalal Pur Road-Opp KB Stand Shujaabad  
Tel: 061-4396006

**Multan**

63-A, 1st Floor, NIPCO House, Abdali Road, Multan  
Tel: 061-4783057  
Fax: 061-4782356

**Khair Pur Tamiwali**

Opposite National Saving center, Main Hasilpur Road,  
Khairpur Tamewali  
Tel: 062-2261010

**Khanewal**

House No.1, Street No.1, Block 2, RCA Chawak, Khanewal  
Tel: 065-2551452  
Fax: 065-9200256

**Vehari**

Plot # E/8 Main Karkhana Bazar near Askari Bank Limited  
Vehari  
Tel: 067-3360306  
Fax: 067-3360307

**Bahawalnagar**

Baldia Raod, Bahawlangar  
Tel: 063 - 9240115  
Fax: 063-9240116

**Chishtian**

Plot # 47, Block "C" Qazi Wala Road  
Adjacent College Road, Chishtian  
Tel: 063-2500031  
Fax: 063-2500031

**Haroon Abad**

Plot # 221 Main Bazaar Haroon Abad  
Tel: 063-2256495  
Fax: 063-2256495

**Hasilpur**

Khata # 34/29, Plot Adjacent Honda Motorcycle Showroom  
Near Bus Stand, Main Bahawalpur Road, Hasilpur  
Tel: 062-2449936  
Fax: 062-2449936

**Rahim Yar Khan**

29/30 Canal Bank Road, Opps. Jamiat ul Farooq  
Rahim Yar Khan  
Tel: 068-5001899  
Fax: 068-5879772

**Khan Pur**

Plot # 309-310 Modal Town "A" Near Bank Alfalah  
Khanpur  
Tel: 068-5028283  
Fax: 068-5576822

**Rajanpur**

Kamran Market, Opposite Jamia Sheikh Darkhasti  
Indus Highway, Rajanpur  
Tel: 0604-333365  
Fax: 604689513

**Liaqat Pur**

3 - Housing scheme, 87- Bank Road Liaqat Pur  
Tel: 0685792599

**Jampur**

Oppsite Canal Rest House, Indus Highway, Jampur  
Tel: 0604-568650/332427

**Fazil Pur**

Main Indus Highway, Fazil Pur  
Tel: 0604-309921/681660  
Fax: 0604-309921

**Rakhni/Barkhan**

Near National Bank of Pakistan, Rakhni branch, Rakhni Distt, Barkhan.  
Tel: 0829-688050

**Taunsa Sharif**

Mangortha Road, Tansa Sharif  
Tel: 064-2601467  
Fax: 064-2016499

**Dera Ismail Khan**

Al-Zaman Building, Near Siraj Medical Center  
West Circular Road, Dera Ismail Khan  
Tel: 0966-732029  
Fax: 0966-711382

**Bhakkar**

156-A / 2-3, Beside Hanif Hotel, Mandi Town, Club Road, Bhakkar  
Tel: 0453-9200087  
Fax: 0453-9200088

**Layyah**

Plot # 405/B, 2nd Choubara Road, Near MCB Bank Ltd. Layyah  
Tel: 0606-414705  
Fax: 0606-412210

**Dera Ghazi Khan**

New Microw Wave Tower-Jam Pur Road, Dera Ghazi Khan  
Tel: 0642-474034  
Fax: 0642-474034

**Kot Addu / Muzaffer Garh**

Plot No. 275 - A/B, 2nd Faisal Colony, G T Road, Kot Addu  
Tel: 066-2243952  
Fax: 066-2243852

**Tibbi Qaisarani**

Main Bazar Near Telephone Exchange, Tibbi  
Tel: 064-2609456  
Fax: 064-2609456

**Sukkur (Northern Sindh & Balochistan)****Sukkur**

Plot # 717 Latifabad Colony Military Road, Sukkur  
Tel: 071-5633237-38  
Fax: 071-5633240

**Rohri**

Ground Floor, Plot # B-2181/06/01, Main GT Road, Rohri  
Tel: 071-5651127  
Fax: 071-5651128

**Pano Aqil**

Near Eid Gah, Baiji Chawk, Pano Aqil Distt Sukkur  
Tel: 071-5692033  
Fax: 071-5692062

**Ghotki**

Sada Bahar Shoping Center, Near Bilal Mosque  
Main GT Road, Ghotki  
Tel: 0723-600239  
Fax: 0723-600240

**Daharki**

Haq Plaza, Main GT Road, Daharki  
Tel: 0723-643834  
Fax: 0723-643481

**Khairpur**

Main Kachehry Road, Khairpur  
Tel: 0243-714064  
Fax: 0243-714065

**Ranipur**

Near Mazhar Model School, National Highway Ranipur  
Tel: 0243-730229  
Fax: 0243-730230

**Larkana**

H #. 1588, Jan Mohd Jonejo Road, Near Jarral Shah Bukhari, Larkana  
Tel: 074-4044580  
Fax: 074-4044578

**Waggan (Qambar)**

Opposit Sui Southern Gas Company Limited Qambar  
Tel: 074-4210073  
Fax: 074-4210073

**Ratodero**

Main Bus Stand Chowk, Ratodero. Dist Larkana  
Tel: 0744-088943  
Fax: 0744-088189

**Shikarpur**

Sattari Building, Plot # 23/34/5, Station Road, Shikarpur  
Tel: 0726-920161  
Fax: 0726-920162

**Thul**

Ward #7 Near ZTBL, Main Kandhkot Road, Thul  
Tel: 0722-610117  
Fax: 0722-610368

**Jacobabad**

Main Quetta Road Near Tikundo Park Jacobabad  
Tel: 0722-652001  
Fax: 0722-650302

**Jaffarabad**

Main Quetta Road, Near Railway Station, Jafferabad  
Tel: 0838-510034  
Fax: 0838-510034

**Naseerabad**

Labor Chowk, Quetta Road, Dera Murad Jamali  
Naseerabad  
Tel: 0838-711337  
Fax: 0838-711338

**Sibbi**

84-A, Block - 4, Jinnah Road Sibbi  
Tel: 0833-412949  
Fax: 0833-9230013

**Karachi (Southern Sindh & Balochistan)****Karachi**

Ground Floor, Block-C, Finance & Trade Centre  
Sharah-e-Faisal, Karachi  
Tel: 021-9204126/27/28  
Fax: 021-9204132/9203489

**Mir Pur Khas**

Plot # 7, Survey # 862/7, Ward-A, MP Colony, Main Umar  
Kot Road, Mir Pur Khas  
Tel: 02338-73276  
Fax: 02338-73276

**Hyderabad**

Shop # 2-3, Defence Plaza, Thandi Sadak, Hyderabad  
Tel: 022-2784349  
Fax: 022-2786621

**Tando Allah Yar**

City Servey # 81, Main Mir Pur Khas Road, Adjacent Main  
Eid Gah, Tando Allah Yar  
Tel: 02238-92875  
Fax: 02238-92874

**Mithi**

Shop No. 2&3, satyani Shopping Centre, Main Naukot Road  
Mithi  
Tel: 02322-62304  
Fax: 02322-62305

**Dadu**

Plot # 629, Main Road, Adjacent to Govt. Girls High School  
Dadu  
Tel: 025-9200084  
Fax: 025-9200085

**Thatta**

Shop # 6, Al-Shahbaz Shops National Highway Thatta  
Tel: 0298-550783  
Fax: 0298-550784

**Nowsherofroze**

National Highway, Nowsheroferoze  
Tel: 0242-481275  
Fax: 0242-481274

**Badin**

Survey # 33, Adjacent Abbasi Hospital, Main DCO Chowk  
Karachi Road Badin  
Tel: 0297-862330  
Fax: 0297-810149

**Quetta**

Shop # 4, Usman Complex, Hali Road Quetta  
Tel: 081-9201564-37  
Fax: 081-9201528

**Sehwan Sharif**

Shop # 3, Jahaz chowk near new Bus Stand Station Road  
Sehwan Sharif  
Tel: 025-4620700  
Fax: 025-4620700

**Pishin**

Malik Plaza, By-Pass Road, Pishin  
Tel: 0826-421111  
Fax: 0826-421123

**Tando Muhammad Khan**

Servey # 61, Main Hyderabad Badin Road, Adjacent Bus  
Stop Tando Muhammad Khan  
Tel: 02233-42738  
Fax: 02233-42833

**Mastung**

Masjid Road, Near National Saving Center Mastung  
Tel: 0843-897426  
Fax: 0843-897428

**Hala**

Plot # 824, Old main National Highway adjacent  
Babi-Nooh, Hala  
Tel: 02233-32350

**Loralai**

Shop No.1060 near Masool Chungi, Zhob Road, Loralai  
Tel: 0824-410845  
Fax: 0824-410916

**Sanghar**

Choudhary Corner, Main Nawabshah Road, Sanghar  
Tel: 0235-800161  
Fax: 0235-543439

**Zhob**

1st Floor House # C/196 Tehsil Road Babu Mohalla Zhob  
Tel: 0822-413497  
Fax: 0822-412099

**Nawabshah**

House No.A-306, Paro Hospital Road, Otaq Quarter  
Nawabshah  
Tel: 024-4370093  
Fax: 024-4370094

**Sanjawi (Ziarat)**

Shop # 08, Haji Faizullah Market, Main Bazar, Sanjawi, Ziarat  
Tel: 0824-665572  
Fax: 0824-665572

**Gawadar**

Shop # 01, Ashraf Complex, East Block, Airport Road  
Gawadar  
Tel: 0864-211764  
Fax: 0864-211764

# Company Information

## Auditors

---

KPMG Taseer Hadi & Co.  
Chartered Accountants  
Sixth Floor  
State Life Building No. 5  
Jinnah Avenue  
Blue Area  
Islamabad  
Telephone: 0092-51-2823558  
Fax: 0092-51-2822671  
Internet: [www.kpmg.com.pk](http://www.kpmg.com.pk)

## Legal Advisors

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Samdani & Qureshi  
32-A, Street 38  
Main Nazimuddin Road  
Sector F-10/4 Islamabad.  
Tel:0092-51-2111595-8  
Fax: 0092-51-2108011  
E-mail: [fqureshi@samdaniqureshi.com](mailto:fqureshi@samdaniqureshi.com)

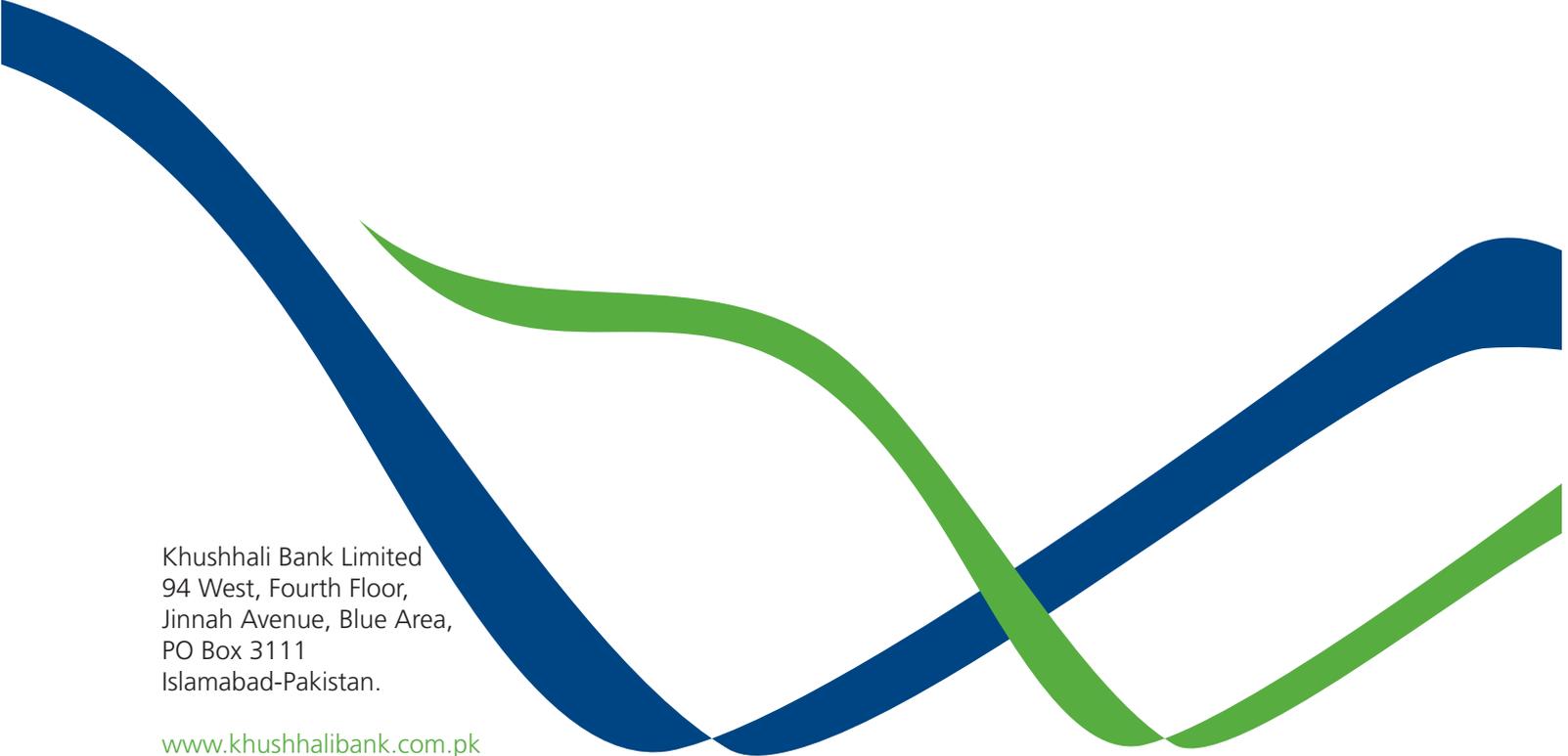
## Tax Consultants

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Ford Rhodes Sidat Hyder & Co.  
Chartered Accounts  
Eagle Plaza  
75-West  
Fazlul Haq Road  
Blue Area  
Islamabad  
0092-51-287-290-92  
Fax: 0092-51-02870293  
Internet: [www.ey.com/pk](http://www.ey.com/pk)

For further information please visit our website [www.khushhalibank.com.pk](http://www.khushhalibank.com.pk)





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Islamabad-Pakistan.

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