

# Annual Report 2012



فوشحالی بینک لمیٹڈ  
khushhalibanklimited

| prosperity on all accounts |



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# Vision, Mission & Values



## Vision

To be a premier financial institution within the microfinance industry.

## Mission

To strengthen the economic base of low-income populace across Pakistan by improving their accessibility to financial services.

By supporting a diverse product suite with exemplary service and by deploying cost efficient next generation delivery systems, we intend achieving our core objective of outreach and sustainability.

## Values

- Empower
- Excel
- Ethics

# One Promise



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

A promise to grow and protect. A promise to rise against the odds. A

promise to better livelihood. A promise to bridge ordinary men and women with extraordinary opportunity to reach their full potential. After nurturing more than three million microfinance relationships through our extensive network operating across Pakistan's rural and urban divides, we should know.

## Corporate Governance



Khushhalibank is governed by a seven member board comprising senior management of leading commercial banks, fund managers and microfinance experts from across the globe. The board members bring with them international

experience that contributes to value driven management and control as well as effective corporate governance in accordance with international standards.

## Our Team



Khushhalibank's team strives to provide access to financial services to the largely un-banked segments of the market through the largest microfinance network in Pakistan.

Success of Khushhalibank is an outcome of a committed management team that steers business, provides operational

support and maintains an adequate internal control environment. The team comprising majority young men and women graduates from the leading Universities of Pakistan play a key role in the consistent growth of the bank.

## Our Clients



Kalsoom bibi has been a client since 2005 and has completed her 7th loan cycle.

Kalsoom bibi, mother of 5 is a cornerstone of her family, financed a buffalo for milk. Her husband although a skilled laborer didn't have a regular source of income. There were times when he couldn't find work for several days in a month, which made it impossible for Kalsoom to meet the needs of her five children. Her milk selling business has had a very positive impact on her family. Now she sends her children to school and saves regularly.



Shehnaz bibi has been a client since 2010 and has completed her 3rd loan cycle.

Shehnaz bibi financed a fodder cutting machine. Her husband who was a daily wager fell ill and Shehnaz had to think of the means to support her family. The loan from Khushhalibank enabled her to stabilize her income. Now she saves regularly and has successfully managed to bear all medical expenses of her incapacitated husband.



Waheeda Khatoon has been a client since 2011 and has completed her second loan cycle.

Stitching being her interest, Waheeda learned how to embellish cloths with aplic work. On mastering the skill, she started her own business with a micro loan from Khushhalibank that has enabled her to generate an income to support her family. Today, Waheeda is a role model for many women in the area with the kind of confidence she wields in herself.

Khushhalibank, through its group-lending methodology, has developed an environment of decision-making, collective management, conflict resolution, gender balanced access to microfinance services and participation in development at the grass root level.

## Corporate Citizenship



With an aim to support livelihoods through competency based vocational training of international standards and help create a new batch of skilled Pakistanis with internationally recognized technical qualifications, Khushhalibank sponsored students of The Hunar Foundation technical institute to provide them the opportunity to skill themselves in various technical specialities like Refrigeration and Air Conditioning, Electrical installation, Mechanical fitting and Plant Maintenance, Fabrication, Welding and Pipe work, and Plumbing followed by a 6 month internship in the local industry.

These programs will be then followed by career guidance and assistance in work placement. A Memorandum of Understanding was signed between Khushhalibank and The Hunar Foundation, whereby Khushhalibank will sponsor ten students to undergo a one year vocational training at The Hunar Foundation's newly established campus of HAK Technical Institute in Rashidabad, Tando Allahyar.

## Energy Conservation



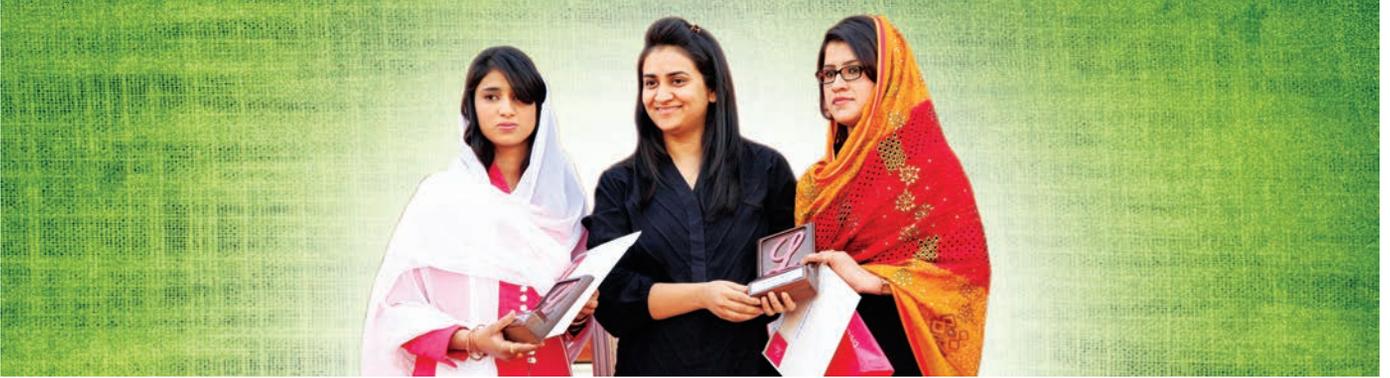
Energy is a critical political and economic issue in Pakistan, where energy crisis is dominated by a growing shortage of electricity, which is constraining economic growth. Investments in energy projects in general and power projects in particular have not kept pace with demand.

Energy Efficiency and Capacity Program (EEC) has been engaged with Agriculture Sector tubewell motor pump replacements and motor and pump replacements in the Industrial and Public Sectors. Under EEC, United States Agency for International Development (USAID) has been committed to help Pakistan maintain its energy sustainability by reducing peak electric load on national grid through replacement of old and inefficient pump

and motors with more efficient ones that consume at least 20% lesser energy for the same output, powered by Grid Electricity from the Power Distribution Companies (DISCOS).

Khushhalibank Limited has signed a Cooperative Agreement with USAID and has the role of Disbursement Service Provider, whereas program implementation is being done by International Resources Group (IRG). The disbursed amount is not to exceed US\$18.5 million. Total disbursements made to the motor and pump suppliers as of Dec 31, 2012 stand at US\$ 8.3 million.

## Khushhalibank **Idol Award**



Khushhalibank honored Miss Malala Yousafzai the world's youngest nominee for the Nobel Peace Prize from Pakistan, with LADIESFUND® Khushhalibank Idol Award. This award is a tribute to Miss Malala who has continued to go from strength to strength with her unshakable commitment, and has distinguished herself to merit this award. Miss Malala Yousufzai is a renowned education & women rights activist belonging to Swat, Khyber Pakhtunkhwa.

The award was received on behalf of Miss Malala by Miss Shazia Ramazan and Miss Kainat Riaz, two friends who were also injured in the same terrorist incident.

Sponsorship of LADIESFUND® Khushhalibank Idol Award is a humble contribution by Khushhalibank towards acknowledging and celebrating the inspiring female role models of the country, particularly the women who are determined to succeed against all odds. It is distributed each year to celebrate women empowerment and success as well as to pay tribute and acknowledge the hard work and determination of courageous and talented Pakistani women who perform outstandingly in their respective fields.

## Annual SEEP Conference 2012



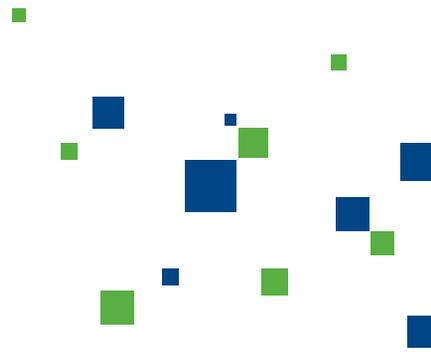
The SEEP Network is a global network of over 130 international organizations dedicated to combating poverty through promoting inclusive markets and financial system. The theme of the 2012 Conference was Building Inclusive Markets: Impact through Financial and Enterprise Solutions.

President Khushhalibank was invited to the SEEP 2012 Global Network Summit and Annual Conference, held at the Sheraton Pentagon City Hotel in Arlington, VA on November 4-8, 2012 as a panelist.

Ambassador Rehman chaired the session on Pakistan titled, "The Dark Horse of Microfinance". Acknowledging the sector's consistently high return to investors, she stated that Pakistan's 30

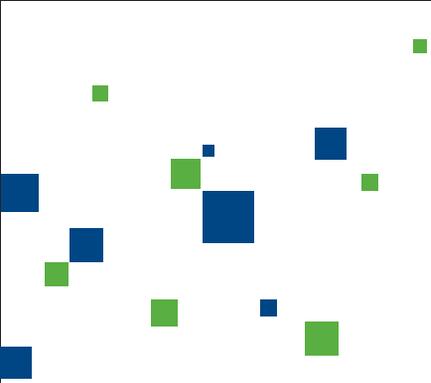
million unbanked customers present an opportunity for international institutions to scale their operations. "During the last 4 years, new players like mobile network operators, commercial banks, and international funds have started investing in institutions focused on the bottom of the pyramid markets and have catalyzed growth," said the envoy. Private sector motives and public sector social programs, like the Benazir Income Support Program, have brought formal banking - through traditional, microfinance, and mobile outlets - to more than 4 million people in the last four years in Pakistan.

The event included an excellent line up of business leaders and financial entrepreneurs.



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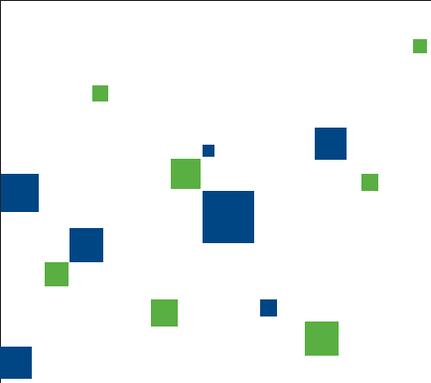


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# Corporate Information

## Board of Directors

**Rayomond H. Kotwal**  
Chairman/Director

**Muhammad Ghalib Nishtar**  
President /Director

**Zakir Mehmood**  
Director

**Syed Javed**  
Director

**Lisa Gayle Thomas**  
Director

**Geert Peetermans**  
Director

**Erik Peter Geurts**  
Director

## Board Committees

### Human Resources & Compensation Committee:

Lisa Gayle Thomas - Chair  
Syed Javed - Member  
Syed Zahid Raza - Secretary

### Risk Management & Credit Committee

Syed Javed - Chair  
Geert Peetermans - Member  
Umar Farooq - Secretary

### Audit Committee

Geert Peetermans - Chair  
Rayomond Kotwal - Member  
Lisa Gayle Thomas - Member  
Aamir S. Khan - Secretary

## Registered / Head Office

94 West, Fourth Floor, Jinnah Avenue, Blue Area, PO Box. 3111, Islamabad-Pakistan.  
Tel: +92-51-111 092 092, Fax: +92-51-924 5120, web: [www.khushhalibank.com.pk](http://www.khushhalibank.com.pk)

## Chief Financial Officer

Saleem Akhtar Bhatti

## Company Secretary

Sarah Anjum

## Share Registrar

Central Depository Company of Pakistan  
CDC House, 99-B, Block 'B', S.M.C.H.S.,  
Main Shakra-e-Faisal, Karachi - 74400.  
Tel: +92 21 111 111 500  
Fax: +92 21 343 26031  
Internet: [www.cdcPakistan.com](http://www.cdcPakistan.com)

## Auditors

A. F. Ferguson & Co.  
Chartered Accountants  
3rd Floor, PIA Building, 49 Blue Area  
Fazal-ul-Haq Road, Islamabad  
Tel: +92 51227 3457-60  
Fax: +92 51 227 7924  
E-mail: [ferguson@nayatel.pk](mailto:ferguson@nayatel.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](mailto: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 51 287 0290-92  
Fax: +92 51 287 0293  
Internet: [www.ey.com/pk](http://www.ey.com/pk)

# President's Report 2012

## Overview

The microfinance sector in Pakistan continues to mature with each passing year while maintaining growth and profitability. The conducive policy environment was instrumental in attracting new deep pocketed investors such as mobile network operators, banks and International funds.

The year in review witnessed acquisition as well as Greenfield startup's by these investors reflecting confidence in the market despite a challenging environment in terms of political stability, law and order as well energy crises.

While the growth in terms of outreach remains modest there are significant positives such as the fact that growth is being driven by aggregation of retail deposits, there is a greater shift towards individual lending as compared to the traditional group lending and improving level of sustainability and profitability within the sector.

The year in review witnessed increasing volume of branchless banking services from existing players besides entry of two new players. The national roll out of the Microfinance CIB last June will go a long way in terms of strengthening the infrastructure for financial services besides the launch of a number of corporate governance and social performance initiatives to improve client protection and pricing transparency.

The Microfinance bank's as a group continue to dominate the industry landscape in terms of business growth, profitability and innovations.

We successfully concluded the process of divestment in June last year whereby a consortium led by United Bank Limited and comprising four global funds of international repute acquired 67.4% equity stake in thereby strengthening the ownership as well as Institutional governance structures.

The year in review witnessed a resilient performance by Khushhalibank despite a challenging external environment and the impact of three consecutive years of floods and rains on the portfolio given a large presence in the rural markets of the country. This is a reflection of a strong franchise value and reliance on the longstanding relationships with our clients.

We remain strongly capitalized, highly liquid and maintain our market share and credit ratings that are

amongst the top tier Microfinance banks.

## Performance Review: 2012

KBL achieved a profit after tax of Rs 168 million, which is 11% higher than last year of Rs 152 million. The increase in profit results from growth in balance sheet, improved non fund income and recovery of previously recognized bad debts.

The conversion of all 106 micro credit branches into full service operations was completed during the year. Consequently, administrative expenses increased from Rs 1.1 billion to Rs 1.3 billion in 2012. This increase was largely contributed by the full year impact of the bank's 2011 branch conversion program including 46 new branch conversions in 2012, Bank Essential (core banking application) roll out and increase in direct cost attributable to business acquisition.

KBL grew its balance sheet by 21% over December 2011. Asset portfolio grew by 35% to Rs 5.8 billion in 2012 over Rs 4.3 billion in 2011. In pursuit of portfolio diversification, a new secured product was launched during the year. The product has been well received in the market and by the end of 2012; secured portfolio stands at 12% of the total loan portfolio of the bank. Portfolio quality indicators of the bank have recorded improvement vis-a-vis prior year as portfolio at risk exceeding 30 days stands at 1.4% of total loan portfolio and net write was 1.1% at the year end-2012.

The growth in asset portfolio was primarily funded through retail deposits which increased to Rs 4.0 billion at year end 2012 as against Rs 1.7 billion in 2011.

## Credit Rating

During the year, JCR-VIS Credit Rating Company Limited has reaffirmed the entity ratings of KBL at 'A/A-1' (Single A/A-One) with a 'Stable' Outlook.

## Future Outlook

Going forward, we will continue strengthening our market position by offering even more affordable and accessible products and services, improving our operational productivity through greater reliance on technology, building our skill pool to support our growth plans and bring innovation and efficiency in terms of our service delivery.

# President's Report **2012**

We strongly believe that we are in the right market and remain confident of our business outlook for the future.

I would like to thank our valued customers for their continued support and trust and would like to assure them on behalf of management and the board of our continuous efforts to provide better service and value. My appreciation and thanks to the entire management team and employees for their commitment, dedication and hard work. I would like

to thank the board members for their support, trust and valuable contributions.



M. Ghalib Nishtar  
President

## Highlights - 2012

		2012	2011	Change
Investments	PKR M	1,044	945	10%
Gross Advances	PKR M	5,806	4,274	36%
NPLs	%	1.1%	2.4%	-55%
NPLs Coverage	%	138.8%	102.3%	36%
Advances - Net	PKR M	5,717	4,167	37%
Operating fixed assets	PKR M	313	201	55%
Total Assets	PKR M	9,954	8,221	21%
Deposits	PKR M	4,041	1,677	141%
Borrowings	PKR M	3,010	3,958	-24%
Equity	PKR M	2,473	2,339	6%
Net mark-up/ interest income	PKR M	1,146	1,023	12%
Provision against NPLs	PKR M	285	174	64%
Total non mark-up/ non interest income	PKR M	585	376	55%
Total non-mark-up/ non interest expense	PKR M	1,327	1,129	18%
Profit Before Taxation	PKR M	120	96	24%
Profit After Taxation	PKR M	168	152	11%

## Five years at a glance: 2008- 2012

Indicator		2012	2011	2010	2009	*2008
<b>Outreach</b>						
Active Clients	Number	458,612	352,962	325,523	329,421	312,851
Active Borrowers	Number	364,138	352,962	325,523	329,421	312,851
Gross Advances	PKR M	5,806	4,274	3,722	3,630	3,093
Deposits	PKR M	4,041	1,677	1,000	190	18
<b>Financial Performance</b>						
Total Revenue	PKR M	1,926	1,542	1,471	1,318	1,013
Operating (Loss)/Profit	PKR M	(39)	(46)	70	(19)	(330)
Net Profit after tax	PKR M	168	152	174	246	61
Return on Assets (ROA) **	%	-0.5%	-0.8%	0.8%	-0.4%	-4.9%
Return on Equity (ROE) ***	%	-2.0%	-2.7%	2.6%	-1.3%	-17.9%
Operational Self Sufficiency (OSS)	%	97.9%	97.1%	105.0%	98.6%	75.5%
Financial Self Sufficiency (FSS)	%	79.7%	68.8%	79.4%	70.8%	57.9%
<b>Productivity</b>						
Borrowers per Staff	Number	154	163	150	165	156
Savers per Staff	Number	194	163	95	37	2
Personnel Allocation Ratio	%	29.8%	31.8%	35.3%	32.3%	33.1%
<b>Risk</b>						
Portfolio at Risk > 30	%	1.1%	4.4%	3.9%	1.4%	2.2%
Portfolio at Risk > 90	%	0.4%	2.5%	0.9%	0.7%	1.1%

\* This represents sum of two audited financial statements in 2008; i.e for three months period ended on 31 March 2008 and nine months period ended on 31 December 2008

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

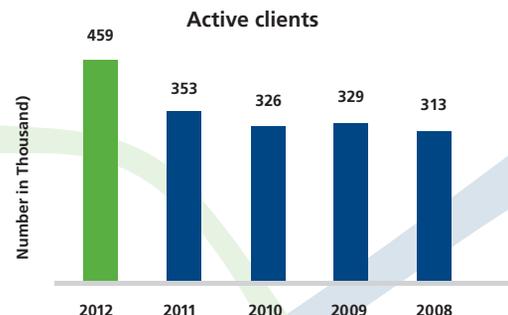
\*\*\* ROE calculated as per CGAP Guideline: Net operating income less taxes divided by average equity.

## Review of Five Years Performance

In this section, commentary on the five years performance of the bank is briefly provided on key areas.

### Outreach

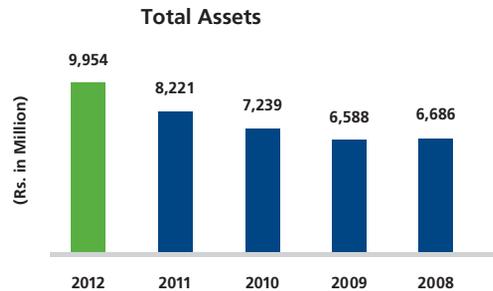
Khushhalibank main focus continues on increasing access and outreach for the financial inclusion of the un-served populace of the country. The bank has increased its network of 106 branches, which comprehensively covers the geographic spread of the country. The bank has grown its active client base over 46% during the past five years and now service over 458,000 clients. The increase in number of active clients was supported by an increase in number of savers as well as increase in active borrowers.



# President's Report 2012

## Total Assets

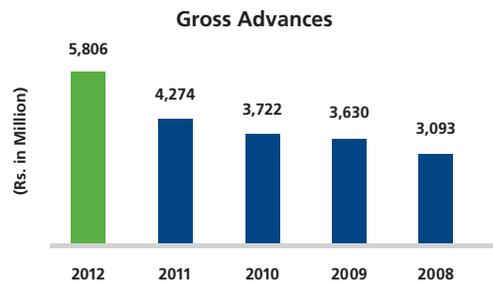
The bank has increased its asset footing from Rs 6.7 billion in 2008 to Rs 10.0 billion at the end of December 31, 2012. On a cumulative basis, the bank's asset base has grown by 48% over the past five years. Growth in total assets was contributed by increase in loan portfolio which, almost double during the past five years.



## Advances

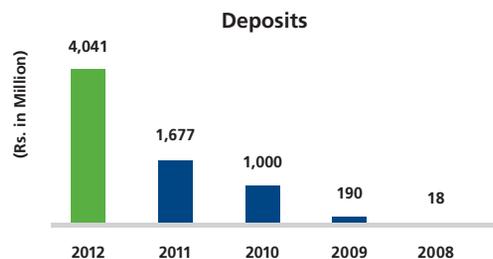
Advances being the core business line of the bank remained our prime focus and bank has been able to grow its loan portfolio over the years. Gross advances increased by 87% from Rs 3.1 billion to Rs 5.8 billion by the end of 2012.

The bank continues to provide its core group lending product to rural and urban markets with gradual increases in loan sizes. This product has been augmented by a recently introduced secured individual loan product to diversify loan portfolio. Product design is being enhanced to encourage diversification of product mix from rural to urban markets. In this way, the bank's strategic focus will shift from being purely micro and group based to broaden its activities to include both micro and small loans as well as both group and individual loans.



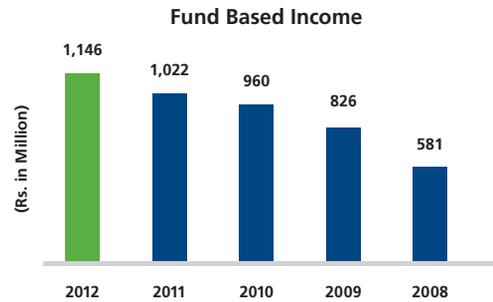
## Deposits

Khushhalibank launched first liability product in 2008 at select locations and gradually completed its conversion of all microcredit branches into full service operations capable of offering retail deposit by mid 2012. As a result of completion of conversion program of full service operations and acceleration of liability drive; deposit base has shown tremendous growth. Deposit balance increased to Rs 4.0 billion over the past five years.



## Fund Based Income

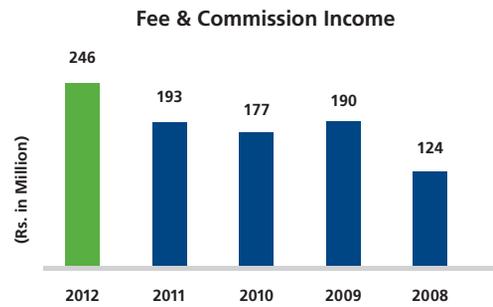
Markup from loan portfolio is the major component of fund based income stream of the bank. Steady growth of advance portfolio helped increase our fund based income during the past five years. Fund based income increased from Rs 581 million to Rs 1.1 billion over the past five years, which translate into an average growth rate of 19% over the past five years.



## Non Markup Income

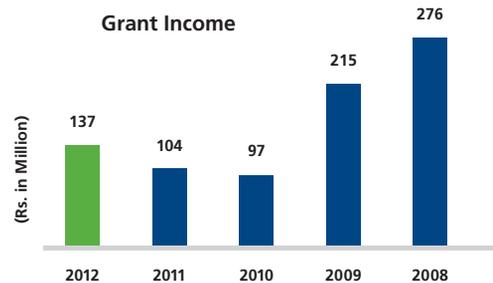
### Fee & Commission Income

The contribution of fee and commission income to the total revenue line has increased steadily with the growth of loan portfolio and client base. The fee and commission income comprises of microcredit loan processing fee and commission/charges on account of full service banking transactions. Loan processing fee constitute around 95% of aggregate fee and commission followed by other commission /charges of around 4% during the year 2012.



### Grant and subsidies

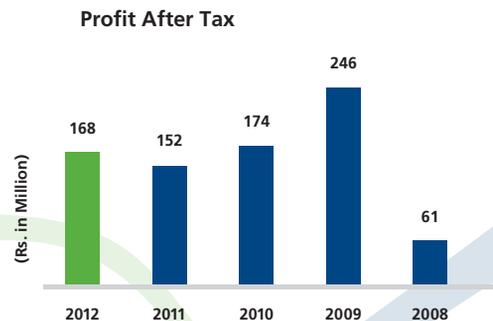
Grants and subsidies continue to fall as a result of sustainable operating strategy pursued by the bank. Ratio of grants and subsidies has declined favorably over the past few years reducing the chances of profit vulnerability of the bank.



## Profit After Tax

The bank has been producing steady profit over the years. However profit trend was largely affected by the strategy shift of self sustainable business pursued by the bank after the closure of Asian Development Bank program. Consequently, our core income has increased steadily with substantial decline in grant and subsidies as discussed earlier.

KBL achieved a profit after tax of Rs 168 million, which is 11% higher than last year of Rs 152 million.



# Directors' Report 2012

## Directors' Report to the Shareholders: 2012

On behalf of the Board of Directors, I am pleased to present to you the Annual Report of Khushhalibank Limited (KBL) for the year ended December 31, 2012

### Financial Highlights

KBL continues to remain the lead microfinance institution with a market share (active borrowers) of 20% as against 22% last year.

KBL achieved a profit after tax of Rs 168 million, which is 11% higher than last year of Rs 152 million.

KBL pre-tax profit of Rs 120 million is 24% higher than last year of Rs 96 million. The increase in profit results from growth in balance sheet, improved non fund income and recovery of previously recognized bad debts.

Resulting from changes in product mix, the bank's yield on gross loan portfolio declined by nearly 1.65% over 2011; however, funding expense ratio fell only by 14bps. Consequently, the net interest margin for 2012 was 1.51% lower than in 2011. The bank was able to offset most of the spread compression through balance sheet growth with net interest income which increased by 12% to Rs 1,146 million in 2012.

Non-interest income primarily consisting of loan processing fee increased considerably from Rs 193 million to Rs 246 million, a growth of 27% over last year due to portfolio growth.

Provision against advances increased to Rs 285 million in 2012 from Rs 174 million in 2011. This includes the impact of providing for Rs 85 million worth of rescheduled portfolio, which was affected by the rains in the province of Sindh in 2011. In addition to that further Rs 20 million has been recognized on account of accelerated provision requirement for rain affected portfolio of 2011 and 2012. The bank was able to offset this charge from the recovery of bad debts including re-scheduled loan portfolio, which increased from Rs 37 million in 2011 to Rs 178 million in 2012.

### Administrative Expenses

Administrative expenses increased to Rs 1.3 billion in

### Capital Adequacy Ratio

As of December 31, 2012 the Bank's capital adequacy ratio (CAR) measure at 34% as against 40% last year. The bank's CAR was well ahead of the mandatory requirement of 15% under the Prudential Regulations (PR) for Microfinance Banks.

2012. This increase was largely driven by the full year impact of the bank's 2011 branch conversion program to FSB including new conversion of 46 KBL branches in 2012, Banking essential (core banking application) roll out and increase in direct cost attributable to business acquisition. On a comparable basis, expense growth was 18% over the prior year.

### Balance Sheet

KBL grew its balance sheet by 21% over December 2011. Asset portfolio grew by 36% to Rs 5.8 billion in 2012 over Rs 4.3 billion in 2011. New individual secured product (Cash Sahulat) was launched in year 2012 to diversify the loan book and better risk management of the loan portfolio. The product has been received well in the market and by the end of 2012; secured portfolio stands at 12% of the total loan portfolio of the bank.

The growth of asset portfolio was primarily funded through retail deposits, which increased to Rs 4.0 billion at December 2012 over Rs 1.7 billion in 2011. In addition, the Bank also shed its lending from other financial institutions and repaid Rs 100 million to Soneri Bank Limited, Rs 184 million to PPAF and Rs 363 million to Asian Development Bank (ADB) on the due dates.

The bank continues to pursue the strategy of replacing low cost ADB borrowings with the retail deposit in order to maintain its cost of funds ratio. Consequently, cost of fund ratio for the year is 5.57%, comparable with 5.44% of last year.

The results of operations under review are presented below;

	2012 Rupees	2011 Rupees
<b>PROFIT AFTER TAXATION</b>	<b>167,941,158</b>	<b>151,564,228</b>
Un-appropriated profit brought forward	404,476,730	313,538,195
Transfer from reserve for contingencies	20,000,000	-
Tax impact on surplus on revaluation of assets	528,743	-
Profit available for appropriation	592,946,631	465,102,423
<b>APPROPRIATIONS:</b>		
Transfer to:		
- Statutory reserve	33,588,232	30,312,846
- Microfinance Social Development Fund	16,794,116	15,156,425
- Depositors' Protection Fund	8,397,058	7,578,211
- Risk Mitigation Fund	8,397,058	7,578,211
	67,176,464	60,625,693
<b>UNAPPROPRIATED PROFIT CARRIED FORWARD</b>	<b>525,770,167</b>	<b>404,476,730</b>

# Directors' Report 2012

## Credit Rating

During the year, JCR-VIS Credit Rating Company has upgraded KBL's entity rating for medium to long term to "A" and short term to "A-1".

## Statement of Corporate Governance

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

1. The financial statements prepared by the management of the Bank presents fairly its state of affairs, the results of its operations, cash flows and changes in equity.
2. Proper books of accounts of the company 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 company has followed international

accounting standards, as applicable to Banks in Pakistan, in the preparation of accounts without any departure there from.

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. The Board has appointed the following three Committees with defined terms of reference,
  - Risk Management & Credit Committee
  - Human Resources & Compensation Committee
  - Audit Committee

## Meetings of the Board

During the year under review, the Board of Directors met five times. The number of meetings attended by each director during the year is shown below:

	Name of Existing Director	Designation	Meeting attended
1	Mr. Raymond Kotwal	Chairman	3
2	Mr. Syed Javed	Director	3
3	Ms. Lisa Gayle Thomas	Director	3
4	Mr. Geert Peetermans	Director	3
5	Mr. Erik Peter Geurts	Director	3
6	Mr. Zakir Mahmood	Director	2
7	Mr. M. Ghalib Nishtar	President and CEO	5

## Change in Directors

The Board of KBL was re-constituted on 4 June 2012 as a result of disinvestment by the eleven shareholders. Following five directors of the selling shareholders were replaced by the five nominee directors of the UBL led consortium as listed under 1 to 5 in the above table.

	Name of Resigned Director	Designation	Meeting attended
1	Mr. Qamar Hussain	Director	3
2	Mr. M R Mehkari	Director	2
3	Mr. Rashid Akhtar Chughtai	Director	3
4	Mr. M U Usmani	Director	2
5	Mr. Aftab Manzoor	Director	-

# Directors' Report 2012

## CGAP Compliant Reporting

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

The Bank in its financial statements as at December

31, 2012, has complied with the above stated two sets of 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, 2012 as required under section 236 of the Companies Ordinance 1984 is as follows;

## Shareholding

No. of shareholders	From	To	Total shares held
2	1	5,000,000	5,500,000
2	5,000,001	20,000,000	30,165,033
3	20,000,001	35,000,000	84,206,439
1	35,000,001	65,000,000	50,628,528
<b>8</b>			<b>170,500,000</b>

## Categories of Shareholders

Particular	Number	Shares held	Percentage
Individual	-	-	-
Joint Stock Companies	-	-	-
Financial Institutions	4	86,128,528	51%
Others	4	84,371,472	49%

## Shareholders holding above 10% of voting shares are

Shareholder	Shares
United Bank Limited	50,628,528
Habib Bank Limited	30,000,000
Rural Impulse Fund II S.A SICAV-FIS	29,849,631
Shorecap II Limited	24,356,808
<b>Total Shares</b>	<b>134,834,967</b>

## Auditors

The present auditors of the company A.F.Ferguson and 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 Audit Committee recommends A.F.Ferguson and 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 State Bank of

Pakistan for their guidance and support; to the shareholders and customers for their patronage; and to the employees for their commitment.



Chairman  
March 15, 2013

## Auditors' Report to the Members

We have audited the annexed balance sheet of Khushhali Bank Limited (the Bank) as at December 31, 2012 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 conduct 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 the management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- a) In our opinion, proper books of accounts have been kept by the Bank as required by the Companies Ordinance, 1984;
- b) in our opinion -

- i) the balance sheet, profit and loss account and statement of comprehensive income together with the notes thereon have been drawn up in conformity with the requirements of Microfinance Institutions Ordinance, 2001 and Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied;
- ii) the expenditure incurred during the 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 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, 2012 and of the profit, 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.



Chartered Accountants  
Islamabad: March 15, 2013  
Engagement partner: S. Haider Abbas

A.F. Ferguson & Co., Chartered Accountants, a member firm of the pwc network  
PIA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O. Box 3021, Islamabad - 44000, Pakistan.  
Tel: +92 (51) 2273457-60/2870045-8; Fax: +92 (51) 2277924; www.pwc.com/pk

# Balance Sheet **2012**

## Balance Sheet as at December 31, 2012

	Note	2012 Rupees	2011 Rupees
<b>ASSETS</b>			
Cash and balances with SBP and NBP	6	482,695,280	232,404,452
Balances with other Banks/ NBFIs/ MFBs	7	792,784,243	817,280,992
Lending to financial institutions	8	590,014,893	1,138,028,622
Investments	9	1,043,516,062	944,757,075
Advances - net of provisions	10	5,717,031,631	4,167,113,455
Operating fixed assets	11	312,592,222	201,173,145
Other assets	12	888,289,322	650,726,216
Deferred tax asset	13	126,692,458	69,996,068
<b>Total Assets</b>		<b>9,953,616,111</b>	<b>8,221,480,025</b>
<b>LIABILITIES</b>			
Deposits	14	4,040,646,992	1,677,010,488
Borrowings	15	3,009,835,832	3,957,627,416
Other liabilities	16	414,105,182	221,062,240
<b>Total Liabilities</b>		<b>7,464,588,006</b>	<b>5,855,700,144</b>
<b>NET ASSETS</b>		<b>2,489,028,105</b>	<b>2,365,779,881</b>
<b>REPRESENTED BY:</b>			
Share capital	17	1,705,000,000	1,705,000,000
Statutory reserve	5.11	208,504,638	174,916,406
Capital reserve	5.12	24,255,224	24,255,224
Reserve for contingencies	18	8,385,353	28,385,353
Unappropriated profit		525,770,167	404,476,730
		2,471,915,382	2,337,033,713
Surplus on revaluation of assets	19	1,161,785	1,510,695
Deferred grants	20	15,950,938	27,235,473
<b>Total Capital</b>		<b>2,489,028,105</b>	<b>2,365,779,881</b>
<b>MEMORANDUM / OFF BALANCE SHEET ITEMS</b>	21		

The annexed notes from 1 to 41 form an integral part of these financial statements.



**PRESIDENT**



**CHAIRMAN**



**DIRECTOR**



**DIRECTOR**

# Profit and Loss Account 2012

## Profit and Loss Account for the year ended December 31, 2012

	Note	2012 Rupees	2011 Rupees
Mark-up/ return/ interest earned	22	1,499,355,808	1,308,321,715
Mark-up/ return/ interest expensed	23	353,449,395	285,787,879
Net mark-up/ interest income		1,145,906,413	1,022,533,836
Provision against non-performing loans and advances	10.4	284,731,315	173,765,436
Net mark-up/ interest income after provisions		861,175,098	848,768,400
<b>NON MARK-UP/ NON INTEREST INCOME</b>			
Fee, commission and brokerage income	24	245,820,437	192,949,378
Other income	25	339,503,588	183,472,724
Total non mark-up/ non interest income		585,324,025	376,422,102
		1,446,499,123	1,225,190,502
<b>NON MARK-UP/ NON INTEREST EXPENSES</b>			
Administrative expenses	26	1,320,129,789	1,119,949,265
Other provisions	12	2,680,709	7,049,459
Other charges	27	3,903,042	1,931,211
Total non-mark-up/ non interest expense		1,326,713,540	1,128,929,935
<b>PROFIT BEFORE TAXATION</b>		119,785,583	96,260,567
<b>TAXATION</b>			
Current		8,637,649	14,692,407
Deferred		(56,793,224)	(69,996,068)
	28	(48,155,575)	(55,303,661)
<b>PROFIT AFTER TAXATION</b>		167,941,158	151,564,228
Unappropriated profit brought forward		404,476,730	313,538,195
Profit available for appropriation		572,417,888	465,102,423
<b>APPROPRIATIONS:</b>			
<b>Transfer to:</b>			
Statutory reserve	5.11	33,588,232	30,312,846
Microfinance Social Development Fund	5.14	16,794,116	15,156,425
Depositors' Protection Fund	5.14	8,397,058	7,578,211
Risk Mitigation Fund	5.14	8,397,058	7,578,211
		67,176,464	60,625,693
<b>UNAPPROPRIATED PROFIT CARRIED FORWARD</b>		505,241,424	404,476,730
<b>EARNINGS PER SHARE</b>	32	0.79	0.71

The annexed notes from 1 to 41 form an integral part of these financial statements.



**PRESIDENT**



**CHAIRMAN**



**DIRECTOR**



**DIRECTOR**

# Statement of Comprehensive Income 2012

## Statement of Comprehensive Income for the year ended December 31, 2012

	2012 Rupees	2011 Rupees
Profit for the year	167,941,158	151,564,228
Other comprehensive income	-	-
Total comprehensive income for the year	<u>167,941,158</u>	<u>151,564,228</u>

Surplus / (deficit) on revaluation of available for sale investments is presented below equity in accordance with the format of financial statements as prescribed under BSD Circular No.11 dated December 30, 2003 issued by the State Bank of Pakistan.

The annexed notes from 1 to 41 form an integral part of these financial statements.

  
PRESIDENT

  
CHAIRMAN

  
DIRECTOR

  
DIRECTOR

# Cash Flow Statement

## 2012

### Cash Flow Statement for the year ended December 31, 2012

	Note	2012 Rupees	2011 Rupees
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit before taxation		119,785,583	96,260,567
Adjustments for:			
Depreciation and amortization		77,505,934	74,722,244
Amortization of deferred grant		(11,284,535)	(7,704,824)
Amortization of premium on investments held to maturity		-	7,830,325
Provision against non-performing advances		284,731,315	173,765,436
Gain on sale of operating fixed assets		(10,386,821)	(34,311,185)
Write-off of operating fixed assets		541,963	146,724
Interest on investments and deposit accounts		(209,381,656)	(216,469,004)
Indirect cost charged to USAID		(10,772,063)	(3,044,334)
Financial charges		353,449,395	285,787,879
Provision against other assets		2,680,709	7,049,459
Provision for gratuity		28,343,261	28,346,711
		<u>505,427,502</u>	<u>316,119,431</u>
		625,213,085	412,379,998
(Increase)/ decrease in operating assets			
Lending to financial institutions		548,013,729	(326,106,838)
Advances		(1,834,649,491)	(719,468,571)
Other assets (excluding advance taxation)		(246,121,926)	(19,315,184)
Increase/ (decrease) in operating liabilities			
Deposits and other accounts		2,363,636,504	676,681,863
Other liabilities		46,955,438	33,734,935
		<u>877,834,254</u>	<u>(354,473,795)</u>
Cash flow from operations		1,503,047,339	57,906,203
Interest received		220,428,061	199,568,086
Income taxes paid		(3,033,880)	(3,067,607)
Financial charges paid		(235,218,741)	(269,361,766)
Gratuity paid		(34,074,643)	(27,187,922)
		<u>(51,899,203)</u>	<u>(100,049,209)</u>
Net cash generated from/ (used in) operating activities		1,451,148,136	(42,143,006)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Investments/ (encashment) during the year - net		(98,482,320)	302,247,420
Purchase of operating fixed assets		(191,841,157)	(108,915,215)
Sale proceeds against fixed assets		12,761,004	35,902,973
Net cash (outflow)/ inflow from investing activities		(277,562,473)	229,235,178
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Repayments/ (borrowings) during the year - net		(947,791,584)	95,332,625
Grant from SBI SA Micro Savings		-	22,734,337
Net cash flow from financing activities		(947,791,584)	118,066,962
Net increase in cash and cash equivalents		225,794,079	305,159,134
Cash and cash equivalents at beginning of the year		1,049,685,444	744,526,310
<b>Cash and cash equivalents at end of the year</b>	<b>28</b>	<u>1,275,479,523</u>	<u>1,049,685,444</u>

The annexed notes from 1 to 41 form an integral part of these financial statements.



**PRESIDENT**



**CHAIRMAN**



**DIRECTOR**



**DIRECTOR**

## Statement of Changes in Equity for the year ended December 31, 2012

# Statement of Changes in Equity 2012

Note	Share Capital	Statutory Reserve	Capital Reserve	Reserve for Contingencies	Unappropriated Profit	Total
	Rupees					Rupees
Balance as at December 31, 2010	1,705,000,000	144,603,560	24,255,224	28,385,353	313,538,195	2,215,782,332
Profit for the year after taxation	-	-	-	-	151,564,228	151,564,228
Transfer to:						
Statutory Reserve	-	30,312,846	-	-	(30,312,846)	-
Microfinance Social Development Fund	-	-	-	-	(15,156,425)	(15,156,425)
Risk Mitigation Fund	-	-	-	-	(7,578,211)	(7,578,211)
Depositors' Protection Fund	-	-	-	-	(7,578,211)	(7,578,211)
Balance as at December 31, 2011	1,705,000,000	174,916,406	24,255,224	28,385,353	404,476,730	2,337,033,713
Profit for the year after taxation	-	-	-	-	167,941,158	167,941,158
Transferred from reserve for contingencies to unappropriated profit	-	-	-	(20,000,000)	20,000,000	-
Transfer to:						
Statutory Reserve	-	33,588,232	-	-	(33,588,232)	-
Microfinance Social Development Fund	-	-	-	-	(16,794,116)	(16,794,116)
Risk Mitigation Fund	-	-	-	-	(8,397,058)	(8,397,058)
Depositors' Protection Fund	-	-	-	-	(8,397,058)	(8,397,058)
Prior year tax impact on surplus on revaluation of assets	-	-	-	-	528,743	528,743
Balance as at December 31, 2012	1,705,000,000	208,504,638	24,255,224	8,385,353	525,770,167	2,471,915,382

  
PRESIDENT

  
CHAIRMAN

  
DIRECTOR

  
DIRECTOR

## Notes to the Financial Statements for the year ended December 31, 2012

### 1. STATUS AND NATURE OF BUSINESS

Khushhalibank (KB) came into existence with the promulgation of the Khushhalibank 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 to Financial 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 Khushhalibank Limited (the Bank) was incorporated as a public limited company with the 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 undertakings of KB into the Bank with effect from April 1, 2008, a microfinance institution licensed under the Microfinance Institutions Ordinance, 2001.

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

On June 4, 2012, a consortium led by United Bank Limited and comprising ASN-NOVIB Mikroredietfonds (Triple Jump B.V), Credit Suisse Microfinance Fund Management Company (ResponsAbility Global Microfinance Fund), Rural Impulse Fund II S.A. SICAV-FIS (Incofin Investment Management Comm.VA) and ShoreCap II Limited (Equator Capital Partners LLC) acquired 67.4% equity stake in KB 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 94-West Jinnah Avenue, Blue Area, Islamabad. The Bank had 106 branches in operation as at December 31, 2012 (December 31, 2011: 109 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 30, 2003. Additional disclosures have been presented in compliance with Microfinance Consensus Guidelines issued by Consultative Group to Assist the Poor (CGAP) July, 2003.

### 3. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the 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 (IFRSs) issued by the International Accounting Standard Board (IASB) as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984, and Microfinance Institutions Ordinance, 2001 or directives issued by SECP and the SBP. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984, Microfinance Institutions Ordinance, 2001 or the requirements of the directives issued by SECP and the SBP shall prevail.

SBP has clarified that International Accounting Standard 39, "Financial Instruments: Recognition and

# Notes to the Financial Statements 2012

Measurement” and International Accounting Standard 40, “Investment Property” are not applicable to the Bank. Accordingly, the requirements of these Standards have not been considered in the preparation of these financial statements.

## 3.1 New and amended standards and interpretations

- (a) New and amended standards adopted during the year by the Bank

The Bank has adopted following IAS which became effective during the year, however the adoption of this amended standard did not have any material effect on the financial statements.

	<b>Effective date (annual periods beginning on)</b>
IAS 12 - Income taxes	January 1, 2012

- (b) New standards, amendments and interpretations issued but effective for the financial year beginning after January 1, 2012 and not early adopted.

<b>Standard or Interpretation</b>	<b>Effective date (annual periods beginning on or after)</b>
IFRS 7 Financial Instruments: Disclosures	January 1, 2013
IFRS 9 Financial Instruments	January 1, 2015
IFRS 10 Consolidated Financial Statements	January 1, 2013 and January 1, 2014
IFRS 11 Joint Arrangements	January 1, 2013
IFRS 12 Disclosure of Interest in Other Entities	January 1, 2013 and January 1, 2014
IFRS 13 Fair value measurement	January 1, 2013
IAS 1 Presentation of Financial Statements	July 1, 2012 and January 1, 2013
IAS 16 Property, Plant and Equipment	January 1, 2013
IAS 19 Employee benefits (Revised)	January 1, 2013
IAS 27 Separate financial statements (Revised)	January 1, 2013 and January 1, 2014
IAS 28 Investments in associates and joint ventures (Revised)	January 1, 2013
IAS 32 Financial Instruments: Presentation	January 1, 2013 and January 1, 2014
IAS 34 Interim Financial Reporting	January 1, 2013

The management anticipates that, except for the effects on the financial statements of amendments to IAS 19 “Employee Benefits”, the adaption of the above standards, amendments and interpretations in future periods, will have no material impact on the Bank’s financial statements. The amendments to IAS 19 require immediate recognition of actuarial gains / losses in other comprehensive income in the period in which they arise. This change will remove the corridor method for recognition of actuarial gains/losses and eliminate the ability for entities to recognize all changes in defined obligation and plan assets in profit and loss account. Following this change, accumulated gain/ (loss) will be recognised immediately in other comprehensive income. Unrecognized actuarial gain as at December 31, 2012 was Rs 7,863,198.

## 4. BASIS OF MEASUREMENT

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

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 5.1 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.

## 5.2 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.

## 5.3 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:

#### 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.

#### 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" 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 amortised 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 or loss over the remaining life of the investment using the effective interest method and if the investment does not have a fixed maturity, the gain or loss previously recognized in "surplus / (deficit) on revaluation of assets" is recognized in profit and loss when the investment is sold or disposed off.

#### 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.

## 5.4 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)

# Notes to the Financial Statements 2012

- Advances in arrears for 30 days or more but less than 60 days.
- b) Substandard**  
Advances in arrears for 60 days or more but less than 90 days.
- c) Doubtful**  
Advances in arrears for 90 days or more but less than 180 days.
- d) Loss**  
Advances 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.

## 5.5 Operating fixed assets

### Capital work in progress

These are stated at cost less impairment loss (if any).

### 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 11.2 to the financial statements, so as to write off the cost of assets over their estimated useful lives. Depreciation is charged on additions and deletions based on number of months the assets are available for use.

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

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 11.3.1 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.

## 5.6 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.

## 5.7 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.

## 5.8 Current and deferred income tax

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.

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 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 offset when there is a legally enforceable right to offset current tax assets against current tax liabilities where there is an intention to settle the balances on a net basis.

## 5.9 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 service as specified by the employee rules. Provision is made annually to cover obligations under the scheme in accordance with the actuarial recommendations. Relevant details are given in note 16.1 to the financial statements.

# Notes to the Financial Statements 2012

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

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

## 5.10 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.

## 5.11 Statutory reserve

In compliance with the requirements of Regulation 7, 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.

## 5.12 Capital reserve

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

## 5.13 Reserve for contingencies

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

## 5.14 Contributions

In compliance with the requirements of Regulation 8, the Bank contributes towards the following funds held by SBP;

Microfinance Social Development Fund: 10% of the profit after tax

Depositor's Protection Fund: 5% of the profit after tax

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

## 5.15 Cash reserve

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.

## 5.16 Statutory liquidity requirement

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

## 5.17 Grants

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

Grants that compensate the Bank for the cost of an asset are 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.

## 5.18 Revenue recognition

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

Mark-up/ return on investments is recognised on time proportion basis using effective interest method. Where debt securities are purchased at premium or discount, those premiums/ discounts are amortised 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.

## 5.19 Borrowing costs

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

## 5.20 Leases

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

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

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

## 5.21 Financial instruments

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

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

### 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.

### Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangement entered into.

# Notes to the Financial Statements 2012

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.

## 5.22 Impairment - Financial Assets

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

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original interest rate.

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

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

## 5.23 Off-setting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

## 5.24 Foreign currency translation

### (a) Functional and presentation currency

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

### (b) Transactions and balances

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

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

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

## 5.25 Provisions

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and

the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

## 5.26 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.

## 5.27 Critical accounting estimates and judgments

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

### a) Operating fixed assets

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

### b) Provision for income taxes

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

### c) Staff retirement benefits

Actuarial valuation of gratuity contributions requires use of certain assumptions related to future periods including increase in remuneration, expected long term return on plan assets and the discount rate used to convert future cash flows to current values. Actuarial gains and losses arising from changes in actuarial assumptions in excess of the corridor limit as defined in IAS 19 are taken in the profit and loss account over the expected average remaining service life of employees.

### d) Classification of investments

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

### e) Provision against advances

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

# Notes to the Financial Statements 2012

	Note	2012 Rupees	2011 Rupees
<b>6. CASH AND BALANCES WITH SBP AND NBP</b>			
Cash in hand			
Local currency		330,400,374	148,030,385
Balances with State Bank of Pakistan (SBP) in:			
Local currency current accounts	6.1	149,504,618	82,254,869
Balances with National Bank of Pakistan (NBP) in:			
Local currency current accounts		1,282,266	1,337,172
Local currency deposit accounts	6.2	1,508,022	782,026
		2,790,288	2,119,198
		<u>482,695,280</u>	<u>232,404,452</u>

**6.1** This represents balance maintained with SBP to meet the requirement of maintaining minimum balance equivalent to 5% (2011: 5%) of the Bank's time and demand deposits in accordance with regulation 6A of the Regulations.

**6.2** This represents balances held in savings accounts carrying interest at the rate of 6% (2011: 5%) per annum.

	Note	2012 Rupees	2011 Rupees
<b>7. BALANCES WITH OTHER BANKS/ NBFIs/ MFBS</b>			
In Pakistan			
Local currency current accounts		289,945,166	338,649,337
Local currency deposit accounts	7.1	502,839,077	478,631,655
		<u>792,784,243</u>	<u>817,280,992</u>

**7.1** This represents balances held in savings accounts carrying interest at rate ranging from 6 % to 8.5% (2011:5% to 11%) per annum and Term Deposit Receipts (TDRs) amounting to Rs. 200 million (2011:Rs. 300 million) carrying interest at the rate of 9.65% (2011:12.45%) per annum. These TDRs are due to mature on January 18, 2013 (2011: January 23, 2012).

	Note	2012 Rupees	2011 Rupees
<b>8. LENDING TO FINANCIAL INSTITUTIONS</b>			
Repurchase agreement lending (reverse repo)	8.1	590,014,893	1,138,028,622
Clean lending	8.2	100,000,000	100,000,000
Less: Provision for impairment		100,000,000	100,000,000
		-	-
		<u>590,014,893</u>	<u>1,138,028,622</u>

**8.1** This represents reverse repo carrying interest at rates ranging from 6.5% to 9.2% ( 2011: 11.45% to 11.80%) per annum maturing by January 4, 2013 (2011: by January 12, 2012).

# Notes to the Financial Statements 2012

## 8.1.1 Securities held as collateral against lending to financial institutions - reverse repo

	2012			2011		
	Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
	Rupees			Rupees		
Market Treasury Bills ( T-Bills)	609,000,000	-	609,000,000	1,211,000,000	-	1,211,000,000

8.2 This represents amount placed with Innovative Investment Bank Limited - IIBL (formerly Innovative Housing Finance Limited (IHFL) and Crescent Standard Investment Bank Limited). The amount was initially given as a clean lending and then rolled over on maturity dates due to liquidity problems of IIBL. On June 30, 2007, the Bank entered into an agreement with IIBL under which the principal amount was restructured for a period of seven years, with two years grace period, from the date of the agreement. Pursuant to the agreement, the principal was repayable by IIBL in 10 equal biannual installments, starting from December 31, 2009. IIBL was also required to pay markup on quarterly basis at the rate of 5% per annum calculated on the outstanding principal after the expiry of the grace period. On the due date of the first installment, IIBL defaulted its payment due to liquidity problems. IIBL was 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). Decision of LHC on this issue is still pending. The Bank is carrying full provision against this on the advice of SBP.

	Note	2012 Rupees	2011 Rupees
<b>9. INVESTMENTS</b>			
<b>Federal Government securities</b>			
<b>Available for sale securities</b>			
Market Treasury Bills (T-Bills)	9.1	1,041,728,700	943,246,380
Surplus on revaluation of available for sale securities	9.2	1,787,362	1,510,695
		<u>1,043,516,062</u>	<u>944,757,075</u>

9.1 This represents T-Bills ranging from 84 days to 364 days (2011: 84 days to 364 days) carrying interest at rates ranging from 9.13% to 11.59% (2011: 11.76% to 13.64%) per annum. T-Bills amounting to Rs Nil (2011: Rs. 413 million) are given as collateral against borrowings.

9.2 In accordance with Regulation 12 C, 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 assets' and is shown below the shareholders' equity in the balance sheet.

## 10. ADVANCES - NET OF PROVISIONS

Loan type	Note	2012		2011	
		Loans outstanding Number	Amount outstanding Rupees	Loans outstanding Number	Amount outstanding Rupees
Micro credit					
Secured		8,642	671,892,456	-	-
Unsecured	10.1	355,496	5,133,683,086	352,962	4,273,802,377
		364,138	5,805,575,542	352,962	4,273,802,377
Less: Provisions held					
Specific provision		5,424	(17,223,387)	6,589	(21,718,887)
General provision	10.2	354,305	(71,320,524)	335,425	(84,970,035)
			(88,543,911)		(106,688,922)
Advances - net of provisions			<u>5,717,031,631</u>		<u>4,167,113,455</u>

# Notes to the Financial Statements 2012

**10.1** This includes rescheduled micro credit advances having aggregate amount of Rs. 18.45 million (2011: Rs 85.69 million) related to branches affected from flood/ rain.

**10.2** General provision is maintained at the rate of 1% of unsecured micro credit net of specific provision. General provision also includes provision amounting to Rs 20 million ( 2011: Rs 42.44 million) against rain affected loan portfolio to prudently manage credit risk related to micro credit of flood and rain affected branches.

### 10.3 Particulars of non-performing advances

Advances include Rs. 63.79 million (2011: Rs. 104.29 million) which, as detailed below, have been placed under non-performing status

Category of classification	2012			2011		
	Amount outstanding	Provisions required	Provisions held	Amount outstanding	Provisions required	Provisions held
	Rupees			Rupees		
OAEM	32,590,100	-	-	55,569,665	-	-
Sub-standard	10,849,525	2,712,381	2,712,381	26,539,588	6,634,897	6,634,897
Doubtful	11,675,339	5,837,669	5,837,669	14,291,850	7,145,925	7,145,925
Loss	8,673,337	8,673,337	8,673,337	93,586,433	93,586,433	93,586,433
	8,673,337	17,223,387	17,223,387	189,987,536	107,367,255	107,367,255
Rescheduled loans	-	-	-	(85,693,868)	(85,648,368)	(85,648,368)
<b>Total</b>	<b>63,788,301</b>	<b>17,223,387</b>	<b>17,223,387</b>	<b>104,293,668</b>	<b>21,718,887</b>	<b>21,718,887</b>

### 10.4 Particulars of provisions against non-performing advances

	2012			2011		
	Specific	General	Total	Specific	General	Total
	Rupees			Rupees		
Balance at beginning of the year	21,718,887	84,970,035	106,688,922	28,004,701	72,737,776	100,742,477
Provision charge for the year	298,380,826	(13,649,511)	284,731,315	161,533,177	12,232,259	173,765,436
Advances written off against provision	(302,876,326)	-	(302,876,326)	(167,818,991)	-	(167,818,991)
Balance at end of the year	17,223,387	71,320,524	88,543,911	21,718,887	84,970,035	106,688,922

### 10.5 Particulars of write offs

	2012 Rupees	2011 Rupees
Against provisions		
Related to rescheduled advances	124,567,731	11,283,750
Related to other classified advances	178,308,595	156,535,241
	<u>302,876,326</u>	<u>167,818,991</u>

### 10.6 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 is divided by the outstanding principal balance of the gross loan portfolio before deducting allowance for non-performing advances. Loans are considered overdue if any payment has fallen due and remained unpaid. Loans payment are applied first to any interest due, then to any installment of principal that is due but unpaid, beginning with the earliest such installment. The number of days of delay is based on the due date of the earliest loan installment that has not been fully paid. Late payment surcharge/ penalty on overdue advances is not added to principal.

# Notes to the Financial Statements 2012

Normal Loans	2012		2011	
	Amount Rupees	Portfolio at Risk	Amount Rupees	Portfolio at Risk
Current	5,689,957,819	0.00%	4,021,284,235	0.00%
1 - 29 days late	36,332,706	0.63%	62,530,606	1.46%
30 - 59 days late	30,683,010	0.53%	55,569,665	1.30%
60 - 89 days late	10,157,244	0.17%	26,539,588	0.62%
90 - 179 days late	11,334,161	0.20%	14,200,850	0.33%
More than 179 days late	8,663,337	0.15%	7,983,565	0.19%
	<u>5,787,128,277</u>	<u>1.68%</u>	<u>4,188,108,509</u>	<u>3.90%</u>
<b>Rescheduled Loans</b>				
Current	11,068,052	0.00%	-	-
1 - 29 days late	4,428,664	0.08%	-	0.00%
30 - 59 days late	1,907,082	0.03%	-	0.00%
60 - 89 days late	692,289	0.01%	-	0.00%
90 - 179 days late	341,178	0.01%	91,000	0.00%
More than 179 days late	10,000	0.00%	85,602,868	2.00%
	<u>18,447,265</u>	<u>0.13%</u>	<u>85,693,868</u>	<u>2.00%</u>
<b>Total</b>	<u>5,805,575,542</u>	<u>1.81%</u>	<u>4,273,802,377</u>	<u>5.91%</u>

## 10.7 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.

Period	Current Recovery Ratio	
	2012	2011
1st quarter	122.1%	110.5%
2nd quarter	121.8%	128.8%
3rd quarter	158.8%	126.2%
4th quarter	141.6%	135.9%
	<u>136.1%</u>	<u>125.4%</u>

Annual loss rate for the year is 0% (2011: 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

# Notes to the Financial Statements 2012

## 10.8 Loan loss allowance

	2012				2011			
	Outstanding loan portfolio (principal)		Allowance for loan loss		Outstanding loan portfolio (principal)		Allowance for loan loss	
Normal loans	Share of total	Rupees	Share of total	Rupees	Share of total	Rupees	Share of total	Rupees
Current	98.0%	5,689,957,819	-	-	94.1%	4,021,284,235	-	-
1 - 29 days late	0.6%	36,332,706	-	-	1.5%	62,530,606	-	-
30 - 59 days late	0.5%	30,683,010	-	-	1.3%	55,569,665	-	-
60 - 89 days late	0.2%	10,157,244	14.7%	2,539,308	0.6%	26,539,588	30.5%	6,634,897
90 - 179 days late	0.2%	11,334,161	32.9%	5,667,080	0.3%	14,200,850	32.7%	7,100,425
More than 179 days late	0.2%	8,663,337	50.3%	8,663,337	0.2%	7,983,565	36.8%	7,983,565
<b>Rescheduled loans</b>								
Current	0.2%	11,068,052	-	-	0.0%	-	-	-
1 - 29 days late	0.1%	4,428,664	-	-	0.0%	-	-	-
30 - 59 days late	0.0%	1,907,082	-	-	0.0%	-	-	-
60 - 89 days late	0.0%	692,289	1.0%	173,073	0.0%	-	-	-
90 - 179 days late	0.0%	341,178	1.0%	170,589	0.0%	91,000	-	-
More than 179 days late	0.0%	10,000	0.1%	10,000	2.0%	85,602,868	-	-
	100%	5,805,575,542	100%	17,223,387	100%	4,273,802,377	100%	21,718,887

## 11. OPERATING FIXED ASSETS

	Note	2012 Rupees	2011 Rupees
Capital work-in-progress	11.1	13,150,924	3,678,476
Property and equipment	11.2	233,472,549	174,444,923
Intangible assets	11.3	65,968,749	23,049,746
		<u>312,592,222</u>	<u>201,173,145</u>

### 11.1 Capital work-in-progress

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

### 11.2 Property and equipment

	Furniture and fixtures	Electrical and office equipment	Computer equipment	Vehicles	Total
<b>Cost</b>	<b>Rupees</b>				
Balance as at January 1, 2011	107,919,646	118,125,097	121,043,582	233,985,415	581,073,740
Additions	17,478,314	26,442,377	33,304,094	602,617	77,827,402
Disposals	(3,223,329)	(5,434,332)	(5,831,147)	(53,226,200)	(67,715,008)
Write-off	(192,821)	-	(3,930,666)	-	(4,123,487)
Balance as at December 31, 2011	<u>121,981,810</u>	<u>139,133,142</u>	<u>144,585,863</u>	<u>181,361,832</u>	<u>587,062,647</u>
Balance as at January 1, 2012	121,981,810	139,133,142	144,585,863	181,361,832	587,062,647
Additions	36,852,950	47,738,358	38,635,801	5,524,210	128,751,319
Disposals	(2,624,168)	(741,693)	(5,656,490)	(14,255,434)	(23,277,785)
Write-off	(900,998)	(1,063,206)	-	-	(1,964,204)
Balance as at December 31, 2012	<u>155,309,594</u>	<u>185,066,601</u>	<u>177,565,174</u>	<u>172,630,608</u>	<u>690,571,977</u>
<b>Depreciation</b>					
Balance as at January 1, 2011	38,115,562	69,907,111	84,315,101	226,761,002	419,098,776
Depreciation charge	11,403,004	18,264,816	28,296,926	5,654,185	63,618,931
Disposals	(1,718,999)	(5,364,400)	(5,831,041)	(53,208,780)	(66,123,220)
Write-off	(46,221)	-	(3,930,544)	-	(3,976,763)
Balance as at December 31, 2011	<u>47,753,346</u>	<u>82,807,527</u>	<u>102,850,444</u>	<u>179,206,407</u>	<u>412,617,724</u>
Balance as at January 1, 2012	47,753,346	82,807,527	102,850,444	179,206,407	412,617,724
Depreciation charge	13,447,760	22,822,958	27,943,604	2,593,225	66,807,547
Disposals	(1,350,663)	(716,865)	(5,656,332)	(13,179,742)	(20,903,602)
Write-off	(460,850)	(961,391)	-	-	(1,422,241)
Balance as at December 31, 2012	<u>59,389,593</u>	<u>103,952,229</u>	<u>125,137,716</u>	<u>168,619,890</u>	<u>457,099,428</u>
<b>Carrying value</b>					
2011	74,228,464	56,325,615	41,735,419	2,155,425	174,444,923
2012	<u>95,920,001</u>	<u>81,114,372</u>	<u>52,427,458</u>	<u>4,010,718</u>	<u>233,472,549</u>
<b>Rates of depreciation per annum</b>	10.00%	20.00%	33.33%	25.00%	

## Notes to the Financial Statements 2012

- 11.2.1** Cost for the assets as at December 31, 2012 includes Rs. 109.70 million (2011: Rs. 127.45 million) in respect of assets acquired from grant received.
- 11.2.2** The cost of fully depreciated property and equipment that are still in use is Rs. 318.32 million (2011: Rs. 264.58 million).
- 11.2.3** 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
	Rupees				
Toyota Hiace 2.5L	1,991,000	-	1,761,905	Auction	Muhammad Maqsood
Toyota Corolla XLI 1299cc	1,290,802	1,075,669	1,370,000	Auction	Shabana Naz Mirza

11.3 Intangible assets	2012 Rupees	2011 Rupees
<b>Computer software</b>		
<b>Cost</b>		
Balance at beginning of the year	51,102,766	23,693,429
Additions	53,617,390	27,409,337
Disposals	-	-
Balance at end of the year	104,720,156	51,102,766
<b>Amortization</b>		
Balance at beginning of the year	(28,053,020)	(16,949,707)
Amortization charge	(10,698,387)	(11,103,313)
Disposals	-	-
Balance at end of the year	(38,751,407)	(28,053,020)
<b>Carrying amount</b>	<b>65,968,749</b>	<b>23,049,746</b>

- 11.3.1** Amortization is charged on straight line basis @ 33.33 % per annum, starting from the month the asset is available for use.
- 11.3.2** Cost of the intangibles as at December 31, 2012 includes Rs. 25.48 million (2011: Rs 25.48 million) in respect of assets acquired from grant received.
- 11.3.3** The cost of fully amortized intangible assets that are still in use is Rs. 25.27 million (2011: Rs.12.97 million)

# Notes to the Financial Statements 2012

	2012 Rupees	2011 Rupees
<b>12. OTHER ASSETS</b>		
Mark-up accrued	498,559,503	400,320,112
Suspended markup on non-performing advances	(11,267,306)	(21,264,600)
	<u>487,292,197</u>	<u>379,055,512</u>
Interest receivable on investments and bank deposits	26,104,681	37,151,086
Loans and advances - unsecured, considered good		
- Employees	73,979,206	61,045,537
- Suppliers	1,859,990	640,000
	75,839,196	61,685,537
Deposits	1,951,240	2,273,645
Prepayments	70,840,543	57,948,022
Advance taxation - net	6,730,818	12,334,587
Receivable from USAID	10,443,555	5,229,783
Receivable from Microfinance Social Development Fund	193,581,856	85,363,050
Insurance claims receivable	6,535,046	7,325,623
Receivable from SBP	-	742,537
Sales tax / federal excise duty	6,592,178	-
Other receivables	12,167,294	9,710,727
	<u>898,078,604</u>	<u>658,820,109</u>
Provisions against doubtful receivables		
Balance at the beginning of the year	8,093,893	1,043,633
Provision charge for the year	2,680,709	7,049,459
Receivables written off / adjustment against provision	(985,320)	801
Balance at the end of the year	9,789,282	8,093,893
	<u>888,289,322</u>	<u>650,726,216</u>

	2012 Rupees	2011 Rupees
<b>13. DEFERRED TAX ASSET</b>		
Deferred tax assets arising on account of temporary differences in:		
Operating fixed assets	18,356,520	1,016,551
Provision against advances and other assets	34,416,617	34,508,260
Provision against lendings to financial institutions	35,000,000	35,000,000
Unused tax credits	39,544,898	-
	<u>127,318,035</u>	<u>70,524,811</u>
Deferred tax liability arising on account of temporary differences in:		
Surplus on revaluation of assets	(625,577)	(528,743)
	<u>126,692,458</u>	<u>69,996,068</u>

# Notes to the Financial Statements 2012

	2012 Rupees	2011 Rupees
<b>13.1 Reconciliation of deferred tax</b>		
Balance at the beginning of the year	69,996,068	-
Charge/ (reversal) for the year in respect of:		
Operating fixed assets	17,339,969	1,016,551
Provision against advances and other assets	(91,643)	34,508,260
Provision against lendings to financial institutions	-	35,000,000
Unused tax credits	39,544,898	-
Charge to profit and loss account	56,793,224	70,524,811
Charge to equity	(96,834)	(528,743)
Balance at the end of the year	<u>126,692,458</u>	<u>69,996,068</u>

**13.2** 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 minimum tax paid in prior years.

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.

14. DEPOSITS	Note	2012		2011	
		No of Accounts	Amount Rupees	No of Accounts	Amount Rupees
Fixed deposits	14.2	2,089	1,589,697,100	1,152	435,154,839
Saving deposits	14.3	7,831	758,618,217	1,170	146,878,366
Current deposits		448,692	1,692,331,675	298,917	1,094,977,283
		<u>458,612</u>	<u>4,040,646,992</u>	<u>301,239</u>	<u>1,677,010,488</u>
<b>14.1 Particulars of deposits by ownership</b>					
Individual depositors		457,617	3,041,945,911	300,762	1,564,193,591
Institutional depositors					
Corporation/firms		989	696,408,536	477	112,816,897
Banks/financial institutions		6	302,292,545	-	-
		<u>458,612</u>	<u>4,040,646,992</u>	<u>301,239</u>	<u>1,677,010,488</u>

**14.2** This represents term deposits having tenure of 1 to 36 months (2011: 1 to 12 months) carrying interest at rates ranging from 6.00% to 14.00% (2011: 6.00% to 13.10%) per annum.

**14.3** This represents savings accounts carrying interest at rates ranging from 6.00% to 10.00% (2011: 5.00% to 8.00%) per annum.

15. BORROWINGS	Note	2012 Rupees	2011 Rupees
<b>Unsecured</b>			
Borrowing from financial institutions outside Pakistan	15.1	2,909,835,832	3,273,565,312
<b>Secured</b>			
Borrowings from financial institutions in Pakistan	15.2	100,000,000	684,062,104
		<u>3,009,835,832</u>	<u>3,957,627,416</u>

# Notes to the Financial Statements 2012

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

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

The interest is being paid on bi-annual basis charged at the rate equal to weighted average cost of deposits during the preceding six months in the banking industry as calculated by SBP. The interests rates used for the bi-annual payment during the year were determined to be 6.29% and 6.47% (2011: 6.07% and 6.42%) per annum.

<b>15.2 Borrowings from financial institutions in Pakistan:</b>	<b>Note</b>	<b>2012 Rupees</b>	<b>2011 Rupees</b>
Soneri Bank Term Finance 1	15.2.1	-	100,000,000
Soneri Bank Term Finance 2	15.2.2	100,000,000	100,000,000
Borrowing from Pakistan Poverty Alleviation Fund (PPAF)	15.2.3	-	184,052,844
Borrowing under repurchase agreements (Repo borrowings)	15.2.4	-	300,009,260
		<u>100,000,000</u>	<u>684,062,104</u>

**15.2.1** This represented interbank money market borrowing carrying interest at the rate of 15.16% to 15.24% per annum and was repaid in January 2012.

**15.2.2** This represents interbank money market borrowing for three years carrying interest at rates ranging from 13.70% to 13.75% (2011: 15.07%) per annum and is repayable in four equal installments in the years 2013 and 2014. This borrowing is secured against 40% partial Micro Credit Guarantee Facility (MCGF) by SBP, charge over current assets of Rs 100 million and an undertaking to utilize funds for microfinance activities.

**15.2.3** This represented loan from PPAF carrying interest at the rate of 13.72% per annum and was repaid in October 2012.

**15.2.4** This represented repo borrowings from Habib Bank Limited carrying interest rate of 11.95% per annum and was repaid in January 2012.

<b>15.3 Quarterly average borrowing</b>	<b>2012 Rupees</b>	<b>2011 Rupees</b>
Analysis of monthly average borrowings for the four quarters:		
1st Quarter	4,007,895,710	3,841,461,459
2nd Quarter	3,866,772,270	3,746,362,422
3rd Quarter	3,525,566,976	3,667,051,694
4th Quarter	3,192,794,624	3,798,722,128
<b>15.4 Loan repayment schedule</b>		
Loan principal at year end	3,009,835,832	3,957,627,416
Average during the year (quarterly)	3,648,257,395	3,763,399,426
Interest expense for the year	249,992,291	257,510,883

# Notes to the Financial Statements 2012

16. OTHER LIABILITIES	Note	2012 Rupees	2011 Rupees
Interest payable on borrowings		135,242,933	52,358,331
Interest payable on deposits		52,951,999	17,605,947
Accrued expenses		46,351,777	34,024,189
Bills payable		27,758,462	31,406,194
(Receivable)/ payable to defined benefit plan - gratuity	16.1	(1,273,201)	4,458,181
Contribution payable			
Microfinance Social Development Fund		16,794,116	15,156,425
Risk Mitigation Fund		8,397,058	7,578,211
Depositors' Protection Fund		8,397,058	7,578,211
Taxes payable		-	10,133,873
Payable to service providers		7,759,700	4,906,000
Payable to suppliers		81,915,525	6,955,856
Provision for Workers Welfare Fund		8,083,692	5,687,980
Withholding tax payable		131,279	86,692
Other payables		21,594,784	23,126,150
		<u>414,105,182</u>	<u>221,062,240</u>

16.1 Payable to defined benefit plan - gratuity	2012 Rupees	2011 Rupees
Disclosures related to Employees Gratuity Fund are given below:		
i) Amounts recognised in the balance sheet		
Present value of defined benefit obligations	162,305,721	138,970,494
Fair value of plan assets	(171,442,120)	(146,576,414)
Surplus	(9,136,399)	(7,605,920)
Unrecognized actuarial gain	7,863,198	12,064,101
Net (asset)/ liability	<u>(1,273,201)</u>	<u>4,458,181</u>
ii) Amounts recognized in the profit and loss account		
Current service cost	29,294,001	28,378,947
Interest cost	17,371,312	15,452,984
Expected return on plan assets	(18,322,052)	(15,485,220)
	<u>28,343,261</u>	<u>28,346,711</u>
iii) Changes in present value of defined benefit obligation		
Opening defined benefit obligation	138,970,494	118,869,107
Current service cost	29,294,001	28,378,947
Interest cost	17,371,312	15,452,984
Benefits paid during the year	(27,537,893)	(17,126,297)
Actuarial gain/ (loss)	4,207,807	(6,604,247)
Closing defined benefit obligation	<u>162,305,721</u>	<u>138,970,494</u>

# Notes to the Financial Statements 2012

iv) Changes in fair value of plan assets

Opening fair value of plan assets	46,576,414	119,117,075
Expected return on plan assets	18,322,052	15,485,220
Contributions paid during the year	34,074,643	27,187,922
Benefit paid during the year	(27,537,893)	(17,126,297)
Actuarial gain on plan assets	6,904	1,912,494
Closing fair value of plan assets	<u>171,442,120</u>	<u>146,576,414</u>

v) Actual return on plan assets

Expected return on plan assets	18,322,052	15,485,220
Actuarial gain on plan assets	6,904	1,912,494
Actual return on plan assets	<u>18,328,956</u>	<u>17,397,714</u>

vi) Major categories of plan assets

Investments in T-Bills	116,816,470	138,729,100
Accrued interest	3,417,290	7,720,756
Cash at bank	51,208,360	126,558
	<u>171,442,120</u>	<u>146,576,414</u>

vii) The latest actuarial valuation was carried out as at December 31, 2012. The significant assumptions used for actuarial valuation are as follows:

	2012	2011
Discount rate - per annum	11.0%	12.5%
Expected rate of return on plan assets - per annum	12.5%	13.0%
Expected rate of increase in salaries - per annum	10.0%	11.5%
Mortality rate	EFU 1961-66	EFU 1961-66
Average expected remaining working life of employees	11 years	11 years

viii) The expected rate of return on plan assets is based on current yield on investment in corporate bonds.

ix) Amounts for the current and previous years:

	2012	2011	2010	2009	2008
	<b>Rupees</b>				
Present value of defined benefit obligation	(162,305,721)	(138,970,494)	(118,869,107)	(95,792,693)	(71,494,772)
Fair value of plan assets	171,442,120	146,576,414	119,117,075	92,704,801	66,681,152
Surplus	<u>9,136,399</u>	<u>7,605,920</u>	<u>247,968</u>	<u>(3,087,892)</u>	<u>(4,813,620)</u>
Experience adjustments on plan liabilities	4,207,807	(6,604,247)	(3,070,390)	(4,250,442)	(77,052)
Experience adjustments on plan assets	6,904	1,912,494	1,266,198	(431,898)	138,770

x) Expected contribution of the Bank to the defined benefit gratuity fund for the year ending December 31, 2013 will be Rs 31.6 million.

# Notes to the Financial Statements 2012

## 17. SHARE CAPITAL

### 17.1 Authorized Capital

2012 Number	2011 Number	Note	2012 Rupees	2011 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>

### 17.2 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	17.2.1 <u>1,705,000,000</u>	<u>1,705,000,000</u>
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### 17.2.1 The shareholders of the Bank are as follows

	2011 Rupees	2010 Rupees
United Bank Limited	506,285,280	200,000,000
Rural Impulse Fund II S.A. SICAV-FIS	298,496,310	-
ShoreCap II Limited	243,568,080	-
ASN-NOVIB Microkredietfonds	168,795,020	-
Credit Suisse Microfinance Fund Management Company	132,855,310	-
Habib Bank Limited	300,000,000	300,000,000
Bank Al Habib Limited	30,000,000	30,000,000
Soneri Bank Limited	25,000,000	25,000,000
National Bank of Pakistan	-	400,000,000
MCB Bank Limited	-	300,000,000
Allied Bank Limited	-	200,000,000
Standard Chartered Bank (Pakistan) Limited	-	80,000,000
Askari Bank Limited	-	50,000,000
Citibank N.A	-	50,000,000
Habib Metropolitan Bank Limited	-	25,000,000
Faysal Bank Limited	-	15,000,000
KASB Bank Limited	-	10,000,000
Silk Bank Limited	-	10,000,000
Summit Bank	-	10,000,000
	<u>1,705,000,000</u>	<u>1,705,000,000</u>

## 18. RESERVE FOR CONTINGENCIES

Purpose of this reserve is described in note 5.13 to these financial statements. An amount of Rs 20 million has been transferred during the year from Reserve for contingencies to unappropriated profit related to provision against rain affected portfolio of advances.

## 19. SURPLUS ON REVALUATION OF ASSETS

### Federal Government securities

	2012 Rupees	2011 Rupees
Surplus on revaluation of available for sale securities	1,787,362	1,510,695
Deferred tax on surplus	(625,577)	-
	<u>1,161,785</u>	<u>1,510,695</u>

19.1 Deferred tax on surplus at December 31, 2012 includes Rs 528,742 in respect of tax effect on surplus balance as at December 31, 2011.

# Notes to the Financial Statements 2012

20.	DEFERRED GRANTS	Note	2012 Rupees	2011 Rupees
	Grant from GoP	20.1	251,589,232	251,589,232
	Accumulated amortization			
	At the beginning of year		(250,558,812)	(249,893,122)
	Amortization for the year		(364,383)	(665,690)
	At the end of the year		<u>(250,923,195)</u>	<u>(250,558,812)</u>
			666,037	1,030,420
	Grant from USAID	20.2	98,374,901	98,374,901
	Accumulated amortization			
	At the beginning of year		(94,114,690)	(90,615,051)
	Amortization for the year		(2,425,364)	(3,499,639)
	At the end of the year		<u>(96,540,054)</u>	<u>(94,114,690)</u>
			1,834,847	4,260,211
	Grant from Shore Bank International	20.3	25,484,337	25,484,337
	Accumulated amortization			
	At the beginning of year		(3,539,495)	-
	Amortization for the year		(8,494,788)	(3,539,495)
	At the end of the year		<u>(12,034,283)</u>	<u>(3,539,495)</u>
			13,450,054	21,944,842
			<u>15,950,938</u>	<u>27,235,473</u>

**20.1** 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.

**20.2** This represents grant received from USAID on September 30, 2003 under the program "developing non-bankable territories for financial services".

**20.3** On September 24, 2010 the Bank entered into a two year grant agreement with Shore Bank International (SBI) to improve the capacity of the Bank for delivering saving products more effectively, profitably and at an enhanced scale. SBI provided financial assistance of USD 300 thousands in the form of grant to the Bank, in order to procure and implement an interim banking application named Bank Essential (BE).

## 21. MEMORANDUM/ OFF BALANCE SHEET ITEMS

### 21.1 CONTIGENCIES:

There are no material known contingencies as at year end.

### 21.2 COMMITMENTS:

	2012 Rupees	2011 Rupees
Capital expenditure	18,964,903	11,565,810
Advances to customers, sanctioned but not yet disburse	30,267,200	-
	<u>49,232,103</u>	<u>11,565,810</u>

# Notes to the Financial Statements 2012

	Note	2012 Rupees	2011 Rupees
<b>22. MARK-UP/ RETURN/INTEREST EARNED</b>			
Mark-up on advances		1,289,974,152	1,091,962,564
Suspended markup on non-performing advances		-	(109,853)
		<u>1,289,974,152</u>	<u>1,091,852,711</u>
Interest on investment in Government securities		107,250,807	147,486,086
Interest on deposit accounts/ placements with other banks/ financial institutions/ mutual funds		102,130,849	68,982,918
		<u>1,499,355,808</u>	<u>1,308,321,715</u>
<b>23. MARK-UP/ RETURN/ INTEREST EXPENSED</b>			
Interest on borrowings from:			
Asian Development Bank		200,977,079	219,379,200
Financial institutions		49,015,212	38,131,683
		<u>249,992,291</u>	<u>257,510,883</u>
Interest on deposits		103,457,104	28,276,996
		<u>353,449,395</u>	<u>285,787,879</u>
<b>24. FEE, COMMISSION AND BROKERAGE INCOME</b>			
Account opening fee		-	2,913,230
Micro-credit application processing fee		238,425,292	186,536,340
Other commission		7,395,145	3,499,808
		<u>245,820,437</u>	<u>192,949,378</u>
<b>25. OTHER INCOME</b>			
Amortization of deferred grant		11,284,535	7,704,824
Indirect cost charged to USAID	25.1	10,772,063	3,044,334
Recoveries from MSDF	25.2	125,223,800	95,975,000
Gain on disposal of fixed assets		10,386,821	34,311,185
Recoveries against advances written off		178,902,642	37,104,580
Others		2,933,727	5,332,801
		<u>339,503,588</u>	<u>183,472,724</u>

**25.1** This represents indirect cost charged to USAID for Tubewell Efficiency Improvement Replacement Program (TWEIP) @ 1.755% of total direct cost. (2011: 1.755% of total direct cost for TWEIP and 0.5% of cash sub-grant disbursements for "Business Revitalization Program").

**25.2** 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.

# Notes to the Financial Statements 2012

26. ADMINISTRATIVE EXPENSES	Note	2012 Rupees	2011 Rupees
Salaries, wages and benefits		556,389,701	523,198,655
Charge for defined benefit plan	16.1	28,343,261	28,346,711
Contract/ seconded staff expenses		133,788,713	105,956,756
Consultancies		4,069,083	1,105,545
Recruitment and development		6,425,883	2,345,426
Training		14,010,272	13,974,031
Rent and rates		109,461,432	97,217,520
Insurance		27,802,957	19,796,215
Utilities		54,933,009	42,382,153
Legal and professional charges		3,301,908	2,225,411
Communication		39,652,475	28,043,231
Repairs and maintenance		39,782,002	32,641,607
Printing, stationery and office supplies		56,391,139	45,925,316
Advertisement		22,096,670	14,562,040
Auditors' remuneration	26.1	1,300,000	1,210,000
Depreciation	11.2	66,807,547	63,618,931
Amortization	11.3	10,698,387	11,103,313
Vehicles up keep and maintenance		96,185,596	55,393,818
Travelling and conveyance		12,287,150	9,475,543
Meetings and conferences		13,652,266	8,090,700
Security charges		4,503,328	2,841,359
Bank charges		13,151,738	7,279,975
Newspapers and subscriptions		2,014,181	1,870,122
Property and equipment written off		541,963	146,724
Miscellaneous		2,539,128	1,198,163
		<u>1,320,129,789</u>	<u>1,119,949,265</u>

## 26.1 Auditors' remuneration

Audit fee	950,000	880,000
Out of pocket expenses	350,000	330,000
	<u>1,300,000</u>	<u>1,210,000</u>

26.2 Administrative expenses are net of Rs 15,439,762 (2011: Rs 10,789,238) and Rs 1,759,383 (2011: Rs 1,626,527) charged to USAID and MSDF respectively in respect of projects implemented by the Bank.

27. OTHER CHARGES	Note	2012 Rupees	2011 Rupees
Penalties		-	6,000
Workers Welfare Fund		2,395,712	1,925,211
Professional tax	27.1	1,507,330	-
		<u>3,903,042</u>	<u>1,931,211</u>

27.1 This includes professional tax of Rs 1,202,330 relating to prior years.

## 28. TAXATION

Current - for the year	8,637,649	14,692,407
Deferred - for the year	(2,098,820)	(51,924,292)
- for prior year	(54,694,404)	(18,071,776)
	<u>(56,793,224)</u>	<u>(69,996,068)</u>
	<u>(48,155,575)</u>	<u>(55,303,661)</u>

# Notes to the Financial Statements 2012

<b>28.1 Tax charge reconciliation</b>	<b>2012 Rupees</b>	<b>2011 Rupees</b>
Profit before tax (Rupees)	<u>119,785,583</u>	<u>96,260,567</u>
	%	%
Applicable tax rate	35.00	35.00
Deferred tax relating to prior periods	(45.66)	(18.77)
Tax exemption on account of tax holiday	(27.73)	(70.88)
Permanent difference	(1.81)	(2.80)
Average effective tax rate charged to income	<u>(40.20)</u>	<u>(57.45)</u>
<b>28.2</b>	The tax holiday available to the Bank pursuant to Clause (66- XVIII) of part I of Second Schedule to the Income Tax Ordinance, 2001 expired on June 30, 2012.	
<b>29. CASH AND CASH EQUIVALENTS</b>	<b>2012 Rupees</b>	<b>2011 Rupees</b>
Cash and balances with SBP and NBP	482,695,280	232,404,452
Balances with other banks	792,784,243	817,280,992
	<u>1,275,479,523</u>	<u>1,049,685,444</u>
<b>30. NUMBER OF EMPLOYEES</b>	<b>2012</b>	<b>2011</b>
Credit sales staff		
Permanent	705	687
Banking/ support staff		
Permanent	789	652
Contractual	874	822
	1,663	1,474
Total number of employees at the end of the year	<u>2,368</u>	<u>2,161</u>
<b>31. NUMBER OF BRANCHES</b>		
Total branches at beginning of the year	109	109
Opened during the year	-	6
Closed / merged during the year	(3)	(6)
Total branches at the end of the year	<u>106</u>	<u>109</u>
<b>32. EARNINGS PER SHARE</b>		
(a) 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.		

# Notes to the Financial Statements 2012

	2012 Rupees	2011 Rupees
Profit for the year after tax	167,941,158	151,564,228
Microfinance Social Development Fund	(16,794,116)	(15,156,425)
Depositors' Protection Fund	(8,397,058)	(7,578,211)
Risk Mitigation Fund	(8,397,058)	(7,578,211)
	(33,588,232)	(30,312,848)
Profit attributable to equity holders	<u>134,352,926</u>	<u>121,251,381</u>
Weighted average number of ordinary shares in issue during the year	<u>170,500,000</u>	<u>170,500,000</u>
Earnings per share - basic (Rupees)	<u>0.79</u>	<u>0.71</u>

## (b) 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.

### 33. REMUNERATION OF PRESIDENT, DIRECTORS AND EXECUTIVES

	2012				2011			
	President	Directors	Executives		President	Directors	Executives	
			KPMs	Other			KPMs	Other
	Rupees				Rupees			
Managerial remuneration	4,227,101	-	18,716,747	35,856,889	2,763,876	-	17,412,049	25,123,073
Charge for defined benefit plan / gratuity	304,533	-	2,074,376	4,020,604	326,290	-	2,008,861	2,910,990
Rent and house maintenance	1,902,192	-	8,422,535	16,135,590	1,243,740	-	7,835,426	11,305,410
Utilities	467,707	-	1,871,678	3,585,713	276,384	-	1,741,209	2,512,319
Medical	273,363	-	1,294,258	4,255,368	174,895	-	1,361,374	2,896,199
Conveyance	398,278	-	4,892,424	15,279,579	339,788	-	4,309,039	9,589,225
Bonus	2,000,000	-	960,553	1,613,844	-	-	979,075	1,469,118
Others	-	1,488,239	94,759	1,235,092	-	117,139	59,364	447,701
Total	<u>9,573,174</u>	<u>1,488,239</u>	<u>38,327,330</u>	<u>81,982,679</u>	<u>5,124,973</u>	<u>117,139</u>	<u>35,706,397</u>	<u>56,254,035</u>
Number of person(s)	<u>1</u>	<u>6</u>	<u>7</u>	<u>54</u>	<u>1</u>	<u>6</u>	<u>7</u>	<u>30</u>

**33.1** The President is provided with a Bank maintained car.

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

**33.3** 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.

# Notes to the Financial Statements 2012

## 34. SCHEDULE OF MATURITY DISTRIBUTION OF MARKET RATE ASSETS AND LIABILITIES AS AT DECEMBER 31, 2012

TOTAL	Up to one month	Over one month up to six months	Over six months up to one year	Over one year	
<b>Market rate assets</b>					
<b>Rupees</b>					
Advances	5,717,031,631	352,834,256	2,245,703,262	3,118,494,113	-
Investments	1,043,516,062	293,606,700	659,042,462	90,866,900	-
Other earning assets					
Balances with SBP and NBP - deposit accounts	1,508,022	1,508,022	-	-	-
Balances with other banks - deposit accounts	502,839,077	502,839,077	-	-	-
Lending to financial institutions	590,014,893	590,014,893	-	-	-
<b>Total market rate assets</b>	<b>7,854,909,685</b>	<b>1,740,802,948</b>	<b>2,904,745,724</b>	<b>3,209,361,013</b>	<b>-</b>
<b>Other non-earning assets</b>					
Cash in hand	330,400,374	330,400,374	-	-	-
Balances with SBP and NBP - current accounts	150,786,884	150,786,884	-	-	-
Balances with other banks - current accounts	289,945,166	289,945,166	-	-	-
Operating fixed assets	312,592,222	7,769,308	38,846,540	46,615,848	219,360,526
Other assets	888,289,322	50,807,493	463,479,137	328,703,734	45,298,958
Deferred tax asset	126,692,458	-	-	-	126,692,458
<b>Total non-earning assets</b>	<b>2,098,706,426</b>	<b>829,709,225</b>	<b>502,325,677</b>	<b>375,319,582</b>	<b>391,351,942</b>
<b>Total assets</b>	<b>9,953,616,111</b>	<b>2,570,512,173</b>	<b>3,407,071,401</b>	<b>3,584,680,595</b>	<b>391,351,942</b>
<b>Market rate liabilities</b>					
Large time deposits above Rs. 100,000	1,508,240,378	128,557,863	545,741,477	614,592,038	219,349,000
All other time deposits (including fixed rate deposits)	81,456,722	6,619,000	31,137,000	31,665,722	12,035,000
Other cost bearing deposits	758,618,217	758,618,217	-	-	-
Borrowings	3,009,835,832	-	181,864,740	206,864,740	2,621,106,352
<b>Total market rate liabilities</b>	<b>5,358,151,149</b>	<b>893,795,080</b>	<b>758,743,217</b>	<b>853,122,500</b>	<b>2,852,490,352</b>
<b>Other non-cost bearing liabilities</b>					
Deposits	1,692,331,675	1,692,331,675	-	-	-
Other liabilities	414,105,182	214,353,888	166,366,783	25,300,819	8,083,692
<b>Total non-cost bearing liabilities</b>	<b>2,106,436,857</b>	<b>1,906,685,563</b>	<b>166,366,783</b>	<b>25,300,819</b>	<b>8,083,692</b>
<b>Total liabilities</b>	<b>7,464,588,006</b>	<b>2,800,480,643</b>	<b>925,110,000</b>	<b>878,423,319</b>	<b>2,860,574,044</b>
<b>Net assets</b>	<b>2,489,028,105</b>	<b>(229,968,470)</b>	<b>2,481,961,401</b>	<b>2,706,257,276</b>	<b>(2,469,222,102)</b>

# Notes to the Financial Statements 2012

## 35. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### 35.1 Interest rate risk

The Bank's exposure to interest rate risk and the effective rates on its financial assets and liabilities as at December 31, 2012 are summarized as follows:

Description	INTEREST / MARK-UP BEARING					NON-INTEREST BEARING		Effective Interest Rate
	Maturity upto one year	Maturity after one year & up to two years	Maturity after three years & up to four years	Maturity after four years & up to five years	Maturity after five years	Sub Total	Total	
<b>Financial assets:</b>								
Cash and balances in current and other accounts	-	-	-	-	-	-	Rupees 771,132,424	-
Balance in deposit accounts	504,347,099	-	-	-	-	504,347,099	Rupees 504,347,099	6.0 % to 9.7 %
Lending to financial institutions	590,014,893	-	-	-	-	590,014,893	Rupees 590,014,893	6.5 % to 9.2 %
Investments	1,043,516,062	-	-	-	-	1,043,516,062	Rupees 1,043,516,062	9.1 % to 11.6 %
Advances	5,717,031,631	-	-	-	-	5,717,031,631	Rupees 5,717,031,631	15 % to 29 %
Other assets	-	-	-	-	-	-	Rupees 802,265,793	-
<b>Financial liabilities:</b>								
Deposits and other accounts	7,854,909,685	-	-	-	-	7,854,909,685	Rupees 7,854,909,685	6.0 % to 14 %
Borrowings	2,116,931,317	91,476,000	139,908,000	-	-	2,348,315,317	Rupees 2,348,315,317	6.3 % to 13.8 %
Other liabilities	388,729,480	438,729,480	363,729,480	363,729,480	1,091,188,432	3,009,835,832	Rupees 3,009,835,832	-
<b>On balance sheet gap</b>								
<b>Un recognized:</b>								
Commitments	-	-	-	-	-	-	Rupees (49,232,103)	-
<b>Off balance sheet gap</b>								
	5,349,248,888	(530,205,480)	(503,637,480)	(363,729,480)	(1,091,188,432)	2,496,758,536	Rupees (582,139,464)	1,914,619,072
<b>Financial assets:</b>								
Cash and balances in current and other accounts	-	-	-	-	-	-	Rupees 570,271,763	-
Balance in deposit accounts	479,413,681	-	-	-	-	479,413,681	Rupees 479,413,681	5.0 % to 12.5 %
Lending to financial institutions	1,138,028,622	-	-	-	-	1,138,028,622	Rupees 1,138,028,622	11.5 % to 11.8 %
Investments	944,757,075	-	-	-	-	944,757,075	Rupees 944,757,075	11.8 % to 13.6 %
Advances	4,167,113,455	-	-	-	-	4,167,113,455	Rupees 4,167,113,455	29.0 %
Other assets	6,729,312,833	-	-	-	-	6,729,312,833	Rupees 580,443,607	-
<b>Financial liabilities:</b>								
Deposits and other accounts	582,033,205	-	-	-	-	582,033,205	Rupees 1,094,977,283	5.0 % to 13.1 %
Borrowings	947,791,584	388,729,480	438,729,480	363,729,480	1,454,917,912	3,957,627,416	Rupees 3,957,627,416	6.1 % to 15.2 %
Other liabilities	1,529,824,789	388,729,480	438,729,480	363,729,480	1,454,917,912	4,539,660,621	Rupees 221,062,240	-
<b>On balance sheet gap</b>								
<b>Un recognized:</b>								
Commitments	5,199,488,044	(388,729,480)	(438,729,480)	(363,729,480)	(1,454,917,912)	2,189,652,212	Rupees (165,324,153)	2,024,328,059
<b>Off balance sheet gap</b>								
	5,199,488,044	(388,729,480)	(438,729,480)	(363,729,480)	(1,454,917,912)	2,189,652,212	Rupees (176,889,963)	2,012,762,249

# Notes to the Financial Statements 2012

## 35.2 Market risk

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.

## 35.3 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.

## 35.4 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.

## 35.5 Fair value of financial instruments

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

## 36. RELATED PARTY TRANSACTIONS

The Bank's related parties comprise of directors, key management personnel, shareholders and entities over which the directors are able to exercise significant influence and employee gratuity fund. The detail of Bank's shareholders is given in note 17.2.1 while remuneration of key employee personnel is disclosed in note 33 to the financial statements. Detail of transactions during the year and balances outstanding at the year end are as follows:

Transactions during the year	2012 Rupees	2011 Rupees
<b>- with shareholders</b>		
Lending to financial institutions	15,050,331,596	18,786,225,831
Repayment of lending to financial institutions	16,210,947,975	17,728,559,193
Borrowings	299,944,876	1,777,836,195
Repayment of borrowings	599,954,136	1,477,826,935
Income		
Interest income on deposit account bank balances	10,480,119	11,546,785
Interest income on lending to financial institutions	19,744,514	21,294,844
Expenses		
Interest expense on borrowings	8,174,067	31,592,300
Bank charges	4,057,561	7,043,423
<b>- with defined benefit plan</b>		
Contribution to gratuity fund	34,074,643	28,346,711
<b>- with key management personnel</b>		
Payments to key management personnel	38,327,330	35,706,397
<b>- with others</b>		
Receipts from MSDF	80,116,550	144,557,172

# Notes to the Financial Statements 2012

Balances outstanding at the year end	2012 Rupees	2011 Rupees
<b>- with shareholders</b>		
Balances with banks	119,054,964	513,971,442
Lending to financial institutions	-	1,438,028,622
Interest receivable on deposit account bank balances	-	413,699
Interest receivable on lending to financial institutions	-	3,968,859
Borrowings	100,000,000	500,009,260
Interest payable on borrowings	3,456,284	12,927,554
TDR placement	200,000,000	300,000,000
<b>- with defined benefit plan</b>		
Balance (receivable)/ payable to gratuity fund	(1,273,201)	4,458,181
<b>- with key management personnel</b>		
Advances receivable from key management personnel	5,526,118	4,542,225
<b>- with others</b>		
Receivable from MSDF	193,581,856	85,363,050

## 37. CAPITAL RISK MANAGEMENT

The Bank's objectives when managing its capital are:

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

Capital requirements applicable to the Bank are set out under the Regulations. These requirements are put in place to ensure sufficient solvency margins. The Bank manages its capital requirement by assessing its capital structure against required capital level on regular basis. Currently the Bank has paid up capital of Rs. 1.705 billion. The minimum paid up capital requirement applicable to the Bank is Rs 1 billion.

The bank has maintained capital adequacy ratio in accordance with Regulation No. 4 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.

## 38. GENERAL INFORMATION

The following information is included in these financial statements to facilitate the calculation of financial ratios presented in note 38.

Offices	2012	2011
Number of microcredit branches	-	47
Number of full service branches	106	62
<b>Total Branches of the Bank</b>	<b>106</b>	<b>109</b>

# Notes to the Financial Statements 2012

<b>Human Resource</b>	<b>2012</b>	<b>2011</b>
Total number of permanent staff - credit sales	705	687
Total number of permanent staff - banking/ support	789	652
Total number of contractual staff - banking/ support	874	822
<b>Total staff strength of the Bank</b>	<b><u>2,368</u></b>	<b><u>2,161</u></b>
	<b>2012 Number</b>	<b>2011 Number</b>
<b>Micro-finance cases</b>		
Number of active cases at year end	364,138	352,962
Number of loans disbursed during the year	392,958	374,633
Average number of active borrowers for the year	358,550	339,243
	<b>2012 Rupees</b>	<b>2011 Rupees</b>
Microcredit advances receivable	5,805,575,542	4,273,802,377
Total disbursements for the year	7,003,500,400	5,279,687,500
<b>Portfolio Quality</b>		
Portfolio at risk	104,549,671	252,518,142
Portfolio written off	302,876,326	167,818,991
Loan loss reserve	88,543,911	106,688,922
<b>Average loan sizes</b>		
Average outstanding loan size	15,943	12,108
Average gross loan portfolio	5,039,688,960	3,997,977,587
<b>Information about the Bank's assets/ liabilities</b>		
Total assets	9,953,616,111	8,221,480,025
Current assets	9,469,032,473	7,993,950,131
Fixed assets	312,592,222	201,173,145
Average total assets	9,087,548,068	7,730,076,232
Current liabilities	4,604,013,962	2,845,864,312
Bank's equity	2,473,077,167	2,338,544,408

# Notes to the Financial Statements 2012

39. FINANCIAL RATIOS	Note	2011	2010
<b>Sustainability/ Profitability</b>			
Return on equity	39.1	(1.99%)	(2.69%)
Adjusted return on equity	39.2	(16.86%)	(22.45%)
Return on assets	39.3	(0.53%)	(0.79%)
Adjusted return on assets	39.4	(4.46%)	(6.60%)
Operational self sufficiency	39.5	97.86%	97.07%
Financial self sufficiency	39.6	79.69%	68.80%
Profit margin	39.7	(2.04%)	(3.01%)
<b>Asset / Liability Management</b>			
Current ratio	39.8	2.06	2.81
Yield on gross loan portfolio	39.9	28.33%	31.29%
Yield gap	39.10	4.34%	(3.51%)
Funding-expense ratio	39.11	7.01%	7.15%
Cost-of-funds ratio	39.12	5.57%	5.44%
<b>Portfolio Quality</b>			
Portfolio at risk	39.13		
from 1 - 29 days		0.71%	1.46%
from 30 - 59 days		0.56%	1.30%
from 60 - 89 days		0.18%	0.62%
from 90 - 179 days		0.21%	0.33%
over 179 days		0.15%	2.19%
Write-off ratio	39.14	6.01%	4.20%
Risk coverage ratio	39.15	84.69%	42.25%
<b>Efficiency / Productivity</b>			
Operating expense ratio	39.16	26.33%	28.06%
Cost per borrower (Rupees)	39.17	3,700	3,307
Personnel productivity	39.18	154	163
Loan officer productivity	39.19	517	514
Average disbursed loan size (Rupees)	39.20	17,823	14,093
Average outstanding loan size (Rupees)	39.21	15,943	12,108

## Notes to the Financial Statements 2012

- 39.1** 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.
- 39.2** 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.
- 39.3** 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.
- 39.4** 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.
- 39.5** 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.
- 39.6** 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.
- 39.7** Profit margin measures the percentage of operating revenue that remains after all financial, loan loss provision and operating expenses are paid.
- 39.8** Current ratio measures how well the Bank matches the maturities of its assets and liabilities.
- 39.9** 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.
- 39.10** Yield gap compares revenue actually received in cash with revenue expected from microcredit advances.
- 39.11** 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.
- 39.12** 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.
- 39.13** Portfolio at risk ratio is the most accepted measure of portfolio quality. Portfolio at risk is the outstanding amount of all loans that have one or more installments of principal past due by certain number of days. Rescheduled loans are also included in the calculation.
- 39.14** 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.
- 39.15** 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.
- 39.16** Operating expense ratio is the most commonly used efficiency indicator for Microfinance Banks. It includes all administrative and personnel expenses.
- 39.17** Cost per borrower provides a meaningful measure of efficiency for the Bank, by determining the average cost of maintaining an active borrower.

# Notes to the Financial Statements 2012

- 39.18** 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.
- 39.19** Loan officer productivity measures the average case load of each loan officer.
- 39.20** Average disbursed loan size measures the average loan size that is disbursed to clients.
- 39.21** Average outstanding loan size measures the average outstanding microcredit balance by client, which may be significantly less than the average disbursed loan size.

#### 40. GENERAL

Corresponding figures have been rearranged and reclassified where necessary for more appropriate presentation of transactions and balances. Significant rearrangements and reclassifications in the financial statements are as follows:

From	To	Rupees
Balance sheet		
Other assets	Operating fixed assets (Capital work in progress)	3,678,476
Profit and loss account		
Provision against non-performing loans and advances	Other provisions	7,049,459

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.

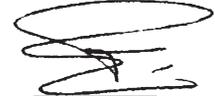
#### 41. DATE OF APPROVAL

These financial statements were approved by the Board of Directors of the Bank in their meeting held on March 15, 2013.

  
**PRESIDENT**

  
**CHAIRMAN**

  
**DIRECTOR**

  
**DIRECTOR**

## Branch Network

### Punjab

#### Chiniot

Chaudry Center Jhumra Chowk Jhang  
Road Chiniot  
Ph: 047-6332691-2  
Fax: 047-6332692

#### Lahore

15-Shadman, Near Shadman Chowk,  
Jail Road, Lahore  
Ph: 0423-7530788  
Fax: 0423-7534808

#### Sheikhupura

Shop # 435 Near 32 Chowk Gujranwala  
Road Sheikhupura  
Ph: 056-3813566  
Fax: 056-3813563

#### Bhalwal

Noon Sugar Mill Road, Bhalwal  
Ph: 048-6642571  
Fax: 048-6642431

#### Chakwal

Near Warid Franchise, Rawalpindi Road,  
Chakwal  
Ph: 0543-550917  
Fax: 0543-540864

#### Faisalabad

Jimmy Plaza, Near Kinder Garton Girls High  
School, Eid Gah Road, Faisalabad  
Ph: 041-2616148  
Fax: 041-2616146

#### Jhang

Canal Colony Road Near Distt. Courts  
Jhang  
Ph: 047-7620985  
Fax: 047-7627940

#### Khushab

Plot # 221 Block # 4 College Chowk  
Jauharabd, Distt. Khushab  
Ph: 0454-722131  
Fax: 0454-723131

#### Kamoki

197/162 Near Shifa Eye Hospital, Main G.T  
Road Kamoki  
Ph: 055-6816241  
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- 6442247  
Fax: 052- 6442248

#### 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: 055-6604692  
Fax: 055-6604693

#### Rawalpindi

Ropyal Brothers Plaza, B-130, Main Muree  
Road, Chandni Chowk  
Rawalpindi  
Ph: 051-4842548  
Fax: 051-4842549

#### Sadiq Abad

Moiz Plaza, JDW Road  
Sadiq Abad  
Ph: 068-5700426  
Fax: 051-5472717

#### Bhakkar

Plot # 155/2 Club Road Mandi Town  
Bhakkar  
Ph: 0453-513187,0453-9200087  
Fax: 0453-510187

#### Kot Addu

Opposite Faisal Motors, Near PSO Pump  
Main G.T Road, Kot Addu District  
Muzaffergadh  
Ph: 066-2241752  
Fax: 066-2243852

#### Ahmedpur East

KLP Raod Unique Plaza, Ground Floor,  
Tehsil Ahmed Pur East  
Ph: 062-2272450  
Fax: 062-2273450

#### Lodhran

Near Alla Iqbal Commerce College, MTN  
Bahawalpur Road, Lodhran  
Ph: 0608-361322  
Fax: 0608-364224

#### Rajanpur

Kamran Market, Opposite Jamia Sheikh  
Darkhasti, Indus Highway, Rajanpur  
Ph: 0604-690120 / 0604-333365  
Fax: 060-4689513

#### Kahrora Pacca

Union Council Bukshi Wali, Ward # 16/8,  
Near Railway Chowk, Lodhran Road,  
Kahrora Pacca  
Ph: 0608-342123  
Fax: 0608-342122

#### Dunyapur

Near Almulk Hospital, Railway Road,  
Dunyapur  
Ph: 0608-304317  
Fax: 0608-304317

#### Minchan Abad

Khata # 208, khatoni # 208 Circular Road,  
Near MCB Bank, Minchanabad  
Ph: 063-2750137-135-136

## Branch Network

### **Mandi Bahauddin**

Shop # 5/201 Ward # 5 Near Alfatah Masjid  
Mandi Bahauddin  
Ph: 0546-500988  
Fax: 0546-500981

### **Mianwali**

Chah Gul Khanwala P.A.F Road Mianwali  
Ph: 0459-231010  
Fax: 0459-231020

### **Sargodha**

Ground Floor Zahoor Plaza Noori Gate  
Sargodha  
Ph: 048-3725052 / 048-3740862  
Fax: 048-3740288

### **Arifwala**

21-A, Block -A, Mohammadi Road,  
Karhana Bazar, Arifwala  
Ph: 0457-833541  
Fax: 0457-830541

### **Basirpur**

Plot No 416-Main Baseerpur Road,  
Baseerpur, Tehsil Depalpur  
Distt Okara  
Ph: 044-4771016  
Fax: 044-4771016

### **Chichawatni**

Plot # 18-19, Near Lakar Mandi, Main G.T  
Road, Chichawatni  
Ph: 040-5483415  
Fax: 040-5480577

### **Kasur**

Minhas Colony, Near Khan Mahal Cinema  
Main Lahore Road Kasur  
Ph: 049-2773203  
Fax: 049-2773203

### **Okara**

Plot # 4033/8, Near Sanam Cinema, M. A  
Jinnah Road, Okara  
Ph: 044-2550003 / 550045-46  
Fax: 044-2550046

### **Hassanabdal**

Near Civil Hospital Main Hazara Road  
Hassanabdal  
Ph: 057-2520098  
Fax: 057-2520097

### **Fatehjang**

Ground Floor, Mudassar Awan Arcade,  
Rawalpindi Road, Fatehjang  
Ph: 057-2212701  
Fax: 057-2212232

### **Mankera**

Near UBL, Jhang Bhakkar Road, Tehsil  
Mankera, District Bhakkar  
Ph: 0453-410323  
Fax: 453410323

### **Karor Lal Essan**

Khasra # 289, Sewag Plaza, Opp. PTCL  
Exchange, Fatehpur Road, Karor Lal Essan,  
Distt Layyah  
Ph: 0606-811505 / 0606-810505-6  
Fax: 0606-811506

### **Jalalpur Pirwala**

Al-Mehmood Plaza, Permit Road, Jalapur Pir  
Wala  
Ph: 061-4212299  
Fax: 061-4212292

### **Taunsa Sharif**

Main Vehova Road, Taunsa Sharif  
Ph: 064-2601395  
Fax: 064-2601367

### **Dera Ghazi Khan**

Block J, Railway Road, Dera Ghazi Khan  
Ph: 064-2470721-22  
Fax: 064-9260535

### **Mian Channu**

Nishtar Road Near MCB Bank Opposite  
Khalid Tea Stall Mian Channu  
Ph: 065-2660131 / 2660132  
Fax: 065-2661555

### **Khanpur**

Plot # 309-310, Model Town A, Near Bank  
Alfalah, Katchehry Road, Khanpur  
Ph: 0685576922 / 0685576923  
Fax: 685576924

### **Rahim Yar Khan**

29/30 Canal Bank Road, Near Jamea tul  
Farooq, Rahim Yar Khan  
Ph: 068-5886223  
Fax: 068-5879772

### **Liaquatpur**

87-A Scheme # 2 Bank Road Opposite  
Qayyam Petroleum, Liaquatpur  
Ph: 068-5792599  
Fax: 068-5792699

### **Bahawalpur**

1-B, 1st Floor, Model Town-B, Ghalla Mandi  
Road, Bahawalpur  
Ph: 062-2889612, 2882856  
Fax: 062-2889612

### **Fazilpur**

Khata no 27, Main Indus Highway, Fazilpur,  
District Rajanpur  
Ph: 0604-681660 / 0604332196  
Fax: 0604-681660

### **Jampur**

Opposite Canal Rest House, Indus Highway,  
Jampur  
Ph: 060-4332427  
Fax: 060-4568650

### **Ali Pur**

Near Jamia Masjid Sardar Bahadur Khan,  
Opposite City Police Station, Multan Road,  
Ali Pur, District Muzaffar Garh

### **Pakpattan**

Pakpattan Club Building, Club Road,  
Pakpattan  
Ph: 0457-352477  
Fax: 0457-352559

### **Pattoki**

Shop # 02 Tariq Center, Halla Road, Pattoki  
Ph: 049-4424350  
Fax: 049-4421350

### **Sahiwal**

Saeed center, Near Niazi filling station, Jail  
road, Sahiwal  
Ph: 040-4225313  
Fax: 040-4225313

### **Toba Tek Singh**

Al-Aziz Center, Shorekot Road, Toba Tek  
Singh  
Ph: 046-2517512  
Fax: 046-2514618

## Branch Network

### **Gujranwala**

Ground Floor, Chughtai Centre, Near Alam Bakers, GT Road Shaheen Abad, Distt. Gujranwala  
Ph: 055-3735057  
Fax: 055-3735057

### **Gujrat**

Shehroz Plaza Near SA Fans GT Road, Gujrat  
Ph: 053-3536275  
Fax: 053-3510224

### **Hafizabad**

Shop B1-185 Ghari Awan Kassoke Road Hafizabad  
Ph: 0547-541141  
Fax: 0547-541143

### **Jhelum**

Opposite Tableeg ul Islam High School Near NADRA Office, Civil Line, Jhelum  
Ph: 0544-620267  
Fax: 0544-620267

### **Shujahabad**

Jalal Pur road, Opposite KB stand, Shujahabad  
Ph: 0641-4396006  
Fax: 061-4396195

### **Tibbi**

Main Road Tibbi Qaisrani, Tehsil Taunsa, District D.G.Khan  
Ph: 064-2007202  
Fax: 064-2007513

### **Layyah**

Khushhalibank Limited, Main Choubara Road, Layyah  
Ph: 0606-414704-5  
Fax: 0606-414506

### **Hasilpur**

Near Honda Atlas Store Main Bahawalpur Road Hasilpur  
Ph: 062-2442936  
Fax: 062-2443936

### **Qadirpur Rawan**

Ali Building Near Twon Committee office, G.T Road, Qadirpur Rawan  
Ph: 061 4578669  
Fax: 614578668

### **Khairpur Tamewali**

Khata # 119/111, Khatooni 271-276 Opposite Chand Resturnat Tehsil Khairpur Tamewali Distt Bahawalpur  
Ph: 062-2262010  
Fax: 062-2261011

### **Vehari**

E-8, Karkhana Bazar, Vehari  
Ph:067-3360306-301-304  
Fax: 067-3360306

### **Chishtian**

Plot # 47, Block 'C', Qazi Wala Road, Chishtian  
Ph: 063-2500431-334-331  
Fax: 063-2500332 - 067-3361100

### **Khanewal**

Plot # 01, Street # 1, Block # 02 RCA Chowk, Khanewal  
Ph: 065-2551528-29  
Fax: 065-2551529

### **Bahawalnagar**

Jinnah Colony Jail Road, Bahawalnagar  
Ph: 063-2279054-3914  
Fax: 063-2279055

### **Multan**

NIPCO House, 1st Floor, Abdali Road, Multan  
Ph: 061-4783057  
Fax: 061-4782356

### **Haroonabad**

Plot No. 221, Main Bazar, Haroonabad  
Ph: 0632256495, 0632250195  
Fax: 063-2250095

### **Burewala**

3-C, 1st Floor Multan Road, Opposite Telephone Exchange, Burewala  
Ph: 067-3354157  
Fax: 067-3354157

### **Fort Abbas**

Khata # 351/347, khatooni # 351 plot B, School bazar near main gate Gala Mandi Fort Abbas  
Ph: 063-2510592-94-96  
Fax: 063-2510592

### **Muzaffar Garh**

Building Opposite Graveyard Roshan Shah Multan Road Distt. Muzaffar Garh  
Ph: 0662-425490

## Branch Network

### Khyber Pakhtoonkhwa

#### Abbotabad

Ground Floor, Ali Plaza, Supply bazar,  
Mansehra Road, Abbotabad

Ph: 0992-343108

Fax: 0992-343109

#### Haripur

Pankad Area, Shahrah-e-Hazara, Haripur

Ph: 0995-610353

Fax: 0995-610353

#### Mansehra

Mumtaz Plaza, Old HBL Building, Kashmir  
Road Mansehra

Ph: 0997-304086

Fax: 0997-304086

#### Charsadda

MG Plaza, Tangi Road,  
Charsadda

Ph: 091-6513302

Fax: 091-6515489

#### Kohat

Samand Plaza, Behzadi Chakarkot, Bannu  
Road, Kohat

Ph: 0922-522877

Fax: 0922-522876

#### Malakand Agency

Tahir plaza, Main Bazar, Batkhela,  
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: 0923-614558

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

Ground Floor, Hurmaz Plaza, Tehkal Payan,  
University Road Peshawar

Ph: 091-5702376/9218366

Fax: 091-5840377

#### Dera Ismail Khan

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

Ph: 0966-711382

Fax: 0966-711382

## Branch Network

### Sindh

#### Karachi

FTC Building Ground Floor,  
Block C Shahrah-e-Faisal Karachi  
Ph: 021-99204123, 021-35630742  
Fax: 021-99204124

#### Badin

Survey # 33 Adjacent to Abassi Hospital  
Main DCO Chowk Badin  
Ph: 0297-862330  
Fax: 0297-810149

#### Mithi

Shop # 2 & 3, Satyani Shopping Centre,  
Main Naukot Road Mithi District Tharparkar  
Ph: 0232-262304  
Fax: 0232-262304

#### Thatha

Shop No: 06, Al-Shahbaz Shops, Main  
National Highway, Thatta  
Ph: 0298-550084  
Fax: 0298-550084

#### Hyderabad

Shop # 2-3, Defence Plaza, Thandi Sadak,  
Hyderabad  
Ph: 0222-784349  
Fax: 0222-786621

#### Tando Muhammad Khan

Main Hyderabad Badin Road Tando  
Muhammad Khan  
Ph: 0223-342738  
Fax: 0223-342738

#### Shikarpur

Sattari Building, Opposite Jahaz Chowk,  
Station Road, Shikarpur  
Ph: 0726-513024  
Fax: 0726-512202

#### Rato Dero

Main Bus Stand, Chowk, Ratodero  
Ph: 074-4088189  
Fax: 074-4088189

#### Tando Allah Yar

City Survey # 81, Main Mirpurkhas Road,  
Adjacent Main Eidhgha, Tando Allah Yar  
Ph: 0223-892875  
Fax: 0223-892876

#### Hala

Old National Highway, near UBL Hala,  
District Mititari  
Ph: 0223-332350-52  
Fax: 0223-332352

#### Nawabshah

House # A-306, Hospital Road, Otaq  
Quarter Nawabshah  
Ph: 024-4370093  
Fax: 024-4370094

#### Sanghar

Main Nawabshah Road Choudhry Corner  
Sanghar  
Ph: 0235-800161  
Fax: 0235-800161

#### Mirpurkhas

PM colony Main Umerkot Road Mirpurkhas.  
Ph: 0233-873163  
Fax: 0233-876427

#### Sukkur

Military Road, Sukkur  
Ph: 071-5633237-8  
Fax: 071-5633240

#### Ghotki

Sada Bahar Shopping Center  
Near Bilal Masjid Main GT Road Ghotki  
Ph: 0723-600239  
Fax: 0723-600239

#### Daherki

Haq Plaza, Main GT Road, Daherki  
Ph: 0723-642663  
Fax: 0723-642663

#### Qambar

Opposite Sui Southern Gas Company  
Limited Qambar  
Ph: 0744-210072  
Fax: 0744-210062

#### Khairpur

Near National Saving Centre, Kacheri Road  
Khairpur Mirs  
Ph: 0243-714064  
Fax: 0243-714065

#### Ranipur

Near Mazhar Model School, National  
Highway Ranipur City District Khairpur  
Mirs  
Ph: 0243-730229  
Fax: 0243-730229

#### Dadu

Opposite Govt. Pilot Girls School College  
Road Dadu  
Ph: 025-4610007  
Fax: 025-4610007

#### Nosheroferoze

Main National Highway, Noshero Feroze  
Ph: 0242-481270  
Fax: 0242-481269

#### Pano Aqil

Near Eid Gah, Baiji Chawk, Pano Aqil  
Ph: 071-5692033  
Fax: 071-5690314

#### Larkana

H #. 1588, Jan Mohd Jonejo Road, Near  
Jarral Shah Bukhari, Larkana  
Ph: 074-4044580-81  
Fax: 074-4044570

#### Badeh

Main Naseerabad road, Badeh Distt.  
Larkana  
Ph: 074-4081074  
Fax: 074-4081232

## Branch Network

### Baluchistan

#### **Jafarabad**

Main Quetta Road, Near Railway Station,  
Jafferabad  
Ph: 0838-510034, 511034  
Fax: 0838-510135

#### **Nasirabad**

Labor Chowk, Quetta Road, Dera Murad  
Jamali, Naseerabad  
Ph: 0838-711338-7  
Fax: 0838-711338

#### **Quetta**

Usman Complex Hali Road Opposite FC  
Head Quarter Quetta  
Ph: 081-9201528  
Fax: 081-2832133

### Azad Jammu & Kashmir

#### **Muzaffarabad**

Raza Buliding, Poultry Form 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**

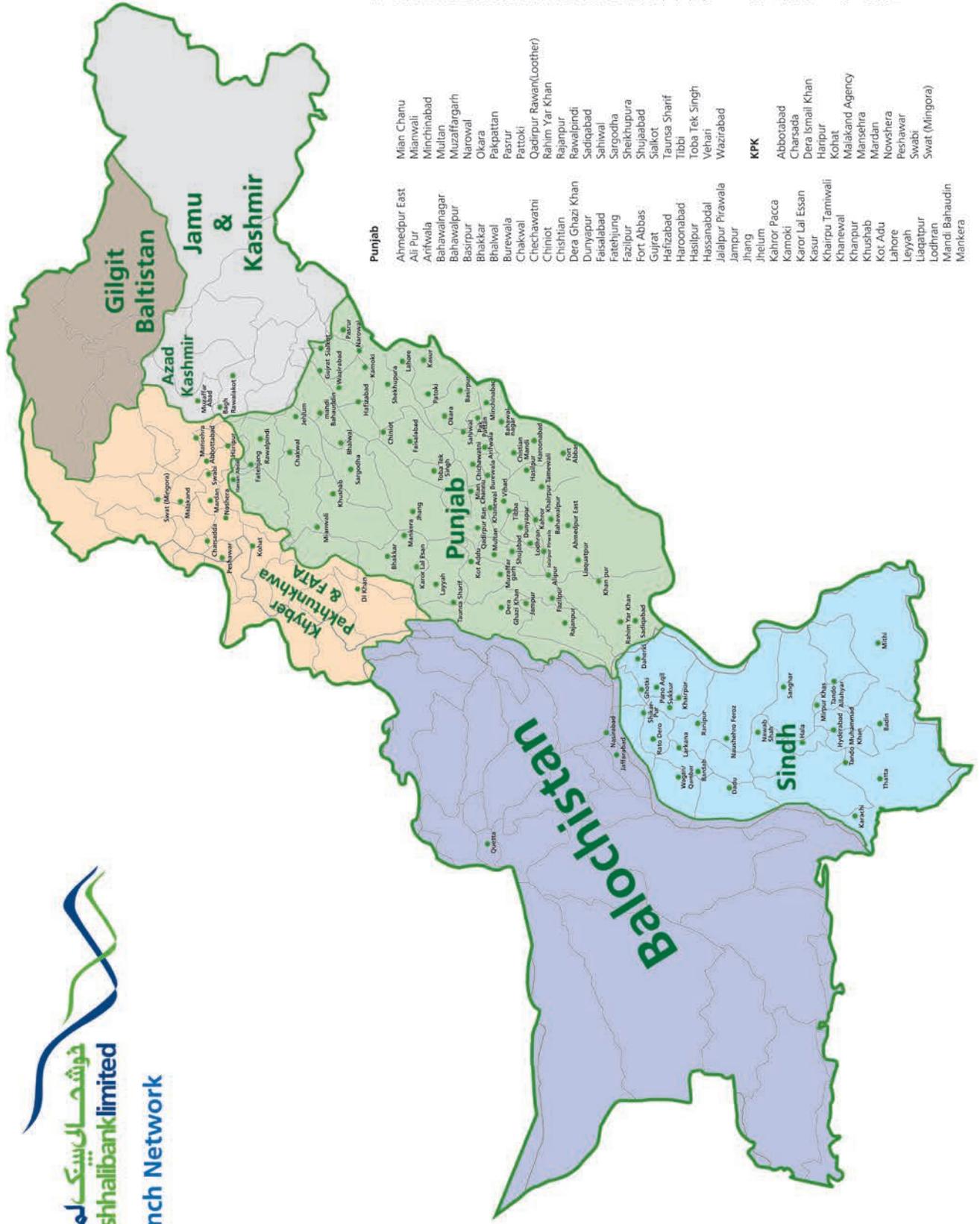
Ground Floor, Al-Noor Plaza, College Road  
Bagh  
Ph: 05823-920023  
Fax: 05823-920159

# Events of 2012 in Photos





**Branch Network**



**Sindh**

- Badah
- Badin
- Dadu
- Daherki
- Ghotki
- Hala
- Hyderabad
- Karachi
- Khairpur
- Larkana
- Mirpurkhas
- Mithi
- Nashero Feroze
- Navabshah
- Panuaqil
- Ranipur
- Rato Dero
- Sanghar
- Shikarpur
- Sukkur
- Tando Allahyar
- Tando Muhammad Khan
- Thatta
- Wagan/Qambar

**Balochistan**

- Jafferabad
- Nasirabad
- Quetta

**AJK**

- Bagh
- Muzaffarabad
- Rawlakot

**Punjab**

- Ahmedpur East
- Ali Pur
- Arifwala
- Bahawalnagar
- Bahawalpur
- Basirpur
- Bhakkar
- Bhawal
- Burewala
- Chakwal
- Chechnawathi
- Chiniot
- Chishtian
- Dera Ghazi Khan
- Dera Ismail Khan
- Dumyapur
- Faisalabad
- Fatehjung
- Fazilpur
- Fort Abbas
- Gujrat
- Haroonabad
- Harifabad
- Hasilpur
- Hassanabad
- Jalalpur Pirwala
- Jampur
- Jhang
- Jhelum
- Kahror Pacca
- Kamoki
- Karor Lal Essan
- Kasur
- Khairpur Tamewali
- Khanewal
- Khanpur
- Khushab
- Kot Adu
- Lahore
- Layyah
- Liaquatpur
- Lodhran
- Mandi Bahaudin
- Mankera
- Mian Chanu
- Mianwali
- Minchinabad
- Multan
- Muzaffargarh
- Narowal
- Okara
- Pakpattan
- Pastur
- Pattoki
- Qadirpur Rawan(Loother)
- Mirpurkhas
- Rahim Yar Khan
- Rajapur
- Rawalpindi
- Sadiqabad
- Sahiwal
- Sargodha
- Shekhupura
- Shujaabad
- Sialkot
- Taunsa Sharif
- Tibbi
- Toba Tek Singh
- Vehari
- Wazirabad

**KPK**

- Abbotabad
- Charsada
- Dera Ismail Khan
- Haripur
- Kohat
- Malakand Agency
- Mansetra
- Mardan
- Nowshera
- Peshawar
- Swabi
- Swat (Mingora)

