

ANNUAL
REPORT
2015





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Vision

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

Mission

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

Values

Empowerment
Excellence
Ethical



Corporate Governance

Our Board consists of seven members which include leading commercial bankers, fund managers and microfinance experts from across the globe. This independent, private sector board delivers top-notch guidance and direction to the management in order to ascertain a platform which is customer-centric and complies with the International standards.



Standing from left to right: Peter Kooi, Geert Peetermans, Syed Javed

Sitting from left to right: Aatiqa Lateef, Aameer Karachiwala, M. Ghalib Nishtar, Robert Binyon

Management

The success of Khushhalibank is accredited to the dedicated management team that handles business, provides operational support and maintains a suitable internal control environment. Khushhalibank's team strives to leave no stones unturned in order to provide access to financial services to the largely un-banked segments of market through the largest microfinance network in Pakistan.



Standing from left to right: Rizwan Hafeez (Chief Compliance Officer), Hammad Haider (Head Operations & Technology), Wajid Ali (Head Human Resource), Lubna Azam Tiwana (Chief Risk Officer), M. Ghalib Nishtar (President & Chief Executive Officer), Amina Hassan (Head Retail Banking), Saleem Akhtar Bhatti (Chief Financial Officer), Umer Sami Hayat (Company Secretary & General Counsel), Ali Imran Bokhari (Chief Internal Auditor)

Our Team

Khushhalibank is proud to be an equal opportunity employer. With a diverse and a dynamic team Khushhalibank is a hub for bright and talented minds. Best in the industry the team brings its expertise and special attributes on board with them.



Who We Are

With over a million clients under its umbrella, Khushhalibank is proudly the largest microfinance bank in Pakistan with nationwide presence in all districts of the country with a network of 131 branches connected online with the bank's corporate office in Islamabad. The Bank is continuously in a phase to expand financial access to low income populace and very small enterprises across Pakistan's rural and urban divide focusing on financial inclusion and deepening of the financial sector. True to its pledge, Khushhalibank is devotedly enhancing livelihood opportunities for the vast resilient but economically marginalized segments of the population enabling them to reach their potential.



What We Do

Khushhalibank offers financial services to the country's low-income populace in order to empower them and give them a better standard of living. We seek to enable our clients by providing them with financial products and services so that they can achieve their goals and ambitions.

Khushhalibank's micro loans include easy repayment plans, social collateral for community-based lending, doorstep facilities, personal banking and trust building.

The bank dedicatedly promotes the development of the policy & regulatory framework in the country and its success has been source of inspiration for the private domestic & foreign investment in the sector.



Our Products and Services

Khushhali Microfinance Bank Limited (formerly known as Khushhali Bank Limited) has a vast range of products and services that it offers to its clients in order to be able to meet their varying needs. Offering almost 360 degree solutions to all the needs of its clients, Khushhali Microfinance Bank's products and services include loans, savings, remittance, agricultural products and multiple services.

Liabilities

SAVINGS



TERM DEPOSIT



CURRENT ACCOUNT



Assets

GROUP LOAN



INDIVIDUAL LOAN



MSME LOAN



ADC



Our Clients

Khushhalibank is proud to have the largest client base amongst microfinance banks and offers varied product line for both its loan and deposit clients.

The Bank aims at serving the low end of the market segment which is a majority and was previously excluded from formal financial services.

At the end of 2015, the bank served over 0.5Mn active borrowers and over 1Mn active savers.



Investing in the Future Generation

With a belief that higher education has the most profound impact on individual success and is a gift that turns students into professionals, Khushhalibank has partnered with NAMAL. The Institute provides scholarships to students with limited means throughout the year who are selected on merit. Currently the college offers degrees in Computer Science as well as in Electronics and Electrical Engineering.

Namal is the first rural institute of higher education in the country offering international degrees to students from less privileged backgrounds. By 2017, it will be the second university in the region to offer agriculture business classes. The university plans to develop farmland to impart hands on training to students on the subject of Agriculture. Khushhalibank is a significant contributor to agricultural financing.



Encouraging Young Entrepreneurs

Khushhalibank has always taken initiatives to support young entrepreneurs. To honour its commitment the bank held a Start Up Expo 2015, a step towards encouraging entrepreneurial talent.

The bank realises the huge potential in the youth and believes in honing the skills which in effect uplifts the economy of the country. Khushhalibank takes pride in unearthing the hidden talent and nurturing their entrepreneurial abilities.

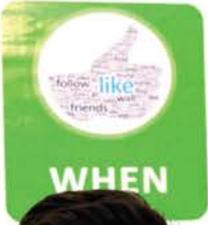
STARTUP



Doctor ks



DOCTOR KSE



337)14295

WEBSITE: www.doctorks.com
FACEBOOK: www.facebook.com/DoctorKSE

DOCTOR K



Supporting Sports Talent

In a bid to support the local youth and their sports talent, Khushhalibank arranged three football tournaments in Bhakkar, Layyah and DG Khan. The Khushhalibank Trophy, along cash prizes was competed for by 8 teams, representing their local area clubs at the competitions were held in the respective cities. The matches were played with great enthusiasm. All the matches were played in accordance to FIFA laws along with Punjab Football Association rules and regulations. The games were refereed by representatives of Pakistan Football Federation.

Khushhalibank supports the spirit of sportsmanship and such competitions not only encourage young sportsmen but also help create environments enabling them to represent the country at national and international levels.

Football is a global sport with a large fan base in Pakistan and Khushhalibank. Khushhalibank, the premier MSME finance institution enjoys a strong client base in Bhakkar, Layyah and DG Khan along with rural areas ranging across Pakistan and considers the support of the youth of these areas to set a precedent towards encouraging young talent in rural areas to excel at it.



Women Empowerment

The bank's female clients - the Wonder Women of Khushhalibank - are a role model for other women trying to get out of the vicious circle of poverty for their families and children.

It's been five years that Nadia has been running the school, but according to her the breakthrough for her venture came a year ago when she approached Khushhali Bank for a loan, and moved the students from floor to chairs. "I needed cash to move one step ahead and get the school registered with Punjab Education Board, and Khushhali Bank was right there to help be achieve my dream", Nadia exclaims with excitement.

Nadia was able to get a loan worth Rs 100,000 from Khushhali Bank, which she used for her investment in furniture and infrastructure. She came to know about Khushhali Bank through her affiliations with Punjab Education Foundation's Student Information System (SIS). Appreciating the Bank's support, she said that not only was she able to get higher number of admissions, but also higher fees from children due to better facilities. In one year, the number of students has gone up from 90 to 200. Her monthly sales are Rs 40,000. Today Nadia Sajid is a key contributor to her family's income.



Partners on the Road to Prosperity

ECO Trade and Development Bank (ETDB) has inked another Micro SME Loan Agreement with Khushhalibank for the second tranche of the funding of US\$5 million. The signing ceremony held in Istanbul in June 2015, renews and further strengthens the partnership between Khushhalibank and ECO Trade to facilitate Micro Small and Medium Sized Enterprises (M-SME) financing provided by Khushhalibank in Pakistan.

Initially, the Economic Cooperation Organisation (ECO) Trade and Development Bank (ETDB) had signed a Micro SME loan agreement with Khushhalibank for US\$ 5million in 2014.

The Economic Corporation Organization (ECO) Trade and Development Bank is a Multilateral Development Bank (MDB) established on August 3, 2005 by Iran, Pakistan and Turkey, which are the founding members of the ECO and is headquartered in Istanbul, Turkey.



Wireless E-GUEST
word: EC1234E

Creating Opportunities for the Unbanked

The Annual event arranged by Citi Foundation and PPAF aimed at highlighting the performance of Microfinance sector and appreciating the work of borrowers who are able to bring a significant change to their lives after receiving microfinance loans, serving as a role model for others in their respective communities.

This year's regional winner was Khushhalibank's client Sher Jan and his loan officer, Azizullah from Balochistan. The award winner acknowledged Khushhalibank's financial support and business counseling which enabled him to be an inspiration for people in his community.



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Corporate Information

Board of Directors

Aameer Mustaaly Karachiwalla
Chairman/Director

Muhammad Ghalib Nishtar
President /Director

Syed Javed
Director

Robert Francis Thomas Binyon
Director

Geert Peetermans
Director

Peter Kooi
Director

Aatiqa Lateef
Independent Director

Board Committees

Audit Committee

Aatiqa Lateef – Chair

Geert Peetermans - Member

Peter Kooi - Member

Syed Ali Imran Bokhari - Secretary

Risk Management Committee

Syed Javed - Chair

Geert Peetermans - Member

Peter Kooi - Member

Lubna Azam Tiwana - Secretary

Human Resource and Remuneration Committee

Robert Francis Thomas Binyon - Chair

Syed Javed - Member

Aatiqa Lateef - Member

Wajid Ali - Secretary

Social Environment Committee

Geert Peetermans - Chair

Muhammad Ghalib Nishtar - Member

Aatiqa Lateef - Member

Lubna Azam Tiwana - Secretary

Chief Financial Officer

Saleem Akhtar Bhatti

Company Secretary & General Counsel

Umer Sami Hayat

Share Registrar

Central Depository Company of Pakistan
CDC House, 99-B, Block 'B', S.M.C.H.S.,
Main Shahra-e-Faisal, Karachi - 74400.

Tel: +92 21 111 111 500

Fax: +92 21 343 26031

Internet: www.cdcpakistan.com

Auditors

BDO Ebrahim & Co.

Chartered Accountants

3rd Floor, Saeed Plaza

22 – East, Blue Area

Islamabad

Tel: +92 51 287 6670

Fax: +92 51 227 7995

Internet: www.bdo.com.pk

Legal Advisors

Samdani & Qureshi

32-A, Street 38

Main Nazimuddin Road

Sector F-10/4 Islamabad.

Tel: +92 51 211 1595-8

Fax: +92 51 210 8011

E-mail: fqureshi@samdaniqureshi.com

Tax Advisors

Ernst & Young Ford Rhodes Sidat Hyder & Co.

Chartered Accounts

Eagle Plaza, 75-West

Fazlul Haq Road

Blue Area, Islamabad

Tel: +92 51 234 4160-62

Fax: +92 51 234 4163

Internet: www.ey.com/pk

Head Office

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Tel: +92 51 111 092 092, Fax: +92 51 924 5120, www.khushhalibank.com.pk



President & CEO Review: 2015

Preface

The macroeconomic conditions continue to show signs of improvement and the year 2015 witnessed steadily rising growth rates with calibrated fiscal and monetary management leading to low inflationary environment, stabilizing reserves and a steady exchange rate regime. However, challenges still remain in terms of economic and business climate, including energy shortages and security concerns that can be disruptive to businesses particularly micro, small and medium enterprises and a lack of a more equitable tax regime. Climate change is another phenomena that will pose a challenge particularly in terms of businesses that are exposed to agriculture.

Microfinance Industry is pivotal for inclusive and sustainable economic growth, livelihood creation and grassroots development. Although microfinance sector emerged in Pakistan with a delay of more than two decades, the sector is demonstrating sustained growth, outpacing the early entrants in South Asia region. Pakistan has a well-recognized legal and regulatory framework for microfinance. Pakistan continues to be ranked amongst the top countries for Microfinance Regulations by the Economist Intelligence Unit (EIU) of the Economist Magazine. Encouragingly, microfinance sector has developed a tradition of trust and cooperation among all the stakeholders in Pakistan.

Since the inception of microfinance-banking in 2000, State Bank has been supporting microfinance and implemented various strategic initiatives for the promotion of the sector. However, despite all these efforts the level of financial penetration remains low in Pakistan as compared to its peers in the region and perhaps this prompted the State Bank of Pakistan to

launch a comprehensive National Financial Inclusion Strategy that provides a framework and a road map for priority actions aimed at addressing constraints and significantly improving access to and usage of quality financial services over the period 2015-20. The strategic objectives are consistent with the Government of Pakistan's vision 2025 that calls for enhancing access to credit for SME's and focusing on financial inclusion and deepening.

Therefore, the Microfinance Institutions have a pivotal role within the strategy and the reviewed year 2015 is characterized by healthy competition, led by strong private sector and internationally renowned players, growth of inclusive financial services, and emergence of innovative business models. Microfinance is a priority segment within the overall banking system of Pakistan as it reaches out to millions of largely unbanked/un-served clients and continues on the path of sustainability witnessed by the trend of increase in deposit volumes and decrease in reliance on debt in the year 2015. Microfinance sector successfully mobilized Rs 65 billion at the end of 2015 (2014: Rs 43 billion), an increase of 51% YOY and service to over 13 millions of customers particularly through branchless banking channels.

Khushhalibank is a market leader with the largest asset base, active clients and loan portfolio. The bank improved market share in deposit from 20.0% to 24.1% with the accelerated growth of 79% YOY. The growth trajectory helped achieve over a million clients and more than one billion pre-tax profit, amongst the highest in the sector. Further to this, during the reviewed period the Bank commercially launched Khushhali ATM card, call center and qualified for the membership of the national clearing house, facilitating convenience for the clients. During the year, JCR-VIS Credit Rating Company

Limited (JCR-VIS) upgraded the entity ratings of KBL from 'A/A-1' (Single A/A-One) to 'A+/A-1' (Single A Plus/A-One) and outlook on the rating was revised from 'Positive to 'Stable'.

Performance Review 2015

Khushhali Bank performance in 2015 reflects another year of sound financial results amidst signs of a positive outlook for microfinance growth in Pakistan. The Bank posted impressive financial results for the year and registered Profit Before Tax (PBT) of Rs 1.2 billion, a growth of 25 % as against last year. The Bank's balance sheet increased to Rs 26.6 billion, a significant growth of 60% over 2014. The growth was primarily attributed to YOY growth of 79% in deposits that increased to Rs 15.6 billion.

The Bank achieved a 43% growth in advances to Rs 17.5 billion at the end of December 31,2015. The group loan portfolio crossed Rs 10 billion mark and reached Rs 11.8 billion and similarly Individual loan portfolio increased to Rs 5.3 billion. Micro enterprise loans that were launched in 2014 achieved a portfolio of Rs 365 million. The Bank's Investments increased to Rs 1.8 billion at the end of the year with a growth of 120% (2014: 836.9 million). The Investment portfolio remains concentrated in government securities, T-Bills 57%, TDRs 27% and Mutual Funds 16% respectfully.

The Bank's net interest income improved by 37 % to Rs 3.2 billion from the last year of Rs 2.3 billion and the fee and commission income grew to Rs 640 million, with 34% growth over the previous year. The provision/write off of loan portfolio increased to Rs 275 million from 154 million of last year. The administrative expenses increased by 29% to support business growth of 43%, to manage institutional challenges of staff attrition, refurbishment of 14 branches for MSME operations, reallocation& consolidation cost of head office & business transaction unit, IT infrastructure upgrade and opening of additional 10 new branches. In spite of increase in administrative expenses during the year, the Bank's overall administrative expense ratio decreased to 16.6 % from last year ratio of 18.1%.

Future Outlook

We have a market that presents exciting opportunities and a regulatory environment that is supportive and we must continue to invest in innovation and technology but most importantly our conviction to serve the financially excluded but resilient majority is the key to success. The Bank's focus in the future is serving the economically active poor in rural markets while strengthening our ability to serve urban markets by development of appropriate products and services and strengthening our brand recognition. We have set the standards of scale and services across the microfinance industry and shall continue to expand particularly in our new Microenterprise segment for which additional branches will be converted to serve the target market.

I place on record my appreciation for our Sponsors for their guidance and support extended during the year, to the State Bank of Pakistan and the Securities & Exchange Commission of Pakistan, for creating an enabling environment for financial services industry. We stay committed to serving and safeguarding the rights of our stakeholders, by upholding the tenets of good governance and accepted best practice. I would like to acknowledge clients for their continued patronage, trust and making Khushhali their bank of choice and the outstanding contribution of the exceptional Khushhali team.



Ghalib Nishtar
President

Financial Highlights: 2015

December 31		2015	2014	Change
Investments	PKR M	1,848	837	121%
Lending To FI	PKR M	2,383	418	470%
Gross Advances	PKR M	17,467	12,238	43%
NPLs	%	1.9%	0.9%	111%
NPLs Coverage	%	65%	117%	-44%
Advances – Net	PKR M	17,247	12,106	42%
Operating Fixed Assets	PKR M	549	323	70%
Total Assets	PKR M	26,696	16,692	60%
Deposits	PKR M	15,584	8,682	79%
Borrowings	PKR M	5,890	3,730	58%
Total Liabilities	PKR M	22,745	13,406	70%
Share Capital	PKR M	1,705	1,705	0%
Reserves	PKR M	611	446	37%
Unappropriated Profit	PKR M	1,618	1,134	43%
Equity	PKR M	3,934	3,286	20%
Net Markup/Interest Income	PKR M	3,187	2,320	37%
Provisions against NPLs	PKR M	275	155	77%
Total Non Markup/ Non Interest Income	PKR M	846	695	22%
Total Non Markup/ Non Interest Expense	PKR M	2,572	1,915	34%
Profit Before Taxation	PKR M	1,182	942	25%
Profit after Taxation	PKR M	824	703	17%

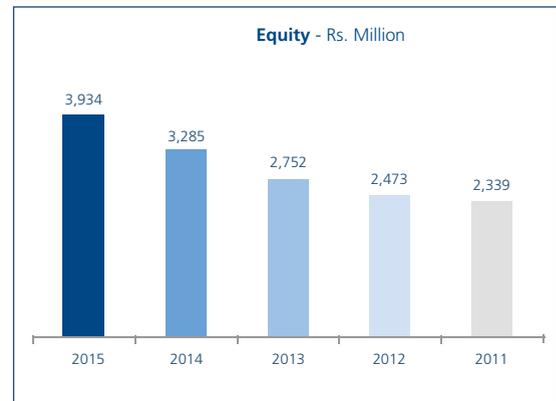
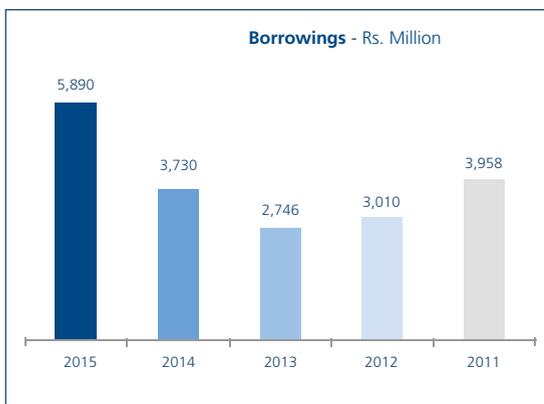
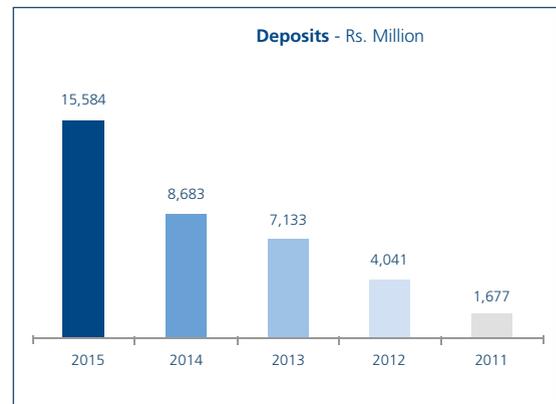
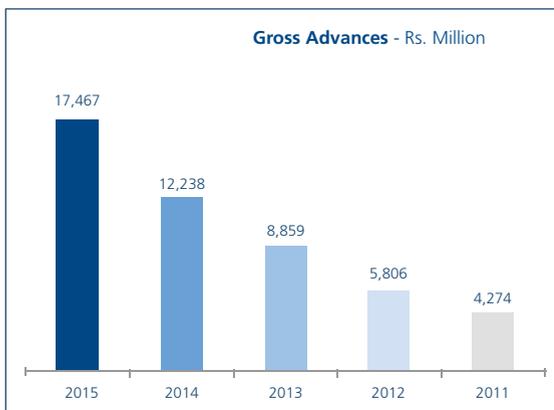
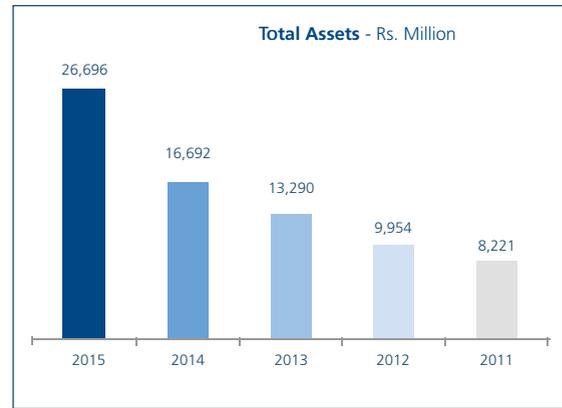
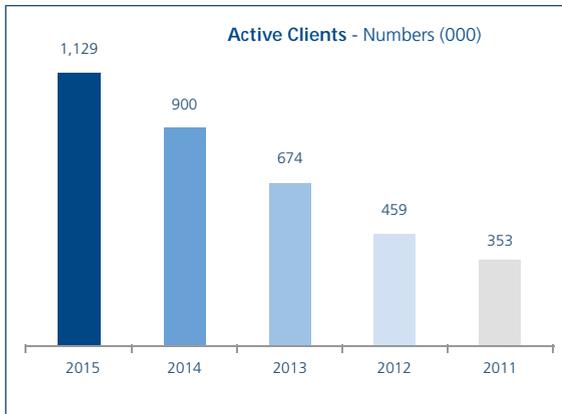
Five Years at a Glance: 2011 - 2015

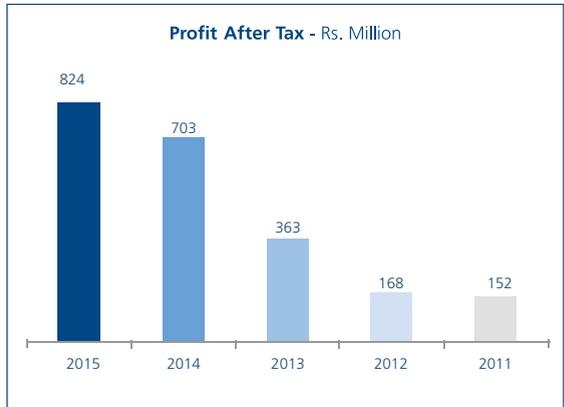
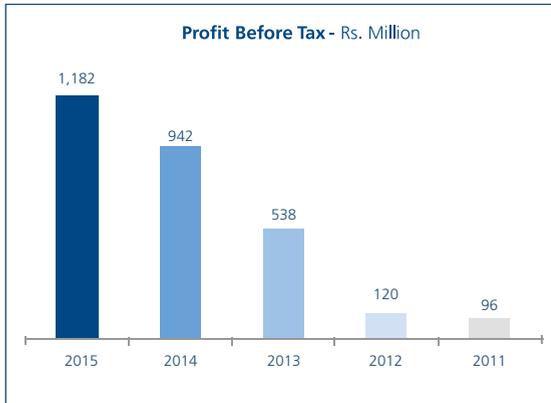
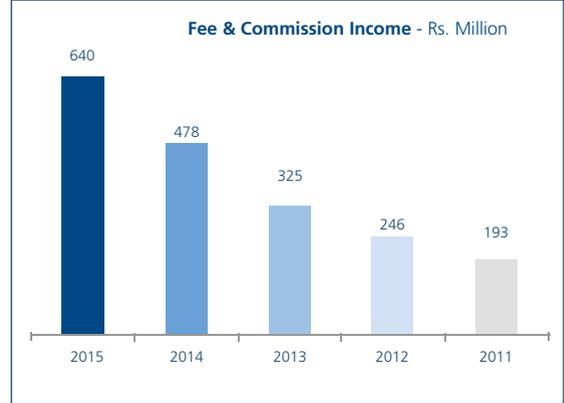
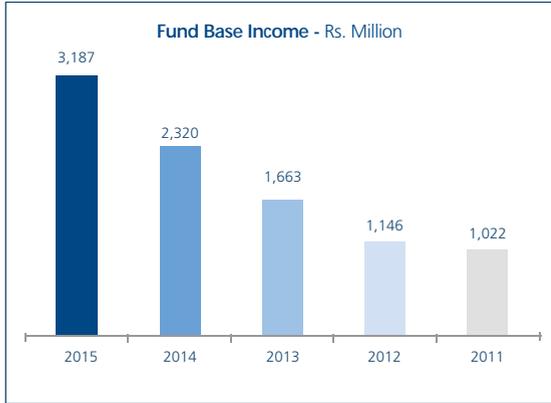
December 31		2015	2014	2013	2012	2011
OUTREACH						
Active clients	No	1,128,901	900,081	674,061	458,612	352,692
Active borrowers	No	520,517	468,369	409,010	364,138	352,692
No of branches	No	129	118	110	106	109
ASSETS						
Advances - Net	Rs M	17,247	12,106	8,757	5,717	4,167
Investments	Rs M	1,848	837	1,039	1,044	945
Cash/bank deposits/bal with SBP	Rs M	4,329	1,472	1,872	1,865	2,188
Total assets	Rs M	26,696	16,692	13,290	9,954	8,221
Non-performing loans	Rs M	338	113	70	64	104
Provision for non-performing loans	Rs M	220	132	103	89	107
LIABILITIES						
Deposits	Rs M	15,584	8,682	7,133	4,041	1,677
Borrowings	Rs M	5,890	3,730	2,746	3,010	3,958
Total liabilities	Rs M	22,744	13,406	10,537	7,481	5,883
SHAREHOLDERS FUNDS						
Share capital	Rs M	1,705	1,705	1,705	1,705	1,705
Reserves	Rs M	611	446	305	241	228
Unappropriated profit	Rs M	1,618	1,134	739	526	404
Total Shareholders funds	Rs M	3,934	3,285	2,752	2,473	2,339
PROFIABILITY						
Interest income	Rs M	4,407	3,129	2,278	1,499	1,308
Interest expense	Rs M	1,219	810	615	353	286
Net interest income	Rs M	3,187	2,320	1,663	1,146	1,023
Provisions/Written offs	Rs M	382	163	175	287	181
Fee & commission income	Rs M	640	478	325	246	193
Other income	Rs M	205	217	259	340	183
Operating expenses	Rs M	2,469	1,910	1,534	1,324	1,122
Profit before tax	Rs M	1,182	942	538	120	96
Taxation	Rs M	358	239	175	(48)	(55)
Profit after tax	Rs M	824	703	363	168	152
PROFITABILITY RATIOS						
Return on Assets (ROA)	%	3.4%	3.7%	1.8%	-0.5%	-0.8%
Return on Equity (ROE)	%	20.2%	18.5%	8.0%	-2.0%	-2.7%
Operating Self Sufficiency (OSS)	%	127.8%	126.7%	114.8%	97.9%	97.1%
Financial Self Sufficiency (FSS)	%	126.0%	123.0%	107.8%	79.7%	98.8%
EFFICIENCY/PRODUCTIVITY RATIOS						
Operating expense ratio	%	16.6%	18.1%	21.0%	26.3%	28.1%
Personnel productivity	%	170	179	178	154	163
Loan officer productivity	%	426	518	578	517	514
Average outstanding loan size	Rs	33,408	26,102	21,617	15,943	12,108
PORTFOLIO QUALITY RATIOS						
Portfolio at Risk > 30	%	1.9%	0.9%	0.8%	1.1%	4.4%
Portfolio at Risk > 90	%	0.5%	0.3%	0.3%	0.4%	0.5%
Write off ratio	%	1.3%	1.2%	2.1%	6.0%	3.9%
Risk coverage ratio	%	65.2%	77.9%	103.5%	84.7%	42.3%

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

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

Financial Review (2011 – 2015)





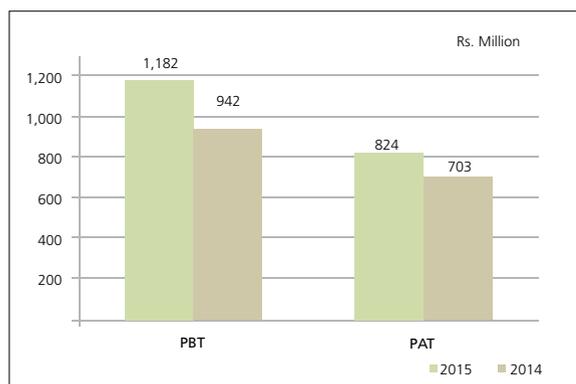
Directors' Report to the Shareholders: 2015

The directors present the audited financial statements and Auditors report thereon, of Khushhalibank Limited (KBL, the Bank) for the year ended December 31, 2015.

During the year, the bank has shown tremendous growth in asset and liability portfolios as compared to the previous year and post ever highest profit for the year.

Financial Highlights

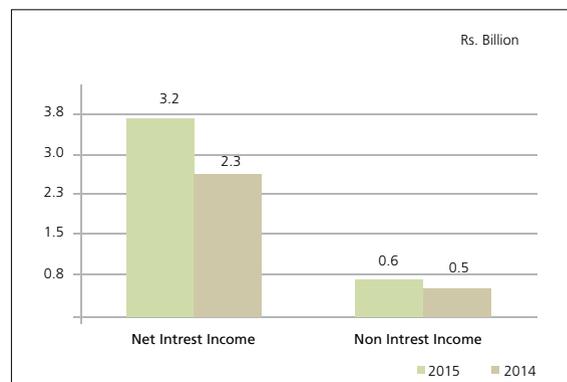
During the year under review, KBL achieved over one billion pre-tax profit of Rs 1,182million, registering an increase of 25% against last year's profit of Rs 942million. After tax profit stood at Rs 824million, 17% more than the last year's profit of Rs 703million. The increase in profit resulted from continued growth in balance sheet and improved non-fund income. The return on equity improved from 18.5% to 20.2% and return on average assets marginally decreased from 3.7% in 2014 to 3.4% in 2015.



The yield on earning assets was affected by the discount rate cut of around 3% by the SBP during the year and increase in revenue suspension due to rise in portfolio at risk at the year end. Consequently, the Bank's yield on earning assets dropped by 1.3% and the net interest margin declined by 1% YOY. The cost of funds improved by 30bps due to reduction in the deposit rates and the borrowing cost also improved due to discount rate cut during the year. Despite of spread compression of nearly 1%, the balance sheet growth helped improve net interest income to 3.2billion, an increase of 37% over 2014.

Non-interest income comprising of Fee and commission income increased from Rs 478 million in 2014 to Rs 640 million in 2015, an increase of 34% due to growth in the

loan portfolio. Other income reduced by Rs 11 million to Rs 205 million.



Provision charge and write off against advances increased to Rs 279 million in 2015 from Rs 158 million as a result of combine effect of increase in PAR 30+ from 0.9% in 2014 to 1.9% at the end of 2015 and the general reserve built up on the loan portfolio growth of 43%. In addition, Bank has written off Rs 85.8million of MSDF claim during the year as fully explained under note 13.1 of audited accounts.

Cost Management

The Bank continues to invest heavily in people, technology and infrastructure in order to expand business and improve product and services quality. The administrative expenses increased by Rs 0.55 billion to Rs 2.4 billion in 2015, an increase of 29% YOY. The spend was mainly used to manage institutional challenges of staff attrition in the wake of expanding competition, refurbishment of 14 branches for MSME operations, reallocation cost of head office and the business transaction unit and IT infrastructure upgrade to support business growth of 43%.

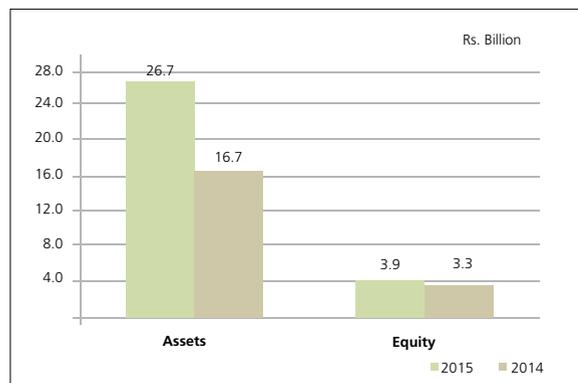
The main contributor to the increase in operating expenses was employee related costs which increased by Rs 302 million due to the net increase in headcount of 447 staff members for new branches and expansion of existing operations and provision of sales incentives. Other administrative overheads increased by Rs 248 million primarily due to the opening of 10 additional branches and one booth, recruitment and training of new hiring, provision of enhanced security for branches, refurbishment cost of existing branches for MSME operations and IT infrastructure upgrade to support business growth. However, despite the increase in

operating expense, the Bank's operating expense ratio (operating expense/loan portfolio), decreased to 16.62 from 18.10 YOY.

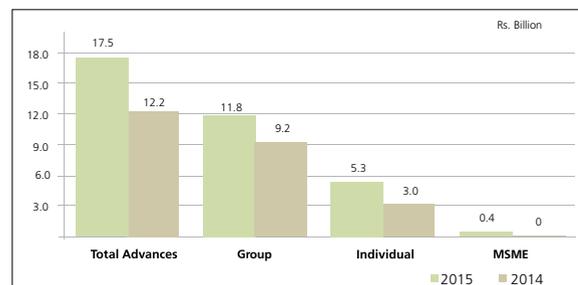
Balance Sheet

The Bank's total asset increased to Rs 26.7billion as at December 31, 2015, registering a remarkable increase of 60% over Rs 16.7 billion last year.

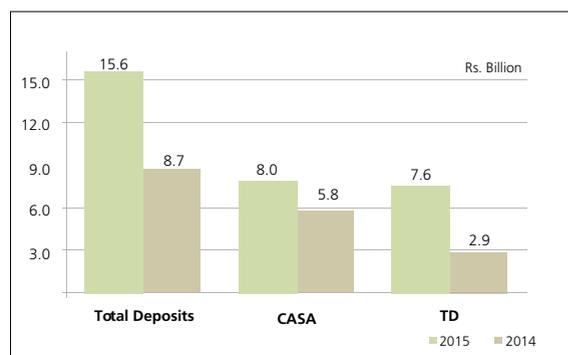
The net assets increased by 20% from a base of Rs 3.28billion to Rs 3.95 billion at the end of 2015.



The gross loan portfolio grew by 43% to Rs 17.5 billion in 2015 from Rs 12.2 billion in 2014. The Bank continued lateral expansion in individual, group loans as well as MSME loans. The Bank broadly maintained portfolio mix ratio of 68 % in group loans, 30 % individual loans (majority of such loans are secured) and 2 % in MSME loans. In continuation of the transformation program undertaken by the Bank, the strategic focus changed from being purely micro and group based lending to include underserved micro entrepreneurs with higher financial needs up to 500k. Consequently, ME roll out plan which was initiated earlier in the year 2014 was successfully completed at eighteen branches by the end 2015. The Bank has serviced over 350 ME clients with outstanding loan portfolio of around Rs 365 million at the end of 2015. As a strategy, the ME portfolio buildup will be gradual and Bank plans to have additional thirty branches converted under this program during the year 2016.



The retail deposits increased to Rs 15.6 billion from Rs 8.7billion YOY. This exponential growth of over 79% improved the loan to deposit ratio from 139% to 111% YOY. The Bank witnessed growth in all the three categories of deposits, i.e CA, SA and TD. During the year, SBP approved clearing house membership of KBL enabling the Bank to develop competitive product and services to address the key challenge of rationalization of deposit mix beside new acquisition. The key focus of KB's deposits strategy evolves around the growth of deposit book with optimal funding cost.



The results of operations under review are presented below;

	2015 Rupees	2014 Rupees
Profit After Tax	824,164,957	703,211,747
Re-measurement loss employment benefit obligation	(10,506,770)	(26,458,535)
Un-appropriated profit brought forward	1,134,321,734	738,853,220
Profit available for appropriation	1,947,979,921	1,415,606,432
APPROPRIATIONS:		
Transfer to:		
Statutory reserve	164,832,991	140,642,349
Microfinance Social Development Fund	82,416,496	70,321,175
Depositors' Protection Fund	41,208,248	35,160,587
Risk Mitigation Fund	41,208,248	35,160,587
	329,665,983	281,284,698
Un-appropriated Profit Carried Forward	1,618,313,938	1,134,321,734

CAPITAL ADEQUACY RATIO

As of December 31, 2015 the Bank's capital adequacy ratio (CAR) is measured at 21% against 25% last year. The Bank's CAR was well ahead of the mandatory requirement of 15% as per the Prudential Regulations (PR) for Microfinance Banks.

CREDIT RATING

During the year, based on the KBL financial performance and continuous growth over the couple of years JCR-VIS Credit Rating Company upgraded the KBL's entity rating

for medium to long term to "A+" (Single A plus) from previous rating of "A" (Single A) and maintained short term at "A-1"(A One) with "stable" outlook.

STATEMENT OF CORPORATE GOVERNANCE

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

1. The financial statements prepared by the management of the Bank present fairly its state of affairs, the results of its operations, cash flows and changes in equity.
2. Proper books of account of the Bank have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
4. The Bank has followed international accounting standards, as applicable to Banks in Pakistan, in the preparation of the accounts without any departure therefrom.
5. The system of internal control in the Bank is sound

in design, and is effectively implemented and monitored.

6. There are no significant doubts about the Bank's ability to continue as a going concern.
7. No director has acquired any shares in the bank during the year and no trading was carried out in the shares of the bank during the year by the Directors, CEO, CFO, CS, CIA or their spouses and minor children.
8. The Board has appointed the following four Committees with defined terms of reference,\

Board Audit Committee - BAC

Board Human Resources & Compensation Committee - HRCC

Board Risk Management Committee – BRMC

Board Social & Environmental Committee – BSEC

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

Designation and name of committee		BAC	HRCC	BRMC	BSEC
Meetings Held		4	4	4	1
Meetings Attended					
Mr. Syed Javed	Member HRCC/Chair BRMC	-	4	4	-
Ms. Lisa Thomas	Member BAC/Chair HRCC	3	3	-	
Mr. Geert Peetermans	Chair BAC, BSEC/Member BRMC /BAC*	4	-	4	1
Ms. Aatiqa Lateef	Member HRCC, BSEC/Chair BAC*	1	4	-	1
Mr. Peter Kooi	Member BRMC	-	-	4	-
Mr. Ghalib Nishtar	President and CEO/Member BSEC	-	4	4	1

*BAC reconstitute in the last BAC meeting and Ms. Aatiqa Lateef appointed as chairperson of BAC.

MEETINGS OF THE BOARD

During the year under review, the Board of Directors met four times. The number of meetings attended by each

director during the year and their eligibility is shown below:

Name of Director	Designation	Meeting Attended	Eligibility
Mr Syed Javed	Chairman (A)	4	4
Mr Aameer Karachiwalla**	Director	2	3
Mr Geert Peetermans	Director	4	4
Mr Peter Kooi	Director	4	4
Mr. Robert Binyon**	Director	0	0
Ms Lisa Thomas***	Director	3	3
Ms Aatiqa Lateef	Director	3	4
Mr. Dara Bashir Khan**	Director	0	3
Mr Ghalib Nishtar	President and CEO	4	4

** Mr. Aameer Karachiwalla, Mr. Dara Bashir Khan and Mr. Robert Binyon was appointed as Director on March 27,2015, March 27,2015 and November 11,2015 respectively.

***Ms. Lisa Thomas resigned from the board on November 11, 2015.

CHANGE IN DIRECTORS

Mr. Aameer Karachiwalla was nominated as a Director by the United bank Limited to replace the vacant position of Mr. Raymond Kotwal and was appointed as Director on March 27, 2015. Mr Dara Bashir Khan was appointed on March 27, 2015 to join the Board as an independent Director but did not attend any meeting due to pending approval of FPT from the SBP.

Ms. Lisa Thomas resigned from the Board on November 11, 2015 and Mr. Robert Binyon was nominated as a Director by the ShoreCap II Limited to fill the vacant position of Ms. Lisa Thomas with effect from November 11,2015.

The Board would like to place on record its appreciation to Ms Lisa Thomas for her contribution and services.

CGAP COMPLIANT REPORTING

The Consultative Group to Assist the Poor (CGAP),

SHAREHOLDING

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

a consortium of international public and private development agencies housed at the World Bank, has issued two guidelines to enhance transparent reporting for microfinance institutions i.e. disclosure guidelines for financial reporting and definitions of selected financial terms, ratios and adjustments.

The Bank in its financial statements as at December 31, 2015, has complied with the above stated guidelines. The CGAP disclosures and ratios are presented in addition to the requirements of SBP BSD circular 11 dated December 30, 2003.

PATTERN OF SHAREHOLDING

The Pattern of shareholding of the Bank as at December 31, 2015 as required under section 236 of the Companies Ordinance 1984 is as follows;

CATEGORIES OF SHAREHOLDERS

Particulars	Number	Shares held	%
Individual	-	-	-
Joint Stock Companies	-	-	-
Financial Institutions	2	53,628,528	31.5%
Others	4	19,871,472	68.5%

SHAREHOLDERS HOLDING ABOVE 10% OF VOTING SHARES ARE

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

AUDITORS

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

APPRECIATION AND ACKNOWLEDGEMENT

On behalf of the Board of the Bank, I would like to express

my sincere appreciation to the Government, the State Bank of Pakistan, the Securities & Exchange Commission and other regulatory bodies for their continued support, to the shareholders and customers for their patronage, and to the employees for their commitment.



Chairman
25 February, 2016



AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Khushhali Bank Limited (the Bank) as at December 31, 2015 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

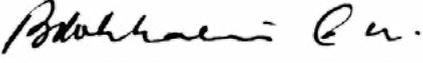
It is the responsibility of the Bank's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Microfinance Institutions Ordinance, 2001 and the Companies Ordinance,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

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

- (a) in our opinion, proper books of accounts have been kept by the Bank as required by the Companies Ordinance, 1984 and the Microfinance Institutions Ordinance, 2001;
- (b) in our opinion:
 - (i) the balance sheet, profit and loss account and statement of comprehensive income together with the notes thereon have been drawn up in conformity with the requirements of the Microfinance Institutions Ordinance, 2001 and the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank.
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Microfinance Institutions Ordinance, 2001 and the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at December 31, 2015 and of the profit, its comprehensive income, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

Islamabad:

DATE: February 25, 2016


CHARTERED ACCOUNTANTS

Engagement Partner: Abdul Qadeer 

Balance Sheet as at December 31, 2015

	Note	2015 Rupees	2014 Rupees
ASSETS			
Cash and balances with SBP and NBP	7	1,001,222,441	701,035,923
Balances with other Banks/ NBFIs/ MFBs	8	944,008,613	353,300,758
Lending to financial institutions	9	2,383,352,710	417,604,032
Investments	10	1,847,825,070	836,886,573
Advances - net of provisions	11	17,246,531,575	12,105,839,126
Operating fixed assets	12	548,979,304	322,919,698
Other assets	13	2,616,868,449	1,871,176,573
Deferred tax asset	14	107,557,987	83,670,995
TOTAL ASSETS		26,696,346,149	16,692,433,678
LIABILITIES			
Deposits	15	15,583,727,129	8,682,472,759
Borrowings	16	5,890,397,392	3,729,876,872
Other liabilities	17	1,270,731,541	993,956,438
TOTAL LIABILITIES		22,744,856,062	13,406,306,069
NET ASSETS		3,951,490,087	3,286,127,609
REPRESENTED BY:			
Share capital	18	1,705,000,000	1,705,000,000
Statutory reserve	6.11	586,619,579	421,786,588
Capital reserve	6.12	24,255,224	24,255,224
Unappropriated profit		1,618,313,938	1,134,321,734
Surplus on revaluation of investments		213,840	97,802
		3,934,402,581	3,285,461,348
Deferred grants	19	17,087,506	666,261
TOTAL CAPITAL		3,951,490,087	3,286,127,609
MEMORANDUM / OFF BALANCE SHEET ITEMS	20	-	-

The annexed notes from 1 to 44 form an integral part of these financial statements.



PRESIDENT



CHAIRMAN



DIRECTOR



DIRECTOR

Profit And Loss Account for the year ended December 31, 2015

	Note	2015 Rupees	2014 Rupees
Mark-up/ return/ interest earned	21	4,406,621,934	3,129,490,001
Mark-up/ return/ interest expensed	22	1,219,286,901	809,557,429
Net mark-up/ interest income		3,187,335,033	2,319,932,572
Provision against non-performing loans and advances	11.4	275,014,569	154,534,663
Bad debts written off directly	11.5	4,085,475	3,151,806
Net mark-up/ interest income after provisions		2,908,234,989	2,162,246,103
NON MARK-UP/ NON INTEREST INCOME			
Fee, commission and brokerage income	23	640,438,198	477,886,909
Other income	24	205,392,767	216,809,967
Total non mark-up/ non interest income		845,830,965	694,696,876
		3,754,065,954	2,856,942,979
NON MARK-UP/ NON INTEREST EXPENSES			
Administrative expenses	25	2,444,676,042	1,889,831,823
Other provisions	13	17,137,334	4,876,387
Other assets written off directly	13.1	85,771,400	-
Other charges	26	24,499,597	19,824,946
Total non-mark-up/ non interest expense		2,572,084,373	1,914,533,156
PROFIT BEFORE TAXATION		1,181,981,581	942,409,823
TAXATION			
Current	27	355,121,400	233,789,862
Prior year	27	21,690,313	(24,697,464)
Deferred	27	(18,995,089)	30,105,678
		357,816,624	239,198,076
PROFIT AFTER TAXATION		824,164,957	703,211,747
Unappropriated profit brought forward		1,134,321,734	738,853,220
Profit available for appropriation		1,958,486,691	1,442,064,967
APPROPRIATIONS:			
Transfer to:			
Statutory reserve	6.11	164,832,991	140,642,349
Microfinance Social Development Fund	6.13	82,416,496	70,321,175
Depositors' Protection Fund	6.13	41,208,248	35,160,587
Risk Mitigation Fund	6.13	41,208,248	35,160,587
		329,665,983	281,284,698
UNAPPROPRIATED PROFIT		1,628,820,708	1,160,780,269
EARNINGS PER SHARE - BASIC AND DILUTED	33	3.87	3.30

The annexed notes from 1 to 44 form an integral part of these financial statements.


PRESIDENT


CHAIRMAN


DIRECTOR


DIRECTOR

Statement of Comprehensive Income as at December 31, 2015

	Note	2015 Rupees	2014 Rupees
Profit for the year		824,164,957	703,211,747
Other comprehensive income - net of tax			
Items that will not be reclassified subsequently to profit and loss			
Remeasurement loss on post employment benefit obligation		(15,451,132)	(39,191,366)
Tax credit relating to remeasurement loss on post employment benefit obligation	14.1	4,944,362	12,732,831
		(10,506,770)	(26,458,535)
Other comprehensive income transferred to equity			
Items that may be subsequently reclassified to profit and loss			
Available for sale financial assets			
Surplus / (deficit) on revaluation of available for sale investments		314,470	(3,544,905)
Transfer to profit and loss on disposal of available for sale investments		(145,973)	(1,210,650)
Deferred tax (liability) / asset on surplus for available for sale investment	14.1	(52,459)	1,618,349
		116,038	(3,137,206)
		(10,390,732)	(29,595,741)
Other items that may be subsequently reclassified to profit and loss		-	-
Total comprehensive income for the year		813,774,225	673,616,006

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

The annexed notes from 1 to 44 form an integral part of these financial statements.



PRESIDENT



CHAIRMAN



DIRECTOR



DIRECTOR

Cash Flow Statement for the year ended December 31, 2015

	Note	2015 Rupees	2014 Rupees
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before changes in operating assets / liabilities	28	(1,541,167,037)	(1,075,672,391)
(Increase) / decrease in operating assets			
Advances		(5,415,707,018)	(3,503,478,355)
Other assets		(313,877,427)	(326,443,689)
Increase / (decrease) in operating liabilities			
Deposits		6,901,254,370	1,549,553,520
Other liabilities		(20,113,458)	56,256,613
		1,151,556,467	(2,224,111,911)
Cash out flow from operations		(389,610,570)	(3,299,784,302)
Mark-up received on advances		3,827,648,441	2,693,869,463
Interest received on investments and deposit accounts		128,507,125	130,970,232
Indirect cost received from USAID		1,534,130	3,601,122
Interest paid on borrowings and deposits		(1,039,091,337)	(781,382,601)
Contributions to defined benefit plan		(53,366,821)	(37,302,605)
Income taxes paid		(440,387,600)	(132,388,233)
		2,424,843,938	1,877,367,378
Net cash inflow / (outflow) from operating activities		2,035,233,368	(1,422,416,924)
CASH FLOW FROM INVESTING ACTIVITIES			
(Investments in)/encashment of available for sale securities - net		(1,010,770,000)	197,258,400
Purchase of operating fixed assets		(375,575,350)	(169,067,890)
Sale proceeds against disposal of operating fixed assets		29,037,529	10,585,260
Net cash (outflow) / inflow from investing activities		(1,357,307,821)	38,775,770
CASH FLOW FROM FINANCING ACTIVITIES			
Grant from Enclude micro savings project		18,196,984	-
Borrowings / (repayments) during the year - net		2,160,520,520	983,770,520
Net cash inflow from financing activities		2,178,717,504	983,770,520
Net increase / (decrease) in cash and cash equivalents		2,856,643,051	(399,870,634)
Cash and cash equivalents at beginning of the year		1,471,940,713	1,871,811,347
Cash and cash equivalents at end of the year	29	4,328,583,764	1,471,940,713

The annexed notes from 1 to 44 form an integral part of these financial statements.


PRESIDENT


CHAIRMAN


DIRECTOR


DIRECTOR

Statement of Changes In Equity as at December 31, 2015

	Share Capital	Statutory Reserve	Capital Reserve	Surplus on revaluation of investments	Unappropriated Profit	Total
	Rupees					Rupees
Balance as at January 01, 2014	1,705,000,000	281,144,239	24,255,224	3,235,008	738,853,220	2,752,487,691
Total comprehensive income for the year	-	-	-	-	703,211,747	703,211,747
Profit for the year	-	-	-	(3,137,206)	(26,458,535)	(29,595,741)
Other comprehensive income	-	-	-	(3,137,206)	676,753,212	673,616,006
Transfer to:						
Statutory reserve	-	140,642,349	-	-	(140,642,349)	-
Microfinance Social Development Fund	-	-	-	-	(70,321,175)	(70,321,175)
Risk Mitigation Fund	-	-	-	-	(35,160,587)	(35,160,587)
Depositors' Protection Fund	-	-	-	-	(35,160,587)	(35,160,587)
Balance as at December 31, 2014	1,705,000,000	421,786,588	24,255,224	97,802	1,134,321,734	3,285,461,348
Total comprehensive income for the year	-	-	-	116,038	824,164,957	824,164,957
Profit for the year	-	-	-	116,038	(10,506,770)	(10,390,732)
Other comprehensive income	-	-	-	116,038	813,658,187	813,774,225
Transfer to:						
Statutory reserve	-	164,832,991	-	-	(164,832,991)	-
Microfinance Social Development Fund	-	-	-	-	(82,416,496)	(82,416,496)
Risk Mitigation Fund	-	-	-	-	(41,208,248)	(41,208,248)
Depositors' Protection Fund	-	-	-	-	(41,208,248)	(41,208,248)
Balance as at December 31, 2015	1,705,000,000	586,619,579	24,255,224	213,840	1,618,313,938	3,934,402,581

The annexed notes from 1 to 44 form an integral part of these financial statements.



PRESIDENT



CHAIRMAN



DIRECTOR



DIRECTOR

Notes to the Financial Statements for the year ended December 31, 2015

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 August 4, 2000. It commenced its business with the issuance of license by the State Bank of Pakistan (SBP) on August 11, 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.

In pursuance of the requirements of Improving Access of Financing Service Program (IAFSP) Agreement signed in 2008 between the Government of Pakistan (GOP) and Asian Development Bank, all microfinance institutions in Pakistan including KB were required to operate under Microfinance Institutions Ordinance, 2001.

Consequently, with the approval of SBP, the Khushhali Bank Limited (the Bank) was incorporated as a public company with Securities and Exchange Commission of Pakistan (SECP) and Certificate of Incorporation was issued under the Companies Ordinance, 1984 on February 28, 2008.

On March 18, 2008, SBP sanctioned a scheme for transfer of assets, liabilities and undertaking of KB into the Bank with effect from April 1, 2008, a microfinance institution licensed under the Microfinance Institution Ordinance, 2001.

In accordance with the scheme of conversion all assets and liabilities of KB were transferred to the Bank at their respective book values on the audited accounts of KB as of March 31, 2008.

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

The Bank's registered office and principal place of business is situated at 5th Floor, Ufone Tower, Blue Area, Islamabad. The Bank had 128 branches and 1 permanent booth in operation as at December 31, 2015 (December 31, 2014: 118 branches) and is licensed to operate nationwide.

2. BASIS OF PRESENTATION

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

3. STATEMENT OF COMPLIANCE

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

The SBP, vide BSD Circular letter No. 10, dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement and International Accounting Standard 40, "Investment Property" for banking companies till further instructions. Further, according to the notification of the SECP issued vide SRO 411(1)/2008 dated April 28, 2008, IFRS 7, Financial Instruments: Disclosures has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements of various circulars issued by the SBP.

4. BASIS OF MEASUREMENT

Accounting convention

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

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

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

5.1 Standards or interpretations that are effective in the current year but not relevant to the Bank

The following new standards and interpretations have been issued by the International Accounting Standards Board (IASB) which have been adopted locally by the Securities and Exchange Commission of Pakistan vide SRO 633(I)/2014 dated July 10, 2014 with effect from following dates. The Bank has adopted these accounting standards and interpretations which do not have significant impact on the Bank's financial statements other than certain disclosure requirement about fair value of financial instruments as per IFRS 13 "Fair Value Measurement".

	Effective date (annual periods beginning on or after)
IFRS 10 Consolidated Financial Statements	January 1, 2015
IFRS 11 Joint Arrangements	January 1, 2015
IFRS 12 Disclosure of Interests in Other Entities	January 1, 2015
IFRS 13 Fair Value Measurement	January 1, 2015
IAS 27 Separate Financial Statements (Revised 2011)	January 1, 2015
IAS 28 Investments in Associates and Joint Ventures (Revised 2011)	January 1, 2015

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

The Bank has adopted the amendments to the following accounting standards which became effective during the year:

	Effective date (annual periods beginning on or after)
IAS 19 Employee Benefits - Amended to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service	July 1, 2014

The Annual Improvements to IFRSs that are effective for annual periods beginning on or after January 01, 2015 are as follows:

Annual Improvements to IFRSs (2010 – 2012) Cycle:

- IFRS 2 Share-based payments
- IFRS 3 Business Combinations
- IFRS 8 Operating Segments
- IFRS 13 Fair Value Measurement
- IAS 16 Property Plant and Equipment
- IAS 24 Related Party Disclosures
- IAS 38 Intangible Assets

Annual Improvements to IFRSs (2011 – 2013) Cycle:

- IFRS 3 Business Combinations
- IFRS 13 Fair Value Measurement
- IAS 40 Investment Property

5.3 Amendments not yet effective

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

	Effective date (annual periods beginning on or after)
IFRS 10 Consolidated Financial Statements - Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture and application of the consolidation exception	January 1, 2016
IFRS 11 Joint Arrangements - Amendments regarding the accounting for acquisitions of an interest in a joint operation	January 01, 2016
IFRS 12 Disclosure of Interests in Other Entities - Amendments regarding the application of the consolidation exception	January 01, 2016
IAS 1 Presentation of Financial Statements - Amendments resulting from the disclosure initiative	January 01, 2016
IAS 16 Property, Plant and Equipment - Amendments regarding the clarification of acceptable methods of depreciation and amortisation and amendments bringing bearer plants into the scope of IAS 16	January 01, 2016
IAS 27 Separate Financial Statements (as amended in 2011) - Amendments reinstating the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements	January 01, 2016
IAS 28 Investments in Associates and Joint Ventures - Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture and the application of the consolidation exception	January 01, 2016

IAS 38	Intangible Assets - Amendments regarding the clarification of acceptable methods of depreciation and amortisation	January 01, 2016
IAS 41	Agriculture - Amendments bringing bearer plants into the scope of IAS 16	January 01, 2016

The Annual Improvements to IFRSs that are effective for annual periods beginning on or after January 01, 2016 are as follows:

Annual Improvements to IFRSs (2012 – 2014) Cycle:

IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
IFRS 7	Financial Instruments: Disclosures
IAS 19	Employee Benefits
IAS 34	Interim Financial Reporting

5.4 Standards or interpretations not yet effective

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

IFRS 1	First Time Adoption of International Financial Reporting Standards
IFRS 9	Financial Instruments
IFRS 14	Regulatory Deferral Accounts
IFRS 15	Revenue from Contracts with Customers

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

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

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

6.1 Cash and cash equivalents

Cash and cash equivalents are short term, highly liquid investments that are readily convertible to known amount of cash and subject to an insignificant risk of changes in value.

6.2 Sale and repurchase agreements

Securities sold under repurchase agreement (repo) are retained in the financial statements as investments and a liability for consideration received is included in borrowings. Conversely, consideration for securities purchased under resale agreement (reverse repo) is included in lending to financial institutions. The difference between sale and repurchase / purchase and resale price is treated respectively as return expensed and earned. Repo and reverse repo balances are reflected under borrowings from and lending to financial institutions respectively.

6.3 Investments

All purchases and sale of investments are recognized using Settlement Date Accounting. Settlement date is the date on which investments are delivered to or by the Bank. All investments are derecognized when the right to receive economic benefits from the investments has expired or has been transferred and the Bank

has transferred substantially all the risks and rewards of ownership.

Investments are classified as follows:

a) Held for trading investments

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

b) Available for sale investments

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

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

On reclassification of an investment from the available for sale category, the investment is reclassified at its fair value on the date of reclassification. This fair value becomes its new cost or amortized cost, as applicable. For investments with fixed maturity, any gain or loss previously recognised in "surplus/ (deficit) on revaluation of assets" is amortized to profit and loss over the remaining life of the investment using the effective interest method and if the investment does not have a fixed maturity, the gain or loss previously recognized in "surplus/ (deficit) on revaluation of assets" is recognized in profit and loss when the investment is sold or disposed off.

c) Held to maturity investments

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

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

6.4 Advances

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

a) Other Assets Especially Mentioned (OAEM)

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

b) Substandard

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

c) Doubtful

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

d) Loss

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

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

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

OAEM	Nil
Substandard	25%
Doubtful	50%
Loss	100%

In addition, minimum 1% general provision required under the Regulations is calculated on outstanding advances net of specific provision. However, general provision is not required in cases wherein loans have been secured against gold or other cash collateral with appropriate margin.

General and specific provisions are charged to the profit and loss account.

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

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

6.5 Operating fixed assets**Capital work-in-progress**

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

Property and equipment

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

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

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

the period.

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

Intangible assets

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

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

6.6 Impairment of non-financial assets

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

6.7 Deposits

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

6.8 Taxation

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

Current

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

Deferred

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

tax liability is settled.

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

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

Prior years

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

6.9 Employee benefits

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

The Bank operates an approved funded gratuity scheme for all eligible employees completing the minimum qualifying period of one year of service. In accordance with the gratuity scheme eligible salary constitute the basic salary for the service uptill July 26, 2004 and gross salary for service thereafter which is paid to the employee on the basis of period in service. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of defined obligation is determined by discounting the estimated market yield on Government bonds and have terms to maturity approximating to the terms of the related liability. The Bank has a policy of carrying out actuarial valuations annually with the assistance of independent actuarial appraisers. The latest actuarial valuation was carried out on December 31, 2015.

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

6.10 Mark-up bearing borrowings

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

6.11 Statutory reserve

In compliance with the requirements of Regulation 4 (2014: Regulation 4), the Bank is required to maintain a statutory reserve to which an appropriation equivalent to 20% of the profit after tax is made till such time the reserve fund equals the paid up capital of the Bank. However, thereafter, the contribution is reduced to 5% of the profit after tax.

6.12 Capital reserve

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

6.13 Contributions

In pursuance of the requirement of Microfinance Sector Development Program Schedule-6 Loan # 1806-Pak, Fund Rules and "Report and Recommendation of the President to the Board of Asian Development Bank" and as confirmed by the SBP vide its letter dated February 17, 2015, the Bank contributes an aggregate of

20% of its annual profit after tax to the following three funds:

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

6.14 Cash reserve requirement

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

6.15 Statutory liquidity requirement

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

6.16 Grants

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

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

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

6.17 Revenue recognition

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

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

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

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

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

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

6.18 Borrowing costs

Borrowings are recorded at the amount of proceeds received.

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

6.19 Leases

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

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

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

6.20 Financial instruments

Financial assets and liabilities are recognized when the Bank becomes a party to the contractual provisions of the instrument. These are derecognized when the Bank ceases to be the party to the contractual provisions of the instrument.

All financial assets and liabilities are initially measured at cost which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, amortized cost or cost, as the case may be.

6.20.1 Financial assets

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

6.20.2 Financial liabilities

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

Any gain or loss on the recognition and derecognition of the financial assets and liabilities is included in the net profit and loss for the period in which it arises.

6.21 Impairment – financial assets

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

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference

between its carrying amount, and the present value of the estimated future cash flows discounted at the original interest rate.

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

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

6.22 Off-setting

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

6.23 Foreign currency translation

a) Functional and presentation currency

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

b) Transactions and balances

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

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

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

6.24 Provisions

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

6.25 Exceptional items

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

6.26 Related party transactions

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

6.27 Earnings per share

The Bank presents earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by weighted average number of ordinary shares outstanding during the period.

6.28 Segment reporting

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

6.29 Other payables

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

6.30 Dividend and apportioning to reserves

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

6.31 Other receivables

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

6.32 Contingencies

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

6.33 Fair value measurement

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

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

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

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

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

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

The financial assets and financial liabilities of the Bank that either require fair value measurements or only fair value disclosures as at December 31, 2015 are disclosed in Note 37.

6.34 Critical accounting estimates and judgments

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

a) Operating fixed assets

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

b) Provision for income taxes

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

c) Staff retirement benefits

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

d) Classification of investments

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

e) Provision against advances

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

f) Provision and contingent liabilities

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

7. CASH AND BALANCES WITH SBP AND NBP	Note	2015 Rupees	2014 Rupees
Cash in hand			
Local currency		489,853,139	394,304,188
Balances with State Bank of Pakistan (SBP) in:			
Local currency current accounts	7.1	509,603,126	304,933,441
Balances with National Bank of Pakistan (NBP) in:			
Local currency current accounts		107,691	1,548,228
Local currency deposit accounts	7.2	1,658,485	250,066
		1,766,176	1,798,294
		<u>1,001,222,441</u>	<u>701,035,923</u>

7.1 This represents balance held with SBP to meet the requirement of maintaining a minimum balance equivalent to 5.00% (2014: 5.00%) of the Bank's time and demand deposits with a tenure of less than one year, in accordance with regulation R- 3A of the Regulations.

7.2 This represents balances held in savings accounts carrying interest at the rate of 4.50% (2014: 6.00%) per annum.

8. BALANCES WITH OTHER BANKS/ NBFIs/ MFBs	Note	2015 Rupees	2014 Rupees
In Pakistan			
Local currency current accounts		442,933,423	314,480,500
Local currency deposit accounts	8.1	501,075,190	38,820,258
		<u>944,008,613</u>	<u>353,300,758</u>

- 8.1 This represents balances held in savings accounts carrying interest at the rates ranging from 4.00% to 6.25% (2014: 6.00% to 8.00%) per annum.

9	LENDING TO FINANCIAL INSTITUTIONS	Note	2015 Rupees	2014 Rupees
	Repurchase agreement lending (reverse repo)	9.1	2,383,352,710	417,604,032
	Clean lending	9.2	-	-
	Provision for impairment		-	-
			<u>2,383,352,710</u>	<u>417,604,032</u>

- 9.1 This represents reverse repo carrying interest at the rates ranging from 6.00% to 6.15% per annum (2014: 9.50 % per annum) maturing on January 8, 2016 (2014: January 2, 2015).

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

	2015			2014		
	Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
	Rupees					
Market Treasury Bills (T-Bills)	2,457,000,000	-	2,457,000,000	432,000,000	-	432,000,000

- 9.2 The balance at the year end held as clean lending amounts to Nil. In the year 2014 amount previously placed with Innovative Investment Bank Limited - IIBL (formerly Innovative Housing Finance Limited (IHFL) and Crescent Standard Investment Bank Limited) was written-off against provision created in prior years. IIBL defaulted its repayment due to liquidity problems and was also unable to meet equity requirements as per NBFC's Regulations 2008 after which the SECP filed its winding-up petition in the Honorable Lahore High Court (LHC). The LHC appointed official liquidator of IIBL which has undertaken the process of liquidation and distribution of the assets in accordance with the law.

10	INVESTMENTS	Note	2015 Rupees	2014 Rupees
	Available for sale securities			
	Federal Government securities			
	Market Treasury Bills (T-bills)	10.1	1,047,510,600	836,740,600
	Other investments			
	Mutual funds	10.2	300,000,000	-
	Held to maturity			
	Term deposit receipts (TDRs)	10.3	500,000,000	-
			<u>1,847,510,600</u>	<u>836,740,600</u>
	Net surplus on revaluation of available for sale securities	10.4	314,470	145,973
			<u>1,847,825,070</u>	<u>836,886,573</u>

- 10.1 This represents T-bills ranging from 84 days to 182 days (2014: 84 days to 85 days) carrying interest at the rates ranging from 6.31% to 6.45% (2014: 9.88% to 9.96%) per annum.

- 10.2 This represents units held in Faysal Money Market Fund, UBL Liquidity Plus Fund and NAFA Money Market Fund as tabulated below:

	Faysal Money Market Fund	UBL Liquidity Plus Fund	NAFA Money Market Fund
Units purchased	963,763	969,251	9,889,632
Bonus units	-	-	-
Units held at year end	<u>963,763</u>	<u>969,251</u>	<u>9,889,632</u>
Purchase price per unit	103.76	103.17	10.11
Market price per unit at year end	103.92	103.20	10.13

- 10.3 This represents investment in short term deposits receipts (TDRs) of scheduled bank and maturing on January 14, 2016 and carries mark-up at the rate of 7.75% (2014: Nil) per annum.
- 10.4 In accordance with Regulation R-11C, available for sale securities have been valued on mark-to-market basis and the resulting surplus/ (deficit) is kept in a separate account titled 'Surplus on revaluation of investments' and is charged through statement of comprehensive income in accordance with the R -11(c) "Treatment of Surplus/(deficit)" of the Prudential Regulations (PR) for Microfinance Banks dated June 10, 2014 issued by the State Bank of Pakistan.
- 10.5 The investment includes securities which are held by the Bank to comply with the statutory liquidity requirements as set out under Regulations - Risk Management R-3 "Maintenance of cash reserve and liquidity".

11 ADVANCES - NET OF PROVISIONS

Loan type	Note	2015		2014	
		Number of loans outstanding	Amount outstanding	Number of loans outstanding	Amount outstanding
			Rupees		Rupees
Micro credit					
Secured		44,800	3,426,195,066	40,679	2,847,567,254
Unsecured	11.1	475,717	13,963,441,359	427,690	9,377,754,493
		<u>520,517</u>	<u>17,389,636,425</u>	<u>468,369</u>	<u>12,225,321,747</u>
Less: Provisions held					
Specific provision		4,356	(72,938,517)	4,972	(29,121,069)
General provision	11.2	484,910	(147,413,178)	428,962	(103,291,965)
			<u>(220,351,695)</u>		<u>(132,413,034)</u>
Microcredit advances - net of provisions			<u>17,169,284,730</u>		<u>12,092,908,713</u>
Staff loans - secured	11.9	226	77,246,845	269	12,930,413
Advances - net of provision		<u>520,743</u>	<u>17,246,531,575</u>	<u>468,638</u>	<u>12,105,839,126</u>

- 11.1 This includes 2,256 micro-enterprise clients (2014: 46) having aggregate amount of Rs. 511.76 million (2014: Rs. 9.88 million) backed by USAID guarantee of 50% of outstanding principal for qualifying borrowers.
- 11.2 General provision is maintained at the rate of 1.00% (2014: 1.08%) of micro-credit advances other than those secured against gold and other cash collaterals, net of specific provision. This includes provision amounting to Rs. Nil (2014: Rs. 7.00 million) against unsecured micro-credit advances in addition to the minimum requirements of Prudential Regulations to prudently manage credit risk of the Bank.
- 11.3 **Particulars of non-performing advances**

Advances include principal amount of Rs. 337.99 million and interest /mark-up of Rs. 90.59 million (2014: principal amount of Rs. 113.00 million and interest /mark-up Rs. 23.00 million) which, as detailed below, have been placed under non-performing status.

Category of classification	2015			2014		
	Amount outstanding	Provisions required	Provisions held	Amount outstanding	Provisions required	Provisions held
	Rupees			Rupees		
OAEM	232,641,155	-	-	68,929,174	-	-
Sub-standard	75,082,752	13,955,715	13,955,715	23,711,631	4,466,411	4,466,411
Doubtful	85,339,207	32,323,247	32,323,247	23,533,880	9,404,091	9,404,091
Loss	35,523,992	26,659,555	26,659,555	19,843,739	15,250,567	15,250,567
	<u>428,587,106</u>	<u>72,938,517</u>	<u>72,938,517</u>	<u>136,018,424</u>	<u>29,121,069</u>	<u>29,121,069</u>

11.4 Particulars of provisions against non-performing advances

	2015			2014		
	Specific	General	Total	Specific	General	Total
	Rupees			Rupees		
Balance at beginning of the year	29,121,069	103,291,965	132,413,034	19,806,589	82,703,240	102,509,829
Provision charge for the year	230,893,356	44,121,213	275,014,569	133,945,938	20,588,725	154,534,663
Advances written off against provision	(187,075,908)	-	(187,075,908)	(124,631,458)	-	(124,631,458)
Balance at end of the year	<u>72,938,517</u>	<u>147,413,178</u>	<u>220,351,695</u>	<u>29,121,069</u>	<u>103,291,965</u>	<u>132,413,034</u>

11.5 Particulars of write-offs

Against provisions

Related to rescheduled advances

Related to other classified advances

Bad debts written off directly

Note

11.5.1

	2015 Rupees	2014 Rupees
	-	298,500
	187,075,908	124,332,958
	187,075,908	124,631,458
	4,085,475	3,151,806
	<u>191,161,383</u>	<u>127,783,264</u>

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

11.6 Portfolio quality report

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

Normal Loans	2015		2014	
	Amount Rupees	Portfolio at Risk	Amount Rupees	Portfolio at Risk
Current	16,897,745,437	-	12,055,328,748	-
1 - 29 days late	153,898,125	0.88%	57,020,036	0.47%
30 - 59 days late	183,316,758	1.05%	57,834,069	0.47%
60 - 89 days late	59,513,191	0.34%	19,968,762	0.16%
90 - 179 days late	68,390,942	0.39%	19,903,004	0.16%
More than 179 days late	26,771,972	0.15%	15,267,128	0.12%
Total	17,389,636,425	2.81%	12,225,321,747	1.38%
Rescheduled Loans				
Current	-	-	-	-
1 - 29 days late	-	-	-	-
30 - 59 days late	-	-	-	-
60 - 89 days late	-	-	-	-
90 - 179 days late	-	-	-	-
More than 179 days late	-	-	-	-
Total	17,389,636,425	2.81%	12,225,321,747	1.38%

11.7 Current recovery ratio

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

	Current Recovery Ratio	
	2015	2014
1st quarter	159.7%	141.6%
2nd quarter	183.9%	172.6%
3rd quarter	187.9%	144.9%
4th quarter	173.2%	164.6%
January - December	175.2%	159.5%

11.7.1 Annual loss rate for the year is 0% (2014: 0%) computed using the following formula. The actual loss rate is below 0% due to early repayments of principal outstanding.

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

where:

ALR is the annual loss rate

CR is the collection rate in decimal form

T is the loan term expressed in years

11.8 Loan loss allowance

	2015				2014			
	Outstanding loan portfolio		Allowance for loan loss		Outstanding loan portfolio		Allowance for loan loss	
	Share of total	Rupees	Share of total	Rupees	Share of total	Rupees	Share of total	Rupees
Normal loans								
Current	97.2%	16,897,745,437	-	-	98.6%	12,055,328,748	-	-
1 - 29 days late	0.9%	153,898,125	-	-	0.5%	57,020,036	-	-
30 - 59 days late	1.1%	183,316,758	-	-	0.5%	57,834,069	-	-
60 - 89 days late	0.3%	59,513,191	19.1%	13,955,715	0.2%	19,968,762	15.3%	4,466,411
90 - 179 days late	0.4%	68,390,942	44.3%	32,323,247	0.2%	19,903,004	32.3%	9,404,091
More than 179 days late	0.2%	26,771,972	36.6%	26,659,555	0.1%	15,267,128	52.4%	15,250,567
Rescheduled loans								
Current	0.0%	-	-	-	-	-	-	-
1 - 29 days late	0.0%	-	-	-	-	-	-	-
30 - 59 days late	0.0%	-	-	-	-	-	-	-
60 - 89 days late	0.0%	-	-	-	-	-	-	-
90 - 179 days late	0.0%	-	-	-	-	-	-	-
More than 179 days late	0.0%	-	-	-	-	-	-	-
	100%	17,389,636,425	100%	72,938,517	100%	12,225,321,747	100%	29,121,069

- 11.9** This includes general purpose loans to employees of the Bank carrying interest at the rate of 10% (2014: 10%) per annum and long-term housing loans to eligible employees of the Bank for the period ranging from 5 to 20 years carrying interest at the rate of average cost of funds plus 50 bps (2014: Nil) per annum. General purpose loans and long-term housing loans are secured against employees' accrued terminal benefits and equitable mortgage over unencumbered property, respectively.

12 OPERATING FIXED ASSETS

Capital work-in-progress
Property and equipment
Intangible assets

Note

2015
Rupees

2014
Rupees

61,403,196
457,882,006
29,694,102
548,979,304

29,107,497
270,450,223
23,361,978
322,919,698

12.1 Capital work-in-progress

	Opening balance	Additions	Transferred	Closing balance
Advances to suppliers - software modules	15,365,436	5,767,175	(19,070,689)	2,061,922
Advances to suppliers - operating fixed assets	13,742,061	293,865,005	(248,265,792)	59,341,274
December 31, 2015	29,107,497	299,632,180	(267,336,481)	61,403,196
December 31, 2014	15,849,803	96,465,522	(83,207,828)	29,107,497

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

12.2 Property and equipment

	Furniture and fixtures	Electrical and office equipment	Computer equipment	Vehicles	Total
Cost					
Rupees					
Balance as at January 1, 2014	160,743,397	195,067,673	181,976,839	150,756,148	688,544,057
Additions	13,912,525	62,357,318	52,616,492	19,443,976	148,330,311
Disposals	(8,516,654)	(7,307,702)	(968,290)	(12,789,680)	(29,582,326)
Balance as at December 31, 2014	<u>166,139,268</u>	<u>250,117,289</u>	<u>233,625,041</u>	<u>157,410,444</u>	<u>807,292,042</u>
Balance as at January 1, 2015	166,139,268	250,117,289	233,625,041	157,410,444	807,292,042
Additions	84,739,177	107,879,700	38,388,518	78,339,352	309,346,747
Disposals	(18,579,871)	(7,943,758)	(4,936,395)	(49,709,688)	(81,169,712)
Balance as at December 31, 2015	<u>232,298,574</u>	<u>350,053,231</u>	<u>267,077,164</u>	<u>186,040,108</u>	<u>1,035,469,077</u>
Depreciation					
Balance as at January 1, 2014	72,205,111	118,274,554	147,177,352	133,747,976	471,404,993
Depreciation charge	15,159,544	33,517,777	32,989,295	7,680,082	89,346,698
Disposals	(5,442,896)	(5,290,593)	(968,170)	(12,208,213)	(23,909,872)
Balance as at December 31, 2014	<u>81,921,759</u>	<u>146,501,738</u>	<u>179,198,477</u>	<u>129,219,845</u>	<u>536,841,819</u>
Balance as at January 1, 2015	81,921,759	146,501,738	179,198,477	129,219,845	536,841,819
Depreciation charge	18,128,100	45,879,428	35,274,691	16,202,705	115,484,924
Disposals	(12,620,259)	(7,612,884)	(4,912,421)	(49,594,107)	(74,739,671)
Balance as at December 31, 2015	<u>87,429,600</u>	<u>184,768,282</u>	<u>209,560,747</u>	<u>95,828,443</u>	<u>577,587,072</u>
Carrying value					
2014	<u>84,217,509</u>	<u>103,615,551</u>	<u>54,426,564</u>	<u>28,190,599</u>	<u>270,450,223</u>
2015	<u>144,868,974</u>	<u>165,284,950</u>	<u>57,516,417</u>	<u>90,211,665</u>	<u>457,882,006</u>
Rates of depreciation per annum	10.00%	20.00%	33.33%	25.00%	

12.2.1 Cost of the assets as at December 31, 2015 includes Rs. 40.44 million (2014: Rs. 81.58 million) in respect of assets acquired against grants received.

12.2.2 The cost of fully depreciated property and equipment that are still in use is Rs. 319.05 million (2014: Rs. 329.29 million).

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

Particulars	Cost	Book value	Sale Proceed	Mode of disposal	Particulars of purchaser / (insurer)
Rupees					
Vehicles: 2015	<u>34,375,343</u>	<u>107,590</u>	<u>19,578,601</u>	Auction	Various
Vehicles	3,406,144	6	2,120,000	Auction	Various
Vehicles	600,424	501,486	650,000	Insurance claim	Adamjee Insurance
Total: 2014	<u>4,006,568</u>	<u>501,492</u>	<u>2,770,000</u>		

12.3 Intangible assets

Computer software

Cost

Balance as at January 1, 2014

Additions

Balance as at December 31, 2015

Amortization

Balance as at January 1, 2014

Amortization charge

Balance as at December 31, 2015

Carrying amount

	2015 Rupees	2014 Rupees
Balance as at January 1, 2014	115,584,295	108,104,410
Additions	33,932,904	7,479,885
Balance as at December 31, 2015	149,517,199	115,584,295
Balance as at January 1, 2014	(92,222,317)	(65,909,521)
Amortization charge	(27,600,780)	(26,312,796)
Balance as at December 31, 2015	(119,823,097)	(92,222,317)
Carrying amount	29,694,102	23,361,978

12.3.1 Amortization is charged on a straight line basis @ 33.33 % per annum, starting from the month the asset is available for use.

12.3.2 Cost of the intangibles as at December 31, 2015 includes Rs. 25.48 million (2014: Rs 25.48 million) in respect to assets acquired from grant(s) received.

12.3.3 The cost of fully amortized intangible assets that are still in use is Rs. 38.31 million (2014: Rs. 35.29 million).

13 OTHER ASSETS

Note

Mark-up accrued

Suspended mark-up on non-performing advances

Interest receivable on investments and deposit accounts

Loans and advances - unsecured

Employees

Suppliers

Deposits

Prepayments

Receivable from USAID

Receivable from Microfinance Social Development Fund 13.1

Insurance claims receivable

Sales tax / federal excise duty receivable 13.2

Other receivables 13.3

Provisions against doubtful receivables

Balance at the beginning of the year

Provision charge for the year

Receivables written off against provision

Balance at the end of the year 13.4

	2015 Rupees	2014 Rupees
Mark-up accrued	1,739,411,253	1,221,563,193
Suspended mark-up on non-performing advances	(90,594,245)	(23,045,461)
	1,648,817,008	1,198,517,732
Interest receivable on investments and deposit accounts	14,725,549	14,558,457
Loans and advances - unsecured		
Employees	83,238,617	79,079,724
Suppliers	11,281,483	9,908,511
	94,520,100	88,988,235
Deposits	7,310,215	2,024,440
Prepayments	97,907,980	92,823,701
Receivable from USAID	-	1,514,585
Receivable from Microfinance Social Development Fund 13.1	516,144,118	371,788,936
Insurance claims receivable	8,749,956	9,966,377
Sales tax / federal excise duty receivable 13.2	120,490,531	74,401,684
Other receivables 13.3	133,237,795	35,266,892
	2,641,903,252	1,889,851,039
Provisions against doubtful receivables		
Balance at the beginning of the year	18,674,466	13,798,079
Provision charge for the year	17,137,334	4,876,387
Receivables written off against provision	(10,776,997)	-
Balance at the end of the year 13.4	25,034,803	18,674,466
	2,616,868,449	1,871,176,573

13.1 This represents amount receivable from Microfinance Social Development Fund (MSDF) against cost reimbursed to service providers, KBL's own cost reimbursement against community mobilization lending and management cost of hosting the fund. During the year an amount of Rs. 85.771 million has been written

off against receivable from MSDF for claims lodged in respect of individual clients generated during the years from 2012 to 2014, against cost reimbursed to service providers, KBL's own cost reimbursement against community mobilization lending and management cost of hosting the fund. This write off is based on in accordance with SBP's view that the cost reimbursement is only allowable in case of group clients and not for individual clients.

- 13.2** As explained in note 20.1, this includes Federal Excise Duty of Rs. 34.226 million paid under protest to the taxation authorities.
- 13.3** This includes receivable from State Bank of Pakistan against claim lodged amounting to Rs. 85.56 million against crop and livestock insurance premium.
- 13.4** This represents provisions made against receivables from resigned employees, cash embezzlement and insurance claim receivables.

14 DEFERRED TAX ASSET - Net

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

Operating fixed assets	(14,386,674)	(658,164)
Provision against advances and other assets	78,523,679	49,858,875
Remeasurement of post employment benefit obligation	23,895,832	19,543,703
Provision against Workers' Welfare Fund	19,625,780	12,451,442
Unused tax losses	-	2,523,310
	<u>107,658,617</u>	<u>83,719,166</u>

Deferred tax liability arising on account of temporary differences in:

Surplus on revaluation of assets (available for sale)	(100,630)	(48,171)
	<u>107,557,987</u>	<u>83,670,995</u>

14.1 Reconciliation of deferred tax

Balance at the beginning of the year	83,670,995	99,425,493
(Reversal)/charge for the year in respect of:		
Operating fixed assets	(13,728,510)	(13,245,931)
Provision against advances and other assets	28,664,804	10,314,186
Provision against lending to financial institutions	-	(34,000,000)
Provision against Workers' Welfare Fund	7,174,338	12,451,442
Unused tax losses	(2,523,310)	(5,625,375)
Charge to profit and loss account	19,587,322	(30,105,678)
Charge to other comprehensive income		
Deferred tax revaluation of available for sale investments	(52,459)	1,618,349
Deferred tax on remeasurement of post employment benefits obligation	4,352,129	12,732,831
Balance at the end of the year	<u>107,557,987</u>	<u>83,670,995</u>

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

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

15	DEPOSITS	Note	2015		2014	
			No of accounts	Amount Rupees	No of accounts	Amount Rupees
	Fixed deposits	15.2	6,661	7,632,933,625	2,947	2,933,858,431
	Saving deposits	15.3	32,986	4,556,629,091	24,788	3,293,438,176
	Current deposits		1,089,254	3,394,164,413	872,346	2,455,176,152
			<u>1,128,901</u>	<u>15,583,727,129</u>	<u>900,081</u>	<u>8,682,472,759</u>
15.1	Particulars of deposits by ownership					
	Individual depositors		1,126,811	9,091,840,377	898,385	5,787,168,598
	Institutional depositors					
	Corporation/ firms		2,064	5,364,045,088	1,685	2,250,163,114
	Banks/ financial institutions		26	1,127,841,664	11	645,141,047
			<u>1,128,901</u>	<u>15,583,727,129</u>	<u>900,081</u>	<u>8,682,472,759</u>

15.2 This represents term deposits having tenure of 3 to 36 months (2014: 6 to 36 months) carrying interest at the rates ranging from 6.25% to 14.00% (2014: 6.00% to 14.00%) per annum. This includes fixed deposits amounting to Rs. 34.92 million (2014: Rs. 31.95 million) on which lien is marked against advances to borrowers.

15.3 This represents savings accounts carrying interest at the rates ranging from 5.00% to 10.25% (2014: 6.00% to 10.85%) per annum. This includes saving deposits amounting to Rs. 287.39 million (2014: Rs Nil) on which lien is marked against advances to borrowers.

16	BORROWINGS	Note	2015	2014
			Rupees	Rupees
	Unsecured			
	Borrowing from financial institutions outside Pakistan	16.1	2,845,397,392	2,182,376,872
	Secured			
	Borrowings from financial institutions in Pakistan	16.2	3,045,000,000	1,547,500,000
			<u>5,890,397,392</u>	<u>3,729,876,872</u>
16.1	Borrowings from financial institutions outside Pakistan			
	Asian Development Bank	16.1.1	1,818,647,392	2,182,376,872
	ECO Trade & Development Bank (TF-I)	16.1.2	507,250,000	-
	ECO Trade & Development Bank (TF-II)	16.1.3	519,500,000	-
			<u>2,845,397,392</u>	<u>2,182,376,872</u>

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

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

The interest is being paid on bi-annual basis charged at the rate equal to weighted average cost of deposits during the preceding six months in the banking industry as calculated by SBP. The interest rates used for the bi-annual payment during the year were determined to be 5.11% and 6.27% (2014: 6.53% and 6.64%) per annum.

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

The Bank has entered into a cross currency SWAP agreement with United Bank Limited for the borrowing. Under such arrangement USD 5 million were translated at the exchange rate of Rs. 101.45 and the loan will be repaid as bullet on maturity. Further under this arrangement the interest is payable at the rate of six months KIBOR plus a spread of 1% and payable semi annually commencing from date of disbursement per 365 days.

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

The Bank has entered into a cross currency SWAP agreement with JS Bank Limited for the borrowing. Under such arrangement USD 5 million were translated at the exchange rate of Rs. 103.90 and the loan will be repaid into 05 equal instalments of Rs.103.90 million each to be made semi-annually commencing from twenty fourth month from the date of the first disbursement. Further, under this arrangement, the interest paid is fixed at 10.47% per 365 days, semi-annually commencing from the date of disbursement.

16.2	Borrowings from financial institutions in Pakistan:	Note	2015 Rupees	2014 Rupees
	Secured			
	Pakistan Poverty Alleviation Fund (TF-II)	16.2.1	1,060,000,000	560,000,000
	Pak Oman Investment Company Limited (TF-I)	16.2.2	325,000,000	487,500,000
	Pak Oman Investment Company Limited (TF-II)	16.2.3	500,000,000	-
	United Bank Limited (TF - I)	16.2.4	400,000,000	500,000,000
	Askari Bank Limited (TF-I)	16.2.5	360,000,000	-
	Soneri Bank Limited (TF-IV)	16.2.6	300,000,000	-
	Syndicated Term Finance (JS Bank Limited and Askari Bank Limited)	16.2.7	100,000,000	-
	United Bank Limited (RF)	16.2.8	-	-
	JS Bank Limited (RF)	16.2.9	-	-
			<u>3,045,000,000</u>	<u>1,547,500,000</u>

- 16.2.1** This represents borrowings from the Pakistan Poverty Alleviation Fund (PPAF) and carries interest at the rates ranging from 6.05% to 11.11% (2014: 9.11% to 11.68%) per annum. PPAF extended Rs. 1,500 million financing facility, hypothecated against receivables created out of financing from PPAF, however the hypothecation charge is not registered with SECP. The Bank is liable to repay the principal amount to PPAF in 5 equal quarterly instalments after the expiry of one year as grace period. The Bank has drawn Rs. 1,500 million (2014: Rs. 600 million) up to December 31, 2015.
- 16.2.2** This represents interbank money market borrowings for two years with the grace period of six months from August 2014 and carries interest at the rates ranging 8.79% to 11.94% (2014: 11.92% to 11.94%) per annum and repayable in three equal installments. These borrowings are secured against charge over current and future assets of Rs. 650 million.
- 16.2.3** This represents interbank money market borrowings for five years with grace period of twelve months from draw down date and carries interest at the rates ranging 8.26% to 9.64% (2014: Nil) per annum and repayable in 8 semi annual equal installments. These borrowings are secured against charge over current and future assets of Rs. 667 million.
- 16.2.4** This represents interbank money market borrowings for three years with the grace period of six months from the date of first disbursement and carries interest at the rates ranging from 8.12% to 11.69% (2014: 11.69%) per annum and repayable in five equal installments. These borrowings are secured against 40% partial Microfinance Credit Guarantee Facility (MCGF) by SBP and charge over current and future micro loans/ advances of Rs. 400 million.
- 16.2.5** This represents interbank money market borrowings for three years with the grace period of six months from draw down date and carries interest at the rates ranging from 8.10% to 10.03% (2014: Nil) per annum and repayable in 10 equal quarterly instalments. These borrowings are secured against 40% partial Microfinance Credit Guarantee Facility (MCGF) by SBP and charge over current and future assets of Rs. 320 million.
- 16.2.6** This represents a term finance facility of Rs.300 million and carries interest at the rates ranging from 8.03% to 8.53% (2014: Nil) per annum for a period of three years with grace period of one year from the draw down date. These borrowings are secured against 40% partial Microfinance Credit Guarantee Facility (MCGF) by SBP and charge over current and future assets of Rs. 300 million.
- 16.2.7** This represents syndicated term finance facility of Rs.1,500 million and carries interest at the rate of 7.81% (2014: Nil) per annum for a period of four years from the draw down date inclusive of a grace period of six months. These borrowings are secured against 40% partial Microfinance Credit Guarantee Facility (MCGF) by SBP and charge over current and future assets of Rs. 200 million.
- 16.2.8** This represents a running finance facility of Rs.75 million and carries interest at the rates ranging from 7.35% to 7.76% (2014: Nil) per annum for a period of one year from the draw down date. These borrowings are secured against charge over current and future assets of Rs. 100 million.
- 16.2.9** This represents running finance facility of Rs. 300 million and carries interest at the rates ranging from 8.35% to 11.32% (2014: 11.93% to 11.96%) per annum for a period of one year from the draw down date. These borrowings are secured against charge over present and future assets of Rs. 400 million.

16.3 Quarterly average borrowing

1st Quarter
2nd Quarter
3rd Quarter
4th Quarter

**2015
Rupees**

4,534,398,438
4,785,883,604
5,709,999,418
6,002,685,506

**2014
Rupees**

2,894,356,885
3,137,269,745
3,888,734,412
3,817,165,119

16.4 Loan repayment schedule

Note

	2015 Rupees	2014 Rupees
Balance at the beginning of the year	3,729,876,872	3,729,876,872
Availed during the year	6,666,960,013	3,158,500,000
Repayments during the year	(4,506,439,493)	(2,174,729,480)
Balance at the end of the year	<u>5,890,397,392</u>	<u>3,729,876,872</u>

17 OTHER LIABILITIES

Interest payable on borrowings		117,970,586	78,281,377
Markup / return / interest payable on deposits		286,780,711	146,274,356
Accrued expenses		223,679,852	151,496,351
Bills payable		42,080,689	63,102,779
Payable to defined benefit plan - gratuity	17.1	80,568,150	65,132,259
Contribution payable to:			
- Microfinance Social Development Fund	6.13	82,416,496	70,321,175
- Risk Mitigation Fund	6.13	41,208,248	35,160,587
- Depositors' Protection Fund	6.13	41,208,248	35,160,587
Taxes payable - net	17.2	135,039,618	198,615,505
Payable to service providers		29,788,200	26,405,600
Payable to suppliers	17.3	92,001,096	46,879,190
Provision for Workers' Welfare Fund		61,330,561	37,690,929
Withholding tax payable		13,071,142	3,009,969
Other payables		23,587,944	36,425,774
		<u>1,270,731,541</u>	<u>993,956,438</u>

17.1 Payable to defined benefit plan - gratuity**General description**

The scheme provides for terminal benefits for all its permanent employees who attain the minimum qualifying period at varying percentages of last drawn basic salary. The percentage depends on the number of service years with the Bank. Annual charge is based on actuarial valuation carried out as at December 31, 2015 using the Projected Unit Credit Method.

The Bank faces the following risks on account of gratuity:

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

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

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

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

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

Disclosures related to employees gratuity fund are given below:

	2015 Rupees	2014 Rupees
a) Amounts recognized in the balance sheet		
Present value of defined benefit obligations	312,016,937	251,545,592
Fair value of plan assets	(231,448,787)	(186,413,333)
Balance sheet liability	<u>80,568,150</u>	<u>65,132,259</u>
b) Movement in net liability		
Opening net liability	65,132,259	24,706,735
Net expense recognized in profit or loss	53,351,580	38,536,763
Remeasurement losses recognized in OCI	15,451,132	39,191,366
Contributions	(53,366,821)	(37,302,605)
Closing net liability	<u>80,568,150</u>	<u>65,132,259</u>
c) Changes in present value of defined benefit obligation		
Opening defined benefit obligation	251,545,592	197,631,664
Current service cost	48,583,868	38,089,903
Interest expense	26,328,273	22,927,101
Benefits due but not paid (payables)	(8,840,518)	(5,236,098)
Benefits paid	(26,192,476)	(37,302,605)
Remeasurements - experience losses	20,592,198	35,435,627
Closing defined benefit obligation	<u>312,016,937</u>	<u>251,545,592</u>
d) Changes in fair value of plan assets		
Opening fair value of plan assets	186,413,333	172,924,929
Interest income	21,560,561	22,480,241
Contributions	53,366,821	37,302,605
Benefits paid	(26,192,476)	(37,302,605)
Benefits due but not paid	(8,840,518)	(5,236,098)
Return on plan assets, excluding interest income	5,141,066	(3,755,739)
Closing fair value of plan assets	<u>231,448,787</u>	<u>186,413,333</u>
e) Amounts recognized in the profit and loss account		
Current service cost	48,583,868	38,089,903
Interest cost on defined benefit obligation	26,328,273	22,927,101
Interest income on plan assets	(21,560,561)	(22,480,241)
	<u>53,351,580</u>	<u>38,536,763</u>
f) Amounts recognized in other comprehensive income		
Remeasurement losses for the year		
Experience adjustments in present value of defined benefit obligation	20,592,198	35,435,627
Return on plan assets, excluding interest income	(5,141,066)	3,755,739
	<u>15,451,132</u>	<u>39,191,366</u>

g) Major categories of plan assets

	2015		2014	
	Rupees	Percentage	Rupees	Percentage
Accrued interest	27,838,637	12.03%	6,791,223	3.64%
Cash at bank	29,429,668	12.72%	1,837,208	0.99%
National Saving Centre - Bonds	183,021,000	79.08%	183,021,000	98.18%
Less: Payables to out-going employees	(8,840,518)	-3.82%	(5,236,098)	-2.81%
	<u>231,448,787</u>	<u>100.00%</u>	<u>186,413,333</u>	<u>100.00%</u>

h) The latest actuarial valuation was carried out as at December 31, 2015. The significant assumptions used for actuarial valuation are as follows:

	2015	2014
Discount rate - per annum	10.00%	11.25%
Salary increase rate - per annum	9.00%	10.25%
Mortality rate	SLIC 2001-05	SLIC 2001-05

i) Sensitivity Analysis

	Change in assumption	Impact on defined benefit obligation	
		Increase in assumption	Decrease in assumption
Rupees			
Discount rate	1%	(33,106,305)	40,163,776
Salary rate increase	1%	41,775,596	(34,942,210)

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

The weighted average duration of the defined benefit obligation is 12 years.

j) Expected contribution of the Bank to the defined benefit gratuity fund for the year ending December 31, 2016 will be Rs. 66.86 million.

k) Comparison for five years

	2015	2014	2013	2012	2011
Present value of defined benefits obligations and fair value of plan assets	Rupees				
Present value of defined benefits obligations at year end	312,016,937	251,545,592	197,631,664	162,305,721	138,970,494
Fair value of plan assets at year end	(231,448,787)	(186,413,333)	(172,924,929)	(163,578,922)	(134,512,313)
	<u>80,568,150</u>	<u>65,132,259</u>	<u>24,706,735</u>	<u>(1,273,201)</u>	<u>4,458,181</u>

17.2 Taxes payable - net

	Note	2015 Rupees	2014 Rupees
Opening balance		198,615,505	121,911,340
Payments/adjustments during the year		(418,697,287)	(157,085,697)
Provision for the year	27	<u>355,121,400</u>	<u>233,789,862</u>
Closing balance		<u>135,039,618</u>	<u>198,615,505</u>

17.3 This includes sum payable to insurance companies amounting to Rs. 34.27 million against crop and livestock insurance premium.

18 SHARE CAPITAL

18.1 Authorized capital

2015 Number	2014 Number	Note	2015 Rupees	2014 Rupees
<u>600,000,000</u>	<u>600,000,000</u>	Ordinary shares of Rs. 10 each	<u>6,000,000,000</u>	<u>6,000,000,000</u>

18.2 Issued, subscribed and paid up capital

<u>170,500,000</u>	<u>170,500,000</u>	Ordinary shares of Rs. 10 each fully paid for consideration other than cash	18.2.1 <u>1,705,000,000</u>	<u>1,705,000,000</u>
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18.2.1 The Shareholders of the Bank are as follows:

United Bank Limited	506,285,280	506,285,280
Rural Impulse Fund II S.A. SICAV-FIS	417,056,630	298,496,310
ShoreCap II Limited	243,568,080	243,568,080
ASN-NOVIB Mikrokredietfonds	168,795,020	168,795,020
Credit Suisse Microfinance Fund Management Company	339,294,990	132,855,310
Bank Al Habib Limited	30,000,000	30,000,000
Habib Bank Limited	-	300,000,000
Soneri Bank Limited	-	25,000,000
	<u>1,705,000,000</u>	<u>1,705,000,000</u>

18.2.2 During the year Habib Bank Limited and Soneri Bank Limited have sold its shares to Rural Impulse Fund II S.A. SICAV - FIS and Credit Suisse Microfinance Fund Management Company.

19 DEFERRED GRANTS

Note	2015 Rupees	2014 Rupees
Grant from GoP	19.1 251,589,232	251,589,232
Accumulated amortization		
At the beginning of year	(251,437,620)	(251,246,720)
Amortization for the year	(86,169)	(190,900)
At the end of the year	<u>(251,523,789)</u>	<u>(251,437,620)</u>
	65,443	151,612
Grant from USAID	19.2 98,374,901	98,374,901
Accumulated amortization		
At the beginning of year	(97,860,252)	(97,282,378)
Amortization for the year	(327,990)	(577,874)
At the end of the year	<u>(98,188,242)</u>	<u>(97,860,252)</u>
	186,659	514,649
Grant from Enclude	19.3 25,484,337	25,484,337
Received during the year	19.3 18,196,984	-
	43,681,321	25,484,337
Accumulated amortization		
At the beginning of year	(25,484,337)	(20,529,071)
Amortization for the year	(1,361,580)	(4,955,266)
At the end of the year	<u>(26,845,917)</u>	<u>(25,484,337)</u>
	16,835,404	-
	<u>17,087,506</u>	<u>666,261</u>

- 19.1** This represents grant from GoP for assets acquired for institutional strengthening of the Bank, under the Subsidiary Loan and Grant Agreement (SLGA) entered with GoP in pursuance of Loan Agreement (Special Operations) - Microfinance Sector Development Project (MSDP), Loan #1806 between ADB and Islamic Republic of Pakistan. MSDP completed its tenure on June 30, 2007.
- 19.2** This represents grant received from USAID on September 30, 2003 under the program "Developing non-bankable territories for financial services".
- 19.3** On September 24, 2010, the Bank entered into a two year grant agreement with Enclude (formerly Shore Bank International (SBI) to improve the capacity of the Bank for delivering saving products more effectively, profitably and at an enhanced scale. Enclude provided financial assistance of USD 300,000 in the form of grant to the Bank, in order to procure and implement a banking application named Bank Essential (BE). In the year 2015, a further grant was received from Enclude (formerly Shore Bank International (SBI) to promote Alternative Delivery Channel (ADC) marketing campaign in order to create client awareness and build uptake of Bank's branchless banking services. The new expiry of the grant agreement is May 31, 2016.

20 MEMORANDUM/ OFF BALANCE SHEET ITEMS

20.1 CONTINGENCIES

- a)** For the period January 2008 to December 2010, the taxation authorities issued an order to charge FED amounting to Rs. 65.231 million on grants received by the Bank and non-withholding of sales tax on taxable purchases from suppliers not registered in large tax payer units (LTU). In this respect, a civil petition filed by the bank is currently pending with the Honourable Supreme Court of Pakistan, against the order of Honourable Islamabad High Court wherein the Bank's appeal was dismissed in limine. Related to this matter, payment of Rs. 34.226 million under protest is carried as receivable from taxable authorities as reflected in note 13.2 to the financial statements.
- b)** For the period January 2011 to December 2012, the Bank has also received two orders from Deputy Commissioner of Inland Revenue for non-payment of FED of Rs. 40.641 million on grants received by the Bank and Rs. 2.778 million on non-withholding of sales tax on taxable purchases from suppliers not registered in LTU. The Bank preferred an appeal before CIR (Appeals) against the alleged orders for 2011 and 2012 which were remanded back by the CIR (Appeals) with the observation that DCIR order contains legal and factual infirmities.

Based on the decision of CIR(A) in case of alleged orders of 2011, 2012 and tax counsel advise, the Bank is confident of a favorable outcome of the cases for the period January 2008 to December 2010 therefore the management believes that no provision is required there against.

20.2 COMMITMENTS

Capital expenditure

21 MARK-UP/ RETURN/INTEREST EARNED

Mark-up/interest on advances

Interest on investment in Federal Government securities

Interest/gain on deposit accounts/ placements with other banks/ financial institutions/on mutual funds

22 MARK-UP/ RETURN/ INTEREST EXPENSED

Interest on borrowings from:

Financial institutions - Outside Pakistan

Financial institutions - Inside Pakistan

Interest on deposits

	2015 Rupees	2014 Rupees
Capital expenditure	49,204,928	32,720,212
Mark-up/interest on advances	4,277,947,717	3,005,187,175
Interest on investment in Federal Government securities	62,278,225	75,147,327
Interest/gain on deposit accounts/ placements with other banks/ financial institutions/on mutual funds	66,395,992	49,155,499
	<u>4,406,621,934</u>	<u>3,129,490,001</u>
Interest on borrowings from:		
Financial institutions - Outside Pakistan	170,018,855	158,804,888
Financial institutions - Inside Pakistan	236,034,318	106,101,908
	<u>406,053,173</u>	<u>264,906,796</u>
Interest on deposits	813,233,728	544,650,633
	<u>1,219,286,901</u>	<u>809,557,429</u>

23	FEE, COMMISSION AND BROKERAGE INCOME	Note	2015 Rupees	2014 Rupees
	Micro-credit application processing fee		575,848,380	447,944,565
	Other commission		64,589,818	29,942,344
			<u>640,438,198</u>	<u>477,886,909</u>
24	OTHER INCOME			
	Amortization of deferred grant		1,775,739	5,724,040
	Indirect cost charged to USAID	24.1	19,545	1,120,103
	Recoveries from MSDF	24.2	129,391,600	159,546,400
	Indirect cost charged to Incofin	24.3	971,415	-
	Gain on disposal of fixed assets		22,607,489	4,912,806
	Recoveries against advances written off		40,690,480	39,598,007
	Others		9,936,499	5,908,611
			<u>205,392,767</u>	<u>216,809,967</u>
24.1	This represents indirect cost charged to USAID for Tubewell Efficiency Improvement Replacement Program (TWEIP) @ 1.755% of total direct cost (2014: 1.755% of total direct cost for TWEIP).			
24.2	This represents claims lodged by the Bank with Microfinance Social Development Fund (MSDF) to recover the new client acquisition cost incurred by the Bank under the Loan Agreement (Special Operations) - Microfinance Sector Development Project, Loan #1806 between ADB and Islamic Republic of Pakistan.			
24.3	This represents amounts received against capacity building contract signed between the Bank and Capital Plus Exchange/SBBN Exchange for long-term technical assistance comprising of building the MSME base, cash flow based lending, selection and training of problem loan management department, strengthening credit risk, human capital support for MSME, product development and pilot testing. Incofin's share to the activity amounted to USD 150,000 and KBL is contributing 33% of the budgeted amount.			
25	ADMINISTRATIVE EXPENSES	Note	2015 Rupees	2014 Rupees
	Salaries, wages and benefits		1,086,610,223	833,683,518
	Charge for defined benefit plan	17.1	53,351,580	38,536,763
	Contract/ seconded staff expenses		221,525,923	187,378,481
	Consultancies		8,089,957	19,915,678
	Recruitment and development		16,246,686	9,793,564
	Training		43,991,427	18,670,384
	Rent and rates		180,945,689	149,483,717
	Insurance		58,397,621	44,916,672
	Utilities		69,194,077	70,810,708
	Legal and professional charges		3,803,873	2,904,130
	Communication		79,194,179	57,639,268
	Repairs and maintenance		131,982,981	58,280,703
	Printing, stationery and office supplies		79,825,808	71,105,538
	Advertisement		30,893,352	30,717,564
	Auditors' remuneration	25.1	1,626,500	1,481,915
	Depreciation	12.2	115,484,925	89,346,698
	Amortization	12.3	27,600,780	26,312,796
	Vehicles up keep and maintenance		105,456,018	102,955,709
	Travelling and conveyance		14,819,054	18,250,098
	Meetings and conferences		29,391,916	24,976,284
	Security charges		46,527,838	12,818,452
	Bank and financial charges		33,191,601	14,254,037
	Newspapers and subscriptions		3,077,736	2,693,462
	Miscellaneous		3,446,298	2,905,684
			<u>2,444,676,042</u>	<u>1,889,831,823</u>

25.1 Auditors' remuneration

Note

2015
Rupees2014
Rupees

Audit fee	1,149,500	1,045,000
Out of pocket expenses	477,000	436,915
	<u>1,626,500</u>	<u>1,481,915</u>

25.2 Administrative expenses are net of Rs. Nil (2014: Rs. 7.75 million) charged to USAID in respect of projects implemented by the Bank.

26 OTHER CHARGES

Penalties	436,000	776,750
Workers' welfare fund	23,639,632	18,848,196
Professional tax	423,965	200,000
	<u>24,499,597</u>	<u>19,824,946</u>

27 TAXATION

Current	355,121,400	233,789,862
Prior year		
Other	27.1	(24,697,464)
Super tax	27.2	-
	376,811,713	209,092,398
Deferred	(18,995,089)	30,105,678
	<u>357,816,624</u>	<u>239,198,076</u>

27.1 The comparative figures represent the difference between the prior year's tax provision and the tax return filed subsequent to that provision.

27.2 The Finance Act 2015 has introduced certain amendments relating to taxation of banking companies. As per these amendments, the Bank's income from dividend and capital gains are now taxed at the normal tax rates instead of previously applicable reduced rates. In addition, one time super tax at the rate of 4 percent of the taxable income has also been levied. These amendments apply retrospectively for the tax year 2015, i.e. year ended December 31, 2014. The effects of above amendments have been incorporated in these financial statements and an amount of Rs. 21.690 million (2014: Nil) has been recognised as prior year tax charge.

27.3 Tax charge reconciliation2015
Rupees2014
Rupees

Profit before tax (Rupees)	<u>1,181,981,581</u>	<u>942,409,823</u>
	%	%
Applicable tax rate	32.00	33.00
Deferred tax relating to prior periods	-	-
Temporary difference	0.98	0.61
Income tax relating to prior period	1.84	(2.62)
Permanent difference	(4.55)	(5.02)
Rate change	-	(0.59)
Average effective tax rate charged to income	<u>30.27</u>	<u>20.87</u>

27.4 The applicable income tax rate was reduced from 33% to 32% for the year on account of the changes made to Income Tax Ordinance, 2001 through the Finance Act, 2015.

28	LOSS BEFORE CHANGES IN OPERATING ASSETS / LIABILITIES	Note	2015 Rupees	2014 Rupees
	Profit before taxation		1,181,981,581	942,409,823
	Adjustments for:			
	Depreciation and amortization		143,085,705	115,659,494
	Amortization of deferred grant		(1,775,739)	(5,724,040)
	Provision against non-performing advances		275,014,569	154,534,663
	Gain on disposal of operating fixed assets		(22,607,489)	(4,912,806)
	Mark-up on advances		(4,277,947,717)	(3,005,187,175)
	Interest on investments and deposit accounts		(128,674,217)	(124,302,826)
	Indirect cost charged to USAID		(19,545)	(1,120,103)
	Interest expense on borrowings and deposits		1,219,286,901	809,557,429
	Provision against other assets		17,137,334	4,876,387
	Charge for defined benefit plan		53,351,580	38,536,763
			(2,723,148,618)	(2,018,082,214)
			(1,541,167,037)	(1,075,672,391)
29	CASH AND CASH EQUIVALENTS			
	Cash and balances with SBP and NBP	7	1,001,222,441	701,035,923
	Balances with other banks	8	944,008,613	353,300,758
	Lending to financial institutions	9	2,383,352,710	417,604,032
			4,328,583,764	1,471,940,713
30	NUMBER OF EMPLOYEES		2015 Number	2014 Number
	Credit sales staff			
	Permanent		1,221	905
	Banking / support staff			
	Permanent		1,045	858
	Contractual		803	859
			1,848	1,717
	Total number of employees at the end of the year		3,069	2,622
31	AVERAGE NUMBER OF EMPLOYEES			
	Credit sales staff			
	Permanent		1,116	759
	Banking / support staff			
	Permanent		975	818
	Contractual		886	884
			1,861	1,702
	Average number of employees during the year		2,977	2,461
32	NUMBER OF BRANCHES			
	Total branches at beginning of the year		118	110
	Opened during the year			
	Branches		10	10
	Booth		1	-
	Closed / merged during the year		-	(2)
	Total branches at the end of the year		129	118

33 EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Bank and held as treasury shares.

	2015 Rupees	2014 Rupees
Profit for the year after taxation	824,164,957	703,211,747
Microfinance Social Development Fund	(82,416,496)	(70,321,175)
Depositors' Protection Fund	(41,208,248)	(35,160,587)
Risk Mitigation Fund	(41,208,248)	(35,160,587)
	(164,832,992)	(140,642,349)
Profit attributable to equity holders	659,331,965	562,569,398
Weighted average number of ordinary shares (Numbers)	170,500,000	170,500,000
Earnings per share - basic (Rupees)	3.87	3.30

Diluted

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

34 REMUNERATION PAID TO PRESIDENT, DIRECTORS AND EXECUTIVES

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

	2015				2014			
	President	Directors	Executives		President	Directors	Executives	
			KMPs	Other			KMPs	Other
	Rupees							
Managerial remuneration	7,141,500	-	33,373,985	74,909,435	6,075,000	-	28,871,202	57,680,905
Charge for defined benefit plan/gratuity	981,956	-	4,291,131	10,265,371	853,875	-	3,522,583	8,138,765
Rent and house maintenance allowance	3,213,672	-	15,018,293	33,709,281	2,733,750	-	12,992,031	25,956,407
Utilities allowance	1,428,300	-	6,674,792	14,981,908	1,215,000	-	5,774,240	11,536,188
Medical allowance	714,154	-	3,337,390	7,491,061	621,000	-	2,932,283	5,867,525
Conveyance allowance	305,939	-	5,688,227	28,465,815	429,977	-	5,736,846	25,178,704
Bonus	4,000,000	-	13,524,293	12,035,537	3,500,000	-	6,281,032	7,779,926
Others	1,607,501	9,789,758	336,552	6,613,918	1,129,911	7,065,660	1,773,686	10,029,937
Total	19,393,022	9,789,758	82,244,663	188,472,326	16,558,513	7,065,660	67,883,903	152,168,357
Number of person(s)	1	7	11	90	1	7	9	74

34.1 The President is also provided with Bank maintained cars.

34.2 Executives mean employees, other than the Chief Executive and directors, whose basic salary exceeds five hundred thousand rupees in a financial year.

34.3 Key Management Personnel (KMP) means persons having authority and responsibility for planning, directing and controlling the activities of the entity, either directly or indirectly, including any member (or non-executive) of the board.

35 SCHEDULE OF MATURITY DISTRIBUTION OF MARKET RATE ASSETS AND LIABILITIES AS AT DECEMBER 31, 2015

	TOTAL	Up to one month	Over one month up to six months	Over six months up to one year	OVER ONE YEAR
Rupees					
Market rate assets					
Advances	17,246,531,575	1,237,893,208	8,507,408,988	7,155,889,922	345,339,457
Investments	1,847,825,070	500,000,000	1,347,825,070	-	-
Other earning assets					
Balances with SBP and NBP - deposit accounts	1,658,485	1,658,485	-	-	-
Balances with other banks - deposit accounts	501,075,190	518,796,642	-	-	-
Lending to financial institutions	2,383,352,710	2,383,352,710	-	-	-
Total market rate assets	21,980,443,030	4,641,701,045	9,855,234,058	7,155,889,922	345,339,457
Other non-earning assets					
Cash in hand	489,853,139	489,853,139	-	-	-
Balances with SBP and NBP - current accounts	509,710,817	509,710,817	-	-	-
Balances with other banks - current accounts	442,933,423	425,211,971	-	-	-
Operating fixed assets	548,979,304	24,199,303	99,505,394	77,771,642	347,502,965
Other assets	2,616,868,449	276,351,420	1,490,285,720	739,054,399	111,177,201
Deferred tax asset	107,557,987	-	-	-	107,557,987
Total non-earning assets	4,715,903,119	1,725,326,650	1,589,791,114	816,826,041	566,238,153
Total assets	26,696,346,149	6,367,027,695	11,445,025,172	7,972,715,963	911,577,610
Market rate liabilities					
Large time deposits above Rs 100,000	7,403,731,217	673,293,400	2,139,989,567	3,083,442,978	1,507,005,272
All other time deposits (including fixed rate deposits)	229,202,408	8,882,166	62,106,000	63,501,242	94,713,000
Other cost bearing deposits	4,556,629,091	1,822,651,636	1,822,651,636	911,325,819	-
Borrowings	5,890,397,392	-	684,364,740	821,150,455	4,384,882,197
Total market rate liabilities	18,079,960,108	2,504,827,202	4,709,111,943	4,879,420,494	5,986,600,469
Other non-cost bearing liabilities					
Deposits	3,394,164,413	1,357,665,765	1,357,665,765	678,832,883	-
Other liabilities	1,270,731,541	180,788,624	646,943,031	283,259,637	159,740,249
Total non-cost bearing liabilities	4,664,895,954	1,538,454,389	2,004,608,796	962,092,520	159,740,249
Total liabilities	22,744,856,062	4,043,281,591	6,713,720,739	5,841,513,014	6,146,340,718
Net assets	3,951,490,087	2,323,746,104	4,731,304,433	2,131,202,949	(5,234,763,108)

35. SCHEDULE OF MATURITY DISTRIBUTION OF MARKET RATE ASSETS AND LIABILITIES AS AT DECEMBER 31, 2014

	TOTAL	Up to one month	Over one month up to six months	Over six months up to one year	OVER ONE YEAR
Market rate assets					
Rupees					
Advances	12,105,839,126	543,043,062	5,516,188,427	6,022,792,649	23,814,988
Investments	836,886,573	299,188,817	537,697,756	-	-
Other earning assets					
Balances with SBP and NBP - deposit accounts	250,066	250,066	-	-	-
Balances with other banks - deposit accounts	38,820,258	38,820,258	-	-	-
Lending to financial institutions	417,604,032	417,604,032	-	-	-
Total market rate assets	13,399,400,055	1,298,906,235	6,053,886,183	6,022,792,649	23,814,988
Other non-earning assets					
Cash in hand	394,304,188	394,304,188	-	-	-
Balances with SBP and NBP - current accounts	306,481,669	306,481,669	-	-	-
Balances with other banks - current accounts	314,480,500	314,480,500	-	-	-
Operating fixed assets	322,919,698	15,459,791	67,111,329	59,245,054	181,103,524
Other assets	1,871,176,573	110,568,215	1,033,209,610	660,078,065	67,320,683
Deferred tax asset	83,670,995	-	-	-	83,670,995
Total non-earning assets	3,293,033,623	1,141,294,363	1,100,320,939	719,323,119	332,095,202
Total assets	16,692,433,678	2,440,200,598	7,154,207,122	6,742,115,768	355,910,190
Market rate liabilities					
Large time deposits above Rs 100,000	2,838,098,198	454,551,000	874,125,657	794,013,541	715,408,000
All other time deposits (including fixed rate deposits)	95,760,233	3,396,000	18,914,500	38,300,733	35,149,000
Other cost bearing deposits	3,293,438,176	1,317,375,270	1,317,375,270	658,687,636	-
Borrowings	3,729,876,872	-	341,864,740	684,364,740	2,703,647,392
Total market rate liabilities	9,957,173,479	1,775,322,270	2,552,280,167	2,175,366,650	3,454,204,392
Other non-cost bearing liabilities					
Deposits	2,455,176,152	2,455,176,152	-	-	-
Other liabilities	993,956,438	162,105,961	498,236,984	220,050,388	113,563,105
Total non-cost bearing liabilities	3,449,132,590	2,617,282,113	498,236,984	220,050,388	113,563,105
Total liabilities	13,406,306,069	4,392,604,383	3,050,517,151	2,395,417,038	3,567,767,497
Net assets	3,286,127,609	(1,952,403,785)	4,103,689,971	4,346,698,730	(3,211,857,307)

36.2 Market risk

Market price risk is the risk that the fair value of a financial instrument will fluctuate due to changes in the prices of individual securities. The Bank's investments comprises of available for sale (AFS) portfolios. The objective of the AFS portfolio is to make short-term capital gains, whilst the AFS portfolio is maintained with a medium term view of earning both capital gains and dividend income. Product program manuals have been developed to provide guidelines on the objectives and policies, risks and mitigates, limits and controls for the equity portfolios of the Bank.

The Bank's interest rate 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.

36.3 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 the Regulations. Further, the community organizations are structured in a way to exert social pressure on the borrowers to perform their obligations.

36.4 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. As at year end, the Bank has unavailed facilities cumulatively amounting to Rs. 1,750 million (2014: Rs. 300 million).

36.5 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arise in financial instruments that are denominated in foreign currencies i.e. in a currency other than the functional currency in which they are measured.

During the year the Bank obtained foreign currency borrowings from ECO Trade and Development Bank and hedged its foreign currency exposure by entering into cross currency SWAP agreements with United Bank Limited and JS Bank Limited.

36.6 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk is monitored and managed by performing periodic gap analysis, sensitivity analysis and stress testing and taking appropriate actions where required.

Interest rate of the Bank's financial assets and financial liabilities as at December 31, 2015 can be evaluated from the schedule given in note 36.1 to these financial statements.

36.7 Fair value of financial instruments

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date. The financial instruments that are not traded in active market are carried at cost and are tested for impairment. The carrying amount of other receivables and payables are assumed to approximate their fair values.

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

36.8 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The risk department is primarily responsible for the oversight of operational risk management across the Bank. The operational risk management framework of the Bank is governed by the operational risk Management Policy and Procedures, while the implementation is supported by an operational risk management system and designated operational risk coordinators within different units across the Bank. The framework is in line with international best practices, flexible enough to implement in stages and permits the overall approach to evolve in response to organizational learning and future requirements.

Loss data, collected through a well defined program, is evaluated and processes are reviewed for improvements in mitigation techniques. Periodic workshops are conducted for Risk & Control Self Assessment and key risk exposures are identified and assessed against existing controls to evaluate improvement opportunities. Key Risk Indicators are also defined for monitoring of risk exposures. New products, systems, activities and processes, are subject to comprehensive operational risk assessments, before implementation.

Business Continuity Plans have been implemented across the Bank, clearly defining the roles and responsibilities of respective stakeholders, and covering recovery strategy, IT and structural backups, scenario and impact analyses and testing directives. The outsourcing policy has also been augmented to address risks associated with such arrangements.

37 FAIR VALUE MEASUREMENT

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

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

Financial assets which are traded in an open market are revalued at the market prices prevailing at the close of trading on the reporting date. The estimated fair value of all other financial assets and liabilities is not considered to be significantly different from book values as the items are either short-term in nature or periodically repriced.

Set out below is a comparison by category of carrying amounts and fair values of the Bank's assets and liabilities, that are carried in the statement of the financial position:

Assets	Note	Carrying amount		Fair Value	
		2015	2014	2015	2014
		Rupees		Rupees	
Available for sale securities Investments	10	1,347,825,070	836,886,573	1,347,825,070	836,886,573

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

Fair value hierarchy

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

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

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

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

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

The following table provides the fair value measurement hierarchy of the Bank's assets and liabilities. The valuation was carried at December 31, 2015.

Assets	Note	2015 Rupees	Level of hierarchy	Significant unobservable inputs	"Inter-relationship between unobservable inputs and fair value
Investments	10				
Mutual Funds		300,329,820	Level 1	Not applicable	Not applicable
Market Treasury Bills		1,047,495,250	Level 2		
		<u>1,347,825,070</u>			

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

Valuation technique used & key inputs

Revaluation rates for T-bills are contributed by money market brokers on daily basis and NAV/daily prices announcement by mutual funds association of Pakistan.

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

Cross currency swap agreements entered during the year have not been revalued at fair value as the SBP, vide BSD Circular letter No. 10, dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement. Subsequently, vide BSD Circular letter No. 6 of 2007 dated September 06, 2007, the SBP further instructed the Banks/DFIs, that as implementation of IAS 39 has been deferred, therefore, Banks /DFIs should not implement IAS 39 in respect of particular segment of investments or any other category of financial assets or liabilities until and unless SBP issues instructions for adoption of these standards by Banks/DFIs. Had the derivatives been measured at fair value as at December 31, 2015, profit for the year would have been lower by Rs. 14.130 million on account of unrealised loss based on fair value confirmations obtained from counterparties to the said transactions.

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

Opening balance	836,886,573	1,038,900,528
Additions during the year	3,370,361,700	2,802,684,800
Unrealised fair value gain included in other comprehensive income	168,497	(4,755,555)
Impairment loss for the year	-	-
Disposals during the year	(2,859,591,700)	(2,999,943,200)
Closing balance	<u>1,347,825,070</u>	<u>836,886,573</u>

2015 Rupees

2014 Rupees

38 RELATED PARTY TRANSACTIONS

The Bank's related parties comprise of president, directors, executives, shareholders, entities over which the directors are able to exercise significant influence and employee gratuity fund. The detail of Bank's shareholders is given in note 18.2.1 while remuneration of president, directors and executives is disclosed in note 34 to the financial statements. Detail of transactions during the year and balances outstanding at the year end are as follows:

Transactions during the year

- with shareholders

Lending to financial institutions	5,971,000,000	8,443,000,000
Repayment of lending to financial institutions	6,403,000,000	8,582,949,098
Investments made during the year	911,000,000	1,806,000,000
Borrowings	832,250,000	2,271,000,000
Repayment of borrowings	425,000,000	1,771,000,000
Investments sold during the year	-	200,000,000

Income

Interest income on deposit account bank balances	1,301,516	1,260,673
Interest income on lending to financial institutions	3,465,578	7,124,224
Grant received	971,415	-

Expenses

Interest expense on borrowings	86,150,190	15,809,922
Bank charges	67,355	530,365
Branchless banking service commission	168,256,646	8,896,959
ATM services payments	8,100,624	5,659,753
Branchless banking service commission	6,629,230	-

- with defined benefit plan

Contribution to gratuity fund	53,351,580	38,536,763
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- with others

Receipts from MSDF	-	825,000
Income charged to MSDF	129,391,600	159,546,400
Balance written off	85,771,400	-

Balances outstanding at the year end

- with shareholders

Balances with banks	75,126,413	193,978,492
Lending to financial institutions	-	432,000,000
Investments	-	-
Interest receivable on lending to financial institutions	-	108,648
Branchless banking services commission payable	1,852,382	-
Borrowings	907,250,000	500,000,000
Interest payable on borrowings	25,440,756	14,892,740

- with defined benefit plan

Balance payable to gratuity fund	80,568,150	65,132,259
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- with key management personnel including President

Advances - staff loans	41,211,906	749,940
Other assets - loans and advances to employees	9,826,019	13,638,762
Deposits	12,153,398	-

- with others

Receivable from MSDF	516,144,118	371,788,936
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39 CAPITAL RISK MANAGEMENT

The Bank's objectives when managing its capital are:

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

Capital requirements applicable to the Bank are set out under the Regulations. These requirements are put in place to ensure sufficient solvency margins. The Bank manages its capital requirement by assessing its capital structure against required capital level on regular basis. Currently, the Bank has paid up capital of Rs. 1.7 billion. The minimum paid up capital requirement applicable to the Bank is Rs. 1.00 billion. The Bank has maintained capital adequacy ratio in accordance with Regulation No. 1 which states that the Bank shall maintain capital equivalent to at least 15% of its risk-weighted assets.

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

40 GENERAL INFORMATION

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

	2015 Number	2014 Number
Offices		
Total branches of the Bank	129	118
Micro-credit cases		
Number of active cases at year end	520,517	468,369
Number of loans disbursed during the year	572,393	512,773
Average number of active borrowers for the year	494,443	438,690
	2015 Rupees	2014 Rupees
Microcredit portfolio		
Microcredit advances receivable - Gross	17,389,636,425	12,225,321,747
Total disbursements for the year	20,391,506,234	14,507,439,552
Portfolio Quality		
Portfolio at risk	337,992,863	169,992,999
Portfolio written off	191,161,383	127,783,264
Loan loss reserve	220,351,695	132,413,034
Average loan sizes		
Average outstanding loan size	33,408	26,102
Average gross loan portfolio	14,807,479,086	10,533,506,981
Information about the Bank's assets/ liabilities		
Total assets	26,696,346,149	16,692,433,678
Current assets	25,583,292,200	16,194,707,314
Fixed assets	548,979,304	322,919,698
Average total assets	21,694,389,914	14,991,045,110
Current liabilities	16,598,515,344	9,838,538,572
Bank's equity	3,934,402,581	3,285,461,348

41	FINANCIAL RATIOS	Note	2015	2014
	Sustainability/ Profitability			
	Return on equity	41.1	20.24%	18.51%
	Adjusted return on equity	41.2	18.24%	14.93%
	Return on assets	41.3	3.37%	3.73%
	Adjusted return on assets	41.4	3.03%	3.01%
	Operational self sufficiency	41.5	127.80%	126.65%
	Financial self sufficiency	41.6	126.00%	123.00%
	Profit margin	41.7	21.75%	21.04%
	Asset / Liability Management			
	Current ratio	41.8	1.54	1.65
	Yield on gross loan portfolio	41.9	29.74%	29.83%
	Yield gap	41.10	12.41%	9.92%
	Funding-expense ratio	41.11	8.21%	7.67%
	Cost-of-funds ratio	41.12	7.20%	7.26%
	Portfolio Quality			
	Portfolio at risk	41.13		
	from 1 - 29 days		0.88%	0.47%
	from 30 - 59 days		1.05%	0.47%
	from 60 - 89 days		0.34%	0.16%
	from 90 - 179 days		0.39%	0.16%
	over 179 days		0.15%	0.12%
	Write-off ratio	41.14	1.29%	1.21%
	Risk coverage ratio	41.15	65.19%	77.89%
	Efficiency / Productivity			
	Operating expense ratio	41.16	16.62%	18.10%
	Cost per borrower (Rupees)	41.17	4,991	4,351
	Personnel productivity	41.18	170	179
	Loan officer productivity	41.19	426	518
	Average disbursed loan size (Rupees)	41.20	35,625	28,292
	Average outstanding loan size (Rupees)	41.21	33,408	26,102

- 41.1** Return on equity (RoE) calculates the rate of return on the average equity for the year. RoE calculations are net operating income less taxes divided by average equity for the year.
- 41.2** Adjusted return on equity is calculated on an adjusted basis to address the effects of subsidies, provision against non-performing advances and other items that are not in the Bank's net operating income.
- 41.3** Return on assets (RoA) measures how well the Bank uses its total assets to generate returns. RoA calculations are net operating income less taxes divided by average assets during the year.
- 41.4** Adjusted return on assets is calculated on an adjusted basis to address the effects of subsidies, provision against non-performing advances and other items that are not included in the Bank's net operating income.
- 41.5** Operational self sufficiency measures how well the Bank covers its costs through operating revenues. In addition to operating expenses, financial expenses and loan loss provision expense are also included in the calculation.
- 41.6** Financial self sufficiency measures how well the Bank covers its costs, taking into account a number of adjustments to operating revenues and expenses. The purpose of these adjustments is to model how well the Bank covers its costs if its operations were unsubsidized and was funding its expansion with commercial-cost liabilities.
- 41.7** Profit margin measures the percentage of operating revenue that remains after all financial, loan loss provision and operating expenses are paid.

- 41.8** Current ratio measures how well the Bank matches the maturities of its assets and liabilities.
- 41.9** Yield on gross loan portfolio indicates the gross loan portfolio's ability to generate cash financial revenue from interest, fees and commission. It does not include any revenues that have been accrued but not paid in cash, or any non-cash revenues in the form of post-dated cheques, seized but unsold collateral, etc.
- 41.10** Yield gap compares revenue actually received in cash with revenue expected from microcredit advances.
- 41.11** Funding-expense ratio shows the blended interest rate the Bank is paying to fund its financial assets. This ratio can be compared with yield on the gross microcredit advances to determine the interest margin.
- 41.12** Cost-of-funds ratio gives a blended interest rate for all of the Bank's funding liabilities. Funding liabilities do not include interest payable or interest on loans to finance fixed assets.
- 41.13** Portfolio at risk ratio is the most accepted measure of portfolio quality. Portfolio at risk is the outstanding amount of all loans that have one or more instalments of principal past due by certain number of days. Rescheduled loans are also included in the calculation, if any.
- 41.14** Write-off ratio represents the percentage of the Bank's microcredit advances that have been removed from the balance of the gross microcredit advances because they are unlikely to be repaid.
- 41.15** Risk coverage ratio shows how much of the portfolio at risk is covered by the Bank's provision against non-performing advances. It is an indicator of how prepared the Bank is to absorb loan losses in the worst case scenario.
- 41.16** Operating expense ratio is the most commonly used efficiency indicator for Microfinance Banks. It includes all administrative and personnel expenses.
- 41.17** Cost per borrower provides a meaningful measure of efficiency for the Bank, by determining the average cost of maintaining an active borrower.
- 41.18** Personnel productivity measures the overall productivity of total Bank's human resources in managing clients who have an outstanding loan balance and are thereby contributing to the financial revenue of the Bank.
- 41.19** Loan officer productivity measures the average case load of each loan officer.
- 41.20** Average disbursed loan size measures the average loan size that is disbursed to clients.
- 41.21** Average outstanding loan size measures the average outstanding microcredit balance by client, which may be significantly less than the average disbursed loan size.

42 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary for the purposes of comparison and for better presentation. However, no significant reclassification has been made during the year.

43 DATE OF APPROVAL

These financial statements were approved by the Board of Directors of the Bank in their meeting held on February 25, 2016.

44 GENERAL

- 44.1** Account captions as prescribed by BSD circular No. 11 dated December 30, 2003 which have nil balances, have not been reproduced in these financial statements.
- 44.2** Figures have been rounded off to the nearest rupee.



PRESIDENT



CHAIRMAN



DIRECTOR



DIRECTOR

Khushhalibank Limited Branches Network 2016

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Malakand Agency

Ph: 0932-415040

Fax:0932-415039

Mardan

CB 445/A- 2, Saddar Bazar,The
Mall, Mardan Cantt. Mardan.

Ph: 0937-870194-95

Fax: 0937-870828

Nowshera

Al-Jameel City Center, Near PSO
Police Petrol pump, Main G.T
Road, Nowshera.

Ph: 0923-610923

Fax: 0923-614558

Swat (Mingora)

Ground Floor,Shahzad
Plaza,Mukan Bagh,Saidu
Sharif Road,Mingora

Ph: 0946-724744

Fax:0946-729410

Swabi

Rehman Plaza,Mardan
Road, Swabi.

Ph: 0938-223212

Fax:0938-224587

Peshawar

Zeb Plaza, Bilal Town,
Opposite Gulbahar Police
Station, GT Road Peshawar

Ph: 091-2264055/2612069

Fax: 091-5840377

Dera Ismail Khan

Al-Zaman Building, West
Circular Road, Dera Ismail
Khan

Ph: 0966-716859/711382

Fax: 0966-711382

Buner

Shop No. 1 to 7, Irsal market,
Opposite General Bus Stand,
Mardan Road, Opposite New Bus
Stand, Sawarai, District Buner

Ph: 0939-555637

Fax: 0939-555637

Havelian

Malik Cottage, Main Bazar,
Havelian, Abbotabad

Ph: 0992-810184

Fax: 0992-81083

Azad Kashmir:**Muzaffarabad**

Raza Buliding , Poultry Farm Road,
Opp AJK University Muzaffrabad

Ph: 05822-920467

Fax: 05822-920469

Rawlakot

Anmol Plaza,Opp Ali Firdos
Clinic,CMH-Road,Rawalakot.

Ph: 05824-920193

Fax:05824-920044

Bagh

Ground Floor, Al-Noor Plaza,
College Road Bagh

Ph: 05823-920023

Fax:05823-920159

Mirpur

Plot # 1, Sector II, Allama Iqbal
Road, Mirpur

Ph: 05827-448701

Fax : Applied for

Punjab**Hassanabdal**

Near Hassanabdal Bus stand Main
Peshawar Road Hassanabdal

Ph: 057-2520191

Fax: 057-2520098

Bhakkar

Plot # 155-2, Club Road, Mandi
Town, Bhakkar

Ph: 0453-510187/513187

Fax: 0453-513187

Chok Azam

Multan-Mainwali Road,
Near Greenway Petrol Pump,
Chowk Azam, Tehsil &
District Layyah

Ph: 0606-381057-58

Fax: 0606-381057

Darya Khan

Plot # 89, Ward # 8, Bhakkar
Road, Near PTCL Exchange Darya
Khan

Ph: 0453-252678/ 253678

Fax: 0453-253678

Kallur Kot

Plot No. 15, Housing Scheme
Kallur Kot, District Bhakkar.

Ph: 0453-200892,200992

Fax: 0453-200992

Karor Lal Essan

Sewag Plaza,Opp. PTCL
Exchange Fateh Pur Road
Karor Lal Essan District
Layyah

Ph: 0606-811506 / 811505

Fax: 0606-811506

Leyyah

Plot # 405/B, Main Choubara Road, Leyyah

Ph: 0606-414506, 412207

Fax: 0606-414506

Dunyapur

Near Almulk Hospital, Railway Road, Dunyapur

Ph: 0608-305317

Fax: 0608-304317

Kahrur Pacca

Union Council Bukshi Wali, Ward No. 16 / 8, Near Railway Chowk, Lodhran Road, Kahrur Pacca

Ph: 0608-342123

Fax: 0608-342122

Mandi Yazman

Near Canal Bridge Bahawalpur Road Mandi Yazman

Ph: 062-702185

Fax: 062-2702185

Jampur

Opposite Canal Rest House, Indus Highway, Jampur

Ph: 0604-568800

Fax: 0604-568650

Taunsa Sharif

Main Vehova Road Taunsa Sharif Distt D G Khan

Ph: 064-2601367

Fax: 064-2601395

Mankera

Near UBL, Jhang - Bhakkar Road, Tehsil Mankera District Bhakkar

Ph: 0453-410323/ 410324

Fax: 0453-410323

Hasilpur

Near Honda Atlas Store Main Bahawalpur Road Hasilpur

Ph: 062-2449935

Fax: 062-2443936

Khairpur Tamewali

Khata # 119/111, Khatooni 271-276, Opposite Chand Resturnat, Tehsil Khairpur Tamewali Distt, Bahawalpur

Ph: 062-2262010

Fax: 062-2261011

Dera Ghazi Khan

Railway Road, Block J, D.G.Khan

Ph: 0642-470722

Fax: 0642-470722

Kot Mithan

Khawaja Ayaz Tower, Baldia Chowk Kot Mithan

Ph: 0604-317330

Fax: 0604-317292

Tibbi

Main Indus High Way Road, Tibbi, Qaisrani

Ph: 0642-007202/2007513

Fax: N/A

Bahawalpur

1-B, 1st Floor, Model Town-B, Ghalla Mandi Road, Bahawalpur

Ph: 0622-889612/ 884316

Fax: 062 2882856

Jalalpur Pirwala

Al-Mehmood Shopping Centre, Permit Road, Jalalpur Pirwala

Ph: 061-4212292/ 4212299,

Fax: 061-4212292

Lodhran

Jalalpur More, Near Masjid Ahl-e- Hadees, Bahawalpur Road, Lodhran

Ph: 0608-361321

Fax: 0608-361324

Fazilpur

M.Ismaeel Plaza, Traffic Chowk, Main Indus Highway, Fazilpur

Ph:0604-681660

Fax: 0604-681660

Rajanpur

Kamran Market, opposite Jamia Shikh darkhwasti, Main Indus Highway Road, Rajanpur

Ph: 0604-689513

Fax: 0604-590120

Chiniot

Chaudry Center, Jhumra Chowk, Jhang Road, Chiniot

Ph: 047-6332692

Fax: 047-6332692

Faisalabad

Ayubi Plaza P-834/A, Liaqat Road,
Near Police Line Petrol Pump,
Faisalabad

Ph: 041-2616146/2616148

Fax: 041-2616146

Gojra

Tehsil Road, Saddiqui Commercial
Plaza, Gojra

Ph:0463516504-505

Fax: 046-3516505

Hafizabad

Shop B1-185 Ghari Awan
Kassokey Road Hafizabad

Ph: 0547-541142 /541141

Fax: 0547-541143

Jaranwala

Near FESCO Office, Ismail Plaza,
Faisalabad Raad, Jaranwala

Ph: 041-4310340

Fax: 041-4310343

Jhang

Canal Colony Road Near Distt.
Courts Jhang

Ph: 047-7620985

Fax: 047-7627940

Shorekot

Jhang Road, Near Sabir
Chowk,Shorkot City

Ph: 047-5310473-71

Fax: 047-5310474

Toba Tek Singh

Al-Aziz Center, Shorekot Road
,Toba Tek Singh

Ph: 046-2517515-12-14

Fax: 046-2154618

Gujrat

Shehroz Plaza Near SA Fans GT
Road, Gujrat

Ph: 053-3536275

Fax:053- 3521426

Kamoki

197/162 Near Shifa Eye
Hospital, Main G.T Road
Kamoki

Ph: 055-6816240-41

Fax: 055-6811161

Narowal

Siddique Pura Morr Circular Road
Narowal.

Ph: 0542-414267

Fax:0542-414168

Pasrur

Faisal Colony, Near Gujjar PSO
Petrol Pump, Pasrur

Ph: 052-6442242,47,49

Fax: 0526-442248

Shakargarh

Maqsood Plaza Railway
Road Shakargarh

Ph: 054-2414181-82

Fax: 0542-451183

Sialkot

Small Industrial Estate, Near Alam
Chowk, Shahabpura Road Sialkot

Ph: 052-3258442

Fax:052-3258440

Wazirabad

Near Veterinery Hospital,
Foam Market,Circular Road,
Wazirabad.

Ph: 0556-604692

Fax: 0556-609120

Pattoki

Shop # 02 Tariq Center,
Halla Road, Pattoki

Ph: 049-4425350

Fax: 049-4423350

Jail Road-Lahore

15-Shadman, Near Shadman
Chowk, Jail Road, Lahore.

Ph: 042-35408679-80

Fax:042-35408682

Kasur

Minhas Colony, Near Khan Mahal
Cinema Main Lahore Road Kasur

Ph: 049-2773202-3

Fax:049 2773203

Chowk Sarwar Shaheed

Multan Mianwali Road, Near
Mobilink Franchise, Chok
Sarwar Shaheed, Tehsil
Kotaddu District
Muzaffargarh

Ph: 066-2210352-51

Fax: 066-2210352

Shah Kot

Melad-e-mustfa Chowk Jaranwala Road Shahkot

Ph: 056-3712281-82

Fax: 056-3712283

Kot Addu/ Muzaffargarh

Main GT Road, Kot Addu

Ph: 066-2243852

Fax: 066-2243852

Muzaffargarh

Intiqal # 6365, Khewat # 60, Opposite Graveyard Roshan Shah Near Talhri By pass Multan Road District Muzaffargarh.

Ph: 066-2551792/2551892

Fax: 066-2551892

Ahmedpur East

KLP Raod Unique Plaza, Ground floor, Tehsil Ahmed Pur East

Ph: 062-2271450

Fax: 062-2273450

Liaquatpur

87-A Scheme # 2 Bank Road Opposite Qayyam Petroleum, Liaquat Pur

Ph: 068-5795499

Fax: 068-5792699

Uch Sharif

Near MCB Bank LTD, Main Ahmedpur East Road, Uch Sharif, Tehsil Ahmedpur East, Dist. Bahawalpur

Ph: 062-2551151-52-53

Fax: 062-2551152

Sheikhupura

Al Rehman Center,Near millan marriage hall,lahore road, Sheikhupura

Ph: 056-3792192

Fax:056-3792194

Kot Sultan

Mohellah Hasnain Abad near Civil Hospital Multan Road Kot Sultan

Ph: 0606-470252/470251-53

Fax: 0606-470252

Qadirpur Rawan

G.T Road Qadir Pur Rawan, Tehsil & District Multan.

Ph: 061-4578668

Fax: 061-4578670

Alipur

Near City Police Station,Alipur, District Muzaffargarh.

Ph: 066-2700873-72

Fax: 066-2700872

Rahim Yar Khan

Plot # 12, Public Plots, Model Town, Rahim Yar Khan

Ph: 068-5886223

Fax: 068-5887223

Fatehjang

Ground Floor, Mudassar Awan Arcade, Rawalpindi Road,Fatehajang.

Ph: 057-2212132/2212701

Fax: 057-221232

Multan

Shop#1, Royal Shopping Centre, Azmat Wasti Road, Dera Adda Chowk, Multan

Ph: 061-4515981

Fax: 061-4782356

Shujahabad

Opposite KB stand, Jalalpur Road, Shujahabad

Ph: 0614-396006

Fax: 0614-396006

Khanpur

Quaid e Millat Road Opposite National Saving Center Khushhalibank Limited Khanpur

Ph: 068-5576922

Fax: 068-5576924

Sadiqabad

Nishtar Chowk, KLP Road , Sadiqabad.

Ph: 068-5700326/5700426

Fax: 068-5700426

Jhelum

Opposite Tableeg ul Islam High School Near NADRA Office, Civil Line, Jhelum

Ph: 0544-621261

Fax: 0544-621261

Basirpur

Plot No. 416, Main Basirpur Road, Basirpur, Tehsil Depalpur, Distt Okara

Ph: 044-4771122

Fax: 044-4771030

Rawalpindi

Ropyal Brothers Plaza, B-130,
Main Muree Road, Chandni
Chowk, Rawalpindi.

Ph: 051-4842548

Fax: 051-4842549

Chichawatni

Plot # 18-19, Near Lakar Mandi,
Main G.T Road, Chichawatni

Ph: 0405-483415

Fax: 0405-480415

Okara

Plot # 4033/8, Near Sanam Cine-
ma, M. A Jinnah Road, Okara

Ph: 044-2550045

Fax: 044-2552246

Bhalwal

Plot No. 451, Block No. 4, Liaqat
Shaheed Road Bhalwal, District
Sargodha.

Ph: 048-6642571

Fax: 048-6643071

Mandi Bahaudin

Shop # 5/201 Ward # 5 Near
Alfatah Masjid Mandi Bahauddin

Ph: 0546-500981

Fax: 0546-500981

Sargodha

Block # 16 Near NADRA Office
Main Road I Sargodha

Ph: 048-3740861

Fax: 048-3740288

Arifwala

21/A, Block, Main Muhammadi
Road, Arifwala

Ph: 0457-835204

Fax: 0457-830541

Khanewal

Nishtar Road Near MCB Bank
opposite Khalid Tea Stall Mian
Channu

Ph: 0652-551529

Fax: Nil

Pakpattan

Khata #3182/3152, 4347/3993,
Khatooni # 3384, 4754, College
Road Pakpattan.

Ph: 0457-352477/352559

Fax: 0457-353759

Chakwal

Near Warid Franchise, Rawlpindi
Road, Chakwal

Ph: 0543-550917-18

Fax: 0543-550918

Mianwali

Sonay Khel Market, Govt High
School Road, Mianwali

Ph: 059-231010

Fax: 0459-231010

Bahawalnagar

Jinnah Colony, Jail Road,
Bahawalnagar

Ph: 063-2279054-55

Fax: 063-2279053

Mian Channu

Nishtar Road Near MCB Bank
opposite Khalid Tea Stall
Mian Channu

Ph: 065-2660131-32

Fax: 065-2660132

Sahiwal

Saeed center, Near Niazi
Filling Station, Jail road,
Sahiwal

Ph: 040-44225313

Fax: 040-44225313

Khushab

Plot # 221 Block # 4 College
Chowk Jauharabad, Distt.
Khushab

Ph: 0454-722131/ 723131

Fax: 0454-722131

Sahiwal-SGD

Main Sarghoda road,
Nawanlok Sahiwal, District
Sarghoda

Ph: 048-6786103

Fax: 048-6786101

Burewala

Ramay Market Near ZTBL
Mian Multan Road Burewala

Ph: 067-3354155-57-59

Fax: 067-3601557

Haroonabad

Plot # 221, Main Bazar, Near
GPO Haroonabad

Ph: 063-2250095-195

Fax: 063-2256495

Chishtian

Plot # 47, Block 'C', Qazi Wala Road, Chishtian

Ph: 063-2500331-334

Fax: 063-2500332

Minchan Abad

Khata # 208, khatoni # 208
Circular Road, Near MCB Bank,
Minchinabad

Ph: 063-2750135-36-37

Fax: 063-2750137

Zahir Pir

Old GT Road Canal Rest House
chowk Zahir Pir.

Ph: 068-5562191-92/

Fax: 0685562193

Shahdra-Lahore

Masjid Tuheed Adjacent ZTBL
Bank, Main Sheikhpura Road, Jia
Musa, Shadra, Lahore.

Ph : 042-37922965,37922966

Fax : N/A

Anarkali Lahore

House # 17 St # 15 Peer Buksh
Road, Fayaz Road New Anarkali
Lahore

Ph: 042-37115622-23

Fax: 042-37115622

Fort Abbas

Khata # 259/260, Khatooni #
259 School Bazar Fort Abbas

Ph: 063-2510592-94-99

Fax: 063-2510592

Jahanian

Opposite Govt. Middle School
03 for Boys, Madina Chowk,
Jahanian, Tehsil Jahanian, Dist.
Khanewal.

Ph: Applied for

Fax: Applied for

Dahranwala

Wariach Market, Haroonabad
Road Dahranwala

Ph: 0632440701

Fax: 0632440702

Gujar Khan

Haji Raja Karam Ellahi plaza G T
Road Gujar Khan.

PTCL: 051-3510432

Fax : 051-3510433

Vehari

E-8, Karkhana Bazar, Vehari

Ph: 067-3360301-04-06

Fax: 067-3360304

Kot Chutta

Khata No. 109, Opposite
Tehsil office, Main Indus
Highway, Kot Chutta

Ph: Applied for

Fax: Applied for

PaharPur

Mouza chah Ganda Opposite
National Bank Rangpur Road
Paharpur.

Ph: 0966-775224

Fax: 0966-775224

Gujranwala

Khasra No. 182, Khewat
No. 42, Khatuni No. 43,
Mouza Mian Sansi, Tehsil &
District Gujranwala.

PTCL: in Process

Fax: in Process

Sindh

Badin

Survey # 33, Adjacent Abbasi Hospital, Main DCO Chowk, Karachi Road Badin

Ph: 029-7862330

Fax: 029-7861149

Karachi

Plot#13, Commercial Area, Gulshan-e-Iqbal, Block 10-A, Main Rashid Minhas Road, Opposite Lal Flates, Karachi

Ph: 021-34818323

Fax: 021-3-4818324

Tando Allahyar

Main Mirpurkhas Road, Adjacent Main Eid Gah, Tando Allahyar

Ph: 022- 3892875

Fax: 022- 3892875

Umarkot

Haji Saleem Mahar Housing Society Near Sabzi Mandi Main Chore Road Umarkot

Ph: 0238-500301

Fax: 0238-500302

Hala

Old National Highway, Near UBL Hala, District Mititari.

Ph: 022-3332352

Fax: 022-3332350

Nashero Feroze

Main National Highway, Noshero Feroze

Ph: 0242-481270-1

Fax:0242 481269

Hyderabad

Plot # HCB-73, Qazi Abdul Qayyom Road, Gari Khata Hyderabad

Ph: 022-2786620

Fax: 022-2786621

Mirpurkhas

Plot # 7, Survey # 862/7, Ward-A, MP Colony, Main Umar Kot Road, Mirpurkhas

Ph: 0233-873163

Fax: 0233-876427

Tando Muhammad Khan

Main Hyderabad Badin Road, Adjacent Bus Stop, Tando Muhammad Khan.

Ph: 022- 3342738

Fax: 022- 3340738

Badeh

Main Naseerabad Road, Badeh, Distt. Larkana

Ph: 0744-081074

Fax: 0744-081232

Khairpur

Near National Saving Centre, Katchehry Road Khairpur Mirs.

Ph: 0243-714064

Fax: 0243-714065

Nawabshah

House No; A –306 Paro Hospital Road.Otaq Quarter Nawabshah.

Ph: 0244-370093

Fax: 0244-370093

Jhuddo

Plot #7,Ward no 03 Near Rajput Chowk Shahi Bazar Jhuddo Distt: Mirpurkhas

Ph: 0233-878990

Fax: 0233-878990

Mithi

Shop # 2 & 3 Satyani Shopping Center Main Naukot Road Mithi Tharparkar

Ph: 0232-262304

Fax: 0232-262302

Thatta

Shop # 6, Al-Shahbaz Shops, National Highway Thatta.

Ph: 0298- 550084

Fax: 0298- 550784

Dadu

Opposite Govt. Pilot Girls School, College Road, Dadu

Ph: 0254-710007

Fax: 0254-720007

Larkana

Bank Square Road, Larkana

Ph: 074-4056981

Fax: 074-4056982

Ranipur

Near Mazhar Model School, National Highway Ranipur City District Khairpur Mirs.

Ph: 0243-730229/730226

Fax: 0243-730226

Sanghar

Choudhary Corner, Main
Nawabshah Road, Sanghar.

Ph: 0235-800161

Fax: 0235-800161

Pannu Aqil

Near Eid Gah, Baiji Chawk, Pano
Aqil

Ph: 071-5814304

Fax: 071-5692032

Shikarpur

Sattari Building, Opposite Jahaz
Chowk, Station Road, Shikarpur.

Ph: 0726-513023

Fax: 0726-513024

Karachi 2

Plot # L-04, Sector 35-C at
Korangi Township, Karachi.

PTCL: in Process

Fax: in Process

Balochistan**Naseerabad**

Near City Police Station, Quetta
Road, Dera Murad Jamali,
Naseerabad, Balouchistan.

Ph: 0838-711338-37

Fax: 0838-711338

Daherki

Haq Plaza, Main GT Road,
Deharki

Ph: 0723-642663

Fax: 0723-642663

Ratodero

Main Bus Stand, Chowk, Ratodero

Ph: 074-4088189

Fax: 074-4088189

Sukkur

Military Road,
Sukkur

Ph: 071-5633237

Fax: 071-5633237

Ghotki

Sada Bahar Shopping Center,
Near Bilal Masjid, Main GT
Road, Ghotki

Ph: 0723-600239-20

Fax: 0723-600220

Shahdad Kot

Lakh Pat Road Shahdad Kot.

Ph: 074-4754522

Fax: 074-4754622

Wagan/ Kambar

Opposite Govt Primary Main
Boys School, Miro Khan Road
Kambar.

Ph: 074-4 210072

Fax: 074-4210062



55-C, 4th, 5th & 6th Floor, Ufone Tower,
Jinnah Avenue, Blue Area, Islamabad.

Tel: +92 (51) 111 092 092
Fax: + 92 (51) 9245120
Help Line: 021-111 222 525

www.kushhalibank.com.pk