



خوشحالی بینک  khushhali bank



annual report 2007

## On the Cover

The web of squares in our corporate colours represents Khushhali Bank's ever growing network across Pakistan. The 3 photographs chosen for our Annual Report 2007 cover represent a cross-section of people benefiting from various programmes of Khushhali Bank



### Anum Anis

is pictured in the library of the Lahore University of Management Sciences (LUMS), one of the leading business schools of Pakistan, where Anum is a BBA student on a U.S. A.I.D. funded merit scholarship granted by Khushhali Bank



### Riaz Hussain

is an agriculturist who cultivates date palms for their fruit which he harvests himself. Availing an agricultural loan from Khushhali Bank he has been able to enhance his earnings by being able to purchase seeds on time, take measures against date and palm crop disease and retain his credibility in the marketplace



### Sahib Khatoon

a mother of five, makes a variety of handicrafts from date palm leaves. She was a winner of the Citi-P.P.A.F. micro entrepreneurship awards in 2006, which recognize the extraordinary contributions that individual micro-entrepreneurs have made, to the economic sustainability of their families as well as their communities

# KHUSHHALI

Khushhali, a word in the Urdu language with multiple, inter-related meanings: well-being, prosperity, a state of serenity and happiness. It is a word that evokes hope and strength. It is also a feeling – a feeling that brings peace and pleasure. The peace and pleasure that comes at the end of a hard day's honest work.

For millions in our country khushhali had always seemed beyond reach. For many, even beyond imagination. But times are changing and the marginalized can see a friend and a guide who is showing them the path to khushhali. Then it is up to them to go along the path as far as they want to.

Khushhali need not remain a dream any more.



# KHUSHHALI BANK

Khushhali Bank is an institution that exists to support and empower the economically less privileged in our society. People that are honest and hardworking with a flair for entrepreneurship, but poor and troubled because of lack of opportunity.

Khushhali Bank's mission is to bring about a sea-change in this situation by "Strengthening the economic base of low-income populace across Pakistan by improving their accessibility to financial services. By backing a diverse product suite with exemplary customer service, and by combining cost-efficiency with next-generation delivery systems, we intend to achieve our core objective of attaining operational and financial self-sufficiency".

In the seven years since its inception, the Bank has provided financial service access for sustainable income generating activities to hundreds of thousands of people all across the country. Through the family multiplier effect the benefits are shared by millions.



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## President's Report 2007

It is indeed my privilege to present an overview of the microfinance sector and Khushhali Bank's performance for the financial year ending 31 December, 2007.

### Micro Finance; global context

Access to financial service or financial inclusion is an overarching agenda of the development community as articulated within the Millennium Development Goals and enabling policy and framework a priority with the global financial leaders and institutions. Within this context the microfinance sector is undergoing transformation from a traditionally donor driven NGO dominated framework towards a greater degree of commercialization that includes private sector involvement and access to capital markets while retaining the double bottom line agenda for financial sustainability and social development.

The daunting challenge remains in terms of scaling up outreach which stands at about 100 million clients compared to a potential market size estimated at a billion micro borrowers or more and the corresponding funding gap estimated at USD 250 billion.

However, investors are now beginning to see microfinance as an emerging investment opportunity and by one estimate the funding to microfinance will rise significantly by the year 2015 pre-dominantly from the private sector. Another factor that will be instrumental in supporting growth within the sector will be innovations in terms of delivery channels such as branchless banking, which combines technology with retail channels thus reducing cost and enhancing the availability of such services.

### Pakistan scene - 2001-07

The Sector Development initiatives of the Government of Pakistan have been successful in catalyzing and creating a competitive environment for the growth of microfinance in the country through the development of conducive policy and regulatory framework and supporting retail institutional capacity through the assistance from the World Bank supported Poverty Alleviation Fund and the ADB assisted Microfinance Sector Development Program, the former supporting the civil society institutions while the later providing a regulated environment for the creation of licensed microfinance institutions in the country.

The outcome of these initiative is that the growth in the sector has been significant from just under a 100,000 clients to over 1.4 million clients at the end of September last year, microfinance bank's as a group constitute the largest peer group and three players constitute the bulk of the outreach across these groups.

However, the challenge remains in terms of market coverage given the estimated market size of 10 million households and the new policy initiatives focus on greater financial inclusion with major reliance on the microfinance sector.



The State Bank of Pakistan strategy and vision document released last year provides a more detailed articulation of measures underway for the growth of the microfinance sector and sets a target of reaching 3million clients by 2010 and 10million clients by 2015.

Khushhalibank (KB) is the largest player in the market in terms of outreach and ranked amongst the top 30 worldwide according to recently released independent publications.

### Business review

KB has over the past seven years established the largest distribution network in the microfinance sector and a reasonable scale in terms of clients and is now in the process of consolidating its position reflective in the improving returns on assets and investments. This is a good time to take a strategic view in terms of ownership as well as capital and financial structures aligning these with future growth strategies. National Bank of Pakistan has already advertised its Intent to divest and with the completion of formalities relating to incorporation of the bank with SECP and repealing of KB specific Ordinance, the option will be actively pursued during the year 2008.

In terms of business, the existing strategy of portfolio consolidation will continue reflecting improvements in portfolio quality and the momentum in terms of growth of clients will gradually stabilize at around 18-20 % annually over the next five years with an envisaged outreach to nearly 800,000 clients by the year 2012.

The expansion will be achieved without significantly expanding our distribution in terms of brick and mortar but by induction of additional resources within the existing branch network and conversion of existing service centers to branches as the number of new branches planned will be minimal rather reliance will be on developing new and technology based distribution avenues for next year onwards.

An exercise to review the financial and operational sustainability at branch level was initiated in 2007; sustainability benchmarking will be completed during 2008 for better delivery, service and optimal resource utilization leading to possible relocation of existing branches and service centers.

Client retention is a challenge faced extensively within the microfinance sector & the same is true for KB where client exit ratio is around 36%. Therefore, there will be greater focus on improving client service and retention rather than growth per se.

Acquisition of skilled pool of services remains another challenge in any fast expanding institution and with a more dynamic environment within the financial services sector retention remains a priority. A constant line of fresh resource is made available to the institution at all times besides strengthening of mid tier inducted across all units with particular emphasis on strengthening marketing, sales & distribution as well as information technology, compliance and branch banking operations.

A detailed performance review of the Bank is attached as Annexure I.

### Business Plan shortfalls

The projects planned for 2007 but not completed include:

- a) Procurement of fully integrated information and delivery management systems was abandoned following Board decision to initiate new procurement process due to changes in ground realities in terms of competition, comparable products and pricing.
- b) Launch of Full Service Banking (FSB) is behind schedule as a result of delay in procurement of Banking Application. It is now envisaged that soft launch of FSB will be made in first QT08.

## Strategy Summary 2008-12

KB over the last seven years developed a good insight into client behavior across market segments through a network of over 100 branches/service outlets on a countrywide basis that include presence in 88 districts in all the provinces as well as AJK and FATA. The bank is only in micro lending hosting nearly 300,000 active clients which may be considered the necessary critical volume for a mono-product entity.

The sectoral environment is conducive and continues to mushroom competition prompting for strategic alignment with the emerging conditions and expediting KB's growth and expansion in rural and urban areas of the country both in terms of service delivery as well as products & services.

Keeping in view our internal and external environment, goals and objectives will be re-

articulated to support stated objectives and implementation plans for the Bank developed identifying mitigation strategies against any critical failures to ensure timely completion.

The JCR-VIS credit rating agency's review in 2007 reaffirmed bank's credit rating at "A-" for the long term and "A-1" for the short term with a positive outlook.

I wish to conclude by recording my appreciation to all stakeholders for supporting our endeavors over the years.



**M. Ghalib Nishtar**  
President  
March 28, 2008

## ANNEX I

### Review of Bank's Performance for the Year 2007

#### Outreach Performance at a glance:

An analysis of client outreach and network for the past five year is presented below:

Line	FY07	FY06	FY05	FY04	FY03
Network					
*Micro Credit Branches	113	110	100	89	50
Service Centers	23	37	42	34	34
Clients-in-force (000)	284	237	227	168	92
Disbursement (million)	3,786	3,003	2,743	1,835	1,023
Receivable (million)	2,653	2,148	1,923	1,398	707

\* Micro credit branches include district and tehsil service centers.

#### Financial Review: 2007

Brief of annual accounts is presented below:

##### Advances Portfolio:

The Bank's earning assets primarily comprising of advances portfolio at PKR2.7b (2006: PKR2.1b) increased by 28.57% over last year as a result of portfolio growth.

##### Operating result:

The Bank's profit before tax at PKR156m is well ahead of last year's profit of PKR33m.

The surge in profit results from portfolio growth, launch of insurance product and introduction of processing fee. All new loans at KB are now covered for life insurance risk through underwriting arrangement with New Jubilee Life Insurance Company Ltd.



Controlled delinquencies through better collection management helped curtail loan losses thus only PKR 59m was provided for loan losses (2006: PKR114m).

The Bank has also been subject to provision of PKR12m for property losses resulting from riots in the country after incident of 27DEC07; these are however shown as fully recoverable against general insurance arrangement with AGICO.

#### **Revenues:**

Portfolio growth coupled with loan maturities, yielded interest revenue of PKR470m as against PKR382m last year.

Return on short-term investment in Treasury Bills, Pakistan Investment Bonds and placements/balances with commercial banks at PKR249m witnessed decline against last year of PKR303m due to diversion of treasury cash flow to operations, limited arbitrage opportunities and delayed settlement of claims from alliance partners.

#### **Expenses:**

Staff attrition continues to be a challenge for KB; particularly in the wake of recent induction of new microfinance bank's as well as business expansion by commercial banks in our targeted markets in rural and urban territories. In order to curtail high turn over rate; KB has to re-align its remuneration package with existing ground realities. This coupled with the requirements of expanding business has resulted into increased staffing cost.

Program specific cost of KB alliance partnership with USAID for developing non bankable territories amounts to PKR25m as against PKR13m last year due to increased activity. These costs are shared in an overall ratio of 75% to USAID and 25% to KB. For reporting purposes the total cost is shown under Administrative Expenses while USAID contribution is recognized under Other Income.

Beside above; high inflation adversely impacted our operating cost which totals to PKR765m (2006: PKR626m) but remain within the budgeted levels.

#### **Taxation:**

Finance Bill 2007 has introduced tax holiday for Microfinance Banks (MFBs) for five years of operations provided no dividend is paid to the shareholders and profits are retained for the objectives of MFBs. Consequently; tax provision of PKR 27m is made only for the first six months of financial year of 2007.

#### **Return on Equity (ROE):**

ROE, which is a measure of overall efficiency of any organization in managing its total investment in assets to its shareholders, measured at 5.03% as against 1.34% last year.

#### **Return on Assets (ROA):**

The ROA at 1.32% at the year-end compares favorably with 0.36% of last year.



## Board of Directors

The members of the Board of the Bank comprise four Directors representing the share holders namely:

<b>Syed Ali Raza</b>	President, National Bank of Pakistan
<b>Zakir Mahmood</b>	President, Habib Bank Limited
<b>Shaharyar Ahmed</b>	President, Askari Bank Limited
<b>Atif Aslam Bajwa</b>	President, MCB Bank Limited

The non share holding Independent Directors include:

<b>Abid Hasan</b>	Former Operations Advisor, World Bank Group in Washington
<b>Samina Rizwan</b>	Regional Director, Oracle Corporation
<b>Zia Niazi</b>	A Development Sector Specialist
<b>Ghalib Nishtar</b>	Ex-Officio Director and President, Khushhali Bank

The Chairman of Board of Directors of Khushhali Bank is Syed Ali Raza, President, National Bank of Pakistan.

## Audit Committee Report 2007

Audit Committee could not convene during the year due to change in incumbency of its chairmanship and delay in the selection of other committee members due to reconstitution of BoD who completed its term during March 2007.

The strategic initiatives of Internal Audit for year 2007 encompassed audit specialization in areas like micro credit, IT security and banking operations, enhancing quality assurance of IA services, enhancing the scope of compliance function which was entrusted to IA, strengthening reporting to Audit Committee and execution of annual plan.

For audit specialization, identified areas remained focused and accordingly staff trainings imparted and practical approach adopted during audit execution. Area of IT Audit remained under performance due to non-availability of specific IT audit resource, however, position has been filled from within KB during December 2007 and lately from external source. To enhance quality assurance, internal activity based benchmarks were set and their execution was ensured through deployment of full time supervision on each and every audit activity. Auditee feedback remained a permanent feature after every completed audit. For external review, the benchmark was considered review of effectiveness of internal audit by external / SBP audits. An internal review of IA services was also held at year end.

Besides the above accomplishments, IA succeeded to review and update audit manual comprising audit policies & procedures as per guidance of Audit Committee which was finally approved by the BoD in its meeting held during October 2007.

Audit plan 2007 comprised coverage of 84 Full Scope branch audits, 109 Surprise Audits, all departments / units of Corporate Office and 6 sales hubs, 5 system reviews and provision for policy / procedures review & special assignments like investigations etc. IA performance on planned activities for year 2007 is as under:

Description	Planned Audits	Completed	% Age Completed	Remarks
Full Scope Branch Audits	84	82	98%	Audit of Kohistan branch dropped due to low activity level and Kurram agency due to law & order situation
Surprise Branch Audits	109	106	97%	Surprise Audit of Shangla, Swat and Malakand were dropped due to law & order situation
Sales Hubs	6	6	100%	
Departmental Audit	10	10	100%	
System Reviews	5	7	140%	System for HRIS and Full Service Banking not acquired while Treasury, Mail and GL covered under respective audits. Four reviews made for CMS system
Policy & Procedures Reviews		11		Not planned but IA executed
Special Investigations		13		Not planned but IA executed

The year 2007 envisaged for deepening the compliance function and enhancing its scope. Initially compliance function focused on the compliance of internal & SBP audit reports and lately started a compliance mechanism to cover external audits too. However, there was a strategic initiative to develop a compliance policy and procedural manual

covering the full scope of compliance as envisaged by SBP. Compliance function evolved during the year and matured as independent unit with its complete set of policies, guidelines, scope, plans and resources.

Statistically below is performance summary:

Year	Description	Total Brochures/	Report Closed	Report Open	Total Findings	Closed Finding	Open Findings	%Age **Closure
2006 Audit	Full Scope Branch Audits	*65	65	0	2055	2055	0	100%*
	Surprise Branch Audits	*106	106	0	3051	3051	0	100%*
	Departmental Audit	9	1	8	218	185	33	85%*
2007 (Audits held or report released during 2007)	SBP Inspection – 2006 Corporate Office Departments	6	0	6	75	58	17	77%
	SBP Inspected Branches	5	5	0	191	191	0	100%
	SBP Compliance assurance – All Branches	108	102	06	2700	2688	12	99.9%
	External Audit	8	1	7	28	13	15	46%
	Sales Hubs	6	0	6	62	18	44	29%
	Departmental Audits	11	0	11	68	4	64	6% ***
	Full Scope Branch Audits	82	0	82	1936	1331	706	65%
Surprise Branch Audits	105	12	93	2325	1953	439	81%	

\* Findings of ongoing nature carried to next reports. \*\*Status update till February 2008 \*\*\* 8 Reports out of 11 released during last quarter and compliance started during 2008

Audit plan for year 2008, submitted to BoD; encompasses 113 branches for full scope & surprise audits and two proposed new branches will be covered only under Surprise Audits making total 115. All 13 Corporate Office Departments/ Units & 6 Regional Offices / Sales Hubs identified for management audits and all existing and proposed management information systems (MIS) for review.



**Abid Hasan**  
Member Audit Committee  
March 28, 2008

## Non-Shareholding - Independent Director's Report 2007

### KB-NGO/SP Alliances for Social Intermediation Services

KB continues to achieve the objective of social and economic uplift of the poor communities by enhancing their access to social, infrastructure and financial services. KB recognizes the significance of alliance operations with Service Providers/NGOs and their contribution in delivery of social services and successfully continued to utilize their core competencies in social mobilization for rapid increase in outreach and delivery of defined social services to the poor during the period under review.

### Social Mobilization

To expand scope of Alliance Operations KB engaged contracted SP in new locations under MSDF framework. Alliance Operations continued with seven (7) Non-Governmental Organizations for delivery of social intermediation services during 2007. To ensure the quality of alliance operations deliverables and identify and resolve the issues for efficient and productive operations reviews of alliance operations with Service providers were conducted. Quality and efficiency of alliance operations and compliance with policies remained in focus during the year. Due to this Alliance Operations with one SP were close down and also at 9 locations alliance operations were ceased during 2007. In spite of this highest number of clients were generated through alliance operations in 2007.

Status update on KB-NGO Partnership:

- Alliance Operations were increased from 34 to 37 locations
- Alliance Operations at 9 locations were closed down during the year as desired results were not being achieved.
- Client generation increased from 27,173 in 2006 to 33,458. These are highest numbers of clients generated in one year through alliance operations.
- Gender ratio is 25:75 (F: M) for new clients.
- Cumulative clients generated since inception by service providers are 115,768 organized into 15,449 Community organizations with a gender ratio 34:66 (F: M).

### Small Infrastructure Projects (SIPs)

Government of Pakistan (GOP) decided to close the Community Investment Fund (CIF) and available funding was diverted towards the Earthquake Livelihood Restoration Program in APR 2006. But the commitments already made with communities and feasibilities of which were conducted were allowed to be completed.

SIP's cumulative status as of 31 December 2007 is given hereunder:

Types/Description	completed	In progress	Total
Roads & Bridges	122	0	122
Farm Irrigation	685	4	689
Domestic Water Supply	163	1	164
Drainage & Sewerage	26	1	27
School Building	49	0	49
Rural: Electrification, Computer Centre, PCO & Community Halls & others	513	5	518
<b>Total</b>	<b>1558</b>	<b>11</b>	<b>1569</b>

### Earthquake Livelihood Restoration Program (ELRP)

In order to respond to the aftermath of the earthquake, KB formulated an Earthquake Livelihood Restoration Program across eight of the affected districts in NWFP and AJK. During 2007 Alliance Operations with one SP at 2 locations for social mobilization services were started under ELRF framework and 987 clients were generated.

Need assessment survey for infrastructure needs in the area was also conducted to identify the actual needs of communities before going into implementation phase of small infrastructure projects (SIPs).



**Samina Rizwan**  
Member Social Sector Committee

March 28, 2008



## Auditors' Report to the Members

We have audited the annexed balance sheet of Khushhali Bank ("the Bank") as at 31 December 2007 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the 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, Khushhali Bank Ordinance, 2000 and the Prudential Regulations for Microfinance Banks/Institutions. Our responsibility is to express an opinion on these statements based on our audit.

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

- a) in our opinion, proper books of account have been kept by the Bank as required by the Khushhali Bank Ordinance, 2000 and the Companies Ordinance, 1984;
- b) in our opinion-
- i) the balance sheet and profit and loss account together with the notes thereon have been drawn

up in conformity with the Khushhali Bank Ordinance, 2000 and the Regulations for Microfinance Banks/Institutions, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

- ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
- iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, 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 Khushhali Bank Ordinance, 2000 and the Regulations for Microfinance Banks/Institutions, in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at 31 December 2007 and of the profit, its cash flows and changes in equity for the year then ended;
- d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Islamabad  
28 March 2008

*KPMG Taseer Hadi & Co.*

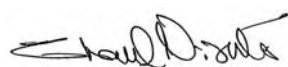
**KPMG Taseer Hadi & Co.**  
Chartered Accountants

# BALANCE SHEET

as at 31 December, 2007

	NOTE	2007 (Rupees)	2006 (Rupees)
<b>ASSETS</b>			
Cash and balances with SBP and NBP	4	305,293,599	318,971,575
Balances with other banks	5	219,515,248	697,327,240
Lending to financial institutions- unsecured	6	1,119,500,000	1,242,500,000
Investments- net of provision	7	1,190,701,412	1,369,416,056
Advances- net of provisions	8	2,596,521,585	2,082,483,915
Operating fixed assets	9	158,711,009	199,676,508
Other assets	10	1,113,037,545	889,760,380
Deferred tax asset	11	-	47,338,151
<b>Total Assets</b>		<b>6,703,280,398</b>	<b>6,847,473,825</b>
<b>LIABILITIES</b>			
Borrowings	12	(4,718,926,822)	(4,886,754,322)
Other liabilities	13	(109,095,323)	(88,020,862)
<b>Total Liabilities</b>		<b>(4,828,022,145)</b>	<b>(4,974,775,184)</b>
<b>NET ASSETS</b>		<b>1,875,258,253</b>	<b>1,872,698,641</b>
<b>REPRESENTED BY:</b>			
Share capital	14	1,705,000,000	1,705,000,000
Statutory reserve	3.7	40,090,828	22,161,994
Reserve for contingencies	3.8	28,385,353	28,385,353
Unappropriated profit		66,105,808	12,319,306
		<b>1,839,581,989</b>	<b>1,767,866,653</b>
Deficit on revaluation of securities - net of deferred tax	15	(27,138,878)	(16,331,258)
Deferred grants	16	62,815,142	121,163,246
<b>TOTAL CAPITAL</b>		<b>1,875,258,253</b>	<b>1,872,698,641</b>
<b>MEMORANDUM/OFF BALANCE SHEET ITEMS</b>	17		

The annexed notes 1 to 33 form an integral part of these financial statements.



PRESIDENT/  
CHIEF EXECUTIVE



CHAIRMAN



DIRECTOR



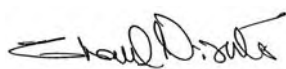
DIRECTOR

# PROFIT AND LOSS ACCOUNT

for the year ended 31 December, 2007

	NOTE	2007 (Rupees)	2006 (Rupees)
Mark-up/return/interest earned	18	718,993,318	684,870,558
Mark-up/return/interest expensed	19	(181,032,810)	(158,542,627)
Net mark-up/interest income		537,960,508	526,327,931
Provision against non-performing advances/ lending to financial institutions/other assets	6.2, 8.2, 10	(61,743,197)	(136,028,150)
Bad debts written off directly	8.3	(2,522,806)	-
		(64,266,003)	(136,028,150)
Net mark-up/interest income after provisions		473,694,505	390,299,781
<b>NON-MARK-UP/NON INTEREST INCOME</b>			
Fee, commission and brokerage income		49,792,400	-
Other income	20	397,922,596	268,600,593
Total non-mark-up/non-interest income		447,714,996	268,600,593
		921,409,501	658,900,374
<b>NON-MARK-UP/NON-INTEREST EXPENSES</b>			
Administrative expenses	21	(752,725,112)	(626,215,854)
Other charges	22	(12,378,327)	(20,000)
		(765,103,439)	(626,235,854)
<b>PROFIT BEFORE TAXATION</b>		156,306,062	32,664,520
Taxation - Current	23	(27,273,250)	(16,171,116)
- Deferred	23	(39,388,641)	6,828,245
		(66,661,891)	(9,342,871)
<b>PROFIT AFTER TAXATION</b>		89,644,171	23,321,649
Unappropriated profit brought forward		12,319,306	101,930
Profit available for appropriation		101,963,477	23,423,579
<b>APPROPRIATIONS:</b>			
<b>Transfer to-</b>			
Statutory Reserve	3.7	(17,928,834)	(4,664,330)
Microfinance Social Development Fund	3.9	(8,964,417)	(2,332,165)
Risk Mitigation Fund	3.9	(4,482,209)	(1,166,082)
Depositors' Protection Fund	3.9	(4,482,209)	(1,166,082)
Reserve for Contingencies	3.8	-	(1,775,614)
		(35,857,669)	(11,104,273)
<b>UNAPPROPRIATED PROFIT CARRIED FORWARD</b>		66,105,808	12,319,306
<b>EARNINGS PER SHARE (basic and diluted)</b>	27	52,577	13,678

The annexed notes 1 to 33 form an integral part of these financial statements.



PRESIDENT/  
CHIEF EXECUTIVE



CHAIRMAN



DIRECTOR



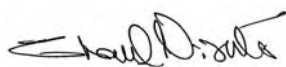
DIRECTOR

# CASH FLOW STATEMENT

for the year ended 31 December, 2007

	NOTE	2007 (Rupees)	2006 (Rupees)
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit before taxation		156,306,062	32,664,520
Adjustments for:			
Depreciation and amortization		78,980,613	80,401,669
Amortization of deferred grant		(65,146,794)	(66,580,863)
Amortization of premium on investment held to maturity		6,321,779	6,317,503
Provision against non-performing advances		58,514,826	113,528,150
Assets written-off		12,133,327	-
Insurance claim		(12,202,393)	-
Gain on sale of fixed assets		-	(1,045,073)
Interest on investments and deposit accounts		(249,075,386)	(302,762,863)
Grant income		(97,873,371)	(78,910,700)
Financial charges		188,430,152	164,720,040
Provision against other assets		3,228,371	-
Provision against lending to financial institutions		-	22,500,000
Provision for gratuity		22,588,540	18,362,432
Provision for compensated absences		5,000,000	3,250,000
		(49,100,336)	(40,219,705)
		107,205,726	(7,555,185)
(Increase) in operating assets			
Lending to financial institutions		123,000,000	(425,000,000)
Advances		(572,552,496)	(348,386,506)
Other assets (excluding advance taxation)		(273,181,014)	(307,955,090)
		(722,733,510)	(1,081,341,596)
Increase/(decrease) in operating liabilities			
Other liabilities		11,356,550	(4,302,447)
		(711,376,960)	(1,085,644,043)
<b>Cash used in operations</b>		<b>(604,171,234)</b>	<b>(1,093,199,228)</b>
Interest received		235,371,365	307,208,741
Income taxes paid		(19,752,352)	(31,902,389)
Financial charges paid		(186,341,565)	(151,827,762)
Gratuity paid		(37,918,161)	(4,180,135)
Compensating absences paid		(10,229,767)	-
Net cash outflow from operating activities		(623,041,714)	(973,900,772)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net investments in available for sale securities		420,379,000	(10,954,300)
Investments in money market mutual funds		(250,000,000)	-
Investments in operating fixed assets		(50,079,375)	(61,221,544)
Sale proceeds against fixed assets		-	1,481,524
Net cash flow from investing activities		120,299,625	(70,694,320)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Borrowings from Asian Development Bank		-	343,625,102
Borrowings from financial institutions		(167,827,500)	322,000,570
Grant from Government of Pakistan		72,721,902	-
Grant from United States Agency for International Development (USAID)		106,357,719	86,157,962
Net cash flow from financing activities		11,252,121	751,783,634
Net decrease in cash and cash equivalents		(491,489,968)	(292,811,458)
Cash and cash equivalents at beginning of the year		1,016,298,815	1,309,110,273
<b>Cash and cash equivalents at end of the year</b>	24	<b>524,808,847</b>	<b>1,016,298,815</b>

The annexed notes 1 to 33 form an integral part of these financial statements.

  
PRESIDENT/  
CHIEF EXECUTIVE

  
CHAIRMAN

  
DIRECTOR

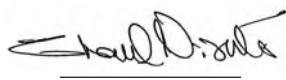
  
DIRECTOR

# STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December, 2007

	Share Capital	Statutory Reserve	Reserve for contingencies	Un-appropriated profit	Total Equity
	(Rupees)				
Balance at 31 December 2005	1,705,000,000	17,497,664	26,609,739	101,930	1,749,209,333
<b>Changes in equity for 2006</b>					
Profit for the year after taxation	-	-	-	23,321,649	23,321,649
Total recognized income for the year ended 31 December, 2006	-	-	-	23,321,649	23,321,649
Transfer to:					
Microfinance Social Development Fund	-	-	-	(2,332,165)	(2,332,165)
Risk Mitigation Fund	-	-	-	(1,166,082)	(1,166,082)
Depositors' Protection Fund	-	-	-	(1,166,082)	(1,166,082)
Statutory Reserve	-	4,664,330	-	(4,664,330)	-
Reserve for contingencies	-	-	1,775,614	(1,775,614)	-
Balance at 31 December 2006	1,705,000,000	22,161,994	28,385,353	12,319,306	1,767,866,653
Balance at 31 December 2006	1,705,000,000	22,161,994	28,385,353	12,319,306	1,767,866,653
<b>Changes in equity for 2007</b>					
Profit for the year after taxation	-	-	-	89,644,171	89,644,171
Total recognized income for the year ended 31 December, 2007	-	-	-	89,644,171	89,644,171
Transfer to:					
Microfinance Social Development Fund	-	-	-	(8,964,417)	(8,964,417)
Risk Mitigation Fund	-	-	-	(4,482,209)	(4,482,209)
Depositors' Protection Fund	-	-	-	(4,482,209)	(4,482,209)
Statutory Reserve	-	17,928,834	-	(17,928,834)	-
Reserve for Contingencies	-	-	-	-	-
<b>Balance at 31 December 2007</b>	<b>1,705,000,000</b>	<b>40,090,828</b>	<b>28,385,353</b>	<b>66,105,808</b>	<b>1,839,581,989</b>

The annexed notes 1 to 33 form an integral part of these financial statements.

  
PRESIDENT/  
CHIEF EXECUTIVE

  
CHAIRMAN

  
DIRECTOR

  
DIRECTOR

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December, 2007

## 1. STATUS AND NATURE OF BUSINESS

Khushhali Bank ("the Bank") came into existence with the promulgation of the Khushhali Bank Ordinance, 2000 as a corporate body with limited liability on 4 August 2000. It commenced business with the issuance of license by the State Bank of Pakistan (SBP) on 11 August 2000. The Bank's registered office and principal place of business is situated at 94-West Jinnah Avenue, Blue Area, Islamabad.

The Bank is 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.

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

Consequently, SBP prepared a conversion structure for the Bank which has been agreed upon by the Ministry of Finance, GoP. SBP vide its letter dated 15 November 2007 has advised the Bank to proceed with conversion process which primarily require the Bank's incorporation with Securities and Exchange Commission of Pakistan (SECP) under the MFIs Ordinance, 2001.

The scheme of conversion was approved by the shareholders of the Bank in second extra-ordinary general meeting held on 17 December 2007. Accordingly, an application for incorporation of Khushhali Bank Limited was submitted to the SECP on 15 February 2008. SECP has incorporated the Khushhali Bank Limited and issued Certificate of Incorporation under Section 32 of the Companies Ordinance, 1984 on 28 February 2008.

The Bank has 113 (2006: 73) branches in operation as at 31 December 2007 and is licensed to operate nationwide.

## 2. BASIS OF PRESENTATION

These financial statements have been presented in accordance with the SBP Banking Supervision Department (BSD) circular number 11 dated 30 December 2003 and Prudential Regulations for Microfinance Banks (the Regulations) issued by SBP vide BSD circular number 18 dated 14 October 2002.

### 2.1 STATEMENT OF COMPLIANCE

These financial statements are prepared in accordance with the approved accounting standards as applicable in Pakistan and the directives issued by SBP, requirements of the Companies Ordinance, 1984 and the Khushhali Bank Ordinance, 2000. Approved accounting standards comprise of such International Financial Reporting Standard (IFRS) issued by the International Accounting Standard Board as notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance. In case the requirements of the Companies Ordinance, 1984, Khushhali Bank Ordinance, 2000 or directives issued by SBP differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984, Khushhali Bank Ordinance, 2000 or the requirements of the said directives take precedence.

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

### 2.2 INITIAL APPLICATION OF A STANDARD OR AN INTERPRETATION

Amendment to IAS 1- "Presentation of Financial Statements - Capital Disclosures", introduces new disclosures about the level of an entity's capital and how it manages capital. Adoption of this amendment has only resulted in additional disclosure given in note 32 to the financial statements.

### 2.3 NEW STANDARDS AND INTERNATIONAL FINANCIAL REPORTING INTERPRETATION COMMITTEE (IFRIC) NOT YET EFFECTIVE

The following Standards and IFRIC interpretations were in issue but only effective for accounting periods beginning on or after 1 January 2008. These Standards and IFRIC interpretations are either not relevant to the Bank's operations or



are not expected to have significant impact on the Bank's financial statements other than increase in disclosures in certain cases:

**Revised IAS 1 - Presentation of financial statements** (effective for annual periods beginning on or after 1 January 2009) The objective of revising IAS 1 is to aggregate information in the financial statements on the basis of shared characteristics. The changes affect the presentation of owner changes in equity and of comprehensive income. It introduces a requirement to include in a complete set of financial statements a statement of financial position as at the beginning of the earliest comparative period whenever the entity retrospectively applies an accounting policy or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

**Revised IAS 23-Borrowing costs** (effective from 1 January 2009). Revised IAS 23 removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The application of the standard is not likely to have a material effect on Bank's financial statements.

**IFRIC 9 - Reassessment of embedded derivatives** - The IFRIC is effective during the year however, due to non applicability of IAS 39 on the Bank, will be applied together with application of IAS 39.

**IFRIC 11 – IFRS 2- Group and Treasury Share Transactions** (effective for annual periods beginning on or after 1 March 2007). IFRIC 11 requires that a share based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as equity settled share based payment regardless of how the equity instruments are obtained. IFRIC 11 is not expected to have any material impact on the Bank's financial statements.

**IFRIC 12 – Service Concession Arrangements** (effective for annual periods beginning on or after 1 January 2008). IFRIC 12 provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private concession arrangements. IFRIC 12 is not relevant to the Bank's operations.

**IFRIC 13 - Customer Loyalty Programmes** (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 addresses the accounting by entities that operates, or otherwise participate in, customer loyalty programmes for their customers.

**IFRIC 14 - IAS 19 - The Limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction** (effective for annual periods beginning on or after 1 January 2008). IFRIC 14 clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on minimum funding requirements (MFR) for such asset.

## 2.4 BASIS OF MEASUREMENT

These financial statements have been prepared on the basis of historical cost convention except that obligations under employee retirement benefit has been measured at present value, investments available for sale have been measured at fair market value, lending to a financial institution and investments held to maturity have been measured at amortized cost.

## 2.5 SIGNIFICANT ESTIMATES

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires management to make judgments/estimates and associated assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses. These judgments/estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the estimates about carrying value of assets and liabilities that are not readily apparent from other sources.

Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on a periodic basis. Revisions to accounting estimates are recognized in the period in which the revisions have been made.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods. Judgments made by management in application of the approved accounting standards that

have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year relates to provision against advances, provision for income taxes, staff retirement benefits and determination of useful lives of depreciable assets and intangible assets which are discussed in following paragraphs.

### **2.5.1 Investments**

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

### **2.5.2 Advances**

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

### **2.5.3 Operating fixed assets**

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

### **2.5.4 Employee benefit**

Defined benefit plan is provided for employees of the Bank. For defined benefit a deferred liability is recognized in the Bank's financial statements. These calculations require assumptions to be made of future outcomes, the principal ones being in respect of increases in remuneration and the discount rate used to convert future cash flows to current values. The assumptions used vary as they are determined by independent actuary. Calculations are sensitive to changes in the underlying assumptions.

## **2.6 FUNCTIONAL AND PRESENTATION CURRENCY**

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

## **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **3.1 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise of cash in hand, balances with SBP, National Bank of Pakistan (NBP) and other banks which are stated in the balance sheet at cost except for foreign currency balances which are stated at fair value.

### **3.2 INVESTMENTS**

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

Investments are classified as follows:

#### **3.2.1 Available for sale investments**

Investments which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available for sale. Available for sale investments are initially recognized at cost and subsequently measured at fair value. In accordance with the SBP BSD circular No. 18 dated 14 October 2002, investments in securities are measured at mark to market basis and the difference between the carrying value and the resulting surplus/(deficit) is shown below the shareholder's equity in the balance sheet. Realized gains and losses are taken to profit and loss account.

### 3.2.2 Investments held to maturity

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

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

Advances are stated net of provisions for non-performing advances.

Specific provision for non-performing advances is determined in accordance with the requirements of the Regulations. In addition, 1.5% general provision required under the Regulations is calculated on outstanding advances net of specific provisions.

General and specific provisions are charged to the profit and loss account in the period in which they occur. Non-performing advances are written-off after one month from the date of default in performance as per the requirements of the Regulations. However, the Bank continues its efforts for recovery of the written-off balances.

### 3.4 OPERATING FIXED ASSETS

#### 3.4.1 Property and equipment

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

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

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

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

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

#### 3.4.2 Intangible assets

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

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

### 3.5 TAXATION

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

The Bank takes into account the current income tax law and decisions taken by appellate authorities. Instances where the Bank's view differs from the view taken by the income tax department at the assessment stage and where the Bank considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

### 3.5.1 Current

Current tax is the tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, taking into account tax credits, rebates and tax losses, if any, and any adjustment to tax payable in respect of previous years. Effective from 01 July 2007 the Bank's income is exempt from tax, pursuant to Clause (66-XVIII) of part I of Second Schedule to the Income Tax Ordinance, 2001.

### 3.5.2 Deferred

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

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

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

## 3.6 EMPLOYEE BENEFITS

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

### 3.6.1 Post retirement benefit- gratuity

The Bank operates an approved gratuity scheme for all eligible employees completing the minimum qualifying period of service as specified by the employee rules. Provision is made annually to cover obligations under the scheme in accordance with the actuarial recommendations. Relevant details are given in note 13.2 to the financial statements.

Actuarial gain and losses in excess of ten percent (10%) of the present value of the defined benefit obligation are recognized over the expected average future working lives of the employees participating in the scheme. Bank recognizes past service cost as an expense on a straight line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the Bank recognizes past service cost immediately.

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

## 3.7 STATUTORY RESERVE

In compliance with the Regulations, the Bank is required to maintain a statutory reserve to which an appropriation equivalent to 20% of the annual 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 annual profit after tax.

## 3.8 RESERVE FOR CONTINGENCIES

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

The balance in contingency reserve as of 6 February 2006 remains intact. The management intends to review its requirement after the successful closure of ADB loan Agreement which has completed its tenure on 30 June 2007.

### **3.9 CONTRIBUTIONS**

In compliance with the Regulations, the Bank contributes 10% of its annual profit after tax to the Microfinance Social Development Fund and 5% each to Depositor's Protection Fund, maintained by the SBP. Further the Bank contributes 5% of the annual profit after tax to the Risk Mitigation Fund, pursuant to the Sub-Loan agreement with SBP.

### **3.10 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.

### **3.11 GRANTS**

Grants for fixed assets are recorded as deferred revenue in the balance sheet and recognized as non-operating income on a systematic basis over the useful lives of the assets acquired from the grant proceeds.

Revenue grants are recognized as income on a systematic basis to match them with the related costs which they are intended to compensate.

Under the Subsidiary Loan and Grant Agreement (Micro Finance Sector Development Project- ADB Loan No. 1806), the Bank is eligible to utilize capacity building grant through re-imbusement of allowable expenditure for institutional development. Such grant amounts are accounted for on accrual basis and recognized in the financial statements on occurrence of the eligible spending.

### **3.12 SALE AND REPURCHASE TRANSACTIONS**

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

### **3.13 REVENUE RECOGNITION**

Mark-up/return (service charge) on advances, deposit accounts and investments is recognized on accrual / time proportion basis, except for income, if any, which warrants suspension in compliance with the Regulations. Processing fee income is recognized at the time of the performance of the service.

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

### **3.14 BORROWING COSTS**

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

### **3.15 OPERATING LEASES**

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

### 3.16 FINANCIAL INSTRUMENTS

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

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

#### 3.16.1 Financial assets

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

#### 3.16.2 Financial liabilities

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

### 3.17 OFF-SETTING

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

### 3.18 FOREIGN CURRENCIES

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

### 3.19 PROVISIONS

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

### 3.20 IMPAIRMENT

The carrying amount of Bank's assets are reviewed at each balance sheet date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amounts. The resulting impairment loss is taken to the profit and loss account.



	NOTE	2007 (Rupees)	2006 (Rupees)
<b>4. CASH AND BALANCES WITH SBP AND NBP</b>			
Cash in hand		29,506,910	12,408,476
Balances with State Bank of Pakistan in Local currency current accounts	4.1	249,560,214	259,812,505
Balances with National Bank of Pakistan in Local currency current accounts	4.2	11,410,428	13,509,866
Local currency deposit accounts	4.2	14,816,047	33,240,728
		26,226,475	46,750,594
		<b>305,293,599</b>	<b>318,971,575</b>

**4.1** A minimum balance equivalent to 5% of the Bank's time and demand liabilities is required to be maintained in current accounts with State Bank of Pakistan, in accordance with Section 27 of the Khushhali Bank Ordinance, 2000 and Rule 6 of the Regulations.

**4.2** This represents balances held across the network for the purpose of lending to borrowers and recoveries from customers which carry interest rate ranging from 1.50% to 2.00% (2006: 1.50% to 3.75%) per annum.

	NOTE	2007 (Rupees)	2006 (Rupees)
<b>5. BALANCES WITH OTHER BANKS</b>			
In Pakistan-Local currency Current accounts	5.1	22,990,433	92,431,349
Deposit accounts	5.1	181,102,279	588,194,864
		204,092,712	680,626,213
In Pakistan-Foreign currency Current accounts		15,422,536	16,701,027
		<b>219,515,248</b>	<b>697,327,240</b>

**5.1** This represents balances held across the network for the purpose of lending to borrowers and recoveries from customers which carry interest rate ranging from 0.10% to 10.25% (2006: 0.10% to 11.75%) per annum.

	NOTE	2007 (Rupees)	2006 (Rupees)
<b>6. LENDING TO FINANCIAL INSTITUTIONS - UNSECURED</b>			
Call money lending	6.1	1,042,000,000	1,165,000,000
Other	6.2	100,000,000	100,000,000
Less: Provision for impairment		(22,500,000)	(22,500,000)
		77,500,000	77,500,000
		<b>1,119,500,000</b>	<b>1,242,500,000</b>

6.1 Call placements have been made in the interbank market with other banks at the rates ranging from 10.00% to 10.75% (2006: 10.70% to 14.00%) per annum with maturity from 2 to 92 days.

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

	NOTE	2007 (Rupees)	2006 (Rupees)
<b>7. INVESTMENTS - NET OF PROVISION</b>			
Available for sale securities			
Federal government securities			
- Market Treasury Bills	7.1	560,121,000	980,500,000
- Pakistan Investment Bonds	7.2	242,763,699	242,763,699
		802,884,699	1,223,263,699
Investments in money market mutual funds		250,000,000	-
		1,052,884,699	1,223,263,699
Held to maturity			
Pakistan Investment Bonds	7.2	164,955,591	171,277,369
Less: Deficit on revaluation of securities	7.3	(27,138,878)	(25,125,012)
		<b>1,190,701,412</b>	<b>1,369,416,056</b>

7.1 This represents Market Treasury Bills (T-Bills) purchased for the period of 364 days and yielding interest at the rate of 9.01% to 9.25% (2006: 8.64%) per annum. T-Bills amounting to Rs. 365 million are given as collateral against borrowings (also refer note 12.2 to the financial statements).

7.2 This represents purchase of 10 years Pakistan Investment Bonds (PIBs) with the maturity in 2011 and yield interest ranging from 12% to 13% (2006: 12% to 13%) per annum, receivable on semi-annual basis. Market value of PIBs held to maturity at the year end was Rs. 162 million (2006: Rs. 164 million).

7.3 In compliance with the requirements of the Regulations, available for sale investments have been valued at market value and the resulting surplus/deficit is kept in a separate account and is shown below the shareholders' equity in the balance sheet.

## 8. ADVANCES - NET OF PROVISIONS

Loan type	2007		2006	
	No. of loans outstanding	Amount outstanding (Rupees)	No. of loans outstanding	Amount outstanding (Rupees)
Micro credit	283,965	2,652,915,785	236,917	2,147,611,820
<b>Less: Provisions held against non-performing advances</b>				
- Specific provision	15,102	(16,853,262)	11,316	(21,624,870)
- General provision	283,965	(39,540,938)	236,917	(43,503,035)
		(56,394,200)		(65,127,905)
Advances (net of provisions)		<u>2,596,521,585</u>		<u>2,082,483,915</u>

### 8.1 Particulars of non-performing advances

Advances includes Rs. 40.04 million (2006: Rs. 46.68 million) which, as detailed below, have been placed under non-performing status:

Category of classification	2007			2006		
	Amount outstanding (Rupees)	Provisions required (Rupees)	Provisions held (Rupees)	Amount outstanding (Rupees)	Provisions required (Rupees)	Provisions held (Rupees)
Sub-Standard	22,180,636	5,545,159	5,545,159	20,618,076	5,154,519	5,154,519
Doubtful	13,108,284	6,554,142	6,554,142	19,179,692	9,589,846	9,589,846
Loss	4,753,961	4,753,961	4,753,961	6,880,505	6,880,505	6,880,505
Total	<u>40,042,881</u>	<u>16,853,262</u>	<u>16,853,262</u>	<u>46,678,273</u>	<u>21,624,870</u>	<u>21,624,870</u>

### 8.2 Particulars of provisions against non-performing advances:

	2007			2006		
	Specific (Rupees)	General (Rupees)	Total (Rupees)	Specific (Rupees)	General (Rupees)	Total (Rupees)
Opening balance	21,624,870	43,503,035	65,127,905	28,203,491	47,416,326	75,619,817
Charge for the year	62,476,923	(3,962,097)	58,514,826	117,441,441	(3,913,291)	113,528,150
Amounts written off	(67,248,531)	-	(67,248,531)	(124,020,062)	-	(124,020,062)
Closing balance	<u>16,853,262</u>	<u>39,540,938</u>	<u>56,394,200</u>	<u>21,624,870</u>	<u>43,503,035</u>	<u>65,127,905</u>

### 8.3 Particulars of write offs:

Against provisions  
Directly charged to profit and loss account

NOTE

2007  
(Rupees)

2006  
(Rupees)

67,248,531

124,020,062

2,522,806

-

69,771,337

124,020,062

## 9. OPERATING FIXED ASSETS

Property and equipment  
Intangible assets

9.1

157,871,029

198,308,117

9.2

839,980

1,368,391

158,711,009

199,676,508

## 9.1 Property and equipment

Description	Furniture and fixture	Electrical and office equipment	Computer equipment	Vehicles	Total
<b>Rupees</b>					
<b>Cost</b>					
Balance as at 01 January 2006	46,773,719	48,049,842	51,649,405	262,372,498	408,845,464
Additions	7,063,726	11,954,277	4,993,555	36,271,830	60,283,388
Disposals	(36,017)	-	-	(3,118,120)	(3,154,137)
<b>Balance as at 31 December 2006</b>	<b>53,801,428</b>	<b>60,004,119</b>	<b>56,642,960</b>	<b>295,526,208</b>	<b>465,974,715</b>
Balance as at 01 January 2007	53,801,428	60,004,119	56,642,960	295,526,208	465,974,715
Additions	14,497,975	13,229,601	10,430,746	11,556,053	49,714,375
Adjustments	(7,233,194)	(5,654,639)	(3,408,490)	(8,657,391)	(24,953,714)
<b>Balance as at 31 December 2007</b>	<b>61,066,209</b>	<b>67,579,081</b>	<b>63,665,216</b>	<b>298,424,870</b>	<b>490,735,376</b>
<b>Depreciation</b>					
Balance as at 01 January 2006	8,604,871	20,771,217	30,284,464	131,573,446	191,233,998
Charge for the year	4,974,485	9,764,160	11,240,921	53,170,720	79,150,286
Disposals	(13,468)	-	-	(2,704,218)	(2,717,686)
<b>Balance as at 31 December 2006</b>	<b>13,565,888</b>	<b>30,535,377</b>	<b>41,525,385</b>	<b>182,039,948</b>	<b>267,666,598</b>
Balance as at 01 January 2007	13,565,888	30,535,377	41,525,385	182,039,948	267,666,598
Charge for the year	5,653,497	10,315,811	10,711,724	51,406,170	78,087,202
Adjustments	(1,505,688)	(2,762,224)	(2,974,160)	(5,647,381)	(12,889,453)
<b>Balance as at 31 December 2007</b>	<b>17,713,697</b>	<b>38,088,964</b>	<b>49,262,949</b>	<b>227,798,737</b>	<b>332,864,347</b>
Carrying value - 2006	40,235,540	29,468,742	15,117,575	113,486,260	198,308,117
<b>Carrying value - 2007</b>	<b>43,352,512</b>	<b>29,490,117</b>	<b>14,402,267</b>	<b>70,626,133</b>	<b>157,871,029</b>
<b>Rates of depreciation</b>	10%	20%	33%	25%	

9.1.1 Depreciation for the year includes Rs. 65.15 million (2006 : Rs. 66.58 million) being the depreciation charged on assets acquired as grant, as explained in note 16.1 and 20.2 to the financial statements.

	2007 (Rupees)	2006 (Rupees)
<b>9.2 Intangible assets</b>		
<b>Cost</b>		
Balance at beginning of the year	5,254,330	4,316,174
Additions during the year	365,000	938,156
Balance at end of the year	5,619,330	5,254,330
<b>Amortization</b>		
Balance at beginning of the year	(3,885,939)	(2,634,557)
Charge for the year	(893,411)	(1,251,382)
Balance at end of the year	(4,779,350)	(3,885,939)
<b>Carrying Value</b>	<b>839,980</b>	<b>1,368,391</b>

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

	NOTE	2007 (Rupees)	2006 (Rupees)
<b>10. OTHER ASSETS</b>			
Mark-up accrued		170,804,651	132,227,834
Less: Suspended markup on non-performing advances		(3,860,678)	(4,939,439)
		<b>166,943,973</b>	<b>127,288,395</b>
Interest receivable on investments and bank deposit accounts		31,990,801	18,286,780
Advances, deposits, prepayments and other receivables			
Advances- Unsecured, considered good			
- Employees		23,013,331	20,027,904
- Suppliers		27,567,687	7,229,907
		<b>50,581,018</b>	<b>27,257,811</b>
Deposits		1,926,751	1,966,297
Prepayments		25,116,703	24,704,505
		<b>77,624,472</b>	<b>53,928,613</b>
Advance taxation - net of provision		42,107,807	50,472,949
Grants receivable for:			
Fixed assets		8,953,327	66,541,608
Training/travelling		2,311,468	8,870,871
		<b>11,264,795</b>	<b>75,412,479</b>
Receivable from Microfinance Social Development Fund	20.3	140,421,266	304,308,921
Receivable from Asian Development Bank	10.1	198,331,911	180,428,776
Receivable from Emergency Livelihood Restoration Fund for:			
Equity Support	10.2	351,168,000	64,332,000
Operational Cost Support	20.4	78,958,948	11,241,223
		<b>430,126,948</b>	<b>75,573,223</b>
Receivable from Jafakash Aurat Project	10.3	1,470,244	1,886,897
Insurance claims receivable		12,509,167	1,359,642
Other receivables		3,474,532	813,705
		<b>1,116,265,916</b>	<b>889,760,380</b>
Less: Provisions held against classified other assets		(3,228,371)	-
		<b>1,113,037,545</b>	<b>889,760,380</b>

**10.1** On 4 April 2006, the State Bank of Pakistan (SBP) established an Emergency Livelihood Restoration Fund (ELRF) for the poor households in the earthquake affected areas. For financing ELRF, the Asian Development Bank (ADB) transformed the Community Investment Fund (CIF) into ELRF. Consequently entire funds of CIF Income Account were diverted to ELRF.

Subsequently, GoP/SBP approached ADB and proposed to re-allocate the unutilized balance of Microfinance Sector Development Project (MSDP) Loan no. 1806 to CIF Income Account in order to discharge its committed liabilities prior to the transformation. ADB concurred with the recommendations of GoP/SBP and principally agreed to payoff the committed liabilities by the Bank on behalf of CIF Income Account through proposed reallocation. Accordingly, the Bank has submitted its claims to ADB for re-imbursement on 30 October 2007.

- 10.2** This represents amount paid on behalf of Emergency Livelihood Restoration Programme (ELRP) launched by GoP during February 2006. The objective of ELRP is to revive local economies and reduce dependence on relief to effectees of 8 October 2005 earthquake. For this purpose, the Bank is the designated implementing agency and utilizes its organizational structure, personnel and coordinates with service providers for immediate outreach to effectees.

In accordance with the provision of the ELRF Rules; an equity support of Rs. 12,000 per household is paid as grant to the earthquake effectees on behalf of the ELRP in addition to soft loan of Rs. 3,000 by the Bank for economic revival of the earthquake effectees.

- 10.3** The Bank entered into an agreement with Ministry of Women Development, Government of Pakistan dated 19 June 2005, whereby a project was launched in the name of "Jafakash Aurat Supporting Skills & Micro-Enterprise Development Amongst Gawadar Women" (JAP). The objective of JAP is to enable the women of Gawadar to supplement their livelihood through creating strong linkages between microcredit and skills development, thus leading to their economic empowerment. The Bank is the implementing agency under the agreement and recovers operational and capital cost at actual. The balance represents amount receivable from JAP, at the year end.

	<b>2007</b>	<b>2006</b>
	<b>(Rupees)</b>	<b>(Rupees)</b>
<b>11. DEFERRED TAX ASSET</b>		
Deferred tax debits arising on account of:		
Difference in tax and accounting written down value of fixed assets	-	7,874,630
Provisions for bad/doubtful debts offered for tax	-	22,794,767
Provision for lending to financial institution	-	7,875,000
Deficit on revaluation of securities	-	8,793,754
	<u>-</u>	<u>47,338,151</u>

- 11.1** In view of management's assessment to avail tax holiday as introduced through the Finance Bill 2007, deferred tax asset has been fully reversed. Please also refer to note 23.1 to the financial statements.

	<b>NOTE</b>	<b>2007</b>	<b>2006</b>
		<b>(Rupees)</b>	<b>(Rupees)</b>
<b>12. BORROWINGS</b>			
Unsecured borrowing from:			
Asian Development Bank	12.1	<b>4,364,753,752</b>	4,364,753,752
Secured borrowing from:			
Financial institutions	12.2	<b>354,173,070</b>	522,000,570
		<u><b>4,718,926,822</b></u>	<u>4,886,754,322</u>



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

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

The interest is being paid on bi-annual basis charged at the rate equal to average weighted cost of deposits during the preceding six months in the banking industry as calculated by SBP. The interest rates used for the two bi-annual payments during the year were determined to be 3.42% and 3.51% (2006: 2.57% and 2.69%) per annum.

- 12.2** This represents interbank money market borrowings carrying interest rate of 9.25% to 9.60% (2006: 8.85% to 9.00%) per annum and are repayable by March 2008. These borrowings are secured against T-Bills amounting to Rs. 365 million.

	NOTE	2007 (Rupees)	2006 (Rupees)
<b>13. OTHER LIABILITIES</b>			
Interest payable on borrowings		<b>31,308,958</b>	29,220,371
Accruals and other payables		<b>40,070,231</b>	24,049,351
Provision for compensating absences	13.1	<b>1,735,233</b>	6,965,000
Payable to defined benefit plan - Gratuity	13.2	<b>1,500,000</b>	16,829,621
Grant received in advance from USAID		<b>16,552,066</b>	6,292,190
Contribution payable to Microfinance Social Development Fund		<b>8,964,417</b>	2,332,165
Contribution payable to Risk Mitigation Fund		<b>4,482,209</b>	1,166,082
Contribution payable to Depositors' Protection Fund		<b>4,482,209</b>	1,166,082
		<b>109,095,323</b>	88,020,862

- 13.1** During the year, the Bank has revised employee's leave and holidays policy under which leave entitlements were restructured in line with emerging best practices and for sustainable operations.

Under the revised policy, option of leave accumulation have been withdrawn as against previous practice of leave accumulation up to sixty working days by each employee. Consequently, for the purpose of ensuring a fair compensation to the employee against their accumulated leave balances, immediate encashment of 50% of the frozen balance was allowed and payment was made to the eligible employees.

### 13.2 Payable to defined benefit plan - Gratuity

The amount recognized in the balance sheet is as follows:

	2007 (Rupees)	2006 (Rupees)
Present value of unfunded obligation	51,595,476	39,194,058
Unrecognized actuarial losses	(4,669,491)	(3,739,903)
Payment made to gratuity fund	(45,425,985)	(18,896,423)
Benefits payable to outgoing members	-	271,889
	<u>1,500,000</u>	<u>16,829,621</u>

Expense recognized in profit and loss account:

Current service cost	18,669,134	15,749,474
Interest cost	3,919,406	2,359,966
Past service cost	-	252,992
	<u>22,588,540</u>	<u>18,362,432</u>

Movement in the present value of defined benefit obligation is as follows:

Present value of the defined benefit obligation at the beginning of the year	16,829,621	2,647,324
Expense recognized during the year	22,588,540	18,362,432
Benefit payments to outgoing employees	(11,388,599)	(4,180,135)
Payment made to gratuity fund	(26,529,562)	-
	<u>1,500,000</u>	<u>16,829,621</u>

Comparison of present value of defined benefit obligation, fair value of plan assets and deficit/ (surplus) for five years is as follows:

	2007 (Rupees)	2006 (Rupees)	2005 (Rupees)	2004 (Rupees)	2003 (Rupees)
Present value of defined benefit obligation	51,595,476	39,194,058	26,221,844	14,080,029	5,768,076
Fair value of plan assets	(46,006,686)	(19,008,749)	(17,941,605)	-	-
Deficit	<u>5,588,790</u>	<u>20,185,309</u>	<u>8,280,239</u>	<u>14,080,029</u>	<u>5,768,076</u>
Experience adjustments on obligation	4,669,491	3,739,903	5,152,103	(3,587,708)	(696,361)

The latest actuarial valuation of the scheme was carried out as at 31 December 2007. Significant actuarial assumptions used were as follows:

	2007	2006
Discount rate per annum	10%	10%
Rate of increase in future compensation levels	9%	9%
Mortality rate	EFU 1961-66	EFU 1961-66
Average expected remaining working life of employees	11 years	11 years

## 14. SHARE CAPITAL

### 14.1 Authorized Capital

2007 (Number)	2006 (Number)	NOTE	2007 (Rupees)	2006 (Rupees)
<u>5,000</u>	<u>5,000</u>	Ordinary shares of Rs. 1,000,000 each	<u>5,000,000,000</u>	<u>5,000,000,000</u>

### 14.2 Issued, subscribed and paid-up

<u>1,705</u>	<u>1,705</u>	Ordinary shares fully paid in cash	<u>1,705,000,000</u>	<u>1,705,000,000</u>
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#### 14.2.1 The shareholders comprise the following:

National Bank of Pakistan		400,000,000	400,000,000
Habib Bank Limited		300,000,000	300,000,000
MCB Bank Limited		300,000,000	300,000,000
United Bank Limited		200,000,000	200,000,000
Allied Bank Limited		200,000,000	200,000,000
Standard Chartered Bank (Pakistan) Limited		80,000,000	80,000,000
Askari Bank Limited		50,000,000	50,000,000
Citibank N.A		50,000,000	50,000,000
Bank Al Habib Limited		30,000,000	30,000,000
Soneri Bank Limited		25,000,000	25,000,000
Habib Metropolitan Bank Limited		25,000,000	25,000,000
Prime Commercial Bank Limited		-	15,000,000
ABN Amro Bank Pakistan Limited	14.3	15,000,000	-
KASB Bank Limited		10,000,000	10,000,000
Saudi Pak Commercial Bank Limited		10,000,000	10,000,000
Mybank Limited		10,000,000	10,000,000
		<u>1,705,000,000</u>	<u>1,705,000,000</u>

14.3 During the year ABN Amro Bank Pakistan Limited fully acquired the equity of Prime Commercial Bank Limited.

14.4 The shares of the Bank cannot be sold or transferred by a shareholder before a period of five years from the date of subscription. Thereafter, such sale/transfer shall be subject to prior approval of SBP, pursuant to section 10 of the Khushhali Bank Ordinance, 2000. The profit of the Bank is not distributable and is applied towards the promotion of the objectives of the Bank.

	NOTE	2007 (Rupees)	2006 (Rupees)
<b>15. DEFICIT ON REVALUATION OF SECURITIES - net of deferred tax</b>			
(Deficit) on revaluation of available for sale securities	7.3	(27,138,878)	(25,125,012)
Related deferred tax		-	8,793,754
		<u>(27,138,878)</u>	<u>(16,331,258)</u>

	NOTE	2007 (Rupees)	2006 (Rupees)
<b>16. DEFERRED GRANTS</b>			
Grant from GoP	16.1	<b>251,628,775</b>	247,436,483
Less: Grant amortized for the year 2001		<b>(1,851,730)</b>	(1,851,730)
for the year 2002		<b>(19,071,324)</b>	(19,071,324)
for the year 2003		<b>(27,451,858)</b>	(27,451,858)
for the year 2004		<b>(39,858,529)</b>	(39,858,529)
for the year 2005		<b>(43,330,939)</b>	(43,330,939)
for the year 2006		<b>(48,172,437)</b>	(48,172,437)
for current year		<b>(41,759,210)</b>	-
		<b>30,132,748</b>	67,699,666
Grant from USAID	20.2	<b>86,000,545</b>	83,394,147
Less: Grant amortized for the year 2004		<b>(1,694,849)</b>	(1,694,849)
for the year 2005		<b>(9,827,292)</b>	(9,827,292)
for the year 2006		<b>(18,408,426)</b>	(18,408,426)
for current year		<b>(23,387,584)</b>	-
		<b>32,682,394</b>	53,463,580
		<b>62,815,142</b>	121,163,246

16.1 This represents grant from GoP for assets acquired for the institutional strengthening of the Bank, under the Subsidiary Loan and Grant Agreement entered with GoP in pursuance of Loan Agreement (Special Operations) - Microfinance Sector Development Project (MSDP), Loan #1806 between ADB and Islamic Republic of Pakistan. MSDP has completed its tenure on 30 June 2007 and claims pertaining upto this period were submitted to SBP for reimbursement.

#### 17. MEMORANDUM/OFF BALANCE SHEET ITEMS

17.1 There are no contingent liabilities at the year end (2006: Nil).

17.2 Commitments for capital expenditure amounting to Rs. 8.156 million (2006: Rs. 12.025 million) are outstanding as at 31 December 2007.

	NOTE	2007 (Rupees)	2006 (Rupees)
<b>18. MARK-UP/RETURN/INTEREST EARNED</b>			
Mark-up on advances	18.1	<b>468,874,183</b>	374,928,410
Add: Suspended markup on non-performing advances		<b>1,043,749</b>	7,179,285
		<b>469,917,932</b>	382,107,695
Interest on investment in Government Securities		<b>111,088,610</b>	118,035,103
Interest on deposit accounts/placements with other banks/financial institutions/mutual funds		<b>137,986,776</b>	184,727,760
		<b>718,993,318</b>	684,870,558

18.1 This represents mark-up earned on micro-credit loans to customers at annual rate of 20% (2006: 20%).

	NOTE	2007 (Rupees)	2006 (Rupees)
<b>19. MARK-UP/RETURN/INTEREST EXPENSED</b>			
Interest on borrowings from:			
Asian Development Bank		155,922,159	121,034,819
Other financial institutions		25,110,651	37,507,808
		<b>181,032,810</b>	<b>158,542,627</b>
<b>20. OTHER INCOME</b>			
Amortization of deferred grant	9.1.1 & 16	65,146,794	66,580,863
Grant for training / travelling	20.1	4,381,926	4,690,732
Re-imbursement of cost share- USAID project	20.2	93,491,445	74,219,968
Re-imbursement from MSDF	20.3	109,940,000	82,270,250
Operational cost support - ELRP	20.4	67,717,725	11,241,223
Insurance claim	22.2	12,202,393	-
Others	20.5	45,042,313	29,597,557
		<b>397,922,596</b>	<b>268,600,593</b>

- 20.1** This represents grant from Government of Pakistan for capacity building acquired under the Subsidiary Loan and Grant Agreement entered with Government of Pakistan in pursuance of the Loan Agreement (Special Operations) - Microfinance Sector Development Project, Loan #1806 between ADB and Islamic Republic of Pakistan. MSDF has completed its tenure on 30 June 2007 and claims pertaining upto this period were submitted to SBP for reimbursement.
- 20.2** The Bank entered into an agreement with USAID on 30 September 2003 for developing non-bankable territories for financial services, in Sindh and Baluchistan. Subsequently in September 2005, the scope of the grant was expanded to include seven FATA territories, whereby USAID revised its contribution from US\$ 7.042 million to US\$ 11.052 million while the total project cost was revised from US\$ 9.371 million to US\$ 14.142. The completion date of the agreement for Sindh and Baluchistan is September 2008 and for FATA September 2010. The cost share of USAID project is reimbursable to the Bank on quarterly basis.
- 20.3** This represents claims lodged by the Bank with Microfinance Social Development Fund (MSDF) for reimbursement of client acquisition cost incurred by the Bank under the Loan Agreement (Special Operations) - Microfinance Sector Development Project, Loan #1806 between ADB and Islamic Republic of Pakistan.
- 20.4** This represents amount receivable from Emergency Livelihood Restoration Programme. The Bank is the designated implementing agency and utilizes its organizational structure, personnel and coordinates with service providers for immediate outreach to effectees. In compensation of cost incurred by the Bank, it is entitled to claim a composite figure of US\$50 per household.
- 20.5** It includes an amount of Rs. 41.85 million (2006: Rs. 27.98 million) received during the year against previously recognized bad debts.

	NOTE	2007 (Rupees)	2006 (Rupees)
<b>21. ADMINISTRATIVE EXPENSES</b>			
Salaries, wages and benefits	21.1	315,826,301	250,893,032
Charge for defined benefit plan	13.2	22,588,540	18,362,432
Contract / seconded staff expenses		63,934,586	55,878,872
Consultancies		1,523,000	231,403
Recruitment and development		5,392,053	3,749,433
Training		9,396,903	10,254,084
Rent and rates		48,389,581	37,649,965
Insurance		5,448,963	4,477,273
Utilities		13,251,863	10,964,315
Legal and professional charges		1,083,500	1,252,045
Communication		29,714,688	24,715,036
Repairs and maintenance		7,310,620	6,401,693
Printing, stationery and office supplies		25,723,309	17,569,937
Advertisement		10,819,112	8,619,838
Auditors' remuneration	21.2	1,165,500	950,000
Depreciation	9.1	78,087,202	79,150,286
Amortization	9.2	893,411	1,251,382
Vehicles' up keep		55,280,303	54,797,927
Travelling and conveyance		14,763,747	13,280,380
Entertainment		4,964,877	3,997,239
Security charges		914,760	695,090
Bank charges		7,397,342	6,177,413
Newspapers and subscriptions		1,676,075	825,738
Programme cost - USAID		25,377,437	13,197,172
Small infrastructure project expenses		1,344,292	-
Miscellaneous		457,147	873,869
		<b>752,725,112</b>	<b>626,215,854</b>

21.1 This includes charge of Rs. 5 million (2006: Rs 3.2 million) for staff compensated absences.

	2007 (Rupees)	2006 (Rupees)
<b>21.2 Auditors' remuneration</b>		
Audit fee of the Bank	577,500	525,000
Special certifications	330,000	255,000
Out-of-pocket expenses	258,000	170,000
	<b>1,165,500</b>	<b>950,000</b>

21.3 The Bank has not made any donations during the year (2006: Nil).

	NOTE	2007 (Rupees)	2006 (Rupees)
<b>22. OTHER CHARGES</b>			
Penalties imposed by SBP	22.1	245,000	20,000
Assets written-off	22.2	12,133,327	-
		<b>12,378,327</b>	<b>20,000</b>

22.1 This represents penalties imposed by the SBP on account of non-compliance with instructions regarding shifting of branch premises.

22.2 This represents the carrying value of assets destroyed/damaged at various branches of the Bank, during 27 December 2007 riots in the country. The assets destroyed/damaged were fully insured and the Bank has lodged an insurance claim with the insurer.

	NOTE	2007 (Rupees)	2006 (Rupees)
<b>23. TAXATION</b>			
Current-for the year	23.1	27,273,250	16,171,116
Deferred	11.1	39,388,641	(6,828,245)
		<u>66,661,891</u>	<u>9,342,871</u>
<b>23.1</b>			
Finance Bill 2007 has introduced tax holiday for Microfinance Banks (MFBs) for five years effective 1 July 2007, provided no dividend is paid to the shareholders and profits are retained for the objectives of MFBs. Consequently, tax provision is made only for the first six months of financial year.			
	NOTE	2007 (Rupees)	2006 (Rupees)
<b>23.2 Relationship between tax expense and tax on accounting profit</b>			
Accounting profit		156,306,062	32,664,520
Tax @ 35% (2006: 35%)		54,707,122	11,432,582
Tax effect of timing differences		7,918,173	4,731,534
Tax effect of permanent difference		(35,352,045)	-
Tax effect of penalties imposed by SBP		-	7,000
		<u>(27,433,872)</u>	<u>4,738,534</u>
Current tax expense		27,273,250	16,171,116
Deferred tax		39,388,641	(6,828,245)
		<u>66,661,891</u>	<u>9,342,871</u>
<b>24. CASH AND CASH EQUIVALENTS</b>			
Cash and balances with SBP and NBP	4	305,293,599	318,971,575
Balances with other banks	5	219,515,248	697,327,240
		<u>524,808,847</u>	<u>1,016,298,815</u>
<b>25. NUMBER OF EMPLOYEES - AT THE YEAR END</b>		2007 (Number)	2006 (Number)
Credit sales staff			
Permanent		745	739
Banking/support staff			
Permanent		277	230
Contractual		843	822
		<u>1,120</u>	<u>1,052</u>
Total number of employees		<u>1,865</u>	<u>1,791</u>



	2007 (Number)	2006 (Number)
<b>26. NUMBER OF BRANCHES</b>		
Branches at beginning of the year	73	63
Branches opened during the year	40	10
Total branches at end of the year	<u>113</u>	<u>73</u>
	<b>2007</b>	<b>2006</b>
<b>27. EARNINGS PER SHARE</b>		
Profit for the year after tax (Rupees)	89,644,171	23,321,649
Shares outstanding during the year (Numbers)	1,705	1,705
Earnings per share- basic (Rupees)	<u>52,577</u>	<u>13,678</u>

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

**28. REMUNERATION OF PRESIDENT, DIRECTORS AND EXECUTIVES**

	2007			2006		
	President	Directors	Executives	President	Directors	Executives
	Rupees			Rupees		
Managerial remuneration	2,507,959	-	22,055,468	1,842,576	-	21,496,252
Gratuity	2,139,259	-	9,200,177	1,188,167	-	9,780,039
House rent and maintenance	1,128,580	-	9,924,959	829,164	-	9,673,309
Utilities	250,794	-	2,205,568	184,260	-	2,149,670
Medical	22,841	-	1,781,880	15,276	-	1,755,784
Conveyance	219,384	-	7,045,641	233,784	-	7,198,537
Bonus	-	-	1,581,482	-	-	1,849,287
Others	-	154,118	419,931	-	-	70,290
<b>Total</b>	<u>6,268,817</u>	<u>154,118</u>	<u>54,215,106</u>	<u>4,293,227</u>	<u>-</u>	<u>53,973,168</u>
Number of person(s)	<u>1</u>	<u>8</u>	<u>27</u>	<u>1</u>	<u>8</u>	<u>23</u>

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

**28.2** During the year the Bank incurred training cost of Rs. 154,118 for one of its director.

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

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

	TOTAL	UPTO 1 MONTH	OVER 1 MONTH UPTO 6 MONTHS	OVER 6 MONTHS UPTO 1 YEAR	OVER ONE YEAR
	Rupees				
<b>Market Rate Assets</b>					
Advances	2,596,521,585	85,640,602	1,182,484,356	1,328,396,627	-
Investments	1,190,701,412	-	1,025,745,822	-	164,955,590
Balances with SBP and NBP - Deposit accounts	14,816,047	14,816,047	-	-	-
Balances with other banks - Deposit accounts	181,102,279	181,102,279	-	-	-
Lending to financial institutions	1,119,500,000	392,000,000	650,000,000	-	77,500,000
<b>Total market rate assets</b>	<b>5,102,641,323</b>	<b>673,558,928</b>	<b>2,858,230,178</b>	<b>1,328,396,627</b>	<b>242,455,590</b>
<b>Other non-earning assets</b>					
Cash in hand	29,506,910	29,506,910	-	-	-
Balances with SBP and NBP - Current accounts	260,970,642	260,970,642	-	-	-
Balances with other banks - Current accounts	38,412,969	38,412,969	-	-	-
Other assets	1,113,037,545	29,458,105	922,694,326	142,799,561	18,085,553
Deferred tax asset	-	-	-	-	-
Operating fixed assets	158,711,009	6,581,717	32,908,585	39,490,302	79,730,405
<b>Total non-earning assets</b>	<b>1,600,639,075</b>	<b>364,930,343</b>	<b>955,602,911</b>	<b>182,289,863</b>	<b>97,815,958</b>
<b>Total Assets</b>	<b>6,703,280,398</b>	<b>1,038,489,271</b>	<b>3,813,833,089</b>	<b>1,510,686,490</b>	<b>340,271,548</b>
<b>Market Rate Liabilities</b>					
Borrowings from ADB	4,364,753,752	-	-	-	4,364,753,752
Borrowings from Financial Institutions	354,173,070	209,680,470	144,492,600	-	-
<b>Total market rate liabilities</b>	<b>4,718,926,822</b>	<b>209,680,470</b>	<b>144,492,600</b>	<b>-</b>	<b>4,364,753,752</b>
<b>Other non-cost bearing liabilities</b>					
Other liabilities	109,095,323	36,910,478	66,995,467	5,189,378	-
<b>Total non-cost bearing liabilities</b>	<b>109,095,323</b>	<b>36,910,478</b>	<b>66,995,467</b>	<b>5,189,378</b>	<b>-</b>
<b>Total Liabilities</b>	<b>4,828,022,145</b>	<b>246,590,948</b>	<b>211,488,067</b>	<b>5,189,378</b>	<b>4,364,753,752</b>
<b>Net Assets</b>	<b>1,875,258,253</b>	<b>791,898,323</b>	<b>3,602,345,022</b>	<b>1,505,497,112</b>	<b>(4,024,482,204)</b>
<b>Represented by:</b>					
Share Capital	1,705,000,000				
Statutory reserve	40,090,828				
Unappropriated profit	66,105,808				
Reserve for contingencies	28,385,353				
Surplus/(deficit) on revaluation of securities	(27,138,878)				
Deferred Grant	62,815,142				
<b>Net Equity</b>	<b>1,875,258,253</b>				

### 30. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

#### 30.1 Interest rate risk

The Bank's exposure to interest rate risk and the effective rates on its financial assets and liabilities as of 31 December 2007 are summarized as follows:

Description	INTEREST/MARK-UP BEARING							Non Interest Bearing		Total	Interest Rate	
	Rupees							Rupees				Rupees
	Maturity upto one year	Maturity after one year & upto two years	Maturity after two years & upto three years	Maturity after three years & upto four years	Maturity after four years & upto five years	Maturity after five years	Sub Total	Total				
<b>Financial assets:</b>												
Cash and balances in current and other accounts	-	-	-	-	-	-	-	328,890,521	-	328,890,521	0.1 % to 10.3 %	
Balance in deposits accounts	195,918,326	-	-	-	-	-	195,918,326	-	-	195,918,326	5.0 % to 10.8 %	
Lending to financial institutions	1,042,000,000	20,000,000	20,000,000	20,000,000	20,000,000	7,500,000	1,119,500,000	-	-	1,119,500,000	9.01 % to 13.0 %	
Investments	1,025,745,822	-	-	-	-	-	1,190,701,412	-	-	1,190,701,412	-	
Advances	2,596,521,565	-	-	-	-	-	2,596,521,565	-	-	2,596,521,565	-	
Other assets	-	-	-	-	-	-	-	939,286,400	-	939,286,400	-	
	4,860,185,733	10,000,000	20,000,000	184,955,590	20,000,000	7,500,000	5,102,641,323	1,288,176,921	-	6,370,818,244		
<b>Financial liabilities:</b>												
Borrowings	354,173,070	181,864,740	181,864,740	181,864,740	181,864,740	3,637,294,793	4,718,926,822	-	-	4,718,926,822	3.4 % to 9.6%	
Other liabilities	-	-	-	-	-	-	-	109,095,323	-	109,095,323		
	354,173,070	181,864,740	181,864,740	181,864,740	181,864,740	3,637,294,793	4,718,926,822	109,095,323	-	4,828,022,145		
<b>On balance sheet gap - 2007</b>	<b>4,506,012,663</b>	<b>(171,864,740)</b>	<b>(161,864,740)</b>	<b>3,090,850</b>	<b>(161,864,740)</b>	<b>(3,629,794,793)</b>	<b>383,714,501</b>	<b>1,159,081,598</b>	<b>1,542,796,099</b>			
<b>Un recognized:</b>												
Commitments	-	-	-	-	-	-	-	8,155,941	-	8,155,941		
<b>Off balance sheet gap - 2007</b>	<b>4,506,012,663</b>	<b>(171,864,740)</b>	<b>(161,864,740)</b>	<b>3,090,850</b>	<b>(161,864,740)</b>	<b>(3,629,794,793)</b>	<b>383,714,501</b>	<b>1,150,925,657</b>	<b>1,534,640,158</b>			
<b>Financial assets:</b>												
Cash and balances in current and other accounts	-	-	-	-	-	-	-	394,863,223	-	394,863,223	0.2 % to 12.1 %	
Balance in deposits accounts	621,435,592	-	-	-	-	-	621,435,592	-	-	621,435,592	10.7 % to 14 %	
Lending to financial institutions	1,242,500,000	-	-	-	-	-	1,242,500,000	-	-	1,242,500,000	8.6 % to 13.0 %	
Investments	1,198,138,887	-	-	-	-	171,277,369	1,369,416,056	-	-	1,369,416,056	-	
Advances	2,082,483,915	-	-	-	-	-	2,082,483,915	-	-	2,082,483,915	-	
Other assets	-	-	-	-	-	-	-	729,892,899	-	729,892,899	20%	
	5,144,558,194	-	-	-	-	171,277,369	5,315,835,563	1,124,756,122	-	6,440,591,685		
<b>Financial liabilities:</b>												
Borrowings	522,000,570	210,798,601	210,798,601	210,798,601	210,798,601	3,732,357,949	4,886,754,322	-	-	4,886,754,322	2.6 % to 9.0%	
Other liabilities	-	-	-	-	-	-	-	88,020,862	-	88,020,862		
	522,000,570	210,798,601	210,798,601	210,798,601	210,798,601	3,732,357,949	4,886,754,322	88,020,862	-	4,974,775,184		
<b>On balance sheet gap - 2006</b>	<b>4,622,557,624</b>	<b>(210,798,601)</b>	<b>(210,798,601)</b>	<b>(210,798,601)</b>	<b>(210,798,601)</b>	<b>(3,561,080,560)</b>	<b>429,081,241</b>	<b>1,036,735,260</b>	<b>1,465,816,501</b>			
<b>Un recognized:</b>												
Commitments	-	-	-	-	-	-	-	12,025,062	-	12,025,062		
<b>Off balance sheet gap - 2006</b>	<b>4,622,557,624</b>	<b>(210,798,601)</b>	<b>(210,798,601)</b>	<b>(210,798,601)</b>	<b>(210,798,601)</b>	<b>(3,561,080,560)</b>	<b>429,081,241</b>	<b>1,024,710,198</b>	<b>1,453,791,439</b>			

### 30.2 Market risk

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

### 30.3 Concentration of credit risk

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

The Bank seeks to manage the credit risk by attempting to diversify the lending activities to avoid undue concentration of risks with customers in specific locations or activities. The Bank controls this risk through credit appraisals, assessing the credit-worthiness of customers, requiring compulsory savings from borrowers. Further, the Community Organizations are structured in a way to exert social pressure on the borrowers to perform their obligations.

### 30.4 Liquidity risk

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

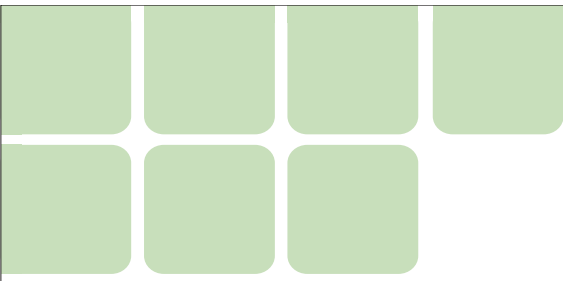
### 30.5 Fair value of financial instruments

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values.

## 31. RELATED PARTY TRANSACTIONS

The Bank's related parties comprise of directors, key management personnel, shareholders and entities over which the directors are able to exercise significant influence and employee retirement benefit fund. The detail of Bank's shareholders is given in note 14.2 while remuneration of key personnel is disclosed in note 28 to the financial statements. Detail of transactions with the Bank's shareholders and employee retirement benefit fund, during the year under normal commercial banking terms and balances outstanding at the year end are as follows:

	2007 (Rupees)	2006 (Rupees)
<b>Transactions with shareholder banks during the year</b>		
Profit earned on deposit accounts	52,631,253	96,919,562
Bank charges	6,999,094	5,592,993
Lending to shareholder banks	6,425,000,000	7,453,000,000
Repayment of lending from shareholder banks	6,333,000,000	6,188,000,000
Interest income	28,985,126	20,356,247
Lending from shareholder banks	1,258,310,557	1,986,179,705
Repayment of lending to shareholder banks	1,048,630,087	1,671,179,705
Interest expense	17,510,300	29,981,373
<b>Contributions to gratuity fund</b>	<b>26,529,562</b>	-
<b>Transactions with subsidiaries of shareholder banks</b>		
Purchase of units in mutual fund	425,000,000	-
Sale of units in mutual fund	200,000,000	-



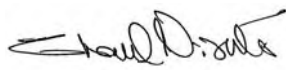
	2007 (Rupees)	2006 (Rupees)
<b>Balances outstanding at the year end</b>		
Bank balances with shareholder banks	42,883,623	1,243,280,359
Advances receivable from executives	13,997,530	13,595,374
Balance payable to gratuity fund	1,500,000	16,829,621

### 32. CAPITAL RISK MANAGEMENT

The Bank's objective when managing capital is to safe guard the Bank's ability to continue as a going concern so that it can achieve its primary objective, provide benefits for other stakeholders and to maintain a strong capital base to support the sustained development of its businesses in line with the stipulation of Khushhali Bank Ordinance, 2000.

### 33. DATE OF AUTHORIZATION FOR ISSUE

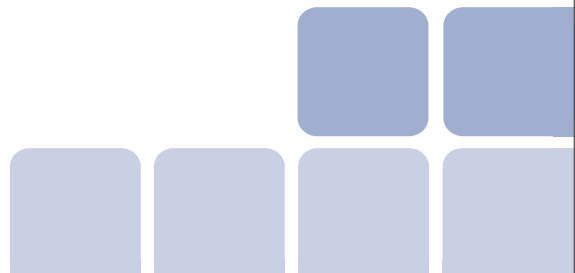
These financial statements were authorized for issue on 28 March, 2008 by the Board of Directors of the Bank.

  
PRESIDENT/  
CHIEF EXECUTIVE

  
CHAIRMAN

  
DIRECTOR

  
DIRECTOR



# BRANCHES NETWORK

## PUNJAB

### LAHORE

11-B, Shadman-I, Shadman Chowk, Jail Road.  
Tel: 042-7534789/7534389  
Fax: 042- 7534808

### SHIEKHPURA

Shop # 435, Gujranwala Road, Batti Chowk, Shiekhpora.  
Tel: 056-38313565  
Fax: 056-3813564

### GUJRAT

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

### KAMOKI

Neelum Cinema GT Road, Tehsil Kamoke, District Gujranwala.  
Tel: 055-6811141  
Fax: 055-6420171

### HAROON ABAD

221-Main Bazar, Haroonabad.  
Tel: 063-2256495

### SIALKOT

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

### TOBE TAK SINGH

Al Aziz Centre, Share Kot Road, Toba Tak Singh  
Tel: 0462-517513  
Fax: 0462-514618

### HAFIZABAD

Shop # B1-185, Garhi Awan, Kassoke Road, Hafizabad.  
Tel: 0547-541123  
Fax: 0547-541123

### PAKPATTAN

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

### HASILPUR

House No. 143, Opposite ABL, Near Raja Chowk, Baldia Road, Hasil Pur.  
Tel: 062-2449936

### NAROWAL

Usman Plaza, Circular Road, Moore Saddiq Pura.  
Tel: 054-2414267

### OKARA

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

### WAZIRABAD

Yousaf Market, First Floor, AC Road, Tehsil Wazirabad.  
Tel: 055-6609120  
Fax: 055-6609118

### CHISHTIAN

Khushhali Bank, Baldia Chowk, Tehsil-Chishtian.  
Tel: 063-2500178

### HASSANABDAL

Shop# 223, Mohalla Roshan Pura, Capt. Islam Shaheed Road, Hasanabdal, District Attock.  
Tel: 057-2523109

### GUJRANWALA

2nd Floor, Centre Point upper MCB, Ghalla Mandi Branch, Main GT Road  
Tel: 055-9200842  
Fax: 055-9200843

### FAISALABAD

B-472/2, Liaquat Road, Near State Life Building  
Tel: 041-9200780  
Fax: 041- 9200779

### JHANG

Siddiq Center, Park Street, Near DC House, Civil Lines, Saddar, Jhang  
Tel: 0477-620986

### KASUR

Main Chowk, District Courts Kachehri Road, Sultan Market  
Tel: 049-9250297  
Fax: 049-9250296

### SAHIWAL

276/B-1, 1st Floor, Alfah Tower, Jinnah Road (High Street), Sahiwal  
Tel: 040-9200501-2  
Fax: 040-9200503

### RAWALPINDI

1st Floor, 20-B North Star Plaza, Rehmanabad Chowk, Murree Road  
Tel: 051-4842548/ 9290930  
Fax: 051-9290562

### JEHLUM

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

### FATEHJUNG (ATTOCK)

Shop # 3, Ground Floor, Ittehad Plaza, Pindi Road, Fatehjung.  
Tel: 057-2212132

### MANDIBAHAUDDIN

Farooq Plaza, Link Kachehri Road, Mandibahauddin  
Tel: 0546- 5009800  
Fax: 0546-521002

### SARGODHA

19, 1st Floor, Zahoor Plaza, Noori Gate, Sargodha.  
Tel: 048- 9230557/ 0483-740861  
Fax: 048- 9230558

### BHALWAL

13, First Floor, Near HBL, Liaqat Shaheed Road, Bhalwal.  
Tel: 048-6642431  
Fax: 048-6642571

### SHUJA ABAD

Plot # E-456, Opposite Khan Brothers Bus Stand, Jalalpur Road, Shujaabad.  
Tel: 061-4400040-6004744

### LODHRAN

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

### CHAKWAL

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

### KHUSHAB

Plot no. 214, Block no. 14, College Chowk, Jauharabad, Khusab.  
Tel: 0454-920014  
Fax: 0454-920013

### QADIRPUR RAWAN (LOOTHER)

Ali Building, Near Town Committee Office, G.T. Road, Qadirpur Rawan.  
Tel: 061-4578668

### AHMED PUR EAST

House# BV-67, Mohala Shikari, Railway Road, Ahmed Pur East.  
Tel: 062-2272450

### MIANWALI

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

### KHANEWAL

House# 1, Street # 1, Block 2, RCA Chawak, Khanewal.  
Tel: 065-9200255  
Fax: 065-9200256

### KHAN PUR

Plot # 129-132, City Centre, Model Town, Khanpur.  
Tel: 068-5028283  
Fax: 068-5576922

### LIAQATPUR

87-A Scheme # 2, Bank Road, Opposite Qayyum Petrolium, Liaquatpur.  
Tel: 068-5792599.

### MULTAN

First Floor, NIPCO House 63-A, Abdali Road  
Tel: 061-4782354-55/4783057  
Fax: 061- 4782356

### BAHAWALPUR

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

### RAHIM YAR KHAN

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

### DERA GHAZI KHAN

Block 18/2557, Near Microwave Tower(NTC), Jampur Road, Dera Ghazi Khan.  
Tel: 064-9260535  
Fax: 064-2474034

### KHAIRPUR TAMAY WALI

Shop # 20-22, Al- Haj Abdul Salam Market, Hasilpur Road, Khairpur Tamiwali.  
Tel: 062-2261010

### TAUNSA SHARIF

Mangorhna Road, Taunsa Sharif  
Tel: 0642-2601467  
Fax: 0642-2601395

### JAMPUR

Moza Tatar Wala, Indus Highway, opposite Canal Rest House, Jampur.  
Tel: 0604-568650-332427

### BAHAWALNAGAR

Khushhali Bank, Baldia Road, Bahawalnagar.  
Tel: 063 - 9240115  
Fax: 063-9240116

### FAZILPUR

Khata No. 27, Opposite Truck Adda, Main Indus Highway, Fazilpur.  
Tel: 0604-309921  
Fax: 0604-309921

### RAJANPUR

Kamran Market, Opposite Jamia Sheikh Darkhasti, Indus Highway, Rajanpur.  
Tel: 0604-690120  
Fax: 0604-689513

### LEYYAH

Plot # 405/B, 2nd Chaubara Road, Near Muslim Commercial Bank, Layyah  
Tel: 0606-414705  
Fax: 0606-414506

### VEHARI

Karkhana Bazar, Near Askari Bank, Vehari.  
Tel: 067-3360306  
Fax: 067-3360307

### KOT ADDU/MUZAFFARGARH

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

### BHAKKAR

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

### NWFP

#### PESHAWAR

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

#### MARDAN

House # 27, The Mall, Mardan Cantt.  
Tel: 0937-9230445/ 9230447  
Fax: 0937-870192

#### KOHAT

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

#### ABBOTABAD

1st Floor, Silk Plaza, Supply Bazar, Mansehra Road, Abbotabad.  
Tel: 0992-343108/343109  
Fax: 0992-335313

#### HARIPUR

Pankad Area, Shahrah-e-Hazara, Haripur  
Tel: 0995-610181  
Fax: 0995615281

#### SWAT (MINGORA)

First Floor, Abasin Towers, New Maidan Road, Mingora Swat.  
Tel: 0946-7240417  
Fax: 0946-9240418

#### MALAKAND

Shop # 1-5 & 29-34, Tahir Plaza, Main Bazar, Malakand Agency.  
Tel: 0932-415039  
Fax: 0932-415239

#### CHARSADDA

Ajmal Market, Tangi Road, Charsadda.  
Tel: 091-6515724  
Fax: 091-6515489

**KARAK**

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

**SWABI**

Rehman Market,  
Swabi Mardan Road, Swabi.  
Tel: 0938-330075  
Fax: 0938-223212

**NOWSHERA**

Raiz Civic Centre, Purana Kishfi Pul,  
Nowshera.  
Tel: 0923-614558  
Fax: 0923-614558

**KOHISTAN**

Ground Floor, Kamila Market,  
Silk Road, Dassu, Kohistan.  
Tel: 0988-500408

**D.I. KHAN**

Al-Zaman Building, Near Siraj Medical  
Center, West Circular Road, D.I.Khan  
Tel: 0966-732029  
Fax: 0966-711382

**BATAGRAM**

First Floor, United Market, Main  
Shahrah-e-Resham, Batagram.  
Tel: 0997-311778

**SHANGLA**

Shangla Plaza, College Road,  
Alpuri, Shangla.  
Tel: 0996-850685  
Fax: 096-850691

**MANSEHRA**

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

**SINDH****KARACHI**

Ground Floor, Block-C, Finance &  
Trade Centre, Sharah-e-Faisal.  
Tel: 021-9204123-26/28  
Fax: 021- 9204132

**HYDERABAD**

Shop # 2-3, Defence Plaza,  
Thandi Sarak, Hyderabad.  
Tel: 022-2786620  
Fax: 022-2786621

**SANGHAR**

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

**NAWABSHAH**

House # C-S 2146 - 138, Dour  
Buchery Road, Kazi Ahmed More  
Tel: 0244-370093  
Fax: 0244-370094

**NOWSHEROFROZE**

National Highway, Nowsherofroze.  
Tel: 0242- 481275  
Fax: 0242- 481274

**SEHWAN SHARIF**

Shop # 3, Jahaz Chowk,  
Near New Bus Stand,  
Station Road, Sehwan Sharif.  
Tel: 025-4620700  
Fax: 025-4620700

**MITHI**

Shahi Bazar, Near Press Club, Mithi.  
Tel: 023-2262304  
Fax: 023-2262305

**THATTA**

Adjacent to Jahanzeb Hotel,  
Main National Highway, Thatta.  
Tel: 0298-550783  
Fax: 0298-550784

**BADIN**

Adjacent Abbasi Hospital, Main DCO  
Chowk, Karachi Road, Badin.  
Tel: 029-7862330  
Fax: 029-7810149

**MIRPUR KHAS**

Plot # 7, Ward-A, MP Colony,  
Main Umar Kot Road, Mirpur Khas.  
Tel: 0233-873276  
Fax: 0233-873163

**SUKKUR**

Plot # 64, Sindhi Muslim Society,  
Near Red Carpet Hotel,  
Military Road, Sukkur.  
Tel: 071-9310527 /9310528  
Fax: 071-9310530

**JACOBABAD**

Station Road, Near PIA Office Mahala  
Shaikh, Tehsil & District Jacobabad.  
Tel: 0722-652001  
Fax: 0722-650302

**KHAIRPUR**

Khushhali Bank,  
Main Katchary Road, Khairpur.  
Tel: 0243 - 714064  
Fax: 0243-714065

**LARKANA**

H #. 1588, Jan Mohd Jonejo Road,  
Near Jarral Shah Bukhari, Larkana.  
Tel: 0741-9410846  
Fax: 0741-9410847

**GHOTKI**

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

**SHIKARPUR**

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

**TANDU ALLAHYAR**

Main Mirpurkhas Road, Adjacent Main  
Eid Gah, Tando Allah Yar.  
Tel: 022-3892875  
Fax: 022-3892874

**DAHERKI**

Haq Plaza, Main GT Road,  
Dahriki Dist, Ghotki  
Tel: 0723-643834  
Fax: 0723-643834

**RATO DERO**

Main Bus Stand Chowk,  
Ratodero, Dist Larkana.  
Tel: 074-4088943  
Fax: 074-4088189

**DADU**

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

**HALLA**

Plot #824, Old main National highway,  
Adjacent Babi-Nooh Situated at Halla.  
Tel: 022-3332350.

**ROHRI**

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

**RANIPUR**

Main Bypass Ranipur,  
Adjacent Ranipur Health Centre,  
Ranipur City.  
Tel: 0243-730505  
Fax: 0243-730454

**TANDU MUHAMMAD**

Main Hayderabad Badin Road,  
Adjacent Bus Stop,  
Tandu Mohammad Khan.  
Tel: 022-3342738  
Fax: 022-3342833

**PANNU AQIL**

Near Eid Gah, Bajji Chawk,  
Pano Aqil Dist Sukkur  
Tel: 071-5692033  
Fax: 071-5692062

**WAGAN**

Naseerabad Road,  
Wagan Dist Larkana  
Tel: 074-4212230  
Fax: 074-4212230

**THUL**

Near ZTBL, Main Kandhkot Road,  
Tehsil Thul, Dist Jacobabad.  
Tel: 0722-610117  
Fax: 0722-610363

**BALUCHISTAN****QUETTA**

Shop # 4, Usman Complex,  
Hali Road Quetta  
Tel: 081-9201537  
Fax: 081-9201528

**PISHIN**

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

**MASTUNG**

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

**SIBBI**

84-A, Block -4, Jinnah Road, Sibbi.  
Tel: 0831-9230059  
Fax: 0831-412949

**LORALAI**

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

**ZHOB**

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

**SANJAWI (ZIARAT)**

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

**GAWADAR**

Shop no. 1-4 Super Gazarwan Market,  
Airport Road, Gawadar.  
Tel: 0864-211764

**JAFFERABAD**

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

**NASIRABAD**

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

**BARKHAN (RAKHNI)**

Near National Bank of Pakistan,  
Rakhni branch, Rakhni,  
Rakhni Dist, Barkhan.  
Tel: 0829-688050  
Fax: 0829-688367

**AZAD KASHMIR****MUZAFARABAD**

House # D-51, Upper Chattar Housing  
Scheme, Opposite SBP, Muzafarabad.  
Tel: 058810-34485/86  
Fax: 058810-34487

**NEELAM**

Latif Market, Near Post Office,  
Opposite to Nadra Office,  
Athmuqam, Neelam.

**BAGH**

Jamil Plaza, Ground Floor,  
By Pass Road, Bagh.  
Tel: 058720-45061  
Fax: 058720-45062

**RAWALAKOT**

First Floor, Riaz Plaza,  
Near Tourism Hotel,  
Rawalpindi Road,  
Rawalakot.  
Tel: 058710-42710  
Fax: 058710-43245

**F.A.T.A****KURRAM AGENCY**

First Floor, Hayat Shaheed Market,  
KB-PA Chowk, Thari Road,  
Parachinar, Kurram Agency.  
Tel: 0926-312375  
Fax: 0926-311375

**KHYBER AGENCY**

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

**ORAKAZI AGENCY**

Tehsil Head Quarter Kalaya, Orakazi.  
Tel: 092-650547

**BAJAUR AGENCY**

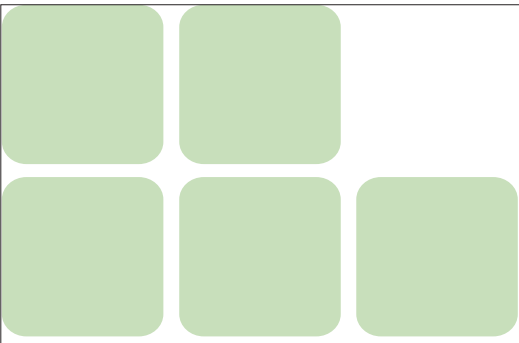
Car Park Hotel,  
Opposite Civil Colony, Khar,  
Bajaur Agency.  
Tel: 0942-221250

**MOHMAND AGENCY**

Haji Dilawar Market,  
Main Mandi Road,  
Main Bazar, Ghalanai  
Mohmand Agency.







**Khushhali Bank**

94 West, Fourth Floor,  
Jinnah Avenue, Blue Area,  
Islamabad.

[www.khushhalibank.com.pk](http://www.khushhalibank.com.pk)

